

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

Form 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 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)

55 Glenlake Parkway, N.E. Atlanta, Georgia  
(Address of Principal Executive Offices)

58-2480149

(I.R.S. Employer  
Identification No.)

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 \$0.01 per share	New York Stock Exchange

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

Class A common stock, par value \$0.01 per share

(Title of Class)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the class B common stock held by non-affiliates of the registrant was \$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 2,058,256 outstanding shares of class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareholders 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 be forward-looking statements. We intend that all forward-looking statements we make will be subject to safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

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

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

### Item 1. *Business*

#### Overview

United Parcel Service, Inc. (“UPS”) was founded in 1907 as a private messenger and delivery service in Seattle, Washington. Today, UPS is the world’s largest package delivery company, a leader in the U.S. less-than-truckload industry and the premier provider of global supply chain management solutions. We deliver packages each business day for 1.6 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.

## **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](http://www.ups.com) with eBay® and Amazon®, allows marketplace sellers to easily ship their orders via [www.ups.com](http://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](http://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](http://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](http://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.

### *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.



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](http://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 Paulo, 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.

- 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](http://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.

*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](http://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](http://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](http://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](http://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
<b>2014:</b>				
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
<b>2013:</b>				
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 \$1.0 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	<u>6.2</u>	<u>\$ 107.02</u>	<u>5.8</u>	

(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.

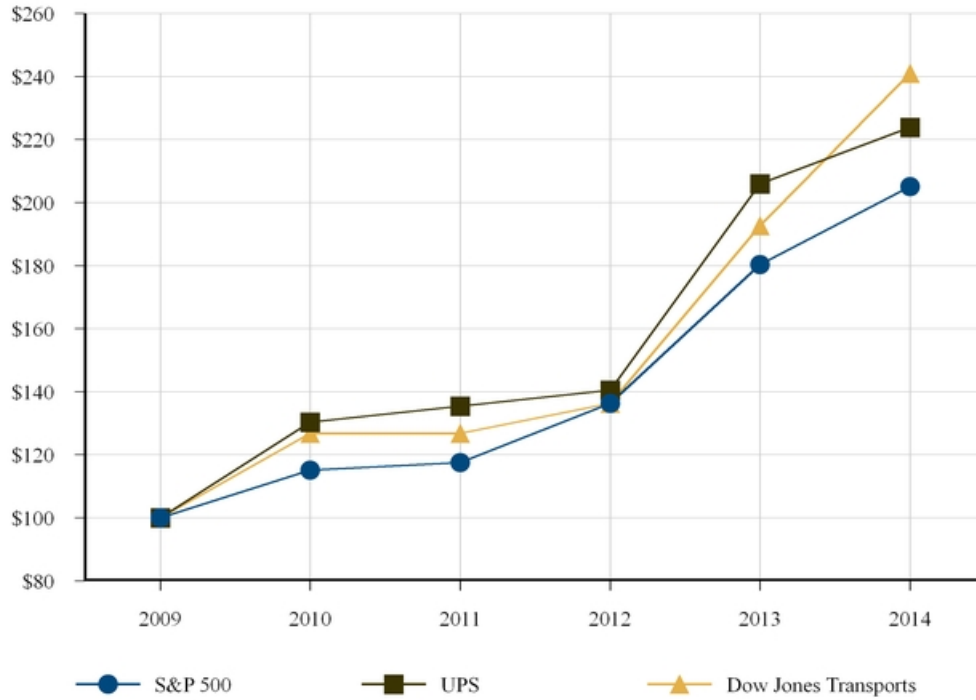


**Shareowner Return Performance Graph**

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.

**Comparison of Five Year Cumulative Total Return**



	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
<b>Selected Income Statement Data</b>					
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
<b>As of December 31,</b>					
	2014	2013	2012	2011	2010
<b>Selected Balance Sheet Data</b>					
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
<b>Operating Expenses:</b>			
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
<b>Income Tax Expense (Benefit) from the Items Above</b>	<b>(807)</b>	<b>(75)</b>	<b>(2,145)</b>

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:

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

<i>Weighted-average actuarial assumptions used to determine net periodic benefit cost</i>	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.

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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.

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*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
<b>Average Daily Package Volume (in thousands):</b>					
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 %
<b>Total Avg. Daily Package Volume</b>	<b>15,322</b>	<b>14,405</b>	<b>13,896</b>	<b>6.4 %</b>	<b>3.7 %</b>
<b>Average Revenue Per Piece:</b>					
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 %
<b>Total Avg. Revenue Per Piece</b>	<b>\$ 9.25</b>	<b>\$ 9.39</b>	<b>\$ 9.38</b>	<b>(1.5)%</b>	<b>0.1 %</b>
Operating Days in Period	253	252	252		
<b>Revenue (in millions):</b>					
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 %
<b>Total Revenue</b>	<b>\$ 35,851</b>	<b>\$ 34,074</b>	<b>\$ 32,856</b>	<b>5.2 %</b>	<b>3.7 %</b>
<b>Operating Expenses (in millions):</b>					
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)		
<b>Adjusted Operating Expenses</b>	<b>\$ 31,342</b>	<b>\$ 29,471</b>	<b>\$ 28,324</b>	<b>6.3 %</b>	<b>4.0 %</b>
<b>Operating Profit (in millions) and Operating Margin:</b>					
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:

<b>Revenue Change Drivers:</b>	<b>Volume</b>	<b>Rates / Product Mix</b>	<b>Fuel Surcharge</b>	<b>Total Revenue Change</b>
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
<b>Average Daily Package Volume (in thousands):</b>					
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 %
<b>Average Revenue Per Piece:</b>					
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		
<b>Revenue (in millions):</b>					
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 %
<b>Operating Expenses (in millions):</b>					
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 %
<b>Operating Profit (in millions) and Operating Margin:</b>					
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%		
<b>Currency Translation Benefit / (Cost)—(in millions)*:</b>					
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
<b>Revenue Change Drivers:</b>					
2014 / 2013	6.8%	(1.7)%	— %	(0.6)%	4.5%
2013 / 2012	5.6%	(1.5)%	(1.1)%	(0.5)%	2.5%

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***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
<b>Freight LTL Statistics:</b>					
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		
<b>Revenue (in millions):</b>					
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)%
<b>Operating Expenses (in millions):</b>					
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)%
<b>Operating Profit (in millions) and Operating Margins:</b>					
Operating Profit	\$ 432	\$ 674	\$ 15	(35.9)%	N/A
Adjusted Operating Profit	\$ 718	\$ 674	\$ 728	6.5 %	(7.4)%
Operating Margin	4.6%	7.5%	0.2%		
Adjusted Operating Margin	7.6%	7.5%	8.0%		
<b>Currency Translation Benefit / (Cost)—(in millions)*:</b>					
Revenue				\$ (65)	\$ (31)
Operating Expenses				54	25
Operating Profit				\$ (11)	\$ (6)

\* Amount represents the change compared to the prior year.

**Revenue**

*2014 compared to 2013*

Forwarding and logistics revenue increased \$266 million in 2014 compared with 2013. Forwarding revenue increased for the year, primarily due to volume and tonnage growth in our international air freight, North American air freight and ocean freight businesses, which were impacted by improving overall market demand. This was partially offset, however, by lower rates charged to our customers in our international air forwarding business, which was largely due to industry overcapacity in key trade lanes, particularly the Asia-outbound market. Revenue for our logistics products increased in 2014, as we experienced solid growth in our mail services, healthcare and retail distribution solutions.



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Freight revenue increased \$166 million in 2014, driven by solid increases in average daily LTL shipments and LTL revenue per hundredweight. The increase in average daily LTL shipments in 2014 was impacted by overall U.S. economic growth and improving LTL market conditions. The increase in LTL revenue per hundredweight was largely due to our focus on yield management, as well as general rate increases averaging 4.4% and 5.9% that took effect in March 2014 and June 2013, respectively, covering non-contractual shipments in the United States, Canada and Mexico. LTL fuel surcharge revenue increased by \$13 million in 2014 compared with 2013, due to changes in diesel fuel prices and overall LTL shipment volume.

Revenue for the other businesses within Supply Chain & Freight increased \$26 million in 2014, due to revenue growth at The UPS Store, UPS Capital and UPS Customer Solutions; however, this was partially offset by a decline in revenue from our contract to provide domestic air transportation services for the U.S. Postal Service.

*2013 compared to 2012*

Forwarding and logistics revenue decreased \$485 million in 2013 compared with 2012. Forwarding revenue decreased in 2013, primarily due to lower tonnage and rates charged to our customers in our international air forwarding business. The reduction in tonnage was caused by several factors, including weak overall market demand, competitive pressures, and our customer concentration among the technology and military sectors, as demand in these sectors was relatively weaker than the remainder of the air freight market. The reduction in rates was largely due to industry overcapacity in key trade lanes, particularly the Asia-outbound market. Revenue for our logistics products increased in 2013 compared with 2012, as we experienced solid growth in our mail services and healthcare distribution solutions; however, this was largely offset by revenue declines among our technology customers.

Freight revenue increased \$242 million in 2013, driven by an increase in LTL revenue per hundredweight, tonnage and average daily LTL shipments. The increase in LTL revenue per hundredweight was largely due to our focus on yield management, as well as general rate increases averaging 5.9% that took effect on both July 16, 2012 and on June 10, 2013, covering non-contractual shipments in the United States, Canada and Mexico. LTL fuel surcharge revenue increased by \$18 million in 2013 compared with the prior year, due to changes in diesel fuel prices and overall LTL shipment volume. In addition, our Truckload division experienced increased volume and revenue, primarily related to our dedicated and non-dedicated service offerings.

The other businesses within Supply Chain & Freight increased revenue by \$31 million in 2013, primarily due to growth at UPS Capital, The UPS Store and UPS Customer Solutions.

***Operating Expenses***

*2014 compared to 2013*

Forwarding and logistics adjusted operating expenses increased \$266 million in 2014, largely due to higher purchased transportation and employee compensation expenses. Purchased transportation expense increased by \$229 million for the year, primarily due to higher volume and tonnage in our international air freight forwarding business and higher rates charged to us by third-party transportation carriers. Compensation and benefits expense increased \$47 million in 2014, due to merit salary and wage increases for management and hourly employees, along with an increase in the overall size of the workforce.

Freight adjusted operating expenses increased \$140 million in 2014, while the total adjusted cost per LTL shipment increased 2.0%. The increase in adjusted operating expenses was largely due to pick-up and delivery expenses (which increased \$96 million) and the costs associated with operating our linehaul network (which increased \$65 million). The increases in pick-up and delivery and network costs were primarily due to contractual wage increases, higher LTL volume and increased costs associated with outside contract and rail carriers. Partially offsetting these cost increases were reductions in indirect operating expenses, including lower auto liability and worker's compensation costs, which were impacted by operational safety and claims management initiatives, as well as lower pension expense.

Operating expenses for the other businesses within Supply Chain & Freight increased \$8 million in 2014 compared with 2013.

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*2013 compared to 2012*

Forwarding and logistics adjusted operating expenses decreased \$388 million in 2013 compared with 2012, due to several factors. Purchased transportation expense declined by \$236 million, primarily due to lower tonnage in our international air freight forwarding business. Compensation and benefits expense declined by \$59 million, largely due to reduced payroll costs and lower expense for worker's compensation claims. The remaining decrease in expense resulted from lower fuel costs, bad debt expense, and various other items.

Freight adjusted operating expenses increased \$234 million in 2013, while the total cost per LTL shipment increased 2.0%. The largest component of this increase related to the cost of operating our linehaul network, which grew by \$62 million, as a result of a 3.7% average daily tonnage increase, coupled with wage and purchased transportation increases. Our Truckload division experienced a \$48 million increase in costs for the year, largely related to the expansion of our dedicated and non-dedicated services. Pick-up and delivery costs increased \$15 million as a result of higher volume and wage increases, but were partially offset by productivity improvements. The remaining increase in expense in 2013 was impacted by increases in pension expense and healthcare costs.

Adjusted operating expenses for the other businesses within Supply Chain & Freight decreased \$4 million in 2013 compared with 2012.

***Operating Profit and Margin***

*2014 compared to 2013*

Adjusted operating profit for the forwarding and logistics unit remained comparable between 2014 and 2013, and was impacted by several factors. Operating profit in the international air forwarding business declined in 2014, as continued excess market capacity in key trade lanes reduced the margin between the rates we charge our customers and the rates at which we procure capacity from third party air carriers. We increased profitability in our North American air freight, ocean freight, distribution and mail services units in 2014, as a result of improving market demand and cost controls.

Adjusted operating profit for our freight unit increased \$26 million in 2014 compared with 2013, as shipment growth, increased yields and higher productivity more than offset contractual union wage increases.

The combined operating profit for all of our other businesses in this segment increased \$18 million in 2014, primarily due to higher operating profit at UPS Capital and UPS Customer Solutions.

*2013 compared to 2012*

Adjusted operating profit for the forwarding and logistics unit decreased by \$97 million in 2013 compared with 2012. This decrease was primarily due to reduced profitability in our international air forwarding business, which resulted from competitive pressures combined with weak overall air freight market demand due to continued economic weakness in Europe, slowing growth in China and a sluggish U.S. economy. Additionally, our customer concentration among the technology and military sectors negatively impacted our results, as demand in these sectors was relatively weaker than the remainder of the air freight market. This lower demand pressured the rates we charge to our customers, which more than offset the reduced rates we incur from third-party transportation carriers, and thereby led to a compression in our operating margin.

Adjusted operating profit for our freight unit increased \$8 million in 2013 compared with 2012, as improvements in average daily LTL volume, yields and productivity measures (including gains in pick-up and delivery stops per hour, dock bills per hour and linehaul network utilization) more than offset an increase in wage and benefit expenses.

The combined adjusted operating profit for all of our other businesses in this segment increased \$35 million in 2013 compared with 2012, primarily due to higher operating profit at UPS Capital and The UPS Store.

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**Operating Expenses**

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Operating Expenses (in millions):					
Compensation and Benefits	\$ 32,045	\$ 28,557	\$ 33,102	12.2 %	(13.7)%
Defined Benefit Plans Mark-to-Market Charge	(1,062)	—	(4,831)		
Health & Welfare Plan Charges	(1,102)	—	—		
Multiemployer Pension Plan Withdrawal Charge	—	—	(896)		
Adjusted Compensation and Benefits	29,881	28,557	27,375	4.6 %	4.3 %
Repairs and Maintenance	1,371	1,240	1,228	10.6 %	1.0 %
Depreciation and Amortization	1,923	1,867	1,858	3.0 %	0.5 %
Purchased Transportation	8,460	7,486	7,354	13.0 %	1.8 %
Fuel	3,883	4,027	4,090	(3.6)%	(1.5)%
Other Occupancy	1,044	950	902	9.9 %	5.3 %
Other Expenses	4,538	4,277	4,250	6.1 %	0.6 %
TNT Termination Fee and Related Expenses	—	(284)	—		
Gain Upon Liquidation of Foreign Subsidiary	—	245	—		
Adjusted Other Expenses	4,538	4,238	4,250	7.1 %	(0.3)%
Total Operating Expenses	\$ 53,264	\$ 48,404	\$ 52,784	10.0 %	(8.3)%
Adjusted Total Operating Expenses	\$ 51,100	\$ 48,365	\$ 47,057	5.7 %	2.8 %
Currency Translation Cost / (Benefit)*				\$ (141)	\$ 12

\* Amount represents the change compared to the prior year.

**Compensation and Benefits**

*2014 compared to 2013*

Employee payroll costs increased \$1.054 billion in 2014, compared with 2013, largely due to contractual union wage rate increases, a 7.5% increase in average daily union labor hours, and a merit salary increase for management employees. The increase in average daily union labor hours was impacted by volume growth, as well as additional training hours for the seasonal fourth quarter staffing increase. Additionally, adverse weather conditions in the early part of 2014 contributed to an increase in labor hours in the year-to-date comparison.

Adjusted benefits expense increased \$270 million in 2014, primarily due to increased health and welfare costs, payroll taxes, and vacation, holiday and excused absence expenses. However, these factors were partially offset by a reduction in pension costs and workers compensation expense. These factors are discussed further as follows:

- Adjusted health and welfare costs increased \$221 million in 2014, largely due to higher medical claims in company-sponsored plans, increased contributions to multiemployer plans and the impact of several provisions of the Patient Protection and Affordable Care Act of 2010. The growth in multiemployer plan contributions was impacted by contractual contribution rate increases and higher union labor hours.
- Payroll taxes increased \$73 million in 2014, primarily as a result of higher union labor hours, union wage rate increases and higher management incentive compensation payments.

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- Vacation, holiday and excused absence expense increased \$41 million in 2014, due to an increase in the overall number of employees and increased vacation entitlements earned based on employees' years of service.
- Adjusted pension costs declined \$23 million in 2014, as a decrease in the expense for company-sponsored pension plans (largely due to higher discount rates used to determine pension cost for 2014) was largely offset by higher contributions to multiemployer pension plans (due to both increased contribution rates and higher union labor hours).
- Workers compensation expense decreased \$69 million in 2014, impacting all segments. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported worker's compensation claims, as well as estimates of claims that have been incurred but not reported, and take into account a number of factors including our history of claim losses, payroll growth and the impact of safety improvement initiatives. In 2014, we experienced favorable actuarial expense adjustments as the frequency and severity of claims was less than previously projected, due to the impact of ongoing operational safety improvement and claim management initiatives.

*2013 compared to 2012*

Employee payroll costs increased \$684 million in 2013 compared with 2012, largely due to contractual union wage rate increases, a 3.1% increase in average daily union labor hours, and a merit salary increase for management employees; however, this was partially offset by an overall reduction in the number of management personnel.

Adjusted benefits expense increased \$498 million in 2013 compared with 2012, primarily due to higher pension expense, increased vacation, holiday and excused absence expense, and higher health and welfare costs; however, these items were partially offset by changes in the expense associated with our self-insurance for worker's compensation claims. These primary factors impacting expense are discussed further as follows:

- Pension expense increased \$300 million in 2013 compared with 2012, due to higher union contribution rates for multiemployer pension plans combined with increased service and interest costs for company-sponsored plans. The increase in service and interest costs for company-sponsored plans was largely due to continued service accruals and lower discount rates.
- Vacation, holiday and excused absence expense increased \$89 million in 2013 compared with 2012, due to increased vacation entitlements earned based on employees' years of service, higher wage rates and an increase in the overall number of employees during 2013.
- Health and welfare costs increased \$182 million in 2013 compared with 2012, largely due to increased contribution rates to multiemployer plans, higher medical claims in UPS-sponsored plans, and the impact of several provisions of the Patient Protection and Affordable Care Act of 2010.
- The expense associated with our self-insurance programs for worker's compensation claims decreased \$131 million in 2013 compared with 2012. In 2013, we experienced favorable actuarial expense adjustments as the frequency and severity of claims was less than previously projected, due to the impact of ongoing safety improvement and claim management initiatives.

***Repairs and Maintenance***

*2014 compared to 2013*

The increase in repairs and maintenance expense in 2014 was primarily due to a \$93 million increase in airframe and aircraft engine repair and component replacement costs, largely in our Boeing 747 and 767 aircraft fleets. The remaining increase was largely due to increased vehicle maintenance costs in our global package and freight operations, primarily due to the growth in the size of our vehicle fleet.

*2013 compared to 2012*

The increase in repairs and maintenance expense was largely due to increased vehicle maintenance costs in our global package and freight operations. These higher costs were impacted by the increase in miles driven in 2013 compared with 2012, as well as the overall increase in the size of our vehicle fleet in our U.S. Domestic Package and UPS Freight operations.

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***Depreciation and Amortization***

*2014 compared to 2013*

The increase in depreciation and amortization expense in 2014, compared with 2013, was primarily due to a \$45 million increase in the depreciation expense on vehicles, due to the replacement of older, fully-depreciated vehicles, technology upgrades on vehicles and an overall increase in the size of our vehicle fleet in our U.S. Domestic Package and UPS Freight operations. Additionally, amortization expense increased \$20 million, primarily related to intangible assets resulting from business acquisitions. These factors were partially offset by a decrease in building and facility depreciation, as several operating facilities became fully-depreciated.

*2013 compared to 2012*

The increase in depreciation and amortization expense in 2013, compared with 2012, was primarily due to a \$62 million increase in depreciation expense on vehicles. This increase was driven by the replacement of older, fully-depreciated vehicles, technology upgrades on new vehicles and an overall increase in the size of our vehicle fleet. This increase was largely offset by several factors, including lower building and facility depreciation and capitalized software amortization.

***Purchased Transportation***

*2014 compared to 2013*

The \$974 million increase in purchased transportation expense charged to us by third-party air, ocean and truck carriers in 2014 was driven by several factors:

- Our U.S. Domestic Package segment incurred a \$474 million increase in expense in 2014, primarily due to (1) higher fees paid to the U.S. Postal Service associated with the volume growth in our SurePost product; (2) the increased use of, and higher rates passed to us from, rail carriers; and (3) the increased use of outside contract carriers, which was impacted by volume growth and rail carrier service issues; additionally, adverse weather conditions in the early months of 2014 resulted in the additional use of outside contract carriers. Approximately \$177 million of the increase, or 37% of the total increase for the year, was attributable to the fourth quarter as a result of high seasonal volume.
- Our International Package segment incurred a \$203 million increase in expense in 2014, primarily due to higher costs incurred for the use of outside transportation providers, which was impacted by strong international volume growth.
- Our UPS Freight business incurred a \$68 million increase in expense in 2014, largely due to increased LTL and brokerage volume, and the resulting increased use of, and higher rates passed to us from, outside transportation carriers.
- The purchased transportation expense for our forwarding and logistics business increased \$229 million in 2014, largely due to increased volume and tonnage in our international air freight, North American air freight, and ocean forwarding businesses.

*2013 compared to 2012*

The increase in purchased transportation expense charged to us by third-party air, ocean and truck carriers in 2013, compared with 2012, was driven by several factors:

- Our U.S. Domestic Package segment incurred a \$154 million expense increase for the year, primarily due to higher rates passed to us from rail carriers, and higher fees paid to the U.S. Postal Service associated with the volume growth in our SurePost product. This increase in expense was also impacted by the adverse weather conditions in the fourth quarter of 2013, as well as the significant increase in volume during the compressed timing of the holiday season.
- Our International Package segment incurred a \$144 million expense increase for the year, primarily due to international volume growth.
- Our UPS Freight business incurred a \$70 million increase for the year, largely due to growth in LTL volume and higher rates passed to us from rail carriers.
- The purchased transportation expense for our forwarding & logistics business declined \$236 million for the year, largely due to lower tonnage and reduced rates from third-party transportation carriers in our international air freight forwarding business.

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***Fuel***

*2014 compared to 2013*

The \$144 million decrease in fuel expense in 2014 was primarily due to lower fuel prices (net of hedging activity), which decreased fuel expense by \$180 million in 2014. This was partially offset by higher fuel usage (due to an increase in aircraft block hours and vehicle miles driven), which increased expense by \$36 million.

*2013 compared to 2012*

The decrease in fuel expense in 2013 was largely due to the decline in fuel prices (primarily jet-A fuel prices), which decreased expense by \$77 million, net of hedging. This was partially offset by a \$14 million increase in overall fuel usage, which was primarily due to lower vehicle fuel efficiency and an increase in miles driven.

***Other Occupancy***

*2014 compared to 2013*

The increase in other occupancy expense in 2014 was largely due to an increase in facility rent expense (\$25 million), property taxes (\$10 million) and natural gas and electric utility costs (\$32 million). The increase in rent, property taxes and utilities expense was impacted by new leases on facilities to support the growth of our U.S. Domestic Package operations. Additionally, adverse weather conditions in the U.S. in the early months of 2014 resulted in \$15 million of increased snow removal costs at our operating facilities.

*2013 compared to 2012*

The increase in other occupancy expense in 2013, compared with 2012, was primarily due to higher snow removal costs at our operating facilities, an increase in utility expenses, as well as higher real estate taxes. The relatively cold winter in the United States in 2013 compared with 2012 caused the increase in snow removal costs, while increased usage and higher prices of natural gas and electricity resulted in the increase in utility expenses.

***Other Expenses***

*2014 compared to 2013*

The \$300 million increase in adjusted other expenses in 2014 was impacted by a number of factors. Transportation equipment rental expense increased \$90 million for the year, and was affected by the growth in package volume (particularly the seasonal volume increase in the fourth quarter). We also incurred increases in several other expense categories, including transportation security costs, employee expense reimbursements and recruitment costs (related to training and staffing for the seasonal volume increase in the fourth quarter) and legal contingency expenses. These increases were partially offset by business interruption insurance claim reimbursements from previous weather-related events, as well as lower advertising costs.

*2013 compared to 2012*

The decrease in adjusted other expenses in 2013 compared with 2012 was impacted by a number of factors, including decreases in bad debt expense, employee expense reimbursements, advertising costs, telecommunications expenses, and non-income based state and local taxes. These decreases in expense were partially offset by increases in auto liability insurance, transportation equipment rentals, and air cargo handling costs.

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**Investment Income and Interest Expense**

The following table sets forth investment income and interest expense for the years ended December 31, 2014, 2013 and 2012 (in millions):

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Investment Income	\$ 22	\$ 20	\$ 24	10.0 %	(16.7)%
Interest Expense	\$ (353)	\$ (380)	\$ (393)	(7.1)%	(3.3)%

*Investment Income*

*2014 compared to 2013*

The increase in investment income in 2014 compared with 2013 was primarily due to a \$7 million decrease in losses from fair value adjustments on real estate partnerships. This was partially offset by a decline in interest income, largely due to having a lower average balance of invested assets in 2014.

*2013 compared to 2012*

The decrease in investment income in 2013 compared with 2012 was primarily due to lower interest rates earned on invested assets, as well as a decline in the average balance of invested assets. These factors were partially offset by higher realized gains on the sales of securities in 2013 compared with 2012.

*Interest Expense*

*2014 compared to 2013*

Interest expense decreased in 2014 compared with 2013, largely due to having a lower average balance of debt outstanding. In addition, interest expense declined due to a decrease in the interest rate indices underlying our variable-rate debt and swaps in 2014 compared with 2013.

*2013 compared to 2012*

Interest expense decreased in 2013 compared to 2012, largely due to three factors: (1) having a greater proportion of our debt swapped to lower-yielding variable rates, (2) a decrease in the interest rate indices underlying our variable-rate debt and swaps, and (3) a lower average balance of debt outstanding. These factors were partially offset by the imputation of interest expense on the multiemployer pension withdrawal liability related to the New England Pension Fund.

**Income Tax Expense**

The following table sets forth income tax expense and our effective tax rate for the years ended December 31, 2014, 2013 and 2012 (in millions):

	Year Ended December 31,			% Change	
	2014	2013	2012	2014 / 2013	2013 / 2012
Income Tax Expense	\$ 1,605	\$ 2,302	\$ 167	(30.3)%	N/A
Income Tax Impact of:					
Defined Benefit Plans Mark-to-Market Charge	392	—	1,808		
Health & Welfare Plan Charges	415	—	—		
TNT Termination Fee and Related Expenses	—	107	—		
Gain Upon Liquidation of Foreign Subsidiary	—	(32)	—		
Multiemployer Pension Plan Withdrawal Charge	—	—	337		
Adjusted Income Tax Expense	<u>\$ 2,412</u>	<u>\$ 2,377</u>	<u>\$ 2,312</u>	1.5 %	2.8%
Effective Tax Rate	34.6%	34.5%	17.1%		
Adjusted Effective Tax Rate	35.5%	35.4%	34.5%		

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*2014 compared to 2013*

Our adjusted effective tax rate increased slightly to 35.5% in 2014 from 35.4% in 2013 due to a decrease in U.S. Federal and state tax credits relative to total pre-tax income, which was largely offset by favorable changes in the proportion of our taxable income in certain U.S. and non-U.S. jurisdictions relative to total pre-tax income.

*2013 compared to 2012*

Our adjusted effective tax rate increased to 35.4% in 2013 from 34.5% in 2012, due to a decrease in U.S. Federal and state tax credits relative to total pre-tax income, and unfavorable changes in the proportion of our taxable income in certain U.S. and non-U.S. jurisdictions relative to total pre-tax income.

**Liquidity and Capital Resources**

*Operating Activities*

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

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net income	\$ 3,032	\$ 4,372	\$ 807
Non-cash operating activities(a)	5,901	3,318	7,313
Pension and postretirement plan contributions (UPS-sponsored plans)	(1,258)	(212)	(917)
Settlement of postretirement benefit obligation	(2,271)	—	—
Income tax receivables and payables	(224)	(155)	280
Changes in working capital and other noncurrent assets and liabilities	512	121	(148)
Other operating activities	34	(140)	(119)
Net cash from operating activities	<u>\$ 5,726</u>	<u>\$ 7,304</u>	<u>\$ 7,216</u>

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

Cash from operating activities remained strong throughout the 2012 to 2014 time period. Operating cash flow was adversely impacted by \$1.527 billion due to certain transactions resulting from the ratification of our collective bargaining agreement with the Teamsters in 2014. These transactions are discussed further in the "Collective Bargaining Agreements" section:

- We paid \$2.271 billion to settle postretirement benefit obligations for certain union employees.
- We paid \$176 million in 2014 for retroactive economic benefits under the collective bargaining agreement that were related to the period between August through December of 2013.
- During 2014, we received cash tax benefits of \$920 million from the items described above (through reduced U.S. Federal and state quarterly income tax payments).

Most of the remaining variability in operating cash flows during the 2012 to 2014 time period relates to the funding of our company-sponsored pension and postretirement benefit plans (and related cash tax deductions). Except for discretionary or accelerated fundings of our plans, contributions to our company-sponsored pension plans have largely varied based on whether any minimum funding requirements are present for individual pension plans.

- In 2014, we made discretionary contributions to our three primary company-sponsored U.S. pension plans totaling \$1.042 billion.
- In 2013, we did not have any required, nor make any discretionary, contributions to our primary company-sponsored pension plans in the U.S.
- In 2012, we made a \$355 million required contribution to the UPS IBT Pension Plan.
- The remaining contributions in the 2012 through 2014 period were largely due to contributions to our international pension plans and U.S. postretirement medical benefit plans.



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

Apart from the transactions described above, operating cash flow was impacted by changes in our working capital position, payments for income taxes, and changes in hedge margin payables and receivables. In 2014 and 2013, the compressed holiday shipping season resulted in an increase in working capital needs at each year-end period. The cash payments for income taxes were \$1.524, \$2.712 and \$1.988 billion for 2014, 2013 and 2012, respectively, and were primarily impacted by the timing of current tax deductions. The net hedge margin collateral received from derivative counterparties was \$421, \$67 and \$4 million during 2014, 2013 and 2012, respectively, due to the increased net fair value asset position of the derivative contracts used in our currency and interest rate hedging programs.

As of December 31, 2014, the total of our worldwide holdings of cash and cash equivalents was \$2.291 billion, of which \$1.072 billion was held by foreign subsidiaries. The amount of cash held by our U.S. and foreign subsidiaries fluctuates throughout the year due to a variety of factors, including the timing of cash receipts and disbursements in the normal course of business. Cash provided by operating activities in the United States continues to be our primary source of funds to finance domestic operating needs, capital expenditures, share repurchases and dividend payments to shareowners. To the extent that such amounts represent previously untaxed earnings, the cash held by foreign subsidiaries would be subject to tax if such amounts were repatriated in the form of dividends; however, not all international cash balances would have to be repatriated in the form of a dividend if returned to the U.S. When amounts earned by foreign subsidiaries are expected to be indefinitely reinvested, no accrual for taxes is provided.

*Investing Activities*

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

	2014	2013	2012
Net cash used in investing activities	\$ (2,801)	\$ (2,114)	\$ (1,335)
<b>Capital Expenditures:</b>			
Buildings and facilities	\$ (808)	\$ (483)	\$ (506)
Aircraft and parts	(44)	(478)	(568)
Vehicles	(1,061)	(662)	(672)
Information technology	(415)	(442)	(407)
	<u>\$ (2,328)</u>	<u>\$ (2,065)</u>	<u>\$ (2,153)</u>
Capital Expenditures as a % of Revenue	4.0%	3.7%	4.0%
<b>Other Investing Activities:</b>			
Proceeds from disposals of property, plant and equipment	\$ 53	\$ 104	\$ 95
Net decrease in finance receivables	\$ 44	\$ 39	\$ 101
Net (purchases) sales of marketable securities	\$ (419)	\$ 9	\$ 628
Cash received (paid) for business acquisitions and dispositions	\$ (88)	\$ (22)	\$ (100)
Other investing activities	\$ (63)	\$ (179)	\$ 94

We have commitments for the purchase of vehicles, equipment and real estate to provide for the replacement of existing capacity and anticipated future growth. We generally fund our capital expenditures with our cash from operations. Future capital spending for anticipated growth and replacement assets will depend on a variety of factors, including economic and industry conditions. We anticipate that our capital expenditures for 2015 will be approximately \$3.0 billion.

Capital spending on aircraft declined over the 2012 to 2014 period, as we completed the scheduled deliveries of a previous order for the Boeing 767-300ERF aircraft. Capital spending on vehicles increased during the 2012 to 2014 period in our U.S. and international package businesses and our freight unit, due to vehicle replacements, technology enhancements and new vehicle orders to support volume growth. Capital expenditures on buildings and facilities also increased in the 2012 to 2014 period, and included hub automation and capacity expansion projects in the U.S. during 2014, as well as expansion and new construction projects at facilities in Europe and Asia (including a \$200 million expansion at our European air hub in Cologne, Germany that was completed in 2014).

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The proceeds from the disposal of property, plant and equipment were largely due to real estate sales during the 2012 through 2014 period, as well as the proceeds from insurance recoveries in 2013. The net decline in finance receivables in the 2012 through 2014 period was primarily due to customer paydowns and loan sales activity, primarily in our commercial lending, asset-based lending and leasing portfolios. The purchases and sales of marketable securities are largely determined by liquidity needs and the periodic rebalancing of investment types, and will therefore fluctuate from period to period.

The cash paid for business acquisitions in the 2012 to 2014 period was largely due to the acquisitions of Kiala S.A. in Belgium (2012), Cemelog Ltd. in Hungary (2013), i-parcel LLC in the U.S. (2014) and Polar Speed Distribution Limited in the U.K. (2014), as well as other smaller acquisitions.

Other investing activities are impacted by changes in our restricted cash balances, capital contributions into certain investment partnerships, and various other items. In 2014 and 2013, we increased the restricted cash balance associated with our self-insurance requirements by \$17 and \$137 million, respectively (there were no changes in restricted cash in 2012, other than earned interest).

*Financing Activities*

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

	2014	2013	2012
Net cash used in financing activities	\$ (5,161)	\$ (7,807)	\$ (1,817)
<b>Share Repurchases:</b>			
Cash expended for shares repurchased	\$ (2,695)	\$ (3,838)	\$ (1,621)
Number of shares repurchased	(26.4)	(43.2)	(21.8)
Shares outstanding at year-end	905	923	953
Percent reduction in shares outstanding	(2.0)%	(3.1)%	(1.0)%
<b>Dividends:</b>			
Dividends declared per share	\$ 2.68	\$ 2.48	\$ 2.28
Cash expended for dividend payments	\$ (2,366)	\$ (2,260)	\$ (2,130)
<b>Borrowings:</b>			
Net borrowings (repayments) of debt principal	\$ (169)	\$ (1,775)	\$ 1,729
<b>Other Financing Activities:</b>			
Cash received for common stock issuances	\$ 274	\$ 491	\$ 301
Other financing activities	\$ (205)	\$ (425)	\$ (96)
<b>Capitalization:</b>			
Total debt outstanding at year-end	\$ 10,787	\$ 10,872	\$ 12,870
Total shareowners' equity at year-end	2,158	6,488	4,733
Total capitalization	\$ 12,945	\$ 17,360	\$ 17,603
Debt to Total Capitalization %	83.3 %	62.6 %	73.1 %

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 share repurchase authorization has no expiration date. As of December 31, 2014, we had \$4.152 billion of this share repurchase authorization remaining. Share repurchases may take the form of accelerated share repurchases, open market purchases, or other such methods as we deem appropriate. The timing of our share repurchases will depend upon market conditions. Unless terminated earlier by the resolution of our Board, the program will expire when we have purchased all shares authorized for repurchase under the program. We anticipate repurchasing approximately \$2.7 billion of shares in 2015.

The declaration of dividends is subject to the discretion of the Board of Directors and will depend on various factors, including our net income, financial condition, cash requirements, future prospects, and other relevant factors. We expect to continue the practice of paying regular cash dividends. In February 2015, we increased our quarterly dividend payment from \$0.67 to \$0.73 per share, a 9% increase.

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Issuances of debt in 2014 and 2013 consisted primarily of longer-maturity commercial paper. Issuances of debt in 2012 consisted primarily of senior fixed rate note offerings totaling \$1.75 billion.

Repayments of debt in 2014 and 2013 consisted primarily of the maturity of our \$1.0 and \$1.75 billion senior fixed rate notes that matured in April 2014 and January 2013, respectively. The remaining repayments of debt during the 2012 through 2014 time period included paydowns of commercial paper and scheduled principal payments on our capitalized lease obligations. We consider the overall fixed and floating interest rate mix of our portfolio and the related overall cost of borrowing when planning for future issuances and non-scheduled repayments of debt.

We had \$772 million of commercial paper outstanding at December 31, 2014, and no commercial paper outstanding at December 31, 2013 and 2012. The amount of commercial paper outstanding fluctuates throughout each year based on daily liquidity needs. The average commercial paper balance was \$1.356 billion and the average interest rate paid was 0.10% in 2014 (\$1.013 billion and 0.07% in 2013, and \$962 million and 0.07% in 2012, respectively).

The variation in cash received from common stock issuances to employees was primarily due to level of stock option exercises in the 2012 through 2014 period.

The cash outflows in other financing activities were impacted by several factors. Cash inflows (outflows) from the premium payments and settlements of capped call options for the purchase of UPS class B shares were \$(47), \$(93) and \$206 million for 2014, 2013 and 2012, respectively. Cash outflows related to the repurchase of shares to satisfy tax withholding obligations on vested employee stock awards were \$224, \$253 and \$234 million for 2014, 2013 and 2012, respectively. In 2013, we paid \$70 million to purchase the noncontrolling interest in a joint venture that operates in the Middle East, Turkey and portions of the Central Asia region. In 2012, we settled several interest rate derivatives that were designated as hedges of the senior fixed-rate debt offerings that year, which resulted in a cash outflow of \$70 million.

*Sources of Credit*

See note 7 to the audited consolidated financial statements for a discussion of our available credit and debt covenants.

*Guarantees and Other Off-Balance Sheet Arrangements*

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

*Contractual Commitments*

We have contractual obligations and commitments in the form of capital leases, operating leases, debt obligations, purchase commitments, and certain other liabilities. We intend to satisfy these obligations through the use of cash flow from operations. The following table summarizes the expected cash outflow to satisfy our contractual obligations and commitments as of December 31, 2014 (in millions):

<b>Commitment Type</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>After 2019</b>	<b>Total</b>
Capital Leases	\$ 75	\$ 74	\$ 67	\$ 62	\$ 59	\$ 435	\$ 772
Operating Leases	323	257	210	150	90	274	1,304
Debt Principal	876	8	377	752	1,000	7,068	10,081
Debt Interest	295	293	293	282	260	4,259	5,682
Purchase Commitments	269	195	71	19	8	26	588
Pension Fundings	1,030	1,161	344	347	400	488	3,770
Other Liabilities	43	23	10	5	—	—	81
<b>Total</b>	<b>\$ 2,911</b>	<b>\$ 2,011</b>	<b>\$ 1,372</b>	<b>\$ 1,617</b>	<b>\$ 1,817</b>	<b>\$ 12,550</b>	<b>\$ 22,278</b>

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Our capital lease obligations relate primarily to leases on aircraft. Capital leases, operating leases, and purchase commitments, as well as our debt principal obligations, are discussed further in note 7 to our consolidated financial statements. The amount of interest on our debt was calculated as the contractual interest payments due on our fixed-rate debt, in addition to interest on variable rate debt that was calculated based on interest rates as of December 31, 2014. The calculations of debt interest take into account the effect of interest rate swap agreements. For debt denominated in a foreign currency, the U.S. Dollar equivalent principal amount of the debt at the end of the year was used as the basis to calculate future interest payments.

Purchase commitments represent contractual agreements to purchase goods or services that are legally binding, the largest of which are orders for technology equipment and vehicles. As of December 31, 2014, we have no open aircraft orders.

Pension fundings represent the anticipated required cash contributions that will be made to our qualified U.S. pension plans (these plans are discussed further in note 4 to the consolidated financial statements). The pension funding requirements were estimated under the provisions of the Pension Protection Act of 2006 and the Employee Retirement Income Security Act of 1974, using discount rates, asset returns and other assumptions appropriate for these plans. In July 2012, federal legislation was signed into law that allows pension plan sponsors to use higher interest rate assumptions (based on a 25-year rate history) in valuing plan liabilities and determining funding obligations. The amount of any minimum funding requirement, as applicable, for these plans could change significantly in future periods, depending on many factors, including future plan asset returns and discount rates. A sustained significant decline in the world equity markets, and the resulting impact on our pension assets and investment returns, could result in our domestic pension plans being subject to significantly higher minimum funding requirements. To the extent that the funded status of these plans in future years differs from our current projections, the actual contributions made in future years could materially differ from the amounts shown in the table above.

As discussed in note 5 to our consolidated financial statements, we are not currently subject to any minimum contributions or surcharges with respect to the multiemployer pension and health and welfare plans in which we participate. Contribution rates to these multiemployer pension and health and welfare plans are established through the collective bargaining process. As we are not subject to any minimum contribution levels, we have not included any amounts in the contractual commitments table with respect to these multiemployer plans.

The contractual payments due for "other liabilities" primarily include commitment payments related to our investment in certain partnerships. The table above does not include approximately \$217 million of liabilities for uncertain tax positions because we are uncertain if or when such amounts will ultimately be settled in cash. In addition, we also have recognized assets associated with uncertain tax positions in excess of the related liabilities such that we do not believe a net contractual obligation exists to the taxing authorities. Uncertain tax positions are further discussed in note 12 to the consolidated financial statements.

As of December 31, 2014, we had outstanding letters of credit totaling approximately \$1.064 billion issued in connection with our self-insurance reserves and other routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2014, we had \$640 million of surety bonds written. As of December 31, 2014, we had unfunded loan commitments totaling \$136 million associated with our financial business.

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

*Contingencies*

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

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**Collective Bargaining Agreements**

*Status of Collective Bargaining Agreements*

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 ("NMA") with UPS that will expire on July 31, 2018. The economic provisions in the NMA included wage rate increases, as well as increased contribution rates for healthcare and pension benefits. Most of these economic provisions were retroactive to August 1, 2013, which was the effective date of the NMA. In the second quarter of 2014, we remitted \$278 million for these retroactive economic benefits; this payment had an immaterial impact on net income, as these retroactive economic benefits had been accrued since the July 31, 2013 expiration of the prior agreement.

In addition to the retroactive economic provisions of the NMA, there were certain changes to the delivery of healthcare benefits that were effective at various dates. These changes impact approximately 36,000 full-time and 73,000 part-time active employees covered by the NMA and the UPS Freight collective bargaining agreement (collectively referred to as the "NMA Group"), as well as approximately 16,000 employees covered by other collective bargaining agreements (the "Non-NMA Group"). These provisions are discussed further below in the "Changes to the Delivery of Active and Postretirement Healthcare Benefits" section.

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.

*Multiemployer Benefit Plans*

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

*Changes to the Delivery of Active and Postretirement Healthcare Benefits*

Prior to ratification, the NMA Group and Non-NMA Group employees received their healthcare benefits through UPS-sponsored active and postretirement health and welfare benefit plans. Effective June 1, 2014, we ceased providing healthcare benefits to active NMA Group employees through these UPS-sponsored benefit plans, and the responsibility for providing healthcare benefits for active employees was assumed by three separate multiemployer healthcare funds (the "Funds"). The responsibility for providing healthcare benefits for the active Non-NMA Group employees was also assumed by the Funds on various dates up to January 1, 2015, depending on the ratification date of the applicable collective bargaining agreement. We will make contributions to the Funds based on negotiated fixed hourly or monthly contribution rates for the duration of the NMA and other applicable collective bargaining agreements.

Additionally, the Funds assumed the obligation to provide postretirement healthcare benefits to the employees in the NMA Group who retire on or after January 1, 2014. The postretirement healthcare benefit obligation for the employees in the Non-NMA Group was assumed by the Funds for employees retiring on or after January 1, 2014 or January 1, 2015, depending on the applicable collective bargaining agreement. In exchange for the assumption of the obligation to provide postretirement healthcare benefits to the NMA Group and Non-NMA Group, we transferred cash totaling \$2.271 billion to the Funds in the second quarter of 2014. UPS-sponsored health and welfare benefit plans retained responsibility for providing postretirement healthcare coverage for employees in the NMA Group who retired from UPS prior to January 1, 2014, and for employees in the Non-NMA Group who retire from UPS prior to the January 1, 2014 or January 1, 2015 effective date in the applicable collective bargaining agreement.

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*Accounting Impact of Health and Welfare Plan Changes*

Income Statement Impact:

We recorded a pre-tax charge of \$1.066 billion (\$665 million after-tax) in the second quarter of 2014 for the health and welfare plan changes described above. The components of this charge, which was included in "compensation and benefits" expense in the statement of consolidated income, are as follows:

- *Partial Plan Curtailment:* We recorded a \$112 million pre-tax curtailment loss due to the elimination of future service benefit accruals. This curtailment loss represents the accelerated recognition of unamortized prior service costs.
- *Remeasurement of Postretirement Obligation:* We recorded a \$746 million pre-tax loss due to the remeasurement of the postretirement benefit obligations of the affected UPS-sponsored health and welfare benefit plans.
- *Settlement:* We recorded a \$208 million pre-tax settlement loss, which represents the recognition of unamortized actuarial losses associated with the postretirement obligation for the NMA Group.

We recorded an additional pre-tax charge of \$36 million (\$22 million after-tax) in the fourth quarter of 2014 upon ratification of the collective bargaining agreements covering the Non-NMA Group, related to the remeasurement and settlement of the postretirement benefit obligation associated with those employees.

Balance Sheet and Cash Flow Impact:

During 2014, as part of the health and welfare plan changes described previously, we transferred cash totaling \$2.271 billion to the Funds, which was accounted for as a settlement of our postretirement benefit obligations (see note 4 to the audited consolidated financial statements). We received approximately \$854 million of cash tax benefits (through reduced U.S. Federal and state quarterly income tax payments) in 2014.

For NMA Group employees who retired prior to January 1, 2014 and remained with the UPS-sponsored health and welfare plans, the changes to the contributions, benefits and cost sharing provisions in these plans resulted in an increase in the postretirement benefit obligation, and a corresponding decrease in pre-tax accumulated other comprehensive income, of \$13 million upon ratification.

*Anticipated Benefits of Health and Welfare Plan Changes*

We believe we have obtained several benefits as a result of these health and welfare plan changes, including:

- *Liability Transfer:* We have removed a significant liability from our balance sheet, which helps to reduce uncertainty around potential changes to healthcare laws and regulations, control the volatility of healthcare inflation, and removes the risk associated with providing future retiree healthcare.
- *Negotiated Healthcare Costs:* Using the model of a defined contribution plan allows us to negotiate our contributions towards healthcare costs going forward, and provides more certainty of costs over the contract period.
- *Minimize Impact of Healthcare Law Changes:* Multiemployer plans have several advantages under the Patient Protection and Affordable Care Act of 2010, including reduced transitional fees and the ability to limit the impact of future excise taxes.
- *Mitigate Demographic Issues:* This helps reduce the potential impact of increased early retirements by employees.

*Agreement with the New England Teamsters and Trucking Industry Pension Fund*

In the third quarter of 2012, we reached an agreement with the New England Pension Fund, a multiemployer pension plan in which UPS is a participant, to restructure the pension liabilities for approximately 10,200 UPS employees represented by the Teamsters. The agreement reflects a decision by the New England Pension Fund's trustees to restructure the fund through plan amendments to utilize a "two pool approach", which effectively subdivides the plan assets and liabilities between two groups of beneficiaries. As part of this agreement, UPS agreed to withdraw from the original pool of the New England Pension Fund of which it had historically been a participant, and reenter the New England Pension Fund's newly-established pool as a new employer.

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Upon ratification of the agreement by the Teamsters in September 2012, we withdrew from the original pool of the New England Pension Fund and incurred an undiscounted withdrawal liability of \$2.162 billion to be paid in equal monthly installments over 50 years. The undiscounted withdrawal liability was calculated by independent actuaries employed by the New England Pension Fund, in accordance with the governing plan documents and the applicable requirements of the Employee Retirement Income Security Act of 1974. In the third quarter of 2012, we recorded a charge to expense to establish an \$896 million withdrawal liability on our balance sheet, which represents the present value of the \$2.162 billion future payment obligation discounted at a 4.25% interest rate. This discount rate represents the estimated credit-adjusted market rate of interest at which we could obtain financing of a similar maturity and seniority.

As part of this agreement, we believe that UPS, the New England Pension Fund and our affected employees have obtained several benefits, including:

- The old pool of the New England Pension Fund has historically had, and would likely continue to have, funding challenges; this represented a risk to UPS of having to face higher future contribution requirements, as well as a risk to the security of the pension benefits of those UPS employees who participate in the New England Pension Fund. The 50 year fixed payment obligation should improve the funded status of the New England Pension Fund over time, while reducing the risk to UPS of significantly higher future contribution requirements.
- The newly-established pool provides better protections for new participating employers. This pool uses a direct-attribution methodology for calculating any potential future withdrawal liabilities, which reduces our exposure to the liabilities of other participating employers. Additionally, this pool contains provisions designed to maintain a fully-funded status, including automatic benefit reductions and/or increased employee contributions in the event of an underfunded situation occurring.
- As part of the agreement, we were able to freeze our hourly pension contribution rate to the newly-established pool of the New England Pension Fund for a period of 10 years, which provides cash flow visibility for both UPS and the New England Pension Fund.

The \$896 million charge to expense recorded in the third quarter of 2012 is included in "compensation and benefits expense" in the statement of consolidated income, while the corresponding withdrawal liability is included in "other non-current liabilities" on the consolidated balance sheet. We will impute interest on the withdrawal liability using the 4.25% discount rate, while the monthly payments made to the New England Pension Fund will reduce the remaining balance of the withdrawal liability.

Our status in the newly-established pool of the New England Pension Fund is accounted for as the participation in a new multiemployer pension plan, and therefore we will recognize expense based on the contractually-required contribution for each period, and we will recognize a liability for any contributions due and unpaid at the end of a reporting period.

*Rate Adjustments*

In October 2014, we announced an average 4.9% net increase in base and accessorial rates that took effect December 29, 2014, and impacted the following services:

- UPS Ground services;
- UPS Next Day Air, UPS 2<sup>nd</sup> Day Air, UPS 3 Day Select, and international air shipments originating in the United States (including Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard Service);
- UPS Next Day Air Freight, UPS 2<sup>nd</sup> Day Air Freight, and UPS 3 Day Freight shipments within and between the U.S., Canada, and Puerto Rico; and
- UPS Express Freight shipments originating in the U.S.

Additionally, the pricing change involving the application of dimensional weight pricing to all UPS Ground services took effect on December 29, 2014 as well.

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These rate changes are customary and occur on an annual basis. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

**New Accounting Pronouncements**

***Recently Adopted Accounting Standards***

See note 1 to the audited consolidated financial statements for a discussion of recently adopted accounting standards.

***Accounting Standards Issued But Not Yet Effective***

See note 1 to the audited consolidated financial statements for a discussion of accounting standards issued, but not yet effective.

**Critical Accounting Policies and Estimates**

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

***Contingencies***

As discussed in note 8 to our consolidated financial statements, we are involved in various legal proceedings and contingencies. The events that may impact our contingent liabilities are often unique and generally are not predictable. At the time a contingency is identified, we consider all relevant facts as part of our evaluation. We record a liability for a loss when the loss is probable of occurring and reasonably estimable. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs from our previously estimated liability. These factors could result in a material difference between estimated and actual operating results. Contingent losses that are probable and estimable, excluding those related to income taxes and self-insurance which are discussed further below, were not material to our financial position or results of operations as of, and for the year ended, December 31, 2014. In addition, we have certain contingent liabilities that have not been recognized as of December 31, 2014, because a loss is not reasonably estimable.

***Goodwill and Intangible Impairment***

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



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

None of the reporting units incurred any goodwill impairment charges in 2014, 2013 or 2012. Changes in our forecasts could cause carrying values of our reporting units to exceed their fair values in future periods, potentially resulting in a goodwill impairment charge. A 10% decrease in the estimated fair value of our reporting units as of our most recent goodwill testing date (October 1, 2014) would not result in a goodwill impairment charge.

Licenses with a carrying value of \$5 million as of December 31, 2014 are deemed to be indefinite-lived intangibles, and therefore are not amortized. Impairment tests for indefinite-lived intangibles are performed on an annual basis. All of our remaining recorded intangible assets are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable based on the undiscounted future cash flows of the intangible. If the carrying amount of the intangible is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on a DCF model. We incurred impairment charges on intangible assets of \$13 million during 2013, while there were no impairments of any indefinite-lived or finite-lived intangible assets in 2014 or 2012.

***Self-Insurance Accruals***

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

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

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

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***Pension and Postretirement Medical Benefits***

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

Differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expense. The primary factors contributing to actuarial gains and losses each year are (1) changes in the discount rate used to value pension and postretirement benefit obligations as of the measurement date, (2) differences between the expected and the actual return on plan assets, (3) changes in demographic assumptions including mortality and (4) participant experience different from demographic assumptions.

We recognize changes in the fair value of plan assets and net actuarial gains or losses in excess of a corridor (defined as 10% of the greater of the fair value of plan assets or the plans' projected benefit obligations) in pension expense annually at December 31st each year. The remaining components of pension expense (herein referred to as "ongoing net periodic benefit cost"), primarily service and interest costs and the expected return on plan assets, are recorded on a quarterly basis.

The following sensitivity analysis shows the impact of a 25 basis point change in the assumed discount rate, return on assets, and healthcare cost trend rate for our pension and postretirement benefit plans, and the resulting increase (decrease) on our obligations and expense as of, and for the year ended, December 31, 2014 (in millions).

<b>Pension Plans</b>	<b>25 Basis Point Increase</b>	<b>25 Basis Point Decrease</b>
<i>Discount Rate:</i>		
Effect on ongoing net periodic benefit cost	\$ (48)	\$ 50
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor	(888)	1,543
Effect on projected benefit obligation	(1,628)	1,736
<i>Return on Assets:</i>		
Effect on ongoing net periodic benefit cost <sup>(1)</sup>	(67)	67
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor <sup>(2)</sup>	(66)	66

**Postretirement Medical Plans**

<i>Discount Rate:</i>		
Effect on ongoing net periodic benefit cost	1	(1)
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor	(9)	10
Effect on accumulated postretirement benefit obligation	(66)	68
<i>Health Care Cost Trend Rate:</i>		
Effect on ongoing net periodic benefit cost	1	(1)
Effect on net periodic benefit cost for amounts recognized outside the 10% corridor	10	(10)
Effect on accumulated postretirement benefit obligation	23	(23)

(1) Amount calculated based on 25 basis point increase / decrease in the expected return on assets.

(2) Amount calculated based on 25 basis point increase / decrease in the actual return on assets.

Expense is expected to increase in 2015 compared with 2014, due primarily to the decrease in the weighted-average discount rate used to determine ongoing net periodic benefit cost from 5.24% for 2014 to 4.36% for 2015 (These discount rates represent the combined weighted-average discount rates for our U.S. and international pension plans, as well as our U.S. postretirement medical plans).

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***Depreciation, Residual Value and Impairment of Fixed Assets***

As of December 31, 2014, we had \$18.281 billion of net fixed assets, the most significant category of which is aircraft. In accounting for fixed assets, we make estimates about the expected useful lives and the expected residual values of the assets, and the potential for impairment based on the fair values of the assets and the cash flows generated by these assets.

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

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

There were no impairment charges on our property, plant and equipment during 2014, 2013 and 2012.

***Fair Value Measurements***

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

***Income Taxes***

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

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

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

*Allowance for Doubtful Accounts*

Losses on accounts receivable are recognized when they are incurred, which requires us to make our best estimate of the probable losses inherent in our customer receivables at each balance sheet date. These estimates require consideration of historical loss experience adjusted for current conditions, trends in customer payment frequency, and judgments about the probable effects of relevant observable data, including present economic conditions and the financial health of specific customers and market sectors. Our risk management process includes standards and policies for reviewing major account exposures and concentrations of risk. Deterioration in macroeconomic variables could result in our ultimate loss exposures on our accounts receivable being significantly higher than what we have currently estimated and reserved for in our allowance for doubtful accounts. Our total allowance for doubtful accounts as of December 31, 2014 and 2013 was \$121 and \$122 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2014, 2013 and 2012 was \$143, \$129 and \$155 million, respectively.

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

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates, interest rates and equity prices. All of these market risks arise in the normal course of business, as we do not engage in speculative trading activities. In order to manage the risk arising from these exposures, we utilize a variety of commodity, foreign exchange and interest rate forward contracts, options and swaps. A discussion of our accounting policies for derivative instruments and further disclosures are provided in note 14 to the consolidated financial statements.

*Commodity Price Risk*

We are exposed to changes in the prices of refined fuels, principally jet-A, diesel and unleaded gasoline, as well as changes in the price of natural gas. Currently, the fuel surcharges that we apply to our domestic and international package and LTL services are the primary means of reducing the risk of adverse fuel price changes. Additionally, we periodically use a combination of option, forward and futures contracts to provide partial protection from changing fuel and energy prices. As of December 31, 2014 and 2013, however, we had no commodity contracts outstanding.

*Foreign Currency Exchange Risk*

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

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*Interest Rate Risk*

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

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

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

*Equity Price Risk*

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

*Sensitivity Analysis*

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

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

(in millions)	Shock-Test Result As of December 31,	
	2014	2013
<b>Change in Fair Value:</b>		
Currency Derivatives <sup>(1)</sup>	\$ (229)	\$ (291)
<b>Change in Annual Interest Expense:</b>		
Variable Rate Debt <sup>(2)</sup>	\$ 15	\$ 7
Interest Rate Derivatives <sup>(2)</sup>	\$ 81	\$ 101
<b>Change in Annual Interest Income:</b>		
Marketable Securities <sup>(3)</sup>	\$ —	\$ 15

(1) The potential change in fair value from a hypothetical 10% weakening of the U.S. Dollar against local currency exchange rates across all maturities.

(2) The potential change in annual interest expense resulting from a hypothetical 100 basis point increase in short-term interest rates, applied to our variable rate debt and swap instruments (excluding hedges of anticipated debt issuances).

(3) The potential change in interest income resulting from a hypothetical 100 basis point increase in short-term interest rates, applied to our variable rate investment holdings.

The sensitivity of our pension and postretirement benefit obligations to changes in interest rates is quantified in "Critical Accounting Policies and Estimates". The sensitivity in the fair value and interest income of our finance receivables due to changes in interest rates was not material as of December 31, 2014 and 2013.

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

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**Report of Independent Registered Public Accounting Firm**

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

We have audited the accompanying consolidated balance sheets of United Parcel Service, Inc. and subsidiaries (the “Company”) as of December 31, 2014 and 2013, and the related statements of consolidated income, consolidated comprehensive income, and consolidated cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of United Parcel Service, Inc. and subsidiaries at December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, 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), the Company’s internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 27, 2015

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

	December 31,	
	2014	2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 2,291	\$ 4,665
Marketable securities	992	580
Accounts receivable, net	6,661	6,502
Deferred income tax assets	590	684
Other current assets	1,274	956
Total Current Assets	11,808	13,387
Property, Plant and Equipment, Net	18,281	17,961
Goodwill	2,184	2,190
Intangible Assets, Net	847	775
Investments and Restricted Cash	489	444
Derivative Assets	515	323
Deferred Income Tax Assets	652	110
Other Non-Current Assets	695	1,022
Total Assets	<u>\$ 35,471</u>	<u>\$ 36,212</u>
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	\$ 923	\$ 48
Accounts payable	2,754	2,478
Accrued wages and withholdings	2,373	2,325
Self-insurance reserves	656	719
Other current liabilities	1,933	1,561
Total Current Liabilities	8,639	7,131
Long-Term Debt	9,864	10,824
Pension and Postretirement Benefit Obligations	11,452	7,051
Deferred Income Tax Liabilities	83	1,244
Self-Insurance Reserves	1,916	2,059
Other Non-Current Liabilities	1,359	1,415
Shareowners' Equity:		
Class A common stock (201 and 212 shares issued in 2014 and 2013)	2	2
Class B common stock (705 and 712 shares issued in 2014 and 2013)	7	7
Additional paid-in capital	—	—
Retained earnings	5,726	6,925
Accumulated other comprehensive loss	(3,594)	(460)
Deferred compensation obligations	59	69
Less: Treasury stock (1 share in 2014 and 2013)	(59)	(69)
Total Equity for Controlling Interests	2,141	6,474
Noncontrolling Interests	17	14
Total Shareowners' Equity	2,158	6,488
Total Liabilities and Shareowners' Equity	<u>\$ 35,471</u>	<u>\$ 36,212</u>

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,		
	2014	2013	2012
Revenue	\$ 58,232	\$ 55,438	\$ 54,127
Operating Expenses:			
Compensation and benefits	32,045	28,557	33,102
Repairs and maintenance	1,371	1,240	1,228
Depreciation and amortization	1,923	1,867	1,858
Purchased transportation	8,460	7,486	7,354
Fuel	3,883	4,027	4,090
Other occupancy	1,044	950	902
Other expenses	4,538	4,277	4,250
Total Operating Expenses	53,264	48,404	52,784
Operating Profit	4,968	7,034	1,343
Other Income and (Expense):			
Investment income	22	20	24
Interest expense	(353)	(380)	(393)
Total Other Income and (Expense)	(331)	(360)	(369)
Income Before Income Taxes	4,637	6,674	974
Income Tax Expense	1,605	2,302	167
Net Income	\$ 3,032	\$ 4,372	\$ 807
Basic Earnings Per Share	\$ 3.31	\$ 4.65	\$ 0.84
Diluted Earnings Per Share	\$ 3.28	\$ 4.61	\$ 0.83

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

	Years Ended December 31,		
	2014	2013	2012
Net income	\$ 3,032	\$ 4,372	\$ 807
Change in foreign currency translation adjustment, net of tax	(331)	(260)	294
Change in unrealized gain (loss) on marketable securities, net of tax	1	(7)	—
Change in unrealized gain (loss) on cash flow hedges, net of tax	280	67	(82)
Change in unrecognized pension and postretirement benefit costs, net of tax	(3,084)	3,094	(463)
Comprehensive income (loss)	\$ (102)	\$ 7,266	\$ 556

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2014	2013	2012
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 3,032	\$ 4,372	\$ 807
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,923	1,867	1,858
Pension and postretirement benefit expense	3,040	1,115	5,753
Pension and postretirement benefit contributions	(1,258)	(212)	(917)
Settlement of postretirement benefit obligation	(2,271)	—	—
Self-insurance reserves	(201)	34	156
Deferred tax expense	385	(246)	(2,083)
Stock compensation expense	536	513	547
Other (gains) losses	218	35	1,082
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	(523)	(515)	(124)
Other current assets	112	(13)	10
Accounts payable	276	218	(58)
Accrued wages and withholdings	106	416	98
Other current liabilities	317	(140)	206
Other operating activities	34	(140)	(119)
Net cash from operating activities	<u>5,726</u>	<u>7,304</u>	<u>7,216</u>
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(2,328)	(2,065)	(2,153)
Proceeds from disposals of property, plant and equipment	53	104	95
Purchases of marketable securities	(3,525)	(2,948)	(2,357)
Sales and maturities of marketable securities	3,106	2,957	2,985
Net decrease in finance receivables	44	39	101
Cash paid for business acquisitions	(88)	(22)	(100)
Other investing activities	(63)	(179)	94
Net cash used in investing activities	<u>(2,801)</u>	<u>(2,114)</u>	<u>(1,335)</u>
<b>Cash Flows From Financing Activities:</b>			
Net change in short-term debt	—	—	—
Proceeds from long-term borrowings	1,525	100	1,745
Repayments of long-term borrowings	(1,694)	(1,875)	(16)
Purchases of common stock	(2,695)	(3,838)	(1,621)
Issuances of common stock	274	491	301
Dividends	(2,366)	(2,260)	(2,130)
Other financing activities	(205)	(425)	(96)
Net cash used in financing activities	<u>(5,161)</u>	<u>(7,807)</u>	<u>(1,817)</u>
<b>Effect Of Exchange Rate Changes On Cash And Cash Equivalents</b>	<u>(138)</u>	<u>(45)</u>	<u>229</u>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<u>(2,374)</u>	<u>(2,662)</u>	<u>4,293</u>
<b>Cash And Cash Equivalents:</b>			
Beginning of period	4,665	7,327	3,034
End of period	<u>\$ 2,291</u>	<u>\$ 4,665</u>	<u>\$ 7,327</u>
<b>Cash Paid During The Period For:</b>			
Interest (net of amount capitalized)	<u>\$ 366</u>	<u>\$ 409</u>	<u>\$ 381</u>
Income taxes	<u>\$ 1,524</u>	<u>\$ 2,712</u>	<u>\$ 1,988</u>

See notes to consolidated financial statements.

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

**NOTE 1. SUMMARY OF ACCOUNTING POLICIES**

*Basis of Financial Statements and Business Activities*

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

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

*Use of Estimates*

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

*Revenue Recognition*

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

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

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

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

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

*Cash and Cash Equivalents*

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

*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 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, along with interest and dividends. The cost of securities sold is based on the specific identification method; realized gains and losses resulting from such sales are included in investment income.

We periodically review our 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.

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

*Accounts Receivable*

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

Our total allowance for doubtful accounts as of December 31, 2014 and 2013 was \$121 and \$122 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2014, 2013 and 2012 was \$143, \$129 and \$155 million, respectively.

*Inventories*

Jet fuel, diesel, and unleaded gasoline inventories are valued at the lower of average cost or market. Fuel and other materials and supplies inventories are recognized as inventory when purchased, and then charged to expense when used in our operations. Total inventories were \$344 and \$403 million as of December 31, 2014 and 2013, 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. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets, which are as follows: Vehicles—3 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. 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 \$11, \$14 and \$18 million for 2014, 2013, and 2012, respectively.

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

*Goodwill and Intangible Assets*

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

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

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

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

Finite-lived intangible assets, including trademarks, licenses, patents, customer lists, non-compete agreements and franchise rights are amortized on a straight-line basis over the estimated useful lives of the assets, which range from 1 to 22 years. Capitalized software is amortized over 5 years.

*Self-Insurance Accruals*

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

*Pension and Postretirement Benefits*

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

We recognize changes in the fair value of plan assets and net actuarial gains or losses in excess of a corridor (defined as 10% of the greater of the fair value of plan assets or the plans' projected benefit obligations) in pension expense annually at December 31st each year. The remaining components of pension expense, primarily service and interest costs and the expected return on plan assets, are recorded on a quarterly basis.

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

*Income Taxes*

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

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

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

*Foreign Currency Translation*

We translate the results of operations of our foreign subsidiaries using average exchange rates during each period, whereas balance sheet accounts are translated using exchange rates at the end of each period. Balance sheet currency translation adjustments are recorded in AOCI. Pre-tax currency transaction gains, net of hedging, included in other operating expenses and investment income were \$14, \$76 and \$10 million in 2014, 2013 and 2012, respectively.

*Stock-Based Compensation*

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

*Fair Value Measurements*

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

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

*Derivative Instruments*

All financial derivative instruments are recorded on our consolidated balance sheets at fair value. Derivatives not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, 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.

*Adoption of New Accounting Standards*

In January 2014, the FASB issued an accounting standards update that adds new disclosure requirements for investments in qualified affordable housing projects through limited liability entities. If certain conditions are met, the cost of an entity's investment in proportion to the tax credits and other tax benefits it receives may be amortized and included as a component of income tax expense. In January 2008, we adopted the fair value option for our investments in certain investment partnerships that were previously accounted for under the equity method; therefore, this accounting standards update did not have any effect on our consolidated financial position or results of operations.

Other accounting pronouncements adopted during the periods covered by the consolidated financial statements did not have a material impact on our consolidated financial position or results of operations.

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

*Accounting Standards Issued But Not Yet Effective*

In April 2014, the FASB issued an accounting standards update that changes the requirements for reporting discontinued operations. This update will have the impact of reducing the frequency of disposals reported as discontinued operations, by requiring such a disposal to represent a strategic shift that has a major effect on an entity's operations and financial results. This update also expands the disclosures for discontinued operations, and requires new disclosures related to individually significant disposals that do not qualify as discontinued operations. This new guidance becomes effective for us prospectively in the first quarter of 2015. This amended guidance will only have a potential impact to the extent that we discontinue any operations in future periods.

In May 2014, the FASB issued an accounting standards update that changes the revenue recognition for companies that enter into contracts with customers to transfer goods or services. This amended guidance requires revenue to be recognized in an amount that reflects the consideration to which the company expects to be entitled for those goods and services when the performance obligation has been satisfied. This amended guidance also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and related cash flows arising from contracts with customers. This amended guidance is effective for us beginning in the first quarter of 2017 and early adoption is not permitted. At this time, we do not expect this new guidance to have a material impact on our consolidated financial position or results of operations.

In June 2014, the FASB issued an accounting standards update for companies that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. This new guidance becomes effective for us beginning in the first quarter of 2015, but early adoption is permitted. This new guidance is not expected to have a material impact on our consolidated financial position or results of operations.

Other accounting pronouncements issued, but not effective until after December 31, 2014, are not expected to have a material impact on our consolidated financial position or results of operations.

*Changes in Presentation*

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

**NOTE 2. CASH AND INVESTMENTS**

The following is a summary of marketable securities classified as trading and available-for-sale at December 31, 2014 and 2013 (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>2014</b>				
Current marketable securities:				
U.S. government and agency debt securities	\$ 321	\$ 1	\$ (1)	\$ 321
Mortgage and asset-backed debt securities	89	1	(1)	89
Corporate debt securities	534	—	—	534
U.S. state and local municipal debt securities	2	—	—	2
Other debt and equity securities	46	—	—	46
Total marketable securities	<u>\$ 992</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ 992</u>

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

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>2013</b>				
<b>Current marketable securities:</b>				
U.S. government and agency debt securities	\$ 355	\$ —	\$ (1)	\$ 354
Mortgage and asset-backed debt securities	76	1	(2)	75
Corporate debt securities	146	1	(1)	146
U.S. state and local municipal debt securities	2	—	—	2
Other debt and equity securities	3	—	—	3
<b>Total marketable securities</b>	<b>\$ 582</b>	<b>\$ 2</b>	<b>\$ (4)</b>	<b>\$ 580</b>

Of the total estimated fair value in marketable securities listed above, \$430 million as of December 31, 2014 was classified as "trading", with unrealized gains and losses recognized in investment income within the statements of consolidated income (no amounts were classified as "trading" as of December 31, 2013). The remaining estimated fair value of marketable securities was classified as "available-for-sale", with related unrealized gains and losses, net of tax, recognized in AOCI.

The gross realized gains on sales of marketable securities totaled \$, \$11 and \$15 million in 2014, 2013, and 2012, respectively. The gross realized losses totaled \$0, \$6 and \$6 million in 2014, 2013, and 2012, respectively. There were no impairment losses recognized on marketable securities during 2014, 2013 or 2012.

*Investment Other-Than-Temporary Impairments*

We have concluded that no other-than-temporary impairment losses existed as of December 31, 2014. In making this determination, we considered the financial condition and prospects of the issuer, the magnitude of the losses compared with the investments' cost, the probability that we will be unable to collect all amounts due according to the contractual terms of the security, the credit rating of the security and our ability and intent to hold these investments until the anticipated recovery in market value occurs.

*Unrealized Losses*

The following table presents the age of gross unrealized losses and fair value by investment category for all securities in a loss position as of December 31, 2014 (in millions):

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government and agency debt securities	\$ 147	\$ (1)	\$ —	\$ —	\$ 147	\$ (1)
Mortgage and asset-backed debt securities	—	—	21	(1)	21	(1)
Corporate debt securities	—	—	—	—	—	—
U.S. state and local municipal debt securities	—	—	—	—	—	—
Other debt and equity securities	—	—	—	—	—	—
<b>Total marketable securities</b>	<b>\$ 147</b>	<b>\$ (1)</b>	<b>\$ 21</b>	<b>\$ (1)</b>	<b>\$ 168</b>	<b>\$ (2)</b>

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



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

*Maturity Information*

The amortized cost and estimated fair value of marketable securities at December 31, 2014, by contractual maturity, are shown below (in millions). Actual maturities may differ from contractual maturities because the issuers of the securities may have the right to prepay obligations without prepayment penalties.

	Cost	Estimated Fair Value
Due in one year or less	\$ 459	\$ 459
Due after one year through three years	439	439
Due after three years through five years	15	15
Due after five years	77	77
	<u>990</u>	<u>990</u>
Equity securities	2	2
	<u>\$ 992</u>	<u>\$ 992</u>

*Non-Current Investments and Restricted Cash*

Restricted cash is primarily associated with our self-insurance requirements. We entered into an escrow agreement with an insurance carrier to guarantee our self-insurance obligations. This agreement requires us to provide cash collateral to the insurance carrier, which is invested in money market funds and similar cash equivalent type assets. Additional cash collateral provided is reflected in "other investing activities" in the statements of consolidated cash flows. As of December 31, 2014 and 2013, we had \$442 and \$425 million in self-insurance restricted cash, respectively.

We held a \$19 million investment in a variable life insurance policy to fund benefits for the UPS Excess Coordinating Benefit Plan at both December 31, 2014 and 2013. The quarterly change in investment fair value is recognized in "investment income" on the statements of consolidated income. Additionally, we held escrowed cash related to the acquisition and disposition of certain assets, primarily real estate, of \$28 million as of December 31, 2014 (none as of December 31, 2013).

The amounts described above are classified as "investments and restricted cash" in the consolidated balance sheets.

*Fair Value Measurements*

Marketable securities utilizing Level 1 inputs include active exchange-traded equity securities and equity index funds, and most U.S. Government debt securities, as these securities all have quoted prices in active markets. Marketable securities utilizing Level 2 inputs include asset-backed securities, corporate bonds and municipal bonds. These securities are valued using market corroborated pricing, matrix pricing or other models that utilize observable inputs such as yield curves.

We maintain holdings in certain investment partnerships that are measured at fair value utilizing Level 3 inputs (classified as "other investments" in the tables below, and as "other non-current assets" in the consolidated balance sheets). These partnership holdings do not have quoted prices, nor can they be valued using inputs based on observable market data. These investments are valued internally using a discounted cash flow model with two significant inputs: (1) the after-tax cash flow projections for each partnership, and (2) a risk-adjusted discount rate consistent with the duration of the expected cash flows for each partnership. The weighted-average discount rates used to value these investments were 7.81% and 8.65% as of December 31, 2014 and 2013, respectively. These inputs and the resulting fair values are updated on a quarterly basis.

The following table presents information about our investments measured at fair value on a recurring basis as of December 31, 2014 and 2013, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in millions):

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>2014</b>				
Marketable securities:				
U.S. government and agency debt securities	\$ 321	\$ —	\$ —	\$ 321
Mortgage and asset-backed debt securities	—	89	—	89
Corporate debt securities	—	534	—	534
U.S. state and local municipal debt securities	—	2	—	2
Other debt and equity securities	—	46	—	46
Total marketable securities	321	671	—	992
Other investments	19	—	64	83
Total	\$ 340	\$ 671	\$ 64	\$ 1,075

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>2013</b>				
Marketable securities:				
U.S. government and agency debt securities	\$ 353	\$ 1	\$ —	\$ 354
Mortgage and asset-backed debt securities	—	75	—	75
Corporate debt securities	—	146	—	146
U.S. state and local municipal debt securities	—	2	—	2
Other debt and equity securities	—	3	—	3
Total marketable securities	353	227	—	580
Other investments	19	—	110	129
Total	\$ 372	\$ 227	\$ 110	\$ 709

The following table presents the changes in the above Level 3 instruments measured on a recurring basis for the years ended December 31, 2014 and 2013 (in millions).

	Marketable Securities	Other Investments	Total
Balance on January 1, 2013	\$ —	\$ 163	\$ 163
Transfers into (out of) Level 3	—	—	—
Net realized and unrealized gains (losses):			
Included in earnings (in investment income)	—	(53)	(53)
Included in accumulated other comprehensive income (pre-tax)	—	—	—
Purchases	—	—	—
Settlements	—	—	—
Balance on December 31, 2013	\$ —	\$ 110	\$ 110
Transfers into (out of) Level 3	—	—	—
Net realized and unrealized gains (losses):			
Included in earnings (in investment income)	—	(46)	(46)
Included in accumulated other comprehensive income (pre-tax)	—	—	—
Purchases	—	—	—
Settlements	—	—	—
Balance on December 31, 2014	\$ —	\$ 64	\$ 64

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

**NOTE 3. PROPERTY, PLANT AND EQUIPMENT**

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

	2014	2013
Vehicles	\$ 7,542	\$ 6,762
Aircraft	15,801	15,772
Land	1,145	1,163
Buildings	3,276	3,260
Building and leasehold improvements	3,266	3,116
Plant equipment	7,649	7,221
Technology equipment	1,608	1,569
Equipment under operating leases	34	44
Construction-in-progress	299	244
	40,620	39,151
Less: Accumulated depreciation and amortization	(22,339)	(21,190)
	\$ 18,281	\$ 17,961

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 2014, 2013 or 2012.

**NOTE 4. 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 Pension Plan and the UPS Excess Coordinating Benefit Plan, a non-qualified plan.

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

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

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

The UPS IBT Pension Plan is noncontributory and includes employees that were previously members of the Central States, Southeast and Southwest Areas Pension Fund ("Central States Pension Fund"), a multiemployer pension plan, in addition to other eligible employees who are covered under certain collective bargaining agreements. This plan generally provides for retirement benefits based on service credits earned by employees prior to retirement.

***International Pension Benefits***

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

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***U.S. Postretirement Medical Benefits***

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

***Defined Contribution Plans***

We also sponsor several defined contribution plans for all employees not covered under collective bargaining agreements, and for certain employees covered under collective bargaining agreements. The Company matches, in shares of UPS common stock or cash, a portion of the participating employees' contributions. Matching contributions charged to expense were \$95, \$90 and \$83 million for 2014, 2013 and 2012, respectively.

Contributions are also made to defined contribution money purchase plans under certain collective bargaining agreements. Amounts charged to expense were \$2, \$80 and \$80 million for 2014, 2013 and 2012, respectively.

***Net Periodic Benefit Cost***

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

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
<b>Net Periodic Cost:</b>									
Service cost	\$ 1,137	\$ 1,349	\$ 998	\$ 62	\$ 103	\$ 89	\$ 43	\$ 47	\$ 41
Interest cost	1,604	1,449	1,410	152	185	208	49	44	41
Expected return on assets	(2,257)	(2,147)	(1,970)	(25)	(33)	(18)	(61)	(55)	(47)
Amortization of:									
Transition obligation	—	—	—	—	—	—	—	—	—
Prior service cost	169	172	173	—	4	5	1	2	2
Actuarial (gain) loss	991	—	4,388	767	—	374	48	—	69
Curtailment and settlement loss	—	—	—	356	—	—	—	—	—
Other	—	—	—	—	—	—	4	(5)	(10)
Net periodic benefit cost	<u>\$ 1,644</u>	<u>\$ 823</u>	<u>\$ 4,999</u>	<u>\$ 1,312</u>	<u>\$ 259</u>	<u>\$ 658</u>	<u>\$ 84</u>	<u>\$ 33</u>	<u>\$ 96</u>

The curtailment and settlement loss in 2014 for the U.S. postretirement medical benefit plans is discussed further in note 5 under the section entitled "Accounting Impact of Health and Welfare Plan Changes".

***Actuarial Assumptions***

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

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Discount rate	5.32%	4.42%	5.64%	4.89%	4.21%	5.47%	4.35%	4.00%	4.63%
Rate of compensation increase	4.29%	4.16%	4.50%	N/A	N/A	N/A	3.22%	3.03%	3.58%
Expected return on assets	8.75%	8.75%	8.75%	8.75%	8.75%	8.75%	6.29%	6.90%	7.20%

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

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2014	2013	2014	2013	2014	2013
Discount rate	4.40%	5.32%	4.18%	5.14%	3.56%	4.40%
Rate of compensation increase	4.29%	4.29%	N/A	N/A	3.08%	3.30%

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

As of December 31, 2014, the impact of each basis point change in the discount rate on the projected benefit obligation of the pension and postretirement medical benefit plans are as follows (in millions):

	Increase (Decrease) in the Projected Benefit Obligation			
	Pension Benefits		Postretirement Medical Benefits	
One basis point increase in discount rate	\$	(65)	\$	(3)
One basis point decrease in discount rate	\$	69	\$	3

The Society of Actuaries' ("SOA") published mortality tables and improvement scales are used in developing the best estimate of mortality for plans in the U.S. On October 27, 2014, the SOA published updated mortality tables and an updated improvement scale, both of which reflect longer anticipated lifetimes. Based on an evaluation of these new tables and our perspective of future longevity, we updated the mortality assumptions for purposes of measuring pension and other postretirement benefit obligations at December 31, 2014. The change to the mortality assumption increased the year-end pension and other postretirement benefit obligations by \$1.119 billion and \$51 million, respectively. At December 31, 2014, we also revised the retirement assumptions for non-union plan participants based on recent retirement experience. The change to the retirement assumption decreased the year-end pension and other postretirement benefit obligations by \$383 and \$234 million, respectively.

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

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

Healthcare cost trends are used to project future postretirement benefits payable from our plans. For year-end 2014 U.S. plan obligations, future postretirement medical benefit costs were forecasted assuming an initial annual increase of 7.0%, decreasing to 4.5% by the year 2020 and with consistent annual increases at those ultimate levels thereafter.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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Assumed healthcare cost trends can have a significant effect on the amounts reported for our postretirement medical plans. A one-percent change in assumed health care cost trend rates would have had the following effects on 2014 results (in millions):

	1% Increase		1% Decrease	
Effect on total of service cost and interest cost	\$	4	\$	(4)
Effect on postretirement benefit obligation	\$	89	\$	(98)

**Funded Status**

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

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2014	2013	2014	2013	2014	2013
<b>Funded Status:</b>						
Fair value of plan assets	\$ 28,828	\$ 26,224	\$ 259	\$ 355	\$ 1,042	\$ 931
Benefit obligation	(37,521)	(29,508)	(2,883)	(4,046)	(1,274)	(1,076)
Funded status recognized at December 31	\$ (8,693)	\$ (3,284)	\$ (2,624)	\$ (3,691)	\$ (232)	\$ (145)
<b>Funded Status Recognized in our Balance Sheet:</b>						
Other non-current assets	\$ —	\$ —	\$ —	\$ —	\$ 25	\$ 47
Other current liabilities	(17)	(16)	(102)	(97)	(3)	(3)
Pension and postretirement benefit obligations	(8,676)	(3,268)	(2,522)	(3,594)	(254)	(189)
Net liability at December 31	\$ (8,693)	\$ (3,284)	\$ (2,624)	\$ (3,691)	\$ (232)	\$ (145)
<b>Amounts Recognized in AOCI:</b>						
Unrecognized net prior service cost	\$ (1,122)	\$ (1,286)	\$ (32)	\$ (79)	\$ (7)	\$ (9)
Unrecognized net actuarial gain (loss)	(3,752)	1,233	(89)	(29)	(103)	(7)
Gross unrecognized cost at December 31	(4,874)	(53)	(121)	(108)	(110)	(16)
Deferred tax asset at December 31	1,833	20	45	41	29	2
Net unrecognized cost at December 31	\$ (3,041)	\$ (33)	\$ (76)	\$ (67)	\$ (81)	\$ (14)

The accumulated benefit obligation for our pension plans as of the measurement dates in 2014 and 2013 was \$35.867 and \$28.586 billion, respectively.

Benefit payments under the pension plans include \$19 and \$16 million paid from employer assets in 2014 and 2013, respectively. Benefit payments (net of participant contributions) under the postretirement medical benefit plans include \$122 and \$108 million paid from employer assets in 2014 and 2013, respectively. Such benefit payments from employer assets are also categorized as employer contributions.

At December 31, 2014 and 2013, the projected benefit obligation, the accumulated benefit obligation, and the fair value of plan assets for pension plans with benefit obligations in excess of plan assets were as follows (in millions):

	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2014	2013	2014	2013
<b>U.S. Pension Benefits:</b>				
Projected benefit obligation	\$ 37,521	\$ 29,508	\$ 37,521	\$ 29,508
Accumulated benefit obligation	34,725	27,623	34,725	27,623
Fair value of plan assets	28,828	26,224	28,828	26,224
<b>International Pension Benefits:</b>				
Projected benefit obligation	\$ 510	\$ 764	\$ 474	\$ 361
Accumulated benefit obligation	426	658	398	301
Fair value of plan assets	261	580	232	184

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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The accumulated postretirement benefit obligation exceeds plan assets for all of our U.S. postretirement medical benefit plans.

**Benefit Obligations and Fair Value of Plan Assets**

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

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2014	2013	2014	2013	2014	2013
<b>Benefit Obligations:</b>						
Projected benefit obligation at beginning of year	\$ 29,508	\$ 31,868	\$ 4,046	\$ 4,412	\$ 1,076	\$ 1,089
Service cost	1,137	1,349	62	103	43	47
Interest cost	1,604	1,449	152	185	49	44
Gross benefits paid	(924)	(813)	(255)	(258)	(26)	(21)
Plan participants' contributions	—	—	15	17	5	4
Plan amendments	5	140	65	4	—	—
Actuarial (gain)/loss	6,191	(4,485)	1,069	(417)	194	(55)
Foreign currency exchange rate changes	—	—	—	—	(103)	(26)
Curtailments and settlements	—	—	(2,271)	—	(2)	(6)
Other	—	—	—	—	38	—
Projected benefit obligation at end of year	\$ 37,521	\$ 29,508	\$ 2,883	\$ 4,046	\$ 1,274	\$ 1,076

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2014	2013	2014	2013	2014	2013
<b>Fair Value of Plan Assets:</b>						
Fair value of plan assets at beginning of year	\$ 26,224	\$ 24,941	\$ 355	\$ 460	\$ 931	\$ 801
Actual return on plan assets	2,471	2,082	22	28	106	81
Employer contributions	1,057	14	122	108	79	90
Plan participants' contributions	—	—	15	17	3	1
Gross benefits paid	(924)	(813)	(255)	(258)	(26)	(21)
Foreign currency exchange rate changes	—	—	—	—	(79)	(20)
Curtailments and settlements	—	—	—	—	(2)	(1)
Other	—	—	—	—	30	—
Fair value of plan assets at end of year	\$ 28,828	\$ 26,224	\$ 259	\$ 355	\$ 1,042	\$ 931

The curtailments and settlements amount in 2014 for the U.S. postretirement medical benefit plans is discussed further in note 5 under the section entitled "Accounting Impact of Health and Welfare Plan Changes".

**Pension and Postretirement Plan Assets**

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

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

*Fair Value Measurements*

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

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

Certain investments' estimated fair value is based on unobservable inputs that are not corroborated by observable market data and are thus classified as Level 3. These investments include commingled funds comprised of corporate and government bonds, hedge funds, real estate investments and private equity funds. The fair values may, due to the inherent uncertainty of valuation for those alternative investments, differ significantly from the values that would have been used had a ready market for the alternative investments existed, and the differences could be material. These investments are described further below:

- **Hedge Funds:** We maintain plan assets invested in hedge funds that pursue multiple strategies to diversify risk and reduce volatility. Investments in hedge funds are valued using reported net asset values as of December 31. These assets are primarily invested in a portfolio of diversified, direct investments and funds of hedge funds. Most of these funds allow redemptions either quarterly or semi-annually after a two to three month notice period, while other funds allow for redemption after only a brief notification period with no restriction on redemption frequency. At December 31, 2014, unfunded commitments to these hedge funds totaling approximately \$90 million are expected to be contributed over the remaining investment period, typically ranging between three and six years.
- **Risk Parity Funds:** We maintain plan assets invested in risk parity strategies in order to provide diversification and balance risk / return objectives. Investments in risk parity funds are valued using reported net asset values as of December 31. These strategies reflect a multi-asset class balanced risk approach generally consisting of equity, interest rates, credit, and commodities. These funds allow for monthly redemptions with only a brief notification period. No unfunded commitments existed with respect to these hedge funds as of December 31, 2014.
- **Real Estate and Private Equity Funds:** We maintain plan assets invested in limited partnership interests in various private equity and real estate funds. These private equity and real estate investment funds are valued using fair values per the most recent partnership audited financial reports, adjusted as appropriate for any lag between the date of the financial reports and December 31. The real estate investments consist of U.S. and non-U.S. real estate investments and are broadly diversified. Limited provision exists for the redemption of these interests by the general partners that invest in these funds until the end of the term of the partnerships, typically ranging between 10 and 15 years from the date of inception. An active secondary market exists for similar partnership interests, although no particular value (discount or premium) can be guaranteed. At December 31, 2014, unfunded commitments to such limited partnerships totaling approximately \$1.01 billion are expected to be contributed over the remaining investment period, typically ranging between three and six years.



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The fair values of U.S. and international pension and postretirement benefit plan assets by asset category as of December 31, 2014 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations.

	Level 1	Level 2	Level 3	Total Assets	Percentage of Plan Assets - 2014	Target Allocation 2014
<b>Asset Category (U.S. Plans):</b>						
Cash and cash equivalents	\$ 744	\$ 1,028	\$ —	\$ 1,772	6.1 %	0-5
Equity Securities:						
U.S. Large Cap	2,066	2,082	—	4,148		
U.S. Small Cap	322	44	—	366		
Emerging Markets	1,270	116	—	1,386		
Global Equity	2,788	—	—	2,788		
International Equity	1,154	792	—	1,946		
Total Equity Securities	7,600	3,034	—	10,634	36.6	35-55
Fixed Income Securities:						
U.S. Government Securities	4,541	239	—	4,780		
Corporate Bonds	6	2,921	269	3,196		
Global Bonds	—	159	613	772		
Municipal Bonds	—	100	—	100		
Total Fixed Income Securities	4,547	3,419	882	8,848	30.4	25-35
Other Investments:						
Hedge Funds	—	—	3,595	3,595	12.4	5-15
Private Equity	—	—	1,323	1,323	4.5	1-10
Real Estate	412	47	1,307	1,766	6.1	1-10
Structured Products <sup>(1)</sup>	—	332	—	332	1.1	0-5
Risk Parity Funds	—	—	817	817	2.8	1-10
Total U.S. Plan Assets	<u>\$ 13,303</u>	<u>\$ 7,860</u>	<u>\$ 7,924</u>	<u>\$ 29,087</u>	<u>100.0 %</u>	
<b>Asset Category (International Plans):</b>						
Cash and cash equivalents	\$ 6	\$ 26	\$ —	32	3.1	0-5
Equity Securities:						
Local Markets Equity	145	105	—	250		
U.S. Equity	17	—	—	17		
Emerging Markets	19	—	—	19		
International / Global Equity	82	95	—	177		
Total Equity Securities	263	200	—	463	44.3	50-65
Fixed Income Securities:						
Local Government Bonds	78	—	—	78		
Corporate Bonds	55	94	—	149		
Total Fixed Income Securities	133	94	—	227	21.8	15-35
Other Investments:						
Real Estate	—	108	—	108	10.4	0-17
Other	—	159	53	212	20.4	0-20
Total International Plan Assets	<u>\$ 402</u>	<u>\$ 587</u>	<u>\$ 53</u>	<u>\$ 1,042</u>	<u>100.0 %</u>	
Total Plan Assets	<u>\$ 13,705</u>	<u>\$ 8,447</u>	<u>\$ 7,977</u>	<u>\$ 30,129</u>		

<sup>(1)</sup> Represents mortgage and asset-backed securities.

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The fair values of U.S. and international pension and postretirement benefit plan assets by asset category as of December 31, 2013 are presented below (in millions), as well as the percentage that each category comprises of our total plan assets and the respective target allocations.

<b>Asset Category (U.S. Plans):</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total Assets</b>	<b>Percentage of Plan Assets - 2013</b>	<b>Target Allocation 2013</b>
Cash and cash equivalents	\$ 112	\$ 514	\$ —	\$ 626	2.3%	0-5
<b>Equity Securities:</b>						
U.S. Large Cap	2,264	1,948	—	4,212		
U.S. Small Cap	457	50	—	507		
Emerging Markets	1,247	120	—	1,367		
Global Equity	2,154	—	—	2,154		
International Equity	1,397	825	—	2,222		
<b>Total Equity Securities</b>	<b>7,519</b>	<b>2,943</b>	<b>—</b>	<b>10,462</b>	<b>39.4</b>	<b>25-55</b>
<b>Fixed Income Securities:</b>						
U.S. Government Securities	3,746	615	—	4,361		
Corporate Bonds	7	2,550	223	2,780		
Global Bonds	—	681	—	681		
Municipal Bonds	—	55	—	55		
<b>Total Fixed Income Securities</b>	<b>3,753</b>	<b>3,901</b>	<b>223</b>	<b>7,877</b>	<b>29.6</b>	<b>15-35</b>
<b>Other Investments:</b>						
Hedge Funds	—	—	3,738	3,738	14.1	8-15
Private Equity	—	—	1,397	1,397	5.3	3-10
Real Estate	285	21	1,091	1,397	5.3	3-10
Structured Products <sup>(1)</sup>	—	326	—	326	1.2	0-5
Risk Parity Funds	—	—	756	756	2.8	1-10
<b>Total U.S. Plan Assets</b>	<b>\$ 11,669</b>	<b>\$ 7,705</b>	<b>\$ 7,205</b>	<b>\$ 26,579</b>	<b>100.0%</b>	
<b>Asset Category (International Plans):</b>						
Cash and cash equivalents	\$ 11	\$ 17	\$ —	28	3.0	0-5
<b>Equity Securities:</b>						
Local Markets Equity	122	97	—	219		
U.S. Equity	17	—	—	17		
Emerging Markets	19	—	—	19		
International / Global Equity	88	79	—	167		
<b>Total Equity Securities</b>	<b>246</b>	<b>176</b>	<b>—</b>	<b>422</b>	<b>45.3</b>	<b>50-65</b>
<b>Fixed Income Securities:</b>						
Local Government Bonds	68	—	—	68		
Corporate Bonds	86	85	—	171		
<b>Total Fixed Income Securities</b>	<b>154</b>	<b>85</b>	<b>—</b>	<b>239</b>	<b>25.7</b>	<b>15-35</b>
<b>Other Investments:</b>						
Real Estate	—	63	—	63	6.8	0-17
Other	—	124	55	179	19.2	0-20
<b>Total International Plan Assets</b>	<b>\$ 411</b>	<b>\$ 465</b>	<b>\$ 55</b>	<b>\$ 931</b>	<b>100.0%</b>	
<b>Total Plan Assets</b>	<b>\$ 12,080</b>	<b>\$ 8,170</b>	<b>\$ 7,260</b>	<b>\$ 27,510</b>		

<sup>(1)</sup> Represents mortgage and asset-backed securities.

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The following table presents the changes in the Level 3 instruments measured on a recurring basis for the years ended December 31, 2014 and 2013 (in millions).

	Corporate Bonds	Hedge Funds	Real Estate	Private Equity	Global Bonds	Risk Parity Funds	Other	Total
Balance on January 1, 2013	\$ 138	\$ 2,829	\$ 1,039	\$ 1,416	\$ —	\$ 1,362	\$ 49	\$ 6,833
Actual Return on Assets:								
Assets Held at End of Year	(1)	229	81	71	—	(99)	6	287
Assets Sold During the Year	—	5	54	153	—	54	—	266
Purchases	165	1,676	145	143	—	1	—	2,130
Sales	(79)	(1,001)	(228)	(386)	—	(562)	—	(2,256)
Transfers Into (Out of) Level 3	—	—	—	—	—	—	—	—
Balance on December 31, 2013	\$ 223	\$ 3,738	\$ 1,091	\$ 1,397	\$ —	\$ 756	\$ 55	\$ 7,260
Actual Return on Assets:								
Assets Held at End of Year	—	71	104	11	—	61	(2)	245
Assets Sold During the Year	—	(9)	23	126	—	—	—	140
Purchases	108	1,043	350	166	735	—	—	2,402
Sales	(62)	(1,248)	(261)	(377)	(122)	—	—	(2,070)
Transfers Into (Out of) Level 3	—	—	—	—	—	—	—	—
Balance on December 31, 2014	\$ 269	\$ 3,595	\$ 1,307	\$ 1,323	\$ 613	\$ 817	\$ 53	\$ 7,977

There were no UPS class A or B shares of common stock directly held in plan assets as of December 31, 2014 or December 31, 2013.

**Accumulated Other Comprehensive Income**

The estimated amounts of prior service cost in AOCI expected to be amortized and recognized as a component of net periodic benefit cost in 2015 are as follows (in millions):

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Prior service cost / (benefit)	\$ 168	\$ 5	\$ 1

**Expected Cash Flows**

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

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
<b>Expected Employer Contributions:</b>			
2015 to plan trusts	\$ 1,030	\$ —	\$ 69
2015 to plan participants	17	104	4
<b>Expected Benefit Payments:</b>			
2015	\$ 960	\$ 245	\$ 26
2016	1,052	238	25
2017	1,151	236	28
2018	1,262	231	30
2019	1,382	230	33
2020 - 2024	9,013	1,034	214

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

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

**NOTE 5. MULTIEMPLOYER EMPLOYEE BENEFIT PLANS**

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

- Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If we negotiate to cease participating in a multiemployer plan, we may be required to pay that plan an amount based on our allocable share of its underfunded status, referred to as a "withdrawal liability". However, cessation of participation in a multiemployer plan and subsequent payment of any withdrawal liability is subject to the collective bargaining process.
- If any of the multiemployer pension plans in which we participate enter critical status, and our contributions are not sufficient to satisfy any rehabilitation plan funding schedule, we could be required under the Pension Protection Act of 2006 to make additional surcharge contributions to the multiemployer pension plan in the amount of five to ten percent of the existing contributions required by our labor agreement. Such surcharges would cease upon the ratification of a new collective bargaining agreement, and could not recur unless a plan re-entered critical status at a later date.

The discussion that follows sets forth the financial impact on our results of operations and cash flows for the years ended December 31, 2014, 2013 and 2012 from our participation in multiemployer benefit plans. 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 are 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 as described above).

The number of employees covered by our multiemployer health and welfare plans increased during 2014, affecting the comparability of contributions with prior years, as a result of provisions of the new collective bargaining agreement with the International Brotherhood of Teamsters ("Teamsters") discussed below. The number of employees covered by our multiemployer pension plans has remained consistent over the past three years, and there have been no significant changes that affect the comparability of 2014, 2013 and 2012 contributions. We recognize expense for the contractually-required contribution for each period, and we recognize a liability for any contributions due and unpaid at the end of a reporting period.

***Status of Collective Bargaining Agreements***

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 Teamsters. During 2014, the Teamsters ratified a new national master agreement ("NMA") with UPS that will expire on July 31, 2018. The economic provisions in the NMA included wage rate increases, as well as increased contribution rates for healthcare and pension benefits. Most of these economic provisions were retroactive to August 1, 2013, which was the effective date of the NMA. In the second quarter of 2014, we remitted \$278 million for these retroactive economic benefits; this payment had an immaterial impact on net income, as these retroactive economic benefits had been accrued since the July 31, 2013 expiration of the prior agreement.

In addition to the retroactive economic provisions of the NMA, there were certain changes to the delivery of healthcare benefits that were effective at various dates. These changes impact approximately 36,000 full-time and 73,000 part-time active employees covered by the NMA and the UPS Freight collective bargaining agreement (collectively referred to as the "NMA Group"), as well as approximately 16,000 employees covered by other collective bargaining agreements (the "Non-NMA Group"). These provisions are discussed further below in the "Changes to the Delivery of Active and Postretirement Healthcare Benefits" section.

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 have 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.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**Multiemployer Pension Plans**

The following table outlines our participation in multiemployer pension plans for the periods ended December 31, 2014, 2013 and 2012, and sets forth our calendar year contributions accrued for each plan. The “EIN/Pension Plan Number” column provides the Employer Identification Number (“EIN”) and the three-digit plan number. The most recent Pension Protection Act zone status available in 2014 and 2013 relates to the plans’ two most recent fiscal year-ends. The zone status is based on information that we received from the plans’ administrators and is certified by each plan’s actuary. Among other factors, plans certified in the red zone are generally less than 65% funded, plans certified in the orange zone are both less than 80% funded and have an accumulated funding deficiency or are expected to have a deficiency in any of the next six plan years, plans certified in the yellow zone are less than 80% funded, and plans certified in the green zone are at least 80% funded. The “FIP/RP Status Pending/Implemented” column indicates whether a financial improvement plan (“FIP”) for yellow/orange zone plans, or a rehabilitation plan (“RP”) for red zone plans, is either pending or has been implemented. As of December 31, 2014, all plans that have either a FIP or RP requirement have had the respective FIP or RP implemented.

Our collectively-bargained contributions satisfy the requirements of all implemented FIPs and RPs and do not currently require the payment of any surcharges. In addition, minimum contributions outside of the agreed upon contractual rate are not required. For the plans detailed in the following table, the expiration date of the associated collective bargaining agreements was July 31, 2018, with the exception of the Automotive Industries Pension Plan and the IAM National Pension Fund / National Pension Plan which both have a July 31, 2019 expiration date. For all plans detailed in the following table, we provided more than 5% of the total plan contributions from all employers for 2014, 2013 and 2012 (as disclosed in the Form 5500 for each respective plan).

Certain plans have been aggregated in the “all other multiemployer pension plans” line in the following table, as the contributions to each of these individual plans were not material.

Pension Fund	EIN / Pension Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/Implemented	(in millions) UPS Contributions and Accruals			Surcharge Imposed
		2014	2013		2014	2013	2012	
Alaska Teamster-Employer Pension Plan	92-6003463-024	Red	Red	Yes/Implemented	\$ 5	\$ 5	\$ 4	No
Automotive Industries Pension Plan	94-1133245-001	Red	Red	Yes/Implemented	5	4	4	No
Central Pennsylvania Teamsters Defined Benefit Plan	23-6262789-001	Green	Green	No	33	30	29	No
Employer-Teamsters Local Nos. 175 & 505 Pension Trust Fund	55-6021850-001	Red	Green	Yes/Implemented	10	9	9	No
Hagerstown Motor Carriers and Teamsters Pension Fund	52-6045424-001	Red	Red	Yes/Implemented	6	5	5	No
I.A.M. National Pension Fund / National Pension Plan	51-6031295-002	Green	Green	No	27	27	24	No
International Brotherhood of Teamsters Union Local No. 710 Pension Fund	36-2377656-001	Green	Green	No	89	88	75	No
Local 705, International Brotherhood of Teamsters Pension Plan	36-6492502-001	Red	Red	Yes/Implemented	69	68	46	No
Local 804 I.B.T. & Local 447 I.A.M.—UPS Multiemployer Retirement Plan	51-6117726-001	Red	Red	Yes/Implemented	92	88	87	No
Milwaukee Drivers Pension Trust Fund	39-6045229-001	Green	Green	No	32	29	26	No
New England Teamsters & Trucking Industry Pension Fund	04-6372430-001	Red	Red	Yes/Implemented	108	102	124	No
New York State Teamsters Conference Pension and Retirement Fund	16-6063585-074	Red	Red	Yes/Implemented	81	72	65	No
Teamster Pension Fund of Philadelphia and Vicinity	23-1511735-001	Yellow	Yellow	Yes/Implemented	50	46	44	No
Teamsters Joint Council No. 83 of Virginia Pension Fund	54-6097996-001	Yellow	Yellow	Yes/Implemented	52	49	44	No
Teamsters Local 639—Employers Pension Trust	53-0237142-001	Green	Green	No	45	41	36	No
Teamsters Negotiated Pension Plan	43-6196083-001	Yellow	Yellow	Yes/Implemented	27	26	24	No
Truck Drivers and Helpers Local Union No. 355 Retirement Pension Plan	52-6043608-001	Yellow	Yellow	Yes/Implemented	16	14	14	No
United Parcel Service, Inc.—Local 177, I.B.T. Multiemployer Retirement Plan	13-1426500-419	Red	Red	Yes/Implemented	85	68	62	No
Western Conference of Teamsters Pension Plan	91-6145047-001	Green	Green	No	604	553	520	No
Western Pennsylvania Teamsters and Employers Pension Fund	25-6029946-001	Red	Red	Yes/Implemented	24	23	24	No
All Other Multiemployer Pension Plans					57	49	59	
Total Contributions					<u>\$ 1,517</u>	<u>\$ 1,396</u>	<u>\$ 1,325</u>	

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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***Agreement with the New England Teamsters and Trucking Industry Pension Fund***

In 2012, we reached an agreement with the New England Teamsters and Trucking Industry Pension Fund ("NETTI Fund"), a multiemployer pension plan in which UPS is a participant, to restructure the pension liabilities for approximately 10,200 UPS employees represented by the Teamsters. The agreement reflected a decision by the NETTI Fund's trustees to restructure the NETTI Fund through plan amendments to utilize a "two pool approach", which effectively subdivided the plan assets and liabilities between two groups of beneficiaries. As part of this agreement, UPS agreed to withdraw from the original pool of the NETTI Fund, of which it had historically been a participant, and reenter the NETTI Fund's newly-established pool as a new employer.

Upon ratification of the agreement by the Teamsters in September 2012, we withdrew from the original pool of the NETTI Fund and incurred an undiscounted withdrawal liability of \$2.162 billion to be paid in equal monthly installments over 50 years. The undiscounted withdrawal liability was calculated by independent actuaries employed by the NETTI Fund, in accordance with the governing plan documents and the applicable requirements of the Employee Retirement Income Security Act of 1974. In 2012, we recorded a charge to expense to establish an \$896 million withdrawal liability on our consolidated balance sheet, which represents the present value of the \$2.162 billion future payment obligation discounted at a 4.25% interest rate. This discount rate represents the estimated credit-adjusted market rate of interest at which we could obtain financing of a similar maturity and seniority. As this agreement is not a contribution to the plan, the amounts reflected in the previous table do not include this \$896 million non-cash transaction.

The \$896 million charge to expense recorded in 2012 is included in "compensation and benefits" expense in the statements of consolidated income. We impute interest on the withdrawal liability using the 4.25% discount rate, while the monthly payments made to the NETTI Fund reduce the remaining balance of the withdrawal liability.

Our status in the newly-established pool of the NETTI Fund is accounted for as the participation in a new multiemployer pension plan, and therefore we recognize expense based on the contractually-required contribution for each period, and we recognize a liability for any contributions due and unpaid at the end of a reporting period.

As of December 31, 2014 and 2013, we had \$78 and \$884 million, respectively, recognized in "other non-current liabilities" on our consolidated balance sheets representing the remaining balance of the NETTI withdrawal liability. Based on the borrowing rates currently available to the Company for long-term financing of a similar maturity, the fair value of the NETTI withdrawal liability as of December 31, 2014 and 2013 was \$913 and \$783 million. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of this liability.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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***Multiemployer Health and Welfare Plans***

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

<b>Health and Welfare Fund</b>	(in millions)		
	<b>UPS Contributions and Accruals</b>		
	<b>2014</b>	<b>2013</b>	<b>2012</b>
Central States, South East & South West Areas Health and Welfare Fund	\$ 1,306	\$ 505	\$ 471
Teamsters Western Region & Local 177 Health Care Plan	239	—	—
Health & Welfare Insurance Fund Teamsters Local 653	5	—	—
Bay Area Delivery Drivers	32	29	28
Central Pennsylvania Teamsters Health & Pension Fund	21	20	19
Delta Health Systems—East Bay Drayage Drivers	24	24	24
Employer—Teamster Local Nos. 175 & 505	9	9	8
Joint Council #83 Health & Welfare Fund	26	24	25
Local 191 Teamsters Health Fund	11	9	9
Local 401 Teamsters Health & Welfare Fund	7	6	6
Local 804 Welfare Trust Fund	70	67	62
Milwaukee Drivers Pension Trust Fund—Milwaukee Drivers Health and Welfare Trust Fund	32	31	29
Montana Teamster Employers Trust	7	6	6
New York State Teamsters Health & Hospital Fund	51	46	44
North Coast Benefit Trust	9	8	7
Northern California General Teamsters (DELTA)	96	84	75
Northern New England Benefit Trust	39	35	33
Oregon / Teamster Employers Trust	29	28	27
Teamsters 170 Health & Welfare Fund	15	12	12
Teamsters Benefit Trust	40	38	32
Teamsters Local 251 Health & Insurance Plan	12	11	10
Teamsters Local 404 Health & Insurance Plan	7	6	6
Teamsters Local 638 Health Fund	35	32	29
Teamsters Local 639—Employers Health & Pension Trust Funds	26	24	22
Teamsters Local 671 Health Services & Insurance Plan	14	13	12
Teamsters Union 25 Health Services & Insurance Plan	44	37	36
Teamsters Union Local 677 Health Services & Insurance Plan	9	8	8
Truck Drivers and Helpers Local 355 Baltimore Area Health & Welfare Fund	15	13	13
Utah-Idaho Teamsters Security Fund	22	18	16
Washington Teamsters Welfare Trust	36	35	32
All Other Multiemployer Health and Welfare Plans	64	44	55
<b>Total Contributions</b>	<b>\$ 2,352</b>	<b>\$ 1,222</b>	<b>\$ 1,156</b>

The increase in 2014 contributions to the Central States, South East & South West Areas Health and Welfare Fund, the Teamsters Western Region & Local 177 Health Care Plan, and the Health & Welfare Insurance Fund Teamsters Local 653 plan are related to the changes to the delivery of active and postretirement healthcare benefits described below.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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***Changes to the Delivery of Active and Postretirement Healthcare Benefits***

Prior to ratification, the NMA Group and Non-NMA Group employees received their healthcare benefits through UPS-sponsored active and postretirement health and welfare benefit plans. Effective June 1, 2014, we ceased providing healthcare benefits to active NMA Group employees through these UPS-sponsored benefit plans, and the responsibility for providing healthcare benefits for active employees was assumed by three separate multiemployer healthcare funds (the "Funds"). The responsibility for providing healthcare benefits for the active Non-NMA Group employees was also assumed by the Funds on various dates up to January 1, 2015, depending on the ratification date of the applicable collective bargaining agreement. We will make contributions to the Funds based on negotiated fixed hourly or monthly contribution rates for the duration of the NMA and other applicable collective bargaining agreements.

Additionally, the Funds assumed the obligation to provide postretirement healthcare benefits to the employees in the NMA Group who retire on or after January 1, 2014. The postretirement healthcare benefit obligation for the employees in the Non-NMA Group was assumed by the Funds for employees retiring on or after January 1, 2014 or January 1, 2015, depending on the applicable collective bargaining agreement. In exchange for the assumption of the obligation to provide postretirement healthcare benefits to the NMA Group and Non-NMA Group, we transferred cash totaling \$2.271 billion to the Funds in the second quarter of 2014. UPS-sponsored health and welfare benefit plans retained responsibility for providing postretirement healthcare coverage for employees in the NMA Group who retired from UPS prior to January 1, 2014, and for employees in the Non-NMA Group who retire from UPS prior to the January 1, 2014 or January 1, 2015 effective date in the applicable collective bargaining agreement.

***Accounting Impact of Health and Welfare Plan Changes***

Income Statement Impact:

We recorded a pre-tax charge of \$1.066 billion (\$665 million after-tax) in the second quarter of 2014 for the health and welfare plan changes described above. The components of this charge, which was included in "compensation and benefits" expense in the statement of consolidated income, are as follows:

- *Partial Plan Curtailment:* We recorded a \$112 million pre-tax curtailment loss due to the elimination of future service benefit accruals. This curtailment loss represents the accelerated recognition of unamortized prior service costs.
- *Remeasurement of Postretirement Obligation:* We recorded a \$746 million pre-tax loss due to the remeasurement of the postretirement benefit obligations of the affected UPS-sponsored health and welfare benefit plans.
- *Settlement:* We recorded a \$208 million pre-tax settlement loss, which represents the recognition of unamortized actuarial losses associated with the postretirement obligation for the NMA Group.

We recorded an additional pre-tax charge of \$36 million (\$22 million after-tax) in the fourth quarter of 2014 upon ratification of the collective bargaining agreements covering the Non-NMA Group, related to the remeasurement and settlement of the postretirement benefit obligation associated with those employees.

Balance Sheet and Cash Flow Impact:

During 2014, as part of the health and welfare plan changes described previously, we transferred cash totaling \$2.271 billion to the Funds, which was accounted for as a settlement of our postretirement benefit obligations (see note 4). We received approximately \$854 million of cash tax benefits (through reduced U.S. Federal and state quarterly income tax payments) in 2014.

For NMA Group employees who retired prior to January 1, 2014 and remained with the UPS-sponsored health and welfare plans, the changes to the contributions, benefits and cost sharing provisions in these plans resulted in an increase in the postretirement benefit obligation, and a corresponding decrease in pre-tax AOCI, of \$13 million upon ratification.

**NOTE 6. BUSINESS ACQUISITIONS, GOODWILL AND INTANGIBLE ASSETS**

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

	U.S. Domestic Package	International Package	Supply Chain & Freight	Consolidated
Balance on January 1, 2013	\$ —	\$ 430	\$ 1,743	\$ 2,173
Acquired	—	3	20	23
Currency / Other	—	(13)	7	(6)
Balance on December 31, 2013	\$ —	\$ 420	\$ 1,770	\$ 2,190
Acquired	—	52	13	65
Currency / Other	—	(23)	(48)	(71)
Balance on December 31, 2014	\$ —	\$ 449	\$ 1,735	\$ 2,184

***Business Acquisitions***

*2014 Acquisitions:*

The goodwill acquired in the International Package segment was related to our October 2014 acquisition of i-parcel, LLC. ("i-parcel"), a U.S.-based international e-commerce enabler and logistics company that operates in the U.S. and U.K. The goodwill acquired in the Supply Chain & Freight segment was related to our February 2014 acquisition of Polar Speed Distribution Limited ("Polar Speed"), a U.K.-based company that provides temperature-sensitive pharmaceutical supply chain solutions in the U.K. and continental Europe.

The purchase price allocation for acquired companies can be modified for up to one year from the date of acquisition. The acquisition of Polar Speed and i-parcel were not material to our consolidated financial position or results of operations.

*2013 Acquisitions:*

The goodwill acquired in the Supply Chain & Freight segment was related to our July 2013 acquisition of Cemelog Ltd. ("Cemelog"), a Hungary-based medical logistics provider that operates in Central and Eastern Europe. The goodwill acquired in the International Package segment was largely related to our October 2013 acquisition of the assets and operations of two Costa Rican-based companies: (1) Union Pak de Costa Rica, S.A., a small package delivery company, and (2) SEISA Brokerage, a customs brokerage company. Both companies had long-standing relationships with UPS as authorized service contractors.

***Goodwill Impairment***

We test our goodwill for impairment annually, as of October 1st, on a reporting unit basis. Our reporting units are comprised of the Europe, Asia, Americas and ISMEA



(Indian Subcontinent, Middle East and Africa) reporting units in the International Package reporting segment, and the Forwarding, Logistics, UPS Freight, The UPS Store, and UPS Capital reporting units in the Supply Chain & Freight reporting segment.

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

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In 2014, we utilized the two-step process to test goodwill for impairment for all of our reporting units. We did not have any goodwill impairment charges in 2014, 2013 or 2012. Cumulatively, our Supply Chain & Freight reporting segment has recorded goodwill impairment charges of \$22 million, while our International and U.S. Domestic Package segments have not recorded any impairment charges.

**Intangible Assets**

The following is a summary of intangible assets at December 31, 2014 and 2013 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted- Average Amortization Period (in years)
<b>December 31, 2014</b>				
Capitalized software	\$ 2,641	\$ (1,997)	\$ 644	5.0
Licenses	217	(133)	84	5.1
Franchise rights	117	(77)	40	20.0
Customer lists	123	(66)	57	11.7
Trademarks, patents, and other	31	(9)	22	12.6
<b>Total Intangible Assets, Net</b>	<b>\$ 3,129</b>	<b>\$ (2,282)</b>	<b>\$ 847</b>	<b>5.9</b>
<b>December 31, 2013</b>				
Capitalized software	\$ 2,420	\$ (1,897)	\$ 523	
Licenses	220	(97)	123	
Franchise rights	117	(70)	47	
Customer lists	118	(62)	56	
Trademarks, patents, and other	37	(11)	26	
<b>Total Intangible Assets, Net</b>	<b>\$ 2,912</b>	<b>\$ (2,137)</b>	<b>\$ 775</b>	

Licenses with a carrying value of \$5 million as of December 31, 2014 are deemed to be indefinite-lived intangibles, and therefore are not amortized. Impairment tests for indefinite-lived intangibles are performed on an annual basis. All of our other recorded intangible assets are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable. We incurred impairment charges on intangible assets of \$13 million during 2013, while there were no impairments of any finite-lived or indefinite-lived intangible assets in 2014 or 2012.

Amortization of intangible assets was \$195, \$185 and \$244 million during 2014, 2013 and 2012, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2014 for the next five years is as follows (in millions): 2015—\$277; 2016—\$212; 2017—\$153; 2018—\$100; 2019—\$57. Amortization expense in future periods will be affected by business acquisitions, software development, licensing agreements, sponsorships and other factors.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**NOTE 7. 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, 2014 and 2013 (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	Maturity	Carrying Value	
	Amount		2014	2013
Commercial paper	\$ 772	2015	\$ 772	\$ —
Fixed-rate senior notes:				
3.875% senior notes	1,000	2014	—	1,007
1.125% senior notes	375	2017	370	367
5.50% senior notes	750	2018	802	821
5.125% senior notes	1,000	2019	1,076	1,079
3.125% senior notes	1,500	2021	1,617	1,579
2.45% senior notes	1,000	2022	977	913
6.20% senior notes	1,500	2038	1,481	1,481
4.875% senior notes	500	2040	489	489
3.625% senior notes	375	2042	367	367
8.375% Debentures:				
8.375% debentures	424	2020	480	479
8.375% debentures	276	2030	283	283
Pound Sterling Notes:				
5.50% notes	103	2031	99	105
5.125% notes	706	2050	673	714
Floating rate senior notes	463	2049 – 2064	459	370
Capital lease obligations	505	2015 – 3005	505	473
Facility notes and bonds	320	2015 – 2036	320	320
Other debt	17	2015 – 2022	17	25
Total debt	<u>\$ 11,586</u>		<u>10,787</u>	<u>10,872</u>
Less: current maturities			(923)	(48)
Long-term debt			<u>\$ 9,864</u>	<u>\$ 10,824</u>

**Commercial Paper**

We are authorized to borrow up to \$10.0 billion under our U.S. commercial paper program. We had \$772 million outstanding under this program as of December 31, 2014. We also maintain a European commercial paper program under which we are authorized to borrow up to €5.0 billion in a variety of currencies. As of December 31, 2014, there were no amounts outstanding under this program. The amount of commercial paper outstanding under these programs in 2015 is expected to fluctuate.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**Fixed Rate Senior Notes**

We have completed several offerings of fixed rate senior notes. All of the notes pay interest semiannually, and allow for redemption of the notes by UPS at any time by paying the greater of the principal amount or a “make-whole” amount, plus accrued interest. 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 2014 and 2013, respectively, were as follows:

	Principal	Maturity	Average Effective Interest Rate	
	Value		2014	2013
3.875% senior notes	1,000	2014	0.94%	0.97%
1.125% senior notes	375	2017	0.60%	0.64%
5.50% senior notes	750	2018	2.49%	2.53%
5.125% senior notes	1,000	2019	1.97%	2.01%
3.125% senior notes	1,500	2021	1.06%	1.11%
2.45% senior notes	1,000	2022	0.82%	0.86%

On April 1, 2014, our \$1.00 billion 3.875% senior notes matured and were repaid in full. The principal balance of the senior notes was repaid from the proceeds of short-term commercial paper issuances.

**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 semiannually on the first of April and October for both debentures and neither debenture is subject to sinking fund requirements. We subsequently entered into interest rate swaps on the 2020 notes, which effectively converted the fixed interest rates on the notes to variable LIBOR-based interest rates. The average interest rate payable on the 2020 notes, including the impact of the interest rate swaps, for 2014 and 2013 was 4.99% and 5.03%, respectively.

**Floating Rate Senior Notes**

The floating rate senior notes bear interest at either one or three-month LIBOR, less a spread ranging from 30 to 45 basis points. The average interest rate for 2014 and 2013 was 0.00% for both years. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after 10 years at a stated percentage of par value. The notes have maturities ranging from 2049 through 2064. In 2014 and 2013, we redeemed notes with a principal value of \$1 and \$4 million, respectively, after put options were exercised by the note holders.

In December 2014, we issued a floating rate senior note with a principal balance of \$90 million that bears interest at three-month LIBOR less 30 basis points. This note matures in 2064.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**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):

	2014	2013
Vehicles	\$ 86	\$ 49
Aircraft	2,289	2,289
Buildings	197	181
Plant Equipment	—	2
Technology Equipment	—	—
Accumulated amortization	(781)	(727)
	<u>\$ 1,791</u>	<u>\$ 1,794</u>

These capital lease obligations have principal payments due at various dates from 2015 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 2014 and 2013 were 0.05% and 0.09%, 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 2014 and 2013 were 0.05% and 0.08%, respectively.
- Bonds with a principal balance of \$29 million issued by the Dallas / Fort Worth International Airport Facility Improvement Corporation associated with our Dallas, Texas airport facilities. The bonds are due in May 2032 and bear interest at a variable rate, however the variable cash flows on the obligation have been swapped to a fixed 5.11%.
- Bonds with a principal balance of \$100 million issued by the Delaware County, Pennsylvania Industrial Development Authority associated with our Philadelphia, Pennsylvania airport facilities. The bonds, which are due in December 2015, bear interest at a variable rate, and the average interest rates for 2014 and 2013 were 0.04% and 0.07%, 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.

We maintain cross-currency interest rate swaps to hedge the foreign currency risk associated with the bond cash flows for both tranches of these bonds. The average fixed interest rate payable on the swaps is 5.45%.

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**Contractual Commitments**

We lease certain aircraft, facilities, land, equipment and vehicles under operating leases, which expire at various dates through 2038. Certain of the leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was \$676, \$575 and \$619 million for 2014, 2013 and 2012, 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
2015	\$ 75	\$ 323	\$ 876	\$ 269
2016	74	257	8	195
2017	67	210	377	71
2018	62	150	752	19
2019	59	90	1,000	8
After 2019	435	274	7,068	26
<b>Total</b>	<b>772</b>	<b>\$ 1,304</b>	<b>\$ 10,081</b>	<b>\$ 588</b>
Less: imputed interest	(267)			
Present value of minimum capitalized lease payments	505			
Less: current portion	(47)			
<b>Long-term capitalized lease obligations</b>	<b>\$ 458</b>			

As of December 31, 2014, we had outstanding letters of credit totaling approximately \$1.064 billion issued in connection with our self-insurance reserves and other routine business requirements. We also issue surety bonds as an alternative to letters of credit in certain instances, and as of December 31, 2014, we had \$640 million of surety bonds written.

**Available Credit**

We maintain two credit agreements with a consortium of banks. One of these agreements provides revolving credit facilities of \$1.5 billion, and expires on March 27, 2015. Generally, amounts outstanding under this facility bear interest at a periodic fixed rate equal to LIBOR for the applicable interest period and currency denomination, plus an applicable margin. Alternatively, a fluctuating rate of interest equal to the highest of (1) JPMorgan Chase Bank's publicly announced prime rate, (2) the Federal Funds effective rate plus 0.50%, and (3) LIBOR for a one month interest period plus 1.00%, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our 1-year credit default swap spread, subject to a minimum rate of 0.10% and a maximum rate of 0.75%. The applicable margin for advances bearing interest based on the prime rate is 1.00% below the applicable margin for LIBOR advances (but not lower than 0.00%). We are also able to request advances under this facility based on competitive bids for the applicable interest rate. There were no amounts outstanding under this facility as of December 31, 2014.

The second agreement provides revolving credit facilities of \$1.0 billion, and expires on March 28, 2019. Generally, amounts outstanding under this facility bear interest at a periodic fixed rate equal to LIBOR for the applicable interest period and currency denomination, plus an applicable margin. Alternatively, a fluctuating rate of interest equal to the highest of (1) JPMorgan Chase Bank's publicly announced prime rate, (2) the Federal Funds effective rate plus 0.50%, and (3) LIBOR for a one month interest period plus 1.00%, plus an applicable margin, may be used at our discretion. In each case, the applicable margin for advances bearing interest based on LIBOR is a percentage determined by quotations from Markit Group Ltd. for our credit default swap spread, interpolated for a period from the date of determination of such credit default swap spread in connection with a new interest period until the latest maturity date of this facility then in effect (but not less than a period of one year). The minimum applicable margin rate is 0.10% and the maximum applicable margin rate is 0.75% per annum. The applicable margin for advances bearing interest based on the prime rate is 1.00% below the applicable margin for LIBOR advances (but not less than 0.00%). We are also able to request advances under this facility based on competitive bids. There were no amounts outstanding under this facility as of December 31, 2014.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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***Debt Covenants***

Our existing debt instruments and credit facilities subject us to certain financial covenants. As of December 31, 2014 and for all prior periods presented, we have satisfied these financial covenants. These covenants limit the amount of secured indebtedness that we may incur, and limit the amount of attributable debt in sale-leaseback transactions, to 10% of net tangible assets. As of December 31, 2014, 10% of net tangible assets is equivalent to \$2.380 billion; however, we have no covered sale-leaseback transactions or secured indebtedness outstanding. We do not expect these covenants to have a material impact on our financial condition or liquidity.

***Fair Value of Debt***

Based on the borrowing rates currently available to the Company for long-term debt with similar terms and maturities, the fair value of long-term debt, including current maturities, is approximately \$12.257 and \$11.756 billion as of December 31, 2014 and 2013, respectively. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of all of our debt instruments.

**NOTE 8. LEGAL PROCEEDINGS AND CONTINGENCIES**

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

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

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

***Judicial Proceedings***

We are a defendant in a number of lawsuits filed in state and federal courts containing various class action allegations under state wage-and-hour laws. At this time, we do not believe that any loss associated with these matters would have a material adverse effect on our financial condition, results of operations or liquidity.

UPS and our subsidiary The UPS Store, Inc., are defendants in *Morgate v. The UPS Store, Inc. et al.* an action in the Los Angeles Superior Court brought on behalf of a certified class of all franchisees who chose to rebrand their Mail Boxes Etc. franchises to The UPS Store in March 2003. Plaintiff alleges that UPS and The UPS Store, Inc. misrepresented and omitted facts to the class about the market tests that were conducted before offering the class the choice of whether to rebrand to The UPS Store. The trial is scheduled for June 2015.

There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from the remaining aspects of this case, including: (1) we are vigorously defending ourselves and believe we have a number of meritorious legal defenses; and (2) it remains uncertain what evidence of damages, if any, plaintiffs will be able to present. 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.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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In *AFMS LLC v. UPS and FedEx Corporation*, a lawsuit filed in federal court in the Central District of California in August 2010, the plaintiff asserts that UPS and FedEx violated U.S. antitrust law by conspiring to refuse to negotiate with third-party negotiators retained by shippers and by individually imposing policies that prevent shippers from using such negotiators. UPS and FedEx have moved for summary judgment. There has been no ruling on those motions. The case does not have a trial date scheduled. The Antitrust Division of the U.S. Department of Justice ("DOJ") has an ongoing civil investigation of our policies and practices for dealing with third-party negotiators. We are cooperating with this investigation. We deny any liability with respect to these matters and intend to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from these matters including: (1) we believe that we have a number of meritorious defenses; (2) the Court has not ruled on the pending dispositive motions; and (3) the DOJ investigation is pending. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

In Canada, four purported class-action cases were filed against us in British Columbia (2006); Ontario (2007) and Québec (2006 and 2013). The cases each allege inadequate disclosure concerning the existence and cost of brokerage services provided by us under applicable provincial consumer protection legislation and infringement of interest restriction provisions under the Criminal Code of Canada. The British Columbia class action was declared inappropriate for certification and dismissed by the trial judge. That decision was upheld by the British Columbia Court of Appeal in March 2010, which ended the case in our favor. The Ontario class action was certified in September 2011. Partial summary judgment was granted to us and the plaintiffs by the Ontario motions court. The complaint under the Criminal Code was dismissed. No appeal is being taken from that decision. The allegations of inadequate disclosure were granted and we are appealing that decision. The motion to authorize the 2006 Québec litigation as a class action was dismissed by the motions judge in October 2012; there was no appeal, which ended that case in our favor. The 2013 Québec litigation also has been dismissed. We deny all liability and are vigorously defending the one outstanding case in Ontario. 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 January 2008, a class action complaint was filed in the United States District Court for the Eastern District of New York alleging price-fixing activities relating to the provision of freight forwarding services. UPS was not named in this case. In July 2009, the plaintiffs filed a First Amended Complaint naming numerous global freight forwarders as defendants. UPS and UPS Supply Chain Solutions are among the 60 defendants named in the amended complaint. After two rounds of motions to dismiss, in October 2014, UPS entered into a settlement agreement with the plaintiffs to settle the remaining claims asserted against UPS for an immaterial amount. The court granted preliminary approval of the settlement on December 16, 2014. The settlement is subject to final court approval.

In August 2010, competition authorities in Brazil opened an administrative proceeding to investigate alleged anticompetitive behavior in the freight forwarding industry. Approximately 45 freight forwarding companies and individuals are named in the proceeding, including UPS, UPS SCS Transportes (Brasil) S.A., and a former employee in Brazil. UPS submitted its written defenses to these allegations in April 2014. UPS intends to continue to defend itself in these proceedings. In November 2012, the Commerce Commission of Singapore initiated an investigation with respect to similar matters.

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



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On March 29, 2013, we entered into a Non-Prosecution Agreement (“NPA”) with the United States Attorney’s Office in the Northern District of California in connection with an investigation by the Drug Enforcement Administration of shipments by illicit online pharmacies. Under the NPA, we forfeited \$40 million to the government, admitted to a Statement of Facts describing the conduct leading to the agreement, and agreed to implement an online pharmacy compliance program. The term of the NPA is two years. We have petitioned the government to shorten that term in its discretion to a lesser period pursuant to the terms of the NPA. The NPA did not have a material impact on our financial condition, results of operations or liquidity.

In January 2014, we received a Civil Investigative Demand from the DOJ seeking documents related to possible violations of the False Claims Act (“FCA”) in connection with delivery services provided to government customers where guaranteed commitment times allegedly were not met. The General Services Administration - Office of Inspector General had previously sought similar documents. The Company has been cooperating with these inquiries and is in discussions with the DOJ to resolve all claims by the federal government regarding this matter. We do not believe that a negotiated resolution would have a material adverse effect on our financial condition, results of operations or liquidity. We also have been contacted by several states requesting this information. The Company has been cooperating with these inquiries.

It is not possible to predict the potential outcome of the state inquiries at this stage, or to reasonably estimate the range or amount of possible loss, if any, that may result from these investigations based on a number of factors, including: (1) the investigations are not complete; (2) these matters are at an early stage and there are unresolved questions of law and fact that could be of importance to the ultimate resolution of these matters; (3) the scope and size of potentially affected government customers and the time period covered by potential claims remains uncertain; and (4) our current intention to vigorously defend any claims of FCA violations. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from these matters or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

On February 18, 2015, the State and City of New York filed suit against UPS arising from alleged shipments of cigarettes to New York State and City residents. The complaint asserts claims under various federal and state laws. The complaint also includes a claim that UPS violated the Assurance of Discontinuance it entered into with the New York Attorney General concerning cigarette deliveries in 2005. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from this case, including: (1) we are vigorously defending ourselves and believe we have a number of meritorious factual and legal defenses; and (2) it remains uncertain what evidence of their claims and damages, if any, plaintiffs will be able to present. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

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

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**NOTE 9. 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, 2014, 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, 2014, 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):

	2014		2013		2012	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
<b>Class A Common Stock</b>						
Balance at beginning of year	212	\$ 2	225	\$ 3	240	\$ 3
Common stock purchases	(5)	—	(8)	(1)	(9)	—
Stock award plans	5	—	9	—	8	—
Common stock issuances	3	—	4	—	3	—
Conversions of class A to class B common stock	(14)	—	(18)	—	(17)	—
Class A shares issued at end of year	<u>201</u>	<u>\$ 2</u>	<u>212</u>	<u>\$ 2</u>	<u>225</u>	<u>\$ 3</u>
<b>Class B Common Stock</b>						
Balance at beginning of year	712	\$ 7	729	\$ 7	725	\$ 7
Common stock purchases	(21)	—	(35)	—	(13)	—
Conversions of class A to class B common stock	14	—	18	—	17	—
Class B shares issued at end of year	<u>705</u>	<u>\$ 7</u>	<u>712</u>	<u>\$ 7</u>	<u>729</u>	<u>\$ 7</u>
<b>Additional Paid-In Capital</b>						
Balance at beginning of year		\$ —		\$ —		\$ —
Stock award plans		656		554		444
Common stock purchases		(918)		(768)		(943)
Common stock issuances		309		307		293
Option premiums received (paid)		(47)		(93)		206
Balance at end of year		<u>\$ —</u>		<u>\$ —</u>		<u>\$ —</u>
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 6,925		\$ 7,997		\$ 10,128
Net income attributable to controlling interests		3,032		4,372		807
Dividends (\$2.68, \$2.48 and \$2.28 per share)		(2,487)		(2,367)		(2,243)
Common stock purchases		(1,744)		(3,077)		(695)
Balance at end of year		<u>\$ 5,726</u>		<u>\$ 6,925</u>		<u>\$ 7,997</u>

For the years ended December 31, 2014, 2013 and 2012, we repurchased a total of 26.4, 43.2 and 21.8 million shares of class A and class B common stock for \$2.662, \$3.846 and \$1.638 billion, respectively (\$2.695, \$3.838 and \$1.621 billion in repurchases for 2014, 2013 and 2012, respectively, are reported on the cash flow statement due to the timing of settlements). On February 14, 2013, the Board of Directors approved a new share repurchase authorization of \$10.0 billion, which replaced an authorization previously announced in 2012. This new share repurchase authorization has no expiration date. As of December 31, 2014, we had \$4.152 billion of this share repurchase authorization remaining.

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From time to time, we enter into share repurchase programs with large financial institutions to assist in our buyback of company stock. These programs allow us to repurchase our shares at a price below the weighted average UPS share price for a given period. During the fourth quarter of 2014, we entered into an accelerated share repurchase program, which allowed us to repurchase \$400 million of shares (3.7 million shares). The program was completed in December 2014.

In order to lower the average cost of acquiring shares in our ongoing share repurchase program, we periodically enter into structured repurchase agreements involving the use of capped call options for the purchase of UPS class B shares. We pay a fixed sum of cash upon execution of each agreement in exchange for the right to receive either a pre-determined amount of cash or stock. Upon expiration of each agreement, if the closing market price of our common stock is above the pre-determined price, we will have our initial investment returned with a premium in either cash or shares (at our election). If the closing market price of our common stock is at or below the pre-determined price, we will receive the number of shares specified in the agreement. We paid net premiums of \$47 and \$93 million during 2014 and 2013, respectively, related to entering into and settling capped call options for the purchase of class B shares. As of December 31, 2014, we had outstanding options for the purchase of 1.7 million shares with an average strike price of \$100.01 per share that will settle in the first and second quarters of 2015.

*Accumulated Other Comprehensive Income (Loss)*

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

	2014	2013	2012
<b>Foreign currency translation gain (loss):</b>			
Balance at beginning of year	\$ (126)	\$ 134	\$ (160)
Reclassification to earnings (no tax impact in any period)	—	(161)	—
Translation adjustment (net of tax effect of \$105, \$(5), and \$(9))	(331)	(99)	294
Balance at end of year	(457)	(126)	134
<b>Unrealized gain (loss) on marketable securities, net of tax:</b>			
Balance at beginning of year	(1)	6	6
Current period changes in fair value (net of tax effect of \$1, \$(3), and \$4)	2	(4)	6
Reclassification to earnings (net of tax effect of \$0, \$(2), and \$(3))	(1)	(3)	(6)
Balance at end of year	—	(1)	6
<b>Unrealized gain (loss) on cash flow hedges, net of tax:</b>			
Balance at beginning of year	(219)	(286)	(204)
Current period changes in fair value (net of tax effect of \$133, \$1 and \$(25))	220	1	(43)
Reclassification to earnings (net of tax effect of \$35, \$39, and \$(24))	60	66	(39)
Balance at end of year	61	(219)	(286)
<b>Unrecognized pension and postretirement benefit costs, net of tax:</b>			
Balance at beginning of year	(114)	(3,208)	(2,745)
Reclassification to earnings (net of tax effect of \$870, \$67, and \$1,876)	1,462	111	3,135
Net actuarial gain (loss) and prior service cost resulting from remeasurements of plan assets and liabilities (net of tax effect of \$(2,714), \$1,786, and \$(2,151))	(4,546)	2,983	(3,598)
Balance at end of year	(3,198)	(114)	(3,208)
Accumulated other comprehensive income (loss) at end of year	\$ (3,594)	\$ (460)	\$ (3,354)

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Detail of the gains (losses) reclassified from AOCI to the statements of consolidated income for the years ended December 31, 2014, 2013 and 2012 is as follows (in millions):

	2014 Amount Reclassified from AOCI	2013 Amount Reclassified from AOCI	2012 Amount Reclassified from AOCI	Affected Line Item in the Income Statement
<b>Foreign currency translation gain (loss):</b>				
Liquidation of foreign subsidiary	\$ —	\$ 161	\$ —	Other expenses
Income tax (expense) benefit	—	—	—	Income tax expense
Impact on net income	—	161	—	Net income
<b>Unrealized gain (loss) on marketable securities:</b>				
Realized gain (loss) on sale of securities	1	5	9	Investment income
Income tax (expense) benefit	—	(2)	(3)	Income tax expense
Impact on net income	1	3	6	Net income
<b>Unrealized gain (loss) on cash flow hedges:</b>				
Interest rate contracts	(23)	(22)	(22)	Interest expense
Foreign exchange contracts	(48)	18	24	Interest expense
Foreign exchange contracts	(24)	(53)	61	Revenue
Commodity contracts	—	(48)	—	Fuel expense
Income tax (expense) benefit	35	39	(24)	Income tax expense
Impact on net income	(60)	(66)	39	Net income
<b>Unrecognized pension and postretirement benefit costs:</b>				
Prior service costs	(170)	(178)	(5,011)	Compensation and benefits
Settlement and curtailment loss	(356)	—	—	Compensation and benefits
Remeasurement of benefit obligation	(1,806)	—	—	Compensation and benefits
Income tax (expense) benefit	870	67	1,876	Income tax expense
Impact on net income	(1,462)	(111)	(3,135)	Net income
<b>Total amount reclassified for the period</b>	<b>\$ (1,521)</b>	<b>\$ (13)</b>	<b>\$ (3,090)</b>	Net income

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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*Deferred Compensation Obligations and Treasury Stock*

We maintain a deferred compensation plan whereby certain employees were previously able to elect to defer the gains on stock option exercises by deferring the shares received upon exercise into a rabbi trust. The shares held in this trust are classified as treasury stock, and the liability to participating employees is classified as “deferred compensation obligations” in the shareowners’ equity section of the consolidated balance sheets. The number of shares needed to settle the liability for deferred compensation obligations is included in the denominator in both the basic and diluted earnings per share calculations. Employees are generally no longer able to defer the gains from stock options exercised subsequent to December 31, 2004. Activity in the deferred compensation program for the years ended December 31, 2014, 2013 and 2012 is as follows (in millions):

	2014		2013		2012	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
<b>Deferred Compensation Obligations</b>						
Balance at beginning of year		\$ 69		\$ 78		\$ 88
Reinvested dividends		2		4		3
Options exercise deferrals		—		—		—
Benefit payments		(12)		(13)		(13)
Balance at end of year		<u>\$ 59</u>		<u>\$ 69</u>		<u>\$ 78</u>
<b>Treasury Stock</b>						
Balance at beginning of year	(1)	\$ (69)	(1)	\$ (78)	(2)	\$ (88)
Reinvested dividends	—	(2)	—	(4)	—	(3)
Options exercise deferrals	—	—	—	—	—	—
Benefit payments	—	12	—	13	1	13
Balance at end of year	<u>(1)</u>	<u>\$ (59)</u>	<u>(1)</u>	<u>\$ (69)</u>	<u>(1)</u>	<u>\$ (78)</u>

*Noncontrolling Interests*

We have noncontrolling interests in certain consolidated subsidiaries in our International Package and Supply Chain & Freight segments, primarily in international locations. The activity related to our noncontrolling interests is presented below (in millions):

	2014	2013	2012
<b>Noncontrolling Interests</b>			
Balance at beginning of period	\$ 14	\$ 80	\$ 73
Purchase of noncontrolling interests	3	(66)	7
Dividends attributable to noncontrolling interests	—	—	—
Net income attributable to noncontrolling interests	—	—	—
Balance at end of period	<u>\$ 17</u>	<u>\$ 14</u>	<u>\$ 80</u>

In January 2013, we repurchased the noncontrolling interest in our joint venture that operates in the Middle East, Turkey, and portions of the Central Asia region for \$70 million. After this transaction, we own 100% of this entity.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**NOTE 10. STOCK-BASED COMPENSATION**

The UPS Incentive Compensation Plan permits the grant of nonqualified and incentive stock options, stock appreciation rights, restricted stock and stock units, and restricted performance shares and units, to eligible employees. The number of shares reserved for issuance under the Incentive Compensation Plan is 27 million. Each share issued pursuant to restricted stock units and restricted performance units (collectively referred to as "Restricted Units"), stock options and other permitted awards will reduce the share reserve by one share. We had 16 million shares available to be issued under the Incentive Compensation Plan as of December 31, 2014.

There are currently three primary awards granted to eligible employees under the UPS Incentive Compensation Plan, including the Management Incentive Award, Long-Term Incentive Performance Award and Non-Qualified Stock Option Award. These awards are discussed in the following paragraphs. The total expense recognized in our income statement under all stock compensation award programs was \$536, \$513 and \$547 million during 2014, 2013 and 2012, respectively. The associated income tax benefit recognized in our income statement was \$199, \$190 and \$201 million during 2014, 2013 and 2012, respectively. The cash income tax benefit received from the exercise of stock options and the lapsing of Restricted Units was \$261, \$286 and \$265 million during 2014, 2013 and 2012, respectively.

*Management Incentive Award*

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

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

*Long-Term Incentive Performance Award granted prior to 2014*

We awarded Restricted Units in conjunction with our Long-Term Incentive Performance Award program to certain eligible employees. The Restricted Units ultimately granted under the Long-Term Incentive Performance Award program are based upon the achievement of certain performance measures, including growth in consolidated revenue and operating return on invested capital, each year during the performance award cycle, and other measures, including the achievement of an adjusted earnings per share target, over the entire three year performance award cycle. The Restricted Units granted under this program vest at the end of the three year performance award cycle, except in the case of death disability, or retirement, in which case immediate vesting occurs.

As of December 31, 2014, we had the following Restricted Units outstanding, including reinvested dividends, that were granted under our Management Incentive Award program and Long-Term Incentive Performance Award program (granted prior to 2014):

	Shares (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Nonvested at January 1, 2014	12,748	\$ 74.60		
Vested	(6,455)	71.61		
Granted	5,064	92.35		
Reinvested Dividends	363	N/A		
Forfeited / Expired	(161)	81.73		
Nonvested at December 31, 2014	11,559	\$ 82.58	1.39	\$ 1,285
Restricted Units Expected to Vest	11,292	\$ 82.62	1.38	\$ 1,255

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The fair value of each Restricted Unit is the NYSE closing price of class B common stock on the date of grant. The weighted-average grant date fair value of Restricted Units granted during 2014, 2013 and 2012 was \$92.35, \$80.18 and \$77.21, respectively. The total fair value of Restricted Units vested was \$579, \$510 and \$627 million in 2014, 2013 and 2012, respectively. As of December 31, 2014, there was \$483 million of total unrecognized compensation cost related to nonvested Restricted Units. That cost is expected to be recognized over a weighted average period of three years.

*Long-Term Incentive Performance Award granted in 2014*

Beginning with the Long-Term Incentive Performance grant in 2014, the performance targets are equally-weighted among consolidated operating return on invested capital, growth in consolidated revenue, and total shareowner return relative to a peer group of companies. The Restricted Units granted under this award generally vest at the end of a three-year period (except in the case of death disability, or retirement, in which case immediate vesting occurs on a prorated basis). The number of Restricted Units earned will be based on the percentage achievement of the performance targets set forth on the grant date. The range of percentage achievement can vary from 0% to 200% of the target award.

For the two-thirds of the award related to consolidated operating return on invested capital and growth in consolidated revenue, we recognize the grant-date fair value of these units (less estimated forfeitures) as compensation expense ratably over the vesting period, based on the number of awards expected to be earned. The remaining one-third of the award related to total shareowner return relative to a peer group is valued using a Monte Carlo model. This portion of the award was valued at a share payout of 109.84% of the target grant, and is recognized as compensation expense (less estimated forfeitures) ratably over the vesting period.

As of December 31, 2014, we had the following Restricted Units outstanding, including reinvested dividends, that were granted under our 2014 Long-Term Incentive Performance Award:

	Shares (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Nonvested at January 1, 2014	—	\$ —		
Vested	(28)	96.98		
Granted	932	96.98		
Reinvested Dividends	17	N/A		
Forfeited / Expired	(106)	96.98		
Nonvested at December 31, 2014	815	\$ 96.98	2.08	\$ 91
Performance Units Expected to Vest	777	\$ 96.98	2.08	\$ 86

The fair value of each Restricted Unit is the NYSE closing price of class B common stock on the date of grant. The weighted-average grant date fair value of Restricted Units granted during 2014 was \$96.98. The total fair value of Restricted Units vested was \$2 million in 2014. As of December 31, 2014, there was \$54 million of total unrecognized compensation cost related to nonvested Restricted Units. That cost is expected to be recognized over a weighted average period of two years.

*Nonqualified Stock Options*

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

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

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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The following is an analysis of options to purchase shares of class A common stock issued and outstanding:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2014	5,212	\$ 73.73		
Exercised	(1,620)	72.52		
Granted	127	96.98		
Forfeited / Expired	(28)	72.82		
Outstanding at December 31, 2014	<u>3,691</u>	\$ 75.07	2.85	\$ 133
Options Vested and Expected to Vest	<u>3,691</u>	\$ 75.07	2.85	\$ 133
Exercisable at December 31, 2014	<u>3,356</u>	\$ 74.20	2.35	\$ 124

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

	2014	2013	2012
Expected dividend yield	2.56%	2.75%	2.77%
Risk-free interest rate	2.40%	1.38%	1.63%
Expected life in years	7.5	7.5	7.5
Expected volatility	24.26%	24.85%	25.06%
Weighted average fair value of options granted	\$ 20.48	\$ 15.50	\$ 14.88

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

We received cash of \$85, \$292 and \$122 million during 2014, 2013 and 2012, respectively, from option holders resulting from the exercise of stock options. The total intrinsic value of options exercised during 2014, 2013 and 2012 was \$47, \$92 and \$39 million, respectively. As of December 31, 2014, there was \$1 million of total unrecognized compensation cost related to nonvested options. That cost is expected to be recognized over a weighted average period of 3 years and 2 months.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2014:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Shares (in thousands)	Average Life (in years)	Average Exercise Price	Shares (in thousands)	Average Exercise Price
\$50.01 - \$70.00	264	4.85	\$ 61.52	246	\$ 61.11
\$70.01 - \$80.00	2,118	2.52	72.05	2,002	71.82
\$80.01 - \$90.00	1,182	2.30	81.17	1,081	81.00
\$90.01 - \$100.00	127	9.18	96.98	27	96.98
	<u>3,691</u>	2.85	\$ 75.07	<u>3,356</u>	\$ 74.20

*Discounted Employee Stock Purchase Plan*

We maintain an employee stock purchase plan for all eligible employees. Under this plan, shares of UPS class A common stock may be purchased at quarterly intervals at 95% of the NYSE closing price of UPS class B common stock on the last day of each quarterly period. Employees purchased 0.9, 1.1 and 1.2 million shares at average prices of \$95.67, \$79.74 and \$72.17 per share during 2014, 2013 and 2012, respectively. This plan is not considered to be compensatory, and therefore no compensation cost is measured for the employees' purchase rights.



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**NOTE 11. SEGMENT AND GEOGRAPHIC INFORMATION**

We report our operations in three segments: U.S. Domestic Package operations, International Package operations and Supply Chain & Freight operations. Package operations represent our most significant business and are broken down into regional operations around the world. Regional operations managers are responsible for both domestic and export products within their geographic area.

*U.S. Domestic Package*

Domestic Package operations include the time-definite delivery of letters, documents and packages throughout the United States.

*International Package*

International Package operations include delivery to more than 220 countries and territories worldwide, including shipments wholly outside the United States, as well as shipments with either origin or destination outside the United States. Our International Package reporting segment includes the operations of our Europe, Asia, Americas and ISMEA (Indian Subcontinent, Middle East and Africa) operating segments.

*Supply Chain & Freight*

Supply Chain & Freight includes our forwarding and logistics operations, UPS Freight and other aggregated business units. Our forwarding and logistics business provides services in more than 195 countries and territories worldwide, and includes international air and ocean freight forwarding, customs brokerage, distribution and post-sales services, and mail and consulting services. UPS Freight offers a variety of LTL and TL services to customers in North America. Other aggregated business units within this segment include The UPS Store, UPS Capital and UPS Customer Solutions.

In evaluating financial performance, we focus on operating profit as a segment's measure of profit or loss. Operating profit is before investment income, interest expense and income taxes. The accounting policies of the reportable segments are the same as those described in the summary of accounting policies (see note 1), with certain expenses allocated between the segments using activity-based costing methods. Unallocated assets are comprised primarily of cash, marketable securities, and certain investment partnerships.

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

	2014	2013	2012
<b>Revenue:</b>			
U.S. Domestic Package	\$ 35,851	\$ 34,074	\$ 32,856
International Package	12,988	12,429	12,124
Supply Chain & Freight	9,393	8,935	9,147
Consolidated	<u>\$ 58,232</u>	<u>\$ 55,438</u>	<u>\$ 54,127</u>
<b>Operating Profit:</b>			
U.S. Domestic Package	\$ 2,859	\$ 4,603	\$ 459
International Package	1,677	1,757	869
Supply Chain & Freight	432	674	15
Consolidated	<u>\$ 4,968</u>	<u>\$ 7,034</u>	<u>\$ 1,343</u>
<b>Assets:</b>			
U.S. Domestic Package	\$ 20,716	\$ 19,648	\$ 19,934
International Package	7,853	8,463	11,248
Supply Chain & Freight	6,024	6,624	6,610
Unallocated	878	1,477	1,071
Consolidated	<u>\$ 35,471</u>	<u>\$ 36,212</u>	<u>\$ 38,863</u>
<b>Depreciation and Amortization Expense:</b>			
U.S. Domestic Package	\$ 1,276	\$ 1,229	\$ 1,220
International Package	478	473	475
Supply Chain & Freight	169	165	163
Consolidated	<u>\$ 1,923</u>	<u>\$ 1,867</u>	<u>\$ 1,858</u>

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

	2014	2013	2012
<b>U.S. Domestic Package:</b>			
Next Day Air	\$ 6,581	\$ 6,443	\$ 6,412
Deferred	3,672	3,437	3,392
Ground	25,598	24,194	23,052
<b>Total U.S. Domestic Package</b>	<b>35,851</b>	<b>34,074</b>	<b>32,856</b>
<b>International Package:</b>			
Domestic	2,784	2,667	2,531
Export	9,586	9,166	9,033
Cargo	618	596	560
<b>Total International Package</b>	<b>12,988</b>	<b>12,429</b>	<b>12,124</b>
<b>Supply Chain &amp; Freight:</b>			
Forwarding and Logistics	5,758	5,492	5,977
Freight	3,048	2,882	2,640
Other	587	561	530
<b>Total Supply Chain &amp; Freight</b>	<b>9,393</b>	<b>8,935</b>	<b>9,147</b>
<b>Consolidated</b>	<b>\$ 58,232</b>	<b>\$ 55,438</b>	<b>\$ 54,127</b>

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

	2014	2013	2012
<b>United States:</b>			
Revenue	\$ 43,840	\$ 41,772	\$ 40,428
Long-lived assets	\$ 15,902	\$ 15,651	\$ 16,262
<b>International:</b>			
Revenue	\$ 14,392	\$ 13,666	\$ 13,699
Long-lived assets	\$ 6,105	\$ 6,297	\$ 5,312
<b>Consolidated:</b>			
Revenue	\$ 58,232	\$ 55,438	\$ 54,127
Long-lived assets	\$ 22,007	\$ 21,948	\$ 21,574

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

No countries outside of the United States, nor any individual customers, provided 10% or more of consolidated revenue for the years ended December 31, 2014, 2013 or 2012.

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

**NOTE 12. INCOME TAXES**

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

	2014	2013	2012
<b>Current:</b>			
U.S. Federal	\$ 932	\$ 2,181	\$ 1,901
U.S. State and Local	103	205	182
Non-U.S.	185	162	167
<b>Total Current</b>	<b>1,220</b>	<b>2,548</b>	<b>2,250</b>
<b>Deferred:</b>			
U.S. Federal	427	(242)	(1,871)
U.S. State and Local	(11)	(22)	(201)
Non-U.S.	(31)	18	(11)
<b>Total Deferred</b>	<b>385</b>	<b>(246)</b>	<b>(2,083)</b>
<b>Total</b>	<b>\$ 1,605</b>	<b>\$ 2,302</b>	<b>\$ 167</b>

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

	2014	2013	2012
United States	\$ 3,819	\$ 6,040	\$ 384
Non-U.S.	818	634	590
	<b>\$ 4,637</b>	<b>\$ 6,674</b>	<b>\$ 974</b>

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

	2014	2013	2012
Statutory U.S. federal income tax rate	35.0 %	35.0 %	35.0 %
U.S. state and local income taxes (net of federal benefit)	1.2	2.1	—
Non-U.S. tax rate differential	(2.4)	(1.3)	(6.1)
Nondeductible/nontaxable items	1.3	(0.2)	(0.4)
U.S. federal tax credits	(1.5)	(1.2)	(7.4)
Other	1.0	0.1	(4.0)
<b>Effective income tax rate</b>	<b>34.6 %</b>	<b>34.5 %</b>	<b>17.1 %</b>

Our effective tax rate increased to 34.6% in 2014, compared with 34.5% in 2013, largely due to the impact of the gain from liquidating a foreign subsidiary in early 2013 not being taxable (see note 15), offset by favorable changes in the proportion of our taxable income in certain U.S. and non-U.S. jurisdictions relative to total pre-tax income and the increase in U.S. Federal and state tax credits relative to total pre-tax income.

Beginning in 2012, we were granted a tax incentive for certain of our non-U.S. operations, which is effective through December 31, 2017 and may be extended through December 31, 2022 if additional requirements are satisfied. The tax incentive is conditional upon our meeting specific employment and investment thresholds. The impact of this tax incentive decreased non-U.S. tax expense by \$21 and \$20 million for 2014 and 2013, respectively.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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Deferred tax liabilities and assets are comprised of the following at December 31 (in millions):

	2014	2013
Fixed assets and capitalized software	\$ (4,816)	\$ (4,624)
Other	(424)	(756)
Deferred tax liabilities	(5,240)	(5,380)
Pension and postretirement benefits	4,722	3,086
Loss and credit carryforwards (non-U.S. and state)	250	279
Insurance reserves	745	765
Stock compensation	242	70
Other	630	933
Deferred tax assets	6,589	5,133
Deferred tax assets valuation allowance	(208)	(251)
Deferred tax asset (net of valuation allowance)	6,381	4,882
Net deferred tax asset (liability)	\$ 1,141	\$ (498)
<b>Amounts recognized in the consolidated balance sheets:</b>		
Current deferred tax assets	\$ 590	\$ 684
Current deferred tax liabilities (included in other current liabilities)	(18)	(48)
Non-current deferred tax assets	652	110
Non-current deferred tax liabilities	(83)	(1,244)
Net deferred tax asset (liability)	\$ 1,141	\$ (498)

The valuation allowance changed by \$(43), \$31 and \$15 million during the years ended December 31, 2014, 2013 and 2012, respectively.

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

	2014	2013
U.S. state and local operating loss carryforwards	\$ 815	\$ 546
U.S. state and local credit carryforwards	\$ 52	\$ 42

The operating loss carryforwards expire at varying dates through 2034. The state credits can be carried forward for periods ranging from three years to indefinitely.

We also have non-U.S. loss carryforwards of approximately \$586 million as of December 31, 2014, the majority of which may be carried forward indefinitely. As indicated in the table above, we have established a valuation allowance for certain non-U.S. and state carryforwards, due to the uncertainty resulting from a lack of previous taxable income within the applicable tax jurisdictions.

Undistributed earnings of foreign subsidiaries amounted to approximately \$4.683 billion at December 31, 2014. Those earnings are considered to be indefinitely reinvested and, accordingly, no deferred income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to income taxes and withholding taxes payable in various jurisdictions, which could potentially be offset by foreign tax credits. Determination of the amount of unrecognized deferred income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

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

	Tax	Interest	Penalties
Balance at January 1, 2012	\$ 252	\$ 73	\$ 3
Additions for tax positions of the current year	13	—	—
Additions for tax positions of prior years	7	9	1
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(22)	(18)	—
Settlements during the period	(3)	(7)	—
Lapses of applicable statute of limitations	(15)	(4)	—
Balance at December 31, 2012	232	53	4
Additions for tax positions of the current year	15	—	—
Additions for tax positions of prior years	20	9	2
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(67)	(23)	(1)
Settlements during the period	(8)	1	—
Lapses of applicable statute of limitations	(1)	—	(1)
Balance at December 31, 2013	191	40	4
Additions for tax positions of the current year	15	—	—
Additions for tax positions of prior years	51	13	—
Reductions for tax positions of prior years for:			
Changes based on facts and circumstances	(74)	(8)	—
Settlements during the period	(10)	(2)	—
Lapses of applicable statute of limitations	(1)	(1)	(1)
Balance at December 31, 2014	\$ 172	\$ 42	\$ 3

The total amount of gross unrecognized tax benefits as of December 31, 2014, 2013 and 2012 that, if recognized, would affect the effective tax rate was \$166, \$185 and \$224 million, respectively. We also had gross recognized tax benefits of \$54, \$281 and \$280 million recorded as of December 31, 2014, 2013 and 2012, respectively, associated with outstanding refund claims for prior tax years. We had a net payable recorded with respect to prior years' income tax matters in the accompanying consolidated balance sheets as of December 31, 2014, and a net receivable recorded with respect to prior years' income tax matters as of December 31, 2013 and 2012. We have also recognized a receivable for interest of \$4, \$25 and \$23 million for the recognized tax benefits associated with outstanding refund claims as of December 31, 2014, 2013 and 2012, respectively. Our continuing practice is to recognize interest and penalties associated with income tax matters as a component of income tax expense.

We file income tax returns in the U.S. federal jurisdiction, most U.S. state and local jurisdictions, and many non-U.S. jurisdictions. We have substantially resolved all U.S. federal income tax matters for tax years prior to 2010.

In June 2011, we received an IRS Revenue Agent Report ("RAR") covering income taxes for tax years 2005 through 2007. The income tax RAR proposed adjustments related to the value of acquired software and intangibles, research credit expenditures, and the amount of deductible costs associated with our British Pound Sterling Notes exchange offer completed in May 2007. Receipt of the RAR represents only the conclusion of the examination process. We disagreed with some of the proposed adjustments related to these matters. Therefore, we filed protests and, in the third quarter of 2011, the IRS responded to our protests and forwarded the case to IRS Appeals.

In July 2013, we began resolution discussions with IRS Appeals on the income tax matters. In the second quarter of 2014, we reached a final resolution with IRS Appeals on all income tax matters for the 2005 through 2007 tax years and received a net refund of tax and interest totaling \$145 million during the second quarter of 2014. The resolution of these matters and subsequent refund of tax and interest did not have a material impact on net income.

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In February 2014, we began resolution discussions with IRS Appeals related to an RAR received for tax years 2008 and 2009. In the third quarter of 2014, we reached a final resolution with IRS Appeals on all income tax matters for the 2008 and 2009 tax years. In the fourth quarter of 2014 we received a net refund of tax and interest totaling \$26 million. The resolution of these matters and subsequent refund of tax and interest did not have a material impact on net income.

A number of years may elapse before an uncertain tax position is audited and ultimately settled. It is difficult to predict the ultimate outcome or the timing of resolution for uncertain tax positions. It is reasonably possible that the amount of unrecognized tax benefits could significantly increase or decrease within the next twelve months. Items that may cause changes to unrecognized tax benefits include the timing of interest deductions and the allocation of income and expense between tax jurisdictions. These changes could result from the settlement of ongoing litigation, the completion of ongoing examinations, the expiration of the statute of limitations or other unforeseen circumstances. At this time, an estimate of the range of the reasonably possible change cannot be made.

**NOTE 13. EARNINGS PER SHARE**

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

	2014	2013	2012
<b>Numerator:</b>			
Net income attributable to common shareowners	\$ 3,032	\$ 4,372	\$ 807
<b>Denominator:</b>			
Weighted average shares	913	937	957
Deferred compensation obligations	1	1	1
Vested portion of restricted shares	2	2	2
Denominator for basic earnings per share	916	940	960
<b>Effect of dilutive securities:</b>			
Restricted performance units	7	7	8
Stock options	1	1	1
Denominator for diluted earnings per share	924	948	969
Basic earnings per share	\$ 3.31	\$ 4.65	\$ 0.84
Diluted earnings per share	\$ 3.28	\$ 4.61	\$ 0.83

Diluted earnings per share for the years ended December 31, 2014, 2013, and 2012 exclude the effect of 0.1, 0.1 and 2.6 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**NOTE 14. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT**

*Risk Management Policies*

We are exposed to market risk, primarily related to foreign exchange rates, commodity prices and interest rates. These exposures are actively monitored by management. To manage the volatility relating to certain of these exposures, we enter into a variety of derivative financial instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency rates, commodity prices and interest rates. It is our policy and practice to use derivative financial instruments only to the extent necessary to manage exposures. As we use price sensitive instruments to hedge a certain portion of our existing and anticipated transactions, we expect that any loss in value for those instruments generally would be offset by increases in the value of those hedged transactions. We do not hold or issue derivative financial instruments for trading or speculative purposes.

*Credit Risk Management*

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

We have agreements with all of our active counterparties (covering the majority of our derivative positions) containing early termination rights and/or zero threshold bilateral collateral provisions whereby cash is required based on the net fair value of derivatives associated with those counterparties. Events such as a counterparty credit rating downgrade (depending on the ultimate rating level) could also allow us to take additional protective measures such as the early termination of trades. At December 31, 2014, we held cash collateral of \$548 million under these agreements.

In connection with the agreements described above, we could also be required to provide additional collateral or terminate transactions with certain counterparties in the event of a downgrade of our credit rating. The amount of collateral required would be determined by the net fair value of the associated derivatives with each counterparty. At December 31, 2014, we were required to post \$1 million in collateral with our counterparties. At December 31, 2014, there were no instruments in a net liability position that were not covered by the zero threshold bilateral collateral provisions.

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

*Accounting Policy for Derivative Instruments*

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

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

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

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

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

*Types of Hedges*

*Commodity Risk Management*

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

*Foreign Currency Risk Management*

To protect against the reduction in value of forecasted foreign currency cash flows from our international package business, we maintain a foreign currency cash flow hedging program. Our most significant foreign currency exposures relate to the Euro, British Pound Sterling, Canadian Dollar, Chinese Renminbi and Hong Kong Dollar. We hedge portions of our forecasted revenue denominated in foreign currencies with option contracts. We have designated and account for these contracts as cash flow hedges of anticipated foreign currency denominated revenue and, therefore, the resulting gains and losses from these hedges are recognized as a component of international package revenue when the underlying sales transactions occur.

We also hedge portions of our anticipated cash settlements of intercompany transactions subject to foreign currency remeasurement using foreign currency forward contracts. We have designated and account for these contracts as cash flow hedges of forecasted foreign currency denominated transactions, and therefore the resulting gains and losses from these hedges are recognized as a component of other operating expense when the underlying transactions are subject to currency remeasurement.

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

*Interest Rate Risk Management*

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

We have designated and account for interest rate swaps that convert fixed rate interest payments into floating rate interest payments as hedges of the fair value of the associated debt instruments. Therefore, the gains and losses resulting from fair value adjustments to the interest rate swaps and fair value adjustments to the associated debt instruments are recorded to interest expense in the period in which the gains and losses occur. We have designated and account for interest rate swaps that convert floating rate interest payments into fixed rate interest payments as cash flow hedges of the forecasted payment obligations. The gains and losses resulting from fair value adjustments to these interest rate swaps are recorded to AOCI.

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



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

*Outstanding Positions*

The notional amounts of our outstanding derivative positions were as follows as of December 31, 2014 and 2013 (in millions):

		2014	2013
<b>Currency Hedges:</b>			
Euro	EUR	2,833	2,637
British Pound Sterling	GBP	1,149	1,097
Canadian Dollar	CAD	293	218
Indian Rupee	INR	85	—
Malaysian Ringgit	MYR	150	—
Mexican Peso	MXN	152	583
<b>Interest Rate Hedges:</b>			
Fixed to Floating Interest Rate Swaps	USD	5,799	6,799
Floating to Fixed Interest Rate Swaps	USD	779	780
Interest Rate Basis Swaps	USD	1,500	2,500

As of December 31, 2014, we had no outstanding commodity hedge positions. The maximum term over which we are hedging exposures to the variability of cash flow is 35 years.

*Balance Sheet Recognition*

The following table indicates the location on the consolidated balance sheets in which our derivative assets and liabilities have been recognized, and the related fair values of those derivatives as of December 31, 2014 and 2013 (in millions). The table is segregated between those derivative instruments that qualify and are designated as hedging instruments and those that are not, as well as by type of contract and whether the derivative is in an asset or liability position.

We have master netting arrangements with substantially all of our counterparties giving us the right of offset for our derivative positions. However, we have not elected to offset the fair value positions of our derivative contracts recorded on our consolidated balance sheets. The columns labeled "net amounts if right of offset had been applied" indicate the potential net fair value positions by type of contract and location on the consolidated balance sheets had we elected to apply the right of offset.

Asset Derivatives	Balance Sheet Location	Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
		2014	2013	2014	2013
<b>Derivatives designated as hedges:</b>					
Foreign exchange contracts	Other current assets	\$ 204	\$ 10	\$ 204	\$ 4
Interest rate contracts	Other current assets	—	7	—	7
Foreign exchange contracts	Other non-current assets	229	59	229	59
Interest rate contracts	Other non-current assets	227	204	194	110
<b>Derivatives not designated as hedges:</b>					
Foreign exchange contracts	Other current assets	2	7	2	5
Interest rate contracts	Other non-current assets	59	60	57	57
Total Asset Derivatives		<u>\$ 721</u>	<u>\$ 347</u>	<u>\$ 686</u>	<u>\$ 242</u>

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

Liability Derivatives	Balance Sheet Location	Gross Amounts Presented in Consolidated Balance Sheets		Net Amounts if Right of Offset had been Applied	
		2014	2013	2014	2013
<b>Derivatives designated as hedges:</b>					
Foreign exchange contracts	Other current liabilities	\$ —	\$ 6	\$ —	\$ —
Foreign exchange contracts	Other non-current liabilities	34	—	34	—
Interest rate contracts	Other non-current liabilities	35	104	2	10
<b>Derivatives not designated as hedges:</b>					
Foreign exchange contracts	Other current liabilities	—	7	—	5
Interest rate contracts	Other current liabilities	1	1	1	1
Interest rate contracts	Other non-current liabilities	7	3	5	—
Total Liability Derivatives		\$ 77	\$ 121	\$ 42	\$ 16

*Income Statement and AOCI Recognition*

The following table indicates the amount of gains and losses that have been recognized in AOCI for the years ended December 31, 2014 and 2013 for those derivatives designated as cash flow hedges (in millions):

Derivative Instruments in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in AOCI on Derivative (Effective Portion)	
	2014	2013
Interest rate contracts	\$ (5)	\$ 6
Foreign exchange contracts	358	44
Commodity contracts	—	(48)
Total	\$ 353	\$ 2

As of December 31, 2014, \$135 million of pre-tax gains related to cash flow hedges that are currently deferred in AOCI are expected to be reclassified to income over the 12 month period ended December 31, 2015. The actual amounts that will be reclassified to income over the next 12 months will vary from this amount as a result of changes in market conditions.

The amount of ineffectiveness recognized in income on derivative instruments designated in cash flow hedging relationships was immaterial for the years ended December 31, 2014, 2013 and 2012.

The following table indicates the amount and location in the statements of consolidated income in which derivative gains and losses, as well as the associated gains and losses on the underlying exposure, have been recognized for those derivatives designated as fair value hedges for the years ended December 31, 2014 and 2013 (in millions):

Derivative Instruments in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income		Hedged Items in Fair Value Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	
		2014	2013			2014	2013
Interest rate contracts	Interest Expense	\$ 90	\$ (306)	Fixed-Rate Debt and Capital Leases	Interest Expense	\$ (90)	\$ 306

Additionally, we maintain some foreign exchange forward, interest rate swap, and commodity contracts that are not designated as hedges. These foreign exchange forward contracts are intended to provide an economic offset to foreign currency remeasurement risks for certain assets and liabilities in our consolidated balance sheets. These interest rate swap contracts are intended to provide an economic hedge of a portfolio of interest bearing receivables. These commodity contracts are intended to provide a short-term economic offset to fuel expense changes due to price fluctuations.

We also periodically terminate interest rate swaps and foreign currency options by entering into offsetting swap and foreign currency positions with different counterparties. As part of this process, we de-designate our original swap and foreign currency contracts. These transactions provide an economic offset that effectively eliminates the effects of changes in market valuation.

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

We have entered into several interest rate basis swaps, which effectively convert cash flows based on variable LIBOR-based interest rates to cash flows based on the prevailing federal funds interest rate. These swaps are not designated as hedges, and all amounts related to fair value changes and settlements are recorded to interest expense in the statements of consolidated income.

The following is a summary of the amounts recorded in the statements of consolidated income related to fair value changes and settlements of these foreign currency forward, interest rate swap, and commodity contracts not designated as hedges for the years ended December 31, 2014 and 2013 (in millions):

Derivative Instruments Not Designated in Hedging Relationships	Location of Gain (Loss) Recognized in Income	Amount of Gain (Loss) Recognized in Income	
		2014	2013
Commodity contracts	Fuel Expense	\$ (15)	\$ —
Foreign exchange contracts	Other Expenses	27	72
Foreign exchange contracts	Investment Income	7	(5)
Interest rate contracts	Interest Expense	(5)	(4)
Total		<u>\$ 14</u>	<u>\$ 63</u>

*Fair Value Measurements*

Our foreign currency, interest rate and energy derivatives are largely comprised of over-the-counter derivatives, which are primarily valued using pricing models that rely on market observable inputs such as yield curves, currency exchange rates and commodity forward prices, and therefore are classified as Level 2. The fair values of our derivative assets and liabilities as of December 31, 2014 and 2013 by hedge type are as follows (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>2014</b>				
<b>Assets</b>				
Foreign Exchange Contracts	\$ —	\$ 435	\$ —	\$ 435
Interest Rate Contracts	—	286	—	286
Total	<u>\$ —</u>	<u>\$ 721</u>	<u>\$ —</u>	<u>\$ 721</u>
<b>Liabilities</b>				
Foreign Exchange Contracts	\$ —	\$ 34	\$ —	\$ 34
Interest Rate Contracts	—	43	—	43
Total	<u>\$ —</u>	<u>\$ 77</u>	<u>\$ —</u>	<u>\$ 77</u>

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>2013</b>				
<b>Assets</b>				
Foreign Exchange Contracts	\$ —	\$ 76	\$ —	\$ 76
Interest Rate Contracts	—	271	—	271
Total	<u>\$ —</u>	<u>\$ 347</u>	<u>\$ —</u>	<u>\$ 347</u>
<b>Liabilities</b>				
Foreign Exchange Contracts	\$ —	\$ 13	\$ —	\$ 13
Interest Rate Contracts	—	108	—	108
Total	<u>\$ —</u>	<u>\$ 121</u>	<u>\$ —</u>	<u>\$ 121</u>

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

**NOTE 15. TERMINATION OF TNT TRANSACTION**

*TNT Termination Fee and Related Costs*

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.

**NOTE 16. QUARTERLY INFORMATION (unaudited)**

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

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		
	2014	2013	2014	2013	2014	2013	2014	2013	
<b>Revenue:</b>									
U.S. Domestic Package	\$ 8,488	\$ 8,271	\$ 8,668	\$ 8,241	\$ 8,691	\$ 8,254	\$ 10,004	\$ 9,308	
International Package	3,127	2,978	3,252	3,062	3,183	3,017	3,426	3,372	
Supply Chain & Freight	2,164	2,185	2,348	2,204	2,416	2,250	2,465	2,296	
Total revenue	13,779	13,434	14,268	13,507	14,290	13,521	15,895	14,976	
<b>Operating profit (loss):</b>									
U.S. Domestic Package	927	1,085	209	1,132	1,279	1,186	444	1,200	
International Package	438	352	444	451	460	417	335	537	
Supply Chain & Freight	148	143	94	159	215	201	(25)	171	
Total operating profit	1,513	1,580	747	1,742	1,954	1,804	754	1,908	
Net income	\$ 911	\$ 1,037	\$ 454	\$ 1,071	\$ 1,214	\$ 1,097	\$ 453	\$ 1,167	
<b>Net income per share:</b>									
Basic	\$ 0.99	\$ 1.09	\$ 0.49	\$ 1.14	\$ 1.33	\$ 1.17	\$ 0.50	\$ 1.26	
Diluted	\$ 0.98	\$ 1.08	\$ 0.49	\$ 1.13	\$ 1.32	\$ 1.16	\$ 0.49	\$ 1.25	

Operating profit for the quarter ended December 31, 2014 was impacted by two items, as follows:

- A mark-to-market loss of \$1.062 billion on our pension and postretirement benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor (allocated as follows—U.S. Domestic Package \$660 million, International Package \$200 million, Supply Chain & Freight \$202 million). This loss reduced net income by \$670 million, and basic and diluted earnings per share by \$0.74.
- A pre-tax charge of \$36 million associated with the remeasurement and settlement of postretirement health and welfare benefit obligations for certain employees covered by collective bargaining agreements (allocated as follows—U.S. Domestic Package \$33 million, International Package \$1 million, Supply Chain & Freight \$2 million). This charge reduced net income by \$22 million, and basic and diluted earnings per share by \$0.02.

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

Operating profit for the quarter ended June 30, 2014 was impacted by a pre-tax charge of \$1.066 billion associated with curtailment, remeasurement and settlement of postretirement health and welfare benefit obligations for certain employees covered by collective bargaining agreements (allocated as follows—U.S. Domestic Package \$957 million, International Package \$27 million, Supply Chain & Freight \$82 million). This charge reduced net income by \$665 million, and basic and diluted earnings per share by \$0.73 and \$0.72, respectively.

The curtailment, remeasurement and settlement charges described above that impacted the quarters ended June 30, 2014 and December 31, 2014 are discussed further in note 5.

Operating profit for the quarter ended March 31, 2013 was impacted by two items: (1) The termination fee and transaction-related expenses for our proposed acquisition of TNT Express, and (2) The foreign currency gain realized upon the liquidation of a subsidiary that would have been used to acquire the shares of TNT Express. These two items are discussed further in note 15. The combination of these two items reduced the operating profit for the International Package segment by \$39 million, increased net income by \$36 million, and increased basic and diluted earnings per share by \$0.04.

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

None.

**Item 9A. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures:*

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required and is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Changes in Internal Control:*

There were no changes in the Company's internal controls over financial reporting during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

*Management's Report on Internal Control Over Financial Reporting:*

UPS management is responsible for establishing and maintaining adequate internal controls over financial reporting for United Parcel Service, Inc. and its subsidiaries (the "Company"). Based on the criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, management has assessed the Company's internal control over financial reporting as effective as of December 31, 2014. The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheets of United Parcel Service, Inc. and its subsidiaries as of December 31, 2014 and the related statements of consolidated income, consolidated comprehensive income and consolidated cash flows for the year ended December 31, 2014, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

/s/ United Parcel Service, Inc.  
February 27, 2015

## Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of United Parcel Service, Inc. and subsidiaries (the “Company”) as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 27, 2015 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 27, 2015

**Item 9B. Other Information**

None.

**PART III**

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

**Executive Officers of the Registrant**

<b>Name and Office</b>	<b>Age</b>	<b>Principal Occupation and Employment For the Last Five Years</b>
David P. Abney Chief Executive Officer	59	Chief Executive Officer ( 2014 - present), Senior Vice President and Chief Operating Officer (2007 - 2014), President, UPS Airlines (2007 - 2008), Senior Vice President and President, UPS International (2003 - 2007).
James J. Barber, Jr. President, UPS International	54	Senior Vice President and President, UPS International (2013 - present), Chief Operating Officer, UPS Europe, Middle East, and Africa (2010 - 2013).
David A. Barnes Senior Vice President and Chief Information Officer and Global Business Services Officer	59	Senior Vice President and Chief Information Officer and Global Business Services Officer (2005 - present).
Teresa Finley Senior Vice President, Global Marketing	53	Senior Vice President of Global Marketing (2015 - Present), Treasurer (2014), Corporate Controller (2010 - 2013).
Alan Gershenhorn Executive Vice President and Chief Commercial Officer	56	Executive Vice President and Chief Commercial Officer (2014 - present), Senior Vice President, Worldwide Sales, Marketing and Strategy (2011 - 2014), Senior Vice President, Worldwide Sales and Marketing (2008 - 2010), Senior Vice President and President, UPS International (2007), President, UPS Supply Chain Solutions - Asia and Europe (2006).
Myron Gray President, United States Operations	57	President, United States Operations (2009 - present), Vice President, Americas Region (2008 - 2009), Vice President, North Central Region (2004 - 2008).
Kate Gutmann Senior Vice President, Worldwide Sales and Solutions	46	Senior Vice President, Worldwide Sales and Solutions (2014 - present), President, Worldwide Sales (2011 - 2014), Vice President, Marketing UPS Europe Region (2008 - 2011).
Kurt P. Kuehn Senior Vice President and Chief Financial and Compliance Officer	60	Senior Vice President and Chief Financial and Compliance Officer (2015 - present), Senior Vice President and Chief Financial Officer (2008 - 2014), Treasurer (2008 - 2010), Senior Vice President, Worldwide Sales and Marketing (2004 - 2007).
Teri P. McClure Chief Legal Officer and Senior Vice President, Human Resources	51	Chief Legal Officer and Senior Vice President, Human Resources (2015 - present), Senior Vice President of Legal, Compliance and Public Affairs, General Counsel and Corporate Secretary (2006 - 2014), Corporate Legal Department Manager (2005 - 2006).
Mitch Nichols Senior Vice President, Transportation, Engineering and Labor Relations	59	Senior Vice President Transportation, Engineering and Labor Relations (2015 - Present), Senior Vice President Transportation and Engineering (2014 - 2015), President, UPS Airlines (2011 - 2014), Vice President of Air Group Operations (2007 - 2011).



Information about our directors is presented under the caption “Election of Directors” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

Information about our Audit Committee is presented under the caption “Election of Directors—Committees of the Board of Directors—Audit Committee” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

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

Information about our compliance with Section 16 of the Exchange Act of 1934, as amended, is presented under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

**Item 11. *Executive Compensation***

Information about executive compensation is presented under the captions “Compensation Discussion and Analysis,” “Compensation of Executive Officers,” “Compensation of Directors,” “Report of the Compensation Committee” and “Compensation Committee Interlocks and Insider Participation” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

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

Information about security ownership is presented under the caption “Beneficial Ownership of Common Stock” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

Information about our equity compensation plans is presented under the caption “Equity Compensation Plans” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

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

Information about transactions with related persons is presented under the caption “Related Person Transactions” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

Information about director independence is presented under the caption “Election of Directors—Director Independence” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

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

Information about aggregate fees billed to us by our principal accountant is presented under the caption “Principal Accounting Firm Fees” in our definitive Proxy Statement for the Annual Meetings of Shareowners to be held on May 7, 2015 and is incorporated herein by reference.

**PART IV**

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

(a) 1. *Financial Statements.*

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

2. *Financial Statement Schedules.*

None.

3. *List of Exhibits.*

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

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

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

(c) *Financial Statement Schedules.*

None.



## EXHIBIT INDEX

Exhibit No.	Description
2.1	— Termination Agreement, dated as of January 22, 2013, between United Parcel Service, Inc. and TNT Express N.V. (incorporated by reference to Exhibit 2.3 to the 2012 Annual Report on Form 10-K)
3.1	— Form of Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K filed on May 12, 2010).
3.2	— Amended and Restated Bylaws of United Parcel Service, Inc. as of February 14, 2013 (incorporated by reference to Exhibit 3.1 to Form 8-K, filed on February 19, 2013).
4.1	— Indenture relating to 8 <sup>3</sup> / <sub>8</sub> % Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.2	— Indenture dated as of December 18, 1997 relating to 8 <sup>3</sup> / <sub>8</sub> % Debentures due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.3	— Indenture dated as of January 26, 1999 (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Form S-3 (No. 333-08369), filed on January 26, 1999).
4.4	— Form of Supplemental Indenture dated as of March 27, 2000 to Indenture dated January 26, 1999 (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Form S-3 (No. 333-08369-01), filed on March 15, 2000).
4.5	— Form of Second Supplemental Indenture dated as of September 21, 2001 to Indenture dated January 26, 1999 (incorporated by reference to Exhibit 4 to Form 10-Q for the Quarter Ended September 30, 2001).
4.6	— Form of Indenture dated as of August 26, 2003 (incorporated by reference to Exhibit 4.1 to Form S-3 (No. 333-108272), filed on August 27, 2003).
4.7	— Form of First Supplemental Indenture dated as of November 15, 2013 to Indenture dated as of August 26, 2003 (incorporated by reference to Exhibit 4.2 to Form S-3ASR (No. 333-192369) filed on November 15, 2013).
4.8	— Form of Note for 5.50% Senior Notes due January 15, 2018 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on January 15, 2008).
4.9	— Form of Note for 6.20% Senior Notes due January 15, 2038 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on January 15, 2008).
4.1	— Form of Note for 5.125% Senior Notes due April 1, 2019 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on March 24, 2009).
4.11	— Form of Note for 3.125% Senior Notes due January 15, 2021 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on November 12, 2010).
4.12	— Form of Note for 4.875% Senior Notes due November 15, 2040 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on November 12, 2010).
4.13	— Form of Note for 1.125% Senior Notes due October 1, 2017 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on September 27, 2012).
4.14	— Form of Note for 2.450% Senior Notes due October 1, 2022 (incorporated by reference to Exhibit 4.2 to Form 8-K filed on September 27, 2012).
4.15	— Form of Note for 3.625% Senior Notes due October 1, 2042 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on September 27, 2012).
4.16	— Form of Note for Floating Rate Senior Notes due December 15, 2064 (incorporated by reference to Exhibit 4.3 to Form 8-K filed on December 15, 2014).
†10.1	— UPS Retirement Plan, as Amended and Restated, effective as of January 1, 2014.
†10.2	— UPS Savings Plan, as Amended and Restated, effective as of January 1, 2014.
10.3	— Credit Agreement (364-Day Facility) dated March 28, 2014 among United Parcel Service, Inc., the initial lenders named therein, J.P. Morgan Securities LLC, Citigroup Global Markets, Inc., Barclays Bank PLC and BNP Paribas Securities Corp. as joint lead arrangers and joint bookrunners, Barclays Bank PLC and BNP Paribas as co-documentation agents, Citibank, N.A. as syndication agent, and JPMorgan Chase Bank, N.A. as administrative agent (incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarter ending March 31, 2014).

- 10.4 — Credit Agreement (5 Year Facility) dated March 28, 2014 among United Parcel Service, Inc., the initial lenders named therein, J.P. Morgan Securities LLC, Citigroup Global Markets, Inc., Barclays Bank PLC and BNP Paribas Securities Corp. as joint lead arrangers and joint bookrunners, Barclays Bank PLC and BNP Paribas as co-documentation agents, Citibank, N.A. as syndication agent, and JPMorgan Chase Bank, N.A. as administrative agent (incorporated by reference to Exhibit 10.2 to Form 10-Q for the quarter ending March 31, 2014).
- 10.5 — UPS Excess Coordinating Benefit Plan, as amended and restated, effective as of January 1, 2012 (incorporated by reference to Exhibit 10.5 to the 2012 Annual Report on Form 10-K).
- 10.6 — United Parcel Service, Inc. 2012 Omnibus Incentive Compensation Plan (incorporated by reference to Annex II to the Definitive Proxy Statement, filed on March 12, 2012).
  - (1) Form of Long-Term Incentive Performance Award Agreement (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2011).
  - (2) Form of Non-Management Director Restricted Stock Unit Award (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010).
  - (3) UPS Management Incentive Program Terms and Conditions effective as of January 1, 2011 (incorporated by reference to Exhibit 10.10(3) to the 2010 Annual Report on Form 10-K).
  - (4) UPS Stock Option Program Terms and Conditions effective as of January 1, 2012 (incorporated by reference to Exhibit 10.7(4) to the 2011 Annual Report on Form 10-K).
  - (5) UPS Long-Term Incentive Performance Program Terms and Conditions effective as of January 1, 2012 (incorporated by reference to Exhibit 10.7(5) to the 2011 Annual Report on Form 10-K).
- 10.7 — Form of UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.11 to the 2010 Annual Report on Form 10-K).
  - (1) Amendment No. 1 to the UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.7(1) to the 2012 Annual Report on Form 10-K).
- 10.8 — United Parcel Service, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to Exhibit 99.1 to the registration statement on Form S-8 (No. 333-34054), filed on April 5, 2000).
- 10.9 — Discounted Employee Stock Purchase Plan, as amended and restated, effective October 1, 2002.
  - (1) Amendment No. 1 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12(1) to the 2005 Annual Report on Form 10-K).
  - (2) Amendment No. 2 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.13(2) to the 2009 Annual Report on Form 10-K).
  - (3) Amendment No. 3 to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.9(3) to the 2012 Annual Report on Form 10-K).
- 10.10 — 2012 Omnibus Incentive Compensation Plan (incorporated by reference to Annex A to the proxy statement filed on March 12, 2012).
- 11 — Statement regarding Computation of per Share Earnings (incorporated by reference to note 13 to Part I, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K).
- †12 — Ratio of Earnings to Fixed Charges.
- †21 — Subsidiaries of the Registrant.
- †23 — Consent of Deloitte & Touche LLP.
- †31.1 — Certificate of the Chief Executive Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †31.2 — Certificate of the Chief Financial Officer Pursuant to Rule 13a-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- †32.1 — Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- †32.2 — Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

††101 — The following financial information from the Annual Report on Form 10-K for the year ended December 31, 2014, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

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† Filed herewith.

†† Filed electronically herewith.

**THE UPS RETIREMENT PLAN**

**Amendment and Restatement  
Effective as of January 1, 2014**

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## THE UPS RETIREMENT PLAN

**WHEREAS**, the Employer Companies have heretofore established this Retirement Plan for the benefits of their eligible employees, in order to provide benefits to those employees upon their retirement, disability, or death, effective as of September 1, 1961; and

**WHEREAS**, following the enactment of the Employee Retirement Income Security Act of 1974, the Plan was amended and restated in its entirety, replacing all of the provisions of the Plan then in effect, being effective as of January 1, 1976; and

**WHEREAS**, the Plan has subsequently been amended on a number of occasions, and most recently Amended and restated effective January 1, 2010.

**NOW, THEREFORE**, this amendment and restatement, effective January 1, 2014, hereby amends and restates the Plan to incorporate all amendments made to date, and to make revisions required by United States v. Windsor, 570 U.S. 12, 133 S. Ct. (2013), clarify the suspension of benefit rules, delete certain inconsistent or out of date provisions, update the claims procedures, the retiree medical provisions and the withholding provisions and make certain other changes. The rights and benefits, if any, of an individual who does not have at least one Hour of Service as an Employee on or after January 1, 2014 shall be determined in accordance with the terms of the Plan in effect on the date such Employee last earned an Hour of Service, except as expressly provided in this amended and restated Plan or as otherwise provided by the Code or ERISA. The provisions of this restatement apply effective as of January 1, 2014 except to the extent otherwise stated or otherwise required by the context.

**ARTICLE I  
DEFINITIONS**

Section 1.1 Definitions. Whenever used herein, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

- (a) Accrued Benefit means the monthly benefit defined in Section 5.2(a).
- (b) Actuarial Equivalent means:
  - (i) General Optional Form of Payment. For purposes of determining the amount of an Optional Form of Benefit, a benefit having in the aggregate equality in value to the amounts expected to be received under the Normal Form of benefit payment based upon an interest rate of 6% and the 1983 GAM Mortality Table for Males for Participants and the 1983 GAM Mortality Table for Females for Beneficiaries and Alternate Payees.
  - (ii) Special Rules Optional Form of Payment. Notwithstanding the foregoing, the following factors will apply to the Participants described below in determining the amount of the Optional Forms of Benefit described below:
    - (A) Grandfathered Participants and Pre-2001 Benefits. For purposes of determining the amount payable to (I) any Grandfathered Participant or (II) any other Participant who had accrued a benefit under the Plan as of December 31, 2000 and who is not in pay status as of December 31, 2000, in the form of a Qualified Joint and Survivor Annuity, Joint and 50% Survivor Annuity or a Single Life Annuity with 120-Month Guarantee:
    - (1) Qualified Joint and 50% Survivor Annuity. If the Optional Form of Benefit is a Qualified Joint and Survivor Annuity or a Joint and 50% Survivor Annuity the greater of (I) the amount determined under Section 1.1(b)(i) above or (II) the amount determined in accordance with paragraph (a) or (b) below:
      - a. 94 percent of the Participant's monthly benefit in the Normal Form increased (or decreased) by 0.5 percent for each year the Spouse's or Beneficiary's age is greater (or less) than the Participant's age, to a minimum of 82 percent if the Beneficiary is the Participant's Spouse (but no minimum shall apply if the Beneficiary is not the Participant's Spouse), and a maximum of 99 percent (without regard to whether the Beneficiary is the Participant's Spouse), if the



Normal Form of the Participant's benefit is a Single Life Annuity with 120-Month Guarantee; and

- b. 90 percent of the Participant's monthly benefit in the Normal Form increased (or decreased) by 0.5 percent for each year the Spouse's or Beneficiary's age is greater (or less) than the Participant's age, with no minimum but a maximum of 99 percent if the Normal Form of the Participant's benefit is a Single Life Only Annuity.
- (2) Single Life with 120-Month Guarantee. If the benefit is payable to a Participant described in Section 1.1(b)(ii)(A) with at least one Hour of Service as an Employee on or after January 1, 1992 in the form of a Single Life Annuity with 120-Month Guarantee, the greater of (I) the amount determined under Section 1.1(b)(i) above or (II) 95 percent of his or her monthly benefit payable in the Normal Form.
  - (3) Adjustment for Certain Qualified Joint and Survivor Annuities. If the benefit is payable on or after January 1, 2007 to a Participant described in Section 1.1(b)(ii)(A) with at least one Hour of Service as an Employee on or after January 1, 1992 in the form of a Qualified Joint and Survivor Annuity, then the amount of the benefit determined under Section 1.1(b)(ii)(A) shall be increased by five percent (5%) or such greater percentage as is required to make the Qualified Joint and Survivor Annuity equivalent to the most valuable benefit available to such Participant if such Participant retires after age 65.
- (B) Grandfathered Overnite Participant. For purposes of determining the benefit payable to any Grandfathered Overnite Participant with an Annuity Starting Date occurring on or after January 1, 2006:
    - (1) If the Optional Form of Payment is a Qualified Joint and Survivor Annuity or a Joint and 50% or 100% Survivor Annuity the greater of (A) the amount determined under Section 1.1(b)(i) above or (B) the amount determined using an interest rate of 7% and the UP 1984 Unisex Pension Mortality Table;
    - (2) If the Optional Form of Benefit is a Social Security Leveling Option, the greater of (A) the amount determined under Section 1.1(b)(i) above, (B) the amount determined using an interest rate of 7% and the UP 1984 Unisex Pension Mortality

Table or (C) the amount determined using the Applicable Interest Rate (determined as if the benefit commencement date is the date of distribution) and the Applicable Mortality Table.

- (C) Grandfathered Motor Cargo Participant. For purposes of determining the benefit payable to any Grandfathered Motor Cargo Participant with an Annuity Starting Date occurring on or after January 1, 2006:
- (1) If the Optional Form of Benefit is a Qualified Joint and Survivor Annuity, a Joint and 50% or 100% Survivor Annuity or a Five Year Certain and Life Annuity, the greater of (A) the amount determined under Section 1.1(b)(i) above or (B) the amount determined using an interest rate of 8% and the UP 1984 Unisex Pension Mortality Table;
  - (2) For purposes of the adjustment for a Postponed Retirement Benefit described in Section 5.2(d), an interest rate of 8% and the UP 1984 Unisex Pension Mortality Table.
- (iii) Offsets from Other Plans. For any purpose other than as described above, for example, for the purpose of determining the amount of any offset under Section 5.7 or benefits provided under Article XIII, Actuarial Equivalence shall be determined based upon an interest rate of 6% and the 1971 Towers, Perrin, Forster and Crosby Forecast Mortality Table with ages set back one year.
- (iv) Other Purposes. For any purpose other than described in Section 1.1(b)(iii) above, Actuarial Equivalence shall be determined under Section 1.1(b)(i) above.
- (v) Portable Account. For purposes of converting a Portable Account to the Single Life Annuity form of payment and determining the amount of a Single Life Annuity payable from a Portable Account before Normal Retirement Date, Actuarial Equivalence is computed on the basis of the Applicable Mortality Table and the Applicable Interest Rate.
- (c) Actuary means the individual actuary or firm of actuaries selected by the Committee to provide actuarial services in connection with the administration of the Plan.
- (d) Alternative Formula means the benefit formula described in Section 5.3(f).
- (e) Annuity Starting Date means (i) the first day of the first period for which an amount is payable as an annuity, or (ii) in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to such benefit.

(f) Applicable Interest Rate  
means:

- (i) for lump sum benefits paid before January 1, 2000, the lesser of (A) 6% or (B) the interest rate or rates which would be used, as of the date distribution commences, by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a Participant's benefits under the Plan if the Plan had terminated on the date distribution commences with insufficient assets to provide benefits guaranteed by the Pension Benefit Guaranty Corporation on that date.
- (ii) for lump sum benefits paid and benefit commencement or other determination dates on or after January 1, 2000, the applicable interest rate described in Code § 417(e)(3) for the "lookback month" preceding the "stability period" that includes the date the distribution is made. The term "lookback month" means August, which is the fifth month preceding the first day of the stability period containing the date of distribution. The term "stability period" means the calendar year in which the distribution is made. Notwithstanding the foregoing, for distributions made on or after January 1, 2000 and before July 1, 2001, the Applicable Interest Rate means the lesser of (A) the "applicable interest rate" as described in Code § 417(e)(3) for the second month preceding the month that includes the date the distribution is made or (B) the "applicable interest rate" as described in Code § 417(e)(3) for the month of August preceding the calendar year that includes the date the distribution is made.
- (iii) for lump sum benefits paid, benefits commencing in the form of a Social Security Leveling Option or other determination dates on or after January 1, 2006 and before January 1, 2007 to a Grandfathered Overnite Participant or a Grandfathered Motor Cargo Participant, the lesser of (A) the "applicable interest rate" as described in Code § 417(e)(3) for the November preceding the calendar year that includes the date the distribution is made or (B) the "applicable interest rate" as described in Code § 417(e)(3) for the month of August preceding the calendar year that includes the date the distribution is made.
- (iv) for lump sums paid, benefits commencing in the form of a Social Security Leveling Option or other determination dates on or after January 1, 2008, the applicable interest rate structure established by the Internal Revenue Service under Code § 417(e)(3) in effect during August (the "lookback month") preceding the calendar year that includes the Annuity Starting Date or other determination date, provided that for lump sum benefits paid and benefits paid in the form of a Social Security Leveling Option commencing during Plan Years beginning in 2008 through 2011, the applicable interest rate or rates shall be determined taking into account the transition rules under Code § 417(e)(3)(D)(ii) and (iii).

- (g) Applicable Mortality Table means:
- (i) for lump sums paid before January 1, 2000, the 1971 Towers, Perrin, Forster, and Crosby Forecast Mortality Table with ages set back one year;
  - (ii) for lump sums paid and benefit commencement or other determination dates on or after January 1, 2000, the “applicable mortality table” prescribed by the Secretary of the Treasury for purposes of Code § 417(e)(3); and
  - (iii) for lump sums paid, benefits commencing in the form of a Social Security Leveling Option or other determination dates on or after January 1, 2008, the applicable mortality table as may be established by the Internal Revenue Service from time to time under Code § 417(e)(3) for the calendar year that includes the Annuity Starting Date or other determination date.
- (h) Benefit Service means, subject to the special rules described below, the number of a Participant’s years (including fractions of a year) of (i) employment as an Employee with one or more Employer Companies while such Employer Company is an Employer Company, and (ii) employment with one or more Employer Companies while such Employer Company is an Employer Company, but not as an Employee, provided that such employment precedes the Participant’s period of employment as an Employee. No Benefit Service credit will be given with respect to service with an Employer Company that follows a Participant’s period of employment as an Employee, unless the Participant subsequently becomes an Employee and earns at least one month of Benefit Service in such capacity. Except as specifically provided otherwise, no Benefit Service credit will be given with respect to employment with an Employer Company prior to the date it first becomes an Employer Company.
- (i) General. Years and months of Benefit Service shall be determined based on Hours of Service earned by a Participant in the capacities described above in accordance with the following charts:
- (A) Before 1992. For any Participant without at least one Hour of Service as an Employee on or after January 1, 1992:

<u>Hours of Service in Each Calendar Year</u>	<u>Months of Benefit Service</u>
Less than 1,000	0 months
1,000 – 1,050	6 months
1,051 – 1,200	7 months
1,201 – 1,350	8 months
1,351 – 1,500	9 months
1,501 – 1,650	10 months
1,651 – 1,800	11 months
1,801 or over	12 months

- (B) On and After 1992. For a Participant with at least one Hour of Service as an Employee on or after January 1, 1992:

<u>Hours of Service in Each Calendar Year</u>	<u>Months of Benefit Service</u>
Less Than 125	0 months
125 - 249	1 month
250 - 374	2 months
375 - 499	3 months
500 - 624	4 months
625 - 749	5 months
750 - 874	6 months
875 - 999	7 months
1,000 – 1,124	8 months
1,125 – 1,249	9 months
1,250 – 1,374	10 months
1,375 – 1,499	11 months

Participants eligible for Benefit Service credit in accordance with this subparagraph (B) shall receive such credit with respect to Hours of Service both preceding and following January 1, 1992.

- (ii) Break in Service. If a Participant with no vested interest, as determined under Section 6.1, incurs one or more consecutive Breaks in Service:
  - (A) Rule of Parity. Benefit Service credit prior to the Break in Service shall not be taken into account for purposes of calculating years of Benefit Service if the number of consecutive Breaks in Service equals or exceeds the greater of (1) the aggregate number of the Participant's Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (2) six;
  - (B) One-Year Hold Out. Prior to July 1, 2000, Benefit Service before such Break in Service shall not be taken into account for purposes of calculating years of Benefit Service until the Participant completes one Year of Service after the Break in Service.
- (iii) LTD Participant. Benefit Service with respect to an LTD Participant whose Retirement Benefits commence after December 31, 2000 shall be calculated in accordance with the applicable table in Section 1.1(h)(i) above, but there shall be included as Benefit Service for purposes of benefit accrual and early retirement subsidies under a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula all years and months while the Participant is an LTD Participant and continues to be "totally disabled" for purposes of the UPS Income Protection Plan (or a successor long term disability plan), as amended from time to time. Such Benefit Service shall be determined as if such LTD Participant had worked at least 1,500 Hours of Service in each calendar year and at least 216 Hours of Service in each month in excess of a calendar year. Provided, however, the total Benefit Service credited under this Section 1.1(h)(iii) to an LTD Participant when aggregated with his or her actual Benefit Service under other Sections of this definition shall not exceed thirty-five (35) years or if lesser, the maximum service cap imposed by the particular benefit formula applicable to the LTD Participant. No Benefit Service will be credited to a Disabled Participant while such Participant is receiving Disability Retirement Benefits.
- (iv) Special Rules for Acquisitions/Mergers. The Benefit Service of certain Participants who became Participants as a result of certain acquisitions or mergers shall include the additional Benefit Service if any, described in the Appendix applicable to such Participants.
- (v) Terminated and Rehired Employees. An employee who was employed as an Employee on December 31, 2007 will continue to earn Benefit Service described in this Section 1.1(h) after 2007 for all purposes as long as he remains employed as an Employee, but an employee who ceases to be employed as an Employee whether as a result of termination of employment or a transfer to a non-Employee position will cease to earn Benefit Service credit after such termination or transfer except as provided in this Section

1.1(h)(v). An Employee who is transferred to a non-Employee position (whether on, before or after January 1, 2008) and then is transferred back to an Employee position or rehired as an Employee on or after January 1, 2008 and who has not commenced benefits under a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula shall continue to earn Benefit Service as described in Section 1.1(h) following such transfer or rehire solely for purposes of determining early retirement subsidies, but not benefit accrual, under a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula for the benefit accrued before he or she terminated service or transferred to the non-Employee position until he or she terminates employment with the Employer Company and all Related Employers.

- (i) Beneficiary means a beneficiary designated by the Participant or the Plan in accordance with Section 5.10.
- (j) Board of Directors means the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc.
- (k) Break in Service means, with respect to a Participant with at least one Hour of Service as an Employee on or after January 1, 1992, a Plan Year during which the Participant does not complete more than 124 Hours of Service. With respect to a Participant without at least one Hour of Service as an Employee on or after January 1, 1992, "Break in Service" means a Plan Year during which a Participant does not complete more than 500 Hours of Service (375 Hours of Service in the case of a Participant employed on a part-time basis for whom the regular time hour equivalency described in the definition of Hour of Service is used).
- (l) Code means the Internal Revenue Code of 1986 as amended.
- (m) Committee means the Administrative Committee of the Plan, the establishment and responsibilities of which are set forth in Article IX. The Committee shall be and is the Plan Administrator, the agent for service of process on or with respect to the Plan and a named fiduciary with respect to this Plan.
- (n) Company means all of the following employers collectively:
  - (i) United Parcel Service of America, Inc.;  
and
  - (ii) any corporation or trade or business that is considered to be a single employer with United Parcel Service of America, Inc., under Code § 414(b), (c), (m) or (o).
- (o) Compensation means, generally, remuneration currently earned and actually paid by an Employer Company or a domestic Related Employer to an employee who is a Participant in the Plan, and reported on such employee's Form W-2 for the applicable calendar year, including the items described in Section 1.1(o)(i) but



excluding the items described in Section 1.1(o)(ii) and subject to the limitations of Sections 1.1(o)(iii) and (iv).

- (i) Inclusions. Compensation shall include:
- (A) Basic salary or wages (without reducing wages to account for the Participant's elective deferral of a portion of his or her salary or wages, if any, pursuant to a cash or deferred arrangement described in Code § 401(k), a plan described in Code § 125 or the UPS Deferred Compensation Plan;
  - (B) Overtime pay;
  - (C) Certain incentive and bonus payments;
  - (D) Effective January 1, 2011, Eligible MIP/IMIP Compensation for such Plan Year; and
  - (E) Effective before January 1, 2011, the value of awards made pursuant to the UPS Managers' Incentive Plan or management incentive awards under the United Parcel Service, Inc. Incentive Compensation Plan or the United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan. Notwithstanding anything to the contrary in the immediately preceding sentence, effective for management incentive awards made under the United Parcel Service, Inc. Incentive Compensation Plan on or after November 1, 2005 or under the United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan, Compensation shall include the value (as of the award date) of the restricted stock unit portion of the award, even if unvested and not reported on the employee's Form W-2 related to the year of the award.
- (ii) Exclusions. Compensation shall not include any other payments received by the Participant, including, but not limited to, the following, notwithstanding that such payments may be included in the Participant's Form W-2 for the applicable year:
- (A) Payments in the nature of compensation from an insurance carrier, from a state unemployment or worker's compensation fund, or from any health and welfare or other benefit program or plan maintained by an Employer Company or a Related Employer other than as described in Sections 1.1(o)(i)(D) or (E);
  - (B) Disability payments from an insurance carrier, a state disability insurance fund, this Plan or any other disability plan maintained by an Employer Company or a Related Employer;

- (C) “Foreign service differentials” or other supplemental payments made by an Employer Company or a Related Employer to a Participant working outside his or her country of citizenship on account of such foreign service;
- (D) Payment or reimbursement by an Employer Company or a Related Employer of relocation expenses incurred by a Participant or his or her family;
- (E) The value of employee fringe benefits provided by an Employer Company or a Related Employer, including but not limited to the payment of life insurance premiums, whether or not the value of such fringe benefits is includable in an employee’s taxable income;
- (F) Payments made under deferred compensation plans or programs except to the extent included under Sections 1.1(o)(i)(D) or (E);
- (G) Employer contributions to any pension, profit-sharing or stock bonus plan to which the Employer Company or a Related Employer contributes;
- (H) Employer contributions to any welfare benefit plan to which an Employer Company or a Related Employer contributes;
- (I) Income attributable to awards under the UPS Stock Option Plan, the United Parcel Service, Inc. Incentive Compensation Plan or the United Parcel Service, Inc. 2009 Omnibus Incentive Compensation Plan except to the extent included under Sections 1.1(o)(i)(D) or (E); and
- (J) Effective January 1, 2006, bonuses paid pursuant to retention agreements in connection with mergers or acquisitions and any other bonuses or payments that are not directly related to the performance of the Participant’s duties including, but not limited to:
  - (1) any bonuses paid under a general bonus payroll code;
  - (2) gift card awards;
  - (3) loss prevention awards;
  - (4) referral and bonuses;
  - (5) sales lead incentive bonuses.

(iii) Definitions. The following capitalized terms shall have the following meanings for purposes of this Section 1.1(o):

- (A) 2010 MIP Compensation means that portion of a Participant's Compensation for 2010 attributable to Section 1.1(o)(i)(E).
- (B) Annualized Salary means (1) for Participants in the MIP, the monthly rate of base salary determined as of December 1 multiplied by 12 and (2) for Participants in the IMIP, the rate of pay for a single fixed pay installment determined as of December 1 multiplied by the number of mandatory fixed pay installments for the year.
- (C) Eligible \_\_\_\_\_ MIP/IMIP Compensation
- (1) General. Eligible MIP/IMIP Compensation means for each Participant for each Plan Year the sum of (a) the value of the ownership incentive award under the MIP or IMIP transferred to or on behalf of the Participant in that Plan Year and (b) the value of the Participant's Performance Incentive Award transferred to or on behalf of the Participant in that Plan Year not in excess of the Performance Incentive Award Limit.
- (2) Special Rules for 2011 and 2012. Notwithstanding the preceding paragraph (1) each Participant (a) who either was credited with 2010 MIP Compensation or is an eligible employee under the MIP or IMIP for 2011 and (b) who is employed as an Employee with an Employer Company on December 31, 2011 shall be deemed to have Eligible MIP/IMIP Compensation in 2011 equal to the greater of his or her 2010 MIP Compensation or any performance incentive award under the MIP or IMIP transferred to him in 2011. Additionally, any portion of the performance incentive award for the 2011 performance year transferred to a Participant in 2011 also shall be taken into account as Eligible MIP/IMIP Compensation in 2012.
- (3) Valuation. Except as provided in paragraph (2), the value of an award under the MIP or IMIP in any Plan Year shall be equal to the gross amount (in U.S. dollars) of the award transferred to or on behalf of the Participant in that Plan Year without regard to whether the award is paid in cash, shares of Class A common stock, restricted performance units or deferred under another retirement plan.
- (D) IMIP means the UPS International Management Incentive Program, as effective as of January 1, 2011 and as thereafter amended.
- (E) Legacy MIP Percentage means for Plan Years beginning on or after January 1, 2012, for each Participant the percentage described in

Appendix O for his or her job group as determined based on his or her classification as of the Record Date in the preceding Plan Year.

- (F) MIP means the UPS Management Incentive Program, as effective as of January 1, 2010 and as thereafter amended.
  - (G) MIP Factor means the factor expressed as a percentage determined by the UPS Salary Committee to reflect performance with respect to the MIP business elements identified for the MIP plan year.
  - (H) Performance Incentive Award means for each Plan Year the performance incentive award under MIP or IMIP transferred to or on behalf of the Participant in that Plan Year.
  - (I) Performance Incentive Award Limit means:
    - (6) for Plan Years beginning before January 1, 2012, the product of (a) 34%, (b) the Participant's Annualized Salary for the preceding Plan Year and (c) the MIP Factor for the preceding Plan Year;
    - (7) for the Plan Year beginning January 1, 2012, the greater of (a) the product determined under (1) above and (b) the product determined under (3) below; and
    - (8) for Plan Years beginning on or after January 1, 2013, the product of the Legacy MIP Percentage and the value of the Performance Incentive Award.
  - (J) Record Date means December 1 or such other record date as is determined under the MIP for each Participant who is eligible for a MIP award or under the IMIP for each Participant who is eligible for an IMIP award.
- (iv) Limitations. In no event shall the Compensation of any Participant taken into account under the Plan for any Plan Year exceed the applicable dollar amounts for such Plan Year determined under Code § 401(a)(17) increased by the applicable cost-of-living adjustment, if any, for the calendar year sanctioned by Code § 401(a)(17). For Plan Years commencing before January 1, 1997, in determining the Compensation of a Participant, the rules of Code § 414(q)(6) (as in effect immediately prior to January 1, 1997) shall apply, except that in applying such rules, the term "family" shall include only the Participant's Spouse and any lineal descendants of the Participants who have not attained age 19 before the close of the Plan Year. If, as a result of the application of such rules the applicable Compensation limitation is exceeded, then such limitation shall be prorated among the affected individuals in

proportion to each such individual's Compensation as determined under this Section prior to the application of this limitation.

In determining a Participant's Final Average Compensation, the \$200,000 Compensation limitation shall apply retroactively with respect to Compensation earned prior to 2002 by a Participant with at least one Hour of Service on or after January 1, 2002. Similarly, the \$150,000 Compensation limitation shall apply retroactively with respect to Compensation earned prior to 1994 by a Participant with at least one Hour of Service on or after January 1, 1994 (but without an Hour of Service on or after January 1, 2002) and the \$200,000 Compensation limitation in effect for 1989 shall be applied retroactively with respect to Compensation earned prior to 1989 by a Participant with at least one Hour of Service on or after January 1, 1989 (but without any Hours of Service on or after January 1, 1994). However, a Participant's benefit shall not be less than that which had accrued or earned as of December 31, 2001 (December 31, 1993 in the case of a Participant without at least one Hour of Service on or after January 1, 2002 or December 31, 1988 in the case of a Participant without at least one Hour of Service on or after January 1, 1994), based on his or her Benefit Service and Final Average Compensation determined as of such date.

Solely for the purpose of avoiding a double proration, within the meaning of Department of Labor Regulations Section 2530.204-2(d), in calculating a Participant's benefit; to the extent that a Participant is credited with less than a full year's Benefit Service for a calendar year, then the Participant's Compensation taken into account for such year for purposes of the Final Average Compensation Formula shall be annualized by dividing such Compensation by the number of months of Benefit Service earned by the Participant for such calendar year and multiplying the result by 12.

The Compensation of an individual who became a Participant as a result of an acquisition or merger shall include compensation, if any, earned prior to the date such individual first became a Participant to the extent described in the applicable Appendix or in the definition of Final Average Compensation and for purposes of determining Final Average Compensation, Compensation for periods prior to such acquisition or merger shall be determined in accordance with this Section unless otherwise specified in the Appendix applicable to such Participants.

- (p) Crewmember means a "crewmember" as defined in Benefit Schedules to Appendix M and only to the extent of benefits described in Appendix M.
- (q) Deferred Vested Benefit means the benefit, if any, described in Section 5.2(c).
- (r) Disability or Disabled  
means:

- (i) for determinations made prior to January 1, 2003, total and permanent disability that renders the Participant unable to engage in any substantially gainful activity for the Employer Company by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration, and it is not the result of military service or the commission of a crime by the Participant. The Committee may require such proof of disability as will be satisfactory to it, and may withhold payments until such proof is provided; and
  - (ii) for determinations made on or after January 1, 2003, a total and permanent physical or mental impairment that qualifies a Participant (and continues to qualify him or her) for a monthly disability insurance benefit under the United States Social Security Act. The determination by the Social Security Administration as to whether and when a Participant has a total and permanent disability shall be conclusive. No other medical findings will be considered.
- (s) Disability Retirement Benefit means the benefit, if any, described in Section 5.5 or for certain Participants who became Participants as a result of certain acquisitions or mergers, the disability benefit described in the applicable Appendix.
- (t) Domestic Partner means, effective January 1, 2006, an individual other than a Spouse, in a relationship with a Participant that meets the following conditions:
- (i) Both the individual and the Participant are at least 18 years old and mentally competent to consent to a contract,
  - (ii) The individual and the Participant have been in a committed and exclusive relationship of mutual caring and support for at least the immediately preceding 12 months and intend to remain in the partnership permanently,
  - (iii) The individual and the Participant are jointly responsible for each other's financial, emotional and physical well-being,
  - (iv) The individual has lived with the Participant continuously for at least the immediately preceding 12 months and intends to do so indefinitely,
  - (v) The individual is not related to the employee by blood or other relationship that would violate applicable state law if the individual and the Participant were married (other than laws related to gender),
  - (vi) Neither the individual nor the Participant has had a Spouse or has been in another relationship with an individual that would qualify as a "domestic partner" under this definition in the immediately preceding 12 months,
  - (vii) The relationship is registered in the applicable state or local registry, if available,

- (viii) The individual and the Participant are the same sex,
- (ix) The individual and the Participant are not in the relationship solely for the purpose of obtaining benefits coverage, and
- (x) The individual and the Participant are unable to enter into a legal marriage because the Employee's State of residence at his or her death does not recognize same sex marriages.

Upon the Participant's death, the Domestic Partner must provide an affidavit certifying the above conditions were satisfied at the time of the Participant's death and provide such other documentation as is requested by the Committee to evidence the relationship.

- (u) Early Commencement Service Requirement means for each Participant, the completion of the service requirement specified in the definition of Early Retirement Date applicable to such Participant.
- (v) Earliest Commencement Age means for each Participant, the minimum age for the Early Retirement Date, if any, applicable to such Participant. If a Participant has not satisfied the service requirements for an Early Retirement Date, the Earliest Commencement Age is equal to the Participant's Normal Retirement Age.
- (w) Early Retirement Benefit means the benefit payable under Section 5.2(b).
- (x) Early Retirement Date means the first day of any calendar month coincident with or next following the attainment of 55 years of age and the completion of ten Years of Service, or, for a Grandfathered Motor Cargo Participant, five Years of Service, but not later than Normal Retirement Date.
- (y) Effective Date means the effective date of the Plan, which is September 1, 1961.
- (z) Employee means (1) an individual who is employed by a domestic Employer Company, or (2) a Foreign Employee, neither of whose terms and conditions of employment are governed by a collective bargaining agreement to which the Employer Company is a party, unless the collective bargaining agreement expressly provides for coverage under this Plan (for periods after January 1, 1992, changes to the Plan's benefit formula shall not apply to employees subject to a collective bargaining agreement and participating in this Plan except to the extent so provided in the applicable collective bargaining agreement), and neither of whom is an active participant on whose behalf contributions are being made by the Employer Company under any other qualified pension or retirement plan, except any cash or deferred plan described in Code § 401(k).

Notwithstanding the foregoing:

- (i) Except to the extent provided otherwise in an Appendix for an acquisition or merger, any individual who becomes an Employee for the first time as a result of employment with an Employer Company which first elected to participate in this Plan as of January 1, 1985, or later, shall not be considered an Employee until such individual has completed one Year of Service during or after the first Plan Year for which the Employer has agreed to participate;
- (ii) Subject to ratification of the National Master United Parcel Service Agreement, for the Period: August 1, 2008 through July 31, 2013, between United Parcel Service, Inc. an Ohio Corporation and a New York Corporation, in their Common Carrier Operations, and the Teamsters United Parcel Service National Negotiating Committee, representing Local Unions affiliated with the International Brotherhood of Teamsters, an individual who:
  - (A) is employed by a domestic Employer Company;
  - (B) is represented for purposes of collective bargaining by International Brotherhood of Teamsters, Local 135;
  - (C) is employed on a basis pursuant to such collective bargaining agreement; and
  - (D) has at least one Hour of Service under such collective bargaining agreement on or after October 8, 2007

shall be treated as an Employee from October 8, 2007 through the earlier of his or her termination of employment or December 31, 2007; and

- (iii) Effective January 1, 2008, an individual who is a Crewmember shall be an Employee only to the extent of the benefits described in Appendix M.

The term "Employee" shall not include (A) an individual employed as a leased employee as that term is defined in Code § 414(n) (2); (B) any person while assigned to Overnite's or UPS Freight's Special Services Division or OMC Logistics who either (1) first became an employee of Overnite on or after September 1, 2002, or (2) has a termination of employment and was re-employed as an employee on or after September 1, 2002, without retaining credit for Years of Vesting Service and years of Benefit Service completed prior to such termination of employment; and (C) any person employed by Overnite or UPS Freight who is classified as a "work at home customer service employee".

Under no circumstances will an individual who performs services for an

, but who is not classified on the payroll as an employee of the Employer Company, for example, an individual performing services for an Employer Company under a leasing arrangement, be treated as an Eligible Employee even if such individual is



treated as an “employee” of an Employer Company as a result of common law principals or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer Company is retroactively reclassified as an employee of an Employer Company for any reason, such reclassified individual shall not be treated as an Eligible Employee for any period prior to the actual date (and not the effective date) of such reclassification unless the Employer Company determines that retroactive reclassification is necessary to correct a payroll classification error.

- (aa) Employer Company means any Company which (1) is listed on Appendix H or (2) by action of its board of directors or other governing body has elected to participate in this Plan with the consent of United Parcel Service of America, Inc. An entity shall cease to be an Employer Company when it withdraws from the Plan in accordance with Section 7.2 or when it ceases to be a Company.
- (bb) ERISA means Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time
- (cc) Final Average Compensation means,
  - (i) Before 2007. For calendar years prior to January 1, 2007, Final Average Compensation means a Participant’s average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last consecutive ten calendar years of employment (or actual number of consecutive years of employment if less than ten) preceding the earlier of the calendar year in which:
    - (A) the Participant terminated his or her period of employment with the Employer Company and all Related Employers, or
    - (B) the Plan terminated, whether in whole or in part.

Notwithstanding the forgoing, if the Participant received Compensation for the entire calendar year in which his or her termination of employment occurred, his or her Compensation for such calendar year shall be included in the calculation of his or her Final Average Compensation if it is to his or her advantage to do so.

- (ii) On or After 2007. For calendar years beginning on and after January 1, 2007, Final Average Compensation means a Participant’s average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last ten consecutive calendar years of employment preceding the earlier of the calendar year in which:

- (A) the Participant terminated his or her period of employment with the Employer Company and all Related Employers, or
- (B) the Plan terminated, whether in whole or in part.

Notwithstanding the foregoing, if the Participant received Compensation for the entire calendar year in which his or her termination of employment occurred, his or her Compensation for such calendar year shall be included in the calculation of his or her Final Average Compensation if it is to his or her advantage to do so. Further, if a Participant's Compensation is zero for any calendar year that is included in the last consecutive ten calendar years, such calendar year shall be included in determining the consecutive five-year period but shall not be included in determining the average annual Compensation for such five-year period.

The Final Average Compensation of a Participant who is reemployed by an Employer Company or a Related Employer on or after January 1, 2008 shall not be increased as a result of his or her period of employment following such reemployment.

- (iii) Special Grandfather Rule. For a Grandfathered Participant and each other Participant who has an Accrued Benefit under the Plan as of December 31, 2000, his or her Accrued Benefit in no event shall be less than his or her Accrued Benefit determined as of December 31, 2000 using his or her average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last consecutive ten calendar years of employment (or actual number of consecutive years of employment if less than ten) preceding the calendar year in which occurs the earlier of (A) the Participant terminated his or her most recent period of employment included in the calculation of Benefit Service prior to December 31, 2000, whether by reason of retirement or other termination of employment with an Employer Company, or by transfer to a position in which such individual is no longer an Employee or (B) December 31, 2000.
- (iv) Special Rule for Grandfathered Overnite Participants and Grandfathered Motor Cargo Participants. For purposes of avoiding a double proration, within the meaning of Department of Labor Regulations, Section 2530.204-2(d) in calculating a Grandfathered Overnite Participant's; or Grandfathered Motor Cargo Participant's benefit, if calendar years before 2006 are taken into account to determine Final Average Compensation, only those years in which a Grandfathered Overnite Participant or a Grandfathered Motor Cargo Participant received a year of benefit service credit under the Overnite Plan or the Motor Cargo Plan, respectively, shall be included and any years in which the Participant did not earn a year of benefit service shall be ignored.

- (dd) Final Average Compensation Formula means the RPA Benefit Formula, the UPS Freight Formula, the Pre-2006 Motor Cargo Formula, the Alternative Formula and/or the Integrated Formula.
- (ee) Five Year Certain and Life Annuity means a reduced monthly benefit payable to a Participant for his or her lifetime, with a guarantee of 60 payments. If the Participant dies after the Annuity Starting Date but before receiving 60 monthly payments, the monthly payments shall be paid to the Participant's Beneficiary, until the Participant and his or her Beneficiary have received a total of 60 monthly payments.
- (ff) Foreign Employee means a citizen of the United States transferred from a domestic Employer Company to employment by a foreign corporation who shall be considered an Employee of the domestic Employer Company which has entered into an agreement under Code § 3121(1) to provide social security coverage for all citizens of the United States employed by such foreign corporation, during such time as such individual remains employed by the foreign corporation and the foreign corporation remains covered under such agreement.
- (gg) Fund, Trust, or Trust Fund means all of the assets of the Plan that are held by the Trustee for the purposes of the Plan.
- (hh) Grandfathered Participant means any Participant:
- (i) who performed an Hour of Service as an Employee on or before December 31, 2000 or was classified as an employee on the payroll of an Employer Company on or before December 31, 2000, but was not an Employee because the terms or conditions of his or her employment were governed by a collective bargaining agreement which did not expressly provide for coverage under the Plan;
  - (ii) who performs an Hour of Service as an Employee (other than an Hour of Service as a Crewmember) on or after January 1, 2001; and
  - (iii) whose Hours of Service as an Employee prior to January 1, 2001 are not disregarded (without regard to whether such Participant received a month of Benefit Service with respect to such Hours of Service).

An individual who is treated as an employee solely as a result of the application of Code § 414(n) shall under no circumstances be treated as a Grandfathered Participant. For purposes of clarification, a Participant shall not be treated as performing an Hour of Service as an Employee or as having been classified as an employee on the payroll of an Employer Company before the first date as of which such Employer Company became an Employer Company.

- (ii) Grandfathered Motor Cargo Participant means a Participant who was a participant in the Motor Cargo Plan on December 31, 2005.
- (jj) Grandfathered Overnite Participant means a Participant who was a participant in the Overnite Plan on December 31, 2005.
- (kk) Hour of Service means each hour for which an employee is paid or entitled to be paid for the performance of duties for an Employer Company or a Related Employer; each hour for which an employee is paid or entitled to be paid by an Employer Company or a Related Employer for periods during which no duties are performed due to vacation, holiday, illness, short-term disability or incapacity pursuant to which payments are received in the form of salary continuation or from a short-term disability plan or worker's compensation plan sponsored by the Employer Company or a Related Employer or to which the Employer Company or a Related Employer contributes, layoff, jury duty, military duty which gives rise to reemployment rights under Federal law, or paid leave of absence (including a period where an employee remains on salary continuation during a period of illness or incapacity); each hour for which back pay is awarded or agreed to by an Employer Company or a Related Employer if not already credited under this sentence; and each hour for periods during which an employee is on an unpaid leave of absence.

Notwithstanding any of the foregoing, no more than 1,040 Hours of Service will be credited to a Participant for any single continuous period during which the employee performs no duties; and no credit shall be given for a payment which is made or due under a plan maintained solely for the purpose of complying with unemployment compensation or disability insurance laws or which solely reimburses an employee for medical or medically related expenses incurred by the employee; provided, however, Hours of Service shall be credited as required under the Uniformed Services Employment and Reemployment Rights Act of 1994 effective December 12, 1994.

A payment shall be deemed to be made by or due from the Employer Company whether made by or due from the Employer Company directly or indirectly through a trust fund, insurer or other entity to which the Employer Company contributes or pays premiums, regardless of whether such contributions are for the benefit of particular employees or are on behalf of a group of employees in the aggregate. Stated generally, Hours of Service credited to a Participant during a period of absence as described above shall be credited at the same rate at which the Participant would have normally been credited with Hours of Service but for the absence; provided however, that the crediting of Hours of Service shall in all events be consistent with the terms of Department of Labor Regulations, Section 2530.200b-2 and 3.

Notwithstanding the foregoing and, except as provided below, only for the purpose of determining whether a Break in Service has occurred for purposes of eligibility for participation under Section 2.1 or vesting under Section 6.2 of the Plan, there shall be treated as Hours of Service, with respect to a Participant who is an Employee on or after January 1, 1985, and who is absent from work (i) by reason of the

pregnancy of the Participant, (ii) by reason of the birth of a child of the Participant, (iii) by reason of the placement of a child with the Participant in connection with the adoption of a child by the Participant, or (iv) for purposes of caring for a child of the Participant immediately following its birth or placement, either:

- (i) the Hours of Service which otherwise, normally would have been credited to such Participant but for the absence, or
- (ii) if the Plan is unable to determine the number of Hours of Service described in (1), eight hours per day of absence.

No credit will be given with respect to any pregnancy or placement of a child unless the Participant complies with any reasonable request which the Committee may make for information needed to establish (i) the reason for the Participant's absence or (ii) the number of days of absence attributable to a reason for which Hours of Service will be credited under this paragraph. No more than 501 Hours of Service shall be credited to a Participant by reason of any one pregnancy or placement and no Hours of Service shall be credited under this paragraph if such Hours of Service also are credited under the first paragraph of this Section.

In determining the Hours of Service for an Employee classified on the payroll as a part-time employee for which specific records of hours are not kept, an Employee shall be credited with 190 Hours of Service for each regularly-scheduled calendar work month on or after January 1, 2000 in which such Participant would, under the rules described above, have earned at least one Hour of Service. Prior to January 1, 2000, such Participant shall be credited with 108 Hours of Service for each such month; provided however, if crediting such Participant with 190 Hours of Service for such month would result in a greater benefit, then such Participant shall be credited with 190 Hours of Service.

In determining the Hours of Service for an Employee classified on the payroll as (i) a full-time employee for which specific records of hours are not kept, or (ii) as non-management employees who are paid on a basis other than hourly, an Employee shall be credited with 216 Hours of Service, for each regularly-scheduled calendar month in which such Employee would, under the rules described above, have earned at least one Hour of Service.

An individual who is treated as an employee of an Employer Company or a Related Employer solely as a result of the operation of the rules under Code § 414(n) shall be credited with Hours of Service with an Employer Company or a Related Company as required under Code § 414(n).

For an individual who became a Participant as a result of a certain acquisition or merger, credit, if any, for hours of service completed before such Participant became an Employee shall be determined in accordance with the applicable Appendix.

- (ll) Integrated Formula means the benefit formula described in Section 5.3(e).
- (mm) Interest Credits means the amount credited to the Participant's Portable Account for each Plan Year, as described in Section 5.3(g)(iv).
- (nn) Interest Credit Percentage means the annual rate of interest on 30-year Treasury securities for the month of August preceding the applicable Plan Year, but not less than 2.5% per annum.
- (oo) Joint and Survivor Annuity, Joint and 50% Survivor Annuity, Joint and 75% Survivor Annuity and Joint and 100% Survivor Annuity means the Optional Form of Benefit described in Section 5.4(d)(ii).
- (pp) LTD Participant means a Participant who, as of the time employment is terminated with all Employer Companies and Related Employers, has (i) completed at least five Years of Service, (ii) is a full-time Employee and (iii) has been approved for disability benefits under the UPS Income Protection Plan (or a successor long term disability plan), as amended from time to time.
- (qq) Motor Cargo Plan means the Plan for Employees of Motor Cargo as in effect on December 31, 2005.
- (rr) Normal \_\_\_\_\_ Form  
means
- (i) For a Participant without at least one Hour of Service as an Employee on or after January 1, 1992, the Single Life Annuity and 120-Monthly Guarantee; and
- (ii) For a Participant with at least one Hour of Service as an Employee on or after January 1, 1992, a Single Life Only Annuity.
- (ss) Normal Retirement Benefit means the benefit described in Section 5.2(a).
- (tt) Normal Retirement Age means, for individuals who become Participants on or after January 1, 1989, the later of (i) the date the Participant attains age 65 or (ii) the date the Participant earns five Years of Service or, if earlier, the fifth anniversary of his or her participation in this Plan. For an individual who became a Participant prior to 1989, a Grandfathered Overnite Participant, or a Grandfathered Motor Cargo Participant, Normal Retirement Age means the date the Participant attains of age 65.
- (uu) Normal Retirement Date means the first day of the calendar month coincident with or next following the Participant's attainment of Normal Retirement Age.
- (vv) Optional Form of Benefit means an optional form of benefit other than a single sum amount.
- (ww) Overnite means Overnite Corporation or Overnite Transportation Company.

- (xx) Overnite Plan means the Retirement Plan for Employees of Overnite Transportation Company as in effect on December 31, 2005.
- (yy) Participant means an Employee who has satisfied the eligibility requirements of Article II hereof.
- (zz) Pre-2001 Participant means a Participant who does not have an Hour of Service on or after January 1, 2001.
- (aaa) Pre-2006 Motor Cargo Benefit Service means for each Grandfathered Motor Cargo Participant the least of (i) 30 minus his or her actual number of years of UPS Freight Service completed after 2005, (ii) his or her actual number of years of pre-2006 Benefit Service described in Appendix K, or (iii) 25 years.
- (bbb) Pre-2006 Motor Cargo Formula means the benefit formula described in Section 5.3(c).
- (ccc) Pre-2006 Overnite Benefit Service means the pre-2006 Benefit Service described in Appendix J.
- (ddd) Plan means the UPS Retirement Plan, as set forth herein, as the same may hereafter be amended from time to time by written resolution of the Board of Directors.
- (eee) Plan Year means a calendar year, except that the first Plan Year shall begin September 1, 1961 and end December 31, 1961.
- (fff) Portable Account means the “cash balance account” established for a Portable Account Participant, the balance of which will equal the sum of the annual compensation credits (as described in Section 5.3(g)(iii)) and Interest Credits allocated under the Portable Account Formula in Section 5.3(g) to such account.
- (ggg) Portable Account Benefit means the benefit described in Section 5.3(g)
- (hhh) Portable Account Formula means the benefit formula described in Section 5.3(g).
- (iii) Portable Account Participant means a Participant who is eligible to accrue a Portable Account Benefit as described in Section 5.3(g).
- (jjj) Portable Account Points means for any Plan Year, the sum of a Portable Account Participant’s age as of his or her most recent birthday and his or her whole Years of Service as of January 1 of such Plan Year.
- (kkk) Postponed Retirement Benefit means the benefit payable under Section 5.2(d).
- (lll) Postponed Retirement Date means the first day of the calendar month coincident with or next following a Participant’s actual retirement, when that retirement is later than his or her Normal Retirement Date.

- (mmm) Preretirement Survivor Annuity means the benefit described in Section 5.6.
- (nnn) Present Value means the single sum amount of such benefit based on the Applicable Interest Rate and the Applicable Mortality Table in effect for the Plan Year that includes the determination date. Notwithstanding the foregoing, with respect to distributions made on or after January 1, 2000 and before July 1, 2000 and with respect to distributions made to Participants who terminated prior to January 1, 2000, the single sum amount shall be the greater of the amount determined without regard to Section 1.1(f)(ii) and 1.1(g)(ii) or the amount determined taking into account Sections 1.1(f)(ii) and 1.1(g)(ii). Additionally, the single sum amount of the Participant's benefit shall not be less than the single sum benefit the Participant would have received based on his or her benefit accrued as of the earlier of his or her date of termination or June 30, 2000 calculated using an interest rate of 6% and the Applicable Mortality Table under Section 1.1(g)(i).
- (ooo) Qualified Joint and Survivor Annuity means a reduced monthly benefit payable to the Participant for his or her lifetime, and following his or her death, 50% of the monthly benefit paid to the Participant shall be payable to the person who was his or her Spouse as of the Annuity Starting Date, provided such Spouse survives the Participant. The last payment of such benefit shall be made as of the first day of the month in which the death of the last to die of the Participant and his or her Spouse has occurred. This benefit shall be the Actuarial Equivalent of the Normal Form of the Participant's benefit.
- (ppp) Related Employer means (1) any other corporation on and after the date that it, together with the Employer Company, is a member of a controlled group of corporations as described in Code § 414(b); (2) any other trade or business (whether or not incorporated) on and after the date that it and the Employer Company are under common control as described in Code § 414(c); and (3) any organization (whether or not incorporated) on and after the date that it, together with the Employer Company, is a member of an affiliated group of employers as described in Code § 414(m).
- (qqq) Retirement Benefit means a Normal Retirement Benefit, Early Retirement Benefit, Deferred Vested Benefit, a Postponed Retirement Benefit or a Portable Account Benefit.
- (rrr) Required Benefit Commencement Date is defined in Section 5.9, Limitations Regarding Time of Payment of Benefits.
- (sss) RPA Benefit Service means the sum of (i) years of Benefit Service completed before 2001 and (ii) years of Benefit Service completed after 2000 for an Employer Company described in Appendix F as providing benefits under the RPA Benefit Formula, in each case excluding years of Benefit Service prior to the date an individual first became a Participant in the Plan as a result of an acquisition or merger unless expressly provided in the applicable Appendix.



- (ttt) RPA Formula means the benefit formula described in Section 5.3(a).
- (uuu) RPA Points has the meaning ascribed to such term in Section 5.3(a) (iii).
- (vvv) Single Life Only Annuity means a monthly benefit continuing for the life of the Participant only. The last payment of a Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.
- (www) Single Life Annuity and 120-Monthly Guarantee means the monthly benefit described in Section 5.4(d) (iii).
- (xxx) Social Security Amount means the yearly Primary Old Age Insurance benefit which a Participant is eligible or may become eligible to receive at the age at which unreduced Primary Old Age Insurance benefits commence (whether or not such application is made by the Participant) under the provisions of the Federal Social Security Act (as it is in effect on his or her Normal Retirement Date or earlier termination of employment with the Employer Company or any member of an affiliated group of which the Employer Company is a part), which amount shall be determined by the Committee under rules adopted by it based upon:
- (i) the assumption that the Participant has made or will make proper and timely application for such benefits;
  - (ii) if a Participant documents his or her salary history to the Committee, such history, provided, however, that for such history to be used in lieu of the estimated amount determined under paragraphs (iii) and (iv) below, the Participant must supply such history to the Committee no later than one year following the later of (A) the Participant's termination of employment or (B) the time when the Participant is notified of the Retirement Benefit to which he or she is entitled;
  - (iii) subject to paragraph (ii), above, an estimated preseparation or preretirement salary history with respect to the Participant; and
  - (iv) with respect to a Participant whose employment terminated prior to his or her Normal Retirement Date, on the assumption that the Participant continued in employment with the Employer Company to his or her Normal Retirement Date at the rate of compensation as in effect on his or her earlier date of retirement or termination of employment.

In determining a Participant's Social Security Amount based upon such Participant's salary history pursuant to paragraphs (ii), (iii) and (iv) above, the value of deferred compensation shall be disregarded, except that elective contributions (1) under a qualified cash or deferred arrangement described in Code § 401(k), or (2) to a tax sheltered annuity described in Code § 403(b), if any, may be considered as part of such salary history.

- (yyy) Social Security Leveling Option means for a Grandfathered Overnite Participant, the Optional Form of Benefit described in Section 5.4(d)(v).
- (zzz) Spouse means that one person who is recognized as the Employee's spouse on the earlier of (a) his or her date of death, or (b) his or her Annuity Starting Date. Effective June 26, 2013, "Spouse" includes an individual married to a person of the same sex if the marriage was validly entered into in a state whose laws authorize such marriages, even if the married couple is domiciled in a state that does not recognize the validity of same-sex marriages. For this purpose, "state" means any domestic or foreign jurisdiction having the legal authority to sanction marriages. The Plan shall comply with any and all applicable legal requirements resulting from the holding of United States v. Windsor, 570 U.S. 12, (2013), including, without limitation, Rev. Rul. 2013-17, 2013-38 I.R.B. 201 and I.R.S. Notice 2014-19, 2014-17 I.R.B. 979. For the avoidance of doubt, the term "Spouse" shall not include individuals (whether of the opposite sex or same sex) who have entered into a registered domestic partnership, civil union, or other similar formal relationship recognized under state law that is not denominated as a marriage under the laws of the state. Prior to June 26, 2013, the term "Spouse" included a person of the same sex as the Participant if such person or the Participant presented the Committee with a valid marriage certificate for the Participant and such person from a state in which same sex marriage was sanctioned and such person was treated as the Participant's Spouse on a prospective basis.
- (aaaa) Trust Agreement or Trust Agreements means the trust agreements establishing the UPS Retirement Plan Trust, as restated effective as of January 1, 1976, including any future amendments and modifications thereof, which form a part of this Plan.
- (bbbb) Trustee means the corporations or individuals so designated by the Board of Directors to hold assets of the Plan for the purposes of the Plan.
- (cccc) UPS Freight Formula means the benefit formula described in Section 5.3(b).
- (dddd) UPS Freight Service means the sum (not to exceed 30) of (i) the Pre-2006 Overnite Benefit Service and (ii) the number of years of Benefit Service completed after 2005 for an Employer Company described on Appendix G as providing benefits under the UPS Freight Formula.
- (eeee) Year of Service means, with respect to each Participant with at least one Hour of Service as an Employee on or after January 1, 1992, each calendar year in which he or she completes not less than 750 Hours of Service (whether or not as an Employee) with the Employer Company or any Related Employer. With respect to any other Participant without at least one Hour of Service as an Employee on or after January 1, 1992, a Year of Service means each calendar year in which he or she completes not less than 1,000 Hours of Service (whether or not as an Employee) with the Employer Company or a Related Employer.

An LTD Participant and a Participant who is receiving a Disability Retirement Benefit shall not earn any Years of Service credit while he or she is an LTD Participant or receiving a Disability Retirement Benefit. Years of Service credit, if any, of an individual who became a Participant as a result of an acquisition or merger shall include the additional Years of Service credit, if any, described in the Appendix applicable to such Participant.

Section 1.2 Construction. Where required words used in the masculine gender shall include the feminine gender. Words used in the singular or plural shall be construed as if plural or singular, respectively, where they would so apply.

**ARTICLE II**  
**ELIGIBILITY FOR PARTICIPATION**

Section 2.1 Eligibility Requirements prior to January 1, 2008. Any Employee included as a Participant under the provisions of the Plan as in effect immediately prior to January 1, 1976 shall continue to participate in accordance with the provisions of this Plan. Any other Employee who as of January 1, 1976 has both attained age 25 and completed not less than 1,000 hours of employment in the 12-month period following his or her date of employment or in any subsequent Plan Year shall become a Participant on January 1, 1976.

After January 1, 1976, in Plan Years beginning before January 1, 1985, the participation of any Employee eligible to become a Participant shall commence as of the earliest January 1 or July 1 as of which he or she had both attained age 25 and completed not less than 1,000 hours of employment in the 12-month period following his or her date of employment or in any subsequent Plan Year. Any Employee not included as a Participant on January 1, 1985, who as of such date has both attained age 21 and completed not less than 1,000 hours of employment in the 12-month period following his or her date of employment or in any subsequent Plan Year shall become a Participant on January 1, 1985.

In Plan Years beginning after December 31, 1984, but prior to January 1, 1992, the participation of any Employee eligible to become a Participant shall commence as of the earliest January 1 or July 1 as of which he or she had both attained age 21 and completed not less than 1,000 hours of employment in the 12 month period following his or her date of employment or in any subsequent Plan Year.

In Plan Years beginning after December 31, 1991, the participation of any Employee eligible to become a Participant shall commence immediately following the date as of which he or she has both attained age 21 and completed a 12-month period of employment, measured from his or her date of hire or the beginning of any subsequent Plan Year, during which he or she earned not less than 750 Hours of Service.

Notwithstanding the foregoing, any Employee who is covered by a collective bargaining agreement which does not provide for his or her inclusion in this Plan shall not be eligible to commence or continue actively to participate in this Plan, nor shall any Employee who is an active participant on whose behalf contributions are being made by a Company under any other qualified pension or retirement plan (except any cash or deferred plan described in Code § 401(k)) be eligible to commence or to continue actively to participate in this Plan.

Any person who leaves the Employer Company's service after becoming eligible to participate shall again become a Participant immediately upon his or her return to the Employer Company's service, unless he or she has no vested right under the Plan and the number of his or her consecutive Breaks in Service equals or exceeds the greater of (i) the aggregate number of his or her years of prior service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (ii) with respect to a Break in Service incurred by a person who is an Employee on or after January 1, 1985, regardless of when the Break in Service occurred, six. If the condition

of clause (i) or clause (ii), as applicable, is satisfied, the Employee will be treated as a new Employee for purposes of this Section 2.1.

Each Grandfathered Overnite Participant and Grandfathered Motor Cargo Participant shall become a Participant as of January 1, 2006.

Section 2.2 Eligibility Requirements on or after January 1, 2008.

Any Employee included as a Participant under the provisions of the Plan as in effect immediately before January 1, 2008 will continue to participate in accordance with the provisions of this Plan. A Crewmember will become a Participant as described in Appendix M but only to the extent of the benefits described in Appendix M. An individual hired as an Employee or transferred from a non-Employee position into a position as an Employee prior to January 1, 2008 will become a Participant in accordance with Section 2.1. An individual hired or rehired as an Employee or transferred from a non-Employee position into a position as an Employee on or after January 1, 2008 will immediately become a Participant in this Plan.

**ARTICLE III  
FUNDING**

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

Section 3.2 Payment of Contributions. An Employer Company may pay its contribution for any Plan Year on any date or dates, provided, however, that the total amount of the Employer Company's contribution for any Plan Year shall be paid in full not later than the last day for timely filing of its Federal income tax return for the year with respect to which the contribution is made, including extensions thereof granted by the Internal Revenue Service.

Section 3.3 Contributions by Employer. All contributions to this Plan to fund the benefits described in Article IV shall be made only by the Employer Companies. Except as described in Article XII with respect to medical benefits funded by means of this Plan, no Participant contributions shall be required or permitted.

Section 3.4 Permissible Contributions and Irrevocability. Any amounts contributed by the Employer Company pursuant to this Article III may be contributed by the Employer Company in cash or other property. In no such event and under no circumstances shall such contributions, or any part thereof, revert to or be recoverable by the Employer Company until all obligations under this Plan have been fully satisfied as provided in Section 7.5, except as follows:

- (a) in the case of a contribution, or any part thereof, made under a mistake of fact, the Employer Company may recover such contribution within one year of payment; and
- (b) because all contributions are conditioned on deductibility, in the event that a contribution cannot be deducted by the Employer Company pursuant to Code § 404, the Employer Company shall recover such contribution, to the extent disallowed, within one year after the disallowance of the deduction.

The amount which may be returned to the Employer Company is the excess of: (a) the amount contributed by the Employer Company over (b) the amount that would have been contributed by the Employer Company had there not occurred a mistake of fact or a mistake in determining the deduction. Earnings attributable to the excess contribution may not be returned to the Employer Company, but losses attributable thereto must reduce the amount to be so returned.

**ARTICLE IV**  
**ELIGIBILITY FOR BENEFITS**

Section 4.1 Application for Benefits. Each Participant shall make written application to the Committee, or its designated representative, for Retirement Benefits, other than a Disability Retirement Benefit, under this Plan at least sixty (60) days, but not more than ninety (90) days, prior to the first day of the month on which the benefits applied for are to be paid, on a form or forms to be provided by the Committee for this purpose. The Committee may require each applicant for Retirement Benefits to submit such information as may reasonably be required for the proper administration of the Plan. Except for good cause shown, or unless the delay is due to the failure of the Committee to furnish the necessary information to the Participant at his or her last known address as indicated on the Employer's records, failure to submit such an application within the time prescribed shall result in the removal of any obligation to pay any benefits that would have been payable, had the application been timely filed, prior to the date on which such an application is delivered to the Committee. The falsity of any statement material to an application or the furnishing of fraudulent information or proof shall be sufficient reason for the recapture, by means of suspension or discontinuance of benefits, or otherwise, of any excess benefits, if any, paid under this Plan.

Section 4.2 Normal Retirement Benefit. Each Participant who has attained his or her Normal Retirement Date may retire from employment with an Employer Company and all Related Employers and upon so retiring and making an application as described in Section 4.1 shall be paid a pension in an amount determined under Article V. Payment of such a pension shall commence:

- (a) in the case of a Participant who retires on his or her Normal Retirement Date, on that date,  
and
- (b) in the case of a Participant who retires later than his or her Normal Retirement Date, on his or her Postponed Retirement Date.

The benefit payable under this Section 4.2 shall not be less than his or her "early retirement benefit" determined in accordance with Code § 411(a)(9) and the regulations thereunder.

Section 4.3 Early Retirement Benefit for Final Average Compensation Formula and Pre-2006 Motor Cargo Formula. A Participant who attains his or her Early Retirement Date while in the active employ of an Employer Company and all Related Employers, and who retires from employment with an Employer Company and all Related Employers at any time thereafter and prior to his or her Normal Retirement Date, may make an application to receive an Early Retirement Benefit in an amount determined under Section 5.2(b), commencing on the first day of any month coincident with or immediately following his or her termination of employment with an Employer Company and all Related Employers, provided he or she has complied with the application provisions of Section 4.1.

Section 4.4 Deferred Vested Benefit for Final Average Compensation Formula and Pre-2006 Motor Cargo Formula.

- (a) In general. A Participant who has five or more Years of Service will be eligible for a Deferred Vested Benefit if (i) his or her employment with an Employer Company and all Related Employers is terminated other than by reason of death before the earliest date on which he would be eligible for retirement under the terms of Sections 4.2 or 4.3, and (ii) he or she does not later reenter the service of any Employer Company or Related Employer. Said benefit shall commence on the first day of any month after his or her Earliest Commencement Age, but no later than his or her Normal Retirement Date, provided he or she has complied with the provisions of Section 4.1. The amount of such benefit shall be determined under Article V.

Section 4.5 Postponed Retirement Benefit for Final Average Compensation Formula and Pre-2006 Motor Cargo Formula. A Participant who terminates employment with an Employer Company and all Related Employers after his or her Normal Retirement Date shall be entitled to a benefit in an amount determined under Article V. Payment of such pension shall commence as of his or her Postponed Retirement Date, provided he or she has complied with the application provisions of Section 4.1.

Section 4.6 Disability Retirement Benefit.

- (a) Eligibility. A Participant with at least ten (10) Years of Service who is not approved for disability income benefits under the UPS Income Protection Plan (or a successor long term disability plan) or who has exhausted his or her benefits under the UPS Income Protection Plan (or successor long term disability plan) shall be eligible for a Disability Retirement Benefit determined under Article V if he or she terminates employment with the Employer Company and all Related Employers due to a Disability before his or her Early Retirement Date or after December 31, 2006 and he or she makes an application for a Disability Retirement Benefit as described in Section 4.6(b). However, a Participant who has attained his or her Early Retirement Date or Normal Retirement Date prior to experiencing a Disability will be eligible to elect to receive his or her Early Retirement Benefit or Normal Retirement Benefit instead of a Disability Retirement Benefit.
- (b) Disability Application. A Participant must make a written application for a Disability Retirement Benefit to the Committee in accordance with Section 4.1. If the application for a Disability Retirement Benefit is approved by the Committee, the first monthly payment of the Disability Retirement Benefit shall begin with the first calendar month following the month in which the Committee determines the Participant is entitled to a Disability Retirement Benefit but the first such payment shall include a payment for each calendar month during which the Participant is Disabled from (i) (A) for written applications made before January 1, 2011, the later of (1) the date the Participant made an application for Disability Retirement Benefits or (2) the date the Participant made an application for Social Security benefits (B) for written applications made on or after January 1, 2011, the first calendar month



following the month in which the Participant terminates employment with the Employer Company and all Related Employers due to a Disability through (ii) the benefit commencement date. No interest shall be paid on such make-up payments.

- (c) Termination of Disability. If a Participant receiving a Disability Retirement Benefit shall subsequently cease to be Disabled, his or her Disability Retirement Benefit shall cease, and he or she may, if he or she meets the eligibility requirements, apply for a Normal Retirement Benefit or an Early Retirement Benefit. If the Participant's application is approved, payments under either the Normal Retirement Benefit or Early Retirement Benefit shall commence as of the first day of the month following the termination of the Disability Retirement Benefit (benefit payments cannot commence prior to the Early Retirement Date and will not commence retroactively if timely application is not made to the Plan.)
- (d) Portable Account Formula Benefit. This Section 4.6 shall not apply to a Portable Account Participant.

#### Section 4.7 Portable Account Benefit.

A Portable Account Participant who has three or more Years of Service will be eligible for a Portable Account Benefit if his or her employment with an Employer Company and all Related Employers is terminated other than by reason of death and he or she does not later reenter the service of any Employer Company or Related Employer prior to payment of his or her Portable Account Benefit. The Portable Account Benefit may be paid or commence on the first day of the third month after his or her employment with an Employer Company and all Related Employers has terminated in the form of benefit described in Section 5.4(h). Alternatively, such a Participant may defer commencement of the Portable Account Benefit to his or her Earliest Commencement Age but no later than his or her Normal Retirement Date.

**ARTICLE V**  
**AMOUNT AND PAYMENT OF BENEFITS**

Section 5.1 Benefits Limited by Plan Provisions in Effect; Retiree Benefit Increases.

- (c) Benefits Subject to Limits of Plan Provisions in Effect. The benefit to which a Participant under this Plan is entitled shall be determined by the provisions of the Plan which were in effect on the date of the Participant's termination of employment with his or her Employer Company and all Related Employers, death, or the date he or she otherwise ceases to accrue Benefit Service, whichever is the earliest. No amendment made to the Plan after such date shall affect the entitlement of a Participant to any benefit hereunder, unless the amendment specifically provides to the contrary.
- (d) Benefit Increase After December 31, 1984, for Retirees in Pay Status as of January 1, 1985. Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1984:
  - (vi) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire), and who was receiving benefit payments under this Plan as of January 1, 1985, or to a beneficiary of such Participant;
  - (vii) to a Participant who become totally and permanently disabled on or before January 1, 1985, while in service with an Employer Company, or to a Beneficiary of such a Participant, and
  - (viii) to the Beneficiary of a Participant who died on or before January 1, 1985, while in service with an Employer Company

shall be 110% of the benefit which would otherwise be payable under the provisions of the Plan.

For payments after December 31, 1988, to Participants (and their Beneficiaries) entitled to the benefit described in paragraph (c) below, the benefit described in this paragraph (b) shall be superseded and replaced by the benefit described in paragraph (c).

- (e) Benefit Increase After December 31, 1988, for Retirees in pay Status as of September 1, 1979. Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1988:
  - (i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire) and who

was receiving benefit payments under this Plan as of September 1, 1979, or to a Beneficiary of such a Participant;

- (ii) to a Participant who became totally and permanently disabled on or before September 1, 1979, while in service with an Employer Company, or to a Beneficiary of such a Participant, and
- (iii) to a Beneficiary of a Participant who died on or before September 1, 1979, while in service with an Employer Company shall be increased so that it is equal to the sum of (A), (B), and (C) below:
  - (A) the Participant's original monthly benefit (or the Participant's Beneficiary's share of such benefit, in the case of a Beneficiary entitled to monthly payments) calculated under the Plan at the time of retirement, death or disability without regard to the 10% benefit increase provided by paragraph (b) above;
  - (B) the amount in subparagraph (A) above multiplied by the applicable factor set forth in Appendix B to this Plan for the year the Participant retired, died or became totally and permanently disabled and as a result ceased to be employed by an Employer Company, which factor represents 75% of the actual percentage increase in the Consumer Price Index from the year in which the Participant retired, died or became disabled through December 31, 1987 (adjusted to take into account fluctuations in the Consumer Price Index within each such year), and
  - (C) the amount of the 10% benefit increase provided pursuant to paragraph (b) above.

For payments after December 31, 1994, to Participants (and their Beneficiaries) entitled to the benefit described in paragraph (d) below, the benefit described in this paragraph (c) shall be superseded and replaced by the benefit described in paragraph (d).

- (f) Benefit Increase after December 31, 1994, for Retirees in Pay Status as of January 1, 1985. Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1994:
  - (i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire) and who was receiving benefit payments under this Plan as of January 1, 1985, or to a Beneficiary of such a Participant;

- (ii) to a Participant who became totally and permanently disabled on or before January 1, 1985, while in service with an Employer Company, or to a Beneficiary of such a Participant; and
- (iii) to the Beneficiary of a Participant who died on or before January 1, 1985, while in service with an Employer Company shall be increased so that it is equal to the sum of (A) and (B) below:
  - (A) the Participant's original monthly benefit (or the Participant's Beneficiary's share of such benefit, in the case of a Beneficiary entitled to monthly payments) calculated under the Plan at the time of retirement, death or disability without regard to the 10% benefit increase provided by paragraph (b) above, and without regard to any increase provided by paragraph (c) above; and
  - (B) the amount in subparagraph (A) above multiplied by the applicable factor set forth in Appendix C to this Plan for the year the Participant retired, died or became totally and permanently disabled and as a result ceased to be employed by an Employer Company, which factor represents 75% of the actual percentage increase in the Consumer Price Index from the year in which the Participant retired, died or became disabled through December 31, 1991 (adjusted to take into account fluctuations in the Consumer Price Index within each such year).

Section 5.2 Benefit Amounts.

- (c) Accrued Benefit. The amount of the monthly pension payable to a Participant in the Normal Form commencing as of his or her Normal Retirement Date or, if later, the date he or she actually retires determined as follows:
  - (ix) General. For a Participant, other than a Grandfathered Participant or a Pre-2001 Participant, the sum of A, B, C and D, where:
    - (K) = the RPA Formula benefit, if any,
    - (L) = the UPS Freight Formula benefit, if any,
    - (M) = the Pre-2006 Motor Cargo Formula benefit, if any, and
    - (N) = the Portable Account Benefit, if any.

For Plan Years beginning after December 31, 2007, each Participant who has at least one Hour of Service on or after January 1, 2008 will accrue either a Portable Account Benefit or a Final Average Compensation Formula benefit, but not both. If a Participant is eligible to accrue a Portable Account Benefit, he shall not be eligible to accrue a Final Average Compensation Formula benefit.

Notwithstanding the foregoing, a Participant who is eligible for a Portable Account Benefit may continue to increase his or her Final Average Compensation and his or her years of Benefit Service earned after December 31, 2007, if any, will be taken into account solely for purposes of determining early retirement subsidies, but not benefit accrual, under the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula.

(x) Grandfathered Participant. For a Grandfathered Participant, the greatest of A, B or C, where:

(K) = the benefit described in Section 5.2(a)(i) determined as if he or she were not a Grandfathered Participant except that the special RPA Points rule in the last paragraph of Section 5.3(a)(iii), Accumulation of RPA Points, shall be considered;

(L) = the sum of the Alternative Formula benefit and the Portable Account Benefit, if any;  
and

(M) = the sum of the Integrated Formula benefit; and the Portable Account Benefit, if any.

(xi) Pre-2001 Participants. For a Pre-2001 Participant the greater of A or B, where:

(A) = the Alternative Formula benefit;  
and

(B) = the Integrated Formula benefit.

(d) Early Retirement Benefit For Final Average Compensation Formula and Pre-2006 Motor Cargo Formula.

(iv) Normal Commencement. A Participant who terminates employment with all Employer Companies and Related Employers on or after the Participant's Early Retirement Date but before his or her Normal Retirement Date shall be entitled to his or her Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula, determined as of his or her most recent termination of employment with all Employer Companies and Related Employers. The Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula shall be payable at his or her Normal Retirement Date.

(v) Early Commencement. A Participant who is eligible for an Early Retirement Benefit under Section 5.2(b)(i) may commence such benefit at any time on or after he or she terminates employment with all Employer Companies and Related Employers and before his or her Normal Retirement Date provided

that the amount of such benefit shall be reduced for early commencement in accordance with the following:

- (A) General. For a Participant other than a Grandfathered Participant or a Pre-2001 Participant, the early retirement benefit that commences before his or her Normal Retirement Date shall be the sum of his or her early retirement benefit under the RPA Formula, his or her early retirement benefit determined under the UPS Freight Formula and the early retirement benefit determined under the Pre-2006 Motor Cargo Formula.
- (1) RPA Formula Benefit Reductions. The benefit determined under the RPA Formula shall be reduced as follows for early commencement:
- a. Less Than 20 Years of Benefit Service. With less than 20 years of Benefit Service as of his or her Annuity Starting Date, the benefit under the RPA Formula shall be reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
  - b. 20 Years or More of Benefit Service. With 20 or more years of Benefit Service as of his or her Annuity Starting Date, the benefit under the RPA Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
  - c. 25 or More Years of Benefit Service. With 25 or more years of Benefit Service as of his or her Annuity Starting Date, the benefit shall be equal to the greater of i. or ii. below:
    - i. the benefit calculated under the Alternative Account Formula under Section 5.3(a) without any reduction applied; or
    - ii. the benefit calculated under the Integrated Account Formula under Section 5.3(b) reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his or her 60th birthday.

(2) UPS Freight Formula Benefit Reductions. The benefit determined under the UPS Freight Formula shall be reduced as follows for early commencement:

a. General. Except as provided below, the benefit under the UPS Freight Formula will be reduced in accordance with the following table:

<u>Age at Annuity Starting Date</u>	<u>Factor</u>
55	50%
56	55%
57	60%
58	65%
59	70%
60	75%
61	80%
62	85%
63	90%
64	95%

(Amounts in the table above shall be prorated on a monthly basis for fractions of a year.)

b. 30 years of Benefit Service. The benefit under the UPS Freight Formula for a Participant who has attained at least age 55 and completed at least 30 years of Benefit Service as of his or her Annuity Starting Date shall not be reduced.

c. Service After 1999 and Age 60 or More. The benefit under the UPS Freight Formula for a Participant who completes at least one Hour of Service on or after December 1, 2000, or if he is a Grandfathered Overnite Participant and his or her terms and conditions of employment are subject to collective bargaining (a "Represented Participant"), on or after October 22, 2004 (the "Approval Date"), and who has

attained at least age 60 as of his or her termination of employment:

- i. 25 or More Years of Benefit Service. If such Participant has completed at least 25 years of Benefit Service as of his or her termination of employment, the benefit determined under the UPS Freight Formula shall not be reduced; or
- ii. Less Than 25 Years of Benefit Service. If such Participant has not completed at least 25 years of Benefit Service as of his or her termination of employment, the benefit determined under the UPS Freight Formula shall be reduced in accordance with the following table:

<u>Age at Annuity Starting Date</u>	<u>Factor</u>
55	50%
56	55%
57	60%
58	65%
59	70%
60	85%
61	88%
62	91%
63	94%
64	97%

(Amounts in the table above shall be prorated on a monthly basis for fractions of a year.)

- iii. Represented Participant. If a Represented Participant's termination of employment occurs when he or she is a Represented Participant but before the Approval Date, the benefit payable to the Participant shall equal the benefit determined under Section 5.2(b)



(ii)(A)(2) a. or b. without regard to subparagraph c.

- (3) Pre-2006 Motor Cargo Formula Benefit Reductions. The benefit determined under the Pre-2006 Motor Cargo Formula shall be reduced for early commencement by 0.375% for each month by which his or her Early Retirement Date precedes his or her Normal Retirement Date.
- (B) Grandfathered Participant. For a Grandfathered Participant the early retirement benefit that commences before his or her Normal Retirement Date shall be the greatest of his or her early retirement benefit determined under Section 5.2(b)(ii)(A) above determined as if he or she were not a Grandfathered Participant except that the special RPA Points rule in the last paragraph of Section 5.3(a)(iii), Accumulation of RPA Points, shall be considered, his or her early retirement benefit determined under the Alternative Formula and his or her early retirement benefit determined under the Integrated Formula.
- (1) Alternative Formula Reductions. The benefit determined under the Alternative Formula shall be reduced as follows for early commencement:
- d. Less Than 25 Years of Benefit Service. With less than 25 years of Benefit Service, the benefit under the Alternative Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
  - e. 25 or More Years of Benefit Service. With 25 or more Years of Benefit Service as of his or her Annuity Starting Date, the benefit under the Alternative Formula shall not be reduced.
- (2) Integrated Formula Reductions. The benefit determined under the Integrated Formula shall be reduced as follows for early commencement:
- a. Less Than 25 Years of Benefit Service. With less than 25 years of Benefit Service, the benefit under the Integrated Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.

- b. 25 or More Years of Benefit Service. With 25 or more years of Benefit Service, the benefit under the Integrated Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his or her 60th birthday.
- (C) Pre-2001 Participant. The Early Retirement Benefit for a Pre-2001 Participant shall be the amount determined under (1) through (5) below, as applicable:
- (1) Retires After August 1979 With no Hours After 1984. For a Pre-2001 Participant who retires on or after September 1, 1979 but who earns no Hours of Service on or after January 1, 1985, the greater of the benefit calculated under the Alternative Formula or the Integrated Formula, each reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
  - (2) Retires After 1984 With No Hours After 1991. Except as provided in Section 5.2(b)(ii)(C)(3) below, for a Pre-2001 Participant who retires on or after January 1, 1985 but who earns no Hours of Service as an Employee on or after January 1, 1992, the greater of the benefit calculated under the Alternative Formula or the Integrated Formula, each reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
  - (3) Retires After 1984 With No Hours After 1991 and 29 ½ Years of Benefit Service. For a Pre-2001 Participant who (a) retires on or after January 1, 1985, (b) who earns no Hours of Service as an Employee on or after January 1, 1992, (c) whose Annuity Starting Date precedes his or her Normal Retirement Date by 91 months or more, and (d) who has at least 29 years and six months of Benefit Service (without regard to the rounding rules described in Section 5.2(e)), his or her Accrued Benefit shall be reduced in accordance with (2) above and for purposes of calculating such Participant's benefit amount under the Integrated Formula the term "50 percent of his or her Social Security Amount" shall be deemed to mean the applicable percentage of his or her Social Security Amount set forth in the following table:

<u>Age at Retirement Date</u> <u>Years</u>	<u>Month</u>	<u>Applicable</u> <u>Percentage</u>
55	0	49.19%
55	1	49.21%
55	2	49.22%
55	3	49.24%
55	4	49.27%
55	5	49.29%
55	6	49.30%
55	7	49.32%
55	8	49.35%
55	9	49.36%
55	10	49.38%
55	11	49.40%
56	0	49.42%
56	1	49.45%
56	2	49.48%
56	3	49.51%
56	4	49.54%
56	5	49.56%
56	6	49.60%
56	7	49.63%

56	8	49.65%
56	9	49.69%
56	10	49.71%
56	11	49.74%

<u>Age at Retirement Date</u> <u>Years</u>	<u>Month</u>	<u>Applicable</u> <u>Percentage</u>
57	0	49.78%
57	1	49.81%
57	2	49.84%
57	3	49.89%
57	4	49.92%
57	5	49.97%

- (4) Hours After 1991 With Less Than 20 Years Benefit Service. For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992 but with less than 25 years of Benefit Service, the Early Retirement Benefit shall be equal to the greater of the benefit determined under the Alternative Formula or the Integrated Formula, each reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
- (5) Hours After 1991 With 25 or More Years of Benefit Service. For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992, and with 25 or more years of Benefit Service as of his or her Annuity Starting Date, the Early Retirement Benefit shall be equal to the greater of:
- the benefit calculated under the Integrated Formula reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his or her 60th birthday; or
  - the benefit calculated under the Alternative Formula without any reduction.

(e) Deferred Vested Benefit for Final Average Compensation Formula or Pre-2006 Motor Cargo Formula.

- (iv) Normal Commencement. A Participant who terminates employment with all Employer Companies and Related Employers after he or she is vested as

described in Section 4.4 shall be entitled to his or her Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula determined as of his or her most recent termination of employment with all Employer Companies and Related Employers. Such Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula shall be payable at his or her Normal Retirement Date.

(v) Early Commencement.

- (A) General. A Participant (other than a Grandfathered Participant or a Pre-2001 Participant) who is eligible for a Deferred Vested Benefit and who has satisfied the Early Commencement Service Requirement may commence such benefit as of the first day of any calendar month on or after he or she terminates employment with all Employer Companies and Related Employers and reaches Earliest Commencement Age but before his or her Normal Retirement Date, subject to the following reductions:
- (3) RPA Formula Benefit Reductions. The benefit determined under the RPA Formula shall be reduced for early commencement by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
  - (4) UPS Freight Formula Benefit Reductions. The benefit determined under the UPS Freight Formula shall be reduced in the same manner as the benefit reductions described in Section 5.2(b)(ii)(A)(2), the reduction for early commencement of the Early Retirement Benefit.
  - (5) Pre-2006 Motor Cargo Formula Benefit Reductions. The benefit determined under the Pre-2006 Motor Cargo Formula shall be reduced in the same manner as the benefit reductions described in Section 5.2(b)(ii)(A)(3), the same as the reduction for early commencement of the Early Retirement Benefit.
- (B) Grandfathered Participant. For a Grandfathered Participant the Deferred Vested Benefit that commences before his or her Normal Retirement Date shall be the greatest of:
- (6) his or her reduced Deferred Vested Benefit determined under Section 5.2(c)(ii)(A)(1) for Participants other than Grandfathered Participants except that the special RPA Points

rule in the last paragraph of Section 5.3(a)(iii), Accumulation of RPA Points, shall be considered,

- (7) his or her benefit under the Alternative Formula reduced by one-half of one percent (0.5%) per month for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date and
  - (8) his or her benefit under the Integrated Formula reduced for early commencement by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.
  - (9) December 31, 1991 Benefit. Notwithstanding the foregoing, the Deferred Vested Benefit of a Grandfathered Participant shall not be less than the Deferred Vested Benefit, if any, the Participant would have earned under the provisions of this Plan immediately prior to January 1, 1992, taking into account for this purpose Compensation, if any, earned by the Participant through December 31, 1991 and Benefit Service earned by him or her through December 31, 1992, if any, reduced by one-quarter of one percent (0.25%) instead of one-half of one percent (0.50%).
- (C) Pre-2001 Participant. For a Pre-2001 Participant, his or her reduced Deferred Vested Benefit shall be the greater of the benefit calculated under the Alternative Formula or the Integrated Formula reduced as described below:
- (1) No Hours After 1991. For a Pre-2001 Participant with at least one Hour of Service on or after September 1, 1979 but without at least one Hour of Service as an Employee on or after January 1, 1992, the benefit shall be reduced by the following percentage thereof for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date:
    - a. for terminations before January 1, 1985, one-half of one percent (0.5%);  
and
    - b. for terminations after December 31, 1984, one-quarter of one percent (0.25%).
  - (2) Hours After 1991. For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992, the benefit shall be reduced by one-half of one percent

(0.5%) for each month by which the Participant's Annuity Starting Date precedes his or her Normal Retirement Date.

- (3) December 31, 1991 Benefit. Notwithstanding the foregoing, the Deferred Vested Benefit of a Pre 2001 Participant shall not be less than the Deferred Vested Benefit, if any, the Participant would have earned under the provisions of this Plan immediately prior to January 1, 1992, taking into account for this purpose Compensation earned by the Participant through December 31, 1991 and Benefit Service earned by him through December 31, 1992 reduced by one-quarter of one percent (0.25%) instead of one-half of one percent (0.50%).

- (f) Postponed Retirement Benefit for Final Average Compensation Formula or Pre-2006 Motor Cargo Formula. Subject to Section 5.9 regarding mandatory distributions, a Participant, other than a Grandfathered Motor Cargo Participant, who terminates employment with all Employer Companies and all Related Employers after his or her Normal Retirement Date shall receive a benefit as of his or her Postponed Retirement Date equal to his or her Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula determined as of his or her Postponed Retirement Date. Such benefit shall be payable as of his or her Postponed Retirement Date.

A Grandfathered Motor Cargo Participant who terminates employment with all Employer Companies and Related Employers after his or her Normal Retirement Date, and has not started benefit payments, shall be entitled to a benefit commencing as of his or her Postponed Retirement Date that is the Actuarial Equivalent of the Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula payable as of the later of his or her Normal Retirement Date or the last day of the prior Plan Year. Such Participant's Accrued Benefit as of the last day of each Plan Year following his or her Normal Retirement Date is the greater of: (1) his or her Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula taking into account benefits accrued after his or her Normal Retirement Date or (2) the Accrued Benefit attributable to a Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula, determined as of the later of Normal Retirement Date or the end of the prior Plan Year, actuarially adjusted for late retirement using the factors described in Section 1.1(b)(ii)(C)(2).

If a Grandfathered Motor Cargo Participant commences benefits prior to his or her termination of employment, the benefit will be recalculated at the end of each Plan Year to reflect the actuarial increase. The additional amount accrued during each Plan Year will be offset by the benefit that is already in pay status.



- (g) Rounding Rules. Notwithstanding the foregoing, for purposes of determining the amount of the benefit under the Alternative Formula or the Integrated Formula, and the early commencement reductions applicable to benefits determined under such formulas for a Grandfathered Participant and a Pre-2001 Participant, such Participant's aggregate years and months of Benefit Service shall be rounded up to the next full year if he or she has 6 or more months of Benefit Service in excess of full years of Benefit Service and shall be rounded down to the next full year if he or she has 5 or fewer months of Benefit Service in excess of full years of Benefit Service.

Section 5.3 Formulas.

- (b) RPA Formula.

- (xii) Alternative Account Formula. The Alternative Account Formula is  $(A + B) \div 120$ , where

A = the Participant's Alternative Points times 1% of his or her Final Average Compensation up to \$48,000; and

B = the Participant's Alternative-PLUS Points times 1% of his or her Final Average Compensation in excess of \$48,000.

- (xiii) Integrated Account Formula. The Integrated Account Formula is  $(C + D) \div 120$ , where

C = the Participant's Integrated Points times 1% of his or her Final Average Compensation; and

D = the Participant's Integrated-PLUS Points times 1% of his or her Final Average Compensation in excess of the Social Security Wage Base.

- (xiv) Accumulation of RPA Points. A Participant who has at least one Hour of Service as an Employee on or after January 1, 2001 shall accumulate Alternative Points, Alternative-PLUS Points, Integrated Points and Integrated-PLUS Points (collectively, "RPA Points") for each year and partial year of RPA Benefit Service without regard to whether such RPA Benefit Service was completed before January 1, 2001. The points accumulated for any year of RPA Benefit Service will be equal to the RPA Points described in Appendix F to this Plan (the "RPA Schedule") for the Employer Company or Employer Companies for which the Participant performed the RPA Benefit Service determined in accordance with this Section 5.3(a)(iii). Credit for each year of RPA Benefit Service completed before January 1, 2001 will be determined under Appendix F-1 as in effect on January 1, 2001 without regard to what Employer Company employed the Participant at the time the RPA Benefit Service was completed. No Participant shall earn credit for more than 12 months of RPA Benefit Service in any Plan Year.

Notwithstanding the previous paragraph, effective as of October 1, 2014, a Grandfathered Participant shall be credited with RPA Points for each completed year and partial year of RPA Benefit Service at the level described in Appendix F-1 as in effect on January 1, 2001 without regard to what Employer Company employed the Grandfathered Participant at the time the RPA Benefit Service was completed. Additionally, for each Grandfathered Participant who earned RPA Benefit Service during the period beginning January 1, 2001 and ending September 30, 2014 and who retired or otherwise terminated service with an Employer Company and all Related Employers prior to October 1, 2014, the Plan Administrator shall redetermine his or her benefit taking into account this paragraph and make any necessary adjustment to the benefit being paid to him or her as soon as practicable after October 1, 2014. Interest shall not be paid on any benefit redetermined and adjusted under this paragraph

- (c) UPS Freight Formula. The UPS Freight Formula equals one twelfth of the product of (A) and (B), where:

A = 1.725% of the Participant's Final Average Compensation; and

B = the Participant's years and partial years of UPS Freight Benefit Service (up to a maximum of 30 years).

- (d) Pre-2006 Motor Cargo Formula. The Pre-2006 Motor Cargo Benefit Formula shall equal one-twelfth of A x B, where:

A = the Participant's years of Pre-2006 Motor Cargo Benefit Service (not to exceed 25 years); and

B = \$240.00.

- (e) Participation in Multiple Formulas in Same Plan Year. If a Participant has RPA Benefit Service under more than one RPA Schedule or, effective January 1, 2006, a Participant has RPA Benefit Service and UPS Freight Service, in the same Plan Year, the benefit such Participant accrues that Plan Year will be determined as follows:

- (i) First, determine the RPA Benefit Service accrued under each RPA Schedule and the UPS Freight Service based on the Hours of Service with the Employer Company or Companies providing such RPA Schedule or such UPS Freight Formula;
- (ii) Second, allocate the Benefit Service determined under (i) above to the UPS Freight Formula;
- (iii) Third, allocate the excess of the Participant's total Benefit Service determined under (i) above, over the UPS Freight Service allocated under (ii) above to

the RPA Schedules starting with the actual service completed under the RPA Schedule that provides the highest point value and continuing with the actual Benefit Service under the RPA Schedule with the next highest point value until the sum of the Benefit Service allocated under (ii) and the Benefit Service allocated under this (iii) equals the total actual Benefit Service or 12 months, whichever is less.

For example, assume a Participant has 2,000 total Hours of Service for Employer Companies during the Plan Year, 874 hours are under the RPA Schedule with the lowest point value (Schedule 3), 874 hours are under the highest RPA Point value (Schedule 1) and 252 hours are UPS Freight Service. The Participant's total Benefit Service is 12 months. The Participant has 6 months of RPA Benefit Service under RPA Schedule 1 and Schedule 3, and 2 months of UPS Freight Service. The Participant will be credited with 2 months of UPS Freight Service, 6 months of RPA Benefit Service under RPA Schedule 1 and 4 months of RPA Benefit Service under Schedule 3;

If the Participant had 874 hours of UPS Freight Service, 874 hours of RPA Benefit Service under the RPA Schedule with the highest point value (Schedule 1) and 252 hours of RPA Benefit Service under the RPA Schedule with the lowest point value (Schedule 3), the Participant will be credited with 6 months of UPS Freight Service, 6 months of RPA Benefit Service under RPA Schedule 1 and 0 months of RPA Benefit Service under RPA Schedule 3.

- (f) Integrated Formula. A Participant's benefit under the Integrated Formula shall be equal to the benefit determined under (i) or (ii) as applicable plus the Additional Monthly Retirement Benefit, if any, applicable to such Participant as contained in Appendix D of the Plan.
- (i) No Hours After 1996. For a Participant who does not have at least one Hour of Service as an Employee on or after January 1, 1997, the Integrated Formula is 1/12th of 50 percent of such Participant's Final Average Compensation less 1/12th of 50 percent of his or her Social Security Amount where such Participant has 30 or more years of Benefit Service. If such Participant has less than 30 years of Benefit Service at his or her Annuity Starting Date, the amount calculated above shall be multiplied by a fraction, the numerator of which is the number of years of Benefit Service to his or her Annuity Starting Date, and the denominator of which is 30.

In the case of a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 for whom the Normal Form of benefit is a Single Life Only Annuity, the Integrated Formula benefit shall not be less than such Participant's benefit under the Integrated Formula, if any, calculated in accordance with this Section 5.3(e) and payable in the form of a Single Life Only Annuity 120 Month Guarantee, but taking into account for this purpose

only that Compensation earned by the Participant through December 31, 1991 and Benefit Service earned by him through December 31, 1992.

(ii) Hours After 1996. For a Participant who has at least one Hour of Service as an Employee on or after January 1, 1997, the Integrated Formula is 1/12th of 58.33 percent of such Participant's Final Average Compensation (as defined under the terms of this Plan as of the date of the Participant's retirement or other termination of employment) less 1/12th of 58.33 percent of his or her Social Security Amount where such Participant has 35 or more years of Benefit Service. If such Participant has less than 35 years of Benefit Service at his or her Annuity Starting Date, the amount calculated above shall be multiplied by a fraction, the numerator of which is the number of years of Benefit Service to his or her Annuity Starting Date, and the denominator of which is 35.

(g) Alternative Formula. A Participant's benefit under the Alternative Formula shall be equal to the benefit determined under (i) or (ii) as applicable plus the Additional Monthly Retirement Benefit, if any, applicable to such Participant as contained in Appendix D of the Plan.

(i) Hours After August 1979.

(D) Hours After August 1979 But Not After 1984. For a Participant with at least one Hour of Service on or after September 1, 1979 but without at least one Hour of Service on or after January 1, 1985, the Alternative Formula is \$24 per month for each year of Benefit Service completed by such Participant prior to his or her Normal Retirement Date to a maximum of \$600 per month; provided such Participant has 10 or more Years of Service prior to his or her Normal Retirement Date.

(E) Hours After 1984 But Not After 1991. For a Participant with at least one Hour of Service on or after January 1, 1985 but without at least one Hour of Service as an Employee on or after January 1, 1992, the Alternative Formula is \$32 per month for each year of Benefit Service completed by such Participant prior to his or her Normal Retirement Date or (with respect to a Participant with at least one Hour of Service on or after January 1, 1987) Postponed Retirement Date to a maximum of \$960 per month; provided such Participant has 10 or more Years of Service prior to his or her Normal Retirement Date or Postponed Retirement Date.

If a Participant without at least one Hour of Service on or after January 1, 1989 has less than 10 Years of Service prior to his or her Normal Retirement Date or Postponed Retirement Date, the amount shall be determined as set forth in Section (A) or (B) above, as applicable, using the number of years of Benefit Service multiplied by a fraction,

the numerator of which is his or her number of Years of Service to Normal Retirement Date (or, for a Participant with at least one Hour of Service on or after January 1, 1987, his or her actual retirement date) not in excess of 10, and the denominator of which is 10. If a Participant with at least one Hour of Service on or after January 1, 1989, and who first became a Participant in the Plan prior to January 1, 1989, has less than 5 Years of Service prior to his or her Normal Retirement Date, the amount shall be determined under subparagraph (B) using the number of years of Benefit Service multiplied by a fraction, the numerator of which is his or her number of Years of Service to his or her actual retirement date, not in excess of 5, and the denominator of which is 5. The foregoing sentence shall not apply to any individual who first became a Participant on or after January 1, 1989.

(ii) Hours After 1991.

(D) Hours After 1991 But Not After 1996. For a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 but without at least one Hour of Service as an Employee on or after January 1, 1997, the Alternative Formula is the sum of

- (1)  $1/12^{\text{th}}$  of two percent (2%) of such Participant's Final Average Compensation up to \$48,000, multiplied by his or her years of Benefit Service to a maximum of 30; plus
- (2)  $1/12^{\text{th}}$  of one-half of one percent (0.5%) of such Participant's Final Average Compensation in excess of \$48,000, multiplied by his or her years of Benefit Service to a maximum of 30.

(E) Hours After 1996. For a Participant with at least one Hour of Service as an Employee on or after January 1, 1997, the Alternative Formula is the sum of

- (1)  $1/12^{\text{th}}$  of two percent (2%) of such Participant's Final Average Compensation up to the Threshold Amount, multiplied by his or her years of Benefit Service to a maximum of 35; plus
- (2)  $1/12^{\text{th}}$  of one-half of one percent (0.5%) of such Participant's Final Average Compensation in excess of the Threshold Amount, multiplied by his or her years of Benefit Service to a maximum of 35.

For purposes of this subparagraph, the term "the Threshold Amount" means \$48,000 for a Participant who was born in 1957 or later,

\$54,000 for a Participant who was born in or after 1951 but before 1957, and \$60,000 for a Participant born in 1950 or earlier.

Notwithstanding the foregoing, the benefit amount calculated in accordance with this Section 5.3(f)(ii) shall not be less than the Participant's Accrued Benefit, if any, calculated in accordance with Section 5.3(f)(i)(A) and payable in the form of a Single Life Annuity and 120-Monthly Guarantee, taking into account all Benefit Service earned by the Participant through December 31, 1992.

(h) Portable Account Benefit.

- (iii) General. For Plan Years beginning after December 31, 2007, each Participant who has at least one Hour of Service on or after January 1, 2008 will accrue either a Portable Account Benefit or a Final Average Compensation Formula benefit, but not both. If a Participant is eligible to accrue a Portable Account Benefit, he or she shall not be eligible to accrue a Final Average Compensation Formula benefit.

Notwithstanding the foregoing, a Participant who is eligible for a Portable Account Benefit may continue to increase his or her Final Average Compensation.

- (iv) Eligibility for Portable Account Benefit. A Participant is eligible to accrue a Portable Account Benefit if:

(N) he or she is hired or rehired as an Employee on or after January 1, 2008;  
or

(O) he or she is transferred from a non-Employee position into an Employee position on or after January 1, 2008.

However, a Participant whose terms and conditions of employment are governed by a collective bargaining agreement shall not be eligible to accrue a Portable Account Benefit unless expressly provided by the collective bargaining agreement.

(v) Annual Compensation Credits.

- (C) For each Plan Year during which a Participant is a Portable Account Participant and an Employee, his or her Portable Account will be credited with a percentage of his or her Compensation for such Plan Year (including the Plan Year in which the Participant terminates his or her employment) based on the number of Portable Account Points he or she has accumulated on the first day of such Plan Year and the applicable percentage from the Portable Account Points schedule set

forth in Appendix F-7 for the Employer Company that is his or her employer. If a Portable Account Participant has service during a Plan Year under more than one Portable Account Points schedule, the applicable percentage will be the highest percentage for the Participant's Portable Account Points under any of the schedules under which the Participant had service during such Plan Year.

- (D) The Portable Account credit will be made annually as of the last day of the Plan Year or if a Participant terminates employment with all Employer Companies and Related Employers prior to the last day of the Plan Year, as of the date the Participant terminates employment.
- (E) If a terminated Participant who received a credit as described in (A) above is reemployed as an Employee during the same Plan Year, an additional credit will be made as of the last day of the Plan Year or date of subsequent termination, equal to the credit described in (A) above determined as of the last day of the Plan Year or subsequent termination date less the annual compensation credit previously allocated to such Participant for such Plan Year.
- (vi) Interest Credits. An Interest Credit will be allocated to each Portable Account Participant's Portable Account as of the last day of each Plan Year, calculated by multiplying his or her Account Balance as of the first day of that Plan Year by the Interest Credit Percentage for that Plan Year. A Portable Account will be credited with an Interest Credit for each Plan Year until the Portable Account Participant's benefit commencement date without regard to whether the Portable Account Participant is an Employee. If the Portable Account Participant's benefit commencement date is other than the last day of a Plan Year, the Interest Credit for the Plan Year that includes the benefit commencement date will be prorated based on the ratio of whole months expired in the year before the benefit commencement date, to 12. If a Participant described in the preceding sentence is reemployed as an Employee during the same Plan Year, no additional Interest Credit will be made for that Plan Year.
- (vii) Accrued Benefit Attributable to Portable Account. The portion of the Portable Account Participant's Accrued Benefit that is attributable to his or her Portable Account as of any date is the balance credited to his or her Portable Account. The balance credited to the Portable Account is payable at the times described in Section 4.7 in the form described in Section 5.4(h).

Section 5.4 Benefit Payment.

- (a) Annuities. Except as provided in Section 5.4(e) for cash out of benefits and unless the Participant elects an Optional Form of Benefit pursuant to Section 5.4(b), a benefit described in Section 5.2 will be paid:

- (xv) if a Participant is married on his or her Annuity Starting Date, in the form of a Qualified Joint and Survivor Annuity; and
  - (xvi) if the Participant is not married on the Annuity Starting Date, in the Normal Form.
- (b) Election out of Normal Form of Benefit or Qualified Joint and Survivor Annuity. In lieu of the Normal Form or the Qualified Joint and Survivor Annuity, a Participant who is eligible for an annuity form of benefit, may elect, at any time within the 90-day period ending on the Annuity Starting Date, to waive the Normal Form or the Qualified Joint and Survivor Annuity in favor of one of the Actuarial Equivalent Optional Forms of Benefit described below.
- (vi) Form of Election. An election by a Participant under this Section must be in writing in a form approved by the Committee, and, if the Participant has a Spouse, such election shall not be effective unless:
    - (F) the Spouse of the Participant consents to the election, and such consent (1) is in writing, (2) acknowledges the Participant's selection of an alternate form of benefit and/or Beneficiary, which may not thereafter be changed without spousal consent unless the Spouse's prior consent expressly permits the Participant to change the Beneficiary without further consent by the Spouse, (3) acknowledges the effect of such election, and (4) is witnessed by a notary public; or
    - (G) it is established to the satisfaction of a representative of the Plan that the Spouse's consent cannot be obtained because (1) the Participant has no Spouse, (2) the Participant's Spouse cannot be located, or (3) one of the conditions prescribed in Treasury regulations is satisfied.

Notwithstanding the foregoing, no spousal consent shall be required if a participant elects a Joint and Survivor Annuity and his or her Spouse is the designated beneficiary.

- (vii) Spouse Affected by Election. A Participant's election to waive the Qualified Joint and Survivor Annuity shall be effective only with respect to the Spouse who consented to the election or who was deemed to consent pursuant to Section 5.4(b)(i)(B).
- (viii) Revocation of Election. A Participant may revoke an election made under this Section 5.4(b) at any time prior to the Annuity Starting Date. A Spouse's consent to the waiver of the Qualified Joint and Survivor Annuity and to the specific Beneficiary and optional form designations made by the Participant is irrevocable unless the Participant revokes his or her waiver election.



(c) Notice Requirements. Within 90 days prior to the Participant's Annuity Starting Date, the Committee shall provide the Participant with a written explanation of:

- (vi) the terms and conditions of the Normal Form, the Qualified Joint and Survivor Annuity and the Joint and 75% Survivor Annuity with the Spouse as the Beneficiary;
- (vii) the Participant's right to make, and the effect of, an election to waive the Normal Form or the Qualified Joint and Survivor Annuity and the Joint and 75% Survivor Annuity with the Spouse as the Beneficiary;
- (viii) the requirement that the Participant's Spouse consent in writing to the election in accordance with the spousal consent provisions set forth in Section 5.4(b)(i);
- (ix) the right to make, and the effect of, a revocation of an election not to receive the Normal Form or a Qualified Joint and Survivor Annuity; and
- (x) the relative value of the optional forms of benefit required by Treasury Regulation § 1.417(e)(3)-1.

(d) Optional Forms of Benefit.

- (iv) Actuarial Equivalent. Each benefit payment form described in this Section 5.4(d) will be the Actuarial Equivalent of the Participant's benefit payable in the Normal Form.
- (v) Joint and Survivor Annuity. Under the Joint and Survivor Annuity, a reduced monthly benefit shall be paid to the Participant for his or her lifetime, and his or her Beneficiary, if such Beneficiary survives at the Participant's death, shall be entitled to receive thereafter a lifetime survivorship benefit in a monthly amount equal to 50%, 75% or 100%, as selected by the Participant, of the monthly amount which had been payable to the Participant. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his or her Beneficiary has occurred.

Notwithstanding the foregoing, a Participant may not select a Joint and Survivor Benefit with a Beneficiary who would not be eligible to receive the percentage survivor benefit selected under the requirements of proposed Treasury Regulation § 1.401(a)(9)-2.

- (vi) Single Life Annuity with 120-Month Guarantee. Under the Single Life Annuity with 120-Month Guarantee, a reduced monthly benefit shall be paid to the Participant for his or her lifetime, with a guarantee of 120 monthly payments. If the Participant dies after the Annuity Starting Date but before

receiving 120 monthly payments, the monthly payments shall be paid to the Participant's Beneficiary, until the Participant and his or her Beneficiary have received a total of 120 monthly payments.

- (vii) Single Life Only Annuity. Under the Single Life Only Annuity, a monthly benefit shall be paid to the Participant for his or her lifetime. The last payment of the Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.
- (viii) Grandfathered Overnite Participant Optional Forms. In addition to the Optional Forms of Benefit available under Sections 5.4(d)(i) through (iv), a Grandfathered Overnite Participant whose Annuity Starting Date is prior to his or her Normal Retirement Date may elect, as an Optional Form of Benefit, a "social security leveling income option", which shall be a benefit for the Participant's lifetime providing for the adjustment of the Participant's Normal Retirement Benefit to produce, so far as practicable, a level combined pension from this Plan and the Participant's Social Security benefit (both before and after such Social Security benefit is payable).
- (ix) Grandfathered Motor Cargo Participant Optional Forms. In addition to the Optional Forms of Benefit available under Section 5.4(d)(i) through (iv), a Grandfathered Motor Cargo Participant may elect, as an Optional Form of Benefit, a Five Year Certain and Life Annuity for his or her entire Accrued Benefit.
- (e) Cash-Out of Benefits. Notwithstanding any other provisions of this Plan, effective March 1, 2005 to November 30, 2012, if following a Participant's termination of employment with the Employer Company and all Related Employers the Present Value of his or her entire vested Accrued Benefit does not exceed \$1,000, the Committee shall, in lieu of such benefit, pay to the Participant, without his or her consent, such Present Value in a lump sum.

Effective December 1, 2012, if following a Participant's termination of employment with the Employer Company and all Related Employers and his or her receipt of the notice described in Code § 402(f), the Present Value of his or her entire vested Accrued Benefit does not exceed \$5,000, the Committee shall, in lieu of such benefit, pay, without his or her consent, such Present Value in a lump sum. For a Portable Account Participant who previously received distribution of his or her entire Portable Account in a single lump sum, the preceding sentence shall apply to his or her remaining vested benefit under the Plan, if any. If a Participant to which this paragraph applies does not elect to have such lump sum payment paid directly to an eligible retirement plan in a direct rollover or to receive such lump sum payment directly, the Committee shall pay the lump sum payment in a direct rollover to an individual retirement account designated by the Committee.

- (f) Repayment of Cash-Out. After a distribution described in Section 5.4(e), the Participant's service with respect to which the distribution was made shall be disregarded for purposes of the Plan unless, following reemployment, the Participant repays the amount of the distribution to the Trustee together with interest at the rate of 120 percent of the Federal mid-term rate, as in effect under Code § 1274 for the first month of the Plan Year in which the restoration occurs or otherwise in accordance with Code § 411(a)(7). Such repayment must be made on or before the earlier of (i) the date that is five years after the Participant's resumption of employment or (ii) the last day of a period of six consecutive Breaks in Service ending after the cash-out distribution. Notwithstanding the foregoing, a Participant may not repay any distribution of his or her Portable Account.
- (g) Special Transitional Rules for Certain Participants in Pay Status. In the case of a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 and whose Annuity Starting Date is in 1992, the monthly amount of the Participant's Normal or Early Retirement Benefit, or Deferred Vested Benefit shall, if calculated in accordance with the terms of this Plan prior to the adoption of Amendment No. 15 to the UPS Retirement Plan as amended and restated as of January 1, 1976, be adjusted, retroactive to the Participant's Annuity Starting Date, to reflect his or her greater benefit, if any, determined in accordance with the terms of this Plan as amended by such Amendment No. 15. Such increase shall be calculated based on the same payment form as selected by the Participant.
- (h) Portable \_\_\_\_\_ Account Benefit.
- (v) Form of Payment. If the Portable Account is paid before the Portable Account Participant's Earliest Commencement Age, it will be paid in (1) a single lump sum or (2) an immediate annuity in the Normal Form if the Portable Account Participant does not have a Spouse or in the Qualified Joint and Survivor Annuity or the Joint and 75% Survivor Annuity with the Spouse as the Beneficiary if the Portable Account Participant has a Spouse. If the Portable Account is paid on or after the Portable Account Participant's Earliest Commencement Age, the Portable Account may be paid in any Optional Form of Benefit described in Section 5.4(d) in addition to the forms described in the preceding sentence.
- (vi) Conversion of Portable Account to Annuity Benefit. The Portable Account balance will be adjusted for Interest Credits to the Annuity Starting Date. The adjusted Portable Account balance will be converted to an immediate Single Life Annuity commencing at the Annuity Starting Date using the Applicable Interest Rate and the Applicable Mortality Table for the Plan Year that includes the Annuity Starting Date. If the benefit will be paid in a form of annuity other than the Single Life Annuity, the reduced Single Life Annuity will be converted to the applicable Optional Form of Benefit using the Actuarial Equivalent factors in Section 1.1(b)(i).

Section 5.5 Disability Retirement Benefit. Subject to the provisions of Section 5.9 and of Appendix J and K, the amount of monthly benefit to which a Participant is entitled under this Section 5.5 because of a Disability is:

- (e) with reference to a Disability occurring prior to January 1, 1978, the amount determined by multiplying \$8.00 by the number of years of Benefit Service, to a maximum of 25, completed by the Participant prior to his or her Disability, or
- (f) with reference to a Disability occurring on or after January 1, 1978, the amount determined by multiplying \$9.60 by the number of years of Benefit Service to a maximum of 25 (30, in case of Disability occurring on or after January 1, 1992), completed by the Participant prior to his or her Disability.

The benefit payable under this Section 5.5 shall be paid to the disabled Participant so long as he remains Disabled, but in no event beyond the date as of which the Participant commences an Early Retirement Benefit or he attains his or her Normal Retirement Date.

Section 5.6 Preretirement Survivor Annuity.

- (a) Final Average Compensation Formula or Pre-2006 Motor Cargo Formula. If a vested Participant dies prior to his or her Annuity Starting Date, his or her Spouse or Domestic Partner will be entitled to receive a Preretirement Survivor Annuity for that portion of his or her benefit attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula commencing:
  - (xi) if the Participant dies after attaining his or her Earliest Commencement Age, as of the first day of the month coincident with or next following the date of the Participant's death; and
  - (xii) if the Participant dies on or before attaining his or her Earliest Commencement Age, as of the first day of the month coincident with or next following the date the Participant would have attained his or her Earliest Commencement Age.
- (b) Amount of Preretirement Survivor Annuity for Final Average Compensation Formula or Pre-2006 Motor Cargo Formula. The Preretirement Survivor Annuity to which the Participant's surviving Spouse or Domestic Partner shall be entitled hereunder shall be equal to, for a surviving Spouse, the amount which would have been payable to the Participant's Spouse under the Qualified Joint and Survivor Annuity or, for a Domestic Partner, the Joint and 50% Survivor Annuity:
  - (x) if the Participant dies after he or she attains his or her Earliest Commencement Age, had the Participant retired and commenced receiving benefits attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula on the day immediately preceding his or her death;

- (xi) if the Participant dies on or before attaining his or her Earliest Commencement Age, had the Participant:
  - (A) separated from service on the date of his or her death (or his or her actual date of separation, if earlier);
  - (B) survived to his or her Earliest Commencement Age;
  - (C) retired with an immediate Qualified Joint and Survivor Annuity for the Spouse or, in the case of a Participant with a Domestic Partner, the Joint and 50% Survivor Annuity at his or her Earliest Commencement Age, based on his or her benefit attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula; and
  - (D) died on the day after he or she would have attained his or her Earliest Commencement Age; and

(c) Special Rule for Certain Participants with a Spouse and Those With Domestic Partners Who Die Within Ninety Days of the Annuity Starting Date. Notwithstanding the forgoing, if each of the following conditions is satisfied, the amount of the Preretirement Survivor Annuity, if any, payable under the Final Average Compensation Formula or the Pre-2006 Motor Cargo Formula will be based on the optional form of benefit elected by the deceased Participant immediately prior to his or her death rather than the Joint and 50% Survivor Annuity. Each of the following conditions must be satisfied before the first sentence of this Section 5.6(c) will apply:

- (iii) the Participant must have a Spouse or a Domestic Partner at his or her death;
- (iv) the Participant elected a Joint and 75% Survivor Annuity, Joint and 100% Survivor Annuity or other available form of joint and survivor annuity that (A) satisfies the requirements of a Qualified Joint and Survivor Annuity and (B) provides a survivor benefit greater than 50% of the life annuity payable to him or her and named his or her Spouse or Domestic Partner as his or her Beneficiary;
- (v) the Participant submitted to the Committee all of the documentation required to make the election described in clause (ii) and no more than ninety (90) days before the elected Annuity Starting Date; and
- (vi) the Participant's death occurs after (A) attaining the Earliest Commencement Age and (B) within the ninety (90) day period ending on what would have been his or her Annuity Starting Date had he or she survived.

For a Participant with a Spouse, this § 5.6(c) is intended to satisfy the requirement of Treas. Reg. § 1.401(a)-20, Q&A 18.

- (d) Special Death Benefit for Single Participants who Die within Ninety Days of Annuity Starting Date. If a Participant who does not have a Spouse or a Domestic Partner dies after satisfying each of the following conditions, his or her Beneficiary will be entitled to the survivor benefit elected by such Participant as if the Participant had separated from service on the date of his or her death (or his or her actual date of separation, if earlier), survived to the Annuity Starting Date and died on the following day. Each of the following conditions must be satisfied before the first sentence of this Section 5.6(d) will apply:
- (iii) the Participant must die without a Spouse or a Domestic Partner;
  - (iv) the Participant elected an available form of joint and survivor annuity or life annuity with a guarantee;
  - (v) the Participant submitted to the Committee all of the documentation required to make the election described in clause (ii) no more than ninety (90) days before the selected Annuity Starting Date; and
  - (vi) the Participant's death occurs (A) after the deceased Participant attained the Earliest Commencement Age and (B) within the ninety (90) day period ending on what would have been his or her Annuity Starting Date had he or she survived.
- (e) Special Rule for 25 Years of Service. Notwithstanding the foregoing, if a Participant (other than a UPS Freight Participant) with at least one Hour of Service as an Employee on or after January 1, 1992 dies before January 1, 2012 and before attaining his or her Early Retirement Date while actively employed by an Employer Company after having earned at least 25 Years of Service, the Qualified Joint and Survivor Annuity or the Joint and 50% Survivor Annuity used as the basis for calculating the amount of the Preretirement Survivor Annuity shall be determined by using the early commencement reduction factors that would have been applicable to such Participant with respect to Early Retirement Benefits had he or she survived to his or her Early Retirement Date.

Effective January 1, 2012, , if a Participant (other than a UPS Freight Participant) with at least one Hour of Service as an Employee on or after January 1, 1992 dies on or after January 1, 2012 before attaining his or her Early Retirement Date while actively employed by an Employer Company (or while an LTD Participant or while eligible for a Disability Retirement Benefit) after having earned at least 10 Years of Service, the Qualified Joint and Survivor Annuity or the Joint and 50% Survivor Annuity used as the basis for calculating the amount of the Preretirement Survivor Annuity shall be determined by using the early commencement reduction factors that would have been applicable to such Participant with respect to Early Retirement Benefits had he or she survived to his or her Early Retirement Date.

- (f) Deferring Commencement. The Participant's surviving Spouse or Domestic Partner may elect to defer commencement of the Preretirement Survivor Annuity attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula, but not later than the date the Participant would have attained his or her Normal Retirement Date.
- (g) Present Value of \$5,000 or Less. Effective December 1, 2012, in lieu of the Preretirement Survivor Annuity attributable to the Final Average Compensation Formula and Pre-2006 Motor Cargo Formula, before the first payment with respect to such benefit, the Committee shall pay a lump sum to the surviving Spouse or Domestic Partner in accordance with Section 5.4(e). Similar lump sum payment provisions shall apply to alternate payees.
- (h) Preretirement Survivor Annuity Attributable to Portable Account. If a vested Portable Account Participant dies (whether or not employed) or a nonvested Portable Account Participant dies while employed with an Employer Company or a Related Employer, the surviving Spouse or Domestic Partner of such Participant will be entitled to receive the Portable Account balance as a preretirement survivor annuity. The surviving Spouse or Domestic Partner may elect to have the Portable Account paid in a (1) single lump sum or (2) an immediate or deferred Single Life Annuity based on the life of the surviving Spouse or Domestic Partner. Payment may be made as of the first day of the month after the Portable Account Participant dies or as of the first day of any subsequent month on or before the Participant's Normal Retirement Date. If the Spouse or Domestic Partner selects an annuity benefit, the Portable Account will be converted to a Single Life Annuity for the life of the Spouse or Domestic Partner using the same methodology described in Section 5.4(h). If the deceased Participant did not have a Spouse or Domestic Partner at his or her death, the balance credited to the Portable Account will be paid in a single lump sum to the Participant's Beneficiary as soon as practicable after the death of the deceased Participant and the Beneficiary has completed an application for such benefit.
- (i) Death After Payment of Portable Account. If the Portable Account Participant dies after payment of his or her Portable Account has been made or has begun, the surviving Spouse or Domestic Partner will not be entitled to a preretirement survivor annuity from the Portable Account.

Section 5.7 Benefit Payments Under Other Plans and Programs. The benefits otherwise provided in Sections 5.2 through 5.6 of this Plan shall be reduced by the amount of any benefits payable to or on behalf of a Participant under any other non-government pension or retirement plan or program to which contributions have been made by an Employer Company on behalf of such person or under which service is counted in calculating benefits under this Plan, other than service taken into account in calculating benefits under the Portable Account Formula, and contributions under any cash or deferred plan described in Code § 401(k), to the extent that such benefits payable under such other plan or program are based on a period of time included in the calculation of Benefit Service for

purposes of this Plan and are not attributable to contributions made to such other plan or program by the Participant.

If a reduction in benefits is also called for in another plan or plans sponsored and maintained by the Employer Company by reason of the benefits payable to a Participant under this Plan, the reduction in benefits shall be made only in the benefits payable under the plan in which the Participant last participated, and if he or she participated in more than one such other plan, then the reduction shall be made in the reverse order of participation with no reduction in the benefits payable under the plan in which the Participant first participated.

If the Participant receives one form of benefit under this Plan and another form of benefit under any such other plan, any reduction hereunder shall be based on actuarially equivalent forms of benefit.

Section 5.8 Preservation of Benefits and Maximum Pensions. Anything to the contrary notwithstanding, a retirement benefit computed under this Article V shall be subject to the following:

- (a) Minimum Benefit for Participation as of the Effective Date. If a Participant was included under the provisions of the Plan prior to January 1, 1976, and a benefit becomes payable under this Plan resulting from termination of employment for any reason on or after the January 1, 1976, such benefit shall not be less than the actuarial equivalent of the benefit that would have been payable had the provisions of the Plan in effect immediately prior to January 1, 1976 remained in effect until the Participant's termination of employment, considering the years of continuous employment accumulated at termination of employment and the benefits in effect immediately prior to January 1, 1976.
- (b) Maximum Benefits. For limitation years beginning on or after July 1, 2007, refer to Appendix N, Maximum Benefits for Participants Other than Independent Pilots Association. For limitation years ending after December 31, 2002 and before July 1, 2007, this paragraph (b) shall apply.
  - (vii) General Limitation. For limitation years ending after December 31, 2002, the maximum annual benefit payable under this Plan shall not exceed the lesser of: (A) \$160,000 as adjusted, effective January 1 of each year, under Code § 415(d) in such manner as the Secretary shall prescribe (the "dollar limitation") or (B) 100% of the Participant's average compensation (as defined in Treasury Regulation § 1.415-2(d)) and reduced, if necessary, to reflect the applicable annual compensation limitation under Code § 401(a)(17), paid for the three consecutive calendar years during which he or she was an active Participant in the Plan, and in which he or she received the greatest aggregate compensation (as defined above) from the Employer Company, subject to the following:
    - (A) If the benefit is payable in any form other than a straight life annuity, a Qualified Joint and Survivor Annuity, or a joint and survivor annuity



with the Spouse as the Beneficiary, then the limitations of this subsection shall be applied to the straight life annuity which is the actuarial equivalent of such benefit. The actuarially equivalent straight life annuity is equal to the greater of the annuity benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for adjusting benefits in the same form, and the annuity benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table. In determining the actuarially equivalent straight life annuity for a lump sum benefit, the Applicable Interest Rate will be substituted for 5 percent. No actuarial adjustment is required for the value of a qualified joint and survivor annuity, benefits that are not directly related to retirement benefits and the value of post-retirement cost-of-living increases made in accordance with Code § 415(d) and the regulations thereunder.

- (B) (1) If the retirement benefit of the Participant commences before age 62, such dollar limitation shall be adjusted as described below so that it is the actuarial equivalent of an annual benefit of the dollar limitation beginning at age 62, reduced for each month by which benefits commence before the month in which the Participant attains age 62. The retirement benefit beginning prior to age 62 shall be determined as the lesser of the actuarial equivalent retirement benefit computed using the interest rate and mortality table (or other tabular factor) equivalence for early retirement benefits specified in the Plan, and the equivalent retirement benefit computed using a 5 percent interest rate and the Applicable Mortality Table. Any decrease in the adjusted defined benefit dollar limitation determined in accordance with this provision (B)(1) shall not reflect any mortality decrement to the extent that benefits will not be forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.
- (2) If the retirement benefit of a Participant commences after age 65, the defined benefit dollar limitation shall be adjusted so that it is the actuarial equivalent of a retirement benefit of such dollar limitation beginning at age 65. The actuarial equivalent retirement benefit beginning after age 65 shall be determined as the lesser of the actuarial equivalent retirement benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for purposes of determining actuarial equivalence for delayed retirement benefits, and the equivalent retirement benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table.

- (C) Subject to limitations imposed elsewhere in this Plan, an annual benefit of \$10,000 or less may be paid regardless of the limitations set forth in this subsection (b)(i) if the benefit paid the Participant from all defined benefit plans of the Employer Company does not exceed \$10,000 for the Plan Year or any prior Plan Year, and the Employer Company has not at any time maintained a defined contribution plan in which the Participant participated.
  - (D) If a Participant has less than 10 Years of service with the Employer Company at the time the Participant begins to receive retirement benefits under the Plan, the average compensation limitation, as well as the \$10,000 benefit exception described in Section 5.8(b)(i)(C) above, shall be reduced by multiplying such limitation by a fraction, the numerator of which is the number of Years of Service with the Employer Company as of and including the current limitation year, and the denominator of which is 10. In the case of the dollar limitation where the Participant has less than 10 years of participation in the Plan, such limitation shall be reduced by a fraction, the numerator of which is the number of years of participation in the Plan as of and including the current limitation year, and the denominator of which is 10.
- (viii) Limitation Adjustment. The rate of a Participant's benefit accrual will be automatically frozen or reduced to a level necessary to prevent the limitations of this subsection (b) from being exceeded; provided, that if the limitations of this subsection (b) will be exceeded only as a result of considering another defined benefit plan sponsored by the Employer Company and this Plan as one plan, the Participant's benefit accrual under this Plan will not be frozen or reduced to a level necessary to prevent the limitations of this subsection (b) from being exceeded in the event that such other defined benefit plan provides for the freezing or reduction of benefit accruals.
- (ix) Single Plan Rule. For purposes of this subsection (b), all defined benefit plans of the Employer Company (whether or not terminated) shall be considered as one defined benefit plan.
- (x) Automatic Adjustment. The limitations imposed by this subsection (b) shall be adjusted automatically when permitted or required by law. With respect to increases in these limitations which are permitted by law to reflect the impact of inflation, in the event that a Participant's Normal Retirement Benefit or Early Retirement Benefit as of his or her Annuity Starting Date, must be reduced by reason of the foregoing limitations in effect at such time, the following rules shall apply:
- (A) A Participant's Normal Retirement Benefit or Early Retirement Benefit, taking into account the Compensation limitation under Code

§ 401(a)(17) (the “Compensation limitation”), and applying the applicable limitation or limitations of Section 5.8(b)(i) or Section 5.8(b)(i)(B)(1) (as applicable, the “415 limitations”) shall, following the Annuity Starting Date, be adjusted upward as the result of any subsequent increase in the 415 limitations, provided however, that in no event shall such benefit exceed the Participant’s Normal Retirement Benefit or Early Retirement Benefit, as the case may be, including the Compensation limitation.

- (B) Notwithstanding the foregoing, in no event shall a Participant’s Normal Retirement Benefit or Early Retirement Benefit, for any particular year, exceed the 415 limitation for such year (based on the Participant’s age on his or her Annuity Starting Date), and no increase as described in subparagraph (A) above shall be retroactive for any preceding year.
- (C) A Participant’s Normal Retirement Benefit or Early Retirement Benefit shall not be adjusted upward as the result of any change to the Compensation limitation following the Annuity Starting Date.

(xi) Limitation Year. For purposes of this subsection (b), the limitation year is the calendar year.

(xii) Employer Company. Solely for purposes of this Section 5.8(b), “Employer Company” means the Employer Company and each entity who would be determined to be a member of the Employer Company’s controlled group under Code § 414(b) or (c) if the standard of “more than fifty percent” was substituted for the standard of “at least eighty percent.”

(xiii) Transitional Rules. The limitation under Section 5.8(b)(i) for an Employee who was a Participant in this Plan prior to January 1, 1983, shall be the greater of (1) the limitation contained in such Section or (2) the Participant’s accrued benefit, expressed as an annual benefit, as of December 31, 1982. For purposes of this paragraph (A), neither changes in the terms and conditions of this Plan nor cost of living adjustments occurring after July 1, 1982, shall be taken into account.

(c) Incorporation by Reference. Notwithstanding anything to the contrary in this Section 5.8, the limitations on the maximum benefits payable from this Plan shall be in accordance with Code § 415 and the regulations thereunder, which are incorporated into this Plan by reference.

Section 5.9 Limitations Regarding Time of Payment of Benefits. All payments authorized under this Plan shall commence no later than the 60th day after the close of the Plan Year in which the Participant terminates his or her service with the Employer Company and all Related Employers, provided proper application under Section 4.1 is filed, or as required by the Required Minimum

Distribution Addendum to Appendix M, which applies to all distributions under this Plan. Notwithstanding the foregoing, a Participant's benefit will commence April 1 of the calendar year following the calendar year in which the Participant attains age 70 1/2 ("Required Benefit Commencement Date"), even if the Participant has not had a termination of employment.

Section 5.10 Designation of Beneficiary.

- (a) Beneficiary Designation for Optional Form of Benefit for other than the Portable Account. Each Participant who selects an Optional Form of Benefit that provides for payment to a Beneficiary may designate Beneficiaries (including a primary Beneficiary and one or more contingent Beneficiaries in the event of the death of the primary Beneficiary) to receive such benefits, other than benefits under the Portable Account, as may be payable under the Optional Form of Benefit selected by the Participant. The designation of any Beneficiary may be changed in accordance with Section 5.4(b). The consent of any previously designated Beneficiary to such change shall not be required to effect the change. No designation of a Beneficiary shall be effective to the extent that honoring such designation would conflict with the rights of the Participant's Spouse under Section 5.4, and no such designation shall be effective to the extent that, in conjunction with such spousal rights, it would require duplication of benefit payments.

In the event that a Participant who has selected the Single Life Annuity with 120-Month Guarantee, or a Motor Cargo Participant (as defined in Appendix K) who has selected a Five Year Certain and Life Annuity, fails to designate a Beneficiary or if a designated Beneficiary does not survive the Participant or is not specified elsewhere in this Plan, payment will be made to the Spouse or Domestic Partner of the deceased Participant, if any, but if none survives the Participant, to his or her estate. If the designated Beneficiary who has begun to receive payments under the Single Life Annuity with 120-Month Guarantee or the Five Years Certain Annuity dies before all payments are made, the balance due shall be paid in a lump sum or in installments, as the Committee shall direct, to the estate of the deceased Beneficiary.

- (b) Beneficiary Designation for the Portable Account. The designated Beneficiary for the Portable Account, if any, shall be the Spouse or Domestic Partner of the deceased Participant. If no Spouse or Domestic Partner survives the Participant, payment will be made to the Participant's estate.

Section 5.11 Final Payment to Participant or Beneficiary. Any final payment or distribution to any Participant or a legal representative or Beneficiary of a Participant, or any one claiming under them, in accordance with this Plan, shall be in full satisfaction of all claims against the Trust Fund, the Trustee, the Committee, any Employer Company, and all representatives, officers, employees and agents thereof. The person receiving the payment or distribution may be required to execute a receipt and release of all claims under the Plan upon a final payment or distribution or a receipt and release to the extent of any partial payment or distribution. The form and content of such receipt or release shall be determined by the Committee.

Section 5.12 Suspension of Benefits.

- (a) Subject to paragraph (b) below, if a Participant, other than a Grandfathered Motor Cargo Participant, entitled to receive benefits (which shall be deemed to include the actual receipt of such benefits) should (i) return to employment prior to January 1, 2009 or (ii) remain in employment after attaining Normal Retirement Age:
- (i) The payment of benefits to said Participant shall be suspended for the period in which the Participant remains employed but not beyond the Required Beginning Date set forth in the Required Minimum Distribution Addendum to Appendix M of this Plan. Benefit payments will be resumed no later than the first day of the third calendar month after the month in which the Participant ceases to be employed, provided the Participant has informed the Plan Administrator that he has ceased such employment or his or her Required Benefit Commencement Date, if earlier.
  - (ii) For purposes of this Section 5.12(a), a period of employment as to which benefits shall be suspended means any calendar month or a four or five week period ending in a calendar month, if the Participant completes at least forty hours of service (as defined in 29 CFR §2530.200b-2(a)(1) and (2)) with the Employer Company or a Related Employer in such month or payroll period.
  - (iii) Any Participant coming under this provision will be notified by first class mail or personal delivery within the first calendar month or payroll period in which the Plan withholds the payment of Retirement Benefits.
  - (iv) Any Participant may request a determination of whether or contest a determination that specific contemplated employment will be considered employment for purposes of this Section 5.12(a). Request for status determinations may be submitted in accordance with the claim procedures set forth in Section 9.4.
  - (v) When a Participant whose benefits were suspended in accordance with Section 5.12(a)(i) is entitled to recommence benefits upon his or her subsequent termination of employment with all Related Employers or his or her Required Benefit Commencement Date, his or her benefits shall be recalculated on the basis of Compensation earned and years of Benefit Service credited during such period of reemployment or continued employment, and no actuarial or other adjustment shall be made to such Participant's benefit so as to reflect payments so suspended. In addition, such resumed payment shall be offset by (I) any benefit paid with respect to a month in which the Participant was in service described in Section 5.12(a)(ii) where the amount so paid has not been returned or repaid to the Plan by such Participant and (II) the Actuarial Equivalent of any payments made to the Participant before his or her Normal Retirement Date. A Participant whose benefits have been suspended during a period of reemployment or

continued employment shall be entitled to elect the form of payment for his or her entire benefit, including amounts accrued both before and during reemployment, in accordance with Section 5.4.

(vi) When a Participant who returns to employment with an Employer Company or a Related Employer on or after January 1, 2009 his or her benefit in pay status before such return to employment shall continue and upon his or her subsequent termination of employment or Required Benefit Commencement Date, an additional Retirement Benefit shall be paid if he or she earns additional Benefit Service. The Participant's Retirement Benefit shall be recalculated on the basis of his or her total years of Benefit Service, including those earned following his or her return to employment. The excess, if any, of the recalculated Retirement Benefit over the initial Retirement Benefit shall be paid in the form elected by the Participant in accordance with Section 5.4 (which is not required to be the same form as his or her initial Retirement Benefit) unless the Participant was at least Normal Retirement Age at the commencement of his or her initial Retirement Benefit, in which case, his or her additional Retirement Benefit, if any, shall be paid in the same form as his or her initial Retirement Benefit.

(b) Portable Account Benefit. If a Participant returns to employment at any time after receiving payment of his or her Portable Account Benefit in a form other than a lump sum, his or her benefits attributable to the Portable Account Formula shall not be suspended.

Section 5.13 Withholding of Income Tax.

(a) Notification of Withholding of Federal Income Tax. All Participants, Spouses, Domestic Partners and Beneficiaries entitled to receive benefits under the Plan (each, a "payee") shall be notified of the Plan's obligation to withhold federal income tax from any benefits payable pursuant to the terms of the Plan. Such notice shall be given in such manner and at such time as required by applicable law.

(b) Effective Date of Election. Any transfer direction, election or revocation of any election by a payee shall become effective immediately upon receipt by the Committee of the transfer direction, election or revocation. Thereafter, the Committee shall, unless otherwise provided by applicable law, regulation or other guidance by the Secretary of the Treasury or his or her delegate, instruct the Trustee to withhold federal income tax in accordance or consistent with the instructions filed by the payee.

(c) Failure to Make Election.

(i) In the case of an eligible rollover distribution, if the payee fails to provide the Committee with a transfer direction, the Committee shall instruct the Trustee to withhold an amount equal to 20% of the amount of the distribution

(or such other amount as may be from time to time prescribed by the Code, or the Secretary of the Treasurer or his or her delegate).

(ii) In the case of a distribution which is not an eligible rollover distribution, if the payee fails to provide the Committee with a withholding certificate, the Committee shall instruct the Trustee to withhold, in the case of a periodic distribution, the amount which would be required to be withheld from such payment if such payment were a payment of wages by an employer to an employee for the appropriate payroll period, determined as if the payee were a married person claiming three withholding allowances. In the case of a nonperiodic distribution, 10% of the amount of the distribution shall be withheld.

(d) Coordination with Internal Revenue Code and Regulations. Notwithstanding the foregoing, the Committee shall discharge its withholding and notice obligations in accordance with the Code and regulations and such other guidance with respect thereto as may be promulgated from time to time by the Secretary of the Treasury or his or her delegate.

Section 5.14 Direct Rollover.

(a) With respect to any distribution described in this Article V which constitutes an eligible rollover distribution within the meaning of Code § 401(a)(31)(C), the distributee thereof shall, in accordance with procedures established by the Committee, be afforded the opportunity to direct that such distribution be transferred directly to the trustee of an eligible retirement plan, or to an individual retirement plan described in Code § 408A (a “Roth IRA”) (a “direct rollover”). For purposes of the foregoing sentence, an “eligible retirement plan” is (1) a qualified trust within the meaning of Code § 402 which is a defined contribution plan the terms of which permit the acceptance of rollover distributions, (2) an individual retirement account or annuity within the meaning of Code § 408 (other than an endowment contract), (3) an annuity plan within the meaning of Code 403(a), which is specified by the distributee in such form and at such time as the Committee may prescribe, or (4) an annuity contract described in Code § 403(b) and (5) an eligible plan under Code § 457(b) which is maintained by a state, political subdivision of a state, or any agency instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. The definition of “eligible retirement plan” shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the alternate payee under a qualified domestic relation order, as defined in Code § 414(p).

Notwithstanding any contrary provision in the Plan, a Beneficiary who is not the Participant’s or the former Participant’s surviving Spouse and who is not the Participant’s or former Participant’s Spouse or former Spouse who is an alternate payee under a qualified domestic relations order, shall in accordance with procedures established by the Committee, be afforded the opportunity to have any portion of a

distribution paid in a direct trustee-to-trustee transfer to an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), or a Roth IRA, each of which is established for the purpose of receiving such distribution on behalf of such Beneficiary and is treated as an inherited individual retirement account or individual retirement annuity (within the meaning of Code § 408(d)(3)(C)) for purposes of Code § 402(c)(11) (each, an “Inherited IRA”). The minimum distribution rules of Code § 401(a)(9) as described in the Required Minimum Distribution Addendum to Appendix M shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

- (b) Notwithstanding the foregoing, if the distributee elects to have his or her eligible rollover distribution paid in part to him or her, and paid in part as a direct rollover:
  - (iii) the direct rollover must be in an amount of \$500 or more;  
and
  - (iv) a direct rollover to two or more eligible retirement plans shall not be permitted.
- (c) The Committee shall, within a reasonable period of time prior to making an eligible rollover distribution from this Plan, provide an explanation in a manner prescribed by law to the distributee of the direct rollover option described above, as well as the provisions under which such distribution will not be subject to tax if transferred to an eligible retirement plan within 60 days after the date on which the distributee received the distribution.

Section 5.15 Recovery of Overpayments. No person is entitled to any benefit under this Plan except and to the extent expressly provided under this Plan. The fact that payments have been made from this Plan in connection with any claim for benefits under this Plan does not (a) establish the validity of the claim, (b) provide any right to have such benefits continue for any period of time, or (c) prevent the Plan from recovering the benefits paid to the extent that the Committee determines that there was no right to payment of the benefits under this Plan or that there was a mistake in the calculation of benefits under this Plan. Thus, if a benefit is paid under this Plan and it is thereafter determined by the Committee that such benefit should not have been paid, or that such benefit was overpaid (whether or not attributable to an error by the Participant, the Committee or any other person), then the Committee may take such action as it deems necessary or appropriate to remedy such situation, including, without limitation, deducting the amount of any overpayment theretofore made to or on behalf of the Participant from any succeeding payments to or on behalf of the Participant or instituting legal action to recover such overpayments. The period over which the Committee may recover any benefit overpayment shall not be limited by the period during which the error occurred.

Section 5.16 Funding Based Limitations on Benefits and Benefit Accrual for Plan Years beginning on or after January 1, 2008.



For Plan Years beginning on or after January 1, 2008, refer to Appendix R, Funding Based Limitations on Benefits and Benefit Accrual.

**ARTICLE VI  
VESTING**

Section 6.1 Vesting. Each Participant shall have a 100% vested interest in his or her Accrued Benefit:

- (h) If he does not have a Portable Account, after completing at least five Years of Service;  
and
- (i) If he does have a Portable Account, after completing at least three Years of Service.

A Participant shall have no vested interest prior to the completion of the number of Years of Service specified above, except as provided in the applicable Appendix or in Article XI, Top Heavy Provisions. In addition, a Participant's Accrued Benefit shall be fully vested upon his or her attainment of his or her Normal Retirement Age while employed by an Employer Company or a Related Employer.

Any Participant in the Plan on the date of adoption of any amendment to the vesting schedule may, within an election period which begins on the date of adoption of such amendment to the vesting schedule and ends on the sixtieth day after the latest of: (i) the date the amendment is adopted; (ii) the date the amendment becomes effective; or (iii) the date the Participant is given written notice of the amendment by the Committee, elect to have his or her vested percentage determined under his or her vesting schedule as in effect immediately prior to the effective date of amendment, provided he has completed three Years of Service prior to the end of the election period. Any election made will be irrevocable. Further no Participant shall have his or her vested percentage decreased by any change in the vesting schedule.

Section 6.2 Breaks in Service for Vesting Purposes. If a Participant with no vested interest, as determined under Section 6.1, incurs one or more consecutive Breaks in Service:

- (i) Prior to 2000, Years of Service before such Break in Service shall not be taken into account for purposes of Section 6.1 until the Participant completes one Year of Service after the Break in Service; and
- (j) Years of Service prior to the Break in Service shall not be taken into account for purposes of Section 6.1 if the number of consecutive Breaks in Service equals or exceeds the greater of (i) the aggregate number of the Participant's Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (ii) with respect to a Break in Service incurred by a person who is an Employee on or after January 1, 1985, regardless of when the Break in Service occurred, six.

Section 6.3 Forfeitures. All forfeitures of nonvested interests in the Plan occurring during the Plan Year shall be applied to reduce future contributions and shall not be used or applied to increase the benefits to which any Participant would be entitled hereunder.

**ARTICLE VII  
AMENDMENT, MODIFICATION AND TERMINATION; MERGER**

Section 7.1 Right to Amend or Terminate. The Employer Companies hope, and expect, to continue this Plan and the funding of benefits hereunder indefinitely; but such continuance is not assumed as a contractual obligation and, in order to protect both Participants and the Employer Companies against unforeseen contingencies, the Employer Companies expressly reserve the right, by action of their boards of directors, to discontinue contributions to this Plan or to terminate this Plan at any time with respect to its Participants, without the consent of any party. The right to amend this Plan in any respect or particular is vested exclusively in the Board of Directors which right is not conditional on the consent or approval of any other Employer Company. Additionally, any amendment or modification may be made retroactive, if necessary or appropriate to qualify or maintain the Plan as a qualified Plan within the meaning of Code § 401(a), and to qualify or maintain the Trust as tax exempt under Code § 501(a), and the regulations issued thereunder. Notice of any amendment or modification of the Plan may be given by posting, by mail, or by such other means as may be acceptable under ERISA.

Section 7.2 Withdrawal of Employer Company. Any Employer Company, by action of its board of directors, may withdraw from the Plan at any time.

Section 7.3 Liquidation of Trust Fund. Upon termination or partial termination of the Plan, each affected Participant's benefits, determined prior to the date of termination, shall become fully vested and non-forfeitable, to the extent funded and to the extent such benefit is not restricted pursuant to the provisions of Section 7.9 herein. The assets of the Trust Fund, shall be allocated among Participants and Beneficiaries, after payment of administration expenses of the Plan, in the following order of priority as modified by the provisions of Treasury Regulations § 1.414(l)-1(f) or (h) if a special schedule of benefits (as defined in the regulations) is in effect as a result of a plan merger within the five year period prior to the date of termination:

- (g) Benefits Payable Three Years Prior to Termination. First, to provide benefits that become payable three or more years before the date of termination of the Plan, or that would have become payable had the Participant retired immediately prior to the beginning of such three year period, provided that:
  - (vii) the benefit payable to a Participant or Beneficiary (or that could have been payable) shall be based on the provisions of the Plan in effect during the five year period prior to the date of termination of the Plan; and further provided that,
  - (viii) the lowest benefit payable during such three year period shall be considered the benefit payable for purposes of this category (a).
- (h) Other Benefits Eligible for Termination Insurance. Second, to the extent that a benefit has not been provided in category (a), the remaining assets shall be allocated to

provide any benefit provided under the Plan for Participants and Beneficiaries to the extent guaranteed by the Pension Benefit Guaranty Corporation pursuant to Title IV of ERISA.

- (i) Other Benefits. To the extent that a benefit under the Plan has not been provided in the foregoing categories, the assets of the Plan shall be allocated to provide all other non-forfeitable benefits under the Plan and, finally, to provide all other benefits under the Plan.

If the assets of the Trust Fund applicable to any of the above categories are insufficient to provide full benefits for all persons in such group, the benefits otherwise payable to such persons shall be allocated pro rata on the basis of the present value of benefits as of the termination date. The Actuary shall calculate the allocation of the assets of the Trust Fund in accordance with the above priority categories, and certify his or her calculations to the Committee. Each of the above classes shall be divided into subclasses, giving first preference within the class to those Participants over 65 and those beneficiaries receiving benefits; second preference to Participants over 60 years of age; third preference to Participants over 55 years of age; fourth preference to Participants under 55 years of age having a deferred vested benefit; and fifth preference to all others. The Committee may establish additional subclasses within the classes set forth in subsection (a), (b), and (c).

Section 7.4 Finality of Payment. Prior to making any distribution under the terms of Section 7.3, the Committee shall satisfy itself that this procedure complies with applicable law and shall obtain such waivers and authorizations from Participants and Beneficiaries as it deems advisable.

Section 7.5 Non-diversion of Assets. Except as provided in Section 3.4 hereof, regarding return of contributions no part of the assets of the Trust, by reason of any amendment or otherwise, shall at any time be used for, or diverted to, purposes other than for the exclusive benefit of Participants, former Participants, or their Beneficiaries, and for the payment of administrative expenses under the Plan, or as will cause, or permit the assets of the Trust to revert to, or become the property of an Employer Company at any time prior to the satisfaction of all liabilities under the Plan. When all such liabilities have been satisfied, any assets remaining will revert to the Employer Companies.

Section 7.6 Committee Functions during Termination. If the Plan is terminated, the Committee in office at the time of such termination shall continue to act with its full powers hereunder until the completion of the allocation and distribution of the assets of the Trust Fund as in this Article VII provided; and a majority of the members of the Committee then in office shall have the power to fill any vacancies occurring in the Committee after such termination by resignation, death, or otherwise. In the event the Committee within a reasonable time after such termination shall not have provided for such allocation and distribution, the Board of Directors shall succeed to all powers and duties of the Committee and shall provide for such allocation and distribution of the assets of the Trust Fund.

Section 7.7 Notice of Termination. Notice of termination of the Plan, in whole or in part, shall be deemed adequately given if an Employer Company or the Committee provides notice of the same to each affected Participant or Beneficiary in such manner and at such time as may be acceptable under ERISA.

Section 7.8 Merger and Consolidation of Plan, Transfer of Assets.

- (c) In the case of any merger or consolidation with, or transfer of assets and liabilities to, any other plan, provisions shall be made so that each Participant in the Plan on the date thereof (if the Plan then terminated) would receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he or she would have been entitled to receive immediately prior to the merger, consolidation or transfer if the Plan had been terminated.
- (d) Effective on December 31, 2012 (the "Transfer Time"), all assets and liabilities of the Plan attributable to all Freight Employees (as defined below) shall be and hereby are transferred to and shall become assets and liabilities of the UPS Pension Plan. This transfer is evidenced by a Memorandum of Understanding executed by UPS Freight and by the Teamsters National UPS Freight Negotiating Committee (the "Teamster Committee") dated October 23, 2012.

Freight Employee means an individual identified in the Memorandum of Understanding between UPS Freight and the Teamsters National UPS Freight Negotiating Committee executed on October 23, 2012, which is incorporated by reference herein and for convenience is set forth below:

- (i) each current, former or retired Employee who is, or was, represented by the International Brotherhood of Teamsters;
- (ii) last earned a benefit in the UPS Pension Plan as of January 1, 2013 or the date of his or her termination of employment, if earlier; and
- (iii) has accrued a benefit under this Plan.

Section 7.9 Discontinuance of Plan Within Ten Years of Amendment. In the event that the Plan is discontinued by any Employer Company within ten (10) years after any amendment to the Plan which increases the benefits payable under the Plan, or if the full current costs (including current service contributions and interest on any unfunded liability for the initial cost of retroactive increases in benefits not covered by current service contributions) are not met by such Employer Company during such ten (10) year period, the contributions which may be used to provide benefits for any one of the twenty-five (25) most highly compensated employees on the effective date of such amendment, whose anticipated retirement annuity based upon the rate of compensation as of that date would be more than \$1,500 per year, until such full current costs are funded for the first time, shall not exceed the greatest of:

- (a) The total contributions which would have been applied to provide a retirement annuity for any such employee if the Plan prior to such amendment had continued without change;
- (b) \$20,000;  
or

- (c) The amount which would have been provided by contributions under the Plan prior to such amendment if the Plan had been terminated the day before the effective date of such amendment, plus an amount computed by multiplying the number of years during which current costs beginning with the effective date of such amendment are met by (i) 20% of any such employee's annual compensation or (ii) \$10,000, whichever is less.

Any excess reserves resulting from the application of the foregoing provisions of this Section shall be used and applied toward the funding of the benefits due to other Participants in the Plan who are employees of such Employer Company, in accordance with the provisions of the Plan.

If the Plan is in full force and effect and the full current costs have been met, the foregoing conditions shall not restrict the current payment of full benefits called for by the Plan to any Participant. The limitations of this Section shall be inapplicable to the extent the Commissioner of Internal Revenue or his or her duly authorized representative may later rule that the limitations are no longer necessary for the Plan to meet the requirements for qualifications under the Code.

If this Plan is not terminated within the period specified above, the benefits, if any, which have been withheld from a Participant in accordance with this Section shall be turned over to the Participant or his or her representative at the end of said period or as soon thereafter as the full current costs of the Plan attributable to the said period have been met for the first time.

If this Plan is terminated within any of the said periods or thereafter, but before the full current costs of the Plan attributable to any of the said periods have been met for the first time, then any benefits which have been withheld from a Participant in accordance with this Section shall, upon termination of this Plan, be distributed as provided in Section 7.3, except that no part of such funds shall be distributed or used to fund benefits for any Participant who is affected by the limitations of this Article.

**ARTICLE VIII  
INVESTMENTS**

Section 8.1 Direction of Investments. The Committee shall, except to the extent it has expressly delegated such authority to Trustees, or an investment manager, have full and exclusive power and authority, to direct the Trustees as to the investment of the assets of the Trust, and Trustees shall invest, reinvest, buy, sell, hypothecate or otherwise deal with the assets of the Trust Fund in accordance with the Committee's directions. Such directions shall be certified in writing by two members of the Committee. Investments shall not be restricted to investments now or hereafter legal for trust funds under the laws of the States of New York, New Jersey, Connecticut or any other jurisdiction. The Committee may, to the extent permitted by law, direct investment in:

- (i) qualifying employer real property (as defined in ERISA § 407(d)(4));
- (j) qualifying employer securities (as defined in ERISA § 407(d)(5));  
and
- (k) other securities and other investments as directed by the Committee, including but not limited to common trust funds and collective employee benefit trusts of the Trustee and contributions to the capital of any corporation all of whose stock is owned by the Trustee.

Section 8.2 Annual Valuation of Trust Fund. As of December 31st in each year, or as of the end of any shorter accounting period that the Committee shall select, all of the assets in the Trust shall be valued by or under the supervision of the Committee. Such valuation shall be made in accordance with market quotations, when available, and on the basis of such other factors as the Committee deems appropriate.

**ARTICLE IX**  
**ADMINISTRATIVE COMMITTEE**

Section 9.1 Establishment of Administrative Committee. The Plan shall be operated and administered by an Administrative Committee consisting of not less than three (3) members (“named fiduciaries”), who shall be appointed by the Board of Directors. The Administrative Committee shall be the Plan Administrator as that term is used in ERISA, agent for service of process on or with respect to the Plan and a named fiduciary with respect to the Plan. Committee members may be removed at any time by the Board of Directors and may resign at any time, such resignation to be effective when accepted by the Board of Directors. All vacancies shall be filled by the Board of Directors. The Committee may appoint from their number such committees, which may include individuals not members of the Committee, with such powers as they shall determine; may authorize one (1) or more of their number, or any agent, to execute or deliver any instrument, or to make any payment on their behalf; and may employ legal counsel (who shall not be an employee of an Employer Company), actuaries, agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. The Committee shall meet at least once during each calendar quarter. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee at a meeting shall be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by all of the members of the Committee.

The Committee, acting as agent for the Company, may from time to time appoint additional named fiduciaries with respect to the Plan for the purpose of facilitating the investment of Plan’s assets and each named fiduciary appointed by the Committee shall have such powers, duties, obligations and responsibilities as the Committee shall prescribe in its appointment.

Section 9.2 Delegation of Specific Responsibilities. The members of the Committee may agree in a writing signed by each member to allocate to any one of their number or to other persons or entities any of the responsibilities with which they are charged pursuant hereto, including the appointment of an investment manager to manage the investments of the Trust Fund, provided the responsibilities and duties so delegated are definitively set forth so that the person to whom the delegation is made is clearly aware of such duties and responsibilities. If such delegation is made to a person not a member of the Committee, that person or, in the case of an entity, its responsible officer, shall acknowledge the acceptance and understanding of such duties and responsibilities.

Section 9.3 Power to Establish Regulations. The Committee shall establish rules and regulations for the administration of the Plan and the Committee. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and decide any matters arising in the administration and operation of the Plan, and any interpretations or decisions so made shall be conclusive and binding on all persons; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Employees and Participants similarly situated.



Section 9.4 Claims Procedure.

- (d) All claims for benefits hereunder shall be directed to the Committee or to a member of the Committee designated for that purpose. Within ninety (90) days following receipt of a claim for benefits, the UPS Corporate Benefits Department manager responsible for the day-to-day operation of the Plan (the "Initial Reviewer") shall determine whether the claimant is entitled to benefits under the Plan, unless additional time is required for processing the claim. In this event, the Initial Reviewer shall, within the initial ninety (90)-day period, notify the claimant that additional time is needed, explain the reason for the extension, and indicate when a decision on the claim will be made. The initial decision must be made within 180 days of the date the claim is filed.
- (e) A denial by the Initial Reviewer of a claim for benefits shall be stated in writing and delivered or mailed to the claimant. Such notice shall set forth the specific reasons for the denial, written in a manner calculated to be understood by the claimant. The notice shall include specific reference to the Plan provisions on which the denial is based and a description of any additional material or information necessary to perfect the claim, an explanation of why this material or information is necessary, and the steps to be taken if the claimant wishes to submit his or her claim for review, a description of the Plan's review procedures, and the time limits applicable to such procedures, and a statement of the claimant's right to bring a civil action under ERISA § 502(a) following an adverse benefit determination upon review.
- (f) The Committee shall afford a reasonable opportunity to any claimant whose request for benefits has been denied for a review of the decision denying the claim. The review must be requested by written application to the Committee within sixty (60) days following receipt by the claimant of written notification of denial of his or her claim. Pursuant to this review, the claimant or his or her duly authorized representative may review any documents, records and other information which are pertinent to the denied claim and submit issues and comments in writing. A claimant may also submit documents, records and other information relating to his or her claim, without regard to whether such information was submitted in connection with his or her original benefit claim.
- (g) A decision on the claimant's appeal of the denial of benefits shall ordinarily be made by the Committee at the next regularly scheduled meeting that immediately follows the receipt of the request for review, unless the request for review is received within 30 days of such meeting date. In that case, the review will occur at the second regularly scheduled meeting following the Plan's receipt of the request for review. If an extension of time is required because of special circumstances, the Committee will provide the claimant with written notice of the extension describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. A benefit determination will be made no

later than the third regularly scheduled meeting of the Committee following the Plan's receipt of the request for review.

The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, specific reference to the Plan provisions on which the decision is based, a statement that the claimant or his or her authorized personal representative may review any documents and records relevant to the claim determination, a statement describing further voluntary appeals procedures, if any, and a statement of the claimant's right to bring civil action under ERISA § 502(a).

Section 9.5 Forfeiture in Case of Unlocatable Participant or Beneficiary. If the Committee is unable to pay benefits to any Participant or Beneficiary who is entitled to benefits hereunder when such benefits are due because the identity or whereabouts of such person cannot be ascertained, the Committee shall proceed as follows:

- (a) As soon as administratively possible after the Committee has determined that a Participant or Beneficiary cannot be paid due to the circumstances stated above, the Committee shall submit the last known address, and any other information the Committee deems appropriate, to a locator service.
- (b) If the locator service provides the Committee with a new address for the Participant or Beneficiary, the Committee shall mail the benefit payment to the new address as soon as administratively possible after such new address is known. If the locator service fails to identify a new address for the Participant or Beneficiary, all amounts held for his or her benefit shall be forfeited as of the last day of the Plan Year in which the locator service notifies the Committee that it cannot locate the individual. Upon forfeiture, all liability for payment of the benefit shall thereupon terminate. In any such case, the funds released as a result of such forfeiture shall be dealt with as provided in Section 6.3. However, if an individual subsequently makes what the Committee determines to be a valid and proper claim to the Committee for such amounts, the account or accounts will be restored and will be distributable without interest in accordance with the terms of this Plan.

Section 9.6 Liability of the Committee. The Committee and the members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan solely in the interests of the Plan's Participants and their Beneficiaries, and for the exclusive purpose of providing benefits thereto in accordance with the terms of the Plan and to defray the reasonable administration expenses thereof. In all such actions or omissions the Committee and each member thereof shall exercise the care, skill, prudence and diligence required under ERISA; provided, however, that no member shall be responsible for the actions or omissions of a member or any other party that is a fiduciary with respect to this Plan, other than himself or herself, except to the extent required under ERISA.

Section 9.7 Fiduciary Responsibility Insurance; Bonding. If the Employer Company has not done so, the Committee may direct the purchase of appropriate insurance on behalf of the Plan and

the Plan's fiduciaries, including the members of the Committee, to cover liability or losses occurring by reason of the acts or omissions of a fiduciary; provided, however, that to the extent purchased by the Plan such insurance must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary duty or obligation by such fiduciary. The cost of such insurance shall be borne by the Fund, unless the insurance is provided by and paid for by the Employer Company. The Trustees shall also obtain a bond covering all the Plan's fiduciaries, to be paid from the assets of the Trust Fund.

Section 9.8 Meetings of Committee. The Committee shall hold meetings at least once during each calendar quarter upon such notice, at such place or places, and at such time or times as it may determine from time to time. Notice of a meeting may be waived.

Section 9.9 Compensation of Committee. The members of the Committee may receive reasonable compensation for their services as the Board of Directors may from time to time determine. Such compensation and all other expenses of the Committee, including the compensation of officers, actuaries or counsel, agents or others that the Committee may employ, shall be paid out of the Trust Fund, unless paid by the Employer Company. Notwithstanding the foregoing, any Committee member who is employed on a full-time basis by an Employer Company shall receive no compensation, but shall be reimbursed from the Fund for reasonable expenses incurred.

Section 9.10 Reliance by Committee. Board of Directors and Committee members shall be fully protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any actuary, accountant, legal counsel (other than an employee of an Employer Company), or physician, and all action so taken or suffered shall be conclusive upon all Participants and Beneficiaries, and any other person claiming under the Plan.

Section 9.11 Books and Records. The Committee shall keep appropriate books and records.

Section 9.12 Disbursements. The Committee shall determine the manner in which the Trust Fund shall be disbursed under the terms of the Plan and Trust Agreement.

Section 9.13 Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration. The fiduciaries hereunder, including the Trustee, the Employer Companies, the Board of Directors and the Committee, shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan or the Trust Agreement. In general, the Employer Companies shall have the sole responsibility for making the contributions necessary to provide benefits under the Plan as specified in Article V, and the Board of Directors shall have the sole authority to appoint and remove the Trustee, members of the Committee and to amend or terminate, in whole or in part, this Plan or the Trust, except as otherwise provided. The Committee shall be responsible for the administration of the Plan and the management and administration of the Trust and shall have the responsibility for the appointment and removal of any Investment Manager except to the extent such responsibility is delegated to another named fiduciary under the Trust and or the Plan. Subject to any direction from the Committee, the Trustee shall have the responsibility for the administration of the Trust and the management of the assets held under the Trust, all as specifically provided income Trust. Each fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust, as the case

may be, authorizing or providing for such direction, information or action. Furthermore, each fiduciary may rely upon any such direction, information or action of another fiduciary as being proper under this Plan or the Trust, and is not required under this Plan or the Trust to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust that each fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust and shall not be responsible for any act or failure to act of another fiduciary. No fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

**ARTICLE X**  
**GENERAL PROVISIONS**

Section 10.1 Prohibition Against Attachment.

- (j) None of the benefits payable hereunder shall be subject to the claims of any creditor of any Participant or Beneficiary nor shall the same be subject to attachment, garnishment or other legal or equitable process by any creditor of the Participant or Beneficiary, nor shall any Participant or Beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of such benefits.
- (k) If any Participant or Beneficiary under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, the interest of such person in such benefit shall, in the discretion of the Committee, cease and terminate, and in that event the Committee may direct the Trustee to hold or apply the same or any part thereof to or for the benefit of such Participant or Beneficiary, his or her Spouse, Domestic Partner, children, or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.
- (l) Exception to general prohibition against attachment for Qualified Domestic Relations Orders.
  - (i) General Rule. The restrictions of subsection (a) and subsection (b) of this Section 10.1 will not be violated by either (A) the creation of a right to payments from this Plan by reason of a Qualified Domestic Relations Order or (B) the making of such payments.
  - (ii) Definition of Qualified Domestic Relations Order. For purposes of this subsection (c), the term “Qualified Domestic Relations Order” means any judgment, decree, or order (including approval of a property settlement agreement), made pursuant to a State domestic relations law (including a community property law), which relates to the provision of child support, alimony payments, or marital property rights to a Spouse, former Spouse, child, or other dependent of a Participant (an “Alternate Payee”) and which:
    - (D) creates or recognizes the right of an Alternate Payee to, or assigns to any Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under this Plan;
    - (E) clearly specifies (1) the name and last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order, (2) the amount or percentage of the Participant’s benefits to be paid by the Plan to each Alternate Payee, or the manner in which such amount or percentage is to be determined,

- (3) the number of payments or period to which such order applies, and (4) that the order applies to this Plan;
- (F) does not require this Plan to provide any type or form of benefit, or any option, not otherwise provided under this Plan, unless, in the case of any payment before a Participant has separated from service, the order requires payment of benefits to an Alternate Payee (1i) on or after the date the Participant attains (or would have attained) the earliest age on which he or she could elect to receive retirement benefits under the Plan, (2) as if the Participant had retired on the date such payment is to begin under such order (but taking into account only the present value of the benefits actually accrued and not taking into account the present value of any employer subsidy for early retirement), and (3) in any form in which such benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the Alternate Payee and his or her subsequent Spouse);
- (G) does not require this Plan to provide increased benefits (determined on the basis of actuarial equivalence); and
- (H) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another order previously determined to be a Qualified Domestic Relations Order.
- (iii) Procedures for Qualified Domestic Relations Orders. The Committee shall develop and implement procedures (a) for determining whether an order received by the Plan is a “Qualified Domestic Relations Order” within the meaning of subsection (c) of Section 10.1, (b) for administering distributions under such orders, and (c) for holding amounts which would be payable under such orders pending the determination described in subsection (a) of this Section 10.10.

Section 10.2 Facility of Payment. If any Participant or Beneficiary shall be physically or mentally incapable of receiving or acknowledging receipt of any payment due under the terms of the Plan, the Committee may direct the Trustee to make any such payment to a legal representative or, if no legal representative shall have been appointed for him or her, to any person or institution maintaining such Participant or Beneficiary, and the payment to such person or institution in good faith shall constitute a valid and complete discharge for such payment.

Section 10.3 Payment to Minor Beneficiary. If the Beneficiary of any Participant shall be a minor and no guardian shall have been appointed for him or her, the Committee may direct the Trustee to retain any payment due under the Plan for his or her benefit until he or she attains majority. Such amount, as authorized by the Committee, may be held in cash, deposited in bank accounts, or invested or reinvested in direct obligations of the United States, and the income thereon may be accumulated and invested, or the income and principal may be expended and applied directly for

the maintenance, education and support of such minor without the intervention of any guardian and without application to any court.

Section 10.4 No Rights of Employment. The Plan shall not confer upon any Employee or Participant any right of employment, nor shall any provision of the Plan interfere with the right of an Employer Company to discharge any Employee.

Section 10.5 Payments Only From Trust Fund. Except as otherwise required by law, no liability shall attach to the Employer Companies for payment of any benefits or claims hereunder and every Participant or Beneficiary or person claiming under them shall have recourse only to the Trust Fund for payment of any benefit hereunder and the rights of such persons are hereby expressly limited accordingly.

Section 10.6 Applicable Law. All provisions of the Plan, including definitions, shall be construed according to the laws of the State of Georgia, except to the extent preempted by Federal law.

Section 10.7 Titles. Titles of Articles and Sections are inserted for convenience only and shall not affect the meaning or construction of the Plan.

Section 10.8 Counterparts. This Plan may be executed in various counterparts to this document, each of which shall be deemed to be an original but all shall be deemed to be one document.

Section 10.9 No Access to Books and Records. Nothing herein or in the Trust Agreement contained shall give any Participant or Beneficiary or any other person the right or privilege to examine or have access to the books or records of any Company or of the Committee or the Trustee; nor shall any such person have any right, legal or equitable, against any Company or against any director, officer, employee, agent or representative thereof or against the Trustee or the Committee, except as herein expressly provided or permitted by law.

Section 10.10 USERRA. Notwithstanding anything in this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Code § 414(u).

Effective for Plan Years beginning after December 31, 2006, in the case of a Participant who dies while performing qualified military service (as defined in Code § 414(u)), the Participant's Beneficiary shall be entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan as if the Participant had resumed and then terminated employment on account of death.

Effective January 1, 2013, notwithstanding any contrary provision in the Plan, in the case of a Participant who incurs a "disability" (as described in Section 1.1(r) or in the applicable Appendix) while performing qualified military service (as defined in Code § 414(u)), such Participant shall be entitled to the disability benefit to which the Participant otherwise would have been entitled to under the Plan had the Participant resumed employment in accordance with chapter 43 of Title 38 of the United States Code on the day before the date of his or her Disability and then terminated employment

on account of his or her Disability and such period of qualified military service (as defined in Code § 414(u)) shall be deemed to be Benefit Service for purposes of determining the disability benefit.

**ARTICLE XI**  
**TOP-HEAVY PROVISIONS**

Section 11.1 Effective Date of This Article. This Article shall be effective for all Plan Years beginning after December 31, 1983.

Section 11.2 Definitions. The following definitions apply to this Article:

- (h) “Top-Heavy Plan” -- The Plan is a Top-Heavy Plan in any Plan Year in which:
  - (v) the Plan is a member of a Top-Heavy Group, if the Plan is described in Section 11.2(c)(i) or (ii), below;  
or
  - (vi) the Plan is not a member of an Aggregation Group as described in Section 11.2(c)(i) or (ii), below, and, as of the Determination Date, the Cumulative Accrued Benefit of the Plan for Key Employees exceeds sixty percent of the Cumulative Accrued Benefit of the Plan for all Participants.
- (i) “Key Employee” means an Employee or former Employee who at any time during the Plan Year or any of the four preceding Plan Years is:
  - (xi) For Plan Years before January 1, 2002
    - (C) an officer of the Employer Company having an annual compensation from the Employer Company of more than \$45,000 (provided, however, that no more than the lesser of (A) 50 Employees or (B) the greater of three Employees or 10% of the Employees shall be treated as officers under this paragraph),
    - (D) one of the 10 Employees having an annual compensation from the Employer Company of more than \$30,000 and owning the largest interests in the Employer Company,
    - (E) an owner of five percent of the outstanding stock of the Employer Company or stock possessing more than five percent of the total combined voting power of all stock of the Employer Company, or
    - (F) an owner of one percent of the outstanding stock of the Employer Company or stock possessing more than one percent of the total combined voting power of all stock of the Employer Company, who has an annual compensation from the Employer Company of more than \$150,000.
  - (xii) For Plan Years beginning after December 31, 2001,



- (xiii) an officer of the Employer Company having an annual compensation from the Employer Company of more than \$130,000, as adjusted under Code § 416(i)(1) (provided, however, that no more than the lesser of (A) 50 Employees or (B) the greater of three Employees or 10% of the Employees shall be treated as officers under this paragraph),
- (xiv) an owner of five percent of the outstanding stock of the Employer Company or stock possessing more than five percent of the total combined voting power of all stock of the Employer Company, or
- (xv) an owner of one percent of the outstanding stock of the Employer Company or stock possessing more than one percent of the total combined voting power of all stock of the Employer Company, who has an annual compensation from the Employer Company of more than \$150,000.

If two Employees have the same interest in the Employer Company, the Employee with the greater annual compensation shall be treated as having a larger interest. For purposes of determining ownership in the Employer Company (i) the constructive ownership rules of Code § 318, as modified by substituting “5 percent” for “50 percent” in subsection (a)(2)(C) thereof, shall apply, but (ii) the rules of subsections (b), (c), and (m) of Code § 414 shall not apply. Each Beneficiary of a Key Employee designated under this Plan is a Key Employee.

- (j) “Aggregation Group” means a group of plans consisting of more than one plan and including:
  - (iv) each plan of the Employer Company in which a Key Employee is a participant;
  - (v) each other plan of the Employer Company which enables any plan described in (i) to meet the requirements of Code § 401(a)(4) or Code § 410; and
  - (vi) any plan not described in (i) or (ii) which the Employer Company elects to include, provided that such inclusion does not prevent the group from meeting the requirements of Code § 401(a) (4) and Code § 410.
- (k) “Top-Heavy Group” is an Aggregation Group for which, as of the Determination Date, the Total Benefit for Key Employees exceeds sixty percent of the Total Benefit for all Participants.
- (l) “Determination Date” is the last day of the preceding Plan Year.
- (m) “Account Aggregate” is, with respect to a defined contribution plan,

- (i) For Plan Years beginning after December 31, 2001, the sum of employee accounts plus the sum of all distributions made from such accounts during the one-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the account of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the account of any individual who has not received any compensation from the Employer Company (other than benefits under any Plan maintained by the Employer Company) during the one-year period ending on the Determination Date, shall not be taken into account. In the case of a distribution made for a reason other than a termination of employment, death or disability, this subsection shall be applied by substituting “five-year period” for “one-year period.”
- (ii) For Plan Years beginning before December 31, 2001, the sum of employee accounts plus the sum of all distributions made from such accounts during the five-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the account of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the account of any individual who has not received any compensation from the Employer Company (other than benefits under any Plan maintained by the Employer Company) during the five-year period ending on the Determination Date, shall not be taken into account.

A transfer from one plan of the Employer Company to any other such plan shall be considered neither a “distribution” nor a “rollover contribution” for purposes of this subsection, but a distribution from a terminated plan shall be considered a “distribution” for purposes of this subsection if such terminated plan, had it not been terminated, would have been described in Section 11.2(c)(i) or (ii).

- (n) “Cumulative Accrued Benefit” is, with respect to a defined benefit plan
- (o) (i) For Plan Years beginning after December 31, 2001, the sum of the present values of all accrued benefits plus the sum of distributions made with respect to such benefits during the one-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the accrued benefit of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the accrued benefit of any individual who has not received any compensation from the Employer Company (other than benefits under any plan maintained by the Employer Company) during the five year period ending on the Determination Date, shall not be taken into account.

In the case of a distribution made for a reason other than a termination of employment, death or disability, this subsection shall be applied by substituting “five-year period” for “one-year period”.

- (i) For Plan Years beginning on or before December 31, 2001, the sum of the present values of all accrued benefits plus the sum of distributions made with respect to such benefits during the five-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the accrued benefit of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the accrued benefit of any individual who has not received any compensation from the Employer Company (other than benefits under any plan maintained by the Employer Company) during the five year period ending on the Determination Date, shall not be taken into account.

A transfer from one plan of the Employer Company to any other such plan shall be considered neither a “distribution” nor a “rollover contribution” for purposes of this subsection, but a distribution from a terminated plan shall be considered a “distribution for purposes of this subsection if such terminated plan, had it not been terminated, would have been described in Section 11.2(c)(i) or (ii).

- (p) “Total Benefit” is the sum of the Account Aggregate of all plans within an Aggregation Group which are defined contribution plans, and the Cumulative Accrued Benefit of all plans within an Aggregation Group which are defined benefit plans.

Solely for the purpose of determining if the Plan, or any other plan included in a required aggregation group of which this Plan is a part, is Top-Heavy, the accrued benefit of an Employee other than a Key Employee shall be determined under (a) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Employer, or (b) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Code § 411(b)(1)(C).

- (q) “Total Compensation” is the Participant’s compensation as defined in Code § 415(c)(3), but shall not exceed the applicable dollar amount of Code § 401(a)(17).
- (r) “Testing Period” means a period of consecutive Years of Service (not exceeding five) during which the Participant had the greatest aggregate compensation from the Employer Company, except that such years shall not include (1) years beginning after the close of the last year in which the Plan was a Top-Heavy Plan and (2) years ending in a Plan Year beginning before January 1, 1984.

(s) “Employer Company” means, for purposes of this Article, the Employer Company and all Related Employers.

Section 11.3 Top-Heavy Vesting Schedule. For each Plan Year for which the Plan is a Top-Heavy Plan, the vesting schedule provided in this Section 11.3 (the “Top-Heavy Vesting Schedule”) shall apply, and for each Plan Year thereafter for which the Plan is not a Top-Heavy Plan, the vesting schedule provided in Section 6.1 (the “Regular Vesting Schedule”) shall apply; provided, however, that any change in a vesting schedule shall, with respect to each Participant, be subject to Section 6.1. The Top-Heavy Vesting Schedule is as follows:

NON-FORFEITABLE	
YEARS OF	
SERVICE	
Less Than 2	0
2 But Less Than 3	20
3 But Less Than 4	40
4 But Less Than 5	60
5 But Less Than 6	80
6 or More	100

Section 11.4 Top-Heavy Minimum Benefit. For each Plan Year for which the Plan is a Top-Heavy Plan, the accrued benefit derived from Employer Company contributions for each Participant who is not a Key Employee, when expressed as a Single Life Only Annuity (with no ancillary benefits) beginning at his or her Normal Retirement Date, shall not be less than the product of (a) the Participant’s average compensation during the Testing Period and (b) the lesser of (1) 2% multiplied by the number of the Participant’s Years of Service with the Employer Company or (2) 20%. For purposes of this Section 11.4, a “Year of Service” shall not be taken into account if: (i) the Plan was not a Top-Heavy Plan for any Plan Year ending during such Year of Service, (ii) such Year of Service was completed in a Plan Year beginning before January 1, 1984, or (3) such Year of Service occurs during a Plan Year when the Plan benefits (within the meaning of Code § 410(b)) no Key Employee or former Key Employee.

Section 11.5 Top-Heavy Limitation on Compensation. For each Plan Year for which the Plan is a Top-Heavy Plan, the compensation of each Participant which is taken into account for purposes of determining contributions and benefits under this Plan shall be limited to either (a) the first \$200,000 of such compensation, or (b) if a different amount has been fixed by the Secretary of the Treasury pursuant to Code § 416(d)(2), such amount. The limit set by this Section shall be imposed after any reduction imposed elsewhere in this Plan on the compensation of a Participant which is taken into account for purposes of determining contributions and benefits.

Section 11.6 Certain Benefits Disregarded. The requirements of Section 11.3 and Section 11.4, above, must be met without taking into account contributions or benefits under Chapters 2 or 21 of the Code, Title II of the Social Security Act, or any other federal or state law.

**ARTICLE XII**  
**RETIREE MEDICAL BENEFITS**

Section 12.1 Creation of Separate Account.

- (t) There is created, established and maintained under this Plan a separate account known as the Medical Benefits Account. The Trustee and Committee agree to hold and administer the Medical Benefits Account, and to receive contributions hereto, for the purpose of providing for the payment of certain medical expenses pursuant to Code § 401(h), for Retired Participants and their Covered Dependents. The separate Account shall be for recordkeeping purposes only. Funds contributed to the Medical Benefits Account need not be invested separately and may be invested in the Committee's discretion with funds in the funding standard account without identification of which investment properties are allocable to each account. However, where the investment properties are not allocated to each account, the earnings on such properties must be allocated between each account in a reasonable manner.
- (u)(i) No part of the income or corpus of the Medical Benefits Account shall be (either within the taxable year of contribution or thereafter) used for, or diverted to, any purpose other than the providing of Medical Benefits (including the provision of any retirement benefits provided under the Plan), at any time prior to the satisfaction of all liabilities under this Plan with regard to the payment of Medical Benefits in accordance with this Article XII. Notwithstanding the above, the payment of any necessary or appropriate expenses attributable to the administration of the Medical Benefits Account may be made from the income or corpus of such Account.
- (ii) Any amounts in the Medical Benefits Account which remain in such account following the satisfaction of all liabilities for the payment of Medical Benefits arising under this Article XII shall be returned to the Employer Companies.
- (c) No amounts shall be paid from the Plan for Medical Benefits to or on behalf of a Key Employee.

Section 12.2 Definitions. Whenever used in this Article XII, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

- (a) "Continuation Coverage" has the meaning ascribed to such term in Section 12.3(c).
- (b) "Covered Dependent" means a Retired Participant's Spouse or Domestic Partner at the time of retirement (as described in the definition of Retired Participant), and a child of the Retired Participant or the Spouse or Domestic Partner of a Retired Participant at the time of retirement or in the case of a deceased Participant described

in Section 12.2(o)(iii) or (iv), at the time of such Participant's death who meets one of the following conditions:

- (i) The child is unmarried, is the child of a Retired Participant or the Retired Participant's Spouse or Domestic Partner, is under 19 years of age and is dependent upon the Retired Participant or the Spouse or Covered Dependent of a Retired Participant for his or her principal support and maintenance.
- (ii) The child is unmarried, is the child of a Retired Participant or the Retired Participant's Spouse or Domestic Partner, is not covered under clause (i), is under 25 years of age, and is dependent on the Retired Participant or the Spouse or Covered Dependent of a Retired Participant for his or her principal support and maintenance, and is a full-time student.
- (iii) The child is unmarried, is the child of a Retired Participant or the Retired Participant's Spouse or Domestic Partner, is not covered under clause (i) or (ii), is "incapacitated" within the meaning of the UPS Retired Employees' Health Care Plan and is dependent on the Retired Participant or the Spouse or Covered Dependent of a Retired Participant for his or her principal support and maintenance or was so dependent while the Retired Participant was alive.

The term child shall include an adopted child, step-child, or foster child who is dependent of the Retired Participant or the Spouse or Domestic Partner of the Retired Participant for his or her principal support and maintenance.

In no event will the term Covered Dependent include any person who is an eligible Retired Participant himself or herself nor any person who is employed full-time with an Employer Company. If both parents of any Covered Dependent child are eligible Retired Participants, then for the purposes of the coverage, the Covered Dependent child is considered as a Covered Dependent of only the Retired Participant whose birth date is the earlier in the calendar year.

- (c) "DDB Balance" has the meaning ascribed to such term in Section 12.10(c)
- (d) "Defined Dollar Benefit" or "DDB" means the defined dollar benefit credit described in Section 12.10(b).
- (e) "Grandfathered Retired Participant" means a Retired Participant who is also a Grandfathered Participant within the meaning of Article I.
- (f) "Key Employee" means a Retired Participant who at any time was a key employee, within the meaning of Code § 415(i)(1), of any Employer Company, and also means the Covered Dependents of such Retired Participant.
- (g) "Medical Benefits" means the payment of sickness, accident, hospitalization and other Medical Expenses, within the meaning of Code § 401(h), for Retired

Participants and their Covered Dependents, which are summarized in The UPS Retired Employees' Health Care Plan, as amended from time to time, which is incorporated by reference herein.

- (h) "Medical Expense" means expenses for medical care as defined in Code § 213(d)(1) or any substitute therefore.
- (i) "Medicare Eligible Coverage" has the meaning ascribed to such term in Section 12.10(c).
- (j) "Medicare Eligible Coverage DDB Balance" has the meaning ascribed to such term in Section 12.10(c).
- (k) "Participant Contribution" means the contributions to the Plan described in Section 12.10.
- (l) "Pre-Medicare Eligible Coverage" has the meaning ascribed to such term in Section 12.10(c).
- (m) "Pre-Medicare Eligible Coverage DDB Balance" has the meaning ascribed to such term in Section 12.10(c).
- (n) "Qualifying Events" means an event described in Section 12.3(c).
- (o) "Retired Participant" is defined, for purposes of this Article XII, as an individual who satisfies at least one of the subsections (i) through (viii):
  - (i) A Participant who (A) was actively working as an Employee until his Early, Normal or Postponed Retirement Date, or who retires pursuant to Section 13.1, (B) in the case of a Participant who first became an Employee on or after January 1, 1989, had at least ten (10) Years of Service (five (5) Years of Service in the case of a Participant retiring under the provisions of Section 13.1) and at least one Year of Service as a Participant in this Plan and (C) retired from employment as an Employee and was thereupon immediately eligible to receive an Early, Normal or Postponed Retirement Benefit hereunder (including an Early Retirement Benefit under Section 13.1);
  - (ii) A Participant who attained his or her Early Retirement Date (with, in the case of a Participant who first became an Employee on or after January 1, 1989, at least 10 Years of Service at least one of which was as a Participant in this Plan) or his or her Normal Retirement Date (with, in the case of a Participant who first became an Employee on or after January 1, 1989, at least 5 Years of Service at least one of which was as a Participant in this Plan) and then dies while still employed as an Employee;



- (iii) A Participant who (A) has completed at least one Year of Service as a Participant, (B) has been an employee of an Employer Company or a Related Employer for at least 25 Years of Service (30 Years of Service for deaths prior to January 1, 2008) and (C) dies while still employed as such an employee shall be considered a "Retired Participant" whose Covered Dependents are eligible to receive Medical Benefits in accordance with this Article;
- (iv) A Participant who (A) as of the time he or she terminates employment with all Employer Companies and Related Employers has been approved for long-term disability benefits under the UPS Income Protection Plan (or a successor long-term disability benefits plan) as of the date of such termination, (B) as of the first date of absence attributable to such disability satisfies the requirements of paragraph (iii)(A) and (B) and (C) dies while "totally disabled" shall be considered a "Retired Participant" whose Covered Dependents are eligible to receive Medical Benefits in accordance with this Article;
- (v) An individual who terminates employment as a result of ceasing to be eligible for his or her current job classification as the result of the application of a federal statutory or regulatory age limitation shall be eligible for Medical Benefits under this Article XII immediately upon termination of employment, provided, such individual has at least one Year of Service as a Participant in this Plan;
- (vi) A Participant who terminated employment pursuant to the UPS Special Voluntary Separation Opportunity ("SVSO") on or after January 31, 2007 but prior to March 1, 2007 and who is entitled to benefits under the SVSO;
- (vii) A Participant who (A) as of the time he or she terminates employment with all Employer Companies and Related Employers is a full-time Employee and has been approved for long-term disability benefits under the UPS Income Protection Plan (or a successor long-term disability benefits plan) and who remains "totally disabled" for purposes of the UPS Income Protection Plan (or successor plan) until his or her Early or Normal Retirement Date, (B) in the case of a Participant who first became an Employee on or after January 1, 1989, had at least ten (10) Years of Service and at least one Year of Service as a Participant in this Plan, and (C) is eligible to receive an early retirement benefit pursuant to Section 5.2(b) or a Normal Retirement Benefit; or
- (viii) A Participant who (A) is identified on Appendix P, (B) is actively working for an Employer Company or a Related Employer at his or her early, normal or postponed retirement date, (C) is eligible for an early, normal or postponed retirement benefit under another defined benefit plan sponsored or contributed to by UPS after September 1, 2011 and (D) is not eligible for

retiree medical benefits under another plan sponsored or contributed to by UPS.

Except as expressly provided in Sections 12.2(e)(i) through (viii) above, the following shall not be a Retired Participant:

- (A) A deferred vested Participant who terminated employment with an Employer Company prior to retirement;
- (B) An individual who first became an Employee on or after January 1, 1989 and who retired with less than 10 Years of Service with an Employer Company or less than One Year of Service as a Participant in this Plan;
- (C) An individual employed, at the time of his or her retirement, by an Employer Company pursuant to a collective bargaining agreement under which retirement benefits for the individual are to be provided under this Plan, but which does not specifically state that Medical Benefits are also to be provided for said individual under this Article XII. For clarification, a member of one of the locals of the A.F.L.-C.I.O., International Association of Machinists or International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America ("IBT") identified on Appendix A hereto, which may be amended by resolution of the Committee from time to time, is employed by an Employer Company at the time of his or her retirement and is eligible, by reason of a collective bargaining agreement, for retirement benefits under this Plan, he or she shall not be eligible for Medical Benefits under this Plan;
- (D) A Participant who is a Crewmember; or
- (E) A Participant who is still employed by an Employer Company or Related Employer.

(p) "Retiree Reimbursement Account" or "RRA" has the meaning ascribed to such term in Section 12.10(c).

(q) "REHCP" means the UPS Retired Employees' Health Care Plan, as amended from time to time.

### Section 12.3 Duration of Coverage; Election to Continue Coverage.

(a) Unless a Retired Participant or eligible Covered Dependent elects to defer coverage under REHCP in accordance with this Section 12.3(a), Medical Benefits shall begin to be paid with respect to claims incurred by Retired Participants, or their Covered Dependents, after the date on which coverage for medical expenses ends for such

individuals under the UPS Flexible Benefits Plan (or any successor health plan covering active Employees). A Retired Participant or a Covered Dependent, who has health coverage under another plan may defer coverage under REHCP for himself or herself initially or at a later date provided that at the time he or she applies or reapplies for coverage under REHCP, he or she must provide written notice of the loss of other health coverage within 60 days of such loss and must produce proof for himself or herself of continuous coverage under another health plan from the date coverage under the UPS Flexible Benefits Plan or the REHCP ended to the date as of which he or she desires to elect to commence or resume coverage under REHCP. A Retired Participant's election to defer coverage under the REHCP either initially or at a later date will be binding on all of his or her Covered Dependents. As long as the Retired Participant is covered under the REHCP, his or her Covered Dependents or any of them may defer coverage initially or at a later date. Once coverage begins under the REHCP in accordance with this Section 12.3(a) and subject to subsections (b) and (c) below, Medical Benefits shall be paid with respect to claims incurred up until the first of the following occurs:

- (i) In the case of a Retired Participant or a Covered Dependent, the first day after the date of his or her death;
- (ii) In the case of a Covered Dependent who is the Spouse or Domestic Partner of the Retired Participant, the end of the calendar month that includes the first to occur of (A) the divorce or legal separation of the Retired Participant and Spouse or in the case of a Domestic Partner, the person no longer satisfies the requirements to be the Domestic Partner of the Retired Participant or (B) the remarriage of the Spouse following the Retired Participant's death;
- (iii) In the case of a Covered Dependent who is a child, the first to occur of (A) the end of the calendar year in which the Covered Dependent ceases to satisfy or provide satisfactory proof that he or she satisfies the requirements of Section 12.2(b)(i) (relating to unmarried children under age 19), Section 12.2(b)(ii) (relating to unmarried children age 19-25 who are full-time students), or Section 12.2(b)(iii) (relating to unmarried children who are incapacitated); provided, however, in the case of a Covered Dependent child who ceases to be a full-time student solely as a result of a medically necessary leave due to a serious illness or injury (a "school leave"), the child will continue to be covered until December 31 of the calendar year following the end of the calendar year in which the school leave began or (B) the date the child becomes covered under any other group health plan;
- (iv) In the case of any Retired Participant or Covered Dependent, the date upon which this Plan ceases to provide Medical Benefits to all or an affected class of Retired Participants and/or Covered Dependents.

Notwithstanding any contrary provision, if the Committee determines that a Retired Participant or a Covered Dependent committed fraud or intentionally

misrepresented information regarding the Plan, the Committee may terminate coverage retroactively and the Retired Participant or Covered Dependent may be required to repay the Plan for any Medical Benefits paid as a result of such fraud or misrepresentation.

- (b) Notwithstanding Section 12.3(a), in the event that a Participant Contribution is required to be paid with respect to Medical Benefits for any Retired Participant or Covered Dependent, coverage under the REHCP and payment of Medical Benefits shall cease to be made with respect to claims incurred by such individuals as of the first day of any calendar month for which a Participant Contribution is due but is not timely paid (a "Delinquent Month"). The Committee may terminate coverage retroactively for any Delinquent Month and the Retired Participant or Covered Dependent may be required to repay the Plan for any Medical Benefits paid with respect to claims incurred during any Delinquent Month. A Retired Participant may elect to discontinue Medical Benefits for his or her Covered Dependents (in favor of no or a reduced level of benefits as may be permitted from time to time by the Committee) by filing a form for this purpose with the Committee or its designee, and by providing such other information as the Committee or its designee shall require. In such event, payment of Medical Benefits shall cease to be made with respect to claims incurred by such Covered Dependents after the effective date of the discontinuance of coverage, or in the case of the election of a reduced level of benefits, when the applicable limitations with respect to such reduced benefit level have been exceeded or the Retired Participant (or Covered Dependent) ceases to pay any required Participant Contribution necessary to sustain the benefit level elected. The Committee may establish procedures for permitting Covered Dependents for whom Medical Benefits have been discontinued to later resume coverage, but only upon the provision of evidence satisfactory to the Committee of medical insurability.
- (c) Notwithstanding Section 12.2(a), in certain circumstances and for a limited period of time, commencing on and after January 1, 1987, a Covered Dependent who would otherwise be ineligible for Medical Benefits under this Article XII due to the death or divorce of the Retired Participant, or who is no longer a Covered Dependent, shall be entitled to elect to continue to be eligible for such Medical Benefits ("Continuation Coverage") upon the occurrence of the following events ("Qualifying Events"):
- (i) In the event of the death of the Retired Participant, a Covered Dependent may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the Retired Participant's death, subject to the restrictions of Section 12.3(c)(iv).
  - (ii) In the event of the divorce of a Retired Participant from his or her Spouse, such Spouse may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the date upon which coverage would otherwise cease under the terms of the Plan, subject to the restrictions of Section 12.3(c)(iv).

(iii) Upon the failure of a child of a Retired Participant or the Spouse or Domestic Partner of a Retirement Participant to satisfy the requirements of paragraphs (a)(i), (ii) or (iii) of Section 12.2, so that he or she is no longer a Covered Dependent, such child may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following such date, subject to the restrictions of Section 12.3(c)(iv). The 12-month extension described in paragraph (a)(ii) of Section 12.2 for a child on school leave shall be applied toward the period of Continuation Coverage described in this paragraph.

(iv) Notwithstanding the foregoing paragraphs (i), (ii) and (iii), Continuation Coverage for a Covered Dependent shall cease upon the first to occur of the following:

(A) The date that such Covered Dependent becomes covered (as an employee or otherwise) under any other group health plan which does not contain any exclusion or limitation with respect to any preexisting condition of such individual.

(B) The date that such Covered Dependent becomes entitled to receive Medicare benefits under Title XVIII of the Social Security Act.

(C) The date upon which this Plan ceases to provide retiree medical benefits to any Retired Participant and his or her Covered Dependents, and the Employer Companies do not provide such benefits through another funding vehicle or group health plan or plans.

(D) The date upon which coverage ceases as a result of the Covered Dependent failing to make timely payment of the premium required pursuant to Section 12.(3)(d).

(d) The Committee shall require the payment of a premium by a Covered Dependent for any period of Continuation Coverage, subject to the following restrictions:

(i) The decision to require payment of a premium, and the amount of such premium, shall be applied consistently to all Covered Dependents of Retired Participants similarly situated;

(ii) The premium shall not exceed 102 percent of the "applicable premium" for such period, as that term is defined in ERISA § 604; and

(iii) The premium may, at the election of the Covered Dependent, be made in monthly installments.

If an election by a Covered Dependent to receive Continuation Coverage is made after the occurrence of the Qualifying Event, the Covered Dependent shall be

permitted to pay for Continuation Coverage during the period preceding the election, such payment to be made within 45 days of the date of the election.

- (e)(i) The Committee, or its delegate, shall inform each Retired Participant and his or her Spouse (if any) of the rights provided under this Section 12.3, at the time of commencement of coverage under this Article or as otherwise provided by law.
  - (ii) The Committee, or its delegate, shall notify each Covered Dependent eligible to elect Continuation Coverage of his or her rights under this Section 12.3 within 14 days after the Committee, or its delegate, is notified of the occurrence of a Qualifying Event as set forth in Section 12.3(c). Notification to a Covered Dependent who is the Spouse of the Retired Participant shall be treated as notification to all other Covered Dependents who may be eligible to elect Continuation Coverage and who reside with such Spouse at the time such notification is made.
- (f) A Covered Dependent must affirmatively elect, by a writing delivered to the Committee or its delegate, to receive Continuation Coverage. Such election must be made no later than 60 days after the later of (1) the date of the Qualifying Event or (2) the date such Covered Dependent receives notice under Section 12.3(e)(ii).

Section 12.4 Funding Method and Policy. All contributions to fund Medical Benefits provided under this Article XII shall be made by the Employer Companies, except those relating to (i) Continuation Coverage provided for in Section 12.3 hereof and (ii) that portion of coverage with respect to which Participant Contributions are required as provided for in Section 12.10 hereof. Subject to the restrictions of this Section 12.4 and Section 12.5, and taking into account Participant Contributions and contributions for Continuation Coverage, the Employer Companies shall contribute to the Medical Benefits Account an annual amount which is reasonably estimated to cover the total cost of the Medical Benefits to be provided hereunder and which satisfies the general requirements applicable to deductions allowable under Code § 404 (as set forth in Treasury Regulation § 1.404(a)-1). The total cost of providing Medical Benefits shall be determined in accordance with any generally accepted actuarial method which is reasonable in view of the provisions and coverage of the Plan, the funding medium, and other applicable considerations. The amount deductible by each Employer Company on account of such contributions for any taxable year shall not exceed the greater of:

- (a) An amount determined by distributing the remaining unfunded costs of past and current service credits as a level amount, or as a level percentage of compensation, over the remaining future service of each Participant employed by the Employer Company.
- (b) 10 percent of the cost which would be required to completely fund or purchase Medical Benefits provided hereunder for the Participants employed by the Employer Company and their Covered Dependents.

In determining the amount deductible, an Employer Company must apply either paragraph (a) for all Participants or paragraph (b) for all Participants. If contributions paid by an Employer Company in a taxable year to fund Medical Benefits hereunder exceed the limitation of this Section, but otherwise satisfy the conditions for deduction under Code § 404, then the excess contributions may be carried over in accordance with the provisions of Treasury Regulation § 1.404(a)(3)(f) and be deducted in a later year. For the purpose of applying paragraph (a), if the remaining future service of a Participant is one year or less, it shall be treated as one year.

Section 12.5 Subordination to Retirement Benefits .

(a) It is intended that the Medical Benefits provided under this Article XII, when added to any Life Insurance Protection provided under this Plan be subordinate at all times to the retirement benefits provided under this Plan. Therefore, the aggregate of contributions (made after the effective date of this Article XII) for the funding of Medical Benefits pursuant to this Article XII, as well as any Life Insurance Protection, shall at no time exceed 25 percent of the aggregate contributions (made after such effective date) other than contributions to fund past service credits.

(b) For purposes of this Section 12.5, "Life Insurance Protection" means any benefit paid under the Plan on behalf of a Participant as a result of the Participant's death to the extent such payment exceeds the amount of the reserve to provide the retirement benefits for such Participant existing at his or her death.

Section 12.6 Forfeitures. In the event that a Participant's interest in the Medical Benefits Account is forfeited prior to termination of such account, an amount equal to the amount of the forfeiture must be applied as soon as possible to reduce Employer contributions to fund the Medical Benefits provided under this Article XII.

Section 12.7 Benefits Provision. The benefits payable pursuant to this Article XII shall be limited to the payment of Medical Benefits for Retired Participants and their Covered Dependents. No benefit shall be provided which is not described in Code § 401(h) or the Regulations thereunder. It is anticipated that the same level of Medical Benefits shall be provided to all eligible Retired Participants, and in any event the Medical Benefits provided under this Article XII and the Employer contributions to fund said Medical Benefits shall not discriminate in favor of the officers, shareholders, supervisory employees, or highly compensated employees of the Employer Companies within the meaning of Treasury Regulation § 1.401-14.

Section 12.8 Supervision of Account. The Committee shall have general supervision of the operation of the Medical Benefits Account shall conduct the business of said Account, including the administration of claims, in accordance with Article IX and the other provisions of this Plan, except as otherwise provided in this Article XII, or in accordance with applicable law.

Section 12.9 Coordination with Employer-Maintained Group Medical Insurance for Active Participants and their Covered Dependents. Notwithstanding any other provision of this Article XII, if a Retired Participant, or his or her Covered Dependent, is eligible for Medical Benefits under this Article XII and also eligible for medical benefits under another group medical insurance plan

sponsored and maintained by an Employer Company for active employees and their covered dependents (for example, the UPS Insurance Plan ("Alternate Plan")), then no Medical Benefits under this Article XII shall be paid. Payment of Medical Benefits under this Article XII shall commence on the day following the day eligibility for benefits under the Alternate Plan ceases except to the extent coverage is deferred pursuant to Section 12.3(a).

Section 12.10 Participant Contributions.

- (a) The Committee may, from time to time, require Retired Participants and Covered Dependents to pay a portion of the cost of Medical Benefits as an annual contribution (a "Participant Contribution"), and shall in such event establish objective procedures for determining the amount and payment of Participant Contributions.
- (b) Effective for individuals who first become Retired Participants on or after January 1, 1993, and their Covered Dependents, an annual Participant Contribution shall be required in an amount equal to the excess of (i) over (ii) where:
  - (i) is the projected per-capita cost of providing Medical Benefits for Retired Participants and/or Covered Dependents, or specified classes thereof, for the Plan Year, as determined by the Committee in accordance with such reasonable nondiscriminatory procedures as it shall adopt from time to time; and
  - (ii) is the Retired Participant's Defined Dollar Benefit ("DDB") balance, as described in Section 12.10(c) or (d) below.
- (c) Subject to the rules of this Section 12.10(c), a Retired Participant will earn a DDB amount for each Year of Service with an Employer Company which will be applied to purchase Medical Benefits before the Retired Participant or his or her Covered Dependents become eligible for Medicare ("Pre-Medicare Eligible Coverage") and after the Retired Participant or his or her Covered Dependents become eligible for Medicare ("Medicare Eligible Coverage"). The DDB amount earned for each Year of Service with an Employer Company will be accumulated over the period that the Retired Participant is employed with an Employer Company as a DDB balance (the "Pre-Medicare Eligible Coverage DDB Balance" and "Medicare Eligible Coverage DDB Balance," collectively, the "DDB Balance").
- (d) A Retired Participant's DDB amount for any Year of Service after December 31, 2000 with an Employer Company will be equal to the DDB amount for the Employer Company for which the Retired Participant performed service during that Plan Year as set forth in Appendix F. If a Retired Participant performs service under more than one schedule in any Plan Year, the Retired Participant shall receive credit for his or her Year of Service, if any, completed in that Plan Year under the schedule with the highest DDB amount under which he or she has at least one Hour of Service. The DDB amount for each Year of Service with an Employer Company while it is an Employer Company completed prior January 1, 2001 shall be equal to \$250 for Pre-



Medicare Eligible Coverage and \$42 for Medicare Eligible Coverage. However, except as provided in Appendix F, no DDB amount shall be earned for Years of Service with an Employer Company that first becomes an Employer Company on or after January 1, 2001 completed before that Employer Company first began to offer Medical Benefits under this Plan. Except as provided Section 12.10(g)(ii), in no event shall the Pre-Medicare Eligible Coverage DDB Balance exceed \$7500 or the Medicare Eligible Coverage DDB Balance exceed \$1260. Notwithstanding the foregoing, a Grandfathered Retired Participant's DDB amount for any Year of Service (up to a maximum of \$7,500) with an Employer Company shall never be less than \$250 for Pre-Medicare Eligible Coverage and \$42 for Medicare Eligible Coverage.

- (e) The Retired Participant and his or her Spouse or Domestic Partner each may apply the DDB Balance to purchase Medical Benefits. If the Retired Participant has Covered Dependents who are children (including adult children who are Covered Dependents), they will be treated as a unit with the younger of the Retired Participant and his or her Spouse or Domestic Partner. If the Retired Participant does not have a Spouse or Domestic Partner, the Covered Dependents who are children (including adult children who are Covered Dependents) will be treated as a separate unit and the Retired Participant and his or her Covered Dependent unit each may apply the DDB Balance to purchase Pre-Medicare Eligible Coverage or Medicare Eligible Coverage. If the Retired Participant and his or her Spouse or Domestic Partner who is a Covered Dependent predecease the Retired Participant's Covered Dependents who are children (including adult children who are Covered Dependents), such Covered Dependents who are children will be treated as a separate Covered Dependent unit having the deceased Retired Participant's Pre-Medicare Eligible Coverage DDB Balance unless the Covered Dependent is eligible for a Retiree Reimbursement Account ("RRA"), as described below.

A bookkeeping account, the RRA, will be established for a Retired Participant or his or her Spouse or Domestic Partner, if any, for each Plan Year in which the Retired Participant or his or her Spouse or Domestic Partner is at least age 65 and eligible for Medicare as a result of his or her age. The RRA established for each of the Retired Participant and his or her Spouse or Domestic Partner who is at least age 65 will be credited with the lesser of (i) the Retired Participant's Medicare Eligible Coverage DDB Balance amount or (ii) the maximum RRA credit established by the Committee for that Plan Year. No RRA will be established for periods prior to the Retired Participant or his or her Spouse or Domestic Partner becoming age 65 and eligible for Medicare. Effective January 1, 2013, a RRA will be established for a Covered Dependent described in Section 12.2(b)(iii) who is a child upon such Covered Dependent becoming age 65 and eligible for Medicare. Any unused DDB Balance or balance to a RRA may not be carried forward from one Plan Year to a future Plan Year.

- (f) The Pre-Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) prior to the calendar month in which the Retired Participant or his or her Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) from the first day of the calendar month in which the Retired Participant or his or her Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The DDB Balance of a Covered Dependent who is not a Spouse or Domestic Partner will be adjusted to the Medicare Eligible Coverage DDB Balance as of the first day of the calendar month in which the younger parent first becomes eligible for Medicare or if there is no Spouse or Domestic Partner, as of the first day of the calendar month in which the Retired Participant first becomes eligible for Medicare. Notwithstanding the forgoing, if a Retired Participant or his or her Spouse or Domestic Partner becomes eligible for Medicare as a result of end stage renal disease (“ESRD”), the Pre-Medicare Eligible Coverage DDB Balance shall continue to apply to such Retired Participant or Spouse or Domestic Partner during the applicable Medicare coordination period during which a UPS group health plan is required to provide primary coverage.
- (g) The DDB Balance credited to a Retired Participant is determined as follows:
- (i) For a Retired Participant who did not complete at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is the sum of the DDB amounts for each of the Retired Participant’s Years of Service with an Employer Company as determined under Section 12.10(d).
  - (ii) For each Grandfathered Retired Participant who completed at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is calculated as follows:
    - (A) The sum of the DDB amounts for each of his or her Years of Service with an Employer Company as determined under Section 12.10(d) subject to the maximum DDB balance thereunder plus
    - (B) Two times the DDB amount for each of his or her Years of Service with an Employer Company completed prior to January 1, 1993 (up to a maximum of \$15,000 for Pre-Medicare Eligible Coverage and \$2520 for Medicare Eligible Coverage).
  - (iii) As a minimum, each Grandfathered Retired Participant described in Section 12.10(g)(ii) shall be credited with a minimum DDB Balance in accordance with the following table:

<u>Age at Retirement from Employment with the Employer Company</u>	<u>Pre-Medicare Eligible</u>	<u>Minimum DDB Amount Medicare Eligible Coverage</u>
65 or older	\$7500	\$1260
64	\$7250	\$1218
63	\$7000	\$1176
62	\$6750	\$1134
61	\$6500	\$1092
60	\$6250	\$1050
59	\$6000	\$1008
58	\$5750	\$966
57	\$5500	\$924
56	\$5250	\$882
55	\$5000	\$840

(h) Notwithstanding any contrary provision of this Section 12.10,

- (i) a Retired Participant hired by an Employer Company or a Related Employer on or after January 1, 2006 shall not earn a DDB amount;
- (ii) A Retired Participant hired by Overnite or by Motor Cargo after December 31, 2001 shall not earn a DDB amount;
- (iii) LTD Participant or a Participant receiving a Disability Retirement Benefit shall not earn Year of Service credit or a DDB amount while he or she is a LTD Participant or is receiving a Disability Retirement Benefit; and
- (iv) an individual shall not earn a DDB amount while he or she is performing services for an Employer Company or a Related Employer, as a "leased employee" or who otherwise is not classified on the payroll as an employee of an Employer Company or a Related Employer regardless of whether he or she is reclassified as an employee.

**ARTICLE XIII**  
**SPECIAL BENEFITS UPON VOLUNTARY TERMINATION OF EMPLOYMENT**

Section 13.1 Special Early Retirement. A Participant (other than an Employee subject to a collective bargaining agreement and participating in this Plan, except to the extent so provided in the applicable collective bargaining agreement), who is actively employed by an Employer Company as of June 15, 1995, and who has not otherwise attained his or her Early Retirement Date shall be eligible to retire under the Early Retirement Benefit provisions of Section 4.3 and receive an Early Retirement Benefit in an amount determined under subsection 5.2(b)(ii)(C) (4) and (5) (except that for this purpose, subsection 5.2(b)(ii)(C)(4) and (5) shall be modified to provide that the reduction factor shall apply with respect to each month or partial month by which the Participant's Annuity Starting Date precedes his or her 55th birthday), provided that each of the following conditions is satisfied:

- (c) Eligibility Requirements. The Participant is assigned a salary grade below Grade 26 and has, prior to August 15, 1995, both attained age 50, and either (i) in the case of a Participant who is a "Highly Compensated Employee" (within the meaning of Code § 414(q)), was hired by an Employer Company on or before August 15, 1975, or (ii) in the case of a Participant who is not a "Highly Compensated Employee," has completed at least five (5) Years of Service.
- (d) Election Requirements. An eligible Participant described in Section 13.1(a) above must elect to retire and execute any related forms, releases or waivers prescribed for this purpose by the Company, during the period commencing on June 15, 1995, and ending on August 15, 1995. Any Participant who makes such an election must actually retire by September 1, 1995, unless an extension for a specified number of days is requested by his or her Employer Company.
- (e) Notwithstanding the foregoing, the following employees shall be eligible for the Special Early Retirement benefit described in this Section 13.1:
  - (i) employees of Roadnet Technologies, Inc. who were terminated as a result of the reduction in force occurring on March 1, 1995 and who satisfied the requirements of Section 13.1(a) as of March 1, 1995; and
  - (ii) employees of II Morrow, Inc. who were terminated as a result of the reduction in force occurring on February 2, 1995 and who satisfied the requirements of Section 13.1(a) as of February 2, 1995.

Section 13.2 Supplemental Retirement Benefit. A Participant (other than an Employee subject to a collective bargaining agreement and participating in this Plan, except to the extent so provided in the applicable collective bargaining agreement), who is actively employed by an Employer Company as of June 15, 1995, shall be eligible to receive a supplemental retirement benefit under the Plan following his or her retirement or termination of employment, provided that each of the following conditions is satisfied:

- (e) Eligibility Requirements. The Participant is assigned a salary grade below Grade 26 and is either (i) eligible to retire under the provisions of Section 4.2, 4.3 or 13.1 of the Plan, or (ii) a full-time management Employee who is employed at any division, unit, operation or facility of an Employer Company other than Region 22, including all districts therein, (Air Operations) or Region 20 - District 29 (Information Services, New Jersey).
- (f) Election Requirements. An eligible Participant described in Section 13.2(a) above must elect to retire or voluntarily terminate employment and execute any related forms, releases or waivers prescribed for this purpose by the Company, during the period commencing on June 15, 1995, and ending on August 15, 1995. Any Participant who makes such an election must actually retire or terminate by September 1, 1995, unless an extension for a specified number of days is requested by his or her Employer Company.
- (g) Amount of Benefit. Any eligible Participant who satisfies the election requirements of subsection 13.2(b) above, shall be entitled to receive a supplemental retirement benefit at his or her Normal Retirement Date, the amount of which shall be determined as follows:
  - (i) First, a weekly rate of basic salary or wages shall be determined based upon the rate of basic salary or the hourly wage rate in effect on the last day of the Participant's active employment. Such weekly rate of basic salary for a salaried Participant shall equal basic monthly salary divided by 4.33. Such weekly rate of basic wages for a Participant who is an hourly-paid Employee shall equal the product of the basic hourly wage rate and forty (40) hours, if the Participant is a full-time Employee, or twenty (20) hours if the Participant is a part-time Employee. For purposes of the foregoing, a part-time employee shall be defined to include those employees with an employment code of "K," "E" or "D" as of June 15, 1995.
  - (ii) Second, the Participant's weekly rate of basic salary or wages shall be multiplied by the number of weeks with which he or she is credited as follows:
    - (E) Base Credit. Each eligible Participant shall receive 4.33 weeks of credit, regardless of his or her length of service.
    - (F) Additional Credit. In addition, each eligible Participant shall be credited with two (2) weeks for each full year of employment by an Employer Company, measured by each twelve (12) month anniversary date from date of hire, and excluding any fractional year, up to a maximum of forty (40) weeks of such additional credit.
  - (iii) Third, for eligible Participants who are covered by the UPS Managers Incentive Plan, an amount equal to the product of (i) and (ii), where (i) is the product of (A) the eligible Participants weekly rate of basic salary or wages,

(B) 4.33 and (C) 1.25 and (ii) is a fraction, the numerator of which is eight (8) and the denominator of which is twelve (12).

- (iv) Fourth, the sum of the amounts described in Section 13.2(c)(ii) and (iii) above shall be increased each year by the percentage rate(s) of interest described in Section 5.7(c) of the UPS Retirement Plan (Restated to Incorporate Amendment Nos. 1-17) as effective as of January 1, 1993 (the "1993 Plan"), from the first day of the month following the last day on which the Participant was actively employed until his or her Normal Retirement Date.
- (v) Fifth, the lump sum amount described in subsection 13.2(c)(iv) above shall be converted to a Single Life Only Annuity using, for conversion purposes, the 1971 Towers, Perrin, Forster and Crosby Forecast Mortality Table and the interest rate(s) described in such Section 5.7(c), provided, however, that for participants whose distributions commence on or before December 31, 1995, the interest rate will be the greater of the interest rate set forth in such Section 5.7(c) or such rate as was in effect as of January 1, 1995. Such Single Life Only Annuity (consisting of monthly payments commencing at Normal Retirement Date) shall hereafter be referred to as the "Supplemental Retirement Benefit."
- (h) Form of Benefit. If an eligible Participant is not married as of his or her Supplemental Retirement Benefit commencement date, the normal form of payment of such benefit will be a Single Life Only Annuity, commencing on his or her Normal Retirement Date. If an eligible Participant is married as of his or her Supplemental Retirement Benefit commencement date, the Normal Form of payment of his or her Supplemental Retirement Benefit will be a Qualified Joint and Survivor Benefit, commencing on his or her Normal Retirement Date, and the amount of his or her monthly Supplemental Retirement Benefit will be reduced in the manner described in Section 1.1(b) of the 1993 Plan.
- (i) Alternate Benefit Elections. Each eligible Participant may elect, subject to the spousal consent provisions contained in Section 5.4(b) of the 1993 Plan, either (i) to receive his or her Supplemental Retirement Benefit in any of the forms permitted under Article V as soon as practicable following his or her termination of employment or as of an Early or Normal Retirement Date, if later, or (ii) in the form of an immediate single lump sum payment equal to the greater of (A) the actuarial equivalent present value of the monthly Supplemental Retirement Benefit, or (B) the sum of the amounts described in Section 13.2(c)(ii) and (iii) above. (For purposes of the preceding sentence, actuarial equivalence will be determined by use of the mortality table referenced in Section 13.2(c)(v) and the rate(s) of interest described in such Section 5.7(c), provided, however, that for participants whose distributions commence on or before December 31, 1995, the interest rate will be the greater of the interest rate set forth in such Section 5.7(c) or such rate as was in effect as of January 1, 1995). Notwithstanding the foregoing, in the event that an eligible

Participant's Supplemental Retirement Benefit is to be paid as an annuity, the actual form of annuity payment shall be that form which is in effect for the payment of the eligible Participant's Normal or Early Retirement Benefit, if any.

Section 13.3 Legal Compliance. Notwithstanding the foregoing, the eligibility of Participants who are "Highly Compensated Employees" (within the meaning of Code § 414(q)) for the special benefits provided under this Article XIII (and/or the amount of such benefits) shall be limited to the extent required to satisfy the applicable nondiscrimination requirements of the Code.

## APPENDIX A

### LOCALS NOT ENTITLED TO RETIREE MEDICAL BENEFITS

In accordance with Section 12.2(o) of the UPS Retirement Plan, the following is a list of locals of the A.F.L.-C.I. O, the International Association of Machinists and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America ("IBT") the members of which are entitled to Benefit Service towards retirement benefits hereunder, but not Medical Benefits under Articles XII of the Plan:

- 1) Southern Ohio district:
  - (i) IBT Local 92 (center clerks)
  - (ii) IBT Local 100 (center clerks)
  - (iii) IBT Local 651 (center clerks)
  - (iv) Office and Professional Employees International, A.F.L.-C.I.O., Local 98 (full time clerical employees hired prior to December 31, 1985)
  
- 2) Central Ohio district:
  - (i) IBT Local 20 (center clerks)
  - (ii) IBT Local 40 (center clerks)
  - (iii) IBT Local 413 (center clerks)
  - (iv) IBT Local 637 (center clerks)
  - (v) IBT Local 908 (center clerks)
  - (vi) IBT Local 957 (center clerks)
  
- 3) Northern Ohio district:
  - (i) IBT Local 92 (center clerks)
  - (ii) IBT Local 348 (center clerks)
  - (iii) IBT Local 377 (center clerks)
  - (iv) IBT Local 407 (center clerks and Delivery Information center clerks)
  - (v) IBT Local 571 (center clerks)
  - (vi) International Association of Machinists, Local 1363 (part-time)



**THE UPS RETIREMENT PLAN**

**APPENDIX B**

**FACTORS FOR RETIREES IN PAY STATUS AS OF SEPTEMBER 1, 1979**

The following table sets forth factors, by year of retirement, death or disability, to be utilized pursuant to subparagraph 5.1(c)(iii)(B) of the Plan, to determine the benefit payable pursuant to paragraph 5.1(c) of the Plan.

<u>Year</u>	<u>Applicable Factor</u>
1961	2.00
1962	1.97
1963	1.93
1964	1.90
1965	1.85
1966	1.77
1967	1.70
1968	1.60
1969	1.47
1970	1.34
1971	1.25
1972	1.19
1973	1.07
1974	.88
1975	.73
1976	.65
1977	.56
1978	.46
1979	.32

**THE UPS RETIREMENT PLAN**

**APPENDIX C**

**FACTORS FOR RETIREES IN PAY STATUS AS OF JANUARY 1, 1985**

The following table sets forth factors, by year of retirement, death or disability, to be utilized pursuant to subparagraph 5.1(d)(iii)(B) of the Plan, to determine the benefit payable pursuant to Paragraph 5.1(d) of the Plan.

<u>Year</u>	<u>Applicable Factor</u>
1961	2.60
1962	2.56
1963	2.52
1964	2.48
1965	2.42
1966	2.34
1967	2.25
1968	2.13
1969	1.98
1970	1.83
1971	1.72
1972	1.64
1973	1.50
1974	1.28
1975	1.11
1976	1.01
1977	.90
1978	.79
1979	.63
1980	.46
1981	.35
1982	.29
1983	.26
1984	.23

**Effective January 1, 1996:**

**THE UPS RETIREMENT PLAN**

**APPENDIX D**

**ADDITIONAL MONTHLY RETIREMENT BENEFIT**

Pursuant to this Appendix D, the following list of Employees, identified by Social Security number, shall be entitled to receive the corresponding Additional Monthly Retirement Benefits, in accordance with the terms and conditions of Section V of the Plan.

**[INFORMATION EXCLUDED]**

Criteria used to determine the group of Employees eligible for, and the amount of, the Additional Monthly Retirement Benefits shall comply with all provisions of the Code including Code §401(a)(4) and §415.

**THE UPS RETIREMENT PLAN**

**APPENDIX E**

**FORMER ROLLINS EMPLOYEES**

Former Rollins Employees. Notwithstanding any contrary provision of this Plan, any Employee who was employed by Rollins Logistics, Inc. Rollins Dedicated Carriage Services, Inc. or Rollins Transportation Systems, Inc. (each, "Rollins") and is identified at the end of this Appendix E as a "transfer employee" pursuant to Section 5.7 of that certain Asset Purchase Agreement dated November 12, 1999 by and among Worldwide Dedicated Services, Inc., Rollins Truck Leasing Corp., Rollins Logistics, Inc. Rollins Dedicated Carriage Services, Inc. and Rollins Transportation Systems, Inc. shall receive credit for all service completed with Rollins or any person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with Rollins (a "Rollins Affiliate") or any predecessor to Rollins for purposes of the following:

- (a) eligibility requirements described in Section 2.1;
- (b) eligibility for a Deferred Vested Benefit as described in Section 4.4;
- (c) eligibility for an Early Retirement Benefit as described in Article V; and
- (d) eligibility for retiree medical benefits described in Article XII.

Under no circumstances will service with Rollins, a Rollins Affiliate or a predecessor of Rollins be counted as Benefit Service or for purposes of determining the amount of the Participant Contribution for or the amount of retiree medical benefits under Article XII

<u>Name</u>	<u>Rollins DOE</u>	<u>WDS DOE</u>	<u>Termination Date</u>	<u>Vested as of 8/02</u>
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[INFORMATION EXCLUDED]

**THE UPS RETIREMENT PLAN**

**APPENDIX F-1**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-1 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-1 are as follows:

<b><u>Name of Employer Company</u></b>	<b><u>Date of Participation</u></b>	<b><u>Date Participation Ceased</u></b>
Trailer Conditioners, Inc.	January 1, 2001	
United Parcel Service Co.	January 1, 2001	
United Parcel Service General Services Co.	January 1, 2001	
UPS Fuel Services, Inc. (UPS Aviation Services, Inc. prior to January 1, 2003)	January 1, 2001	
UPS International General Services Co.	January 1, 2001	
UPS Procurement Services Corporation	January 1, 2001	
UPS Worldwide Forwarding, Inc.	January 1, 2001	
United Parcel Service, Inc. (Ohio)	January 1, 2001	
BT Realty Holdings, Inc.	January 1, 2001	
United Parcel Service, Inc. (NY)	January 1, 2001	
BT Realty Holdings II, Inc.	January 1, 2001	
UPS Latin America, Inc.	January 1, 2001	
United Parcel Service of America, Inc.	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	20 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	5 per year of Benefit Service
<b>Integrated Points:</b>	12 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

**Annual DDB Amount per Year of Service\***

**Pre-Medicare Eligible Coverage**

\$250 per Year

**Medicare Eligible Coverage**

\$42 per Year

**THE UPS RETIREMENT PLAN**

**APPENDIX F-2**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-2 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-2 are as follows:

<b><u>Name of Employer Company</u></b>	<b><u>Effective Date of RPA Schedule</u></b>	<b><u>Date Participation Ceased</u></b>
UPS Capital Corporation	January 1, 2001	
UPS Capital Insurance Agency, Inc. (Glenlake Insurance Agency, Inc. prior to August 12, 2002)	January 1, 2001	
UPS Capital Insurance Agency, Inc. of California (Glenlake Insurance Agency, Inc. of California prior to August 13, 2002)	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	12 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	5 per year of Benefit Service
<b>Integrated Points:</b>	8 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

**Annual DDB Amount per Year of Service\***

**Pre-Medicare Eligible Coverage**

\$0

**Medicare Eligible Coverage**

\$0



**THE UPS RETIREMENT PLAN**

**APPENDIX F-3**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-3 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-3 are as follows:

<b><u>Name of Employer Company</u></b>	<b><u>Effective Date of RPA Schedule</u></b>	<b><u>Date Participation Ceased</u></b>
Pax Logistics International, Ltd.	January 1, 2001	
UPS Logistics Technologies, Inc. (f/k/a Roadnet Technologies, Inc.)	January 1, 2001	
UPS Supply Chain Solutions, Inc. (f/k/a UPS Worldwide Logistics and including Diversified Trimodal, Inc. d/b/a merged 12/31/02)	January 1, 2001	
Diversified Trimodal, Inc. d/b/a merged 12/31/02)	January 1, 2001	December 31, 2002 (Through series of mergers became part of UPS Supply Chain Solutions, Inc.)
Worldwide Dedicated Services, Inc.	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	5 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	4 per year of Benefit Service
<b>Integrated Points:</b>	4 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

**Annual DDB Amount per Year of Service\***

**Pre-Medicare Eligible Coverage**

\$0

**Medicare Eligible Coverage**

\$0

**THE UPS RETIREMENT PLAN**

**APPENDIX F-4**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-4 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-4 are as follows:

<u>Name of Employer Company</u>	<u>Effective Date of RPA Schedule</u>	<u>Date Participation Ceased</u>
UPS Aviation Technologies, Inc. (f/k/a II Morrow. Sold to Garmin International, Inc. 8/22/03)	January 1, 2001	August 22, 2003

**RPA Points**

<b>Alternative Points:</b>	5 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	4 per year of Benefit Service
<b>Integrated Points:</b>	4 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

	<b>Annual DDB Amount per Year of Service*</b>
<b>Pre-Medicare Eligible Coverage</b>	\$0
<b>Medicare Eligible Coverage</b>	\$0

**THE UPS RETIREMENT PLAN**

**APPENDIX F-5**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-5 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-5 are as follows:

<u>Name of Employer Company</u>	<u>Effective Date of RPA Schedule</u>	<u>Date Participation Ceased</u>
UPS Customhouse Brokerage	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	5 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	4 per year of Benefit Service
<b>Integrated Points:</b>	4 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

	<b>Annual DDB Amount per Year of Service*</b>
<b>Pre-Medicare Eligible Coverage</b>	\$0
<b>Medicare Eligible Coverage</b>	\$0

**THE UPS RETIREMENT PLAN**

**APPENDIX F-6**

**DDB AMOUNTS**

This Appendix F-6 shall apply to each Participant who is employed by one or more of the Employer Companies listed below whose initial date of hire by such Employer Company was prior to January 1, 2002 and who retires on or after July 1, 2006.

**Employer Companies**

The Employer Companies subject to this Appendix F-6 are as follows:

<b><u>Name of Employer Company</u></b>	<b><u>Effective Date of RPA Schedule</u></b>	<b><u>Date Participation Ceased</u></b>
UPS Ground Freight, Inc.	May 1, 2006	
Overnite Transportation Company (for periods before May 1, 2006, changed name to UPS Ground Freight, Inc. May 1, 2006, including Motor Cargo Distribution Services, Inc. merged May 1, 2006)	January 1, 2006	April 30, 2006
Overnite Corporation (for periods before May 1, 2006)	January 1, 2006	April 30, 2006
Motor Cargo Industries, Inc. (including Motor Cargo, merged May 1, 2006)	January 1, 2006	April 30, 2006

**Annual DDB Amount per Year of Service**

**Pre-Medicare Eligible Coverage**

\$135 (Effective for all Years of Service with the Employer Companies subject to this Appendix F-6, except Years of Service with Motor Cargo prior to January 1, 2006 shall not be included)

**Medicare Eligible Coverage**

\$0

**THE UPS RETIREMENT PLAN**

**APPENDIX F-7**

**PORTABLE ACCOUNT FORMULA**

**Employer Companies participating in Portable Account Formula Schedule A:**

Trailer Conditioners, Inc.  
United Parcel Service Co.  
United Parcel Service General Services Co.  
UPS Fuel Services, Inc. (UPS Aviation Services, Inc. prior to January 1, 2003)  
UPS International General Services Co.  
UPS Procurement Services Corporation  
UPS Worldwide Forwarding, Inc.  
United Parcel Service, Inc. (Ohio)  
BT Realty Holdings, Inc.  
United Parcel Service, Inc. (NY)  
BT Realty Holdings II, Inc.  
UPS Latin America, Inc.  
United Parcel Service of America, Inc.  
UPS Capital Corporation  
UPS Capital Insurance Agency, Inc. (Glenlake Insurance Agency, Inc. prior to August 12, 2002)  
UPS Capital Insurance Agency, Inc. of California (Glenlake Insurance Agency, Inc. of California prior to August 13, 2002)  
UPS Ground Freight, Inc.  
UPS Ground Freight, Inc. (formerly Overnite Transportation Company (for periods before May 1, 2006)  
Overnite Corporation (for periods before May 1, 2006)  
Motor Cargo Industries, Inc. (including Motor Cargo merged May 1, 2006)

**Employer Companies participating in Portable Account Formula Schedule B:**

Pax Logistics International, Ltd.  
UPS Logistics Technologies, Inc. (f/k/a Roadnet Technologies, Inc.)  
UPS Supply Chain Management, Inc. (f/k/a UPS Worldwide Logistics)  
UPS Supply Chain Management, Inc. (including Diversified Trimodal, Inc. (d/b/a Martrac)  
Worldwide Dedicated Services, Inc.  
UPS Customhouse Brokerage

**Portable  
Account Points  
as of January 1**

**Portable Account Formula  
Schedule A**

**Portable Account Formula  
Schedule B**

Less than 35  
35-54  
55-74  
75 or more

5.0%  
6.0%  
7.0%  
8.0%

2.5%  
3.0%  
4.0%  
5.0%

**THE UPS RETIREMENT PLAN**

**APPENDIX G**

**LIST OF EMPLOYER COMPANIES WITH UPS FREIGHT FORMULA**

Motor Cargo  
Overnite Transportation Company  
Overnite Corporation  
UPS Ground Freight, Inc.



**THE UPS RETIREMENT PLAN**

**APPENDIX H**

**EMPLOYER COMPANIES  
EFFECTIVE JANUARY 1, 2014**

<b>Employer</b>	<b>Effective Date of Participation</b>	<b>Participation Ended</b>
BT Realty Holdings II, Inc.	May 18, 1999	
BT Realty Holdings, Inc.	May 18, 1999	December 21, 2011
Fritz Companies, Inc. (including UPS Full Service Brokerage, Inc. merged 7/1/02)	July 1, 2001	July 1, 2002
iShip, Inc.	December 1, 2001	
Motor Cargo Industries, Inc. (includes Motor Cargo which was merged 5/1/06)	January 1, 2006	May 1, 2006
New Neon Company, Inc.	November 1, 2001	No longer in existence
Overnite Corporation	January 1, 2006	July 13, 2011
Overnite Transportation Company (includes Motor Cargo Distribution Services, Inc. which was merged 5/1/06)	January 1, 2006	December 31, 2008
Trailer Conditioners, Inc.	January 1, 1998	December 31, 2009
United Parcel Service Co.	January 1, 1998	
United Parcel Service of America, Inc.	January 1, 1998	
United Parcel Service, Inc. (New York)	January 1, 1998	Merged into Limited Parcel Service, Inc. (Ohio) January 1, 2009
United Parcel Service, Inc. (Ohio)	January 1, 1998	
UPS Aviation Services, Inc.	January 1, 1998	No longer in existence
UPS Aviation Technologies, Inc.	January 1, 1998	August 22, 2003
UPS Capital Business Credit (Formerly First International Bank)	September 1, 2001	
UPS Capital Business Credit of New Jersey, Inc. (Formerly First International Capital Corporation of New Jersey)	September 1, 2001	
UPS Capital Corporation, Inc.	May 28, 1998	
UPS Capital Insurance Agency, Inc. (Formerly Glenlake Insurance Agency, Inc.)	July 29, 1998	
UPS Capital Insurance Agency, Inc. of California (Formerly Glenlake Insurance Agency, Inc. of California)	August 10, 1999	December 21, 2009
UPS Consulting, Inc.	February 8, 2001	Dissolved August 20, 2007
UPS Customhouse Brokerage, Inc.	January 1, 1998	
UPS Full Service Brokerage, Inc.	June 6, 2000	July 1, 2002
UPS General Services Co.	January 1, 1998	
UPS Global Forwarding Services, Inc. (including Livingston Healthcare Services, Inc. merged 12/31/01)	July 1, 2001	December 31, 2001
UPS Ground Freight d/b/a UPS Freight (Formerly Overnite Transportation Company)	January 1, 2006	
UPS International General Services Co.	January 1, 1998	

UPS Latin America, Inc.	January 1, 1998	
UPS Logistics Group, Inc.	January 1, 1998	December 31, 2002
UPS Logistics Technologies, Inc.	January 1, 1998	December 31, 2010
UPS Mail Boxes Etc., Inc.	April 30, 2001	October 1, 2012
UPS Mail Innovations, Inc. (Formerly UPS Messaging Inc.)	February 1, 2001	
UPS Mail Technologies, Inc. (Formerly Mail2000, Inc.)	February 1, 2001	May 29, 2003 (Sold to DST Output of California, Inc.)
UPS Procurement Services Corporation	January 1, 1998	
UPS Service Parts Logistics, Inc.	July 1, 2001	Dissolved December 31, 2004
UPS Supply Chain Solutions, Inc. (includes Diversified Trimodal, Inc. d/b/a Martrac, UPS Supply Chain Management Nevada, Inc., UPS Supply Chain Management Tristate, Inc., UPS Logistics Group Americas, Inc. which were all merged through a series of mergers 12/31/02)	January 1, 1998 (July 1, 2001 for UPS Supply Chain Management Tristate, Inc., UPS Logistics Group Americas, Inc. and UPS Supply Chain Management Nevada, Inc.)	
UPS Telecommunications, Inc. (UPS Teleservices)	July 1, 2001	
UPS Worldwide Forwarding, Inc.	January 1, 1998	
UPSLG Puerto Rico, Inc.	July 1, 2001	Dissolved December 31, 2004
Worldwide Dedicated Services, Inc.	January 1, 1998	

## THE UPS RETIREMENT PLAN

### APPENDIX I

#### SPECIAL OPL RETIREMENT BENEFIT

Section 1 Special OPL Retirement Benefit. Notwithstanding any other provision in this Plan, the provisions in this Appendix I shall apply to the terms of the participation of any Grandfathered OPL Participant to the extent that such provisions are different from or supplement the provisions otherwise set forth in the Plan.

Section 2 Definitions.

(a) "Compensation" generally has the same meaning set forth in Article I of the Plan; however, for a Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to this Section, Compensation shall also include remuneration actually paid by OPL to such Grandfathered OPL Participant for the applicable year to the extent such remuneration was included as "compensation" under the OPL Plan.

(b) "Employer Company" generally has the same meaning set forth in Article I of the Plan; however, solely with respect to a Grandfathered OPL Participant, OPL also shall be considered an Employer Company.

(c) "Grandfathered OPL Participant" means a former participant in the OPL Plan who is listed below:

[INFORMATION EXCLUDED]

(d) "Hour of Service" generally has the same meaning set forth Article I of the Plan; however, for a Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to this Section, an Hour of Service shall also include an hour of service with OPL and any employer that would be considered a single employer with OPL under Code § 414(b), (c), (m) and (o) to the extent such hour of service was included as an "hour of service" under the OPL Plan.

Solely for purposes of entitlement to retiree medical benefits under Article XII of the Plan, including the determination of whether such Grandfathered OPL Participant is a Grandfathered Retired Participant, each Grandfathered OPL Participant shall be deemed to have an Hour of Service for each "hour of service" he or she was credited with under the OPL Plan.

(e) "OPL" means the Overseas Partners Ltd, Overseas Partners Capital Corporation and any other employer that participated in the OPL Plan on March 1, 2002.

(f) "OPL Minimum Benefit" means the protected minimum benefit described in Section 4 of this Appendix.

(g) "OPL Plan" means the Overseas Partners Ltd. and Subsidiaries Retirement Plan, as amended and restated effective as of January 1, 2000, and as further amended through April 15, 2001.

Section 3 OPL RPA Point Service Assumption. A Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to Section 2 of this Appendix shall be subject to Appendix F-1 with respect to his or her RPA Point accrual until the later of January 1, 2001 or his or her actual reemployment commencement date with an Employer Company without regard to Section 2(b) of this Appendix. Beginning on the later of January 1, 2001 or his or her actual reemployment commencement date without regard to Section 2(b) of this Appendix, a Grandfathered OPL Participant will accrue RPA Points under the applicable Appendix covering the Employer Company with which he or she is employed.

Section 4 Grandfathered OPL Benefit.

(a) OPL Benefits in Pay Status on March 1, 2002. With respect to any Grandfathered OPL Participant whose retirement benefit under the OPL Plan was in pay status on March 1, 2002, payment of such benefit shall continue under this Appendix for payments due on or after April 1, 2002 in the same amount and benefit form as set forth below, which is the benefit being paid from the OPL Plan on February 28, 2002:

OPL Benefits in Pay Status on March 1, 2002

Participant	Monthly Benefit	Form
-------------	-----------------	------

[INFORMATION EXCLUDED]

OPL Minimum Accrued Benefit

Participants	Total Monthly Benefit Accrued Benefit
--------------	---------------------------------------

[INFORMATION EXCLUDED]

(b) OPL Minimum Benefit. The Accrued Benefit of a Grandfathered OPL Participant shall never be less than the Grandfathered OPL Participant's OPL Minimum Benefit, which is the OPL Minimum Accrued Benefit in Section 4(b)(i)

adjusted by the applicable Grandfathered Actuarial Factors in Section 4(b)(ii) and, if applicable, the applicable early retirement reduction factors set forth in Section 5.2(b)(ii)(C)(4) of the Plan or the early commencement reduction factor set forth in Section 5.2(c)(ii)(A)(6)(b) of the Plan, each determined without regard to whether such Grandfathered OPL Participant has an Hour of Service as an Employee on or after January 1, 1992 and based upon such Grandfathered OPL Participant's years of "benefit service" under the OPL Plan on February 28, 2002.

(i) OPL Minimum Accrued Benefit. The OPL Minimum Accrued Benefit of a Grandfathered OPL Participant is set forth in Section 4(a) above, which is the Grandfathered OPL Participant's monthly benefit under the OPL Plan payable at Normal Retirement Date in the Normal Form determined as if such Grandfathered OPL Participant had terminated employment with UPS and OPL on the earlier of February 28, 2002 or the date he last actually terminated employment with UPS and OPL.

Termination of employment with UPS and OPL for the purpose of Section 4(b) of this Appendix means the termination of employment with all Employer Companies and Related Employers as well as OPL and all employers that would be considered a single employer with OPL under Code § 414(b), (c), (m) and (o).

(c) Grandfathered Actuarial Factors.

(i) Actuarial Equivalent. For purposes of determining a Grandfathered OPL Participant's OPL Minimum Benefit, the Actuarial Equivalent factors are as follows:

(A) For the annuity benefit set forth in Section 4(b)(iii)(A), an interest rate of 7.5 percent and the 1983 GAM mortality table (blended 50 percent male, blended 50 percent female).

(B) For the annuity benefit set forth in Section 4(b)(i),

with respect to the Qualified Joint and Survivor Benefit, 90 percent of the Participant's monthly benefit payable in the Normal Form determined under Section 5.2(a), Section 5.2(b) or Section 5.2(c) increased (or decreased) by 0.5 percent for each year the Spouse's or beneficiary's age is greater (or less) than the Participant's age, with no minimum but to a maximum of 99 percent.

with respect to the Single Life Annuity with 120-Month Guarantee, 95 percent of the Participant's monthly benefit payable in the Normal Form.

(ii) Special Optional Forms of Benefit Limited to OPL Minimum Benefit.

(A) UPS Retirement Plan Termination. Subject to the rules set forth in Section 5.3 of the Plan, a Grandfathered OPL Participant, upon the termination of the UPS Retirement Plan, shall have the option to receive the Present Value of the Grandfathered OPL Participant's accrued benefit in the OPL Plan defined in Section 4(b)(i) determined as if such Grandfathered OPL Participant had terminated employment with UPS and OPL on the earlier of February 28, 2002 or the date he last actually terminated employment with UPS and OPL in a single cash lump sum payment or an immediate annuity which shall be the Actuarial Equivalent value of the benefit defined in Section 4(b)(i) determined as described above.

(B) Present Value. For purposes of this Section, Present Value means the value of the Normal Form of benefit payment based the mortality table the Secretary of the Treasury prescribes, based on the prevailing commissioners' standard table (described in Code § 807(d)(5)(A)) used to determine reserves for group annuity contracts issued on the date as of which present value is being determined (without regard to any other subparagraph of Code § 807(d)(5)) and, for benefits paid on or before March 31, 2003, the annual rate of interest on 30 year Treasury securities for the month before the date of distribution or the Applicable Interest Rate, whichever rate produces the greater amount, and, for benefits paid on and after April 1, 2003, the Applicable Interest Rate.

## UPS RETIREMENT PLAN

### APPENDIX J

#### UPS FREIGHT/OVERNITE SUPPLEMENTAL BENEFIT SCHEDULE EFFECTIVE JANUARY 1, 2006

The provisions of this Appendix J will apply only to Grandfathered Overnite Participants and certain UPS Freight/Overnite Participants. References to Articles and Sections are to Articles and Sections of this Appendix J unless otherwise expressly indicated.

#### DEFINITIONS

Wherever used herein or in the main text of the Plan with respect to an Overnite Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix J or in the main text of the Plan, is not defined herein it will have the same meaning assigned to such term in the main text of the Plan.

Active Participant means as of any point in time, an Overnite Participant who at that point is or was eligible to accrue a benefit under either the Overnite Plan or this Plan, as applicable.

Benefit Service as defined in the main text of the Plan shall include:

- (a) each full year of "credited service" completed on or before December 31, 2005; other than service that is disregarded under Section 9.02 of the Overnite Plan; and
- (b) for each Overnite Participant who completed at least one "hour of service" during his or her "computation period" for "credited service" that began in 2005, one year of Benefit Service.

The terms "credited service," "computation period," and "hour of service" have the meaning assigned to such terms in the Overnite Plan.

Compensation means for purposes of determining Final Average Compensation for benefits the Annuity Starting Date for which is on or after January 1, 2006 with respect to Plan Years beginning prior to January 1, 2006 included in such average, "Compensation" as defined in Treasury Regulation § 1.415-2(d)(2) paid by Overnite or an "affiliated company" (as defined in Section 2.03 of the Overnite Plan) to an Overnite Employee, including, any elective deferral (as defined in Code § 402(g)(3)) and any elective contribution or elective deferral that is excluded from gross income under Code §§ 125, 132(f)(4), 414(v)(2) or 457. Notwithstanding the foregoing, Compensation shall exclude amounts described in (1) (6) below:

- (1) Contributions made by Overnite or an "affiliated company" to a plan of deferred compensation to the extent that, before the application of Code § 415 limitations to that plan, the contributions are not includable in the gross income of the Overnite Employee for the taxable year in which contributed, as described in Treasury Regulation § 1.415-2(d)(3)(i).

- (2) Amounts realized from the exercise of a nonqualified stock option, as described in Treasury Regulation § 1.415-2(d)(3)(ii).
- (3) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option, as described in Treasury Regulation § 1.415-2(d)(3)(iii).
- (4) Other amounts which receive special tax benefits, as described in Treasury Regulation § 1.415-2(d)(3)(iv).
- (5) Effective January 1, 2000, amounts paid from any plan of deferred compensation, including but not limited to the Executive Incentive Premium Exchange Program of Union Pacific Corporation and its Subsidiaries.
- (6) Amounts paid from the Union Pacific Corporation 2001 Long-Term Incentive Plan, amounts attributable to any forgiveness of a loan under the Union Pacific Corporation Executive Stock Purchase Incentive Plan and any other amount payable for services performed or performance achieved for a period longer than one Plan Year.

Disability Retirement Date means for purposes of this Appendix, the first date prior to the earlier of Overnite Participant's Normal Retirement Date or July 1, 2006 on which he has suffered a Total Disability and he has had a termination of employment due to such Total Disability; provided, however, that an Overnite Participant shall not have a Disability Retirement Date for purposes of this Appendix unless, at the time his or her Total Disability occurs, he or she is an Active Participant and has completed 10 or more Years of Vesting Service.

Disabled Participant means a UPS Freight/Overnite Participant who has a Total Disability.

Overnite Employee means (a) when used with reference to any Plan Year before 2006, a "covered employee" as defined in Section 2.16 of the Overnite Plan and (b) when used with reference to any Plan Year beginning on or after January 1, 2006, an Employee (as defined in the main text of the Plan, without regard to the second paragraph of such definition) employed by Overnite or UPS Ground Freight, Inc. ("UPS Freight") who has an Hour of Service with Overnite or UPS Freight on or after January 1, 2006 and who is not a participant in or covered under any other qualified defined benefit plan to which Overnite currently makes contributions on his or her behalf.

Overnite Participant means depending on the context, an Overnite Employee who was a participant in the Overnite Plan or has satisfied the participation requirements of Article II of the main text of the Plan.

Total Disability or Totally Disabled means a disability due to bodily injury or physical or mental disease which renders an UPS Freight /Overnite Participant eligible for disability benefits under the federal Social Security Act.

Year of Vesting Service means the sum of:



- (a) each full year of “vesting service” completed on or before December 31, 2005, other than service that is disregarded under Section 9.02 of the Overnite Plan; and
- (b) for each Overnite Participant who completed at least one “hour of service” during his or her “computation period” for “vesting service” beginning in 2005, one year of service unless such service would be disregarded under Section 6.2 of the main text of the Plan.

#### **AMOUNT AND PAYMENT OF BENEFITS**

**Minimum Accrued Benefit.** Notwithstanding any provision in this Appendix or the main text of Plan to the contrary, but taking into account the break in service rules in Article IX of the Overnite Plan:

- (a) the Accrued Benefit of a Grandfathered Overnite Participant who was an Active Participant on December 31, 1988 shall not be less than his or her accrued benefit, determined as of December 31, 1988 under the terms of the Overnite Plan as in effect through December 31, 1988;
- (b) the Accrued Benefit of a Grandfathered Overnite Participant who was an Active Participant on December 31, 1993 shall not be less than his or her accrued benefit, determined as of December 31, 1993 under the terms of the Overnite Plan as in effect through December 31, 1993; and
- (c) the Accrued Benefit of a Grandfathered Overnite Participant shall not be less than his or her “accrued benefit” determined as of December 31, 2005 under the terms of the Overnite Plan as if he or she had had a termination of employment on such date.

**Benefit Offset.** The Overnite Plan required the benefit payable from such plan be offset by any benefit payable from another qualified defined benefit plan if the same service performed by the Participant is recognized as “benefit service” in both plans. If such benefit offset has been communicated to an affected Participant prior to the merger of the Overnite Plan into this Plan, the amount of the offset shall remain as calculated under the Overnite Plan. If the benefit offset amount has not been communicated to the Participant, the offset shall be calculated as determined in the Overnite Plan.

**Optional Lump Sum Form of Benefit Payment.** If a Grandfathered Overnite Participant had a Termination of employment with Overnite on or after March 28, 2005 but prior to January 1, 2006, such Grandfathered Overnite Participant may elect to receive his or her Accrued Benefit payable under Section 5.4(e) in a cash lump sum as soon as practicable after his or her termination of employment if the Present Value of such benefit is at least \$1,000 but does not exceed \$5,000.

**Repayment of Lump Sum Distribution.** An individual who received a lump sum distribution of his or her entire accrued benefit from the Overnite Plan prior to January 1, 2006 and is re-employed by an Employer Company on or after January 1, 2006 has the right to repay the Trustee the lump

sum distribution he received, in accordance with Section 5.4(f) of the main text of the Plan provided his or her repayment right has not expired.

Disability Retirement Benefit. The Disability Retirement Benefit described in this Appendix shall apply only to an Overnite Participant who is determined to be Totally Disabled (as defined in this Appendix) as of any date prior to July 1, 2006. The Disability Retirement Benefit described in Section 5.5 of the main text of the Plan shall apply to any Overnite Participant who is determined to be Totally Disabled (as defined in Article I of the main text of the Plan) as of any date on or after July 1, 2006.

- (1) Each Overnite Participant who has a Disability Retirement Date shall be entitled to an immediate disability benefit commencing on the first day of the month coincident with or next following his or her Disability Retirement Date and ending on the date he or she ceases to be a Disabled Participant. Except to the extent the Disabled Participant is eligible for and elects to receive an Early Retirement Benefit in the interim, no Disability Retirement Benefit shall be paid to a Disabled Participant under this Appendix pending determination of the Total Disability by the Social Security Administration; provided, however, that the first payment made to a Disabled Participant under this Appendix following such determination of Total Disability shall include all amounts due the Disabled Participant for the period between the Disability Retirement Date and the date of the first payment.
- (2) A Disabled Participant shall cease to be such if and when:
  - (i) he or she reaches Normal Retirement Date;
  - (ii) he or she ceases to suffer from Total Disability;  
or
  - (iii) he or she dies.

When a Disabled Participant ceases to be such his or her current Disability Retirement Benefit (including any survivor benefit attributable to the elected form of payment) shall end, and (i) if he or she ceases to be a Disabled Participant because he or she ceases to suffer from a Total Disability prior to his or her Normal Retirement Date, he or she shall be entitled to a benefit under the provisions of the main text of the Plan or this Appendix, applied on the basis of his or her termination of employment due to his or her Total Disability and determined using his or her Final Average Compensation and actual years of Benefit Service as of such separation date, (ii) if he or she ceases to be a Disabled Participant on his or her Normal Retirement Date, he or she shall be entitled to the benefit described in Section (4) below, or (iii) if he or she ceases to be a Disabled Participant due to his or her death, death benefits shall be payable to his or her surviving Spouse or Domestic Partner, the monthly periodic payments under which shall equal the amount which would be payable under the survivor benefit portion of the qualified joint and survivor annuity (as defined in the Overnite Plan), if the Overnite Participant had:

- (i) a termination of employment on the date of his or her death (and did not thereafter return to service) or on the date of his or her actual termination of employment, if earlier;
  - (ii) survived and retired with an immediate qualified joint and survivor annuity on the Annuity Starting Date elected by the Spouse, and
  - (iii) died the following day.
- (3) The immediate Disability Retirement Benefit payable to a Disabled Participant under this Appendix shall be an annual benefit, payable monthly in a Single Life Only Annuity equal to the Participant's Accrued Benefit determined using his or her Final Average Compensation as of his or her Disability Retirement Date and the number of years of Benefit Service (to a maximum of 30 years) the Participant would have had had he or she remained an Employee of an Employer Company until his or her Normal Retirement Date, without reduction for early commencement. Alternatively, a Disabled Participant may elect in accordance with the procedures in Section 5.4(b) to have his or her Disability Retirement Benefit paid in a Qualified Joint and Survivor Annuity or in a Joint and 50% Survivor Annuity that is the Actuarial Equivalent of the Single Life Only Annuity.
- (4) A Disabled Participant who ceases to be such solely because he has reached his or her Normal Retirement Date shall be entitled to receive his or her Accrued Benefit determined using his or her Final Average Compensation as of his or her Disability Retirement Date and the number of years of Benefit Service (to a maximum of 30 years) the Participant would have had had he or she remained an Employee of an Employer Company until his or her Normal Retirement Date.

**UPS RETIREMENT PLAN**

**APPENDIX K**

**MOTOR CARGO SUPPLEMENTAL BENEFIT SCHEDULE  
EFFECTIVE JANUARY 1, 2006**

The provisions of this Appendix will apply only to Grandfathered Motor Cargo Participants. References to Articles and Sections are to Articles and Sections of this Appendix unless otherwise expressly indicated.

**DEFINITIONS**

Wherever used herein or in the main text of the Plan with respect to a Grandfathered Motor Cargo Participant, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix or in the main text of the Plan, is not defined herein it will have the same meaning assigned to such term in the main text of the Plan.

**DEFINITIONS**

Wherever used herein or in the main text of the Plan with respect to a Motor Cargo Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix or in the main text of the Plan is not defined herein, it will have the same meaning assigned to such term in the main text of the Plan.

Disabled Participant means a UPS Freight/Motor Cargo Participant who terminated employment with all Employer Companies and Related Employers due to Total Disability.

Benefit Service as defined in the main text of the Plan shall include each "year of service" for benefit accrual purposes completed under the Motor Cargo Plan as of December 31, 2005.

Hour of Service means for Plan Years beginning before 2006, an "hour of service" as described in Section 1.27 of the Motor Cargo Plan.

Motor Cargo Employee means (a) when used with reference to any Plan Year before 2006, an "employee" as defined in Section 1.07 of the Motor Cargo Plan and (b) when used with reference to any Plan Year beginning on or after January 1, 2006, an Employee (as defined in the main text of the Plan, without regard to the second paragraph of such definition) employed by Motor Cargo who has an Hour of Service with Motor Cargo on or after January 1, 2006 and who is not a participant in or covered under any other qualified defined benefit plan to which Motor Cargo currently makes contributions on his or her behalf. Under no circumstances will an individual who performs services for Motor Cargo, but who is not classified on the payroll as an employee of Motor Cargo, for example, an individual performing services for Motor Cargo under a leasing arrangement, be treated as a Motor Cargo Employee even if such individual is treated as an employee of Motor Cargo as a result of common law principles, co-employment principles or the leased employee rules under Section 414(n) of the Code. Further, if an individual performing services for Motor Cargo is

retroactively reclassified as an employee of Motor Cargo for any reason, such reclassified individual shall not be treated as a Motor Cargo Employee eligible to participate in the Plan for any period prior to, on or after the date such reclassification except as determined by the Trustees.

Motor Cargo Participant means depending on the context, a Motor Cargo Employee who was a participant in the Motor Cargo Plan or has satisfied the participation requirements of Article II, other than, effective January 1, 2006, any Motor Cargo Employee whose terms and conditions of employment are subject to a collective bargaining agreement, unless such agreement expressly provides for the eligibility of such person to participate in this Plan.

Total Disability or Totally Disabled means a disability due to bodily injury or physical or mental disease which renders a Motor Cargo Participant eligible for disability benefits under the federal Social Security Act.

Year of Vesting Service includes each full "year of service" (as defined in § 8.06 of the Motor Cargo Plan) completed on or before December 31, 2005, other than service that is disregarded under Section 8.08 of the Motor Cargo Plan.

### **AMOUNT AND PAYMENT OF BENEFITS**

Commencement at Normal Retirement Age. A Grandfathered Motor Cargo Participant who has attained Normal Retirement Date may elect to commence payment of his or her Accrued Benefit even if he or she has not terminated employment with all Employer Companies and Related Employers. If a Grandfathered Motor Cargo Participant continues to work past the date benefits commence under this Section, the benefit shall be adjusted annually on or before April 1 following the date benefit commenced to reflect the additional benefits, if any, accrued in the immediately preceding Plan Year.

Optional Lump Sum Payment. A Motor Cargo Participant who terminated employment with Motor Cargo on or after March 28, 2005 but prior to January 1, 2006 may elect to receive his or her Accrued Benefit in a cash lump sum as soon as practicable after his or her termination of employment if the Present Value of such benefit is at least \$1,000 but does not exceed \$5,000. If a Motor Cargo Participant's (other than a Grandfathered Motor Cargo Participant's) benefit is cashed out, service associated with such cash-out shall be disregarded for purposes of the Plan; provided, however, that such service shall be counted in determining the Employee's Year of Vesting Service and years of Benefit Service if, upon reemployment, the distribution is repaid by the Motor Cargo Employee to the Trustees in accordance with Section 5.4(f) of the main text of the Plan.

Disability Retirement Benefit. The Disability Retirement Benefit described in Section 5.5 of the main text of the Plan shall apply to any Motor Cargo Participant who is determined to be Totally Disabled (as defined in Article I of the main text of the Plan) as of any date on or after July 1, 2006.

Minimum Benefit. Notwithstanding any other provision in this Appendix or the main text of the Plan, the Accrued Benefit of a Grandfathered Motor Cargo Participant who completed at least one "hour of service" (as defined in § 1.27 of the Motor Cargo Plan) on or after January 1, 1994 and prior to January 1, 2006, but who terminates employment before he or she is vested in accordance

with Article VI, will be \$25. If a Motor Cargo Participant is eligible for a minimum benefit under this Appendix, such benefit shall be paid from the Plan as soon as administratively possible.

If the minimum benefit is not claimed within 6 months after the Grandfathered Motor Cargo Participant is notified of the minimum benefit by either certified or registered mail at his or her last known address, the minimum benefit will be forfeited.

#### **VESTING**

Each Grandfathered Motor Cargo Participant shall be fully vested in his Accrued Benefit upon:

- (a) attainment of his or her Normal Retirement Age;
- (b) completion of 5 Years of Service; or
- (c) his or her termination of employment due to death.

## UPS RETIREMENT PLAN

### APPENDIX L

#### SPECIAL ENHANCED BENEFIT FOR AVIATION TECHNOLOGIES PARTICIPANTS

Section 1 General. Notwithstanding any other provision in this Plan, the provisions in this Appendix shall apply to the terms of the participation of any Aviation Technologies Participant to the extent that such provisions are different from or supplement the provisions otherwise set forth in this Plan.

Section 2 Definitions.

Aviation Technologies Participant means each Participant who at the close of business on the Aviation Technologies' Closing Date was an employee of UPS Aviation Technologies, Inc., (including those who are on leave, disability or other absence from active employment), was at least age 50 and had completed at least 15 Years of Service.

Aviation Technologies' Closing Date means August 22, 2003 which was the Closing Date as defined in Section 2.3 of that certain Stock Purchase Agreement by and between United Parcel Service of America and Garmin International, Inc., dated as of July 24, 2003.

Section 3 Special Early Commencement Factor for Aviation Technologies Participants. The early commencement reduction factor applicable to Aviation Technologies Participants under Section 5.2(b) shall be determined by substituting "one-quarter of one percent (0.25%)" wherever "one-half of one percent" (0.5%) appears in the text.

Section 4 Enhanced Retiree Medical for Aviation Technologies Participants. For purposes of construing Article XII:

Retired Participant. The term "Retired Participant" shall include each Aviation Technologies Participant with at least one Year of Service as a Participant in this Plan (regardless of whether such Participant retired as an Employee and was thereupon immediately eligible to receive an Early or Normal Retirement Benefit hereunder).

Commencement of Benefits. Medical Benefits shall begin to be paid with respect to claims incurred by Retired Participants who are Aviation Technologies Participants, or their Covered Dependents, when such Retired Participants are no longer eligible for coverage under the UPS Insurance Plan (or a successor plan) or another group medical plan sponsored and maintained by an employer for active employees and their covered dependents. Notwithstanding any other provision of this Article, if a Retired Participant, or his or her Covered Dependent, is eligible for Medical Benefits under this Article and also eligible for medical benefits under another group medical insurance plan sponsored and maintained by an Employer Company for active employees and their covered dependents (for example, the UPS Insurance Plan) ("Alternate Plan"), then no Medical Benefits under this Article shall be paid. Payment of Medical Benefits under this Article shall commence on the day

following the day eligibility for benefits under the Alternate Plan ceases unless the Retired Participant or Covered Dependent elects to defer coverage under Section 12.3(a).

Section 5 UPS Aviation Technologies, Inc. Employees. Notwithstanding any contrary Plan provision, a Participant who is employed by UPS Aviation Technologies, Inc. on December 31, 2000 and who was a participant in the UPS Pension Plan on that date shall receive a benefit from this Plan for his or her years of Benefit Service with UPS Aviation Technologies equal to the greater of the benefit described in Section 5.2 or the benefit such Participant would have earned under the UPS Pension Plan based upon the formula in effect under the Plan immediately before such Participant became covered under this Plan.



**UPS RETIREMENT PLAN**

**APPENDIX M**

**FOR THE INDEPENDENT PILOTS ASSOCIATION**

The provisions of this Appendix M will apply to that period of employment during which an individual is an Employee as defined in this Appendix M.

All Section references used in this Appendix M are to Sections of this Appendix M, not the main text of the Plan.

Further, the provisions of each Benefit Schedule supplement the corresponding provisions in this Appendix M, unless otherwise expressly indicated. For example, the provisions of Article IV of a Benefit Schedule supplement the provisions of Article IV of the main text of this Appendix M.

Except as otherwise provided, this Appendix M to the UPS Retirement Plan is initially effective January 1, 2008, was amended and restated effective as of January 1, 2010 and is amended as of January 1, 2014 to conform with the holding of U.S. v. Windsor, 570 U.S. 133 S. Ct. (2013), to simplify withholding notice requirements and to correct certain typographical errors.

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**Article I**  
**DEFINITIONS**

Wherever used herein or in the attached Benefit Schedules, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

Section 1.1. Actuarial Equivalent. Refer to Benefit Schedules.

Section 1.2. Actuary. The term “Actuary” means the individual actuary or firm of actuaries selected by the Committee to provide actuarial services in connection with the administration of the Plan.

Section 1.3. Applicable Interest Rate. Refer to Benefit Schedules.

Section 1.4. Applicable Mortality Table. Refer to Benefit Schedules.

Section 1.5. Board of Directors. The term “Board of Directors” shall mean the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc.

Section 1.6. Break in Service. The term “Break in Service” means a Plan Year during which an Employee does not complete more than 500 Hours of Service.

Section 1.7. Code. means the Internal Revenue Code of 1986 as amended.

Section 1.8. Collective Bargaining Agreement. The term “Collective Bargaining Agreement: shall mean the Collective Bargaining Agreement in force between the Employer and the Independent Pilots Association, with any modification or amendment thereto, which serves as the basis for coverage of Employees and their participation in this Plan.

Section 1.9. Committee or Administrative Committee. means the Administrative Committee of the Plan, the establishment and responsibilities of which are set forth in Article XI, Administration. The Committee shall be and is the Plan Administrator, the agent for service of process on or with respect to the Plan and a named fiduciary with respect to this Plan.

Section 1.10. Construction. Wherever required herein, the masculine gender shall include the feminine gender and the singular shall include the plural, and the plural shall include the singular.

Section 1.11. Covered Employment. Refer to Benefit Schedules.

Section 1.12. Deferred Vested Benefit. The term “Deferred Vested Benefit” means the benefit described in Section 4.5.

Section 1.13. Early Commencement Age. The term “Early Commencement Age” means the age specified in the definition of Early Retirement Date.

Section 1.14. Early Retirement Benefit. The term “Early Retirement Benefit” means the benefit described in Section 4.2.

Section 1.15. Early Retirement Date. Refer to Benefit Schedules.

Section 1.16. Effective Date of Amendment. The “Effective Date of Amendment” is January 1, 1976.

Section 1.17. Effective Date. The “Effective Date” of this Appendix M is January 1, 2008. This Appendix M was amended and restated effective January 1, 2010 and was most recently amended as of January 1, 2014.

Section 1.18. Employee. The term “Employee” means a person who is classified on the payroll of an Employer as an employee of that Employer who (i) is not a participant in or covered under any other qualified Plan to which his Employer currently makes contributions on his behalf, and (ii) is employed in an area of the United States served by an Employer prior to July 1, 1975, in a capacity in which he is represented for purposes of collective bargaining by a Union, or (iii) is employed and has been so employed for a continuous period of one year in an area of the United States not served by an Employer prior to July 1, 1975, in a capacity similar to that of those classifications of employees employed elsewhere in the United States who are represented for purposes of collective bargaining by a Union, or (iv) is employed by an Employer which has adopted this Plan, with the approval of the Board of Directors, and has agreed to cover the Employee under this Plan and agreed to be bound by the terms and conditions of the Plan and Trust Agreement.

Notwithstanding the foregoing, any individual who becomes an Employee for the first time as a result of employment with an Employer which first elected to participate in this Plan as of January 1, 1985, or later, shall not be considered an Employee until such individual has completed one Vesting Year during or after the first Plan Year for which the Employer has agreed to participate.

The term Employee shall not include an individual employed as a leased employee, as that term is defined in Code § 414(n)(2).

Under no circumstances will an individual who performs services for an Employer, but who is not classified on the payroll as an employee of the Employer, for example, an individual performing services for an Employer under a leasing arrangement, be treated as an Employee even if such individual is treated as an “employee” of an Employer as a result of common law principals or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer is retroactively reclassified as an employee of an Employer for any reason, such reclassified individual shall not be treated as an Employee for any period prior to the actual date (and not the effective date) of such reclassification unless the Employer determines that retroactive reclassification is necessary to correct a payroll classification error.

Section 1.19. Employer. The term “Employer” shall mean United Parcel Service of America, Inc., and any domestic subsidiary or domestic affiliate that adopts the Plan and this Appendix M with the approval of the Board of Directors, and agrees to be bound by the terms and conditions of the Plan and Trust Agreement.

Section 1.20. ERISA. The term “ERISA” means Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended.



Section 1.21. Hour of Service. The term “Hour of Service” means each hour for which an Employee is paid or entitled to be paid for the performance of duties for an Employer; each hour for which an Employee is paid or entitled to be paid by an Employer for periods during which no duties are performed due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty which gives rise to reemployment rights under Federal law, or leave of absence; and each hour for which back pay is awarded or agreed to by an Employer if not already credited under this sentence. Notwithstanding any of the foregoing, no more than 501 Hours of Service will be credited to an Employee for any single continuous period during which the Employee performs no duties, credit will not be given for a period for which duties are not performed if payment is made under a plan maintained solely to comply with applicable workmen’s compensation, unemployment or disability insurance laws, and no credit shall be given for a payment which solely reimburses an Employee for medical or medically related expenses incurred by the Employee. A payment shall be deemed to be made by or due from the Employer whether made by or due from the Employer directly or indirectly through a trust fund, insurer or other entity to which the Employer contributes or pays premiums, regardless of whether such contributions are for the benefit of particular Employees or are on behalf of a group of Employees in the aggregate. Hours of Service shall be credited under the terms of Department of Labor Regulations, § 2530.200b-2 and -3.

Section 1.22. Joint and Survivor Annuity. Refer to Benefit Schedules.

Section 1.23. Normal Retirement Age. Refer to Benefit Schedules.

Section 1.24. Normal Retirement Benefit. The term “Normal Retirement Benefit” means the benefit described in Section 4.1.

Section 1.25. Normal Retirement Date. Refer to the applicable Benefit Schedule.

Section 1.26. Other Plan Benefits Offset. Refer to the applicable Benefit Schedule.

Section 1.27. Participant. The term “Participant” shall mean an Employee who has met the eligibility requirements of Section 2.1 and has begun participation under the Plan; and who has not had a Break in Service or other change in status such that would terminate his or her participation.

Section 1.28. Plan. The term “Plan” means the UPS Retirement Plan.

Section 1.29. Plan Year. The term “Plan Year” means the calendar year.

Section 1.30. Postponed Retirement Benefit. The term “Postponed Retirement Benefit” means the benefit described in Section 4.3.

Section 1.31. Postponed Retirement Date. The term “Postponed Retirement Date” means the first day of any calendar month after a Participant’s Normal Retirement Date.

Section 1.32. Present Value. Refer to the applicable Benefit Schedule.

Section 1.33. Qualified Joint and Survivor Annuity. The term “Qualified Joint and Survivor Annuity” is defined in Section 4.8.

Section 1.34. Qualified Preretirement Joint and Survivor Annuity. The term “Qualified Preretirement Joint and Survivor Annuity” is defined in Section 4.12(b).

Section 1.35. REACT Effective Date. The term “REACT Effective Date” shall mean the first day of the Plan Year commencing on or after the earlier of (a) the date the last collective bargaining agreement relating to the Plan, as of August 23, 1984, terminates (determined without any regard to any extension of any such collective bargaining agreement agreed to after August 23, 1984) or (b) January 1, 1987.

Section 1.36. Related Employer. The term “Related Employer” shall mean (a) any other corporation on and after the date that it, together with the Employer, is a member of a controlled group of corporations as described in Code § 414(b); (b) any other trade or business (whether or not incorporated) on and after the date that it and the Employer are under common control as described in Code § 414(c); and (c) any organization (whether or not incorporated) on and after the date that it, together with the Employer, is a member of an affiliated group of employers as described in Code § 414(m).

Solely for the purposes of Section 4.10 “Related Employer” shall have the same meaning as described above however in making the determination that an entity is a member a controlled group under Code § 1563(a)(1) (which both Code § 414(b) and (c) refer to) the phrase “more than fifty percent” shall be substituted for the phrase “at least eighty percent.

Section 1.37. Retirement Benefit. Refer to the applicable Benefit Schedule.

Section 1.38. Service Credit. Refer to the applicable Benefit Schedule.

Section 1.39. Single Life Only Annuity. The term “Single Life Only Annuity” means the Monthly Accrued Benefit expressed in the form of a monthly benefit continuing for the life of the Participant only. The last payment of a Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.

Section 1.40. Spouse. means, (a) a person to whom a Participant is lawfully married as of the earlier of his Annuity Starting Date or death, and (b) a person treated as the Participant’s Spouse to the extent required by a qualified domestic relation order. Effective June 26, 2013, “Spouse” includes an individual married to a person of the same sex if the marriage was validly entered into in a state whose laws authorize such marriages, even if the married couple is domiciled in a state that does not recognize the validity of same-sex marriages. For this purpose, “state” means any domestic or foreign jurisdiction having the legal authority to sanction marriages. The Plan shall comply with any and all applicable legal requirements resulting from the holding of United States v. Windsor, 570 U.S. 12, (2013), including, without limitation, Rev. Rul. 2013-17, 2013-38 I.R.B. 201 and I.R.S. Notice 2014-19, 2014-17 I.R.B. 979. For the avoidance of doubt, the term “Spouse” shall not include individuals (whether of the opposite sex or same sex) who have entered into a registered domestic partnership, civil union, or other similar formal relationship recognized under state law that is not denominated as a marriage under the laws of the state. Prior to June 26, 2013, the term “Spouse” included a person of the same sex as the Participant if such person or the Participant presented the Committee with a valid marriage certificate for the Participant and such person from a state in which

same sex marriage was sanctioned and such person was treated as the Participant's Spouse on a prospective basis.

Section 1.41. Trust Agreement. The term "Trust Agreement" shall mean the trust agreements establishing the UPS Retirement Plan Trust, as restated effective January 1, 1976, including any future amendments and modifications thereof, which Trust Agreement forms a part of this Plan.

Section 1.42. Trust Agreement or Trust Agreements. The terms "Trust Agreement" or "Trust Agreements" means the trust agreements establishing the UPS Retirement Plan Trust, including any future amendments and modifications thereof.

Section 1.43. Trustee. means the corporations or individuals so designated by the Board of Directors to hold assets of the Plan for the purposes of the Plan.

Section 1.44. Union. The term "Union" shall mean the Independent Pilots Association or local, or lodge of such union that has a Collective Bargaining Agreement with the Employer in which the Independent Pilots Association or the local, or lodge thereof and the Employer have agreed that some or all of the Employees in the bargaining unit shall be covered by this Plan.

Section 1.45. UPS Retirement Plan or Plan. The terms "UPS Retirement Plan" or "Plan" shall mean the UPS Retirement Plan as described herein, together with any amendments or modifications thereof.

Section 1.46. Vesting Year.

(a) Except as provided in paragraph (b) below, the term "Vesting Year" means each calendar year commencing on or after the Effective Date of Amendment in which a Participant completes or has completed not less than 1000 Hours of Service with the Employer, and each calendar year commencing prior to the Effective Date of Amendment in which a Participant completed not less than 1801 Hours of Service with the Employer. Vesting Years shall also include employment with any member of an affiliated group of which the Employer is a part.

(b) Effective for Participants in the Plan on or after August 1, 1987, and Participants in the Plan prior to that date who are employed by the Employer (or by a member of an affiliated group of which the Employer is a part) as of August 1, 1987 and earn at least one Hour of Service on or after that date (whether or not as active participants in this Plan for whom the Employer makes, as of such date, contributions to this Plan), the term "Vesting Year" means any calendar year commencing on or after January 1, 1976 in which a Participant completes or has completed not less than 750 Hours of Service with the Employer, and each year commencing prior to January 1, 1976 in which a Participant completes not less than 1801 Hours of Service with the Employer. For this purpose, employment with any member of an affiliated group of which the Employer is a part shall be counted in determining a Participant's Vesting Years. Notwithstanding the foregoing, the provisions of this paragraph (b) are not effective for Participants who are U.S. Virgin Islands Employees, UPS Aviation Technologies Employees or employees of UPS Truck Leasing, Inc.

(c) For the purpose of determining the number of Vesting Years of a Participant, the following rules apply: If a Participant's service with an Employer is broken by the Participant failing to complete more than 500 Hours of Service with the Employer during any one calendar year, the following rules shall apply to determine that Participant's vested interest for that year and prior and succeeding years in which he completes at least 1,000 Hours of Service with the Employer (750 Hours of Service for Participants, other than U.S. Virgin Islands Employees, UPS Aviation Technologies Employees or employees of UPS Truck Leasing, Inc., who are employed by the Employer on or after August 1, 1987).

(i) Effective for Employees who terminate employment with the Employer and all Related Employers on or after January 1, 2000, Vesting Years prior to the Break in Service shall not be taken into account if the Participant has no vested right under the Plan and the number of his consecutive one-year Breaks in Service equals or exceeds the greater of (A) the aggregate number of his prior Vesting Years (excluding Vesting Years not required to be taken into account by reason of any prior Breaks in Service), or (B) six. For periods after the REACT Effective Date and with respect to any Employee who terminates prior to January 1, 2000, "five" shall be substituted for "six" in clause (B) of the immediately preceding sentence. If the condition of clause (A) or clause (B), as applicable, is satisfied, the Employee will be treated as a new Employee for purposes of this definition. This definition shall not be construed to require any service to be taken into account for the purpose of the vesting rules if, as of the day before the REACT Effective Date, such service would have been disregarded as a result of the Break in Service rules in effective prior to the REACT Effective Date.

(ii) Effective for any Employee who terminates employment with the Employer and all Related Employers prior to January 1, 2000, Vesting Years prior to the Break in Service shall not be taken into account if the Participant has no vested right under the Plan and the number of his consecutive one-year Breaks in Service equals or exceeds the greater of (A) the aggregate number of his prior Vesting Years (excluding Vesting Years not required to be taken into account by reason of any prior Break in Service), or (B) five. This definition shall not be construed to require any service to be taken into account for the purpose of the vesting rules if, as of the day before the REACT Effective Date, such service would have been disregarded as a result of a Break in Service rules in effective prior to the REACT Effective Date.

Section 1.47. Year of Service. The term "Year of Service" means a Plan Year during which an Employee completes 1000 or more Hours of Service or 750 or more Hours of Service for Participants (other than U.S. Virgin Islands Employees, UPS Aviation Technologies Employees or employees of UPS Truck Leasing, Inc.) who are employed by the Employer on or after August 1, 1987.

Section 1.48. Year of Service Credit or year of Service Credit. The term "Year of Service Credit" or "year of Service Credit" means the years and months of Service Credit under Article III or the applicable Benefit Schedule.

**ARTICLE II**  
**ELIGIBILITY FOR PARTICIPATION**

Section 2.1. Eligibility Requirements.

Effective for persons who are Employees and who are employed by the Employer (or by a member of an affiliated group of which the Employer is a part) and earn at least one Hour of Service on or after January 1, 2008 (whether or not as an Employee), the participation of any such Employee eligible to become a Participant (as described in the applicable Benefit Schedule) shall commence as of the earliest January 1 or July 1 on or after January 1, 2008 as of which he has both attained age 21 and completed not less than 750 Hours of Service with an Employer or a Related Employer in the twelve-month period following his date of employment or in any subsequent Plan Year.

Notwithstanding the foregoing, any Employee who is covered by a collective bargaining agreement which does not provide for his inclusion in this Appendix M shall not be eligible to commence participation or continue actively to participate in this Appendix M; nor shall any Employee who is an active participant on whose behalf contributions are being made by an Employer under any other qualified pension or retirement plan (other than any other cash or deferred plan described in Code § 401(k) to which the Employer makes a contribution on a Participant's behalf after July 1, 1998) maintained by an Employer be eligible to commence participation or to continue actively to participate in this Plan.

Any person who leaves the Employer's service after becoming eligible to participate shall again become a Participant immediately upon his return to the Employer's service, unless he has no vested right under the Plan and the number of his consecutive one year Breaks in Service equals or exceeds the greater of (i) the aggregate number of his prior Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Break in Service), or (ii) six. For periods after the REACT Effective Date and with respect to any Employee who terminates prior to January 1, 2000, "five" shall be substituted for "six" in clause (ii) of the immediately preceding sentence. If the condition of clause (i) or clause (ii), as applicable, is satisfied, the Employee will be treated as a new Employee for purposes of this Section 2.1. This Section 2.1 shall not be construed to require any service to be taken into account for the purposes of the eligibility provisions of this Section 2.1 if, as of the day before the REACT Effective Date, such service would have been disregarded as a result of the Break in Service rules in effect prior to the REACT Effective Date.

**ARTICLE III**  
**ACCUMULATION OF SERVICE CREDIT FOR PURPOSES OTHER**  
**THAN VESTING AND ELIGIBILITY I.E. FOR ACCRUAL OF BENEFITS, ETC.**

Refer to Article III of the applicable Benefit Schedule.

**ARTICLE IV**  
**BENEFIT ELIGIBILITY AND AMOUNTS**

If a Participant is eligible for more than one Retirement Benefit for a period of Covered Employment, such Participant's Retirement Benefit shall be the Retirement Benefit that provides the largest monthly dollar amount payable as of the date his benefit is scheduled to commence with respect to such period of Covered Employment.

Section 4.1. Normal Retirement Benefit. Refer to Section 4.3 of the applicable Benefit Schedule.

Section 4.2. Early Retirement Benefit. Refer to Section 4.5 of the applicable Benefit Schedule.

Section 4.3. Postponed Retirement Benefit. Refer to Section 4.4 of the applicable Benefit Schedule.

Section 4.4. Deferred Vested Benefit. Refer to Section 4.6 of the applicable Benefit Schedule.

Section 4.5. Cashout of Small Benefits. Refer to the applicable Benefit Schedule.

Section 4.6. Zero Vested Participant. Refer to the applicable Benefit Schedule.

Section 4.7. Other Plan Benefits Offset. Except as to retirements occurring prior to March 1, 1975, and except as otherwise covered under a reciprocal agreement, the Retirement Benefit shall be reduced by the amount of any benefit the Participant receives or is entitled to receive from any non-government pension or retirement plan (other than a defined contribution plan) to which the Employer made contributions on behalf of the Participant and under which the same period of service with the Employer is taken into account to calculate Retirement Benefits also is taken into account in calculating benefits under that plan. If a reduction in benefits is also called for in another plan or plans sponsored and maintained by the Employer by reason of the benefits payable to a Participant under this Plan, the reduction in benefits shall be made only in the benefits payable under the plan in which the Participant last participated, and if he participated in more than one other such plan, then the reduction shall be made in the reverse order of participation with no reduction in the benefits payable under the plan in which the Participant first participated.

If the Participant receives one form of benefit under this Plan and another form of benefit under any such other plan, any reduction shall be based on actuarially equivalent forms of benefit. If the other benefit is a defined contribution plan benefit, the "reduction based on actuarially equivalent forms of benefit" means that the Present Value of the benefit payable under this Plan shall be reduced by the Present Value of the benefit payable from the defined contribution plan as of the date benefits are scheduled to commence.

Section 4.8. Normal and Optional Forms of Payment.

(a) Normal Form. If a Participant is entitled to receive a Retirement Benefit, such benefit shall be paid in the normal form unless he elects a different form of benefit in accordance with Section 4.8(b). The normal form of benefit for a married Participant is a Qualified

Joint and Survivor Annuity (as described below). The normal form of benefit for a single Participant is the Single Life Only Annuity which is based on the life of the Participant.

The Qualified Joint and Survivor Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity. Under the Qualified Joint and Survivor Annuity, the Participant shall be paid his pension for his lifetime; and his Spouse as of the date his Retirement Benefit commences who survives the Participant, shall be entitled to receive a lifetime survivorship benefit following the Participant's death in a monthly amount equal to 50% of the monthly amount which had been payable to the Participant. The last payment of the Qualified Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his Spouse has occurred.

(b) Optional Forms of Benefit. In lieu of the normal form described in Section 4.8(a), a Participant may elect in writing, at any time prior to receiving a first payment under this Section 4.8, to receive his Retirement Benefit in one of the optional benefit payment forms described in the applicable Benefit Schedule. Prior to January 1, 2005, the only optional benefit payment form was a Single Life Only Annuity for a married Participant. Each benefit payment form described in this Section 4.8(b) will be the Actuarial Equivalent of the Participant's Single Life Only Annuity.

(c) Form of Election. An election to waive the normal form of benefit described in Section 4.8(a) must be in writing in a form approved by the Committee and shall not be effective if the Participant is married unless:

- (i) the Spouse of the Participant consents to the election, and such consent:
  - (1) is in writing,
  - (2) acknowledges the Participant's selection of an alternative form of benefit and/or beneficiary, which may not thereafter be changed without spousal consent unless the Spouse's prior consent specifically permits the Participant to change the beneficiary without further consent by the Spouse,
  - (3) acknowledges the effect of the election, and
  - (4) is witnessed by a notary public: or
- (ii) it is established to the satisfaction of the Committee that the Spouse's consent cannot be obtained because:
  - (1) the Participant has no Spouse,
  - (2) the Participant's Spouse cannot be located, or
  - (3) one of the conditions prescribed in Treasury Regulations is satisfied.



Notwithstanding the foregoing, no spousal consent shall be required if a Participant elects a joint and survivor annuity (as described in the applicable Benefit Schedule) and his Spouse is his designated beneficiary.

(iii) Revocation of Election. A Participant may revoke an election made under this Section 4.8(c) at any time prior to the first payment of his Retirement Benefit. A Spouse's consent to the waiver of the Qualified Joint and Survivor Annuity and to the specific beneficiary and optional form designations made by the Participant is irrevocable unless the Participant revokes his waiver election.

Section 4.9. Qualified Preretirement Joint and Survivor Annuity.

(a) In General. Each vested Participant who on or after August 23, 1984 has at least one Hour of Service or at least one hour of paid leave shall have the Qualified Joint and Survivor Annuity effective for the benefit of his Spouse so that if he dies prior to his benefit commencement date his Spouse will be entitled to receive a survivor benefit as of the following date:

(i) if the Participant dies on or after attaining his Early Retirement Date, as of the first day of the month coincident with or next following the date of the Participant's death; and

(ii) if the Participant dies before attaining his Early Retirement Date, as of the first day of the month coincident with or next following the earliest date the Participant would have been entitled to commence benefits based upon his Vesting Years.

(b) Amount of Qualified Preretirement Joint and Survivor Annuity. The benefit payable to the Participant's surviving Spouse shall be equal to the amount which would have been payable to the Participant's Spouse under the Qualified Joint and Survivor Annuity determined as follows:

(iv) if the Participant dies on or after attaining his Early Commencement Age, as if the Participant had retired and commenced receiving benefits on the date immediately preceding his death; and

(v) if the Participant dies before attaining his Early Commencement Age, as if the Participant had:

(1) terminated employment on the date of his death;

(2) survived to the earliest date benefits could have commenced to him based on his completed Vesting Years;

(3) retired with an immediate Qualified Joint and Survivor Annuity at his Early Commencement Age; and

(4) died on the day after the earliest date benefits could have commenced to him based on his completed Vesting Years.

In the case of a vested Participant who terminated employment with the Employer and all Related Employers before the date of such Participant's death, paragraph (1) above shall not apply.

Notwithstanding the forgoing, if a married vested Participant dies after electing the Joint and 100% Survivor Annuity with his Spouse as beneficiary, but before payment of such benefit has begun, the Committee will adjust the Qualified Preretirement Joint and Survivor Annuity to reflect the greater survivor percentage.

In lieu of the Qualified Preretirement Joint and Survivor Annuity, before the first payment with respect to such benefit, the Committee shall pay to the surviving Spouse, without such Spouse's consent, the Present Value of the benefit if such Present Value is less than \$1,000 for payments made after March 1, 2005. For payments made before March 1, 2005, such Present Value does not exceed \$3,500 for Participants terminating employment before September 1, 1998 or \$5,000 for Participants terminating employment on or after September 1, 1998.

(c) One-Year Marriage Requirement.

(i) Before January 1, 2004. With respect to Participants who die before January 1, 2004, a Qualified Preretirement Joint and Survivor Annuity shall not be paid to a Participant's Spouse unless the Participant and Spouse had been married throughout the one-year period ending on the date of the Participant's death.

(ii) On or After January 1, 2004. With respect to Participants who die on or after January 1, 2004, the one year marriage requirement set forth in Section 4.9(c)(1) shall not apply.

Section 4.10. Preservation of Benefits and Maximum Benefits. Anything to the contrary notwithstanding, a benefit computed under this ARTICLE IV shall be subject to the following:

(a) Maximum Benefit. For limitation years beginning on or after July 1, 2007, the maximum annual benefit payable shall be determined in accordance with the Maximum Benefits Addendum for Independent Pilots Association.

(vi) General Limitation. The maximum annual benefit payable under this Plan shall not exceed the lesser of: \$160,000 as adjusted, effective January 1 of each year, under Code § 415(d) in such manner as the Secretary shall prescribe (the "dollar limitation") or 100% of the Participant's average compensation (as defined in Treasury Regulation § 1.415-2(d)) paid for the three consecutive calendar years during which he was an active Participant in the Plan, and in which he received the greatest aggregate compensation from the Employer, subject to the following:

(1) If the Retirement Benefit is payable in any form other than a Single Life Only Annuity, a Qualified Joint and Survivor Annuity, or a joint and 50%, 75% or 100% survivor annuity (as described in the applicable Benefit Schedule with the Spouse as the beneficiary, then the limitations of this subsection (1) shall be applied to the Single Life Only Annuity which is the actuarial equivalent of such benefit. The actuarially equivalent Single Life Only Annuity is equal to the greater of the annuity benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for adjusting benefits in the same form, and the annuity benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table. In determining the actuarially equivalent Single Life Only Annuity for a lump sum benefit, the Applicable Interest Rate will be substituted for 5 percent. No actuarial adjustment is required for the value of a Qualified Joint and Survivor Annuity or a joint and 50%, 75% or 100% survivor annuity (as described in the applicable Benefit Schedule) with the Spouse as beneficiary, benefits that are not directly related to Retirement Benefits and the value of post-retirement cost-of-living increases made in accordance with Code § 415(d) and the regulations thereunder.

(2) If the Retirement Benefit of the Participant commences before age 62, such dollar limitation shall be adjusted so that it is the actuarial equivalent of an annual benefit of the dollar limitation beginning at age 62, reduced for each month by which benefits commence before the month in which the Participant attains age 62. The Retirement Benefit beginning prior to age 62 shall be determined as the lesser of the equivalent Retirement Benefit computed using the interest rate and mortality table (or other tabular factor) equivalence for an Early Retirement Benefit specified in the Plan, and the equivalent Retirement Benefit computed using a 5 percent interest rate and the Applicable Mortality Table. Any decrease in the adjusted defined benefit dollar limitation determined in accordance with this provision (2) shall not reflect any mortality decrement to the extent that benefits will not be forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.

(3) If the Retirement Benefit of a Participant commences after age 65, the defined benefit dollar limitation shall be adjusted so that it is the actuarial equivalent of a Retirement Benefit of such dollar limitation beginning at age 65. The actuarial equivalent Retirement Benefit beginning after age 65 shall be determined as the lesser of the actuarial equivalent Retirement Benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for purposes of determining actuarial equivalence for a Postponed Retirement Benefit, and the equivalent Retirement Benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table.

(4) Subject to limitations imposed elsewhere in this Plan, an annual benefit of \$10,000 or less may be paid regardless of the limitations set forth in paragraph (1) if the benefit paid to the Participant from all defined benefit plans of the Employer does not exceed \$10,000 for the Plan Year or any prior Plan Year, and the Employer has not at any time maintained a defined contribution plan in which the Participant participated.

(5) If a Participant has less than 10 Years of Service with the Employer at the time the Participant begins to receive Retirement Benefits under the Plan, the average compensation limitation, as well as the \$10,000 benefit exception described in subparagraph (i)(4) above, must be reduced by multiplying such limitation by a fraction, the numerator of which is the number of Years of Service with the Employer as of and including the current limitation year, and the denominator of which is 10. In the case of the dollar limitation where the Participant has less than 10 years of participation in the Plan, such limitation shall be reduced by a fraction, the numerator of which is the number of years of participation in the Plan as of and including the current limitation year, and the denominator of which is 10.

(vii) Limitation Adjustment. The rate of a Participant's benefit accrual will be automatically frozen or reduced to a level necessary to prevent the limitations of this paragraph (a) from being exceeded.

(viii) Single Plan Rule. For purposes of this paragraph (a), all defined benefit plans of the Employer (whether or not terminated) shall be considered as one defined benefit plan.

(ix) Automatic Adjustment. The limitations imposed by this paragraph (a) shall be adjusted automatically when permitted or required by law.

(x) Limitation Year. For purposes of this paragraph (a), the limitation year is the calendar year.

(xi) Employer. For purposes of this paragraph (a), "Employer" means the Employer and all Related Employers.

(xii) Transitional Rules. The limitation under subsection (a)(i) for an employee who was a Participant in the UPS Pension Plan prior to the Plan Year beginning on or after the earlier of (a) the date on which the last of the collective bargaining agreements relating to the Plan, as of September 3, 1982, terminates or (b) January 1, 1986, shall be the greater of (i) the limitation contained in such subsection or (ii) the Participant's accrued benefit, expressed as an annual benefit, as of the last plan year beginning before the earlier of: (a) the date on which the last of the collective bargaining agreements, as of September 3, 1982, terminates or (b) January 1, 1986. For purposes of this subparagraph (vii), neither changes in the terms and conditions of this Plan nor cost of living adjustments occurring after July 1, 1982 shall be taken

into account except for changes in the terms and conditions of the Plan made under a collective bargaining agreement reached before July 1, 1982, and ratified prior to September 3, 1982.

(b) Incorporation by Reference. Notwithstanding anything to the contrary in this Section 4.10, the limitations on maximum benefits payable from this Plan shall be in accordance with Code § 415 and the regulations thereunder, which are incorporated into the Plan by reference.

Section 4.11. Effect of Collective Bargaining Agreement. The provisions of this Article IV and the applicable Benefit Schedule as they apply to each Participant shall be amended from time to time by any Collective Bargaining Agreement which governs participation in this Plan for such Participant and the terms of any such Collective Bargaining Agreement are incorporated herein by reference from the date such agreement becomes binding on the Employer.

**ARTICLE V**  
**BENEFIT PAYMENTS**

Section 5.1. Limitations Regarding Time of Payment of Benefits.

(a) General. Benefits shall be due commencing with the first full calendar month in which the Participant has fulfilled all of the conditions for entitlement to benefits, including the requirement for advance application as set forth in Section 6.1 and ending with the payment made in the month in which the death of the Participant occurs or at such later time provided in ARTICLE IV. No benefit shall be payable for any month in which nonoccupational weekly accident and sickness benefits are paid to the Participant. Unless the Participant elects otherwise, payments authorized under this ARTICLE V shall commence no later than the sixtieth (60th) day of the close of the Plan Year in which the Participant retires provided a proper application is filed.

(b) Required Minimum Distributions. Refer to Required Minimum Distribution Addendum.

Section 5.2. Designation of Beneficiary. Each Participant shall be given the opportunity to designate a primary beneficiary and a secondary contingent beneficiary or beneficiaries, in writing, in the form and manner required by the Committee, and such beneficiary or beneficiaries may be changed by such Participant in the same manner, but such designation shall not be considered made until received by the Committee or their designees on such form and unless it is received by the Committee prior to the Participant's death. The Committee shall be the sole judges of the effectiveness of the designation or change thereof.

Section 5.3. Duplication of Benefits. A Participant shall not be entitled to the payment of more than one type of benefit under this Plan at any one time. No designation of a beneficiary shall be effective to the extent that honoring such designation would conflict with the rights of the Participant's Spouse under Section 4.9, and no such designation shall be effective to the extent that, in conjunction with spousal rights under Section 4.9 or as otherwise mandated by the Retirement Equity Act of 1984, it would require duplication of benefit payments.

Section 5.4. Incompetence or Incapacity of Participant. In the event it is determined that any Participant is unable to care for his affairs because of mental or physical incapacity, the Committee may pay the benefits due such Participant to this legal guardian, or guardians, or legal representatives or, in the absence of any of them, to any relative by blood or connection by marriage who is deemed by the Committee to be entitled thereto. Payment by the Committee to such legal representative or relative of the Participant shall operate to discharge the Committee from any liability to such Participant or to anyone representing him or his interest.

Section 5.5. Suspension of Benefits.

(a) If a Participant entitled to receive benefits (which shall be deemed to include the actual receipt of such benefits) should (1) return to Covered Employment, or (2) remain in

Covered Employment after attaining age 65 (effective December 19, 2006, in administering the Plan the Committee has consistently interpreted age 65 in this context to mean normal retirement age as defined in each of the applicable Benefit Schedules), the payment of benefits to said Participant shall be suspended for the period in which the Participant remains employed, but not beyond the required beginning date set forth in Section 5.1(b)(1). Benefit payments will be resumed no later than the first day of the third calendar month after the month in which the Participant ceases to be employed, provided the Participant has informed the Plan Administrator that he has ceased such employment.

(b) For purposes of this Section 5.5, a period of employment as to which benefits shall be suspended means any calendar month or a four or five week period ending in a calendar month, if the Participant completes at least forty hours of service (as defined in 29 CFR § 2530.200b-2(a)(1) and (2)) with the Employer or a Related Employer in such month or payroll period.

(c) Any Participant coming under this provision will be notified by first-class mail or personal delivery within the first calendar month or payroll period in which the plan withholds the payment of retirement benefits.

(d) Any Participant may request a determination of whether specific contemplated employment will be considered employment for purposes of this Section 5.5. Request for status determinations may be submitted in accordance with the claims procedures set forth in Section 11.4.

Section 5.6. Funding Based Limitations on Benefits and Benefit Accrual for the 2008 and 2009 Plan Years.

(a) General. The limitations of this Section 5.6 shall apply effective for Plan Years beginning on or after January 1, 2008 and before January 1, 2010.

(b) Funding-Based Limitation on Unpredictable Contingent Event Benefits.

(i) If a Participant would be entitled to an Unpredictable Contingent Event Benefit payable with respect to an Unpredictable Contingent Event occurring during a Plan Year, such benefit shall not be paid if the AFTAP for such Plan Year:

(A) is less than sixty percent (60%), or

(B) sixty percent (60%) or more, but would be less than sixty percent (60%) if the AFTAP were redetermined applying an actuarial assumption that the likelihood of the occurrence of such event during the Plan Year is one hundred percent (100%).

(ii) Section 5.6(b)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with

Code §§ 436(b)(2) and 436(f) or to the extent Section 5.6(b)(i) is otherwise inapplicable in accordance with Code § 436(f).

(c) Limitations on Plan Amendments Increasing Liability for Benefits.

(iii) No amendment that has the effect of increasing the liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable shall take effect in a Plan Year if the AFTAP for such Plan Year:

(A) is less than eighty percent (80%), or

(B) is eighty percent (80%) or more, but would be less than eighty percent (80%) if the benefits attributable to the amendment were taken into account in determining the AFTAP.

(iv) Section 5.6(c)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Code §§ 436(c)(2) and 436(f) or to the extent Section 5.6(c)(i) is otherwise inapplicable in accordance with Code § 436(f), so that the amendment shall be permitted to take effect as of the later of the first day of the Plan Year or the effective date of the amendment.

(v) Section 5.6(c)(i) shall not apply to any amendment that provides for an increase in benefits under a formula which is not based on a Participant's compensation, but only if the rate of the increase is not in excess of the contemporaneous rate of increase in average wages of Participants covered by the amendment.

(d) Limitations on Accelerated Benefit Distributions.

(xiii) Funding Percentage Less than Sixty Percent (60%). If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), the Plan shall not pay any Prohibited Payment after the valuation date for the Plan Year.

(xiv) Bankruptcy. During any period in which the Plan sponsor is a debtor in a case under Title 11, United States Code, or similar Federal or State law, the Plan shall not pay any Prohibited Payment. The preceding sentence shall not apply on or after the date on which the enrolled actuary for the Plan certifies that the Plan's AFTAP for the Plan is not less than one hundred percent (100%).

(xv) Limited Payment if Percentage is at Least Sixty Percent (60%) but Less Than Eighty Percent (80%).

(A) General. If the Plan's AFTAP for a Plan Year is sixty percent (60%) or greater but less than eighty percent (80%), the Plan shall not pay any Prohibited Payment after the valuation date for the Plan Year to the extent



the amount of the payment exceeds the lesser of (1) fifty percent (50%) of the amount of the payment which could be made without regard to Section 5.6(d) or (2) the present value (determined under guidance prescribed by the PBGC, using the interest and mortality assumptions under Code § 417(e)) of the maximum guarantee with respect to the Participant under ERISA Section 4022.

(B) One-Time Application. In the case of a Participant with respect to whom a Prohibited Payment (or series of Prohibited Payments under a single optional form of benefit) is made pursuant to Section 5.6(d)(iii)(A), no additional Prohibited Payment shall be made with respect to that Participant during any period of consecutive Plan Years to which the limitations under Section 5.6(d)(i) or (ii) apply.

(e) Limitation on Benefit Accruals for Severe Funding Shortfalls.

(iii) General. If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), benefit accruals under the Plan shall cease as of the valuation date for the Plan Year. If the Plan is required to cease benefit accruals under the preceding sentence, then the Plan shall not be amended in a manner that would increase the liabilities of the Plan by reason of an increase in benefits or establishment of new benefits.

(iv) Exemption. Section 5.6(e)(i) shall not apply with respect to a Plan Year, effective as of the first day of the Plan Year, if the Company makes an additional contribution or provides security in accordance with Code §§ 436(e)(2) and 436(f) or to the extent Section 5.6(c)(i) is otherwise inapplicable in accordance with Code § 436(f).

(v) 2009 Plan Year. For the 2009 Plan Year, Section 5.6(e)(i) shall be applied by substituting the Plan's AFTAP for the preceding Plan Year for the Plan's AFTAP for the Plan Year, but only if the AFTAP for the preceding Plan Year is greater.

(f) Definitions. For purposes of this Section 5.6, the following terms have the following meanings:

(i) "AFTAP" means the "Adjusted Funding Target Attainment Percentage," as described in Code § 436(j)(2), taking into account the special rules of Code § 436(j)(4).

(ii) "Prohibited Payment" means (1) any payment, in excess of the monthly amount paid under a single life annuity (plus any social security supplements described in the last sentence of Code § 411(a)(9)), to a Participant or Beneficiary whose annuity starting date (as defined in Code § 417(f)(2)) occurs during any period a limitation under Section 5.6(d)(i) or (ii) is in effect, (2) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, and (3) any other payment specified by regulations. A prohibited payment shall not include the

payment of a benefit which under Code § 411(a)(11) may be immediately distributed without the consent of the Participant.

(iii) “Unpredictable Contingent Event” means a plant shutdown (whether full or partial) or similar event, or an event (including the absence of an event) other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death or disability.

(iv) “Unpredictable Contingent Event Benefit” means any benefit payable solely by reason of an Unpredictable Contingent Event.

(g) Notices. The Committee or its delegate shall comply with any applicable notice requirements under ERISA Section 101(j).

(h) Interpretation. This Section 5.6 shall be interpreted and applied consistent with Code § 436, taking into account any applicable transition rules or exceptions provided thereunder or in any guidance issued thereunder.

Section 5.7. Funding Based Limitations on Benefits and Benefit Accrual for 2010 and later Plan Years.

(d) General. The limitations of this Section 5.7 shall apply effective for Plan Years beginning on or after January 1, 2010.

(e) Funding-Based Limitation on Unpredictable Contingent Event Benefits.

(v) If a Participant would be entitled to an Unpredictable Contingent Event Benefit payable with respect to an Unpredictable Contingent Event occurring during a Plan Year, such benefit shall not be paid if the AFTAP for such Plan Year:

(A) is less than sixty percent (60%), or

(B) is sixty percent (60%) or more, but would be less than sixty percent (60%) if the AFTAP were redetermined applying an actuarial assumption that the likelihood of occurrence of such event during the Plan Year is one hundred percent (100%).

(vi) Section 5.7(b)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Treasury Regulation § 1.436-1(f) or to the extent Section 5.7(b)(i) is otherwise inapplicable in accordance with Treasury Regulation § 1.436-1(f).

(vii) If the Unpredictable Contingent Event Benefits payable with respect to an Unpredictable Contingent Event that occurs during the Plan Year are not permitted to be paid because of the limitations of Section 5.7(i), but are permitted to be paid later in the Plan Year as a result of additional contributions under Treasury Regulation § 1.436-1(f) or pursuant to the enrolled actuary’s certification of the AFTAP for the

Plan Year that meets the requirements of Treasury Regulation § 1.436-1(g)(5)(ii)(B), then those Unpredictable Contingent Event Benefits shall automatically become payable, retroactive to the period those benefits would have been payable under the terms of the Plan (other than Plan terms implementing the requirements of Code § 436(b)). If the Unpredictable Contingent Event Benefits do not become payable during the Plan Year in accordance with the preceding sentence, then the Plan will be treated as if it does not provide for those benefits. However, all or any portion of those Unpredictable Contingent Event Benefits can be restored pursuant to a Plan amendment that meets the requirements of Code § 436(c) and Treasury Regulation § 1.436-1(c) and other applicable qualification requirements.

(f) Limitations on Plan Amendments Increasing Liability for Benefits.

(i) No Plan amendment that has the effect of increasing liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable shall take place in a Plan Year if the AFTAP for such Plan Year:

(C) is less than eighty percent (80%), or

(D) is eighty percent (80%) or more, but would be less than eighty percent (80%) if the benefits attributable to the amendment were taken into account in determining the AFTAP.

(ii) Section 5.7(c)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Treasury Regulation § 1.436-1(f) or to the extent Section 5.7(c)(i) is otherwise inapplicable in accordance with Treasury Regulation § 1.436-1(f), so that the amendment shall be permitted to take effect as of the later of the first day of the Plan Year or the effective date of the amendment.

(iii) Section 5.7(c)(i) shall not apply to any amendment that provides for an increase in benefits under a formula which is not based on a Participant's compensation, but only if the rate of the increase is not in excess of the contemporaneous rate of increase in average wages of Participants covered by the amendment.

(iv) If a Plan amendment does not take effect as of the effective date of the amendment because of the limitations of Section 5.7(c), but is permitted to take effect later in the Plan Year as a result of additional contributions under Treasury Regulation § 1.436-1(f) or pursuant to the enrolled actuary's certification of the AFTAP for the Plan Year that meets the requirements of Treasury Regulation § 1.436-1(g)(5)(ii)(C), then the Plan amendment shall automatically take effect as of the first day of the Plan Year (or, if later, the original effective date of the amendment). If the Plan amendment cannot take effect during the Plan Year, then it shall be treated as if it were never adopted, unless the Plan amendment provides otherwise.

(g) Limitations on Accelerated Benefit Distributions.

(i) Funding Percentage Less than Sixty Percent (60%). If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), a Participant or Beneficiary shall not be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment, with an Annuity Starting Date on or after the applicable Section 436 Measurement Date.

(ii) Bankruptcy. During any period in which the Plan sponsor is a debtor in a case under Title 11, United States Code, or similar Federal or State law, no Participant or Beneficiary shall be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment with an Annuity Starting Date that occurs during such period. The preceding sentence shall not apply to payments made within a Plan Year with an Annuity Starting Date that occurs on or after the date on which the enrolled actuary for the Plan certifies that the Plan's AFTAP for that Plan Year is not less than one hundred percent (100%).

(iii) Limited Payment if Percentage is at Least Sixty Percent (60%) but Less Than Eighty Percent (80%).

(C) General. If the Plan's AFTAP for a Plan Year is sixty percent (60%) or greater but less than eighty percent (80%), no Participant or Beneficiary shall be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment, with an Annuity Starting Date on or after the applicable Section 436 Measurement Date. The preceding sentence shall not apply if the Present Value of Accrued Benefit of the portion of the benefit that is being paid in a Prohibited Payment (as described in Treasury Regulation § 1.436-1(d)(3)(iii)(B)) does not exceed the lesser of (1) fifty percent (50%) of the Present Value of Accrued Benefit of the benefit payable in the optional form of benefit that includes the Prohibited Payment or (2) one hundred percent (100%) of the PBGC maximum benefit guarantee amount (as described in Treasury Regulation § 1.436-1(d)(3)(iii)(C)).

(D) Bifurcation Rules. If an optional form of benefit that is otherwise available under the terms of the Plan is not available as of the Annuity Starting Date because of the application of Section 5.7(d)(iii)(A), then the Participant or Beneficiary shall be permitted to elect to (1) receive the unrestricted portion of the optional form of benefit (determined under the rules of Treasury Regulation § 1.436-1(d)(3)(iii)(D)) at that Annuity Starting Date, determined by treating the unrestricted portion of the benefit as if it were the Participant's or Beneficiary's entire benefit under the Plan, (2) commence benefits with respect to the Participant's or Beneficiary's entire benefit under the Plan in any other optional form of benefit available under the Plan at the same Annuity Starting Date that satisfies Treasury Regulation § 1.436-1(d)(3)(i), or (3) defer commencement of the payments to the extent described in

Treasury Regulation § 1.436-1(d)(5). If the Participant or Beneficiary elects payment of the unrestricted portion of the benefit (determined under the rules of Treasury Regulation § 1.436-1(d)(3)(iii)(D)) under Section 5.7(d)(iii)(B)(1), then the Participant or Beneficiary shall be entitled to elect payment of the remainder of the Participant's or Beneficiary's benefits under the Plan in any optional form of benefit at that Annuity Starting Date otherwise available under the Plan that would not have included a Prohibited Payment if that optional form applied to the entire benefit of the Participant or Beneficiary.

(E) One-Time Application. In the case of a Participant or Beneficiary with respect to whom a Prohibited Payment (or series of Prohibited Payments under a single optional form of benefit) is made pursuant to Section 5.7(d)(iii)(A) or (B), no additional Prohibited Payment shall be made with respect to that Participant during any period of consecutive Plan Years to which the limitations under Section 5.7(d) apply.

(iv) Plan Alternative for Special Optional Forms. The Plan may offer optional forms of benefit that are solely available during the period in which Section 5.7(d)(i), (ii), or (iii) applies to limit Prohibited Payments under the Plan in accordance with Treasury Regulation § 1.436-1(d)(6). Any such optional forms must satisfy Treasury Regulation § 1.436-1(d) and applicable qualification requirements, including satisfaction of Code §§ 417(e) and 415 (at each annuity starting date).

(h) Limitation on Benefit Accruals for Severe Funding Shortfalls.

(i) General. If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), benefit accruals under the Plan shall cease as of the applicable Section 436 Measurement Date. If the Plan is required to cease benefit accruals under the preceding sentence, then the Plan shall not be amended in a manner that would increase the liabilities of the Plan by reason of an increase in benefits or establishment of new benefits.

(ii) Exemption. Section 5.7(e)(i) shall cease to apply with respect to a Plan Year, effective as of the first day of the Plan Year, if the Company makes an additional contribution or provides security in accordance within Treasury Regulation § 1.436-1(f) or to the extent Section 5.7(e)(i) is otherwise inapplicable in accordance with Treasury Regulation § 1.436-1(f).

(i) Special Rules of Operation for Periods Prior to and After Certification.

(i) Periods Prior to Certification During Which a Presumption Applies. For any period during which a presumption under Code § 436(h) and Treasury Regulation §§ 1.436-1(h)(1), (2) or (3) applies to the Plan, the limitations under Sections 5.7(b), (c), (d) and (e) shall be applied to the Plan as if the AFTAP for the year were the presumed AFTAP determined under the rules of Code § 436(h) and Treasury Regulation § 1.436-1(h)(1), (2) or (3), as applicable, updated to take into account

certain Unpredictable Contingent Event Benefits and Plan amendments in accordance with Code § 436 and Treasury Regulation § 1.436-1(g).

(ii) Periods After Certification of AFTAP. Section 5.7(f)(i) shall no longer apply for a Plan Year on and after the date an enrolled actuary for the Plan issues a certification of the AFTAP of the Plan for the current Plan Year, provided that the certification is issued before the first day of the tenth (10th) month of the Plan Year. For example, the limitations on Prohibited Payments under Section 5.7(d) shall apply for distributions with Annuity Starting Dates on and after the date of such certification using the certified AFTAP of the Plan for the Plan Year. Similarly, the prohibitions on accruals under Section 5.7(e) as a result of the enrolled actuary's certification that the AFTAP of the Plan for the Plan Year is less than sixty percent (60%) shall be effective as of the date of the certification, and any prohibition on accruals shall cease to be effective on the date the enrolled actuary issues a certification that the AFTAP for the Plan for the Plan Year is at least sixty percent (60%).

(j) Definitions. For purposes of this Section 5.7, the following terms have the following meanings:

(i) "AFTAP" means the "Adjusted Funding Target Attainment Percentage," as described in Code § 436(j)(2), taking into account the special rules of Code § 436(j)(4), and Treasury Regulation § 1.436-1(j)(1).

(ii) "Annuity Starting Date" has the meaning described in Treasury Regulation § 1.436-1(j)(2).

(iii) "Prohibited Payment" means (1) any payment for a month that is in excess of the monthly amount paid under a straight life annuity (plus any social security supplements described in the last sentence of Code § 411(a)(9)), to a Participant or Beneficiary whose Annuity Starting Date occurs during any period a limitation under Section 5.7(d) is in effect, (2) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, (3) any transfer of assets and liabilities to another plan maintained by the Company (or by any member of the Company's controlled group) that is made in order to avoid or terminate the application of the benefit limitations under Code § 436, and (4) any other amount that is identified as a Prohibited Payment in IRS revenue rulings and procedures, notices, and other guidance published in the Internal Revenue Bulletin. A prohibited payment shall not include the payment of a benefit which under Code § 411(a)(11) may be immediately distributed without the consent of the Participant.

(iv) "Section 436 Measurement Date" has the meaning described in Treasury Regulation § 1.436-1(j)(8).

(v) "Unpredictable Contingent Event" means a plant shutdown (whether full or partial) or similar event, or an event (including the absence of an event) other than

the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death or disability.

(vi) “Unpredictable Contingent Event Benefit” means any benefit or increase in benefits to the extent the benefit or increase would not be payable but for the occurrence of an Unpredictable Contingent Event.

(k) Notices. The Committee or its delegate shall comply with any applicable notice requirements under ERISA Section 101(j).

(l) Interpretation. This Section 5.7 shall be interpreted and applied consistent with Code § 436 and Treasury Regulation § 1.436-1, taking into account any applicable transition rules or exceptions provided thereunder or in any additional guidance issued under Code § 436.

**ARTICLE VI**  
**APPLICATIONS AND PROOF**

Section 6.1. Application. Each Participant or former Participant shall make written application to the Committee, or their designated representative, for the benefits, if any, to which he is entitled under this Plan at least sixty (60) days, but not more than ninety (90) days, in advance of the first day of the month on which the benefits applied for are to be paid, on a form or forms to be provided by the Employer for this purpose. The Committee may require each applicant for Retirement Benefits to submit such information as may reasonably be required for the proper administration of the Plan. Except for good cause shown, or unless the delay is due to the failure of the Committee to furnish the necessary information to the Employee at his last known address as indicated on the Employer's records, failure to submit such an application within the time prescribed shall result in the forfeiture of any benefits that would have been payable, had the application been timely filed, prior to the date on which such an application is delivered to the Committee. When any Participant elects any of the options provided by the Plan, he must make such election on a properly completed pension application form and in the manner within the time prescribed above.

Section 6.2. Information and Proof. Every Participant shall furnish, at the request of the Committee, any information or proof reasonably required for the administration of the Plan or for the determination of any matter that the Committee may legitimately have before them. The falsity of any statement material to an application or the furnishing of fraudulent information or proof shall be sufficient reason for the recapture, by means of suspension or discontinuance of benefits, or otherwise, of any excess benefit, if any, paid under this Plan.

Section 6.3. Action of Committee. The Committee shall be the sole judges of:

- (a) the standard of proof required in any case;
- (b) the application and interpretation of this Plan; and
- (c) the correctness of the computation of Service Credit.

The decision of the Committee with respect to any of the foregoing shall be final and binding on all parties, subject to the claims procedure set forth in Section 11.4. Wherever in the Plan the Committee are given discretionary powers, the Committee shall exercise such powers in a uniform and non-discriminatory manner.

Section 6.4. Employer Records. For purposes of this Plan and the Trust Agreement established as a part thereof, the records of the Employer with respect to Service Credit, Covered Employment, termination of service, military service, and any and all other matters pertaining to the employment and participation of an Employee in this Plan shall be controlling.



**ARTICLE VII  
FUNDING OF BENEFITS**

Section 7.1. Funding Method and Policy. The Employers shall make contributions to or under the Plan for each Plan Year which, in the aggregate, are not less than the amount which the Actuary determines is necessary to satisfy the minimum required contribution as determined under Section 303 of ERISA for the Plan for such Plan Year. The funding method shall be contributions from the Employers and the funding policy shall be such as is consistent with the objectives of the Plan.

Section 7.2. RESERVED.

Section 7.3. Payment of Contributions. An Employer may pay its contribution for any Plan Year on any date or dates, provided, however, that the total amount of the Employer's contribution for any Plan Year shall be paid in full not later than the last day for timely filing of its Federal income tax return for the year with respect to which the contribution is made, including extensions thereof granted by the Internal Revenue Service.

Section 7.4. Forfeitures. Forfeitures arising under this Plan, if any, shall be applied to reduce Employer contributions and shall not be used or applied to increase the benefits any Employee would otherwise be entitled to receive hereunder.

Section 7.5. Contributions by Employer. All contributions to this Plan to fund the benefits described in the Benefit Schedules shall be made only by the Employers.

Section 7.6. Permissible Contributions and Irrevocability. Any amounts contributed by the Employer pursuant to this Article VII may be contributed by the Employer in cash or other property. In no such event and under no circumstances shall such contributions, or any part thereof, revert to or be recoverable by the Employer until all obligations under this Plan have been fully satisfied as provided in Section 7.3, except as follows:

- (d) in the case of a contribution, or any part thereof, made under a mistake of fact, the Employer may recover such contribution within one year of payment; and
- (e) because all contributions are conditioned on deductibility, in the event that a contribution cannot be deducted by the Employer pursuant to Code § 404, the Employer shall recover such contribution, to the extent disallowed, within one year after the disallowance of the deduction.

The amount which may be returned to the Employer is the excess of: (a) the amount contributed by the Employer over (b) the amount that would have been contributed by the Employer had there not occurred a mistake of fact or a mistake in determining the deduction. Earnings attributable to the excess contribution may not be returned to the Employer, but losses attributable thereto must reduce the amount to be so returned.

**ARTICLE VIII  
[RESERVED]**

**ARTICLE IX  
[RESERVED]**

**ARTICLE X**  
**AMENDMENT, TERMINATION; MERGER**

Section 10.1. Right to Amend or Terminate. The Employers hope, and expect, to continue this Plan and the funding of benefits hereunder indefinitely; but such continuance is not assumed as a contractual obligation and, in order to protect both Participants and the Employers against unforeseen contingencies, the Employers expressly reserve the right, by action of their boards of directors, to discontinue contributions to this Plan or to terminate this Plan at any time with respect to its Participants, without the consent of any party. The right to amend this Plan in any respect or particular is vested exclusively in the Board of Directors which right is not conditional on the consent or approval of any other Employer. Additionally, any amendment or modification may be made retroactive, if necessary or appropriate to qualify or maintain the Plan as a qualified Plan within the meaning of Code § 401(a), and to qualify or maintain the Trust as tax exempt under Code § 501(a), and the regulations issued thereunder. Notice of any amendment or modification of the Plan may be given by posting, by mail, or by such other means as may be acceptable under ERISA.

Section 10.2. Withdrawal of Employer. Any Employer, by action of its board of directors, may withdraw from the Plan at any time.

Section 10.3. Liquidation of Trust Fund. Upon termination or partial termination of the Plan, each affected Participant's benefits, determined prior to the date of termination, shall become fully vested and non-forfeitable, to the extent funded and to the extent such benefit is not restricted pursuant to the provisions of Section 10.9 herein. The assets of the Trust Fund, shall be allocated among Participants and beneficiaries, after payment of administration expenses of the Plan, in the following order of priority as modified by the provisions of Treasury Regulations § 1.414(l)-1(f) or (h) if a special schedule of benefits (as defined in the regulations) is in effect as a result of a plan merger within the five year period prior to the date of termination:

(f) Benefits Payable Three Years Prior to Termination. First, to provide benefits that become payable three or more years before the date of termination of the Plan, or that would have become payable had the Participant retired immediately prior to the beginning of such three year period, provided that:

(v) the benefit payable to a Participant or beneficiary (or that could have been payable) shall be based on the provisions of the Plan in effect during the five year period prior to the date of termination of the Plan; and further provided that,

(vi) the lowest benefit payable during such three year period shall be considered the benefit payable for purposes of this category (a).

(g) Other Benefits Eligible for Termination Insurance. Second, to the extent that a benefit has not been provided in category (a), the remaining assets shall be allocated to provide any benefit provided under the Plan for Participants and beneficiaries to the extent guaranteed by the Pension Benefit Guaranty Corporation pursuant to Title IV of ERISA.

(h) Other Benefits. To the extent that a benefit under the Plan has not been provided in the foregoing categories, the assets of the Plan shall be allocated to provide all other non-forfeitable benefits under the Plan and, finally, to provide all other benefits under the Plan.

If the assets of the Trust Fund applicable to any of the above categories are insufficient to provide full benefits for all persons in such group, the benefits otherwise payable to such persons shall be allocated pro rata on the basis of the present value of benefits as of the termination date. The Actuary shall calculate the allocation of the assets of the Trust Fund in accordance with the above priority categories, and certify his calculations to the Committee. Each of the above classes shall be divided into subclasses, giving first preference within the class to those Participants over 65 and those beneficiaries receiving benefits; second preference to Participants over 60 years of age; third preference to Participants over 55 years of age; fourth preference to Participants under 55 years of age having a deferred vested benefit; and fifth preference to all others. The Committee may establish additional subclasses within the classes set forth in subsection (a), (b), and (c).

Section 10.4. Finality of Payment. Prior to making any distribution under the terms of Section 10.3, the Committee shall satisfy itself that this procedure complies with applicable law and shall obtain such waivers and authorizations from Participants and beneficiaries as it deems advisable.

Section 10.5. Non-diversion of Assets. Except as provided in Section 7.6 hereof, regarding return of contributions no part of the assets of the Trust, by reason of any amendment or otherwise, shall at any time be used for, or diverted to, purposes other than for the exclusive benefit of Participants, former Participants, or their beneficiaries, and for the payment of administrative expenses under the Plan, or as will cause, or permit the assets of the Trust to revert to, or become the property of an Employer at any time prior to the satisfaction of all liabilities under the Plan. When all such liabilities have been satisfied, any assets remaining will revert to the Employers.

Section 10.6. Committee Functions during Termination. If the Plan is terminated, the Committee in office at the time of such termination shall continue to act with its full powers hereunder until the completion of the allocation and distribution of the assets of the Trust Fund as in this Article X provided; and a majority of the members of the Committee then in office shall have the power to fill any vacancies occurring in the Committee after such termination by resignation, death, or otherwise. In the event the Committee within a reasonable time after such termination shall not have provided for such allocation and distribution, the Board of Directors shall succeed to all powers and duties of the Committee and shall provide for such allocation and distribution of the assets of the Trust Fund.

Section 10.7. Notice of Termination. Notice of termination of the Plan, in whole or in part, shall be deemed adequately given if an Employer or the Committee mails written notice of the same to the latest address on file of each Participant or beneficiary who is affected by such termination; or by such other means as may be acceptable under ERISA.

Section 10.8. Merger and Consolidation of Plan, Transfer of Assets. In the case of any merger or consolidation with, or transfer of assets and liabilities to, any other plan, provisions shall be made so that each Participant in the Plan on the date thereof (if the Plan then terminated) would receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than

the benefit he would have been entitled to receive immediately prior to the merger, consolidation or transfer if the Plan had been terminated.

Section 10.9. Discontinuance of Plan Within Ten Years of Amendment . In the event that the Plan is discontinued by any Employer within ten (10) years after any amendment to the Plan which increases the benefits payable under the Plan, or if the full current costs (including current service contributions and interest on any unfunded liability for the initial cost of retroactive increases in benefits not covered by current service contributions) are not met by such Employer during such ten (10) year period, the contributions which may be used to provide benefits for any one of the twenty-five (25) most highly compensated employees on the effective date of such amendment, whose anticipated retirement annuity based upon the rate of compensation as of that date would be more than \$1,500 per year, until such full current costs are funded for the first time, shall not exceed the greatest of:

- (a) The total contributions which would have been applied to provide a retirement annuity for any such employee if the Plan prior to such amendment had continued without change;
- (b) \$20,000; or
- (c) The amount which would have been provided by contributions under the Plan prior to such amendment if the Plan had been terminated the day before the effective date of such amendment, plus an amount computed by multiplying the number of years during which current costs beginning with the effective date of such amendment are met by (i) 20% of any such employee's annual compensation or (ii) \$10,000, whichever is less.

Any excess reserves resulting from the application of the foregoing provisions of this Section shall be used and applied toward the funding of the benefits due to other Participants in the Plan who are employees of such Employer, in accordance with the provisions of the Plan.

If the Plan is in full force and effect and the full current costs have been met, the foregoing conditions shall not restrict the current payment of full benefits called for by the Plan to any Participant. The limitations of this Section shall be inapplicable to the extent the Commissioner of Internal Revenue or his duly authorized representative may later rule that the limitations are no longer necessary for the Plan to meet the requirements for qualifications under the Internal Revenue Code.

If this Plan is not terminated within the period specified above, the benefits, if any, which have been withheld from a Participant in accordance with this Section shall be turned over to the Participant or his representative at the end of said period or as soon thereafter as the full current costs of the Plan attributable to the said period have been met for the first time.

If this Plan is terminated within any of the said periods or thereafter, but before the full current costs of the Plan attributable to any of the said periods have been met for the first time, then any benefits which have been withheld from a Participant in accordance with this Section shall, upon termination of this Plan, be distributed as provided in Section 10.3, except that no part of such funds shall be

distributed or used to fund benefits for any Participant who is affected by the limitations of this Article.

**ARTICLE XI  
ADMINISTRATION**

Section 11.1. Establishment of Administrative Committee. The Plan shall be operated and administered by an Administrative Committee consisting of not less than three (3) members (“named fiduciaries”), who shall be appointed by the Board of Directors. The Administrative Committee shall be the Plan Administrator as that term is used in ERISA, agent for service of process on or with respect to the Plan and a named fiduciary with respect to the Plan. Committee members may be removed at any time by the Board of Directors and may resign at any time, such resignation to be effective when accepted by the Board of Directors. All vacancies shall be filled by the Board of Directors. The Committee may appoint from their number such committees, which may include individuals not members of the Committee, with such powers as they shall determine; may authorize one (1) or more of their number, or any agent, to execute or deliver any instrument, or to make any payment in their behalf; and may employ legal counsel (who shall not be an employee of an Employer), actuaries, agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. The Committee shall meet at least once during each calendar quarter. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee at a meeting shall be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by all of the members of the Committee.

The Committee, acting as agent for the Employer, may from time to time appoint additional named fiduciaries with respect to the Plan for the purpose of facilitating the investment of Plan’s assets and each named fiduciary appointed by the Committee shall have such powers, duties, obligations and responsibilities as the Committee shall prescribe in its appointment.

Section 11.2. Delegation of Specific Responsibilities. The members of the Committee may agree in a writing signed by each member to allocate to any one of their number or to other persons (including corporations) any of the responsibilities with which they are charged pursuant hereto, including the appointment of an investment manager to manage the investments of the Trust Fund, provided the responsibilities and duties so delegated are definitively set forth so that the person to whom the delegation is made is clearly aware of such duties and responsibilities. If such delegation is made to a person not a member of the Committee, that person or, in the case of a corporation, its responsible officer, shall acknowledge the acceptance and understanding of such duties and responsibilities.

Section 11.3. Power to Establish Regulations. The Committee shall establish rules and regulations for the administration of the Plan and the Committee. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and decide any matters arising in the administration and operation of the Plan, and any interpretations or decisions so made shall be conclusive and binding on all persons; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Employees and Participants similarly situated.

Section 11.4. Claims Procedure.

(a) All claims for benefits hereunder shall be directed to the Committee or to a member of the Committee designated for that purpose. Within ninety (90) days following receipt of a claim for benefits, the UPS Corporate Benefits Department manager responsible for the day-to-day operation of the Plan (the "Initial Reviewer") shall determine whether the claimant is entitled to benefits under the Plan, unless additional time is required for processing the claim. In this event, the Initial Reviewer shall, within the initial ninety (90)-day period, notify the claimant that additional time is needed, explain the reason for the extension, and indicate when a decision on the claim will be made. If prior to the end of the initial thirty (30)-day extension, the Initial Reviewer determines that, due to matters beyond the control of the Plan, a decision cannot be made within the extension period, the period may be further extended for up to an additional thirty (30) days, provided that the Initial Reviewer notifies the claimant prior to the expiration of the first thirty (30)-day extension of the circumstances requiring the extension and the date as of which the Plan expects to make a decision. The claimant shall have forty-five (45) days within which to provide the specified information unless the Initial Reviewer gives a longer period in the notification of the extension.

(b) A denial by the Initial Reviewer of a claim for benefits shall be stated in writing and delivered or mailed to the claimant. Such notice shall set forth the specific reasons for the denial, written in a manner calculated to be understood by the claimant. The notice shall include specific reference to the Plan provisions on which the denial is based and a description of any additional material or information necessary to perfect the claim, an explanation of why this material or information is necessary, and the steps to be taken if the claimant wishes to submit his claim for review, a description of the Plan's review procedures, and the time limits applicable to such procedures, and a statement of the claimant's right to bring a civil action under ERISA § 502(a) following an adverse benefit determination upon review.

(c) The Committee shall afford a reasonable opportunity to any claimant whose request for benefits has been denied for a review of the decision denying the claim. The review must be requested by written application to the Committee within sixty (60) days following receipt by the claimant of written notification of denial of his claim. Pursuant to this review, the claimant or his duly authorized representative may review any documents, records and other information which are pertinent to the denied claim and submit issues and comments in writing. A claimant may also submit documents, records and other information relating to his claim, without regard to whether such information was submitted in connection with his original benefit claim.

(d) A decision on the claimant's appeal of the denial of benefits shall ordinarily be made by the Committee at the next regularly scheduled meeting that immediately follows the receipt of the request for review, unless the request for review is received within 30 days of such meeting date. In that case, the review will occur at the second regularly scheduled meeting following the Plan's receipt of the request for review. If an extension of time is required because of special circumstances, the Committee will provide the claimant with written notice of the extension describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. A



benefit determination will be made no later than the third regularly scheduled meeting of the Committee following the Plan's receipt of the request for review.

The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, specific reference to the Plan provisions on which the decision is based, and a statement that the claimant or his authorized personal representative may review any documents and records relevant to the claim determination, a statement describing further voluntary appeals procedures, if any, and a statement of the claimant's right to bring civil action under ERISA § 502(a).

Section 11.5. Forfeiture in Case of Unlocatable Participant or Beneficiary. If the Committee is unable to pay benefits to any Participant or beneficiary who is entitled to benefits hereunder when such benefits are due because the identity or whereabouts of such person cannot be ascertained, the Committee shall proceed as follows:

(a) As soon as administratively possible after the Committee has determined that a Participant or beneficiary cannot be paid due to the circumstances stated above, the Committee shall submit the last known address, and any other information the Committee deems appropriate, to a locator service in accordance with IRS procedures.

(b) If the locator service provides the Committee with a new address for the Participant or beneficiary, the Committee shall mail the benefit payment to the new address as soon as administratively possible after such new address is known. If the locator service fails to identify a new address for the Participant or beneficiary, all amounts held for his benefit shall be forfeited as of the last day of the Plan Year in which the locator service notifies the Committee that it cannot locate the individual. Upon forfeiture, all liability for payment of the benefit shall thereupon terminate. In any such case, the funds released as a result of such forfeiture shall be dealt with as provided in Section 7.4. However, if an individual subsequently makes what the Committee determines to be a valid and proper claim to the Committee for such amounts, the account or accounts will be restored and will be distributable without interest in accordance with the terms of this Plan.

Section 11.6. Liability of the Committee. The Committee and the members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan solely in the interests of the Plan's Participants and their beneficiaries, and for the exclusive purpose of providing benefits thereto in accordance with the terms of the Plan and to defray the reasonable administration expenses thereof. In all such actions or omissions the Committee and each member thereof shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims; provided, however, that no member shall be responsible for the actions or omissions of a member or any other party that is a fiduciary with respect to this Plan, other than himself, which are not in conformity hereto, unless such member knowingly participates in or knowingly conceals such conduct which he knows to be in breach of this standard, his own conduct has enabled the other member or other fiduciary to be in breach of this standard, or he has knowledge of such breach by another member or other fiduciary and fails to make reasonable efforts under the circumstances to remedy such breach.

Section 11.7. Fiduciary Responsibility Insurance; Bonding. If the Employer has not done so, the Committee may direct the purchase of appropriate insurance on behalf of the Plan and the Plan's fiduciaries, including the members of the Committee, to cover liability or losses occurring by reason of the acts or omissions of a fiduciary; provided, however, that to the extent purchased by the Plan such insurance must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary duty or obligation by such fiduciary. The cost of such insurance shall be borne by the Fund, unless the insurance is provided by and paid for by the Employer. The Committee shall also obtain a bond covering all the Plan's fiduciaries, to be paid from the assets of the Trust Fund.

Section 11.8. Meetings of Committee. The Committee shall hold meetings at least once during each calendar quarter upon such notice, at such place or places, and at such time or times as it may determine from time to time. Notice of a meeting may be waived in writing.

Section 11.9. Compensation of Committee. The members of the Committee may receive reasonable compensation for their services as the Board of Directors may from time to time determine. Such compensation and all other expenses of the Committee, including the compensation of officers, actuaries or counsel, agents or others that the Committee may employ, shall be paid out of the Trust Fund, unless paid by the Employer. Notwithstanding the foregoing, any Committee member who is employed on a full-time basis by an Employer shall receive no compensation, but may be reimbursed for expenses incurred.

Section 11.10. Reliance by Committee. Board of Directors and Committee members shall be fully protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any actuary, accountant, legal counsel (other than an employee of an Employer), or physician, and all action so taken or suffered shall be conclusive upon all Participants and beneficiaries, and any other person claiming under the Plan.

Section 11.11. Books and Records. The Committee shall keep appropriate books and records.

Section 11.12. Disbursements. The Committee shall determine the manner in which the Trust Fund shall be disbursed under the terms of the Plan and Trust Agreement.

Section 11.13. Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration. The fiduciaries hereunder, including the trustee, the Employers, the Board of Directors and the Committee, shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan or the Trust Agreement. In general, the Employers shall have the sole responsibility for making the contributions necessary to provide benefits under the Plan as specified in Article V, and the Board of Directors shall have the sole authority to appoint and remove the Trustee, members of the Committee and to amend or terminate, in whole or in part, this Plan or the Trust, except as otherwise provided. The Committee shall have the sole responsibility for the appointment and removal of any investment manager which may be provided for under the Trust and the administration of this Plan, which responsibility is specifically described in this Plan and the Trust. Subject to any direction from the Committee, the Trustee shall have the responsibility for the administration of the Trust and the management of the assets held under the Trust, all as specifically provided in the Trust. Each fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust,

as the case may be, authorizing or providing for such direction, information or action. Furthermore, each fiduciary may rely upon any such direction, information or action of another fiduciary as being proper under this Plan or the Trust, and is not required under this Plan or the Trust to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust that each fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust and shall not be responsible for any act or failure to act of another fiduciary. No fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

Section 11.14. Withholding of Income Tax.

- (a) Notification of Withholding of Federal Income Tax. All Participants and beneficiaries entitled to receive benefits under the Plan shall be notified of the Plan's obligation to withhold federal income tax from any benefits payable pursuant to the terms of the Plan. Such notice shall be given in such manner and at such time as required by applicable law.
- (b) Effective Date of Election. Any transfer direction, election or revocation of any election by a payee shall become effective immediately upon receipt by the Committee of the transfer direction, election or revocation. Thereafter, the Committee shall, unless otherwise provided by applicable law, regulation or other guidance by the Secretary of the Treasury or his delegate, withhold federal income tax in accordance or consistent with the instructions filed by the payee.
- (c) Failure to Make Election.
  - (i) In the case of an eligible rollover distribution, if the payee fails to provide the Committee with a transfer direction, the Committee shall withhold an amount equal to 20% of the amount of the distribution (or such other amount as may be from time prescribed by the Code, or the Secretary of the Treasury or his delegate).
  - (ii) In the case of a distribution which is not an eligible rollover distribution, if the payee fails to provide the Committee with a withholding certificate, the Committee shall withhold, in the case of a periodic distribution, the amount which would be required to be withheld from such payment if such payment were a payment of wages by an employer to an employee for the appropriate payroll period, determined as if the payee were a married person claiming three withholding allowances. In the case of a nonperiodic distribution, 10% of the amount of the distribution shall be withheld.
- (d) Coordination with Internal Revenue Code and Regulations. Notwithstanding the foregoing, the Committee shall discharge their withholding and notice obligations in accordance with the Code and regulations and such other guidance with respect thereto as may be promulgated from time to time by the Secretary of the Treasury or his delegate.

Section 11.15. Direct Rollover.

(a) With respect to any distribution of \$200 or more described in Article IV which constitutes an eligible rollover distribution within the meaning of Code § 401(a)(31)(C), the distributee thereof shall, in accordance with procedures established by the Committee, be afforded the opportunity to direct that such distribution be transferred directly to the trustee of an eligible retirement plan (a “direct rollover”). For purposes of the foregoing sentence, an “eligible retirement plan” is (1) a qualified trust within the meaning of Code § 402 which is a defined contribution plan the terms of which permit the acceptance of rollover distributions, (2) an individual retirement account or annuity within the meaning of Code § 408 (other than an endowment contract), (3) an annuity plan within the meaning of Code § 403(a), which is specified by the distributee in such form and at such time as the Committee may prescribe, and effective for distributions made after December 31, 2001 an (4) an annuity contract within the meaning of in Code § 403(b), (5) an eligible retirement plan within the meaning of Code § 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for the amounts transferred into such plan from this Plan and (6) effective for distributions made after December 31, 2009, an individual retirement plan described in Code § 408A (a “Roth IRA”). The definition of “eligible retirement plan” shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, within the meaning of Code § 414(p).

Notwithstanding any contrary provision in this Addendum M, effective for distributions made after December 31, 2009, a beneficiary who is not the Participant’s or the former Participant’s surviving Spouse and who is not the Participant’s or former Participant’s Spouse or former Spouse who is an alternate payee under a qualified domestic relations order, shall in accordance with procedures established by the Committee, be afforded the opportunity to have any portion of a distribution paid in a direct trustee-to-trustee transfer to an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), or a Roth IRA, each of which is established for the purpose of receiving such distribution on behalf of such beneficiary and is treated as an inherited individual retirement account or individual retirement annuity (within the meaning of Code § 408(d)(3)(C)) for purposes of Code § 402(c)(11) (each, an “Inherited IRA”). The minimum distribution rules of Code § 401(a)(9) as described in the Required Minimum Distribution Addendum to Appendix M shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

(b) Notwithstanding the foregoing, if the distributee elects to have his eligible rollover distribution paid in part to him and part as a direct rollover:

(C) The direct rollover must be in an amount of \$500 or more; and

(D) A direct rollover to two or more eligible retirement plans shall not be permitted.

(c) The Committee shall, within a reasonable period of time prior to making an eligible rollover distribution from this Plan, provide an explanation in a manner prescribed by law

to the distributee of the direct rollover option described above, as well as the provisions under which such distribution will not be subject to tax if transferred to an eligible retirement plan within 60 days after the date on which the distributee received the distribution.

Section 11.16. USERRA. Notwithstanding anything in this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Code § 414(u).

Effective for Plan Years beginning after December 31, 2006, in the case of a Participant who dies while performing qualified military service (as defined in Code § 414(u)), the Participant's beneficiary shall be entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed and then terminated employment on account of death.

**ARTICLE XII**  
**GENERAL PROVISIONS**

Section 12.1. Prohibition Against Attachment.

(i) None of the benefits payable hereunder shall be subject to the claims of any creditor of any Participant or beneficiary nor shall the same be subject to attachment, garnishment or other legal or equitable process by any creditor of the Participant or beneficiary, nor shall any Participant or beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of such benefits.

(j) If any Participant or beneficiary under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, the interest of such person in such benefit shall, in the discretion of the Committee, cease and terminate, and in that event the Committee may direct the Trustee to hold or apply the same or any part thereof to or for the benefit of such Participant or beneficiary, his Spouse, children, or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.

(k) Exception to general prohibition against attachment for Qualified Domestic Relations Orders.

(i) General rule. The restrictions of subsection (a) and subsection (b) of this Section 12.1 will not be violated by either (A) the creation of a right to payments from this Plan by reason of a Qualified Domestic Relations Order or (B) the making of such payments.

(ii) Definition of Qualified Domestic Relations Order. For purposes of this subsection (c), the term “Qualified Domestic Relations Order” means any judgment, decree, or order (including approval of a property settlement agreement), made pursuant to a State domestic relations law (including a community property law), which relates to the provision of child support, alimony payments, or marital property rights to a Spouse, former Spouse, child, or other dependent of a Participant (an “Alternate Payee”) and which:

(A) creates or recognizes the right of an Alternate Payee to, or assigns to any Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under this Plan;

(B) clearly specifies (i) the name and last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order, (ii) the amount or percentage of the Participant’s benefits to be paid by the Plan to each Alternate Payee, or the manner in which such amount or percentage is to be determined, (iii) the number of

payments or period to which such order applies, and (iv) that the order applies to this Plan;

(C) does not require this Plan to provide any type or form of benefit, or any option, not otherwise provided under this Plan, unless, in the case of any payment before a Participant has separated from service, the order requires payment of benefits to an Alternate Payee (i) on or after the date the Participant attains (or would have attained) the earliest age on which he could elect to receive Retirement Benefits under the Plan, (ii) as if the Participant had retired on the date such payment is to begin under such order (but taking into account only the present value of the benefits actually accrued and not taking into account the present value of any employer subsidy for early retirement), and (iii) in any form in which such benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the Alternate Payee and his subsequent spouse);

(D) does not require this Plan to provide increased benefits (determined on the basis of actuarial equivalence); and

(E) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another order previously determined to be a Qualified Domestic Relations Order.

Section 12.2. Facility of Payment. If any Participant or beneficiary shall be physically or mentally incapable of receiving or acknowledging receipt of any payment due under the terms of the Plan, the Committee may direct the Trustee to make any such payment to a legal representative or, if no legal representative shall have been appointed for him, to any person or institution maintaining such Participant or beneficiary, and the payment to such person or institution in good faith shall constitute a valid and complete discharge for such payment.

Section 12.3. Payment to Minor Beneficiary. If the beneficiary of any Participant shall be a minor and no guardian shall have been appointed for him, the Committee may direct the Trustee to retain any payment due under the Plan for his benefit until he attains majority. Such amount, as authorized by the Committee, may be held in cash, deposited in bank accounts, or invested or reinvested in direct obligations of the United States, and the income thereon may be accumulated and invested, or the income and principal may be expended and applied directly for the maintenance, education and support of such minor without the intervention of any guardian and without application to any court.

Section 12.4. No Rights of Employment. The Plan shall not confer upon any Employee or Participant any right of employment, nor shall any provision of the Plan interfere with the right of an Employer to discharge any Employee.

Section 12.5. Payments Only From Trust Fund. Except as otherwise required by law, no liability shall attach to the Employers for payment of any benefits or claims hereunder and every Participant

or beneficiary or person claiming under them shall have recourse only to the Trust Fund for payment of any benefit hereunder and the rights of such persons are hereby expressly limited accordingly.

Section 12.6. Applicable Law. All provisions of the Plan, including definitions, shall be construed according to the laws of the State of Georgia, except to the extent preempted by Federal law.

Section 12.7. Titles. Titles of Articles and Sections are inserted for convenience only and shall not affect the meaning or construction of the Plan.

Section 12.8. Counterparts. This Plan may be executed by the Employers in various counterparts to this document, each of which shall be deemed to be an original but all shall be deemed to be one document.

Section 12.9. No Access to Books and Records. Nothing herein or in the Trust Agreement shall give any Participant or beneficiary or any other person the right or privilege to examine or have access to the books or records of any Employer or of the Committee or the trustee; nor shall any such person have any right, legal or equitable, against any Employer or against any director, officer, employee, agent or representative thereof or against the trustee or the Committee, except as herein expressly provided or permitted by law.

Section 12.10. Procedures for Qualified Domestic Relations Orders. The Committee shall develop and implement procedures (a) for determining whether an order received by the Plan is a "Qualified Domestic Relations Order" within the meaning of subsection (c) of Section 12.1, (b) for administering distributions under such orders, and (c) for holding amounts which would be payable under such orders pending the determination described in subsection (a) of this Section 12.10.



**Addendum A**  
**BENEFIT SCHEDULES FOR INDEPENDENT PILOTS ASSOCIATION**

## **BENEFIT SCHEDULE I FOR INDEPENDENT PILOTS ASSOCIATION (UPPLAN)**

This Benefit Schedule I shall apply to (1) each Eligible Employee who has an Hour of Covered Employment on or after March 17, 1998 but not on or after August 31, 2006, (2) each Eligible Employee who is not actively working, but who is on the seniority list on March 17, 1998 including anyone who is disabled (within the meaning of Section 3.5) and who does not have an Hour of Covered Employment on or after August 31, 2006 and (3) each former Employee who died on or after January 1, 1996 and before March 17, 1998 while employed in a classification that would have been considered an Eligible Employee classification if this Benefit Schedule had been in effect at his death.

The provisions of this Benefit Schedule I will apply only to that period of employment during which an Employee is an Eligible Employee. An Eligible Employee shall not accrue benefits under any provisions of the Plan (other than this Benefit Schedule) during the period that he is covered under this Benefit Schedule I.

References to Articles and Sections are to Articles and Sections of this Benefit Schedule I unless otherwise expressly indicated.

### **Article I** **DEFINITIONS**

Wherever used herein, capitalized terms shall have the meaning set forth below or in the main body of this Appendix M for the Independent Pilots Association unless otherwise clearly required by the context.

SECTION 1.1. - 2006 Collective Bargaining Agreement. The term "2006 Collective Bargaining Agreement" means the collective bargaining agreement between the Independent Pilots Association and United Parcel Service Co. ratified on August 31, 2006.

SECTION 1.2. - Actuarial Equivalent. The term "Actuarial Equivalent" means a benefit of equivalent value calculated using the 1983 Group Annuity Mortality Table for males for Participants and the 1983 Group Annuity Mortality Table for females for beneficiaries and an interest rate of 7% compounded annually. Notwithstanding the foregoing, if the optional form of benefit is subject to the requirements of Treasury Regulation § 1.417(e)-1(d), or any successor regulation, the benefit of equivalent value will be the amount determined using the Applicable Interest Rate (determined as if the benefit commencement date is the date of distribution) and the Applicable Mortality Table, as applicable.

SECTION 1.3. - Applicable Interest Rate. The term "Applicable Interest Rate" means the "applicable interest rate" as described in Code § 417(e)(3) for the "lookback month" preceding the "stability period" that includes the date the distribution is made, provided that for distributions made during Plan Years commencing in 2008 through 2011, the applicable interest rate or rates shall be determined taking into account the transition rules under Code § 417(e)(3)(D)(ii) and (iii).

The term “lookback month” means the fifth month preceding the first day of the stability period containing the date of distribution.

The term “stability period” means the calendar year in which the distribution is made.

SECTION 1.4. - Applicable Mortality Table. The term “Applicable Mortality Table” means the “applicable mortality table” prescribed by the Secretary of the Treasury for purposes of Code § 417(e)(3).

SECTION 1.5. - Compensation. The term “Compensation” means for each calendar year, all earnings by an Eligible Employee as a result of the payment of his pay period guarantee for such calendar year, inclusive of any contributions or deferrals excludible from income under Code §§ 125 or 402(h), and for 1996 and 1997, any additional payments on guarantee that the Participant actually receives in accordance with the Retroactive Compensation Agreement made in connection with the Collective Bargaining Agreement ratified March 17, 1998. Compensation for any calendar year shall be limited to \$150,000 per year or such lesser limit as may be imposed by Code § 401(a)(17) or any successor statute limiting compensation taken into account under the Plan; however, for any Participant who attains Normal Retirement Age before December 31, 2003, Compensation shall be limited only by Code § 401(a)(17) or any successor statute limiting compensation taken into account under the Plan. Solely for avoiding a double proration, within the meaning of Department of Labor Regulations, § 2530.204-2(d), to the extent that a Participant is credited with less than a full year of Service Credit for a calendar year, then the Participant’s Compensation taken into account for such year shall be annualized by dividing such Compensation by the number of months of Service Credit earned by the Participant for such calendar year and multiplying the result by 12.

SECTION 1.6. - Covered Employment. The term “Covered Employment” means employment by an Employer as an Eligible Employee on or after January 1, 1988 but not on or after August 31, 2006.

SECTION 1.7. - Crewmember. The term “Crewmember” means a flight engineer, second officer, first officer or captain.

SECTION 1.8. - Early Retirement Date. The term “Early Retirement Date” means the first day of the month coincident with or next following the attainment of 55 years of age and the completion of five Vesting Years.

SECTION 1.9. - Eligible Employee. The term “Eligible Employee” means an individual employed by the Employer who (a) is not a participant in or covered under any other qualified defined benefit plan to which his Employer currently makes contributions on his behalf, (b) is represented for purposes of collective bargaining by the Independent Pilots Association and (c) is employed as a Crewmember.

Under no circumstances will an individual who performs services for an Employer, but who is not classified on the payroll as an employee of the Employer, for example, an individual performing services for an Employer under a leasing arrangement, be treated as an Eligible Employee even if

such individual is treated as an employee of an Employer as a result of common law principles, coemployment principles or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer is retroactively reclassified as an employee of an Employer for any reason, such reclassified individual shall not be treated as an Eligible Employee for any period prior to, on or after the date of such reclassification except as provided for in the Collective Bargaining Agreement or if such individual is not covered by a Collective Bargaining Agreement, except as determined by the Committee.

SECTION 1.10. - Final Average Earnings. The term "Final Average Earnings" shall mean the Participant's average Compensation for the five complete calendar years during the last ten complete calendar years of his Covered Employment during which his Compensation was the highest. For a Participant who retires on his Postponed Retirement Date, the term "Final Average Earnings" shall be the greater of the Final Average Earnings he would have had if he had retired at age 60 or his Final Average Earnings at his Postponed Retirement Date.

SECTION 1.11. - Hour of Covered Employment. The term "Hour of Covered Employment" means each Hour of Service in Covered Employment.

SECTION 1.12. - Normal Retirement Age. The term "Normal Retirement Age" means the later to occur of (a) the Participant's attainment of age 60 or (b) the date the Participant completes one Vesting Year.

SECTION 1.13. - Normal Retirement Date. The term "Normal Retirement Date" means the first day of the calendar month coincident with or next following the Participant's attainment of Normal Retirement Age.

SECTION 1.14. - Present Value. The term "Present Value" means the single sum amount of such benefit based on the Applicable Interest Rate and the Applicable Mortality Table.

SECTION 1.15. - Retirement Benefit. The term "Retirement Benefit" means with respect to each Participant his/her Normal Retirement Benefit (as described in Section 4.3), Early Retirement Benefit (as described in Section 4.5), Postponed Retirement Benefit (as described in Section 4.4) or Deferred Vested Benefit (as described in Section 4.6).

SECTION 1.16. - Service Credit. The term "Service Credit" shall mean the years and months of credit for work in Covered Employment as defined in this Benefit Schedule I which are accumulated and maintained for employees in accordance with the provisions of Article III.

## **ARTICLE II**

### **ELIGIBILITY FOR PARTICIPATION**

An Eligible Employee shall become a Participant in accordance with Section 2.1 of the main text of this Appendix M based on his employment with the Employer or any Related Employer; from his initial date of employment. An Eligible Employee and an inactive Eligible Employee on the seniority list on March 17, 1998 who satisfied the age and service requirements as of March 17, 1998 shall become a Participant as of that date.

Each former Eligible Employee who died while an Eligible Employee on or after January 1, 1996 and before March 17, 1998 shall be treated as a vested Participant for purposes of the Qualified Joint and Survivor Preretirement Survivor Benefit under Section 4.9.

**ARTICLE III**  
**ACCUMULATION OF SERVICE CREDIT FOR PURPOSES OTHER THAN**  
**VESTING AND ELIGIBILITY i.e., FOR ACCRUAL OF BENEFITS, ETC.**

SECTION 3.1. - Credit for Periods of Covered Employment after 1987 and before 1992. For periods of Covered Employment after 1987 and prior to 1992, each Participant shall accumulate Service Credit in monthly units based on his days of Covered Employment in accordance with the following schedule:

<u>Days of Covered Employment</u> <u>In Each Plan Year</u>	<u>Monthly Units of</u> <u>Service Credits</u>
Less than 15 days	-0-
15-30	1 month
31-45	2 months
46-60	3 months
61-75	4 months
76-90	5 months
91-106	6 months
107-121	7 months
122-136	8 months
137-151	9 months
152-167	10 months
168-183	11 months
184 or more	12 months

For years 1988 through 1991, Eligible Employees will be credited with either 15 or 16 days as applicable, for each month in which they received their guarantee. For any month in which the Eligible Employee received only a portion of his guarantee, the 15 or 16 days will be prorated.

In addition, for the years 1988 through 1991, the credit for up to 501 hours for paid leaves described in the definition of Hour of Service shall be applied on a daily basis, giving credit for paid leaves for up to 95 days per Plan Year.

SECTION 3.2. - Credit for Periods of Covered Employment During 1992. For periods of Covered Employment during 1992, a Participant shall accumulate Service Credit in monthly units based on his Hours of Covered Employment during each Plan Year in accordance with the following schedule:

<u>Hours of Covered Employment In Plan Year</u>	<u>Monthly Units of Service Credits</u>
Less than 65 hours	-0-
65-129	1 month
130-194	2 months
195-277	3 months
278-360	4 months
361-443	5 months
444-526	6 months
527-609	7 months
610-692	8 months
693-775	9 months
776-858	10 months
859-941	11 months
942 or more	12 months

Credit for up to 501 hours for paid leaves described in the definition of Hour of Service shall apply fully to Plan Year 1992 without regard to the total number of guaranteed hours.

SECTION 3.3. - Credit for Periods of Covered Employment After 1992. For periods of Covered Employment completed after 1992, each Participant shall accumulate Service Credit in monthly units based on his Hours of Covered Employment during each Plan Year in accordance with the following schedule:

<u>Hours of Covered Employment In Each Plan Year</u>	<u>Monthly Units of Service Credits</u>
0	-0-
81-162	1 month
163-243	2 months
244-324	3 months
325-405	4 months
406-487	5 months
488-568	6 months
569-649	7 months
650-730	8 months
731-812	9 months
813-893	10 months
894-974	11 months
975 or more	12 months

SECTION 3.4. - Disability Accrual. A Participant who becomes disabled following the completion of his probationary period as a Crewmember shall accrue years and months of Service Credit (not to exceed 30 years of Service Credit) as if he remained in active employment

until Normal Retirement Age or if he elects early retirement, his Early Retirement Date. Such accrual shall cease as of the earlier of (i) the last day of the month immediately prior to the Participant recovering from the disability or retiring or (ii) the end of the calendar year in which he obtains other gainful employment. If a disabled Participant retires, his Final Average Earnings shall be based on his Compensation paid during his active employment prior to becoming disabled. For purposes of this Section, the term “disabled” means the Participant loses the right to exercise the privileges of his medical certificate for reasons other than alcohol or drug use and the term “other gainful employment” means employment during which a disabled Participant earns the greater of (i) \$30,000 a calendar year or (ii) one-third of his annual Compensation at the time he became disabled.

**ARTICLE IV**  
**BENEFIT ELIGIBILITY AND AMOUNTS**

SECTION 4.1. - General. The amount of the Retirement Benefit payable to an Eligible Employee shall be the amount described in this Article IV of this Benefit Schedule I.

SECTION 4.2. - Monthly Single-Life Benefit. Each Participant’s Monthly Single-Life Benefit shall equal 1/12th of A times B less C, where

A = the greater of (i) one percent of his Final Average Earnings or (ii) \$1,500;

B = his number of full and fractional years of Service Credit, not to exceed 30 years of Service Credit; and

C = his Social Security Offset described in Section 4.7.

SECTION 4.3. - Normal Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on his Normal Retirement Date, his Normal Retirement Benefit payable as of his Normal Retirement Date shall equal his Monthly Single-Life Benefit as determined in Section 4.2 as of his Normal Retirement Date, reduced by the Other Plan Benefits Offset described below.

SECTION 4.4. - Postponed Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Normal Retirement Date, his Postponed Retirement Benefit payable as of his Postponed Retirement Date shall equal the greatest of (a) his Monthly Single-Life Benefit as determined in Section 4.2 as of his Postponed Retirement Date, reduced by the Other Plan Benefits Offset described below, (b) the benefit he would have received if he had retired on his Normal Retirement Date or (c) the benefit he would have received if he had retired on his/her Early Retirement Date.

SECTION 4.5. - Early Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Early Retirement Date but before his Normal Retirement Date, his Early Retirement Benefit shall equal his Monthly Single-Life Benefit as determined in Section 4.2 as of his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset as described below. A Participant’s Early Retirement Benefit shall be payable as of his Normal Retirement Date or, if he so elects, as of his Early Retirement

Date. If the Participant's benefit is paid before he reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the commencement of his benefit precedes his Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.6. - Deferred Vested Benefit. A Participant shall be fully vested upon the completion of one Vesting Year. A Participant shall receive credit for vesting purposes for employment from his initial date of employment with an Employer or a Related Employer. A Participant's Deferred Vested Benefit shall equal his Monthly Single-Life Benefit as determined in Section 4.2 based on his years of Service Credit earned prior to his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset described below. A Participant's Deferred Vested Benefit shall be payable as of his Normal Retirement Date or, if he has completed five Vesting Years and so elects, as of the first day of the month coincident with or next following his attainment of 55 years of age. If the Participant's benefit is paid before he reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the beginning of the benefit precedes the Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.7. - Social Security Offset. The monthly benefit payable to a Participant shall be reduced by A times the lesser of B or C where

A = the ratio of the Participant's years of Service Credit (not to exceed 30) to 30;

B = 50% of the monthly social security primary insurance benefit that would be payable to the Participant at age 65; and

C = 50% of the amount determined under Section 4.2 before the reduction for the Social Security Offset.

The reduction shall commence at the age at which unreduced social security primary insurance benefits are first payable to the Participant or, if later, when the Participant actually retires. For purposes of calculating the Participant's social security benefit, (a) the Participant's wages prior to his first full calendar year of employment with the Employer will be estimated by projecting the Participant's compensation for his first full calendar year of employment backward at 7% per year to the later of the year in which the Participant attained age 21 or 1951 and (b) in the event the Participant separates from service with the Employer and all Related Employers before his Normal Retirement Age, his post termination wages will be estimated assuming he will continue to receive compensation at the same rate in effect on the date he separates from service with the Employer and all Related Employers until he attains Normal Retirement Age. If the Participant separates from service with the Employer and all Related Employers before his Normal Retirement Age, the social security benefit will be calculated based on the law in effect on the date he separates from service with the Employer and all Related Employers. If the Participant dies before he begins receiving benefits under the Plan, any survivor benefit payable to his surviving Spouse will be calculated based on the social security benefit that the Participant would have been entitled to receive at age 65 if he had lived to that date, using the assumptions described above.



SECTION 4.8. - Other Plan Benefits Offset. The Other Plan Benefits Offset is the reduction described in Section 4.7 of the main text of this Appendix M; provided that benefits under any defined contribution plan shall not be considered a “retirement plan to which the Employer made contribution on behalf of the Participant or under which service with the Employer is counted in calculating benefits” for purposes of that Section. Further, any such retirement plan is referred to in this Section as an “Other Plan.”

(a) Retirement Benefits Payable in Annuity Form. If the Retirement Benefit is payable in an annuity form, the amount of the reduction shall be determined and subtracted from the Retirement Benefit as of the later of the date as of which Retirement Benefits commence under the Plan or the earliest date such Participant could begin receiving benefits under such Other Plan (the “Determination Date”). Thus, if a Participant is not eligible for a benefit under an Other Plan when he begins receiving benefits under this Plan, his Retirement Benefit will not be reduced until the earliest date he could have begun receiving a benefit under the Other Plan. The amount of the reduction shall be equal to the Single Life Only Annuity that would have been payable under the Other Plan as of the Determination Date or, if the Single Life Only Annuity is not available under such Other Plan, the Single Life Only Annuity which is the Actuarial Equivalent of the normal form of benefit that would have been payable under such Other Plan as of the Determination Date. If a Participant begins receiving a benefit under an Other Plan before the Determination Date, the amount of the reduction will be actuarially adjusted.

(b) Retirement Benefit Payable in Lump Sum. If the Retirement Benefit is payable in a lump sum, the Present Value of the benefit payable under this Plan shall be reduced by the Present Value of the benefit actually paid to such Participant or payable to him under such Other Plan.

(c) Estimation. If the Committee determines that it is not reasonably practicable to obtain the actual amount of the benefit payable to or on behalf of a Participant under an Other Plan in sufficient time to make payment of his/her benefit under this Plan, the Committee may estimate the amount of the Other Plan benefit using such methods as they in their discretion deem appropriate. If the Committee estimates the Other Plan benefit, they shall use their best efforts to obtain the actual amount of the Other Plan benefit and adjust the benefit being paid from this Plan accordingly. In the event that the estimated Other Plan benefit is less than the actual Other Plan benefit, the Committee shall reduce the payments under this Plan immediately to reflect the amount of the difference and may recover any previous overpayments from this Plan by deducting such overpayments from future benefit payments due under this Plan or by such other methods as the Committee deems appropriate. In the event that the estimated Other Plan benefit is larger than the actual Other Plan benefit, the Committee shall increase the payments under this Plan immediately to reflect the amount that of such difference and shall make an additional payment equal to the amount that would have been received if the Plan had used the actual Other Plan benefit from the commencement of payment.

SECTION 4.9. - Qualified Joint and Survivor Preretirement Survivor Benefit. If a vested Participant dies prior to receiving a benefit under this Appendix M, the Participant’s surviving Spouse will be entitled to a survivor benefit under Section 4.9 of the main text of this Appendix M,

determined without regard to whether the Participant and his Spouse had been married for at least one year prior to the Participant's death.

SECTION 4.10. - Payment of Retirement Benefit. The benefits shall be paid in the form of a Single Life Only Annuity (for unmarried Participants) or the Qualified Joint and Survivor Annuity (for married Participants) unless the Participant properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity (as such waiver is described in Section 4.8(c) of the main text of this Appendix M) and selects an optional benefit form described in Article V.

SECTION 4.11. - Lump Sum Payment. Notwithstanding any contrary provision, effective January 1, 2008 to November 30, 2012, if the Present Value of the Retirement Benefit payable to a Participant or the Present Value of the survivor benefit payable to a Participant's surviving Spouse under Section 4.8 of the main text of this Appendix M is less than \$1,000, payment of such Present Value shall be made in a lump sum as soon as administratively practicable following the Participant's separation from service with the Employer and all Related Employers, without the Participant's, or if the Participant is deceased, the surviving Spouse's, consent, in lieu of all other benefits under the Plan. If the Present Value of such benefit is at least \$1,000 but not greater than \$3,500, the Committee may pay such Present Value to the Participant or if the Participant is deceased, to the surviving Spouse, in a lump sum in lieu of all other benefits under the Plan with the consent of the Participant or the surviving Spouse, following the Participant's separation from service with the Employer and all Related Employers or, in the case of a survivor benefit, the Participant's death.

Effective December 1, 2012, notwithstanding any contrary provision, if the Present Value of the Retirement Benefit payable to a Participant, an alternate payee or the survivor benefit payable to a Participant's surviving Spouse under Section 4.8 of the main text of this Appendix M does not exceed \$5,000, payment of such Present Value shall be made in a lump sum as soon as administratively practicable following the Participant's separation from service with the Employer and all Related Employers, or in the case of a benefit payable to a surviving Spouse or alternate payee, as soon as practicable after such benefit becomes payable, without the consent of the Participant, the surviving Spouse, or the alternate payee, as applicable, in lieu of all other benefits under the Plan.

If the Present Value of a Participant's nonforfeitable Retirement Benefit under this Plan is zero as of the date the Participant separates from service with the Employer and all Related Employers, such Participant shall be deemed to have received a distribution of such nonforfeitable benefit when the Participant separates from service.

If the Participant's Retirement Benefit is cashed out pursuant to this Section 4.11, service with respect to which the distribution of the Present Value was made shall be disregarded for purposes of the Plan, provided, however, that such service shall be counted in determining the Employee's Vesting Years and years of Service Credit if, upon reemployment, the distribution is repaid by the Employee to the Trust Fund, together with interest at 5% or such other rate as may in the future be established or otherwise made effective by regulation or administration action implementing ERISA §§ 204(c)(2)(C) and 204(e).

SECTION 4.12. - Maximum Benefit. For limitation years beginning on or after July 1, 2007, the maximum annual benefit payable shall be determined in accordance with the maximum Benefits Appendix for Independent Pilots Association. Notwithstanding Section 4.10 of the main text of this Appendix M or any contrary provision of the main text of this Appendix M, the limitations on maximum benefits payable from this Appendix M shall be in accordance with Code § 415, including, particularly, Code § 415(b)(9), and the regulations thereunder, which are incorporated into this Appendix M by reference.

SECTION 4.13. - Special Increase for Participants Reaching Normal Retirement Age After December 31, 2003. Notwithstanding the limitations of Section 1.10, as soon as practicable after August 31, 2006 (the "Ratification Date") (a) the Compensation of each Affected Participant shall be redetermined such that his Compensation for a calendar year is limited only by Code § 401(a)(17); (b) such Affected Participant's Final Average Earnings shall be recalculated using the Compensation determined in (a); and (c) such Affected Participant's Retirement Benefit shall be increased effective as of the first day of the month after the Ratification Date to reflect any increase in his Final Average Earnings as a result of the recalculation in (b) and shall be paid as soon as administratively practicable. The increase described in (c) shall be prospective only and benefits paid before the Ratification Date shall not be increased. An Affected Participant is any Participant (i) who reached Normal Retirement Age after December 31, 2003 and before the Ratification Date and (ii) whose Compensation for any calendar year was limited to \$150,000 as a result of Section 1.10.

## **ARTICLE V**

### **OPTIONAL BENEFIT FORMS**

SECTION 5.1. - General. In addition to the Single Life Only Annuity, the following optional forms are available to a Participant who properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity:

(a) Joint and Survivor Annuity. The benefit under a Joint and Survivor Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity based on the life of the Participant. Under the Joint and Survivor Annuity, the Participant shall be paid his pension for his lifetime; and his designated beneficiary as of the date of the Participant's retirement, if surviving at the Participant's death, shall be entitled to receive thereafter a lifetime survivorship benefit in a monthly amount equal to a percentage (50%, 66 2/3%, 75%, or 100%, as selected by the Participant) of the monthly amount which had been payable to the Participant. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his designated beneficiary has occurred. A Participant may not elect to receive payment of his Retirement Benefit in the form of a Joint and Survivor Annuity if he has a non-spousal beneficiary and such beneficiary is younger than the Participant by more than the maximum number of years specified in the following table based on their ages on their birthdays in the calendar year in which benefit payments commence:

Annuity Form	Maximum Number of Years
Joint and 100% Survivor Annuity	10 years
Joint and 75% Survivor Annuity	19 years
Joint and 66 2/3% Survivor Annuity	25 years

(b) Period Certain and Continuous Annuity. The benefit under a Period Certain and Continuous Annuity shall be the Actuarial Equivalent of a Monthly Single-Life Benefit based on the life of the Participant. Under the Period Certain and Continuous Annuity, the Participant shall be paid his pension for his lifetime; and if the Participant dies before receiving a specified number of monthly payments (120, 180, 240, as selected by the Participant (“guaranteed payments”)), the Participant’s designated beneficiary shall be entitled to receive thereafter a monthly guaranteed payment equal to the payment which had been payable to the Participant until all of the monthly payments have been made from the Plan to the Participant and his designated beneficiary. The last payment of the Period Certain and Continuous Annuity shall be made as of the first day of the month in which occurs the later of the death of the Participant or the last of the guaranteed monthly payments has been made. Each Participant who selects this option shall designate a beneficiary in writing, in the form and manner required by the Committee, and such beneficiary may be changed by such Participant in the same manner, but such designation shall not be considered made until received by the Committee or its designees on such form and unless it is received by the Committee prior to the Participant’s death. The Committee shall be the sole judges of the effectiveness of the designation or change thereof. If a Participant fails to designate a beneficiary or his designated beneficiary fails to survive the Participant, the Participant’s designated beneficiary shall be deemed to be his surviving Spouse, if any; or if there is no surviving spouse, his surviving children, in equal shares; or if there are no surviving children, his estate. If a beneficiary dies before all payments are made under this optional form, the remaining payments shall be made in a lump sum or in installments as the Committee shall direct to the beneficiary designated by such beneficiary or, if there is no such designation, to such beneficiary’s estate.

(c) Level Income Option. The benefit under a Level Income Option shall be the Actuarial Equivalent of a Monthly Single-Life Benefit based on the life of the Participant. Under the Level Income Option, the Participant shall be paid a higher benefit until age 62 or 65, as selected by the Participant, and a reduced benefit after age 62 or 65, as applicable, to provide a more level income over the Participant’s lifetime, taking into account the social security primary insurance benefits the Participant is expected to receive at the selected age. The last payment of the Level Income Option shall be made as of the first day of the month in which the death of the Participant occurs.

## **BENEFIT SCHEDULE II FOR INDEPENDENT PILOTS ASSOCIATION**

This Benefit Schedule II shall apply to (1) each Eligible Employee who has an Hour of Covered Employment on or after August 31, 2006, (2) each Eligible Employee who is accruing Service Credit (or who would be accruing Service Credit but for the attainment of Normal Retirement Age) under Section 3.3, Disability Accrual, on or after August 31, 2006, (3) each 2003 Retired Participant and (4) each former Employee who died during the month of July 2006 while employed in a classification that would have been considered an Eligible Employee classification if this Benefit Schedule II had been in effect at his death.

The provisions of this Benefit Schedule II will apply only to that period of employment during which an Employee is an Eligible Employee. An Eligible Employee shall not accrue benefits under any provisions of the Plan (other than this Benefit Schedule II) during the period that he is covered under this Benefit Schedule II.

References to Articles and Sections are to Articles and Sections of this Benefit Schedule II unless otherwise expressly indicated.

### **Article I** **DEFINITIONS**

Wherever used herein, the following capitalized terms shall have the meaning set forth below or in the main body of this Appendix M for the Independent Pilots Association unless otherwise clearly required by the context.

SECTION 1.1. - 2003 Retired Participant. The term “2003 Retired Participant” means a Participant who separated from service in 2003 pursuant to the voluntary separation package offered by the Employer.

SECTION 1.2. - 2006 Collective Bargaining Agreement. The term “2006 Collective Bargaining Agreement” means the Collective Bargaining Agreement between the Independent Pilots Association and United Parcel Service Co. ratified on August 31, 2006.

SECTION 1.3. - 2006 Participant. The term “2006 Participant” means each Participant who will reach Normal Retirement Age on or before December 31, 2013.

SECTION 1.4. - 2014 Participant. The term “2014 Participant” means each Participant who will reach Normal Retirement Age after December 31, 2013 and before December 31, 2016.

SECTION 1.5. - Actuarial Equivalent. The term “Actuarial Equivalent” means a benefit of equivalent value calculated using the 1983 Group Annuity Mortality Table for males for Participants and the 1983 Group Annuity Mortality Table for females for beneficiaries and an interest rate of 7% compounded annually. Notwithstanding the foregoing, if the optional form of benefit is subject to the requirements of Treasury Regulation § 1.417(e)-1(d), or any successor regulation, the benefit of equivalent value will be the amount determined using the Applicable Interest Rate

(determined as if the benefit commencement date is the date of distribution) and the Applicable Mortality Table, as applicable.

SECTION 1.6. - Additional Early Retirement Benefit. The term “Additional Early Retirement Benefit” means for a Pre-2014 Early Retiree, the additional benefit, if any, described in Section 4.2(e)(2).

SECTION 1.7. - Applicable Interest Rate. The term “Applicable Interest Rate” means the “applicable interest rate” as described in Code § 417(e)(3) for the “lookback month” preceding the “stability period” that includes the date the distribution is made, provided that for distributions paid during Plan Years commencing in 2008 through 2011, the applicable interest rate or rates shall be determined taking into account the transition rules under Code § 417(e)(3)(D)(ii) and (iii).

The term “lookback month” means the fifth month preceding the first day of the stability period containing the date of distribution.

The term “stability period” means the calendar year in which the distribution is made.

SECTION 1.8. - Applicable Mortality Table. The term “Applicable Mortality Table” means the “applicable mortality table” prescribed by the Secretary of the Treasury for purposes of Code § 417(e)(3).

SECTION 1.9. - Bidline Credit. The term “Bidline Credit” means the amount of credit generated by a Crewmember’s scheduled activities for a bid period (as defined in the 2006 Collective Bargaining Agreement), including scheduled flights, layovers, deadhead time or other duties assigned by the Employer.

SECTION 1.10. - Bypassed Captain. The term “Bypassed Captain” means a Crewmember who has been bypassed for a Captain position as described in Section 14.E.3 of the 2006 Collective Bargaining Agreement and who is included on the list of bypassed Captains maintained by the Employer.

SECTION 1.11. - Bypassed Crewmember. The term “Bypassed Crewmember” means a Second Officer who has been bypassed for the First Officer position as described in Section 14.E.3 of the 2006 Collective Bargaining Agreement and who is included on the list of bypassed First Officers maintained by the Employer.

SECTION 1.12. - Captain. The term “Captain” means a pilot who is in command of the aircraft and its crew while on duty, who is responsible for the manipulation of, or who manipulates the controls of the aircraft, including take-off and landing of such aircraft, and who is properly qualified to serve as such, and holds a current effective airman’s certificate authorizing him to serve as such pilot.

SECTION 1.13. - Compensation. The term “Compensation” means a Participant’s compensation as reflected on Form W-2, including amounts deferred under Code §§ 125, 129 and 401(k) and excluding:

- (a) per diem payments;
- (b) grievance awards (other than the following: (A) as a part of a Crewmember's Guarantee or Bidline Credit, (B) an award of Premium Pay for Revisions or (C) an award of Late Arrival Pay);
- (c) amounts paid to a Crewmember as a result of the application of Code § 415(c);
- (d) payments in the nature of compensation from an insurance carrier, from a state unemployment or worker's compensation fund, or from any health and welfare or other benefit program or plan maintained by an Employer or a Related Employer.
- (e) disability payments from an insurance carrier, a state disability insurance fund, this Plan or any other disability plan maintained by an Employer or a Related Employer;
- (f) foreign service differentials or other supplemental payments made by an Employer or Related Employer to a Crewmember working outside his or her country of citizenship on account of such foreign service;
- (g) payment or reimbursement by an Employer or Related Employer for relocation expenses incurred by a Crewmember or his or her family;
- (h) the value of employee fringe benefits provided by an Employer or Related Employer, including but not limited to the payment of life insurance premiums, whether or not the value of such fringe benefits is includable in the employee's taxable income;
- (i) payments made under deferred compensation plans or programs;
- (j) Employer or Related Employer contributions to any pension, profit-sharing or stock bonus plan; and
- (k) Employer or Related Employer contributions to any welfare benefit plan.

Compensation for any calendar year shall be limited to the lesser of (i) \$300,000 per year or (ii) such limit as may be imposed by Code § 401(a)(17) or any successor statute limiting compensation taken into account under the Plan. Solely for avoiding a double proration, within the meaning of Department of Labor Regulations, § 2530.204-2(d), to the extent that a Participant is credited with less than a full year of Service Credit for a calendar year, then the Participant's Compensation taken into account for such year shall be annualized by dividing such Compensation by the number of months of Service Credit earned by the Participant for such calendar year and multiplying the result by 12.

Effective January 1, 2009, a Participant receiving a differential wage payment (as described in Code § 414(u)(12)) shall be treated as an employee of the Employer making the differential wage payment for purposes of this Plan and the differential wage payment shall be treated as Compensation.

SECTION 1.14. - Covered Employment. The term “Covered Employment” means employment by an Employer as an Eligible Employee on or after January 1, 1988.

SECTION 1.15. - Crewmember. The term “Crewmember” means a Professional Flight Engineer, Second Officer, First Officer, Captain, or Bypassed Crewmember.

SECTION 1.16. - Early Retirement Commencement Date. The term “Early Retirement Commencement Date” means for each Pre-2014 Early Retiree, the date as of which his Early Retirement Benefit commenced.

SECTION 1.17. - Early Retirement Date. The term “Early Retirement Date” means the first day of the month coincident with or next following the attainment of 55 years of age and the completion of five Vesting Years.

SECTION 1.18. - Eligible Employee. The term “Eligible Employee” means an individual employed by the Employer who (a) is not a participant in or covered under any other qualified defined benefit plan to which his Employer currently makes contributions on his behalf, (b) is represented for purposes of collective bargaining by the Independent Pilots Association and (c) is employed as a Crewmember.

Under no circumstances will an individual who performs services for an Employer, but who is not classified on the payroll as an employee of the Employer, for example, an individual performing services for an Employer under a leasing arrangement, be treated as an Eligible Employee even if such individual is treated as an employee of an Employer as a result of common law principles, coemployment principles or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer is retroactively reclassified as an employee of an Employer for any reason, such reclassified individual shall not be treated as an Eligible Employee for any period prior to, on or after the date of such reclassification except as provided for in the Collective Bargaining Agreement or if such individual is not covered by a Collective Bargaining Agreement, except as determined by the Committee.

SECTION 1.19. - Final Average Earnings. The term “Final Average Earnings” means the Participant’s average Compensation for the five complete calendar years during the last ten complete calendar years of his Covered Employment during which his Compensation was the highest. For a Participant who retires on his Postponed Retirement Date, the term “Final Average Earnings” shall be the greater of the Final Average Earnings he would have had if he had retired at age 60 or his Final Average Earnings at his Postponed Retirement Date.

SECTION 1.20. - First Officer. The term “First Officer” means a pilot who is next in command after the Captain of the aircraft, whose duty is to assist or relieve the Captain in the manipulation of the flight controls of an aircraft while underway, including take-off and landing of such aircraft, and who is properly qualified to serve as and who holds a current effective airman’s certificate authorizing him to serve as such First Officer.

SECTION 1.21. - Guarantee. The term “Guarantee” means the 75 hours of guaranteed pay that a Crewmember receives per pay period if he is available for duty.



SECTION 1.22. - Hour of Covered Employment. The term “Hour of Covered Employment” means each Hour of Service in Covered Employment.

SECTION 1.23. - Initial Early Retirement Benefit. The term “Initial Early Retirement Benefit” means the Early Retirement Benefit of a Pre-2014 Early Retiree calculated in accordance with Section 4.5 in the form of a Single Life Only Annuity, reduced for early commencement as of his or her Early Retirement Commencement Date (unless the Pre-2014 Early Retiree was entitled to an unreduced Early Retirement Benefit pursuant to Addendum A, Voluntary Job Protection Memorandum of Understanding dated April 29, 2009, as Amended, Benefit Enhancements) and further reduced by the Other Plan Benefits Offset.

SECTION 1.24. - Late Arrival Pay. The term “Late Arrival Pay” means the pay described in Article 13.E.4 and 5 of the 2006 Collective Bargaining Agreement.

SECTION 1.25. - Monthly Excess. The term “Monthly Excess” shall have the amount described in Section 4.2(d)(ii)(A).

SECTION 1.26. - Normal Retirement Age. The term “Normal Retirement Age” means the later to occur of (a) the Participant’s attainment of age 60 or (b) the date the Participant completes one Vesting Year.

SECTION 1.27. - Normal Retirement Date. The term “Normal Retirement Date” means the first day of the calendar month coincident with or next following the Participant’s attainment of Normal Retirement Age.

SECTION 1.28. - Pre-2014 Early Retiree. The term “Pre-2014 Early Retiree” means each 2014 Participant who commenced his or her Early Retirement Benefit before January 1, 2014.

SECTION 1.29. - Premium Pay. The term “Premium Pay” means the pay described in Article 13.E.4 of the 2006 Collective Bargaining Agreement.

SECTION 1.30. - Present Value. The term “Present Value” means the single sum amount of such benefit based on the Applicable Interest Rate and the Applicable Mortality Table.

SECTION 1.31. - Professional Flight Engineer. The term “Professional Flight Engineer” means a certified flight engineer who was hired and designated as such by the Employer and whose duties include responsibility for assuring the airworthy condition of the aircraft on which he is to serve before departure, including recognition and correction of malfunctions, and for enroute ground maintenance and/or supervision thereof as well as those duties of the Second Officer. A Professional Flight Engineer shall hold a current effective airman’s certificate authorizing him to serve as a Flight Engineer in his current equipment, and an Airframe and Powerplant Mechanics’s Certificate.

SECTION 1.32. - Recalculated Early Retirement Benefit. The term “Recalculated Early Retirement Benefit” means the benefit described in Section 4.2(e)(1).

SECTION 1.33. - Retirement Benefit. The term “Retirement Benefit” means with respect to each Participant his/her Normal Retirement Benefit, Early Retirement Benefit, Postponed Retirement Benefit, or Deferred Vested Benefit.

SECTION 1.34. - Second Officer. The term “Second Officer” means a pilot who is third in command of the aircraft, after the Captain and the First Officer, whose duty is to perform the duties of a Second Officer as specified by the Employer, and who holds a currently effective airman’s certificate authorizing him to serve as such, and who holds at least a current effective Commercial Airman’s Certificate and Instrument Rating.

SECTION 1.35. - Service Credit. The term “Service Credit” shall mean the years and months of credit for work in Covered Employment which are accumulated and maintained for employees in accordance with the provisions of Article III.

SECTION 1.36. - True-Up Payment. The term “True-Up Payment” means for a Pre-2014 Early Retiree, the payment described in Section 4.2(e)(3)(B).

**Article II**  
**ELIGIBILITY FOR PARTICIPATION**

An Eligible Employee shall become a Participant in accordance with Section 2.1 of the main text of this Appendix M based on his employment with the Employer or any Related Employer; from his initial date of employment.

**Article III**  
**ACCUMULATION OF SERVICE CREDIT FOR PURPOSES OTHER THAN VESTING AND ELIGIBILITY i.e., FOR ACCRUAL OF BENEFITS, ETC.**

SECTION 3.1. - Credit for Periods of Covered Employment for Plan Years Before January 1, 2004. Each Participant covered shall accumulate one full year of Service Credit for each Plan Year in which he has at least one Hour of Covered Employment.

SECTION 3.2. - Credit for Periods of Covered Employment Beginning On or After January 1, 2004. Each Participant shall accumulate Service Credit in monthly units based on his or her Hours of Covered Employment in accordance with the following table:

Hours of Covered Employment In Each Plan Year

Monthly Units of Service Credit

Less than 81	0
81-162	3 months
163-243	4 months
244-324	5 months
325-405	6 months
406-487	7 months
488-568	8 months
569-649	9 months
650-730	10 months
731-812	11 months
813 or more	12 months

SECTION 3.3. - Disability Accrual. A Participant who becomes disabled following the completion of his probationary period as a Crewmember shall accrue years and months of Service Credit (not to exceed 30 years of Service Credit) as if he remained in active employment until Normal Retirement Age or if he elects early retirement, his Early Retirement Date. Such accrual shall cease as of the earlier of (i) the last day of the month immediately prior to the Participant recovering from the disability or retiring or (ii) the end of the calendar year in which he obtains other gainful employment. If a disabled Participant retires, his Final Average Earnings shall be based on his Compensation paid during his active employment prior to becoming disabled. For purposes of this Section, the term “disabled” means the Participant loses the right to exercise the privileges of his medical certificate for reasons other than alcohol or drug use and the term “other gainful employment” means employment during which a disabled Participant earns the greater of (i) \$30,000 a calendar year or (ii) one-third of his annual Compensation at the time he became disabled.

**Article IV**  
**BENEFIT ELIGIBILITY AND AMOUNTS**

SECTION 4.1. - General. The amount of the Retirement Benefit payable to an Eligible Employee shall be the amount described in this Article IV of this Benefit Schedule II.

SECTION 4.2. - Monthly Single Life Benefit. The Monthly Single Life Benefit shall equal 1/12th of:

(a) General. Each Participant (other than a 2014 Participant, a 2006 Participant or a 2003 Retired Participant) shall have a Monthly Single Life Benefit equal to one percent (1%) of his Final Average Earnings times his number of full and fractional years of Service Credit (not to exceed 30 years of Service Credit).

(b) 2006 Participants and 2003 Retired Participants. Each 2006 Participant and each 2003 Retired Participant shall have a Monthly Single Life Benefit equal to A times B, where

A = the greater of (i) one percent (1%) of his Final Average Earnings or (ii) the dollar amount determined under the following table depending on the highest rank attained by the Participant during his Covered Employment:

Rank	Dollar Amount
Captain or Bypassed Captain	\$3,000
First Officer, Professional Flight Engineer or a Bypassed Crewmember	\$2,400
Second Officer	\$2,100

B = his number of full and fractional years of Service Credit (not to exceed 30 years of Service Credit).

For each 2006 Participant, the Monthly Single Life Benefit formula described in this Section 4.2(b) shall apply from his Normal Retirement Date or his Postponed Retirement Date. For each 2003 Retired Participant the monthly accrued benefit calculated under this Benefit Schedule II shall be increased effective as of August 31, 2006 to equal the Monthly Single Life Benefit described in this Section 4.2(b). Such increase shall be prospective only and no amount shall be paid to increase the monthly accrued benefit paid before August 31, 2006.

(c) 2014 Participants. For each 2014 Participant (other than a Pre-2014 Early Retiree), the Monthly Single Life Benefit formula described in Section 4.2(b) shall be used to calculate his Retirement Benefit instead of the formula described in Section 4.2(a).

(d) Pre-2014 Early Retirees.

- (i) The Early Retirement Benefit of each Pre-2014 Early Retiree shall be recalculated under Section 4.5 in the form of a Single Life Only Annuity using the Monthly Single Life Benefit formula described in Section 4.2(b) reduced for early commencement as of the Early Retirement Commencement Date (unless the Pre-2014 Early Retiree was entitled to an unreduced Early Retirement Benefit pursuant to Addendum A, Voluntary Job Protection Memorandum of Understanding dated April 29, 2009, as Amended, Benefit Enhancements) and further reduced by the Other Plan Benefits Offset (the "Recalculated Early Retirement Benefit").
- (ii) If a Pre-2014 Early Retiree's Recalculated Early Retirement Benefit is larger than his Initial Early Retirement Benefit, the Pre-2014 Early Retiree shall be entitled to an additional benefit (the "Additional Early Retirement Benefit") under this Section 4.2(d) payable beginning March 1, 2014 as a Single Life Only Annuity equal to (A) +(B) where:

- (A) is the excess of his monthly Recalculated Early Retirement Benefit over his monthly Initial Early Retirement Benefit (the “Monthly Excess”); and
  - (B) is the monthly benefit payable under a Single Life Only Annuity beginning March 1, 2014 that is Actuarially Equivalent to the sum of (I) the Monthly Excess which would have been paid from his Early Retirement Commencement Date through February 28, 2014 and (II) compound interest at 7% per year applied to each Monthly Excess payment from the first day of the calendar month in which the payment would have otherwise have been made through February 28, 2014.
- (iii) The Additional Early Retirement Benefit shall be paid in the normal form of benefit described in Section 4.9 unless the Participant properly waives the normal form as described in Section 4.9, in which case his Additional Early Retirement Benefit shall be paid in the following Special Optional Form:
- (A) If the Pre-2014 Early Retiree is receiving his Initial Early Retirement Benefit in the form of a Single Life Only Annuity, the portion of the Additional Early Retirement described in Section 4.2(d)(ii)(A) shall be added to his monthly Initial Early Retirement Benefit effective as of March 1, 2014. If the Pre-2014 Early Retiree is receiving his Initial Early Retirement Benefit in a form other than a Single Life Only Annuity, the portion of the Additional Early Retirement Benefit described in Section 4.2(d)(ii)(A) shall be converted to the Actuarial Equivalent form of benefit in which his Initial Early Retirement Benefit is being paid and shall be added to his monthly Initial Early Retirement Benefit effective as of March 1, 2014.
  - (B) Additionally, no later than March 1, 2014, the Plan will pay a lump sum amount (the “True-Up Payment”) equal to the sum described in Section 4.2(d)(ii)(B).
- (iv) If a Pre-2014 Early Retiree dies prior to March 1, 2014, the Monthly Excess that would have been paid to the deceased Pre-2014 Early Retiree from his Early Retirement Commencement Date through his date of death with compound interest at 7% per year applied to each Monthly Excess payment from the first day of the calendar month in which the payment would have otherwise have been made through February 28, 2014 shall be paid in a lump sum to his estate on March 1, 2014.

(v) If a Pre-2014 Early Retiree dies prior to March 1, 2014 and he is survived by a spouse who is entitled to a survivor annuity under the Qualified Joint and Survivor Annuity form of benefit, his surviving spouse shall be entitled to an additional monthly survivor annuity payable beginning March 1, 2014 for his life only equal to the additional monthly benefit that would have been payable to him following the Pre-2014 Early Retiree's death if the Additional Early Retirement Benefit had been paid in the Qualified Joint and Survivor Annuity form from the Pre-2014 Early Retiree's Early Retirement Commencement Date unless the surviving spouse consents to have the additional monthly survivor annuity paid in the same form as the survivor benefit payable under the Initial Early Retirement Benefit beginning as of March 1, 2014 with a lump sum payment for any additional monthly survivor benefit that would have been paid to him after the death of the Pre-2014 Early Retiree through February 28, 2014. If the surviving spouse elects the alternative form of survivor annuity, the portion of the Additional Early Retirement Benefit described in Section 4.2(d)(ii)(A) shall be converted to the Actuarial Equivalent form of benefit in which the deceased Pre-2014 Early Retiree's Initial Early Retirement Benefit is being paid and the monthly survivor benefit attributable to such annuity shall be added to the surviving spouse's monthly survivor annuity effective as of March 1, 2014. Additionally, such surviving spouse will receive a lump sum payment equal to the sum of the additional monthly survivor annuity that would have been paid to her from the date of the Pre-2014 Early Retiree's death to February 28, 2014 with compound interest at 7% per year applied to each monthly payment from the first day of the calendar month in which the payment otherwise would have been made to such surviving spouse through February 28, 2014.

(vi) Whether an alternate payee will be entitled to a payment under this Section 4.2(d) will depend on the terms of the qualified domestic relations order.

(e) Minimum Benefit - Notwithstanding Sections 4.2(a) and (b), the Monthly Single Life Benefit for each Participant who participated in Benefit Schedule I shall never be less than his Monthly Single Life Benefit accrued under Benefit Schedule I as of August 30, 2006.

SECTION 4.3. - Normal Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on his Normal Retirement Date, his Normal Retirement Benefit payable as of his Normal Retirement Date shall equal his Monthly Single Life Benefit as determined in Section 4.2 as of his Normal Retirement Date, reduced by the Other Plan Benefits Offset described below.

SECTION 4.4. - Postponed Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Normal Retirement Date, his Postponed Retirement Benefit payable as of his Postponed Retirement Date shall equal the greatest of (a) his Monthly Single Life Benefit as determined in Section 4.2 as of his Postponed Retirement Date, reduced by the Other Plan Benefits Offset described below, (b) the benefit he would have received if he had retired on his Normal Retirement Date or (c) the benefit he would have received if he had retired on his Early Retirement Date.

SECTION 4.5. - Early Retirement Benefit. If a Participant separates from service with the Employer and all Related Employers on or after his Early Retirement Date but before his Normal Retirement Date, his Early Retirement Benefit shall equal his Monthly Single Life Benefit as determined in Section 4.2 as of his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset as described below. A Participant's Early Retirement Benefit shall be payable as of his Normal Retirement Date or, if he so elects, as of his Early Retirement Date. If the Participant's benefit is paid before he reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the commencement of his benefit precedes his Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.6. - Deferred Vested Benefit. A Participant shall be fully vested upon the completion of one Vesting Year. A Participant shall receive credit for vesting purposes for employment from his initial date of employment with an Employer or a Related Employer. A Participant's Deferred Vested Benefit shall equal his Monthly Single Life as determined in Section 4.2 based on his years of Service Credit earned prior to his most recent separation from service with the Employer and all Related Employers, reduced, if applicable, for early commencement as described below and further reduced by the Other Plan Benefits Offset described below. A Participant's Deferred Vested Benefit shall be payable as of his Normal Retirement Date or, if he has completed five Vesting Years and so elects, as of the first day of the month coincident with or next following his attainment of 55 years of age. If the Participant's benefit is paid before he reaches Normal Retirement Age, it will be actuarially reduced based on the period of time by which the beginning of the benefit precedes the Normal Retirement Age so as to be the Actuarial Equivalent of the benefit payable at Normal Retirement Age.

SECTION 4.7. - Other Plan Benefits Offset. The Other Plan Benefits Offset is the reduction described in Section 4.7 of the main text of this Appendix M; provided that benefits under any defined contribution plan shall not be considered a "retirement plan to which the Employer made contribution on behalf of the Participant or under which service with the Employer is counted in calculating benefits" for purposes of that Section. Further, any such retirement plan is referred to in this Section as an "Other Plan."

(a) Retirement Benefits Payable in Annuity Form. If the Retirement Benefit is payable in an annuity form, the amount of the reduction shall be determined and subtracted from the Retirement Benefit as of the later of the date as of which Retirement Benefits commence under the Plan or the earliest date such Participant could begin receiving benefits under such Other Plan

(the "Determination Date"). Thus, if a Participant is not eligible for a benefit under an Other Plan when he begins receiving benefits under this Plan, his Retirement Benefit will not be reduced until the earliest date he could have begun receiving a benefit under the Other Plan. The amount of the reduction shall be equal to the Monthly Single Life Benefit that would have been payable under the Other Plan as of the Determination Date or, if the Monthly Single Life Benefit is not available under such Other Plan, the Monthly Single Life Benefit which is the Actuarial Equivalent of the normal form of benefit that would have been payable under such Other Plan as of the Determination Date. If a Participant begins receiving a benefit under an Other Plan before the Determination Date, the amount of the reduction will be actuarially adjusted.

(b) Retirement Benefit Payable in Lump Sum. If the Retirement Benefit is payable in a lump sum, the Present Value of the Retirement Benefit payable under this Plan shall be reduced by the Present Value of the benefit actually paid to such Participant or payable to him under such Other Plan.

(c) Estimation. If the Committee determines that it is not reasonably practicable to obtain the actual amount of the benefit payable to or on behalf of a Participant under an Other Plan in sufficient time to make payment of his benefit under this Plan, the Committee may estimate the amount of the Other Plan benefit using such methods as they in their discretion deem appropriate. If the Committee estimates the Other Plan benefit, they shall use their best efforts to obtain the actual amount of the Other Plan benefit and adjust the benefit being paid from this Plan accordingly. In the event that the estimated Other Plan benefit is less than the actual Other Plan benefit, the Committee shall reduce the payments under this Plan immediately to reflect the amount of the difference and may recover any previous overpayments from this Plan by deducting such overpayments from future benefit payments due under this Plan or by such other methods as the Committee deems appropriate. In the event that the estimated Other Plan benefit is larger than the actual Other Plan benefit, the Committee shall increase the payments under this Plan immediately to reflect the amount that of such difference and shall make an additional payment equal to the amount that would have been received if the Plan had used the actual Other Plan benefit from the commencement of payment.

SECTION 4.8. - Qualified Joint and Survivor Preretirement Survivor Benefit. If a vested Participant dies prior to receiving a benefit under this Appendix M, the Participant's surviving Spouse will be entitled to a survivor benefit under Section 4.9 of the main text of this Appendix M, determined without regard to whether the Participant and his spouse had been married for at least one year prior to the Participant's death.

SECTION 4.9. - Payment of Retirement Benefit. The benefits shall be paid in the form of a Single Life Only Annuity (for unmarried Participants) or the Qualified Joint and Survivor Annuity (for married Participants) unless the Participant properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity (as such waiver is described in Section 4.8(c) of the main text of this Appendix M) and selects an optional benefit form described in Article V.

SECTION 4.10. - Lump Sum Payment. Notwithstanding any contrary provision, effective January 1, 2008 to November 30, 2012, if the Present Value of the Retirement Benefit payable to a Participant or the Present Value of the survivor benefit payable to a Participant's



surviving spouse under Section 4.8 of the main text of this Appendix M is less than \$1,000, payment of such Present Value shall be made in a lump sum as soon as administratively practicable following the Participant's separation from service with the Employer and all Related Employers, without the Participant's, or if the Participant is deceased, the surviving Spouse's, consent, in lieu of all other benefits under the Plan. If the Present Value of such benefit is at least \$1,000 but not greater than \$3,500, the Committee may pay such Present Value to the Participant or if the Participant is deceased, to the surviving Spouse, in a lump sum in lieu of all other benefits under the Plan with the consent of the Participant or the surviving Spouse, following the Participant's separation from service with the Employer and all Related Employers or, in the case of a survivor benefit, the Participant's death.

Effective December 1, 2012, notwithstanding any contrary provision, if the Present Value of the Retirement Benefit payable to a Participant, an alternate payee or the survivor benefit payable to a Participant's surviving Spouse under Section 4.8 of the main text of this Appendix M does not exceed \$5,000, payment of such Present Value shall be made in a lump sum as soon as administratively practicable following the Participant's separation from service with the Employer and all Related Employers, or in the case of a benefit payable to a surviving Spouse or alternate payee, as soon as practicable after such benefit becomes payable, without the consent of the Participant, the surviving Spouse, or the alternate payee, as applicable, in lieu of all other benefits under the Plan.

If the Present Value of a Participant's nonforfeitable Retirement Benefit under this Plan is zero as of the date the Participant separates from service with the Employer and all Related Employers, such Participant shall be deemed to have received a distribution of such nonforfeitable benefit when the Participant separates from service.

If the Participant's Retirement Benefit is cashed out pursuant to this Section 4.11, service with respect to which the distribution of the Present Value was made shall be disregarded for purposes of the Plan, provided, however, that such service shall be counted in determining the Employee's Vesting Years and years of Service Credit if, upon reemployment, the distribution is repaid by the Employee to the Trust Fund, together with interest at 5% or such other rate as may in the future be established or otherwise made effective by regulation or administration action implementing ERISA §§ 204(c)(2)(C) and 204(e).

SECTION 4.11. - Maximum Benefit. For limitation years beginning on or after July 1, 2007, the maximum annual benefit payable shall be determined in accordance with the Maximum Benefits Appendix for Independent Pilots Association. Notwithstanding Section 4.10 of the main text of this Appendix M or any contrary provision of the main text of this Appendix M or this Benefit Schedule, the limitations on maximum benefits payable from this Appendix M shall be in accordance with Code § 415, including, particularly, Code § 415(b)(9), and the regulations thereunder, which are incorporated into this Benefit Schedule by reference.

**Article V**  
**OPTIONAL BENEFIT FORMS**

SECTION 5.1. - General. In addition to the Single Life Only Annuity, the following optional forms are available to a Participant who properly waives the Qualified Joint and Survivor Annuity or Single Life Only Annuity:

(f) Joint and Survivor Annuity. The benefit under a Joint and Survivor Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity based on the life of the Participant. Under the Joint and Survivor Annuity, the Participant shall be paid his pension for his lifetime; and his designated beneficiary as of the date of the Participant's retirement, if surviving at the Participant's death, shall be entitled to receive thereafter a lifetime survivorship benefit in a monthly amount equal to a percentage (50%, 66 2/3%, 75%, or 100%, as selected by the Participant) of the monthly amount which had been payable to the Participant. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his designated beneficiary has occurred. A Participant may not elect to receive payment of his Retirement Benefit in the form of a Joint and Survivor Annuity if he has a non-spousal beneficiary and such beneficiary is younger than the Participant by more than the maximum number of years specified in the following table based on their ages on their birthdays in the calendar year in which benefit payments commence:

Annuity Form	Maximum Number of Years
Joint and 100% Survivor Annuity	10 years
Joint and 75% Survivor Annuity	19 years
Joint and 66 2/3% Survivor Annuity	25 years

(g) Period Certain and Continuous Annuity. The benefit under a Period Certain and Continuous Annuity shall be the Actuarial Equivalent of a Single Life Only Annuity based on the life of the Participant. Under the Period Certain and Continuous Annuity, the Participant shall be paid his pension for his lifetime; and if the Participant dies before receiving a specified number of monthly payments (120, 180, 240, as selected by the Participant ("guaranteed payments")), the Participant's designated beneficiary shall be entitled to receive thereafter a monthly guaranteed payment equal to the payment which had been payable to the Participant until all of the monthly payments have been made from the Plan to the Participant and his designated beneficiary. The last payment of the Period Certain and Continuous Annuity shall be made as of the first day of the month in which occurs the later of the death of the Participant or the last of the guaranteed monthly payments has been made. Each Participant who selects this option shall designate a beneficiary in writing, in the form and manner required by the Committee, and such beneficiary may be changed by such Participant in the same manner, but such designation shall not be considered made until received by the Committee or its designees on such form and unless it is received by the Committee prior to the Participant's death. The Committee shall be the sole judges of the effectiveness of the designation or change thereof. If a Participant fails to designate a beneficiary or his designated beneficiary fails to survive the Participant, the Participant's designated beneficiary shall be deemed to be his surviving Spouse, if any; or if there is no surviving Spouse, his surviving children, in equal shares; or if there are no surviving children, his estate. If a beneficiary dies before all payments are made under this optional form, the remaining payments shall be made in a lump sum or in

installments as the Committee shall direct to the beneficiary designated by such beneficiary or, if there is no such designation, to such beneficiary's estate.

(h) Level Income Option. The benefit under a Level Income Option shall be the Actuarial Equivalent of a Monthly Single Life Benefit based on the life of the Participant. Under the Level Income Option, the Participant shall be paid a higher benefit until age 62 or 65, as selected by the Participant, and a reduced benefit after age 62 or 65, as applicable, to provide a more level income over the Participant's lifetime, taking into account the social security primary insurance benefits the Participant is expected to receive at the selected age. The last payment of the Level Income Option shall be made as of the first day of the month in which the death of the Participant occurs.

**VOLUNTARY JOB PROTECTION  
MEMORANDUM OF UNDERSTANDING  
DATED APRIL 29, 2009, AS AMENDED  
BENEFIT ENHANCEMENTS**

This Addendum A shall apply to each Participant who has an Hour of Covered Employment on or after May 24, 2009 and on or before December 31, 2009 ("Eligible Participant")

References to Articles and Sections are to Articles and Sections of Benefit Schedule II for Independent Pilots Association of the UPS Retirement Plan Appendix M for the Independent Pilots Association unless otherwise expressly indicated.

1. In addition to the Credit for Periods of Covered Employment provided in Section 3.3, each Eligible Participant who takes a Voluntary Leave of Absence under the terms of the MOU ("VLOA") shall receive a Monthly Unit of Service Credit for each month in which he or she is on a VLOA. In no event shall such an Eligible Participant (a) receive more than one (1) Monthly Unit of Service Credit for the same calendar month or (b) receive more than one (1) year of Service Credit for the same calendar year.
2. An Eligible Participant who (a) has five (5) or more Vesting Years, (b) attains at least age of fifty-five (55) but does not attain Normal Retirement Age prior to August 31, 2009 and (c) retires pursuant to the MOU on or after his or her Early Retirement Date with benefits commencing on or after June 1, 2009 and before August 31, 2009, shall not have his or her Early Retirement Benefit actuarially reduced as set forth in the last sentence of Section 4.5.
3. An Eligible Participant who (a) attains Normal Retirement Age by August 1, 2009 and (b) retires pursuant to the MOU on his or her Normal Retirement Date on or after June 1, 2009 and on or before August 1, 2009 shall receive one (1) additional year of Service Credit.
4. An Eligible Participant who (a) has five (5) or more Vesting Years, (b) attains the age of fifty-five (55) on or after September 1, 2009 and on or before December 31, 2009 and (c) retires pursuant to the MOU on the first day of the month coincident with or next following his or her fifty-fifth (55th) birthday shall not have his or her Early Retirement Benefit actuarially reduced as set forth in the last sentence of Section 4.5.

5. An Eligible Participant who (a) attains the age of sixty (60) on or after August 1, 2009 and on or before December 31, 2009 and (b) retires pursuant to the MOU on the first day of the month coincident with or next following his or her sixtieth (60th) birthday shall receive one (1) additional year of Service Credit.

6. For purposes of this Addendum A, the following terms and phrases have the following meanings: The term "MOU" means the Memorandum of Understanding between United Parcel Service Co. and the Independent Pilots Association dated April 29, 2009, as amended. The phrase "retire pursuant to the MOU" means that the Eligible Participant has fulfilled all of the conditions for entitlement to Early Retirement Benefits or Normal Retirement Benefits and has elected pursuant to Section 5.1 of the main text of Appendix M that payment of such benefits commence as of the first day of a calendar month during the applicable period described in 2 above or the date specified in 3, 4 or 5 above.

## LETTER OF AGREEMENT NO. 11-03

This Addendum B is added to Appendix M pursuant to that letter of agreement between United Parcel Service Co. and the Independent Pilots Association dated October 27, 2011 (“LOA No. 11-03”) and shall apply to each Participant who has an Hour of Covered Employment on or after December 4, 2011 (“Eligible Participant”)

References to Sections are to Sections of Benefit Schedule II for Independent Pilots Association of the UPS Retirement Plan Appendix M for the Independent Pilots Association unless otherwise expressly indicated.

1. In addition to the Credit for Periods of Covered Employment provided in Section 3.2, each Eligible Participant who takes a Short Term Voluntary Leave of Absence under the terms of the Letter of Agreement No. 11-03 (“VLOA”) shall receive a Monthly Unit of Service Credit for each month in which he is on a VLOA. In no event shall such Eligible Participant (a) receive more than one (1) Monthly Unit of Service Credit for the same calendar month or (b) receive more than one (1) year of Service Credit for the same calendar year.

2. An Eligible Participant who is a “RDG crewmember” as described in LOA No. 11-03 who maintains “active status” for a bid period will be credited with not less than 150 Hours of Covered Employment for that bid period. If an Eligible Participant who is a RDG crewmember does not maintain “active status” for a bid period, such Eligible Participant’s Hours of Covered Employment shall be based on such Eligible Participant’s actual pay and credit for such bid period. “Active status” means 37.5 hours of pay and credit accumulated in a bid period.

### ADDENDUM B REQUIRED MINIMUM DISTRIBUTION ADDENDUM

#### Section 1. General Rules.

1.1 Precedence and Effective Date. The requirements of this Required Minimum Distribution Addendum shall apply to any distribution of a Participant’s interest and will take precedence over any inconsistent provisions of this Plan. Unless otherwise specified, the provisions of this Addendum apply to calendar years beginning after December 31, 2002.

1.2 Requirements of Regulations Incorporated. All distributions required under this Appendix M shall be determined and made in accordance with Code § 401(a)(9), including the incidental death benefit requirement in Code § 401(a)(9)(G), and the regulations thereunder.

1.3 Limits on Distribution Periods. As of the first Distribution Calendar Year, distributions to a Participant if not made in a single sum may only be made over one of the following periods:

- (a) the life of the Participant,
- (b) the joint lives of the Participant and a Designated Beneficiary,
- (c) a period certain not extending beyond the joint life and last survivor expectancy of the Participant and a Designated Beneficiary.

1.4 Defined Terms. Capitalized terms not defined herein will have the same meaning assigned to those terms in the main text of the Plan or Appendix M, as applicable.

Section 2. Time and Manner of Distribution.

2.1 Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, no later than the Participant's Required Beginning Date. If a Participant continues to work past the date benefits are required to commence under this Section, his benefit shall be adjusted annually to reflect the additional benefits, if any, accrued in the immediately preceding Plan Year. Such adjustment shall be made on or before each April 1 retroactive to January 1 of the year in which the adjustment is made.

2.2 Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

- (d) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70½, if later.
- (e) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then, except as provided in the adoption agreement, distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.
- (f) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
- (g) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving spouse are required to begin, this Section 2.2, other than Section 2.2(a), will apply as if the surviving Spouse were the Participant.

For purposes of this Section 2.2 and Section 5, unless Section 2.2(d) applies, distributions are considered to begin on the Participant's Required Beginning Date. If Section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving spouse under Section 2.2(a). If distributions under an annuity meeting the requirements of this Addendum commence to the Participant before the Participant's Required Beginning Date (or to

the Participant's surviving spouse before the date distributions are required to begin to the surviving spouse under Section 2.2(a)), the date distributions are considered to begin is the date distributions actually commence.

2.3 Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections 3, 4 and 5 of this Addendum. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Code § 401(a)(9) and § 1.401(a)(9) of the regulations. Any part of the Participant's interest which is in the form of an individual account described in Code § 414(k) will be distributed in a manner satisfying the requirements of Code § 401(a)(9) and Treasury Regulations § 1.401(a)(9) of the regulations that apply to individual accounts.

Section 3. Determination of Amount to be Distributed Each Year.

3.1 General Annuity Requirements. If the Participant's interest is to be paid in the form of annuity distributions under the Plan, payments under the annuity shall satisfy the following requirements:

- (h) the annuity distributions will be paid in periodic payments made at uniform intervals not longer than one year;
- (i) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Section 4 or 5;
- (j) once payments have begun over a period, the period will be changed only in accordance with Section 6 of this article;
- (k) payments will either be nonincreasing or increase only as follows:
  - (1) by an annual percentage increase that does not exceed the percentage increase in an Eligible Cost-Of-Living Index for a 12-month period ending in the year during which the increase occurs or a prior year;
  - (2) by a percentage increase that occurs at specified times and does not exceed the cumulative total of annual percentage increases in an Eligible Cost-Of-Living Index since the Annuity Starting Date, or if later, the date of the most recent percentage increase;
  - (3) by a constant percentage of less than 5 percent per year, applied not less frequently than annually;
  - (4) as a result of dividend or other payments that result from Actuarial Gains, provided:
    - (i) Actuarial Gain is measured not less frequently than annually,

- (ii) the resulting dividend or other payments are either paid no later than the year following the year for which the actuarial experience is measured or paid in the same form as the payment of the annuity over the remaining period of the annuity (beginning no later than the year following the year for which the actuarial experience is measured),
  - (iii) the Actuarial Gain taken into account is limited to Actuarial Gain from investment experience,
  - (iv) the assumed interest rate used to calculate such Actuarial Gains is not less than 3 percent, and
  - (v) the annuity payments are not increased by a constant percentage as described in (3) of this Section 3.1(d);
- (5) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit, but only if there is no longer a survivor benefit because the beneficiary whose life was being used to determine the distribution period described in Section 4 dies or is no longer the Participant's beneficiary pursuant to a qualified domestic relations order within the meaning of Code § 414(p):
- (6) to provide a final payment upon the Participant's death not greater than the excess of the actuarial present value of the Participant's accrued benefit (within the meaning of Code § 411(a)(7)) calculated as of the Annuity Starting Date using the Applicable Interest Rate and the Applicable Mortality Table (or, if greater, the total amount of employee contributions, if any) over the total of payments before the Participant's death;
- (7) to allow a beneficiary to convert the survivor portion of a joint and survivor annuity into a single sum distribution upon the Participant's death; or
- (8) to pay increased benefits that result from a Plan amendment.

3.2 Amount Required to be Distributed by Required Beginning Date and Later Payment Intervals. The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Section 2.2(a) or (b)) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.

3.3 Additional Accruals After First Distribution Calendar Year. Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such benefit accrues.



Section 4. Requirements For Annuity Distributions That Commence During Participant's Lifetime.

4.1 Joint Life Annuities Where the Beneficiary Is Not the Participant's Spouse. If the Participant's interest is being distributed in the form of a joint and survivor annuity for the joint lives of the Participant and a nonspouse beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the Participant, using the table set forth in Treasury Regulations § 1.401(a)(9)-6, Q&A 2(c)(2), in the manner described in Q&A 2(c)(1), of the regulations, to determine the applicable percentage. If the form of distribution combines a joint and survivor annuity for the joint lives of the Participant and a nonspouse beneficiary and a period certain annuity the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.

4.2 Period Certain Annuities. Unless the Participant's Spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Treasury Regulations § 1.401(a)(9)-9, Q&A-2, for the calendar year that contains the Annuity Starting Date. If the Annuity Starting Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Treasury Regulations § 1.401(a)(9)-9, Q&A-2, plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Annuity Starting Date. If the Participant's Spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Section 4.2, or the joint life and last survivor expectancy of the Participant and the Participant's Spouse as determined under the Joint and Last Survivor Table set forth in Treasury Regulations § 1.401(a)(9)-9, Q&A-3, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the calendar year that contains the Annuity Starting Date.

Section 5. Requirements For Minimum Distributions After the Participant's Death.

5.1 Death After Distributions Begin. If the Participant dies after distribution of his or her interest begins in the form of an annuity meeting the requirements of this article, the remaining portion of the Participant's interest will continue to be distributed over the remaining period over which distributions commenced.

5.2 Death Before Distributions Begin.

(a) Participant Survived by Designated Beneficiary. Except as provided in the adoption agreement, if the Participant dies before the date distribution of his interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Section 2.2(a) or (b), over the life of the Designated Beneficiary or over a period certain not exceeding:

(1) unless the Annuity Starting Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death: or

(2) if the Annuity Starting Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the beneficiary's age as of the beneficiary's birthday in the calendar year that contains the Annuity Starting Date.

(b) No Designated Beneficiary. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) Death of Surviving Spouse Before Distributions to Surviving Spouse Begin. If the Participant dies before the date distribution of his interest begins, the Participant's surviving spouse is the Participant's sole Designated Beneficiary, and the surviving spouse dies before distributions to the surviving spouse begin, this Section 5 will apply as if the surviving spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Section 2.2(a).

#### Section 6. Changes to Annuity Payment Period.

6.1 Permitted Changes. An annuity payment period may be changed only in association with an annuity payment increase described in Section 3.1(d) of this Addendum or in accordance with Section 6.2.

6.2 Reannuitization. An annuity payment period may be changed and the annuity payments modified in accordance with that change if the conditions in Section 6.3 are satisfied and:

(a) the modification occurs when the Participant retires or in connection with a Plan termination;

(b) the payment period prior to modification is a period certain without life contingencies; or

(c) the annuity payments after modification are paid under a qualified joint and survivor annuity over the joint lives of the Participant and a Designated Beneficiary, the Participant's Spouse is the sole Designated Beneficiary, and the modification occurs in connection with the Participant becoming married to such spouse.

6.3 Conditions. The conditions in this Section 6.3 are satisfied if:

(a) the future payments after the modification satisfy the requirements of Code § 401(a)(9), Treasury Regulations § 1.401(a)(9), and this Appendix M (determined by treating

the date of the change as a new Annuity Starting Date and the actuarial present value of the remaining payments prior to modification as the entire interest of the Participant);

(b) for purposes of Code § 415 and § 417, the modification is treated as a new Annuity Starting Date;

(c) after taking into account the modification, the annuity (including all past and future payments) satisfies the requirements of Code § 415 (.determined at the original Annuity Starting Date, using the interest rates and mortality tables applicable to such date); and

(d) the end point of the period certain, if any, for any modified payment period is not later than the end point available to the employee at the original Annuity Starting Date under Code § 401(a)(9) and this Appendix M.

#### Section 7. Payments to a Surviving Child.

7.1 Special rule. For purposes of this Addendum, payments made to a Participant's surviving child until the child reaches the age of majority (or dies if earlier) shall be treated as if such payments were made to the surviving spouse to the extent the payments become payable to the surviving Spouse upon cessation of the payments to the child.

7.2 Age of majority. For purposes of this Section, a child shall be treated as having not reached the age of majority if the child has not completed a specified course of education and is under the age of 26. In addition, a child who is disabled within the meaning of Code § 72(m) (7) when the child reaches the age of majority shall be treated as having not reached the age of majority so long as the child continues to be disabled.

#### Section 8. Definitions.

8.1 Actuarial Gain. The difference between an amount determined using the actuarial assumptions (i.e., investment return, mortality, expense, and other similar assumptions) used to calculate the initial payments before adjustment for any increases and the amount determined under the actual experience with respect to those factors. Actuarial Gain also includes differences between the amount determined using actuarial assumptions when an annuity was purchased or commenced and such amount determined using actuarial assumptions used in calculating payments at the time the Actuarial Gain is determined.

8.2 Designated Beneficiary. The individual who is designated by the Participant (or the Participant's surviving Spouse) as the beneficiary of the Participant's interest under the Plan and who is the Designated Beneficiary under Code § 401(a)(9) and Treasury Regulations § 1.401(a)(9)-4.

8.3 Distribution Calendar Year. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution

Calendar Year is the calendar year in which distributions are required to begin pursuant to Section 2.2.

8.4 Eligible Cost-Of-Living Index. An index described in paragraphs (b)(2), (b)(3) or (b)(4) of Treasury Regulations § 1.401(a)(9)-6, Q&A-14.

8.5 Life Expectancy. Life Expectancy as computed by use of the Single Life Table in Treasury Regulations § 1.401(a)(9)-9, Q&A-1.

8.6 Required Beginning Date. The Required Beginning Date of a Participant is April 1 of the calendar year following the later of the calendar year in which the Participant attains age 70½ or the calendar year in which the Participant retires, except that benefit distributions to a 5-Percent Owner must commence by April 1 of the calendar year following the calendar year in which the Participant attains age 70½.

8.7 5-Percent Owner. A Participant is treated as a 5-Percent Owner for purposes of this Amendment if the Participant is a 5-percent Participant as defined in Code § 416 at any time during the Plan year ending with or within the calendar year in which such owner attains age 70½. Once distributions have begun to a 5-Percent Owner under this Amendment, they must continue to be distributed, even if the Participant ceases to be a 5 -percent owner in a subsequent year.

Section 9. Transition Rule. F-3 and F-3A of § 1.401(a)(9)-1 of the 1987 proposed regulations, A-1 of § 1.401(a)(9)-6 of the 2001 proposed regulations, § 1.401(a)(9)-6T of the temporary regulations, or a reasonable and good faith interpretation of the requirements of Code § 401(a)(9) (as elected by the employer) apply in lieu of the requirements of Sections 3, 4 and 6 of this Addendum for purposes of determining minimum required distributions for calendar years 2003, 2004, and 2005.

## ADDENDUM C

### MAXIMUM BENEFITS ADDENDUM FOR INDEPENDENT PILOTS ASSOCIATION

**Section 1.** The limitations of this Addendum shall apply in limitation years beginning on or after July 1, 2007 to benefits payable under Appendix M, except as otherwise provided herein. Capitalized terms are defined in Section 6 hereof or, if not defined in Section 6, in the main body of this Appendix M. All Section references are to Sections of this Addendum, except as otherwise provided.

**Section 2.** The Annual Benefit otherwise payable to a Participant under the Plan at any time shall not exceed the Maximum Permissible Benefit. If the benefit the Participant would otherwise accrue in a Limitation Year would produce an Annual Benefit in excess of the Maximum Permissible Benefit, the benefit shall be limited (or the rate of accrual reduced) to a benefit that does not exceed the Maximum Permissible Benefit.

**Section 3.** If the Participant is, or has ever been, a Participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the Employer or a Predecessor Employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Benefit. Where the Participant's Employer-provided benefits under all such defined benefit plans (determined as of the same age) would exceed the Maximum Permissible Benefit applicable at that age, the Employer shall limit such Participant's benefit accrual under this Plan.

**Section 4.** The application of the provisions of this article shall not cause the Maximum Permissible Benefit for any Participant to be less than the Participant's accrued benefit under all the defined benefit plans of the Employer or a Predecessor Employer as of the end of the last Limitation Year beginning before July 1, 2007 under provisions of the plans that were both adopted and in effect before April 5, 2007. The preceding sentence applies only if the provisions of such defined benefit plans that were both adopted and in effect before April 5, 2007 satisfied the applicable requirements of statutory provisions, regulations, and other published guidance relating to Code § 415 in effect as of the end of the last Limitation Year beginning before July 1, 2007, as described in Treasury Regulations § 1.415(a)-1(g)(4).

**Section 5.** The limitations of this article shall be determined and applied taking into account the rules in section 7.

**Section 6.** Definitions.

**Section 6.1.** Annual Benefit: A benefit that is payable annually in the form of a straight life annuity. Except as provided below, where a benefit is payable in a form other than a straight life annuity, the benefit shall be adjusted to an actuarially equivalent straight life annuity that begins at the same time as such other form of benefit and is payable on the first day of each month, before applying the limitations of this article. For a Participant who has or will have distributions commencing at more than one annuity starting date, the Annual Benefit shall be determined as of

each such annuity starting date (and shall satisfy the limitations of this article as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other annuity starting dates. For this purpose, the determination of whether a new starting date has occurred shall be made without regard to Treasury Regulations § 1.401(a)-20, Q&A 10(d), and with regard to Treasury Regulations § 1.415(b)-1(b)(1)(iii)(B) and (C).

No actuarial adjustment to the benefit shall be made for (a) survivor benefits payable to a surviving Spouse under a qualified joint and survivor annuity to the extent such benefits would not be payable if the Participant's benefit were paid in another form; (b) benefits that are not directly related to retirement benefits (such as a qualified disability benefit, preretirement incidental death benefits, and postretirement medical benefits); or (c) the inclusion in the form of benefit of an automatic benefit increase feature, provided the form of benefit is not subject to Code § 417(e)(3) and would otherwise satisfy the limitations of this article, and the plan provides that the amount payable under the form of benefit in any Limitation Year shall not exceed the limits of this article applicable at the annuity starting date, as increased in subsequent years pursuant to Code § 415(d). For this purpose, an automatic benefit increase feature is included in a form of benefit if the form of benefit provides for automatic, periodic increases to the benefits paid in that form.

The determination of the Annual Benefit shall take into account social security supplements described in Code § 411(a)(9) and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), but shall disregard benefits attributable to employee contributions or rollover contributions.

Effective for distributions in plan years beginning after December 31, 2003, the determination of actuarial equivalence of forms of benefit other than a straight life annuity shall be made in accordance with section 6.1(a) or section 6.1(b).

(a) Benefit Forms Not Subject to Code § 417(e)(3): The straight life annuity that is actuarially equivalent to the Participant's form of benefit shall be determined under this section 6.1(a) if the form of the Participant's benefit is either (1) a nondecreasing annuity (other than a straight life annuity) payable for a period of not less than the life of the Participant (or, in the case of a qualified pre-retirement survivor annuity, the life of the surviving Spouse), or (2) an annuity that decreases during the life of the Participant merely because of (a) the death of the survivor annuitant (but only if the reduction is not below 50% of the benefit payable before the death of the survivor annuitant), or (b) the cessation or reduction of Social Security supplements or qualified disability payments (as defined in Code § 401(a)(11)).

(i) Limitation Years beginning before July 1, 2007. For Limitation Years beginning before July 1, 2007, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in the definition of Actuarial Equivalent in the applicable Benefit Schedule of Addendum A for adjusting benefits in the same form; and (II) a 5 percent interest rate assumption and the applicable mortality table specified in the applicable Benefit Schedule of Addendum A for that annuity starting date.

(ii) Limitation Years beginning on or after July 1, 2007. For Limitation Years beginning on or after July 1, 2007, the actuarially equivalent straight life annuity is equal to the greater of (1) the annual amount of the straight life annuity (if any) payable to the Participant under the Plan commencing at the same annuity starting date as the Participant's form of benefit; and (2) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using a 5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan for that annuity starting date.

(b) Benefit Forms Subject to Code § 417(e)(3): The straight life annuity that is actuarially equivalent to the participant's form of benefit shall be determined under this paragraph if the form of the Participant's benefit is other than a benefit form described in section 6.1(a). In this case, the actuarially equivalent straight life annuity shall be determined as follows:

(i) Annuity Starting Date in Plan Years Beginning After 2005. If the annuity starting date of the Participant's form of benefit is in a plan year beginning after 2005, the actuarially equivalent straight life annuity is equal to the greatest of (I) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using the interest rate and the mortality table (or other tabular factor) specified in the definition of Actuarial Equivalent of the applicable Benefit Schedule of Addendum A for adjusting benefits in the same form; (II) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using a 5.5 percent interest rate assumption and the applicable mortality table specified in the applicable Benefit Schedule of Addendum A; and (III) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using the applicable interest rate specified in the applicable Benefit Schedule of Addendum A and the applicable mortality table specified in the applicable Benefit Schedule of Addendum A, divided by 1.05.

(ii) Annuity Starting Date in Plan Years Beginning in 2004 or 2005. If the annuity starting date of the Participant's form of benefit is in a plan year beginning in 2004 or 2005, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in the definition of Actuarial Equivalent of the applicable Benefit Schedule of Addendum A for adjusting benefits in the same form; and (II) a 5.5 percent interest rate assumption and the applicable mortality table specified in the applicable Benefit Schedule of Addendum A. If the annuity starting date of the Participant's benefit is on or after the first day of the first plan year beginning in 2004 and before December 31, 2004, benefits shall be calculated in accordance with the requirements of Notice 2004-78.

**Section 6.2. Compensation:** For purposes of Code § 415, Compensation is defined as wages, within the meaning of Code § 3401(a), and all other payments of compensation to an employee by the Employer (in the course of the employer's trade or business) for which the Employer is required

to furnish the employee a written statement under Code §§ 6041(d), 6051(a)(3), and 6052 (i.e., wages, tips and other compensation as reported on Form W-2). Compensation shall be determined without regard to any rules under Code § 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code § 3401(s)(2)).

Except as provided herein, Compensation for a Limitation Year is the Compensation actually paid or made available during such Limitation Year.

For Limitation Years beginning on or after July 1, 2007, compensation for a Limitation Year shall also include compensation paid by the later of 2 ½ months after an employee's severance from employment with the employer maintaining the plan or the end of the Limitation Year that includes the date of the employee's severance from employment with the employer maintaining the plan if: (a) the payment is regular compensation for services during the employee's regular working hours, or compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a severance from employment, the payments would have been paid to the employee while the employee continued in employment with the employer; (b) the payment is for unused accrued bona fide sick, vacation or other leave that the employee would have been able to use if employment had continued; or (c) the payment is received by the employee pursuant to a nonqualified unfunded deferred compensation plan and would have been paid at the same time if employment had continued, but only to the extent includible in gross income.

Any payments not described above shall not be considered compensation if paid after severance from employment, even if they are paid by the later of 2 ½ months after the date of severance from employment or the end of the Limitation Year that includes the date of severance from employment, except, payments to an individual who does not currently perform services for the employer by reason of qualified military service (within the meaning of Code § 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service.

Back pay, within the meaning of Code § 1.415(c)-2(g)(8), shall be treated as compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

For Limitation Years beginning after December 31, 1997, compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in Compensation but for an election under Code § 125(a), §402(e)(3), § 402(h)(1)(B), § 402(k), or § 457(b). For Limitation Years beginning after December 31, 2000, Compensation shall also include any elective amounts that are not includible in the gross income of the employee by reason of Code § 132(f)(4). For Limitation Years beginning after December 31, 2001, Compensation shall also include deemed Code § 125 compensation. Deemed Code § 125 compensation is an amount that is excludable under Code § 106 that is not available to a Participant in cash in lieu of group health coverage under a Code § 125 arrangement solely because the Participant is unable to certify that he or she has other health coverage. Amounts are deemed Code § 125 compensation only if the



employer does not request or otherwise collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

Effective for years beginning after December 31, 2008, a Participant receiving a differential wage payment (as described in Section 414(u)(12) of the Code) shall be treated as an employee of the Employer Company making the differential wage payment and, for purposes of this Appendix M, the differential wage payment shall be treated as Compensation.

**Section 6.3. Defined Benefit Compensation Limitation:** 100 percent of a Participant's High Three-Year Average Compensation, payable in the form of a straight life annuity.

In the case of a Participant who has had a severance from employment with the Employer, the Defined Benefit Compensation Limitation applicable to the Participant in any Limitation Year beginning after the date of severance shall be automatically adjusted by multiplying the limitation applicable to the Participant in the prior Limitation Year by the annual adjustment factor under Code § 415(d) that is published in the Internal Revenue Bulletin. The adjusted compensation limit shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year.

In the case of a Participant who is rehired after a severance from employment, the Defined Benefit Compensation Limitation is the greater of 100 percent of the Participant's High Three-Year Average Compensation, as determined prior to the severance from employment, as adjusted pursuant to the preceding paragraph, if applicable; or 100 percent of the Participant's High Three-Year Average Compensation, as determined after the severance from employment under section 6.7.

**Section 6.4. Defined Benefit Dollar Limitation:** Effective for Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation is \$160,000, automatically adjusted under Code § 415(d), effective January 1 of each year, as published in the Internal Revenue Bulletin, and payable in the form of a straight life annuity. The new limitation shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year. The automatic annual adjustment of the Defined Benefit Dollar Limitation under Code § 415(d) shall apply to Participants who have had a separation from employment but have not yet commenced benefits. The Defined Benefit Dollar Limitation in effect for the year in which a Participant commences benefit payments shall remain in effect, and shall not be adjusted under Code § 415(d), for any benefit accrued prior to the date benefit payments commence.

**Section 6.5. Employer:** For purposes of this article, employer shall mean the Company (as defined in the main body of the Plan), and all members of a controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h)), all commonly controlled trades or businesses (as defined in Code § 414(c), as modified, except in the case of a brother-sister group of trades or businesses under common control, by Code § 415(h)), or affiliated service groups (as defined in Code § 414(m)) of which the adopting employer is a part, and any other entity required to be aggregated with the Employer pursuant to Code § 414(o).

**Section 6.6. Formerly Affiliated Plan of the Employer:** A plan that, immediately prior to the cessation of affiliation, was actually maintained by the Employer and, immediately after the cessation of affiliation, is not actually maintained by the Employer. For this purpose, cessation of affiliation means the event that causes an entity to no longer be considered the Employer, such as the sale of a member controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h), to an unrelated corporation, or that causes a plan to not actually be maintained by the employer, such as transfer of plan sponsorship outside a controlled group.

**Section 6.7. High Three-Year Average Compensation:** The average compensation for the three consecutive years of service (or, if the Participant has less than three consecutive years of service, the Participant's longest consecutive period of service, including fractions of years, but not less than one year) with the Employer that produces the highest average. A year of service with the employer is the calendar year. In the case of a Participant who is rehired by the Employer after a severance from employment, the Participant's high three-year average compensation shall be calculated by excluding all years for which the Participant performs no services for and receives no compensation from the Employer (the break period) and by treating the years immediately preceding and following the break period as consecutive. A Participant's compensation for a year of service shall not include compensation in excess of the limitation under Code § 401(a)(17) that is in effect for the calendar year in which such year of service begins.

**Section 6.8. Limitation Year:** The calendar year. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

**Section 6.9. Maximum Permissible Benefit:** The lesser of the Defined Benefit Dollar Limitation or the Defined Benefit Compensation Limitation (both adjusted where required, as provided below).

(a) **Adjustment for Less Than 10 Years of Participation or Service:** If the Participant has less than 10 years of participation in the plan, the Defined Benefit Dollar Limitation shall be multiplied by a fraction -- (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Participation in the plan, and (ii) the denominator of which is 10. In the case of a Participant who has less than ten Years of Service with the Employer, the Defined Benefit Compensation Limitation shall be multiplied by a fraction -- (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Service with the Employer, and (ii) the denominator of which is 10.

(b) **Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62 or after Age 65:** Effective for benefits commencing in Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation shall be adjusted if the annuity starting date of the Participant's benefit is before age 62 or after age 65. If the annuity starting date is before age 62, the Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(i), as modified by section 6.9(b)(iii). If the annuity starting date is after age 65, the Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(ii), as modified by section 6.9(b)(iii).

(i) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62:

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the mortality table (or other tabular factor) specified in the definition of Actuarial Equivalent in the applicable Benefit Schedule of Addendum A; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in the applicable Benefit Schedule of Addendum A.

II. Limitation Years Beginning on or After July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for the annuity starting date as specified in the applicable Benefit Schedule of Addendum A (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(i)II and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the immediately commencing straight life annuity under the plan at age 62, both determined without applying the limitations of this article.

III. Special Rule for Commercial Airline Pilots. Pursuant to Code § 415(d)(9), no age adjustment shall be made to the Defined Benefit Dollar Limitation for early commencement on or after age 60 for a Participant if the Participant is a commercial airline pilot, the Participant separates from service upon or after attaining age 60, and as of the time of the Participant's retirement, regulations prescribed by the Federal Aviation Administration require an individual to separate from service as a commercial airline pilot after attaining any age occurring on or after age 60 and before age 62.

(ii) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement After Age 65:

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the mortality table (or other tabular factor) specified in the definition of Actuarial Equivalent in the applicable Benefit Schedule of Addendum A; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in the applicable Benefit Schedule of Addendum A.

II. Limitation Years Beginning On or After July 1, 2007. A. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required), with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for that annuity starting date as specified in the applicable Benefit Schedule of Addendum A (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

B. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(ii)II.A and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the adjusted immediately commencing straight life annuity under the plan at age 65, both determined without applying the limitations of this article. For this purpose, the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date is the annual amount of such annuity payable to the Participant, computed disregarding the Participant's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing straight life annuity under the plan at age 65 is the annual amount of such annuity that would be payable under the plan to a hypothetical Participant who is age 65 and has the same accrued benefit as the Participant.

(iii) Notwithstanding the other requirements of this section 6.9(b), no adjustment shall be made to the Defined Benefit Dollar Limitation to reflect the probability of a Participant's death between the annuity starting date and age 62, or between age 65 and the annuity starting date, as applicable, if benefits are not forfeited upon the death of the Participant prior to the annuity starting date. To the extent benefits are forfeited upon death before the annuity starting date, such an adjustment

shall be made. For this purpose, no forfeiture shall be treated as occurring upon the Participant's death if the plan does not charge Participants for providing a qualified preretirement survivor annuity, as defined in Code § 417(c), upon the Participant's death.

(c) **Minimum benefit permitted:** Notwithstanding anything else in this section to the contrary, the benefit otherwise accrued or payable to a Participant under this plan shall be deemed not to exceed the Maximum Permissible Benefit if:

(i) the retirement benefits payable for a Limitation Year under any form of benefit with respect to such Participant under this plan and under all other defined benefit plans (without regard to whether a plan has been terminated) ever maintained by the Employer do not exceed \$10,000 multiplied by a fraction – (I) the numerator of which is the Participant's number of Years (or part thereof, but not less than one year) of Service (not to exceed 10) with the employer, and (II) the denominator of which is 10; and

(ii) the Employer (or a Predecessor Employer) has not at any time maintained a defined contribution plan in which the Participant participated (for this purpose, mandatory employee contributions under a defined benefit plan, individual medical accounts under Code § 401(h), and accounts for postretirement medical benefits established under Code § 419A(d)(1) are not considered a separate defined contribution plan).

**Section 6.10. Predecessor Employer:** If the Employer maintains a plan that provides a benefit which the Participant accrued while performing services for a former employer, the former employer is a predecessor employer with respect to the Participant in the plan. A former entity that antedates the Employer is also a predecessor employer with respect to a Participant if, under the facts and circumstances, the Employer constitutes a continuation of all or a portion of the trade or business of the former entity.

**Section 6.11. Severance from Employment:** An employee has a severance from employment when the employee ceases to be an employee of the Employer maintaining the plan. An employee does not have a severance from employment if, in connection with a change of employment, the employee's new Employer maintains the plan with respect to the employee.

**Section 6.12. Year of Participation:** The Participant shall be credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (1) the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, and (2) the Participant is included as a Participant under the eligibility provisions of the plan for at least one day of the accrual computation period. If these two conditions are met, the portion of a year of participation credited to the Participant shall equal the amount of benefit accrual service credited to the Participant for such accrual computation period. A Participant who is permanently and totally disabled within the meaning of Code § 415(c)(3)(C)(i) for an accrual computation period shall receive a Year of Participation with respect to that period. In addition, for a Participant to receive a Year of Participation (or part thereof) for an accrual computation period, the plan must be

established no later than the last day of such accrual computation period. In no event shall more than one Year of Participation be credited for any 12-month period.

**Section 6.13. Year of Service:** For purposes of section 6.7, the Participant shall be credited with a Year of Service (computed to fractional parts of a year) for each accrual computation period for which the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, taking into account only service with the employer or a predecessor employer.

**Section 7. Other Rules.**

**Section 7.1. Benefits Under Terminated Plans.** If a defined benefit plan maintained by the Employer has terminated with sufficient assets for the payment of benefit liabilities of all plan Participants and a Participant in the plan has not yet commenced benefits under the plan, the benefits provided pursuant to the annuities purchased to provide the Participant's benefits under the terminated plan at each possible annuity starting date shall be taken into account in applying the limitations of this article. If there are not sufficient assets for the payment of all Participants' benefit liabilities, the benefits taken into account shall be the benefits that are actually provided to the Participant under the terminated plan.

**Section 7.2. Benefits Transferred From the Plan.** If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant to Treasury Regulations § 1.411(d)-4, Q&A-3(c) the transferred benefits are not treated as being provided under the transferor plan (but are taken into account as benefits provided under the transferee plan). If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan that is not maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the transferred benefits are treated by the Employer's plan as if such benefits were provided under annuities purchased to provide benefits under a plan maintained by the Employer that terminated immediately prior to the transfer with sufficient assets to pay all Participants' benefit liabilities under the plan. If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan in a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the amount transferred is treated as a benefit paid from the transferor plan.

**Section 7.3. Formerly Affiliated Plans of the Employer.** A formerly affiliated plan of an Employer shall be treated as a plan maintained by the Employer, but the formerly affiliated plan shall be treated as if it had terminated immediately prior to the cessation of affiliation with sufficient assets to pay Participants' benefit liabilities under the plan and had purchased annuities to provide benefits.

**Section 7.4. Plans of a Predecessor Employer.** If the Employer maintains a defined benefit plan that provides benefits accrued by a Participant while performing services for a Predecessor Employer, the Participant's benefits under a plan maintained by the Predecessor Employer shall be treated as provided under a plan maintained by the employer. However, for this purpose, the plan of the Predecessor Employer shall be treated as if it had terminated immediately prior to the event

giving rise to the Predecessor Employer relationship with sufficient assets to pay Participants' benefit liabilities under the plan, and had purchased annuities to provide benefits; the Employer and the Predecessor Employer shall be treated as if they were a single employer immediately prior to such event and as unrelated employers immediately after the event; and if the event giving rise to the predecessor relationship is a benefit transfer, the transferred benefits shall be excluded in determining the benefits provide under the plan of the Predecessor Employer.

**Section 7.5.** Special Rules. The limitations of this article shall be determined and applied taking into account the rules in Treasury Regulations § 1.415(f)-1(d), (e) and (h).

**Section 7.6.** Aggregation with Multiemployer Plans.

(a) If the Employer maintains a multiemployer plan, as defined in Code § 414(f), and the multiemployer plan so provides, only the benefits under the multiemployer plan that are provided by the Employer shall be treated as benefits provided under a plan maintained by the Employer for purposes of this article.

(b) Effective for Limitation Years ending after December 31, 2001, a multiemployer plan shall be disregarded for purposes of applying the compensation limitation of sections 6.3 and 6.9(a) to a plan which is not a multiemployer plan.

## UPS RETIREMENT PLAN

### APPENDIX N

#### MAXIMUM BENEFITS FOR PARTICIPANTS OTHER THAN INDEPENDENT PILOTS ASSOCIATION

**Section 1.** The limitations of this Appendix shall apply in limitation years beginning on or after July 1, 2007 for all Participants other than Participants subject to Appendix M, except as otherwise provided herein. Capitalized terms are defined in Section 6 hereof or, if not defined in Section 6, in the main body of the Plan. All Section references are to Sections of this Appendix N, except as otherwise provided.

**Section 2.** The Annual Benefit otherwise payable to a Participant under the Plan at any time shall not exceed the Maximum Permissible Benefit. If the benefit the Participant would otherwise accrue in a Limitation Year would produce an Annual Benefit in excess of the Maximum Permissible Benefit, the benefit shall be limited (or the rate of accrual reduced) to a benefit that does not exceed the Maximum Permissible Benefit.

**Section 3.** If the Participant is, or has ever been, a Participant in another qualified defined benefit plan (without regard to whether the plan has been terminated) maintained by the Employer or a Predecessor Employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Benefit. Where the Participant's Employer-provided benefits under all such defined benefit plans (determined as of the same age) would exceed the Maximum Permissible Benefit applicable at that age, the Employer shall limit such Participant's benefit accrual under this Plan.

**Section 4.** The application of the provisions of this article shall not cause the Maximum Permissible Benefit for any Participant to be less than the Participant's accrued benefit under all the defined benefit plans of the Employer or a Predecessor Employer as of the end of the last Limitation Year beginning before July 1, 2007 under provisions of the plans that were both adopted and in effect before April 5, 2007. The preceding sentence applies only if the provisions of such defined benefit plans that were both adopted and in effect before April 5, 2007 satisfied the applicable requirements of statutory provisions, regulations, and other published guidance relating to Code § 415 in effect as of the end of the last Limitation Year beginning before July 1, 2007, as described in Treasury Regulations § 1.415(a)-1(g)(4).

**Section 5.** The limitations of this article shall be determined and applied taking into account the rules in section 7.

**Section 6.** Definitions.

**Section 6.1.** Annual Benefit: A benefit that is payable annually in the form of a straight life annuity. Except as provided below, where a benefit is payable in a form other than a straight life annuity, the benefit shall be adjusted to an actuarially equivalent straight life annuity that begins at the same time as such other form of benefit and is payable on the first day of each month, before



applying the limitations of this article. For a Participant who has or will have distributions commencing at more than one annuity starting date, the Annual Benefit shall be determined as of each such annuity starting date (and shall satisfy the limitations of this article as of each such date), actuarially adjusting for past and future distributions of benefits commencing at the other annuity starting dates. For this purpose, the determination of whether a new starting date has occurred shall be made without regard to Treasury Regulations § 1.401(a)-20, Q&A 10(d), and with regard to § 1.415(b)-1(b)(1)(iii)(B) and (C).

No actuarial adjustment to the benefit shall be made for (a) survivor benefits payable to a surviving Spouse under a qualified joint and survivor annuity to the extent such benefits would not be payable if the Participant's benefit were paid in another form; (b) benefits that are not directly related to retirement benefits (such as a qualified disability benefit, preretirement incidental death benefits, and postretirement medical benefits); or (c) the inclusion in the form of benefit of an automatic benefit increase feature, provided the form of benefit is not subject to Code § 417(e)(3) and would otherwise satisfy the limitations of this article, and the plan provides that the amount payable under the form of benefit in any Limitation Year shall not exceed the limits of this article applicable at the annuity starting date, as increased in subsequent years pursuant to Code § 415(d). For this purpose, an automatic benefit increase feature is included in a form of benefit if the form of benefit provides for automatic, periodic increases to the benefits paid in that form.

The determination of the Annual Benefit shall take into account social security supplements described in Code § 411(a)(9) and benefits transferred from another defined benefit plan, other than transfers of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), but shall disregard benefits attributable to employee contributions or rollover contributions.

Effective for distributions in plan years beginning after December 31, 2003, the determination of actuarial equivalence of forms of benefit other than a straight life annuity shall be made in accordance with section 6.1(a) or section 6.1(b).

(a) Benefit Forms Not Subject to Code § 417(e)(3): The straight life annuity that is actuarially equivalent to the Participant's form of benefit shall be determined under this section 6.1(a) if the form of the Participant's benefit is either (1) a nondecreasing annuity (other than a straight life annuity) payable for a period of not less than the life of the Participant (or, in the case of a qualified pre-retirement survivor annuity, the life of the surviving Spouse), or (2) an annuity that decreases during the life of the Participant merely because of (a) the death of the survivor annuitant (but only if the reduction is not below 50% of the benefit payable before the death of the survivor annuitant), or (b) the cessation or reduction of Social Security supplements or qualified disability payments (as defined in Code § 401(a)(11)).

(i) Limitation Years beginning before July 1, 2007. For Limitation Years beginning before July 1, 2007, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; and (II) a 5

percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan for that annuity starting date.

(ii) Limitation Years beginning on or after July 1, 2007. For Limitation Years beginning on or after July 1, 2007, the actuarially equivalent straight life annuity is equal to the greater of (1) the annual amount of the straight life annuity (if any) payable to the Participant under the Plan commencing at the same annuity starting date as the Participant's form of benefit; and (2) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using a 5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan for that annuity starting date.

(b) Benefit Forms Subject to Code § 417(e)(3). The straight life annuity that is actuarially equivalent to the participant's form of benefit shall be determined under this paragraph if the form of the Participant's benefit is other than a benefit form described in section 6.1(a). In this case, the actuarially equivalent straight life annuity shall be determined as follows:

(i) Annuity Starting Date in Plan Years Beginning After 2005. If the annuity starting date of the Participant's form of benefit is in a plan year beginning after 2005, the actuarially equivalent straight life annuity is equal to the greatest of (I) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; (II) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using a 5.5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the plan; and (III) the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the participant's form of benefit, computed using the applicable interest rate specified in section 1.1(f) of the Plan and the applicable mortality table specified in section 1.1(g) of the Plan, divided by 1.05.

(ii) Annuity Starting Date in Plan Years Beginning in 2004 or 2005. If the annuity starting date of the Participant's form of benefit is in a plan year beginning in 2004 or 2005, the actuarially equivalent straight life annuity is equal to the annual amount of the straight life annuity commencing at the same annuity starting date that has the same actuarial present value as the Participant's form of benefit, computed using whichever of the following produces the greater annual amount: (I) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan for adjusting benefits in the same form; and (II) a 5.5 percent interest rate assumption and the applicable mortality table specified in section 1.1(g) of the Plan. If the annuity starting date of the Participant's benefit is on or after the first day of the first plan year beginning in 2004 and before December 31, 2004, benefits shall be calculated in accordance with the requirements of Notice 2004-78.

**Section 6.2. Compensation:** For purposes of Code § 415, Compensation is defined as wages, within the meaning of Code § 3401(a), and all other payments of compensation to an employee by the Employer (in the course of the employer's trade or business) for which the Employer

is required to furnish the employee a written statement under Code §§ 6041(d), 6051(a)(3), and 6052 (i.e., wages, tips and other compensation as reported on Form W-2). Compensation shall be determined without regard to any rules under Code § 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code § 3401(s)(2)).

Except as provided herein, Compensation for a Limitation Year is the Compensation actually paid or made available during such Limitation Year.

For Limitation Years beginning on or after July 1, 2007, compensation for a Limitation Year shall also include compensation paid by the later of 2 ½ months after an employee's severance from employment with the employer maintaining the plan or the end of the Limitation Year that includes the date of the employee's severance from employment with the employer maintaining the plan if: (a) the payment is regular compensation for services during the employee's regular working hours, or compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a severance from employment, the payments would have been paid to the employee while the employee continued in employment with the employer; (b) the payment is for unused accrued bona fide sick, vacation or other leave that the employee would have been able to use if employment had continued; or (c) the payment is received by the employee pursuant to a nonqualified unfunded deferred compensation plan and would have been paid at the same time if employment had continued, but only to the extent includible in gross income.

Any payments not described above shall not be considered compensation if paid after severance from employment, even if they are paid by the later of 2 ½ months after the date of severance from employment or the end of the Limitation Year that includes the date of severance from employment, except, payments to an individual who does not currently perform services for the employer by reason of qualified military service (within the meaning of Code § 414(u)(1)) to the extent these payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service.

Back pay, within the meaning of Code § 1.415(c)-2(g)(8), shall be treated as compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

For Limitation Years beginning after December 31, 1997, compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in Compensation but for an election under Code § 125(a), §402(e)(3), § 402(h)(1)(B), § 402(k), or § 457(b). For Limitation Years beginning after December 31, 2000, Compensation shall also include any elective amounts that are not includible in the gross income of the employee by reason of Code § 132(f)(4). For Limitation Years beginning after December 31, 2001, Compensation shall also include deemed § 125 compensation. Deemed § 125 compensation is an amount that is excludable under Code § 106 that is not available to a Participant in cash in lieu of group health coverage under a § 125 arrangement solely because the Participant is unable to certify that he or she has other health coverage. Amounts are deemed § 125 compensation only if the employer does not request or

otherwise collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

Effective for years beginning after December 31, 2008, a Participant receiving a differential wage payment (as described in Section 414(u)(12) of the Code) shall be treated as an employee of the Employer Company making the differential wage payment and, for purposes of this Appendix N, the differential wage payment shall be treated as Compensation.

**Section 6.3. Defined Benefit Compensation Limitation:** 100 percent of a Participant's High Three-Year Average Compensation, payable in the form of a straight life annuity.

In the case of a Participant who has had a severance from employment with the Employer, the Defined Benefit Compensation Limitation applicable to the Participant in any Limitation Year beginning after the date of severance shall be automatically adjusted by multiplying the limitation applicable to the Participant in the prior Limitation Year by the annual adjustment factor under Code § 415(d) that is published in the Internal Revenue Bulletin. The adjusted compensation limit shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year.

In the case of a Participant who is rehired after a severance from employment, the Defined Benefit Compensation Limitation is the greater of 100 percent of the Participant's High Three-Year Average Compensation, as determined prior to the severance from employment, as adjusted pursuant to the preceding paragraph, if applicable; or 100 percent of the Participant's High Three-Year Average Compensation, as determined after the severance from employment under section 6.7.

**Section 6.4. Defined Benefit Dollar Limitation:** Effective for Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation is \$160,000, automatically adjusted under Code § 415(d), effective January 1 of each year, as published in the Internal Revenue Bulletin, and payable in the form of a straight life annuity. The new limitation shall apply to Limitation Years ending with or within the calendar year of the date of the adjustment, but a Participant's benefits shall not reflect the adjusted limit prior to January 1 of that calendar year. The automatic annual adjustment of the Defined Benefit Dollar Limitation under § 415(d) shall apply to Participants who have had a separation from employment but have not yet commenced benefits. A Participant's Normal Retirement Benefit or Early Retirement Benefit, taking into account the Compensation limitation under Code § 401(a)(17) (the "Compensation limitation") shall, following the Annuity Starting Date, be adjusted upward as the result of any subsequent increase in the 415 limitations, provided however, that in no event shall such benefit exceed the Participant's Normal Retirement Benefit or Early Retirement Benefit, as the case may be, including the Compensation limitation.

**Section 6.5. Employer:** For purposes of this article, employer shall mean the Company (as defined in the main body of the Plan), and all members of a controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h)), all commonly controlled trades or businesses (as defined in Code § 414(c), as modified, except in the case of a brother-sister group of trades or businesses under common control, by Code § 415(h)), or affiliated service groups (as defined in Code § 414(m)) of which the adopting employer is a part, and any other entity required to be aggregated with the employer pursuant to Code § 414(o).

**Section 6.6. Formerly Affiliated Plan of the Employer:** A plan that, immediately prior to the cessation of affiliation, was actually maintained by the Employer and, immediately after the cessation of affiliation, is not actually maintained by the Employer. For this purpose, cessation of affiliation means the event that causes an entity to no longer be considered the Employer, such as the sale of a member controlled group of corporations, as defined in Code § 414(b), as modified by Code § 415(h), to an unrelated corporation, or that causes a plan to not actually be maintained by the employer, such as transfer of plan sponsorship outside a controlled group.

**Section 6.7. High Three-Year Average Compensation:** The average compensation for the three consecutive years of service (or, if the Participant has less than three consecutive years of service, the Participant's longest consecutive period of service, including fractions of years, but not less than one year) with the Employer that produces the highest average. A year of service with the employer is the calendar year. In the case of a Participant who is rehired by the Employer after a severance from employment, the Participant's high three-year average compensation shall be calculated by excluding all years for which the Participant performs no services for and receives no compensation from the Employer (the break period) and by treating the years immediately preceding and following the break period as consecutive. A Participant's compensation for a year of service shall not include compensation in excess of the limitation under Code § 401(a)(17) that is in effect for the calendar year in which such year of service begins.

**Section 6.8. Limitation Year:** The calendar year. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

**Section 6.9. Maximum Permissible Benefit:** The lesser of the Defined Benefit Dollar Limitation or the Defined Benefit Compensation Limitation (both adjusted where required, as provided below).

(a) **Adjustment for Less Than 10 Years of Participation or Service:** If the Participant has less than 10 years of participation in the plan, the Defined Benefit Dollar Limitation shall be multiplied by a fraction -- (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Participation in the plan, and (ii) the denominator of which is 10. In the case of a Participant who has less than ten Years of Service with the Employer, the Defined Benefit Compensation Limitation shall be multiplied by a fraction -- (i) the numerator of which is the number of Years (or part thereof, but not less than one year) of Service with the Employer, and (ii) the denominator of which is 10.

(b) **Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62 or after Age 65:** Effective for benefits commencing in Limitation Years ending after December 31, 2001, the Defined Benefit Dollar Limitation shall be adjusted if the annuity starting date of the Participant's benefit is before age 62 or after age 65. If the annuity starting date is before age 62, the Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(i), as modified by section 6.9(b)(iii). If the annuity starting date is after age 65, the Defined Benefit Dollar Limitation shall be adjusted under section 6.9(b)(ii), as modified by section 6.9(b)(iii).

(i) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement Before Age 62:

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the mortality table (or other tabular factor) specified in section 1.1(b) of the Plan; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in section 1.1(g) of the Plan.

II. Limitation Years Beginning on or After July 1, 2007. A. If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for the annuity starting date as specified in section 1.1(g) of the Plan (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

If the annuity starting date for the Participant's benefit is prior to age 62 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 62 and the age of benefit commencement, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(i)II and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the immediately commencing straight life annuity under the plan at age 62, both determined without applying the limitations of this article.

(ii) Adjustment of Defined Benefit Dollar Limitation for Benefit Commencement After Age 65:

I. Limitation Years Beginning Before July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning before July 1, 2007, the Defined Benefit Dollar Limitation for the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) with actuarial equivalence computed using whichever of the following produces the smaller annual amount: (1) the interest rate and the

mortality table (or other tabular factor) specified in section 1.1(b) of the Plan; or (2) a 5-percent interest rate assumption and the applicable mortality table as specified in section 1.1(g) of the Plan.

II. Limitation Years Beginning On or After July 1, 2007. If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan does not have an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the annual amount of a benefit payable in the form of a straight life annuity commencing at the Participant's annuity starting date that is the actuarial equivalent of the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required), with actuarial equivalence computed using a 5 percent interest rate assumption and the applicable mortality table for that annuity starting date as specified in section 1.1(g) of the plan (and expressing the Participant's age based on completed calendar months as of the annuity starting date).

If the annuity starting date for the Participant's benefit is after age 65 and occurs in a Limitation Year beginning on or after July 1, 2007, and the plan has an immediately commencing straight life annuity payable at both age 65 and the age of benefit commencement, the Defined Benefit Dollar Limitation at the Participant's annuity starting date is the lesser of the limitation determined under section 6.9(b)(ii)II.A and the Defined Benefit Dollar Limitation (adjusted under section 6.9(a) for years of participation less than 10, if required) multiplied by the ratio of the annual amount of the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date to the annual amount of the adjusted immediately commencing straight life annuity under the plan at age 65, both determined without applying the limitations of this article. For this purpose, the adjusted immediately commencing straight life annuity under the plan at the Participant's annuity starting date is the annual amount of such annuity payable to the Participant, computed disregarding the Participant's accruals after age 65 but including actuarial adjustments even if those actuarial adjustments are used to offset accruals; and the adjusted immediately commencing straight life annuity under the plan at age 65 is the annual amount of such annuity that would be payable under the plan to a hypothetical Participant who is age 65 and has the same accrued benefit as the Participant.

(iii) Notwithstanding the other requirements of this section 6.9(b), no adjustment shall be made to the Defined Benefit Dollar Limitation to reflect the probability of a Participant's death between the annuity starting date and age 62, or between age 65 and the annuity starting date, as applicable, if benefits are not forfeited upon the death of the Participant prior to the annuity starting date. To the extent benefits are forfeited upon death before the annuity starting date, such an adjustment shall be made. For this purpose, no forfeiture shall be treated as occurring upon the Participant's death if the plan does not charge Participants for providing a qualified preretirement survivor annuity, as defined in Code § 417(c), upon the Participant's death.

(c) Minimum benefit permitted: Notwithstanding anything else in this section to the contrary, the benefit otherwise accrued or payable to a Participant under this plan shall be deemed not to exceed the Maximum Permissible Benefit if:

(i) the retirement benefits payable for a Limitation Year under any form of benefit with respect to such Participant under this plan and under all other defined benefit plans (without regard to whether a plan has been terminated) ever maintained by the Employer do not exceed \$10,000 multiplied by a fraction – (I) the numerator of which is the Participant’s number of Years (or part thereof, but not less than one year) of Service (not to exceed 10) with the employer, and (II) the denominator of which is 10; and

(ii) the Employer (or a Predecessor Employer) has not at any time maintained a defined contribution plan in which the Participant participated (for this purpose, mandatory employee contributions under a defined benefit plan, individual medical accounts under Code § 401(h), and accounts for postretirement medical benefits established under Code § 419A(d)(1) are not considered a separate defined contribution plan).

**Section 6.10. Predecessor Employer:** If the Employer maintains a plan that provides a benefit which the Participant accrued while performing services for a former employer, the former employer is a predecessor employer with respect to the Participant in the plan. A former entity that antedates the Employer is also a predecessor employer with respect to a Participant if, under the facts and circumstances, the Employer constitutes a continuation of all or a portion of the trade or business of the former entity.

**Section 6.11. Severance from Employment:** An employee has a severance from employment when the employee ceases to be an employee of the Employer maintaining the plan. An employee does not have a severance from employment if, in connection with a change of employment, the employee’s new Employer maintains the plan with respect to the employee.

**Section 6.12. Year of Participation:** The Participant shall be credited with a Year of Participation (computed to fractional parts of a year) for each accrual computation period for which the following conditions are met: (1) the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, and (2) the Participant is included as a Participant under the eligibility provisions of the plan for at least one day of the accrual computation period. If these two conditions are met, the portion of a year of participation credited to the Participant shall equal the amount of benefit accrual service credited to the Participant for such accrual computation period. A Participant who is permanently and totally disabled within the meaning of Code § 415(c)(3)(C)(i) for an accrual computation period shall receive a Year of Participation with respect to that period. In addition, for a Participant to receive a Year of Participation (or part thereof) for an accrual computation period, the plan must be established no later than the last day of such accrual computation period. In no event shall more than one Year of Participation be credited for any 12-month period.

**Section 6.13. Year of Service:** For purposes of section 6.7, the Participant shall be credited with a Year of Service (computed to fractional parts of a year) for each accrual computation period for which the Participant is credited with at least the number of hours of service (or period of service if the elapsed time method is used) for benefit accrual purposes, required under the terms of the plan in order to accrue a benefit for the accrual computation period, taking into account only service with the employer or a predecessor employer.



## **Section 7. Other Rules.**

**Section 7.1. Benefits Under Terminated Plans.** If a defined benefit plan maintained by the Employer has terminated with sufficient assets for the payment of benefit liabilities of all plan Participants and a Participant in the plan has not yet commenced benefits under the plan, the benefits provided pursuant to the annuities purchased to provide the Participant's benefits under the terminated plan at each possible annuity starting date shall be taken into account in applying the limitations of this article. If there are not sufficient assets for the payment of all Participants' benefit liabilities, the benefits taken into account shall be the benefits that are actually provided to the Participant under the terminated plan.

**Section 7.2. Benefits Transferred From the Plan.** If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the transferred benefits are not treated as being provided under the transferor plan (but are taken into account as benefits provided under the transferee plan). If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan that is not maintained by the Employer and the transfer is not a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the transferred benefits are treated by the Employer's plan as if such benefits were provided under annuities purchased to provide benefits under a plan maintained by the Employer that terminated immediately prior to the transfer with sufficient assets to pay all Participants' benefit liabilities under the plan. If a Participant's benefits under a defined benefit plan maintained by the Employer are transferred to another defined benefit plan in a transfer of distributable benefits pursuant Treasury Regulations § 1.411(d)-4, Q&A-3(c), the amount transferred is treated as a benefit paid from the transferor plan.

**Section 7.3. Formerly Affiliated Plans of the Employer.** A formerly affiliated plan of an Employer shall be treated as a plan maintained by the Employer, but the formerly affiliated plan shall be treated as if it had terminated immediately prior to the cessation of affiliation with sufficient assets to pay Participants' benefit liabilities under the plan and had purchased annuities to provide benefits.

**Section 7.4. Plans of a Predecessor Employer.** If the Employer maintains a defined benefit plan that provides benefits accrued by a Participant while performing services for a Predecessor Employer, the Participant's benefits under a plan maintained by the Predecessor Employer shall be treated as provided under a plan maintained by the employer. However, for this purpose, the plan of the Predecessor Employer shall be treated as if it had terminated immediately prior to the event giving rise to the Predecessor Employer relationship with sufficient assets to pay Participants' benefit liabilities under the plan, and had purchased annuities to provide benefits; the Employer and the Predecessor Employer shall be treated as if they were a single employer immediately prior to such event and as unrelated employers immediately after the event; and if the event giving rise to the predecessor relationship is a benefit transfer, the transferred benefits shall be excluded in determining the benefits provide under the plan of the Predecessor Employer.

**Section 7.5. Special Rules.** The limitations of this article shall be determined and applied taking into account the rules in Treasury Regulations § 1.415(f)-1(d), (e) and (h).

**Section 7.6. Aggregation with Multiemployer Plans.**

(a) If the Employer maintains a multiemployer plan, as defined in Code § 414(f), and the multiemployer plan so provides, only the benefits under the multiemployer plan that are provided by the Employer shall be treated as benefits provided under a plan maintained by the Employer for purposes of this article.

(b) Effective for Limitation Years ending after December 31, 2001, a multiemployer plan shall be disregarded for purposes of applying the compensation limitation of sections 6.3 and 6.9(a) to a plan which is not a multiemployer plan.

**UPS RETIREMENT PLAN**

**APPENDIX O**

**LEGACY MIP PERCENTAGE BY JOB GROUP**

<b>JOB GROUP</b>	<b>SUBGROUP (If Any)</b>	<b>LEGACY MIP PERCENTAGE</b>
74		100.00000%
77		100.00000%
79		100.00000%
82		100.00000%
84		100.00000%
86		100.00000%
88	A	33.33333%
88	B	37.50000%
88	C	40.47619%
89	A	50.00000%
89	B	54.54545%
89	C	56.66667%
92		56.66667%
93	A	27.27273%
93	B	29.82456%
94	A	45.33333%
94	B	46.66667%
96	A	40.00000%
96	B	41.17647%
97	A	37.77778%
97	B	38.88889%
98	A	26.15385%
98	B	26.92308%
98	C	20.60606%
98	D	21.21212%

88 / A - Prior target performance incentive award percentage of 12.5% or prior target performance incentive award level of 0.75 units

88 / B - Prior target performance incentive award percentage of 15%

88 / C - Prior target performance incentive award level of 1 unit

89 / A - Prior target performance incentive award level of 1.5 units

89 / B - Prior target performance incentive award percentage of 30%

89 / C - Prior target performance incentive award level of 2 units

93 / A - Prior target performance incentive award percentage of 15%

93 / B - Prior target performance incentive award level of 1 unit

94 / A - Prior target performance incentive award level of 2 units

94 / B - Prior target performance incentive award percentage of 35%

96 / A - Prior target performance incentive award level of 2 units

96 / B - Prior target performance incentive award percentage of 35%

97 / A - Prior target performance incentive award level of 2 units

97 / B - Prior target performance incentive award percentage of 35%  
98 / A - Management Committee, excluding the CEO: prior target performance incentive award level of 2 units  
98 / B - Management Committee, excluding the CEO: prior target performance incentive award percentage of 35%  
98 / C - CEO: prior target performance incentive award level of 2 units  
98 / D - CEO: prior target performance incentive award percentage of 35%

For Participants in Job Group 88 in UPS Freight with a Target Performance Incentive Award amount of \$7,500 under MIP prior to January 1, 2011, the Legacy MIP Percentage will reflect the ratio of (1) \$7,500 to (2) the sum of \$7,500 and 25% of the Participant's current Annualized Salary

**UPS RETIREMENT PLAN**

**APPENDIX P**

**CERTAIN PARTICIPANTS ELIGIBLE FOR  
RETIREE MEDICAL BENEFITS**

<b>Employee ID</b>
[Information Omitted]

## UPS RETIREMENT PLAN

### APPENDIX Q

#### PUERTO RICO QUALIFICATION

Solely for purposes of administering and securing its tax qualification in Puerto Rico, the Plan shall be subject to the following terms and conditions:

1. Definition of "Employer":

"Company. Effective as of January 1, 2011, 'Company' means United Parcel Service of America, Inc. and each affiliated employer (or a division or unit of an Affiliated Employer) which is designated as participating employer by the Company and which adopts the Plan, or that is deemed an employer under Section 1081.01(a)(14) of the PR Code."

2. Definition of "Affiliated Employer":

"Affiliated Employer. Effective as of January 1, 2011, 'Affiliated Employer' shall mean any domestic corporation, trade or business other than the Company which joins the Company as a member of a controlled group of corporations, an affiliated services group or is under common control, as defined by Section 1081.01(a)(14) of the PR Code."

3. Definition of "Compensation":

"Compensation. For taxable years commencing on and after January 1, 2012, the maximum amount of compensation that shall be taken into account for purposes of computing contributions under the Plan, as well as discrimination testing and the limitations to benefits and contributions under Section 1081.01(a) of the PR Code, shall not exceed annually \$250,000 for the Plan Year 2012, \$255,000 for the Plan Year 2013 or any other amount established under Section 401(a)(17) of the U.S. Internal Revenue Code of 1986, as amended, or by the Puerto Rico Treasury Department through regulations or administrative determinations."

4. Limitation on Plan Benefits:

"Pursuant to Section 1081.01(a)(11)(A) of the PR Code, the annual benefits accrued by a Participant, determined as a straight life annuity with no ancillary benefits and under a plan that does not allow for participants' contributions nor rollover contributions, may not exceed the lesser of: (i) \$200,000 for Plan Year 2012, \$205,000 for Plan Year 2013 or any other limitation amount imposed under Section 415(b) of the U.S. Internal Revenue Code of 1986, as amended, for the applicable Plan Year; or (ii) 100% of the Participant's average annual compensation for the period of consecutive natural years (no more than 3) during which the Participant's compensation was the highest, or whatever other dollar limitation may be imposed by the PR Code or the Puerto Rico Treasury Department by the way of regulations or administrative determinations. This provision shall be effective for Plan years commencing on or after January 1, 2012."

5. Direct Rollovers.

(a) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section 5, a distributee, that due to his or her termination of employment, receives all or part of the value of his or her benefit in a single lump sum distribution, within a single taxable year, in a distribution that otherwise meets the requirements of Section 1081.01(b)(2)(A) of the PR Code, may elect at the time and in the manner prescribed by the Committee, to have the total amount of such distribution rolled over into another Puerto Rico qualified plan or Puerto Rico Individual Retirement Account ("IRA"), specified by the distributee.

(b) Direct rollovers under this Section 5 shall be made in accordance with rules and procedures established by the Committee.

(c) For purposes of this Section 5, a distributee may include (1) a Participant, and, to the extent permitted by PR Code or by the Puerto Rico Treasury Department, (2) a Participant's Spouse, or (3) an alternate payee under a qualified domestic relations order who is the Spouse or former Spouse of a Participant.

(d) Solely for purposes of administering and qualifying the Plan in Puerto Rico, the terms 'Eligible Rollover Distribution' and 'Eligible Retirement Plan' shall mean:

- (i) Eligible rollover distribution: An eligible rollover distribution is any distribution of all or part of the balance to the credit of the distributee within a single taxable year of the distributee, as a result of the termination of employment of the distributee, and that otherwise meets the requirements of Section 1081.01(b)(2)(A) of the PR Code.
- (ii) Eligible retirement plan: An eligible retirement plan is an individual retirement account described in Section 1081.02(a) of the PR Code, an individual retirement annuity described in Section 1081.02(b) of the PR Code, or a qualified trust described in Section 1081.01(a) of the PR Code, that accepts the distributee's eligible rollover distribution. However, in the case of an eligible rollover distribution to the surviving spouse, an eligible retirement plan is an individual retirement account or individual retirement annuity."

6. Taxation of Lump Sum Distributions.

(a) The taxation in Puerto Rico of any lump sum distributions made by the Plan to a terminated participant shall be governed by this Section 6.

(b) Under Section 1081.01(b) of the PR Code, the distribution of the entire interest of a Participant in the Plan (in excess of his or her or her After Tax Contributions), within the same taxable year, and as a result of his or her or her termination of employment, shall be treated as a long term capital gain taxable at a 20% rate.

However, if the Plan: (i) uses a trust organized in Puerto Rico or a Puerto Rico co-trustee which will act a paying agent; and (ii) invest no less than 10% of its assets (determined on an average daily basis) in the Plan Year of the distribution and the two preceding Plan Years, in certain assets treated as located in Puerto Rico (as defined in the PR Code and the regulations issued thereunder), the long term capital gain arising from the distribution will be taxed instead at a rate of 10%.”

7. Merger, Consolidation, Transfer of Assets of the Plan.

“In the case of any merger or consolidation of the Plan with, or transfer of assets or liabilities of the Plan to, any other plan, each Participant shall (if the Plan had then terminated) be entitled to receive a benefit immediately after such merger, consolidation or transfer which shall be at least equal to the benefit he or she would have been entitled to receive immediately before such merger, consolidation or transfer (if the Plan had then terminated).

In the event of any of the above transactions, the Plan shall be subject to the tax qualification requirements of Section 1081.01(a)(3)(D) of the PR Code.”

8. These amendments will govern the administration of the Plan, including its tax qualification, to the extent they are applicable to a Participant employed in Puerto Rico (a “Puerto Rico Participant”). To the extent the Plan covers any Puerto Rico Participant, it will be administered pursuant to, and in compliance with, the requirements of Sections 1033.09 and 1081.01 of the PR Code.



**APPENDIX R**

**FUNDING BASED LIMITATIONS ON BENEFITS AND BENEFIT ACCRUAL**

1.1 Funding-Based Limitations on Benefits and Benefit Accrual for 2008 and 2009 Plan Years.

- (a) General. The limitations of this Section 1.1 shall apply effective for Plan Years beginning on or after January 1, 2008 and before January 1, 2010.
- (b) Funding-Based Limitation on Unpredictable Contingent Event Benefits.
  - (i) If a Participant would be entitled to an Unpredictable Contingent Event Benefit payable with respect to an Unpredictable Contingent Event occurring during a Plan Year, such benefit shall not be paid if the AFTAP for such Plan Year:
    - (A) is less than sixty percent (60%),  
or
    - (B) sixty percent (60%) or more, but would be less than sixty percent (60%) if the AFTAP were redetermined applying an actuarial assumption that the likelihood of the occurrence of such event during the Plan Year is one hundred percent (100%).
  - (ii) Section 1.1(b)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Code §§ 436(b)(2) and 436(f) or to the extent Section 1.1(b)(i) is otherwise inapplicable in accordance with Code § 436(f).
- (c) Limitations on Plan Amendments Increasing Liability for Benefits.
  - (i) No amendment that has the effect of increasing the liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable shall take effect in a Plan Year if the AFTAP for such Plan Year:
    - (A) is less than eighty percent (80%),  
or
    - (B) is eighty percent (80%) or more, but would be less than eighty percent (80%) if the benefits attributable to the amendment were taken into account in determining the AFTAP.
  - (ii) Section 1.1(c)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in

accordance with Code §§ 436(c)(2) and 436(f) or to the extent Section 1.1(c)(i) is otherwise inapplicable in accordance with Code § 436(f), so that the amendment shall be permitted to take effect as of the later of the first day of the Plan Year or the effective date of the amendment.

- (iii) Section 1.1(c)(i) shall not apply to any amendment that provides for an increase in benefits under a formula which is not based on a Participant's compensation, but only if the rate of the increase is not in excess of the contemporaneous rate of increase in average wages of Participants covered by the amendment.

(d) Limitations on Accelerated Benefit Distributions.

- (i) Funding Percentage Less than Sixty Percent (60%). If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), the Plan shall not pay any Prohibited Payment after the valuation date for the Plan Year.
- (ii) Bankruptcy. During any period in which the Plan sponsor is a debtor in a case under Title 11, United States Code, or similar Federal or State law, the Plan shall not pay any Prohibited Payment. The preceding sentence shall not apply on or after the date on which the enrolled actuary for the Plan certifies that the Plan's AFTAP for the Plan is not less than one hundred percent (100%).
- (iii) Limited Payment if Percentage is at Least Sixty Percent (60%) but Less Than Eighty Percent (80%).
  - (A) General. If the Plan's AFTAP for a Plan Year is sixty percent (60%) or greater but less than eighty percent (80%), the Plan shall not pay any Prohibited Payment after the valuation date for the Plan Year to the extent the amount of the payment exceeds the lesser of (1) fifty percent (50%) of the amount of the payment which could be made without regard to Section 1.1(d) or (2) the present value (determined under guidance prescribed by the PBGC, using the interest and mortality assumptions under Code § 417(e)) of the maximum guarantee with respect to the Participant under ERISA Section 4022.
  - (B) One-Time Application. In the case of a Participant with respect to whom a Prohibited Payment (or series of Prohibited Payments under a single optional form of benefit) is made pursuant to Section 1.1(d)(iii)(A), no additional Prohibited Payment shall be made with respect to that Participant during any period of consecutive Plan Years to which the limitations under Section 1.1(d)(i) or (ii) apply.

(e) Limitation on Benefit Accruals for Severe Funding Shortfalls.

- (i) General. If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), benefit accruals under the Plan shall cease as of the valuation date for the Plan Year. If the Plan is required to cease benefit accruals under the preceding sentence, then the Plan shall not be amended in a manner that would increase the liabilities of the Plan by reason of an increase in benefits or establishment of new benefits.
  - (ii) Exemption. Section 1.1(e)(i) shall not apply with respect to a Plan Year, effective as of the first day of the Plan Year, if the Company makes an additional contribution or provides security in accordance with Code § § 436(e)(2) and 436(f) or to the extent Section 1.1(c)(i) is otherwise inapplicable in accordance with Code § 436(f).
  - (iii) 2009 Plan Year. For the 2009 Plan Year, Section 1.1(e)(i) shall be applied by substituting the Plan's AFTAP for the preceding Plan Year for the Plan's AFTAP for the Plan Year, but only if the AFTAP for the preceding Plan Year is greater.
- (f) Definitions. For purposes of this Section 1.1, the following terms have the following meanings:
- (i) "AFTAP" means the "Adjusted Funding Target Attainment Percentage," as described in Code § 436(j)(2), taking into account the special rules of Code § 436(j)(4).
  - (ii) "Prohibited Payment" means (1) any payment, in excess of the monthly amount paid under a single life annuity (plus any social security supplements described in the last sentence of Code § 411(a)(9)), to a Participant or Beneficiary whose annuity starting date (as defined in Code § 417(f)(2)) occurs during any period a limitation under Section 1.1(d)(i) or (ii) is in effect, (2) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, and (3) any other payment specified by regulations. A prohibited payment shall not include the payment of a benefit which under Code § 411(a)(11) may be immediately distributed without the consent of the Participant.
  - (iii) "Unpredictable Contingent Event" means a plant shutdown (whether full or partial) or similar event, or an event (including the absence of an event) other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death or disability.
  - (iv) "Unpredictable Contingent Event Benefit" means any benefit payable solely by reason of an Unpredictable Contingent Event.
- (g) Notices. The Committee or its delegate shall comply with any applicable notice requirements under ERISA Section 101(j).

- (h) Interpretation. This Section 1.1 shall be interpreted and applied consistent with Code § 436, taking into account any applicable transition rules or exceptions provided thereunder or in any guidance issued thereunder.

1.2 Funding-Based Limitations on Benefits and Benefit Accrual for 2010 and Later Plan Years.

- (a) General. The limitations of this Section 1.2 shall apply effective for Plan Years beginning on or after January 1, 2010.

(b) Funding-Based Limitation on Unpredictable Contingent Event Benefits.

- (i) If a Participant would be entitled to an Unpredictable Contingent Event Benefit payable with respect to an Unpredictable Contingent Event occurring during a Plan Year, such benefit shall not be paid if the AFTAP for such Plan Year:
- (A) is less than sixty percent (60%),  
or
  - (B) is sixty percent (60%) or more, but would be less than sixty percent (60%) if the AFTAP were redetermined applying an actuarial assumption that the likelihood of occurrence of such event during the Plan Year is one hundred percent (100%).
- (ii) Section 1.2(b)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Treasury Regulation § 1.436-1(f) or to the extent Section 1.2(b)(i) is otherwise inapplicable in accordance with Treasury Regulation § 1.436-1(f).
- (iii) If the Unpredictable Contingent Event Benefits payable with respect to an Unpredictable Contingent Event that occurs during the Plan Year are not permitted to be paid because of the limitations of Section 1.2(i), but are permitted to be paid later in the Plan Year as a result of additional contributions under Treasury Regulation § 1.436-1(f) or pursuant to the enrolled actuary's certification of the AFTAP for the Plan Year that meets the requirements of Treasury Regulation § 1.436-1(g)(5)(ii)(B), then those Unpredictable Contingent Event Benefits shall automatically become payable, retroactive to the period those benefits would have been payable under the terms of the Plan (other than Plan terms implementing the requirements of Code § 436(b)). If the Unpredictable Contingent Event Benefits do not become payable during the Plan Year in accordance with the preceding sentence, then the Plan will be treated as if it does not provide for those benefits. However, all or any portion of those Unpredictable Contingent Event Benefits can be restored pursuant to a Plan amendment that meets the

requirements of Code § 436(c) and Treasury Regulation § 1.436-1(c) and other applicable qualification requirements.

(c) Limitations on Plan Amendments Increasing Liability for Benefits.

- (i) No Plan amendment that has the effect of increasing liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable shall take place in a Plan Year if the AFTAP for such Plan Year:
  - (A) is less than eighty percent (80%),  
or
  - (B) is eighty percent (80%) or more, but would be less than eighty percent (80%) if the benefits attributable to the amendment were taken into account in determining the AFTAP.
- (ii) Section 1.2(c)(i) shall cease to apply with respect to a Plan Year if the Company makes an additional contribution or provides security in accordance with Treasury Regulation § 1.436-1(f) or to the extent Section 1.2(c)(i) is otherwise inapplicable in accordance with Treasury Regulation § 1.436-1(f), so that the amendment shall be permitted to take effect as of the later of the first day of the Plan Year or the effective date of the amendment.
- (iii) Section 1.2(c)(i) shall not apply to any amendment that provides for an increase in benefits under a formula which is not based on a Participant's compensation, but only if the rate of the increase is not in excess of the contemporaneous rate of increase in average wages of Participants covered by the amendment.
- (iv) If a Plan amendment does not take effect as of the effective date of the amendment because of the limitations of Section 1.2(c), but is permitted to take effect later in the Plan Year as a result of additional contributions under Treasury Regulation § 1.436-1(f) or pursuant to the enrolled actuary's certification of the AFTAP for the Plan Year that meets the requirements of Treasury Regulation § 1.436-1(g)(5)(ii)(C), then the Plan amendment shall automatically take effect as of the first day of the Plan Year (or, if later, the original effective date of the amendment). If the Plan amendment cannot take effect during the Plan Year, then it shall be treated as if it were never adopted, unless the Plan amendment provides otherwise.

(d) Limitations on Accelerated Benefit Distributions.

- (i) Funding Percentage Less than Sixty Percent (60%). If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), a Participant or Beneficiary shall not be permitted to elect an optional form of benefit that includes a Prohibited

Payment, and the Plan shall not pay any Prohibited Payment, with an Annuity Starting Date on or after the applicable Section 436 Measurement Date.

- (ii) Bankruptcy. During any period in which the Plan sponsor is a debtor in a case under Title 11, United States Code, or similar Federal or State law, no Participant or Beneficiary shall be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment with an Annuity Starting Date that occurs during such period. The preceding sentence shall not apply to payments made within a Plan Year with an Annuity Starting Date that occurs on or after the date on which the enrolled actuary for the Plan certifies that the Plan's AFTAP for that Plan Year is not less than one hundred percent (100%).
- (iii) Limited Payment if Percentage is at Least Sixty Percent (60%) but Less Than Eighty Percent (80%).
  - (A) General. If the Plan's AFTAP for a Plan Year is sixty percent (60%) or greater but less than eighty percent (80%), no Participant or Beneficiary shall be permitted to elect an optional form of benefit that includes a Prohibited Payment, and the Plan shall not pay any Prohibited Payment, with an Annuity Starting Date on or after the applicable Section 436 Measurement Date. The preceding sentence shall not apply if the Present Value of Accrued Benefit of the portion of the benefit that is being paid in a Prohibited Payment (as described in Treasury Regulation § 1.436-1(d)(3)(iii)(B)) does not exceed the lesser of (1) fifty percent (50%) of the Present Value of Accrued Benefit of the benefit payable in the optional form of benefit that includes the Prohibited Payment or (2) one hundred percent (100%) of the PBGC maximum benefit guarantee amount (as described in Treasury Regulation § 1.436-1(d)(3)(iii)(C)).
  - (B) Bifurcation Rules. If an optional form of benefit that is otherwise available under the terms of the Plan is not available as of the Annuity Starting Date because of the application of Section 1.2(d)(iii)(A), then the Participant or Beneficiary shall be permitted to elect to (1) receive the unrestricted portion of the optional form of benefit (determined under the rules of Treasury Regulation § 1.436-1(d)(3)(iii)(D)) at that Annuity Starting Date, determined by treating the unrestricted portion of the benefit as if it were the Participant's or Beneficiary's entire benefit under the Plan, (2) commence benefits with respect to the Participant's or Beneficiary's entire benefit under the Plan in any other optional form of benefit available under the Plan at the same Annuity Starting Date that satisfies Treasury Regulation § 1.436-1(d)(3)(i), or (3) defer commencement of the payments to the extent described in Treasury Regulation § 1.436-1(d)(5). If the

Participant or Beneficiary elects payment of the unrestricted portion of the benefit (determined under the rules of Treasury Regulation § 1.436-1(d)(3)(iii)(D)) under Section 1.2(d)(iii)(B)(1), then the Participant or Beneficiary shall be entitled to elect payment of the remainder of the Participant's or Beneficiary's benefits under the Plan in any optional form of benefit at that Annuity Starting Date otherwise available under the Plan that would not have included a Prohibited Payment if that optional form applied to the entire benefit of the Participant or Beneficiary.

- (C) One-Time Application. In the case of a Participant or Beneficiary with respect to whom a Prohibited Payment (or series of Prohibited Payments under a single optional form of benefit) is made pursuant to Section 1.2(d)(iii)(A) or (B), no additional Prohibited Payment shall be made with respect to that Participant during any period of consecutive Plan Years to which the limitations under Section 1.2(d) apply.
- (iv) Plan Alternative for Special Optional Forms. The Plan may offer optional forms of benefit that are solely available during the period in which Section 1.2(d)(i), (ii), or (iii) applies to limit Prohibited Payments under the Plan in accordance with Treasury Regulation § 1.436-1(d)(6). Any such optional forms must satisfy Treasury Regulation § 1.436-1(d) and applicable qualification requirements, including satisfaction of Code §§ 417(e) and 415 (at each annuity starting date).
- (e) Limitation on Benefit Accruals for Severe Funding Shortfalls.
  - (i) General. If the Plan's AFTAP for a Plan Year is less than sixty percent (60%), benefit accruals under the Plan shall cease as of the applicable Section 436 Measurement Date. If the Plan is required to cease benefit accruals under the preceding sentence, then the Plan shall not be amended in a manner that would increase the liabilities of the Plan by reason of an increase in benefits or establishment of new benefits.
  - (ii) Exemption. Section 1.2(e)(i) shall cease to apply with respect to a Plan Year, effective as of the first day of the Plan Year, if the Company makes an additional contribution or provides security in accordance within Treasury Regulation § 1.436-1(f) or to the extent Section 1.2(e)(i) is otherwise inapplicable in accordance with Treasury Regulation § 1.436-1(f).
- (f) Special Rules of Operation for Periods Prior to and After Certification.
  - (i) Periods Prior to Certification During Which a Presumption Applies. For any period during which a presumption under Code § 436(h) and Treasury Regulation §§ 1.436-1(h)(1), (2) or (3) applies to the Plan, the limitations

under Sections 1.2(b), (c), (d) and (e) shall be applied to the Plan as if the AFTAP for the year were the presumed AFTAP determined under the rules of Code § 436(h) and Treasury Regulation § 1.436-1(h)(1), (2) or (3), as applicable, updated to take into account certain Unpredictable Contingent Event Benefits and Plan amendments in accordance with Code § 436 and Treasury Regulation § 1.436-1(g).

(ii) Periods After Certification of AFTAP. Section 1.2(f)(i) shall no longer apply for a Plan Year on and after the date an enrolled actuary for the Plan issues a certification of the AFTAP of the Plan for the current Plan Year, provided that the certification is issued before the first day of the tenth (10th) month of the Plan Year. For example, the limitations on Prohibited Payments under Section 1.2(d) shall apply for distributions with Annuity Starting Dates on and after the date of such certification using the certified AFTAP of the Plan for the Plan Year. Similarly, the prohibitions on accruals under Section 1.2(e) as a result of the enrolled actuary's certification that the AFTAP of the Plan for the Plan Year is less than sixty percent (60%) shall be effective as of the date of the certification, and any prohibition on accruals shall cease to be effective on the date the enrolled actuary issues a certification that the AFTAP for the Plan for the Plan Year is at least sixty percent (60%).

(g) Definitions. For purposes of this Section 1.2, the following terms have the following meanings:

- (1) "AFTAP" means the "Adjusted Funding Target Attainment Percentage," as described in Code § 436(j)(2), taking into account the special rules of Code § 436(j)(4), and Treasury Regulation § 1.436-1(j)(1).
- (2) "Annuity Starting Date" has the meaning described in Treasury Regulation § 1.436-1(j)(2).
- (3) "Prohibited Payment" means (1) any payment for a month that is in excess of the monthly amount paid under a straight life annuity (plus any social security supplements described in the last sentence of Code § 411(a)(9)), to a Participant or Beneficiary whose Annuity Starting Date occurs during any period a limitation under Section 1.2(d) is in effect, (2) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits, (3) any transfer of assets and liabilities to another plan maintained by the Company (or by any member of the Company's controlled group) that is made in order to avoid or terminate the application of the benefit limitations under Code § 436, and (4) any other amount that is identified as a Prohibited Payment in IRS revenue rulings and procedures, notices, and other guidance published in the Internal Revenue Bulletin. A prohibited payment shall not include the payment of a benefit which under Code § 411(a)(11) may be immediately distributed without the consent of the Participant.



- (4) “Section 436 Measurement Date” has the meaning described in Treasury Regulation § 1.436-1(j)(8).
- (5) “Unpredictable Contingent Event” means a plant shutdown (whether full or partial) or similar event, or an event (including the absence of an event) other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death or disability.
- (6) “Unpredictable Contingent Event Benefit” means any benefit or increase in benefits to the extent the benefit or increase would not be payable but for the occurrence of an Unpredictable Contingent Event.
- (h) Notices. The Committee or its delegate shall comply with any applicable notice requirements under ERISA Section 101(j).
- (i) Interpretation. This Section 1.2 shall be interpreted and applied consistent with Code § 436 and Treasury Regulation § 1.436-1, taking into account any applicable transition rules or exceptions provided thereunder or in any additional guidance issued under Code § 436.

**UPS 401(k) SAVINGS PLAN  
AMENDMENT AND RESTATEMENT  
EFFECTIVE AS OF JANUARY 1, 2014**

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UPS 401(k) SAVINGS PLAN  
EFFECTIVE AS OF JANUARY 1, 2014

PURPOSE

This UPS 401(k) Savings Plan ("Plan") was originally established effective as of July 1, 1988 to permit individuals not covered by a collective bargaining agreement who are employed by United Parcel Service of America, Inc. or another Employer Company to put money aside for retirement, on a pre-tax or after-tax basis, to supplement that which they will receive from Social Security and other pension or retirement plans in which they participate.

The Plan was last amended and restated effective as of December 31, 2008 (the "2008 Plan") to merge the UPS Qualified Stock Ownership Plan with and into this Plan, amend the Plan to provide for employer matching contributions, amend for final Code § 415 regulations and other general plan revisions.

The Plan is amended and restated effective as of January 1, 2014 to incorporate Amendments No. One through Seven to the 2008 Plan, to make revisions required by United States v. Windsor, 570 U.S. 12, 133 S. Ct. (2013), and to make certain other amendments. The provisions of this restatement apply effective as of January 1, 2014 except to the extent otherwise stated or otherwise required by the context.

Article I.

DEFINITIONS

The following words and phrases have the following meanings:

Section 1.1 Account - means the aggregate of a Participant's Pre-Tax Contribution Account; After-Tax Contribution Account; Rollover Contribution Account; SavingsPLUS Account; Roth Contribution Account, Top Heavy Account; and, Merged Account; established, respectively, under Articles III, IV and Appendix 14.3.

Section 1.2 Accounting Period - means the period beginning on the first day of each calendar quarter and ending on the last day of such quarter.

Section 1.3 Actual Contribution Percentage ("ACP") - means for each Participant who is eligible to make Pre-Tax Contributions at any time during the Plan Year, the ratio (expressed as a percentage) of (a) the sum of the After-Tax Contributions and the SavingsPLUS Contributions, if any, credited to his or her Account for such Plan Year to (b) his or her Compensation for the Plan Year.

Section 1.4 ACP Test - means the Code § 401(m) nondiscrimination test as described in Section 5.5.

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Section 1.5 Actual Deferral Percentage (“ADP”) – means for each Participant who is eligible to make Pre-Tax Contributions at any time during the Plan Year, the ratio (expressed as a percentage) of (a) the Pre-Tax Contributions with the meaning of Section 5.4(b) credited to his or her Account for such Plan Year to (b) his or her Compensation for the Plan Year.

Section 1.6 ADP Test - means the Code § 401(k) nondiscrimination test described in Section 5.4.

Section 1.7 Affiliate - means the Employer and any trade or business, whether or not incorporated, that is considered to be a single employer with the Employer under Code § 414(b), (c), (m) or (o). However, in applying Code § 414 solely for purposes of Appendix 5.2, the phrase “more than 50%” is substituted for the phrase “at least 80%” each place it appears in Code § 1563(a)(1).

Section 1.8 Affirmative Election - means an election (a) through the regular or pinless enrollment system for the Plan (i) to make, or not make, Pre-Tax Contributions, After-Tax Contributions, Catch-Up Contributions or Roth Contributions or (ii) to utilize the automatic escalation of Pre-Tax Contributions or (b) an Affirmative Investment Election as defined in Section 7.2(b).

Section 1.9 Affirmative Investment Election – means a Participant’s election to direct his or her Account in accordance with Section 7.2(a).

Section 1.10 After-Tax Contribution - means a contribution to the Plan at the election of a Participant in accordance with Section 3.2 through payroll deduction that is includible in his or her gross income for federal income tax purposes.

Section 1.11 After-Tax Contribution Account - means the subaccount maintained as a part of a Participant’s Account to show his or her interest attributable to the Participant’s After-Tax Contributions and amounts attributable to after-tax contributions under another qualified plan transferred pursuant to a merger or other event described in Section 14.3 to the extent described in Appendix 14.3.

Section 1.12 Automatic Enrollment Deadline - means the Friday immediately following the 90th day following the later of his or her (i) Employment Commencement Date, (ii) Reemployment Commencement Date, or (iii) date of transfer into Eligible Employee status.

Section 1.13 Beneficiary - means the person or persons so designated in accordance with Section 9.6 by a Participant or by operation of this Plan to receive any Plan benefits payable on account of the death of such Participant.

Section 1.14 Board - means the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc.

Section 1.15 Break in Service - means an Eligibility Computation Period during which an individual does not complete more than 500 Hours of Service.

Section 1.16 Catch-Up Contributions - means an additional contribution to the Plan in accordance with Section 3.1(c) or, for Puerto Rico Employees, Section 3.1(d). Catch-Up Contributions may include Roth Contributions.

Section 1.17 Code - means the Internal Revenue Code of 1986, as amended, or any successor statute.

Section 1.18 Collectively Bargained Plan - means any plan (other than a multiemployer plan) that incorporates a cash or deferred arrangement as described in Code § 401(k) and is sponsored by the Employer pursuant to a collective bargaining agreement in effect between the Employer and any union, local or lodge of any union or any bargaining agent for any union which such union, local, lodge or bargaining agent and the Employer have provided that some or all of the employees in the bargaining unit shall be covered by such plan.

Section 1.19 Committee - means the administrative committee described in ARTICLE XIII.

Section 1.20 Disability - means a medically determinable physical or mental impairment as a result of which the Participant is disabled and qualified for disability benefits under (a) the United States Social Security Act, (b) a long term disability plan to which an Employer Company contributes for the Participant or (c) workers compensation laws.

Section 1.21 Eligible Compensation - means for each Participant who is an Eligible Employee all compensation or wages payable to him or her for the Plan Year by reason of his or her employment by an Employer Company before any payroll deductions, but excluding:

(a) bonuses (other than any half-month bonus);

(b) amounts allocated or benefits paid under any employee benefit plan or program, whether or not the plan or program is subject to ERISA or the benefit paid thereunder is taxable (other than paid time off or discretionary days, Pre-Tax Contributions and salary reduction contributions made on behalf of an Employee to the UPS Flexible Benefits Plan or other plan described in Code § 125 and, amounts allocated under the UPS Deferred Compensation Plan, as amended from time to time, and/or the UPS Deferred Compensation Plan 2000);

(c) amounts payable under any incentive compensation plan or program (other than commissions and sales incentives);

- (d) MIP awards (other than the portion of a MIP award that a Participant may elect to have paid in the form of cash and only for purposes of determining that Participant's Pre-Tax Contributions and After-Tax Contributions);
- (e) stock options;
- (f) foreign service differentials;
- (g) severance pay;
- (h) expense reimbursements;
- (i) grievance awards (other than back pay);
- (j) fringe benefits;
- (k) all compensation classified as "miscellaneous"; and
- (l) tool allowance.

Eligible Compensation includes only "compensation" as defined in Code § 415(c)(3) and Section 3.2 of Appendix 5.2, Maximum Benefits.

The annual Eligible Compensation of each Participant taken into account under the Plan shall not exceed \$200,000, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17)(B).

A Participant receiving a differential wage payment (as described in Code § 414(u)(12)) shall be treated as an employee of the Employer making the differential wage payment for purposes of this Plan and the differential wage payment shall be treated as Eligible Compensation.

Section 1.22 Eligible Employee - means any Employee other than an Employee:

- (a) whose terms and conditions of employment are governed by a collective bargaining agreement to which an Employer Company is a party, unless the collective bargaining agreement expressly provides for coverage under this Plan;
- (b) who is a nonresident alien receiving no earned income from an Employer Company from sources within the United States (as described more fully in Code § 410(b)(3)(C)); or
- (c) who is eligible to participate in any other Code § 401(k) cash or deferred arrangement maintained by an Employer Company (other than the Plan).

Members of the Board as such shall not be considered as Eligible Employees unless they also qualify as such pursuant to the preceding sentence. Under no circumstances will an

individual who performs services for an Employer Company, but who is not classified on the payroll as an employee of an Employer Company, for example, an individual performing services for an Employer Company under a leasing arrangement, be treated as an Eligible Employee even if such individual is treated as an “employee” of an Employer Company as a result of common law principals or the leased employee rules under Code § 414(n). Further, if an individual performing services for an Employer Company is retroactively reclassified as an employee of an Employer Company for any reason (whether pursuant to court order, settlement negotiation, arbitration, mediation, government agency (e.g. IRS) reclassification or otherwise), such reclassified individual shall not be treated as an Eligible Employee for any period prior to the actual date (and not the effective date) of such reclassification unless an Employer Company determines that retroactive reclassification is necessary to correct a payroll classification error.

Section 1.23 Employee - means a person who is classified on the payroll of an Employer Company as an employee of that Employer Company.

Section 1.24 Employer - means United Parcel Service of America, Inc.

Section 1.25 Employer Company - means the Employer, each corporation listed in Appendix 1.25 and any of the following corporations that adopts the Plan with the approval of the Board of Directors:

(a) any domestic corporation at least 90% of whose voting stock is owned (directly or indirectly) by United Parcel Service, Inc.;  
and

(b) any domestic corporation at least 90% of whose voting stock is owned by any corporation described in (a) above.

Section 1.26 Eligibility Computation Period - means the 12 consecutive month period beginning on an individual’s Employment Commencement Date or Reemployment Commencement Date (or any anniversary of either such date) and ending on the date immediately preceding the anniversary of such date (or next succeeding anniversary of such date).

Section 1.27 Employment Commencement Date - means the date on which an individual first performs an hour of service, within the meaning of Labor Regulation § 2530.200b-2, with an Employer Company.

Section 1.28 Entry Date - means the date an Eligible Employee completes his or her first Hour of Service with an Employer Company.

Section 1.29 ERISA - means the Employee Retirement Income Security Act of 1974, as amended, or any successor statute.

Section 1.30 Excess Aggregate Contributions - means for any Plan Year the excess of:

(a) the After-Tax Contributions and SavingsPLUS Contributions made by or on behalf of Highly Compensated Employees for a Plan Year over

(b) the maximum permissible amount of such contributions for such Plan Year under Code § 401(m) as described in Section 5.5.

Section 1.31 Excess Contributions - means for any Plan Year the excess of:

(a) the Pre-Tax Contributions made by or on behalf of Highly Compensated Employees for a Plan Year and which were taken into account in computing his or her Actual Deferral Percentage for such Plan Year over

(b) the maximum permissible amount of such contributions permitted for such Plan Year under Code § 401(k) as described in Section 5.4.

Section 1.32 Fair Market Value - means:

(a) for any asset other than UPS Stock, the fair market value of that asset as determined by the Trustee holding the asset,

(b) For UPS Stock

(1) For any purpose other than determining the value of UPS Stock upon liquidation, the fair market value of a share of the Class B common stock of United Parcel Service, Inc. ("Class B Stock"), as determined in accordance with the following provisions:

(i) if shares of Class B Stock are listed on any established stock exchange or a national market system, the reported closing price for a share of Class B Stock as reported by such stock exchange or national market system with respect to its normal trading session or such other source as the Board deems reliable; or

(ii) if shares of Class B Stock are not listed on any established stock exchange or a national market system, the fair market value of a share of Class B Stock as determined by the Board in its sole and absolute discretion.

(2) For purposes of determining the value of UPS Stock upon liquidation on any trading day,

(i) If the UPS Stock is liquidated at a time when shares of Class B Stock are listed on any established stock exchange or a national market system, the average sales price of the UPS Stock sold by the Plan on that day; or

(ii) If the UPS Stock is liquidated at a time when shares of Class B Stock are not listed on any established stock exchange or a national market system, the fair market value of a share of Class B Stock as determined by the Board in its sole and absolute discretion.

Section 1.33 Highly Compensated Employee -

(a) General. The term “Highly Compensated Employee” means each Participant who is an Eligible Employee performing services for an Affiliate during the Plan Year and

(3) who at any time during the Plan Year or the preceding Plan Year was a 5% owner of an Affiliate (as defined in Code § 416(i)(1)(B)(I)), or

(4) who for the preceding Plan Year received Compensation in excess of \$80,000 (indexed in accordance with Code § 415(d)).

(b) Additional Rules.

(1) The determination of which Eligible Employees are Highly Compensated Employees is subject to Code § 414(q) and any regulations, rulings, notices or procedures under that Section.

(2) Employers aggregated under Code § 414(b), (c), (m) or (o) will be treated as a single employer for purposes of this Section 1.33.

Section 1.34 Hour of Service -

(a) General. The term “Hour of Service” means each hour for which an individual:

(3) is paid, or entitled to payment, for the performance of duties for an Affiliate;

(4) is paid, or entitled to payment (directly or indirectly) for periods during which no duties are performed due to vacation, holiday, illness, short-term disability or incapacity pursuant to which payments are received in the form of salary continuation or from a short-term disability plan or worker’s compensation plan sponsored by an Affiliate or to which an Affiliate contributes, layoff, jury duty, military duty which gives rise to reemployment rights under Federal law, or paid leave of absence (including a period where an employee remains on salary continuation during a period of illness or incapacity);

(5) is paid by an Affiliate for any reason an amount as “back pay,” irrespective of mitigation of damages; or

(6) is on an unpaid leave of absence, including (i) by reason of the pregnancy of the individual, (ii) by reason of the birth of a child of the individual, (iii) by reason of the placement of a child with the individual in connection with the adoption of such child by the individual or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement.

(b) Additional Rules. Notwithstanding the foregoing,

(1) An individual will earn Hours of Service credit without regard to whether such individual is treated as an “employee” of an Affiliate as a result of the application of common law principles or by operation of Code § 414(n).

(2) An individual will be credited with 190 Hours of Service for the performance of duties with respect to each regularly-scheduled calendar work month in which such individual would, under the rules described herein, have earned at least one Hour of Service.

Section 1.35 Investment Options - means the investment alternatives selected by the Committee pursuant to Section 7.1.

Section 1.36 Investment Manager - means a person (a) who is registered as an investment advisor under the Investment Advisers Act of 1940 (the “Act”), a bank, as defined in the Act, or an insurance company that, within the meaning of ERISA § 3(38), is qualified to manage, acquire and dispose of the assets of an employee benefit plan under the laws of more than one state, and (b) who is appointed as an investment manager.

Section 1.37 Merged Account - means the subaccount maintained as a part of a Participant’s Account to show his or her interest attributable to amounts that have been transferred from another qualified plan pursuant to a merger or other transaction described in Section 14.3 and which are not allocated to his or her Pre-Tax Contribution Account, After-Tax Contribution Account, SavingsPLUS Contribution Account, Roth Contribution Account or Rollover Contribution Account.

Section 1.38 MIP - means the UPS Management Incentive Program and the UPS International Management Incentive Program, each as in effect from time to time.

Section 1.39 Nonhighly Compensated Employee - means for each Plan Year each Participant who is an Eligible Employee performing services for an Affiliate during the Plan Year and who is not a Highly Compensated Employee.

Section 1.40 Participant - means (a) each Eligible Employee who satisfied the requirements for participation set forth in Section 2.1 and (b) each other person (other than an alternate payee as defined in Code § 414(p)(8) or a Beneficiary) for whom an Account



is maintained as a result of contributions made under this Plan or amounts transferred to this Plan.

Section 1.41 Period of Service - means the period of time beginning on an individual's Employment Commencement Date or Reemployment Commencement Date, whichever is applicable, and ending on the date a Break in Service begins. A Period of Service of 12 months is equal to one full year of service.

Section 1.42 Plan - means this UPS 401(k) Savings Plan as set forth in this document and all subsequent amendments to this document.

Section 1.43 Plan Year - means the calendar year.

Section 1.44 Pre-Tax Contribution - means a contribution to the Plan at the election, or deemed election, of a Participant in accordance with Section 3.1, Pre-Tax Contributions and Section 3.3, Roth Contributions. However, the term "Pre-Tax Contributions" shall not include Roth Contributions for purposes of Sections 1.45, Pre-Tax Contribution Account; 3.1, Pre-Tax Contributions; or 9.8(c), Hardship Withdrawals.

Additionally, the following elective deferrals and Roth contributions will be treated as Pre-Tax Contributions for purposes of determining the SavingsPLUS Contribution (a) with respect to an individual who becomes eligible to make Pre-Tax Contributions under the Plan during any Plan Year as a result of his or her no longer being covered under a collective bargaining agreement, his or her elective deferrals (within the meaning of Code § 402(g)) and Roth contributions (within the meaning of Code § 402A) under a Collectively Bargained Plan prior to the latest date in such Plan Year on which he or she became eligible to make Pre-Tax Contributions (other than elective deferrals and Roth contributions with respect to which a matching contribution (within the meaning of Code § 401(m)) of any amount was made under the Collective Bargaining Plan) and (b) with respect to an individual who was a Participant in a plan that merged into and became a part of the Plan who becomes eligible to make Pre-Tax Contributions as a result of a merger of that plan into the Plan, his or her elective deferrals (within the meaning of Code § 402(g)) and Roth contributions (within the meaning of Code § 402A) made under such merged plan in the Plan Year in which he or she first became eligible to make Pre-Tax Contributions.

Section 1.45 Pre-Tax Contribution Account - means the subaccount maintained as part of a Participant's Account to show his or her interest attributable to Pre-Tax Contributions and amounts attributable to pre-tax contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.46 Reemployment Commencement Date - means for an individual who has a Break in Service, an adjusted employment commencement date, which is the first date on which that individual performs an Hour of Service following the Break in Service.

Section 1.47 Regular Eligible Compensation - means Eligible Compensation excluding half month, compensation for unused discretionary days and the portion of the MIP award that a Participant may elect to have paid in the form of cash.

Section 1.48 Rollover Contribution - means a contribution described in Section 3.7.

Section 1.49 Rollover Contribution Account - means the subaccount maintained as part of a person's Account to show his or her interest attributable to Rollover Contributions, and amounts attributable to rollover contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.50 Roth Contribution - means a contribution described in Section 3.3.

Section 1.51 Roth Contribution Account - means the subaccount maintained as part of a Participant's Account to show his or her interest attributable to Roth Contributions (including investment gains and losses on such contributions) and amounts attributable to Roth Contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.52 SavingsPLUS Contribution - means the SavingsPLUS Contribution in respect of a Participant's Pre-Tax Contributions.

Section 1.53 SavingsPLUS Account - means the subaccount maintained as a part of a Participant's Account to show his or her interest attributable to SavingsPLUS Contributions and amounts attributable to matching contributions under another qualified plan transferred pursuant to a merger or other transaction described in Section 14.3 to the extent provided in Appendix 14.3.

Section 1.54 Self-Managed Account - means an Investment Option that allows a Participant to invest directly in stocks, bonds or mutual funds of his or her choice subject to such rules as are established from time to time by the Committee.

Section 1.55 Severance from Employment - means the date on which an individual terminates employment with all Affiliates by reason of a voluntary quit, retirement, death, period of Disability of more than 52 weeks, discharge, failure to return from layoff or authorized leave of absence, or for any other reason (unless a grievance is pending) provided such separation constitutes a "severance from employment" within the meaning of Code § 401(k) and further provided that a Severance from Employment shall not occur with respect to any Participant as a result of a transaction if his or her new employer following the transaction agrees to assume this Plan or agrees to assume assets and liabilities of this Plan attributable to such Participant. A discharge will not be treated as a Severance from Employment while a grievance is pending but, if the discharge is upheld, will be treated as a Severance from Employment as of the date of the discharge.

A transfer from one Affiliate to another will not result in a Severance from Employment.

A discharge will not result in a Severance from Employment for any purpose while a grievance is pending but, if the discharge is upheld, the Severance from Employment will be the date of the discharge.

Section 1.56 Spouse - means the person to whom a Participant is lawfully married as of the earlier of the date his or her benefit payments commence or death, provided that Spouse shall instead mean another Spouse of a Participant to the extent required by a qualified domestic relations order. Effective June 26, 2013, "Spouse" includes an individual married to a person of the same sex if the marriage was validly entered into in a state whose laws authorize such marriages, even if the married couple is domiciled in a state that does not recognize the validity of same-sex marriages. For this purpose, "state" means any domestic or foreign jurisdiction having the legal authority to sanction marriages. The Plan shall comply with any and all applicable legal requirements resulting from the holding of United States v. Windsor, 570 U.S. 12, (2013), including, without limitation, Rev. Rul. 2013-17, 2013-38 I.R.B. 201 and I.R.S. Notice 2014-19, 2014-17 I.R.B. 979. For the avoidance of doubt, the term "Spouse" shall not include individuals (whether of the opposite sex or same sex) who have entered into a registered domestic partnership, civil union, or other similar formal relationship recognized under state law that is not denominated as a marriage under the laws of the state. Prior to June 26, 2013, the term "Spouse" included a person of the same sex as the Participant if such person or the Participant presented the Committee with a valid marriage certificate for the Participant and such person from a state in which same sex marriage was sanctioned and such person was treated as the Participant's Spouse on a prospective basis.

Section 1.57 Top-Heavy Account - means the subaccount maintained as a part of a Participant's Account to show his or her interest attributable to Top-Heavy Contributions.

Section 1.58 Top-Heavy Contributions - means the contribution described in Section 4.2.

Section 1.59 Trust Fund - means the assets held by the Trustee under this Plan.

Section 1.60 Trustee or Trustees - means the banks, trust companies or other financial institutions with trust powers acting from time to time as trustees for the Trust Funds pursuant to ARTICLE XI.

Section 1.61 UPS Stock - means the Class A common stock of United Parcel Service, Inc.

Section 1.62 UPS Stock Fund - means the Investment Option invested primarily in UPS Stock.

Section 1.63 VRU - means the automated voice response unit or any other voice or electronic medium maintained for the purpose of effecting communications under the Plan.

## Article II. PARTICIPATION

Section 2.1 General. Each Eligible Employee will become a Participant on the Entry Date coinciding with or immediately following his or her completion of an Hour of Service as an Eligible Employee.

Section 2.2 Application to Participate. Each Participant who is an Eligible Employee may enroll in the Plan by making an affirmative election to make a contribution to the Plan under Article III in accordance with procedures prescribed by the Committee or by being deemed to have elected to make a Pre-Tax Contribution under Section 3.1(b). The Committee shall promptly process the Participant's enrollment and confirm the enrollment of such Participant and his or her elections to make contributions.

Section 2.3 Transfers.

(a) Transfer to Position Not Covered by Plan. If a Participant loses his or her status as an Eligible Employee because he or she is transferred to an Affiliate that is not an Employer Company or because he or she is transferred to a position with an Employer Company that is not an Eligible Employee position, he or she shall cease to be eligible to make any contributions under this Plan pursuant to Article III, but his or her Account shall continue to be maintained under this Plan until he or she receives a distribution of his or her entire Account or such Account is transferred to another qualified plan.

(b) Transfer of Account from Another Employer Company Plan. This Section 2.3(b) will be effective on and after the date it is activated by the Committee. To the extent provided in Appendix 2.3 (which will be written and amended by or at the direction of the Committee), the Committee may permit the contribution of funds to a Participant's Account which represent the transfer of his or her account from any other § 401(k) cash or deferred arrangement maintained by an Employer Company. Such funds shall be transferred in accordance with procedures established by the Committee and shall be held in the appropriate subaccount.

Section 2.4 Correction. If the Committee discovers that an individual it determined to be a Participant is in fact not a Participant, the Committee will as soon as practicable after such discovery make such corrections or refunds as it deems appropriate. If the Committee discovers that a Participant was not treated as covered under the Plan, the Committee as soon as practicable will take such action as it deems appropriate and proper under the circumstances.

Section 2.5 Reemployment. If a Participant has a Severance from Employment, he or she will again become eligible to make contributions under this Plan pursuant to Article 2.1.

Section 2.6 Not a Contract of Employment. This Plan is intended only to encourage Eligible Employees to save for their retirement. This Plan is not a contract of employment. Thus, participation in this Plan will not give any person either the right to be retained as an employee or, upon such person's termination of employment, the right to any interest in the Trust Funds other than his or her interest as expressly set forth in this Plan.

### Article III. EMPLOYEE CONTRIBUTIONS, ROLLOVER CONTRIBUTIONS AND TRANSFERS

#### Section 3.1 Pre-Tax Contributions.

(a) Voluntary Elections. Subject to the rules and limitations in this Section 3.1 and in Article 5, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) may elect to make Pre-Tax Contributions through authorizing the pre-tax payroll deduction of:

- (1) from 1% to 35%, in 1% increments, of his or her Regular Eligible Compensation for each pay period;
- (2) from 1% to 100%, in 1% increments, of his or her Eligible Compensation attributable to his or her half month bonus;
- (3) from 1% to 100%, in 1% increments, of his or her Eligible Compensation attributable to his or her discretionary days pay off;
- (4) from 1% to 100%, in 1% increments, of the portion of his or her Eligible Compensation attributable to the portion of his or her MIP award that he or she may elect to have paid in the form of cash (less amounts withheld for FICA and Medicare taxes); and
- (5) from 1% to 100%, in 1% increments, of the portion of his or her Eligible Compensation attributable to sales incentive program bonus payments.

Roth Contributions and Pre-Tax Contributions combined may not exceed 35% of his or her Regular Eligible Compensation for any pay period.

#### (b) Deemed Enrollment and Automatic Annual Increases.

- (1) Deemed Enrollment Election.

(i) Deemed Enrollment. Subject to the rules and limitations in this Section 3.1 and in Article V, each Participant shall be deemed to have made an election to have his or her Employer Company make Pre-Tax Contributions on his or her behalf in an amount equal to 3% of Eligible Compensation per payroll period. Notwithstanding the forgoing, a Participant shall not be deemed to have made a 3% Pre-Tax Contribution election if he or she makes an Affirmative Election before the Automatic Enrollment Deadline.

(ii) Effective Date of Deemed Enrollment. The deemed Pre-Tax Contribution payroll deduction election will be effective as soon as administratively practicable following the applicable Automatic Enrollment Deadline and will continue while he or she remains an Eligible Employee unless and until he or she (i) makes an Affirmative Election, (ii) has the maximum amount of Pre-Tax Contributions for such Plan Year (taking into account the maximum Catch-Up Contributions for such Participant, if applicable) deducted, (iii) becomes ineligible to participate in the Plan (iv) has a deemed annual increase in Pre-Tax Contributions pursuant to Section 3.1(b)(2), or (v) takes a hardship withdrawal under Section 9.8(c).

(2) Deemed Annual Increase Election. A Participant who is deemed to have made a Pre-Tax Contribution deferral election pursuant to Section 3.1(b)(1), has not made an Affirmative Election and remains an Eligible Employee, shall also be deemed to have elected to increase his or her Pre-Tax Contributions in 1% increments in each Plan Year following the Plan Year of automatic enrollment up to a maximum deferral rate of 6% of Eligible Compensation. The automatic annual increase will be effective in each Plan Year following the Plan Year of automatic enrollment on the first Friday in March for Eligible Employees who are considered for a merit increase in March and on the first Friday in June for all other Eligible Employees. The automatic annual increase will continue while he or she is an Eligible Employee until he or she (i) makes an Affirmative Election, (ii) becomes ineligible to participate in the Plan or (iii) takes a hardship withdrawal under Section 9.8(c).

(3) Notice of Deemed Elections. Within a reasonable period following an Eligible Employee's Employment Commencement Date, Reemployment Commencement Date or transfer from ineligible to Eligible Employee status and before the applicable Automatic Enrollment Deadline, the Committee shall provide each Eligible Employee with a notice informing him or her of his or her rights and obligations under this Section 3.1(b) including the following: (1) his or her right to make an Affirmative Election to change the deemed percentage (including 0%), (2) how the Pre-Tax Contributions will be invested in the absence of an Affirmative Election and

his or her right to change such election, and (3) the procedures for making any such elections. The Committee shall provide each Eligible Employee who has not made an Affirmative Election with a similar notice within a reasonable period prior to each subsequent Plan Year.

(c) Catch-Up Contributions. Subject to the rules and limitations in this Section 3.1 and in Article 5 except as otherwise provided, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who will attain age 50 or older before the close of the Plan Year shall be eligible to make Catch-Up Contributions, in 1% increments, from 1% to 35% of his or her Regular Eligible Compensation and in accordance with, and subject to the limitations of Code § 414(v). Additionally, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who will attain age 50 before the close of the Plan Year shall be eligible to make Catch-Up Contributions in 1% increments from 1% to 100% of the portion of his or her MIP award payable in the form of cash (less amounts withheld for FICA and Medicare taxes). Such Catch-Up Contributions shall not be taken into account for purposes of the provisions of the Plan implementing the required limitations of Code §§ 402(g) and 415. The Plan shall not be treated as failing to satisfy the provisions of the Plan implementing the requirements of Code §§ 401(k)(3), 410(b), or 416, as applicable, by reason of the making of such Catch-Up Contributions. Catch-Up Contributions shall be treated as Pre-Tax Contributions for purposes of Sections 3.5, 3.6, 3.7, 6.2 and Article VII. Catch-Up Contributions shall be credited to a Participant's Pre-Tax Contribution Account unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a separate subaccount.

(d) An election under this Section 3.1 must be made via VRU or in accordance with such other procedures prescribed by the Committee. A participant may make an election to begin making Pre-Tax Contributions on any business day that coincides with or follows the date he or she becomes a Participant. A Participant's initial payroll deduction contribution election will be effective for the first pay period beginning after his or her election is processed and will continue while the Participant is an Eligible Employee until the Participant changes his or her election in accordance with Section 3.4 or suspends his or her contributions in accordance with Section 3.5.

The Committee has the right at any time unilaterally to reduce prospectively the amount or percentage of Pre-Tax Contributions elected by any Participant who is a Highly Compensated Employee or by all Highly Compensated Employees as a group if it determines that reduction is appropriate in light of the limitations under Section 5.4.

(e) Accounts. The Pre-Tax Contributions elected by a Participant under Sections 3.1 will be credited to such Participant's Pre-Tax Contribution Account.

### Section 3.2 After-Tax Contributions.

(a) General. Subject to the rules and limitations in this Section 3.2 and in Article 5, each Participant who is an Eligible Employee may make After-Tax Contributions through authorizing the after-tax payroll deduction of 1% to 5% (in 1% increments) of his or her Regular Eligible Compensation for each pay period.

Such election must be made via VRU or in accordance with such other procedures prescribed by the Committee. A Participant who is an Eligible Employee may elect to begin making After-Tax Contributions on any business day that coincides with or follows the date he or she becomes a Participant. A Participant's initial contribution election will be effective for the first pay period beginning after his or her election is processed and will continue while the Participant is an Eligible Employee until the Participant changes his or her election in accordance with Section 3.4.

The Committee has the right at any time unilaterally to reduce prospectively the amount or percentage of After-Tax Contributions elected by any Highly Compensated Employee or by all Highly Compensated Employees as a group if it determines that reduction is appropriate in light of the limitations under Section 5.5.

(b) Accounts. The After-Tax Contributions elected by a Participant under Section 3.2(a) will be credited to such Participant's After-Tax Contribution Account.

Section 3.3 Roth Contributions. Subject to the rules and limitations in Article 5, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) shall be eligible to make Roth Contributions in:

- (a) 1% increments from 1% or 100% of his or her Regular Eligible Compensation for each pay period;
- (b) 1% increments from 1% to 100% of his or her Eligible Compensation for unused discretionary days off each pay period; and
- (c) 1% increments from 1% to 100% of his or her Eligible Compensation from sales incentive program bonus payments.

All Roth Contributions shall be and are made in accordance with and subject to the limitations of Code Section 402A. The sum of Roth Contributions and Pre-Tax Contributions may not exceed 35% of Eligible Compensation for any pay period. Roth Contributions shall be credited to a Participant's Roth Contributions Account.

Section 3.4 Changes in Contribution Elections.

(a) General. A Participant who is an Eligible Employee may make an election to change the type or rate of his or her contributions on any business day via VRU or in accordance with such other procedures prescribed by the Committee.



Such change in the rate or type of contributions will be effective for the first pay period beginning after his or her election is processed.

(b) Voluntary Suspension. A Participant may suspend his or her contributions made pursuant to this Article III at any time via VRU or in accordance with such other procedures prescribed for such purpose by the Committee. A Participant's suspension will be effective for the first pay period beginning after his or her election is processed. Thereafter, the Participant who is an Eligible Employee may make an election to resume contributions in accordance with Sections 3.1, 3.2 or 3.3.

(c) Change in Eligibility Status. A Participant's contributions shall automatically stop when he or she ceases to be an Eligible Employee. If a Participant's status thereafter changes to an Eligible Employee (whether by reemployment or otherwise), he or she may make a new election or will be deemed to have made an election to make contributions in accordance with Sections 3.1, 3.2 or 3.3.

(d) Hardship Withdrawal. A Participant will be treated as if he or she had elected to completely suspend all contributions for the 6-month period following a hardship withdrawal in accordance with Section 9.8(c), and a Participant who was not making any contributions at the time of the withdrawal will not be allowed to resume making contributions for the 6-month period following a hardship withdrawal. Following the suspension, a Participant may elect to resume making contributions or will be deemed to have made an election in accordance with Section 3.1, 3.2 or 3.3.

(e) Leave of Absence. A Participant's contributions will continue to be deducted during any period of paid leave of absence, provided he or she continues to be classified as an Eligible Employee during the leave and continues to be paid through an Employer Company payroll. However, a Participant's contributions will be suspended during any period of leave of absence if the Eligible Employee is not paid through an Employer Company payroll. Payroll deductions automatically will resume as soon as administratively practicable after the Participant's resumption of active employment as an Eligible Employee in accordance with the Participant's election (or deemed election) in effect immediately prior to his or her unpaid leave unless the Participant files an election to suspend contributions to change his or her rate of contributions in accordance with Section 3.4.

Section 3.5 Payment of Contributions to Trustee . All Participant contributions under this Article III will be paid to the Trustee as soon as practicable after the related payroll deductions are made and, in any event, by the deadlines, if any, established for making those payments under ERISA or the Code.

Section 3.6 Rollovers from Qualified Plans or Conduit IRAs.

(a) A Participant may contribute to the Plan an amount consisting of an “eligible rollover distribution” (as defined below) from another qualified retirement plan, or “a transfer from a conduit IRA,” (as defined below) (each, a “Rollover Contribution”) provided that the contribution shall not jeopardize the qualification of the Plan or the tax-exempt status of the Trust Funds or create adverse tax consequences for the Employer. A Participant who has incurred a Severance from Employment may make a Rollover Contribution to the Trust Fund in accordance with this Section 3.6(a), provided that the Participant has not otherwise received a distribution of his or her Account pursuant to Section 9.2 and the Participant’s Account balance exceeds one thousand dollars (\$1,000). Additionally, the Roth Contribution Account shall be treated as a separate plan for purposes of determining whether a Participant has an Account balance that exceeds one thousand dollars (\$1,000).

(b) Any such Rollover Contribution shall at all times be fully vested and nonforfeitable. Such contribution shall be held in a subaccount under the Participant’s Account (the “Rollover Contribution Account”).

(c) For purposes of this Section 3.6, an “eligible rollover distribution” means:

(1) an eligible rollover distribution, within the meaning of Code § 402, which is transferred to this Plan by the Participant no later than sixty (60) days following the date on which the Participant received the distribution from another qualified retirement plan; or

(2) an eligible rollover distribution, within the meaning of Code § 402, which is transferred to this Plan directly by another qualified retirement plan at the Participant’s direction pursuant to Code § 401(a)(31).

In the case of an eligible rollover distribution described in § 3.7(c)(1) above, the Participant may contribute an amount equal to the gross amount of the distribution, notwithstanding that a portion of the distribution may have been subject to mandatory income tax withholding.

(d) For purposes of this Section 3.6, “a transfer from a conduit IRA” means: an amount transferred to this Plan within sixty (60) days of the Participant’s receipt of distribution thereof, from an individual retirement account or annuity (“IRA”) to which no contributions have been made from any source other than amounts which were previously distributed to the Participant as an eligible rollover distribution from another qualified retirement plan subject to Code § 401(a), and which were deposited in such IRA within sixty (60) days of such prior distribution.

(e) After-tax employee contributions and loans distributed from a qualified retirement plan, annuity contract or IRA may not be contributed to the Plan under this Section 3.6.

(f) Notwithstanding anything in this Plan to the contrary, in no event shall an “eligible rollover distribution” include any amounts distributed from a designated Roth account (as defined in Treasury Regulation § 1.402A-1, Q&A-1) or a Roth IRA (as defined in Treasury Regulation § 1.408A-8, Q&A-1).

#### Article IV. EMPLOYER CONTRIBUTIONS

##### Section 4.1 SavingsPLUS Contribution.

(a) Subject to the rules and limitations set forth in this Section 4.1 and in Article 5, an Employer Company shall make the following SavingsPLUS Contribution, if any, for each Accounting Period on behalf of each Participant who was employed as an Eligible Employee by such Employer Company on the last day of the Accounting Period and each Participant whose last employment as an Eligible Employee was with such Employer Company during the Accounting Period.

The SavingsPLUS Contribution made on behalf of each Participant described in this Section 4.1(a) shall be equal to:

A minus B where:

(4) A equals

(i) For each Employer Company listed in Appendix 4.1(a)(1)(A), zero;

(ii) For each Employer Company listed in Appendix 4.1(a)(1)(B), 50% of his or her Pre-Tax Contributions that do not exceed 6% of his or her Eligible Compensation for such Plan Year;

(iii) For each Employer Company listed in Appendix 4.1(a)(1)(C),

(A) For each Participant with an Employment Commencement Date prior to January 1, 2008 who is not described in paragraph (iii)(B), 50% of his or her Pre-Tax Contributions that do not exceed 5% of his or her Eligible Compensation for such Plan Year, or

(B) For each Participant with an Employment Commencement Date, Reemployment Commencement Date or who is transferred from ineligible to Eligible Employee status, on or after January 1, 2008, 100% of his or her Pre-

Tax Contributions that do not exceed 3 ½% of his or her Eligible Compensation for such Plan Year;

(iv) For each Employer Company listed in Appendix 4.1(a)(1)(D), the sum of 100% of his or her Pre-Tax Contributions that do not exceed 3% of his or her Eligible Compensation for such Plan Year and 50% of his or her Pre-Tax Contributions in excess of 3% but not in excess of 6% of his or her Eligible Compensation for such Plan Year; or

(v) For each Employer Company listed in Appendix 4.1(a)(1)(E),

(A) For each Participant with an Employment Commencement Date prior to January 1, 2008 and who is not described in paragraph (iii)(B), 50% of his or her Pre-Tax Contributions that do not exceed 2% of his or her Eligible Compensation for such Plan Year, or

(B) For each Participant with an Employment Commencement Date, Reemployment Commencement Date or is transferred from ineligible to Eligible Employee status, on or after January 1, 2008, 100% of his or her Pre-Tax Contributions that do not exceed 1% of his or her Eligible Compensation for such Plan Year;

(5) B equals the SavingsPLUS Contribution and the matching contribution (within the meaning of Code § 401(m)) under a Merged Plan previously made by any Employer Company with respect to him or her during such Plan Year.

No SavingsPLUS Contributions will be made with respect to any Catch-Up Contributions (unless such contributions are reclassified as Pre-Tax Contributions).

(b) Application of Forfeitures. Any amounts treated as forfeitures under the Plan will be applied to reduce the SavingsPLUS Contributions for the next Plan Year (and succeeding Plan Years, if necessary).

(c) No SavingsPLUS Contributions on Refunds. No SavingsPLUS Contributions will be made with respect to any Pre-Tax Contributions that are refunded by the Plan or a Collectively Bargained Plan to satisfy Code § 401(k), § 402(g) or § 415. If it is determined that any portion of the SavingsPLUS Contributions credited to a Participant's SavingsPLUS Account is attributable to refunded Pre-Tax Contributions, an amount equal to the value of the SavingsPLUS Contribution attributable to refunded Pre-Tax Contributions automatically will be

deducted from the Participant's SavingsPLUS Account and will be treated as a forfeiture.

(d) Allocation. The SavingsPLUS Contribution, if any, made on behalf of each Participant will be credited to his or her SavingsPLUS Account as of the last day of each Accounting Period.

Section 4.2 Top Heavy Contribution. As of the last day of each Plan Year, a determination will be made on whether this Plan is top-heavy as described in Section 15.9 and, if this Plan is top-heavy, the Employer Companies will contribute such amounts, if any, as are necessary to satisfy minimum top-heavy allocation requirements. Any such contributions will be credited as of the last day of such Plan Year to the affected Participants' Top Heavy Account.

Section 4.3 Form and Time of SavingsPLUS Contribution. The SavingsPLUS Contribution may be made in cash or UPS Stock or in any combination of cash and UPS Stock, as determined by the Employer. An Employer Company may make SavingsPLUS Contributions for any Accounting Period in installments at any time during the Accounting Period and may make the Employer contributions called for under this Article IV at any time during the Plan Year or in the following year before the due date (after taking any extensions into account) for filing the Employer Company's federal income tax return for such Plan Year.

Section 4.4 Responsibility to Make Employer Contributions. The Employer in its absolute discretion may choose to make the employer contributions called for under this ARTICLE IV on behalf of all of the Employer Companies and to charge each Employer Company with its allocable portion of the contributions in accordance with those procedures the Employer in its absolute discretion deems appropriate.

#### Article V. LIMITATIONS ON CONTRIBUTIONS AND ALLOCATIONS

Section 5.1 Order . The allocation of contributions made under this Plan (other than Rollover Contributions) will be subject to the limitations of this Section 5.1, as applied, in the following order:

- (a) the Code § 415 limitations under Section 5.2,
- (b) the Code § 402(g) limitations under Section 5.3,
- (c) the Code § 401(k) limitations for Highly Compensated Employees under Section 5.4,
- (d) the Code § 401(m) limitations for Highly Compensated Employees under Section 5.5.

Section 5.2 Code § 415 Limitations. Refer to Appendix 5.2.

(a) Coordination with Code § 401(k) and Code §402(g). Any Pre-Tax Contributions that are not allocated because of the limitations of Appendix 5.2 will be disregarded for the purposes of the Code §402(g) limitations under Section 5.3 and the Code §401(k) limitations under Section 5.4.

Section 5.3 Code § 402(g) Limitations.

(a) A Participant's total Pre-Tax Contributions under this Plan and "elective deferrals" within the meaning of Code § 402(g) under all other qualified plans, contracts and arrangements maintained by an Affiliate during any calendar year will not exceed the annual dollar limit under Code § 402(g) (or, with respect to Participants in Puerto Rico, such lower limit as may be prescribed under Puerto Rican law). A Participant whose Pre-Tax Contributions together with other elective deferrals under a plan of an Affiliate exceed the applicable limitation, shall be deemed to have made a request for a refund under Section 5.3(b) and the excess will be refunded in accordance with such Section.

(b) If a Participant's Pre-Tax Contributions for a calendar year, when added to the "elective deferrals" within the meaning of Code § 402(g) made for a calendar year on behalf of such Participant under plans, contracts or arrangements of an employer that is not an Affiliate (for example, another unrelated employer's Code § 401(k) plan or tax sheltered annuity) for that calendar year, exceed the Code § 402(g) dollar limit, he or she may request a refund of that excess (or, if less, the Participant's Pre-Tax Contributions deducted during such calendar year under this Plan) by filing an election no later than March 1 of the following calendar year. A Participant's election under this Section 5.3(b) will specify the dollar amount of the excess and include a written statement that absent the refund, the Pre-Tax Contributions made under this Plan plus the other contributions described in this Section 5.3 will exceed the Code § 402(g) limit for that calendar year.

(1) Any refund timely requested or deemed requested under this Section 5.3(b) (adjusted for investment gain or loss) will be made no later than the April 15 that immediately follows the date the refund is requested or deemed requested.

(2) Any Pre-Tax Contributions (other than Pre-Tax Contributions described in the second sentence of this Section 5.3(b)) that exceed the limit set forth in Code § 402(g) will be taken into account for purposes of the ADP Test under Section 5.4 regardless of whether the Pre-Tax Contributions are refunded to a Participant in accordance with this Section 5.3(b). Notwithstanding the foregoing, excess Pre-Tax Contributions of a Nonhighly Compensated Employee will not be taken into account for purposes of the ADP Test to the extent the excess arises solely from Pre-Tax Contributions under this Plan and pre-tax contributions under all other qualified plans, contracts and arrangements maintained by the Affiliates to the extent prohibited under Code § 401(a)(30). Excess Pre-Tax Contributions

that are refunded under this Section 5.3(b) will not be taken into account for purposes of the Code § 415 limitations under Section 5.2.

(c) Refunds of excess Pre-Tax Contributions will be adjusted for investment gain or loss for the Plan Year for which the deferrals were made and for the period between the end of such calendar year and the date the deferrals are distributed in accordance with the regulations under Code § 402(g).

#### Section 5.4 Code § 401(k) Limitations for Highly Compensated Employees.

(a) ADP Test. The average of the Highly Compensated Employees' ADPs for a Plan Year, when compared to the average of the Nonhighly Compensated Employees' ADPs for the same Plan Year will satisfy either of the following tests:

(3) the average of the ADPs for all Highly Compensated Employees is not more than 125% of the average of the ADPs for all Nonhighly Compensated Employees, or

(4) the average of the ADPs for all Highly Compensated Employees is not more than two times the average of the ADPs for all Nonhighly Compensated Employees, and the excess of the average of the ADPs for all Highly Compensated Employees over the average of the ADPs for all Nonhighly Compensated Employees is not more than two percentage points.

In performing the ADP Test for a Plan Year, the applicable averages will be calculated taking into account each Participant who was eligible to make Pre-Tax Contributions at any time during that Plan Year.

(b) Aggregation with Other Plans or Arrangements. The ADP for any Highly Compensated Employee will be determined as if all contributions made on behalf of such Highly Compensated Employee during the same Plan Year under one, or more than one, other plan described in Code § 401(k) maintained by an Affiliate had been made under this Plan or, at the option of the Committee, the Plan may be permissively aggregated with such other plans if they have the same Plan Year and use the same ADP testing method. If this Plan satisfies the coverage requirements of Code § 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the coverage requirements of Code § 410(b) only if aggregated with this Plan, this Section 5.4 will be applied by determining the ADPs of all Participants as if all those plans were a single plan.

(c) Other Requirements and Elections. The determination and treatment of the Pre-Tax Contributions and ADP of any Participant will satisfy any other requirements prescribed by the Secretary of the Treasury including any subsequent Internal Revenue Service guidance issued under Code § 401(k), and, in performing the ADP Test, the Committee may use any alternatives and elections authorized under the applicable regulations, rulings or revenue procedures. If the Plan applies Code

§ 410(b)(4)(B) (exclusion of employees less than age 21 or without one year of service) for Code § 410(b) testing purposes the Plan will perform the ADP Test using the ADP of each eligible Highly Compensated Employee for the Plan Year and the ADP of each eligible Nonhighly Compensated Employee for the preceding Plan Year, disregarding each eligible Nonhighly Compensated Employee who was not age 21 or had not completed one year of service by the end of the preceding Plan Year.

(d) Action to Satisfy ADP Test.

(1) Refund of Excess Contributions. Excess Contributions (adjusted for investment gain or loss) will be refunded no later than the last day of the immediately following Plan Year to Highly Compensated Employees on whose behalf the Excess Contributions were made. Refunds will be made on the basis of the amount of Pre-Tax Contributions for such Plan Year starting with the Highly Compensated Employee with the greatest dollar amount of Pre-Tax Contributions, first from his or her unmatched Pre-Tax Contributions and thereafter from his or her Pre-Tax Contributions that are matched, and such refunds will be made first pro-rata from Investment Options other than the UPS Stock Fund and then, if necessary, from the UPS Stock Fund. The Excess Contributions that would otherwise be refunded will be reduced (in accordance with the Code § 401(k) regulations) by any refund made to the Highly Compensated Employee under Section 5.3. In the case of a Highly Compensated Employee who is an eligible employee in more than one plan of an Affiliate to which elective contributions are made, the amount of the Excess Contributions refunded to the Highly Compensated Employee for any Plan Year must not exceed the amount of his or her Pre-Tax Contributions actually contributed to the Plan for the Plan Year.

(2) Determination of Investment Gain or Loss. Excess Contributions will be adjusted for investment gain or loss for the Plan Year for which the contributions were made in accordance with the regulations under Code § 401(k) but will not be adjusted for investment gain or loss for the period between the end of the Plan Year and the date the Excess Contributions are distributed.

Section 5.5 Code § 401(m) Limitations For Highly Compensated Employees.

(a) ACP Test. The average of the Highly Compensated Employees' ACPs for a Plan Year, when compared to the average of the Nonhighly Compensated Employees' ACPs for the same Plan Year will satisfy either of the following tests:

(1) the average of the ACPs for all Highly Compensated Employees does not exceed 125% of the average of the ACPs for all Nonhighly Compensated Employees, or



(2) the average of the ACPs for all Highly Compensated Employees is not more than two times the average of the ACPs for all Nonhighly Compensated Employees, and the excess of the average of the ACPs for all Highly Compensated Employees over the average of the ACPs for all Nonhighly Compensated Employees is not more than two percentage points.

In performing the ACP Test for a Plan Year, the applicable averages will be calculated taking into account each Participant who was eligible to make Pre-Tax Contributions at any time during that Plan Year.

(b) Aggregation with Other Plans or Arrangements.

(3) The ACP for any Highly Compensated Employee will be determined as if any “employee contributions” (within the meaning of Code § 401(m)) and any “matching contributions” (within the meaning of Code § 401(m)(4)) allocated to his or her account during the same Plan Year under one, or more than one, other plan described in Code § 401(a) or § 401(k) maintained by an Affiliate had been made under this Plan or, at the option of the Committee, the Plan may be permissively aggregated with such other plans. If this Plan satisfies the coverage requirements of Code § 410(b) only if aggregated with one or more other plans, or if one or more other plans satisfy the coverage requirements of Code § 410(b) only if aggregated with this Plan, then this Section 5.5 will be applied by determining the ACPs of all Participants as if all the plans were a single plan.

(c) Action to Satisfy ACP Test.

(1) Distribution or Forfeiture of Excess Aggregate Contributions.

Notwithstanding any other provision of this Plan to the contrary, Excess Aggregate Contributions made for any Plan Year (adjusted for investment gains and losses) will be distributed from the Accounts of Highly Compensated Employees no later than the last day of the immediately following Plan Year.

The Excess Aggregate Contributions will be distributed on behalf of each Highly Compensated Employee, starting with the Highly Compensated Employee who has the largest sum of those contributions and ending when the Excess Aggregate Contributions are distributed. The Excess Aggregate Contributions will first be reduced by distributing After-Tax Contributions and then by distributing SavingsPLUS Contributions and such distributions will be made first pro-rata from Investment Options other than the UPS Stock Fund and then, if necessary, from the UPS Stock Fund.

In the case of a Highly Compensated Employee who is an eligible employee in more than one plan of an Affiliate to which employee and

matching contributions are made, the amount of the Excess Aggregate Contributions refunded to the Highly Compensated Employee for any Plan Year must not exceed the amount of his or her After-Tax Contributions and SavingsPLUS Contributions actually contributed to the Plan for the Plan Year.

(2) Determination of Investment Gain or Loss. Excess Aggregate Contributions will be adjusted for investment gain or loss for the Plan Year for which such contributions were made in accordance with the regulations under Code § 401(m) but will not be adjusted for investment gain or loss for the period between the end of the Plan Year and the date the Excess Aggregate Contributions are distributed.

Section 5.6 Roth Contributions. Roth Contributions shall be treated as Pre-Tax Contributions under this Article V and if Pre-Tax Contributions are required to be distributed to satisfy any such limitation, such distribution shall be made first from the affected Participant's Roth Contribution Account and if there is an insufficient amount in that account, the remainder of the distribution shall be made from the Participant's Pre-Tax Contribution Account.

#### Article VI. VALUATION AND ACCOUNT DEBITS AND CREDITS

Section 6.1 Accounts. The Committee will establish and maintain an Account (composed of such subaccounts as the Committee deems appropriate) in the name of each Participant to which will be credited such sums of cash or other property from time to time contributed or transferred to this Plan together with the earnings, profits and appreciation on those assets and to which will be charged the losses and depreciation on those assets and the Participant's share of the expenses of this Plan and the Trust Funds unless the Employer Companies pay for such expenses.

Section 6.2 Corrections. If an error or omission is discovered in any Account, an appropriate adjustment will be made to such Account and to such other Accounts as deemed appropriate and proper under the circumstances by or at the direction of the Committee in order to remedy such error or omission.

#### Article VII. INVESTMENTS

##### Section 7.1 Investment of Trust Funds.

(a) The Committee shall select Investment Options; provided, however, that one of the Investment Options shall be a fund invested primarily in UPS Stock. It is intended that the Plan satisfy the conditions for the participant-directed investment of Plan accounts contained in ERISA § 404(c) and the regulations thereunder (Labor Regulation Section 2550.404c-1), so as to afford to each Participant the opportunity to exercise control over the assets in his or her Account and to choose, from a broad range of investment alternatives, the manner in which

said assets are invested. In accordance with Sections 7.2 through 7.4, each Participant shall have the opportunity to choose, in accordance with such procedures as the Committee may prescribe, among the Investment Options. The allocation of the Participant's Account among Investment Options must be made in one percent (1%) increments.

(b) The Committee shall (1) determine the manner and frequency of investment instructions and limitations on such instructions and (2) establish such other procedures as may be necessary or appropriate to implement Participant and Beneficiary instructions in accordance with the requirements of ERISA Section 404(c), including procedures to provide Participants and Beneficiaries with an opportunity to obtain written confirmation of their investment instructions. Any such procedures may be amended or modified from time to time by the Committee at its discretion and all such procedures and any amendments or modifications to such procedures are incorporated into and made a part of this Plan.

The Committee shall provide for at least three Investment Options in addition to the UPS Stock Fund each of which is diversified and has materially different risk and return characteristics. The Committee shall permit a Participant to divest his or her investment in the UPS Stock Fund and reinvest an equivalent amount in other Investment Options at periodic, reasonable opportunities occurring no less frequently than quarterly. The Committee shall not impose any restrictions or conditions with respect to the investment in the UPS Stock Fund that are not imposed on other Investment Options except as required or as are reasonably designed to ensure compliance with applicable securities laws or as otherwise permitted under the Treasury Regulations under Code § 401(a)(35). To the extent that the Plan is an "applicable defined contribution plan" within the meaning of Code § 401(a)(35)(E) and the regulations thereunder, the requirements of Appendix 7.1, Diversification Requirements of Code § 401(a)(35), shall apply.

#### Section 7.2 Investment of Accounts.

(a) Investment Election. The Trustees shall invest and reinvest each Participant's Account among the Investment Options in accordance with the instructions provided by such Participant, which shall remain in force until altered in accordance with Sections 7.3 and 7.4.

Notwithstanding the foregoing, (a) a Participant may, on a form provided by the Committee, make a separate written election to have his or her Rollover Contribution invested in a manner independent of his or her other subaccounts, so long as such written election is transmitted to the Trustees at the same time as the Rollover Contribution is made to the Plan; (b) a Participant must provide separate investment elections for his or her Roth Contribution Account and (c) a Participant may not invest the Roth Contribution Account in a Self-Managed Account. Such investment directions must be in increments of one percent (1%). Such investment

directions must result in the investment of one hundred percent (100%) of the directed amount. Authorizations that do not result in an allocation of one hundred percent (100%) or are incorrect in any other respect will not be processed and the prior investment allocation shall continue in effect. Notwithstanding the foregoing, the Trustees may refuse to follow any investment instructions that the Trustees or the Committee reasonably believes could result in a transaction prohibited under ERISA § 406 or Code § 4975 and for which there is no exemption, could generate income that would be taxable to the Plan, would not be in accordance with the Plan or with ERISA, could cause the Trustee to maintain indicia of ownership of Plan assets outside of the United States, could jeopardize the Plan's tax exempt status or could result in a loss to the Plan in excess of the Participant's Account.

Notwithstanding the foregoing, contributions may not be invested directly in the Self-Managed Account; however, a Participant may direct the transfer of contributions and other amounts invested in another Investment Option into the Self-Managed Account pursuant to Section 7.4.

(b) Deemed Investment Elections. If a Participant is deemed to have made a Pre-Tax Contribution election pursuant to Section 3.1(b), and he or she does not make an Affirmative Investment Election, his or her Pre-Tax Contributions will be invested as follows, based on the Participant's date of birth as reflected in the records of the recordkeeper at the time of the contribution to the Trust Funds:

<b>Investment Option</b>	<b>Participants Date of Birth</b>
Bright Horizon Income Fund	1900 - 1947
Bright Horizon 2010 Fund	1948 - 1952
Bright Horizon 2015 Fund	1953 - 1957
Bright Horizon 2020 Fund	1958 - 1962
Bright Horizon 2025 Fund	1963 - 1967
Bright Horizon 2030 Fund	1968 - 1972
Bright Horizon 2035 Fund	1973 - 1977
Bright Horizon 2040 Fund	1978 - 1982
Bright Horizon 2045 Fund	1983 - 1987
Bright Horizon 2050 Fund	1988 - 1992
Bright Horizon 2055 Fund	1993 +

If, for any reason, the recordkeeper's records as to the Participant's date of birth are not correct, (a) the recordkeeper will correct the incorrect data as soon as administratively practicable after it is notified, in writing, of the error and (b) the Pre-Tax Contributions made to the Plan prior to such correction will remain invested in the Investment Options designated by the date of birth on the recordkeeper's records at the time the Pre-Tax Contribution was made to the Plan, until such time as the Participant makes an Affirmative Investment Election. The Trustee shall invest

and reinvest each Participant's Account among the Investment Options in accordance with the deemed investment elections provided by this Section 7.2(b), which shall remain in force until altered in accordance with Sections 7.2(a), 7.3 and 7.4.

Section 7.3 Investment Allocation of Future Contributions. Each Participant may elect to change the investment allocation of future Pre-Tax Contributions or After-Tax Contributions at any time. Each election to change a Participant's investment allocation among Investment Options shall be made via the VRU or in accordance with such other procedures as are prescribed by the Committee from time to time, and shall be effective as soon as practicable following the receipt thereof. Such election shall apply uniformly to all future Pre-Tax Contributions and After-Tax Contributions made by or on behalf of the Participant. Changes must be in increments of one percent (1%). Changes must result in a total investment of one hundred percent (100%) of the Participant's contributions under the Plan. Authorizations that do not result in an allocation of one hundred percent (100%) of the Participant's future contributions or are incorrect in any other respect will not be processed and the prior investment allocation shall continue in effect.

Notwithstanding the forgoing, contributions may not be invested directly in the Self-Managed Account; however, a Participant may direct the transfer of contributions and other amounts invested in another Investment Option into the Self-Managed Account pursuant to Section 7.4.

Section 7.4 Transfer of Account Balances Between Investment Options.

(a) General. Each Participant may elect to transfer the balances in his or her Account among the Investment Options at any time. Such election shall be made via the VRU, or in accordance with such other procedures as shall be prescribed by the Committee from time to time, and shall be effective as soon as practicable following receipt thereof, subject to limitations, if any, of the investment vehicles selected. If a transfer authorization does not result in the allocation of one hundred percent (100%) of the Participant's Account or if it is incorrect in any other respect, the transfer authorization will not be processed by the Committee and the prior investment allocation will continue in effect. Notwithstanding anything to the contrary in this subparagraph, amounts credited to any subaccount must remain credited to that subaccount until distribution from the Plan, unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a different subaccount.

(b) Self-Managed Account Transfers. A Participant's initial transfer into the Self-Managed Account must equal or exceed \$2,500. Any subsequent transfer into the Self-Managed Account must equal or exceed \$1,000. A transfer to the Self-Managed Account shall be permitted only if a Participant has \$500 or more invested in Investment Options, other than the Self-Managed Account, immediately following such transfer. A Participant may not transfer any portion of the Roth Contribution Account into the Self-Managed Account.

Section 7.5 Ownership Status of Funds. The assets of each Investment Option shall be owned by one of the Trustees. The applicable Trustee or a recordkeeper designated by the Committee shall maintain or have maintained records for each Investment Option allocating a portion of the investment representing such Investment Option to each Participant who has elected that his or her Account be invested in such Investment Option. The records shall reflect the U.S. dollar value of each Participant's portion of each Investment Option.

Section 7.6 Statements. The Committee shall furnish or cause to be furnished to each Participant, at least annually, a statement of his or her Account.

Section 7.7 Transition Period to Implement Plan Changes. In connection with a change in record keepers, trustees, or other service providers for the Plan, a change in the methodology for valuing accounts, a change in investment options, a plan merger or other circumstances, a temporary interruption in the normal operations of the Plan may be required in order to properly implement such change or merger or take action in light of such circumstances. In such event or under such circumstances, the Committee, may take such action as it deems appropriate under the circumstances to implement such change or merger or in light of such circumstances, including authorizing a temporary interruption in a Participant's ability to obtain information about his or her Account, to take distributions from such Account and to make changes in the investment of that Account, provided the Committee will take appropriate action as to give Participants as much advance notice of the interruption as possible and to minimize the scope and length of the interruption in normal Plan operations. In addition, when changing Investment Options, the Committee will take such action as it deems appropriate under the circumstances to direct the investment of the funds pending completion by a Trustee of the administrative processes necessary to transfer investment authority to the Participants, including, but not limited to, mapping monies from old funds to new funds. Notwithstanding the foregoing, one Investment Option will be a fund designed to invest primarily in UPS Stock.

Section 7.8 Alternate Payees and Beneficiaries. Solely for purposes of this Article VII, an Alternate Payee or a Beneficiary of a deceased Participant will be treated as a Participant.

Section 7.9 Investment in UPS Stock. The Trustee of the UPS Stock Fund may purchase UPS Stock from any source, provided that the Trustee will pay no more than Fair Market Value for any share. The Trustee may purchase either outstanding shares, newly issued shares, or treasury shares. To the extent that the Trustee needs to obtain cash, the Trustee may sell UPS Stock to the Employer for no less than Fair Market Value. The Committee shall direct the Trustee as to its responsibilities to suspend purchases of UPS Stock when such suspension is necessary to comply with any applicable law or applicable stock exchange rule or regulation in which event purchases will be made or resumed when the Committee reasonably concludes that purchases are permitted under applicable law. The recordkeeper selected by the Committee will account for the cost or other basis of all

UPS Stock held in the UPS Stock Fund in accordance with Treasury Regulation § 1.402(a)-1(b)(2)(ii).

Section 7.10 Voting and Tender Rights of UPS Shares. The Employer has engaged a third party recordkeeper, which has the responsibility to maintain Participant records, including the names, addresses and number of shares of Participants and Beneficiaries holding UPS Stock. The recordkeeper's duties with regard to proxies is to provide the Trustee of the UPS Stock Fund with a list which includes the name, address and number of shares held for each Participant and Beneficiary as of the applicable date. That Trustee has the responsibility to furnish Participants and Beneficiaries with the information set forth in Section 7.1(b)(3), to reconcile the number of shares that are voted or tendered by Participants and Beneficiaries and to vote or tender the remaining shares pursuant to Sections 7.10(a) and 7.10(b).

(a) Voting of UPS Shares. Shares of UPS Stock will be voted by the Trustee of the UPS Stock Fund as directed by the Participants or Beneficiaries invested in the UPS Stock Fund. All shares of UPS Stock will be voted by the Trustee in the same proportion as voting instructions are timely received by the Trustee. When determining the percentage of shares to be voted in favor of or against a particular measure, the Trustee will disregard shares of UPS Stock for which the Trustee has not timely received voting instructions. For example, if Participants and Beneficiaries fail to timely provide voting instructions on 25% of the UPS Stock Fund, all shares of UPS Stock held in the UPS Stock Fund will be voted in accordance with the timely instructions received for 75% of the UPS Stock.

(b) Tender of UPS Shares. In the event of a tender offer for UPS Stock, shares of UPS Stock will be tendered or not tendered as directed by the Participants or Beneficiaries. The failure to give a timely direction to tender is deemed to be a direction not to tender.

(c) Communication. The Trustee will (in an appropriate and timely manner) furnish, or cause to be furnished, to Participants and Beneficiaries who are entitled to direct the Trustee whether to tender the shares of UPS Stock allocated to his or her Account with the same information and notices as are furnished to other shareholders who are entitled to vote or entitled to tender regarding the matters to be voted upon or the tender offer and will provide them with adequate opportunity to deliver their instructions to the Trustee. The Trustee in its discretion will determine the manner in which instructions with respect to the voting or tender of UPS Stock will be given and any such instructions will be confidential.

#### Article VIII. VESTING

Each Participant shall at all times have a fully vested nonforfeitable interest in the value of his or her Account.

#### Article IX. DISTRIBUTIONS, WITHDRAWALS AND TRANSFERS

Section 9.1 General. A Participant may request distribution of his or her Account when he or she has a Severance from Employment and a Participant may request a withdrawal from his or her Account before a Severance from Employment to the extent provided in Sections 9.8, 9.9 and 9.10.

Section 9.2 Request for Distribution upon Severance from Employment. A Participant who has a Severance from Employment may request a distribution of his or her Account in one of the distribution forms described in Section 9.5. Following such request, payment of the Account will begin as soon as practicable (but, generally, no earlier than thirty (30) days) after his or her request for payment.

Unless the Participant otherwise elects or the Participant's consent is not required under this Section 9.2, payment of a Participant's Account will be made no later than the sixtieth (60th) day after the close of the Plan Year in which the latest of the following events occurs:

- (a) the date on which the Participant attains age sixty-two (62), which is the normal retirement age under the Plan; or
- (b) the Participant has a Severance from Employment.

A Participant's consent to distribution is not required if the value of his or her Account is less than \$1,000, and a cash lump sum distribution will automatically be made to such a Participant as soon as practicable following his or her Severance from Employment, without his or her consent.

Section 9.3 Automatic Deferral of Payment. A Participant who does not request a distribution of his or her Account under Section 9.2 (other than a Participant whose consent is not required) will be deemed to have elected to defer payment of his or her Account (which deemed election will be in lieu of a written election that conforms to the requirements of Code § 401(a)(14) and regulations promulgated thereunder) until the earlier of:

- (a) the date of such Participant's death, or
- (b) the later of (1) the date such Participant attains age seventy and one-half (70½) or (2) his or her Severance from Employment.

Such date is referred to as the "Latest Deferral Date".

If the Latest Deferral Date occurs as a result of the Participant's death, any amount remaining in the Account on such date (including amounts invested in the Self-Managed Account and the UPS Stock Fund) shall be paid in a cash lump sum as soon as administratively practicable following such date.

If the Latest Deferral Date occurs for a reason other than the Participant's death and the Participant has not received a distribution from the Plan that will satisfy the requirements



of Code § 401(a)(9) for such year, a minimum distribution that conforms to Section 9.4 shall automatically be made from the Plan.

Section 9.4 Required Beginning Date under Code § 401(a)(9) .

Notwithstanding any contrary Plan provision, a Participant's Account will be paid to him or her no later than April 1 of the calendar year following (a) the calendar year in which he or she reaches age seventy and one-half (70½) or (b) if later, for a Participant who is not a five percent (5%) owner (as defined in Code § 416), the calendar year in which he or she has a Severance from Employment.

Distributions under Article IX shall conform to the minimum distribution requirements of Code § 401(a)(9) in accordance with Appendix 9.4. The distribution required by Code § 401(a)(9) may, at the election of the Participant or Beneficiary, be the minimum distribution required by Code § 401(a)(9). If a Participant or Beneficiary is required to receive a minimum distribution for a Plan Year but such Participant or Beneficiary does not provide the information required to determine the exact amount of such distribution, the Committee will establish procedures for completing distributions required by Code § 401(a)(9).

Section 9.5 Distribution Form.

(a) Normal Form. Distribution of each Participant's Account shall be made in a lump sum of the Participant's entire Account, unless the Participant elects a partial lump sum distribution, installments under Section 9.5(b) or another distribution option available under Appendix 14.3 as a result of a merged plan. A Participant who has a Severance from Employment may request a partial lump sum distribution of less than his or her entire Account balance. There is no minimum amount for a partial lump sum distribution and each partial lump sum distribution is subject to a service fee established by the Committee.

(b) Installment Options. A Participant who has a Severance from Employment shall be eligible to receive all or if he or she elects a partial lump sum distribution, the remaining portion of his or her Account in a series of monthly installment payments only if he or she has an account at a financial institution that can accept monthly wire transfers. A Participant may select in accordance with procedures prescribed by the Committee either (i) the amount of each monthly installment payment or (ii) the number of monthly installment payments, that he or she would like to receive; provided, however, a Participant must select a minimum of twelve (12) monthly installment payments and the initial monthly installment payment must be at least fifty dollars (\$50).

Monthly installment payments shall cease as soon as administratively possible following the death of the Participant, unless the surviving Spouse who is the Beneficiary elects otherwise pursuant to Section 9.6(d).

A Participant may elect to terminate his or her installment election at any time. Such Participant may elect another form of distribution under this Section 9.5 at any time, provided the requirements of this Section 9.5 are independently satisfied with respect to each such new election.

Notwithstanding anything contrary in this § 9.5, installment payments shall not be made from the Self-Managed Account or the UPS Stock Fund.

(c) Source of Distribution. Distributions shall be made in accordance with procedures established by the Committee and, unless otherwise requested by the Participant, shall be made first from that portion of his or her Account other than the Self-Managed Account or the UPS Stock Fund, second from the UPS Stock Fund and third from the Self-Managed Account.

#### Section 9.6 Death.

(a) General. Subject to the provisions set forth in Appendix 14.3, if a Participant dies before his or her Account is paid to him or her in full, the remaining portion of the Account will be paid to his or her Beneficiary determined in accordance with (b) below.

(b) Determination of Beneficiary. A Participant's Beneficiary(ies) will be determined as follows:

(1) Except as otherwise provided below, a Participant's sole primary Beneficiary will be his or her surviving Spouse, if the Participant is lawfully married on the date of his or her death.

(2) If the Participant was not lawfully married at death, if the Participant's surviving Spouse consented in writing before a notary public to the designation of some other person or persons as the Participant's Beneficiary or if the Committee determines that spousal consent is not required under the Code or ERISA, then the Participant's Beneficiary will be the person or persons so designated in writing by the Participant on a form satisfactory to the Committee in accordance with (c) below.

(3) The Participant's Beneficiaries will be his or her estate, if any of the following apply:

(i) The Participant did not have a Spouse and failed to properly designate another Beneficiary;

(ii) Neither the Participant's Spouse, if any, nor any other Beneficiaries survive the Participant; or

(iii) After following the procedures in Section 9.19 (Forfeiture in Case of Unlocatable Participant), the whereabouts of

each person designated as a Beneficiary is unknown and no death benefit claim is submitted to the Committee prior to December 31 of the calendar year following the calendar year in which the Participant died.

(c) Designation of Beneficiaries. A Participant may designate one or more Beneficiaries in a manner satisfactory to the Committee which may include among other things, the use of an approved form, an on-line method via the Plan administrator's website, or telephonically. A Participant may designate both primary Beneficiaries and contingent Beneficiaries. Unless clearly indicated otherwise by the Participant in his or her Beneficiary designation made in accordance with this Section 9.6(c): (1) if the Participant designates multiple primary Beneficiaries or multiple contingent Beneficiaries, each will share equally in the Account and (2) persons designated as contingent Beneficiaries will be treated as the Participant's Beneficiaries only if each of the Participant's primary Beneficiaries fail to survive the Participant or cannot be located at the time of the distribution of the Participant's Account. A Participant may change his or her designation of Beneficiary from time to time, provided, however, that if the Participant's Spouse, if any, is not the sole primary Beneficiary of the Account, such Spouse, if any, must consent to the designation of other Beneficiaries in writing before a notary public. No such designation or change will be effective unless and until it is received by the Committee prior to the Participant's death. The Beneficiary designations under this Plan will supersede and replace any and all Beneficiary designations made under other plans merged into this Plan.

(d) Payment to Beneficiary. Subject to 9.5(b), a Beneficiary's interest in the Account of a deceased Participant will be paid to him or her in a single lump sum as soon as practicable after the Committee determines that the person has an interest in the Account. Distribution will be completed by December 31 of the calendar year containing the fifth anniversary of the date of the Participant's death. Notwithstanding the forgoing, if a Participant had elected to receive monthly installment payments, his or her surviving Spouse who is his or her Beneficiary may elect to continue monthly installment payments after the Participant's death.

(e) Information to the Committee. In its discretion, the Committee may require a copy of the Participant's death certificate and such other information as the Committee deems relevant to be submitted by the Beneficiary when making a request for death benefits under the Plan.

Section 9.7 Distribution Pursuant to a Qualified Domestic Relations Order. Any portion of a Participant's Account that is awarded to an alternate payee by reason of a qualified domestic relations order in accordance with Section 15.4(c) will, to the extent provided in such order, become available for distribution as soon as practicable following the determination by the Committee that the order meets the requirements of Code § 414(p). If the qualified domestic relations order so provides, an alternate payee may receive

a lump sum distribution of less than the entire balance credited to that portion of the Participant's Account allocated to such alternate payee. There is no minimum amount for such partial distributions and each partial distribution is subject to a service fee established by the Committee.

Section 9.8 In-Service Withdrawals. A Participant may make a withdrawal from his or her Account, other than the Self-Managed Account, before his or her Severance from Employment in accordance with the rules of this Section 9.8 or, in the case of a Merged Account, in accordance with the rules of Section 9.10.

(a) After-Tax Contribution Account and Rollover Contribution Account. A Participant may withdraw all or a portion of his or her After-Tax Contribution Account or his or her Rollover Contribution Account at any time by making a request for withdrawal via VRU or in accordance with such other procedures prescribed by the Committee from time to time.

The Participant's After-Tax Contribution Account or Rollover Contribution Account shall both be considered a separate "contract" for purposes of Code § 72(d) and a withdrawal from those subaccounts will be allocated on a pro rata basis with respect to the pre-and after-tax monies held in such subaccount.

A Participant's subaccount for after-tax contributions under a Merged Account shall be treated as part of his or her After-Tax Contribution Account and a Participant's subaccount for rollover contributions under a Merged Account shall be treated as a part of his or her Rollover Contribution Account for purposes of this Section 9.8.

(b) Withdrawals After Age Fifty-Nine and One-Half (59 ½). A Participant may withdraw all or a portion of his or her Pre-Tax Contribution Account, Roth Contribution Account or, if applicable, any subaccount for pre-tax contributions or Roth contributions under a Merged Account after age fifty-nine and one-half (59 ½), by submitting a request for withdrawal via VRU or in accordance with such other procedures prescribed by the Committee for this purpose.

(c) Hardship Withdrawals. Prior to age fifty-nine and one-half (59 ½), a Participant may withdraw any portion of his or her Pre-Tax Contribution Account or, if applicable, any subaccount for pre-tax contributions under a Merged Account (other than earnings on the Pre-Tax Contributions or pre-tax contributions under a Merged Plan held in the respective subaccount) in the event of financial hardship and a hardship withdrawal will be granted if, and to the extent that, the Committee determines that the withdrawal is "necessary" to satisfy an "immediate and heavy financial need" as determined in accordance with this Section 9.8(c). Amounts invested in the UPS Stock Fund shall not be available for hardship withdrawal.

(1) Financial Need. An "immediate and heavy financial need" means one or more of the following:

(i) expenses for unreimbursed medical care described in Code § 213(d) incurred by the Participant, the Participant's Spouse or dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B)) and amounts necessary for those individuals to obtain the medical care;

(ii) the purchase of a principal residence for the Participant (excluding mortgage payments);

(iii) the payment of tuition and related educational fees, including room and board, for the next twelve (12) months of post secondary education for the Participant or the Participant's Spouse, children or dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B));

(iv) the prevention of the eviction of the Participant from his or her principal residence or the foreclosure on the mortgage of the Participant's principal residence;

(v) payment for burial or funeral expenses for the Participant's deceased parent, Spouse, children or dependents (as defined in Code § 152, without regard to Code § 152(d)(1)(B));

(vi) expenses for the repair or damage to the Participant's principal residence that qualify for the casualty deduction under Code § 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income); or

(vii) the satisfaction of a federal tax levy on the Account of the Participant under the Plan pursuant to Code § 6331.

(2) Withdrawal Necessary to Satisfy Need. A hardship withdrawal will be deemed to be "necessary" to satisfy a financial need only if both of the following conditions are satisfied:

(i) The withdrawal will not exceed the amount of the need and any amounts necessary to pay any federal, state or local income taxes or penalties reasonably anticipated to result from the withdrawal; and

(ii) The Participant has obtained all distributions and withdrawals (other than hardship withdrawals) from any employee stock ownership plan under Code § 404(k), and all nontaxable loans currently available from all plans maintained by the Affiliates. However, a Participant will not be required to obtain a loan if the effect of the loan would be to increase the amount of the need.

(3) Suspension of Contributions and Adjusted Limits. If any portion of the hardship withdrawal comes from the Participant's Pre-Tax Contribution Account, for the six (6) month period following the date of the withdrawal, the Participant cannot make any Pre-Tax Contributions or After-Tax Contributions under this Plan or elective deferrals or employee contributions under any plan maintained an Affiliate. For this purpose, "plan" means all qualified and nonqualified plans of deferred compensation, including a stock option, stock purchase or other similar plan, but excluding a health or welfare benefit plan (even if it is part of a cafeteria plan described in Code § 125).

(4) Procedures. Any hardship withdrawal election must describe in detail the nature of the hardship and the amount needed as a result of the hardship and must include any additional information that the Committee requests consistent with this Section 9.8(c), including but not limited to, personal financial records.

(5) Special Rules related to Federal Tax Levy Hardship Withdrawals. Notwithstanding any other contrary provision of this § 9.8, the following special rules shall apply only to a federal tax levy hardship withdrawal described in § 9.8(c)(1)(vii):

(i) either the Participant, the Internal Revenue Service or an individual with authority to act on behalf of the Internal Revenue Service may request such a withdrawal at any time (including any time after the Participant reaches age fifty-nine and one-half (59 ½));

(ii) in addition to the Pre-Tax Contribution Account available under the first paragraph of this Section 9.8, the request may also apply to all, or any portion, of a Participant's After-Tax Contribution Account, Rollover Contribution Account and SavingsPLUS Account (including the Self-Managed Account and the UPS Stock Fund); and

(iii) the hardship distribution shall be made directly to the U. S. Treasury or other entity specifically identified in the federal tax levy.

Finally, the hardship withdrawal rules in this Section 9.8(c)(1)(i) through (vii) are intended to satisfy the safe harbor requirements in the Code § 401(k) regulations, and the Committee has the power to implement written procedures to modify these rules and to adopt additional rules to the extent permissible under those regulations.

(d) Payment of Withdrawal. Payment of the amount requested under Section 9.8 if permitted will be made to the Participant in a single lump sum as soon as practicable after his or her election is processed.

Section 9.9 Disability. A Participant who has been absent for more than 52 weeks on account of Disability (but who has not experienced a Severance from Employment) and whose Disability continues through the date of withdrawal under this Section 9.9 may withdraw all or any portion of his or her Account, other than the Self-Managed Account, at any time by submitting a request for withdrawal in accordance with the procedures adopted by the Committee for this purpose. Such withdrawal shall be subject to any additional restrictions, uniformly applied with respect to Participants similarly situated, as are prescribed by the Committee regarding the frequency and minimum amount of such withdrawal.

Section 9.10 Other In-Service Withdrawals. A Participant who was a participant in a Merged Plan may make an in-service withdrawal from his or her Merged Account, other than the Self-Managed Account, as described in Appendix 14.3.

Section 9.11 Redeposits Prohibited. No amount withdrawn pursuant to Sections 9.8, 9.9 or 9.10 may be redeposited in the Plan.

Section 9.12 Medium of Distribution.

All distributions shall be made in cash; provided, however that the portion of an Account that is invested in the UPS Stock Fund will be made (a) entirely in cash, or (b) as selected by the distributee in whole shares of UPS Stock and cash in lieu of any fractional share of UPS Stock. Hardship distributions made pursuant to § 9.8(c) will be made in cash only.

Section 9.13 Eligible Rollover Distribution.

(a) General. Notwithstanding any provision of this Plan to the contrary that would otherwise limit a Distributee's election under this Section 9.13, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution of two hundred dollars (\$200) or more transferred to an Eligible Retirement Plan or to an individual retirement plan described in Code § 408A (a "Roth IRA") specified by the Distributee in a Direct Rollover. Additionally, the Roth Contribution Account shall be treated as a separate plan for purposes of determining whether a Participant has an Account balance greater than \$200 under this Section 9.13.

(b) Definitions.

(1) Eligible Rollover Distribution. An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include:

(iv) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's Beneficiary, or for a specified period of ten (10) years or more;

(v) any distribution to the extent that distribution is required under Code § 401(a)(9); and

(vi) any distribution of Pre-Tax Contributions or pre-tax contributions under a Merged Account pursuant to Section 9.8(c) on account of hardship.

A portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion which consists of after-tax contributions may be paid only to an individual retirement annuity described in Code § 408(a) or Code § 408(b), to a Roth IRA or to a qualified defined contribution plan described in Code § 401(a) or 403(a) or an annuity contract described in Code § 403(b) that agrees to account separately for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such portion which is not so includible.

After-tax employee contributions may be paid to an annuity contract described in Code § 403(b) that agrees to account separately for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such portion which is not so includible.

(2) Eligible Retirement Plan. An Eligible Retirement Plan is an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), an annuity plan described in Code § 403(a), a qualified trust described in Code § 401(a) and an annuity contract described in Code § 403(b) or an eligible plan under Code § 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan in order to be an Eligible Retirement Plan. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p).

(3) Distributee. A Distributee includes the Participant, the Participant's surviving Spouse and the Participant's Spouse or former Spouse



who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p).

(4) Direct Rollover. A Direct Rollover is a payment by this Plan to the Eligible Retirement Plan specified by the Distributee.

(5) Additional Limitations. Notwithstanding the foregoing,

(i) if the Distributee elects to have his or her Eligible Rollover Distribution paid in part to him or her and paid in part as a Direct Rollover, the Direct Rollover must be in an amount of two hundred dollars (\$200) or more; and

(ii) a Direct Rollover to more than one Eligible Retirement Plan will not be permitted.

(6) Nonspouse Beneficiary Direct Rollover. A Beneficiary who is not (i) the Participant's surviving Spouse or (ii) the Participant's Spouse or former Spouse designated as an alternate payee under a qualified domestic relations order, as defined in Code § 414(p), may elect, at the time and in the manner prescribed by the Committee to have any portion of his or her distribution from the Plan paid in a direct trustee-to-trustee transfer to an individual retirement account described in Code § 408(a) or an individual retirement annuity described in Code § 408(b), or a Roth IRA, each of which is established for the purpose of receiving such distribution on behalf of such Beneficiary and is treated as an inherited individual retirement account or individual retirement annuity (within the meaning of Code § 408(d)(3)(C)) for purposes of Code § 402(c)(11) (each, an "Inherited IRA"). The minimum distribution rules of Code § 401(a)(9) as described in Section 9.4 shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

Section 9.14 30-Day Waiver. A distribution may commence less than thirty (30) days after the notice required with respect to such distributions under Code § 411(a)(11) ("Notice") is given, provided that:

(a) the Notice informs the Participant that he or she has the right to a period of at least thirty (30) days after receiving the Notice to consider the decision of whether or not to elect a distribution (and, if applicable, a particular distribution option), and

(b) the Participant, after receiving the Notice, affirmatively elects a distribution within the thirty (30)-day period.

Section 9.15 Withholding Obligations. The amount of any payment from an Account will be reduced as necessary to satisfy any applicable tax withholding requirements with respect to such payment.

Section 9.16 Account Balance. A payment from an Account may be delayed pending the completion of allocations to the Account if necessary to avoid underpayment or overpayment.

Section 9.17 Reemployment. Except as provided in Section 9.4 or in connection with an in-service withdrawal, no payment will be made from an Account if a Participant is reemployed as an Employee before payment is made.

Section 9.18 Claims Procedure. All grievances, complaints or claims concerning any aspect of the operation or administration of the Plan or Trust Funds, including a claim for benefits hereunder (collectively, a “claim for benefits” or “claim”) must be directed to the Committee or to a member of the Committee designated for that purpose. Each claim for benefits must be filed with the Committee, in writing, within 12 months of the date benefit payments were requested to begin or the date of the action, or inaction, causing the claim for benefits

Within ninety (90) days following receipt of a claim for benefits, the Committee will determine whether the claimant is entitled to benefits, or other administrative action, under the Plan, unless additional time is required for processing the claim. In this event, the Committee will, within the initial ninety (90)-day period, notify the claimant that additional time is needed, explain the reason for the extension, and indicate when a decision on the claim will be made, and such decision will be made within one hundred eighty (180) days of the date the claim is filed.

A denial by the Committee of a claim for benefits will be stated in writing and delivered or mailed to the claimant. The notice will set forth the specific reasons for the denial, written in a manner calculated to be understood by the claimant. The notice will include specific reference to the Plan provisions on which the denial is based and a description of any additional material or information necessary to perfect the claim, an explanation of why this material or information is necessary, the steps to be taken if the claimant wishes to submit his or her claim for review, a description of the Plan’s review procedures, the time limits applicable to such procedures, and a statement of the claimant’s right to bring a civil action under ERISA § 502(a) after all claims appeal procedures have been exhausted.

The Committee will afford a reasonable opportunity to any claimant whose request for benefits has been denied for a review of the decision denying the claim. The review must be requested by written application to the Committee within sixty (60) days following receipt by the claimant of written notification of denial of his or her claim. Pursuant to this review, the claimant or his or her duly authorized representative may review any documents, records and other information which are pertinent to the denied claim and may submit issues and comments in writing. A claimant may also submit documents, records and other

information relating to his or her claim, without regard to whether such information was submitted in connection with his or her original benefit claim.

A decision on the claimant's appeal of the denial of a claim for benefits shall ordinarily be made by the Committee at the next regularly scheduled meeting that immediately follows receipt of the request for review, unless the request for review is received within 30 days of such meeting date. In that case, the review will occur at the second regularly scheduled meeting following the Plan's receipt of the request for review. If an extension of time is required because of special circumstances, the Committee will provide the claimant with written notice of the extension decreeing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. A benefit determination will be made no later than the third regularly scheduled meeting of the Committee following the Plan's receipt of the request for review.

The decision on review will be in writing and will include specific reasons for the decision, written in a manner calculated to be understood by the claimant, specific reference to the Plan provisions on which the decision is based, a statement that the claimant or his or her authorized personal representative may review any documents and records relevant to the claim determination, a statement describing any further voluntary appeals procedure, if any, and a statement of the claimant's right to bring a civil action under ERISA § 502(a).

Section 9.19 Forfeiture in Case of Unlocatable Participant. If the Committee is unable to pay any benefits under the Plan to any Participant or to a Beneficiary of any Participant who is entitled to benefits under this Plan because the location of such person cannot be ascertained, the Committee will proceed as follows:

(a) Within 90 days of the date any benefits are payable under this Plan, the Committee will send an appropriate notice to such individual, to the last address for such individual listed in the Committee's records.

(b) If this notice is returned as unclaimed or the individual cannot be located at the end of the ninety (90)-day period which follows the ninety (90)-day period referred to in Section 9.19(a), the Committee will send a notice to the last address listed in its records for the individual and will attempt to locate such individual through a commercial locator service.

(c) If such individual has not been located by the December 31 of the calendar year following the calendar year in which benefits become payable and in the case of a Beneficiary, there is no alternate Beneficiary identified under the procedures of Section 9.6, all amounts held for his or her benefit will be forfeited and all liability for payment of that benefit will terminate, unless some other procedure is permitted or required by law. In any such case, the funds released as a result of such forfeiture each Plan Year will be applied as provided in Section 9.19(d). However, if an individual subsequently makes what the Committee determines to be a valid and proper claim to the Committee for his or her benefit that was

forfeited, the forfeited amount will be restored without interest and will be distributed in accordance with the terms of this Plan.

(d) Forfeitures shall be applied in the next following Plan Year and in subsequent Plan Years to the following items in the order set forth below until all the forfeitures have been so applied:

- (i) to restore each previously forfeited benefit upon a valid and proper claim as described in Section 9.18;
- (ii) to pay the reasonable and proper expenses of the Plan and Trust Funds as provided under Article XII; and
- (iii) to offset future SavingsPLUS Contributions.

To the extent forfeitures for any Plan Year exceed amounts described in (i) through (iii), such excess forfeitures shall be allocated to each Participant who is an Eligible Employee for such Plan Year on a per capita basis.

Section 9.20 Distribution/Transfer Processing Rules. All distributions, transfers and other transactions will be processed via VRU or in accordance with such other procedures as may be prescribed from time to time by the Committee, or the Trustee, including procedures regarding the use of reasonable blackout periods during which no transactions are processed.

## Article X. LOANS

### Section 10.1 Hardship Loans.

(a) Hardship Loans. Hardship loans from a person's Account under this Plan are available in accordance with this Section 10.1; provided, however, that the portion of a person's Account allocated to his or her SavingPLUS Account, Roth Contributions Account or invested in a Self-Managed Account or UPS Stock shall not be available for hardship loans. A Participant may apply for a second loan while a first loan is outstanding, provided that repayment on the first loan is being made in a timely manner. Subject to Section 10.2 and Section 10.3, no more than two loans may be outstanding at any one time, and any loan balance which is "rolled over" into a Participant's Account or a loan from a Merged Plan shall be counted for the purpose of this limitation. Notwithstanding the immediately preceding sentence, subject to Section 10.2, Participants who are employees of Menlo Worldwide Forwarding, Inc. may have up to three loans "rolled over" at the time they become an Eligible Employee. Any loan application must satisfy spousal consent rules, if applicable. Application for a loan may be made only for the following purposes:

- (3) the purchase of a principal residence;

(4) the payment of tuition and related educational fees, including room and board expenses, for the next twelve (12) months of post- secondary education for a Participant, his or her Spouse or dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B));

(5) the payment of expenses for medical care (as described in Code § 213(d)) previously incurred by the Participant, his or her Spouse or any dependents (as defined in Code § 152, without regard to Code §§ 152(b)(1), 152(b)(2) and 152(d)(1)(B)), or necessary for those persons to obtain medical care;

(6) the payment to prevent eviction from or foreclosure on a Participant's principal residence;

(7) the payment of expenses in connection with the adoption of a child;

(8) the payment of unreimbursed funeral expenses for a family member of a Participant. For this purpose "family member" shall mean the Spouse of a Participant, the child of a Participant or the Participant's Spouse, the parent or step-parent of a Participant or the Participant's Spouse, the brother or sister of a Participant or the Participant's Spouse, the grandparent of a Participant or the Participant's Spouse, or the grandchild of a Participant or the Participant's Spouse; and

(9) expenses for the repair or damage to the Participant's principal residence that qualify for the casualty deduction under Code § 165 (determined without regard to whether the loss exceeds 10% of adjusted gross income.

(b) Administration. The Committee will be the named fiduciary responsible for the administration of the loan program under this Plan. The Committee will establish objective nondiscriminatory written procedures for that loan program in compliance with Labor Regulation § 2550.408b-1. Those procedures and any amendments to those procedures, to the extent not inconsistent with the terms of this Plan, are incorporated by this reference as part of this Plan.

(c) Statutory Requirements.

(1) General. All loans made under this Plan will comply with the following requirements under ERISA § 408(b)(1):

(i) Each Participant or Beneficiary of a deceased Participant who is a "party-in-interest" (as defined in ERISA § 3(14) ) may request a loan from the Plan;

(ii) Loans will be made available to Participants and Beneficiaries who are eligible for a loan on a reasonably equivalent basis;

(iii) Loans will not be made available to Highly Compensated Employees in an amount greater than the amount made available to other Employees;

(iv) Loans will be made in accordance with specific provisions regarding loans set forth in this Plan and the written loan procedures established by the Committee;

(v) Loans will bear a reasonable rate of interest as set by the Committee; and

(vi) Loans will be adequately secured.

(2) Repayment Period.

(i) Principal and interest on the loan must be repaid in substantially level installments with payments not less frequently than quarterly over a period of five (5) years or less, or up to fifteen (15) years in the case of a residential loan.

(ii) The Committee may establish such rules as it deems necessary or appropriate for the repayment of loans, including a cure period for repayments. The Committee may permit a Participant who is on a bona fide leave of absence either without pay or with pay that is at a rate that is less than the amount of the installment payments required under the terms of the loan to suspend repayment for the period of the absence (but not to exceed a year, except in the case of a Participant who is performing qualified military service within the meaning of Code § 414(u)(5)). If payments are suspended, the loan will be reamortized on the date that such Participant is no longer entitled to a suspension at the then outstanding principal and interest (including interest accrued during the absence) in substantially equal installments over the remaining loan term. The loan term for a Participant engaged in qualified military service within the meaning of Code § 414(u)(5) shall be extended by the period of such service. Except in the case of a Participant engaged in qualified military service within the meaning of Code § 414(u)(5), in no event shall any loan become due and payable later than the applicable period described in Section 10.1(c)(2)(i). In the case of a suspension of loan payments during a period of qualified military service within the meaning of Code § 414(u)(5), the loan must be paid in full (including

interest that accrues during such period) by the end of the original term extended by the period of military service.

(iii) A loan made under this Section 10.1 shall become due and payable in full:

(A) if a Participant's employment as an Employee terminates for any reason whatsoever unless such Participant remains a "party-in-interest" with respect to this Plan following his termination of employment;

(B) if the Committee or a Trustee conclude that the Participant or Beneficiary no longer is a good credit risk; or

(C) to the extent permissible under federal law, if a Participant's or Beneficiary's obligation to repay the loan has been discharged through a bankruptcy or any other legal process or action which did not actually result in payment in full.

(3) Limitations on Amounts. No loan will be available to a Participant or a Beneficiary under this Section 10.1 if the Committee determines he or she would be unable to repay such loan in a timely fashion. The principal amount of a loan made under this Plan to a Participant or Beneficiary, together with the outstanding principal amount of any loan made under any plan maintained by an Affiliate that satisfies the requirements of Code §§ 401 or 403, may not exceed the lesser of:

(i) Fifty percent (50%) of that person's vested portion of his or her Account (excluding any amounts in such person's SavingsPLUS Account, Roth Contribution Account, Self-Managed Account, UPS Stock and subject to any special consent requirements under Appendix 14.3.) at the time the loan is made; or:

(ii) Fifty Thousand Dollars (\$50,000), reduced by the excess (if any) of:

(D) the highest outstanding balance of any previous loans from this Plan and any other plan maintained by an Affiliate during the one-year period ending immediately before the date on which the current loan is made over

(E) the outstanding balance of the previous loans on the date on which the current loan is made.

(iii) Minimum Loan Amount. The minimum loan amount is one thousand dollars (\$1,000).

(4) Interest Rate. The interest rate for a loan made under this Section 10.1 shall be one percent above the prime rate as published in the *Wall Street Journal* as of the last business day of the month preceding the month in which the loan application is made. The interest rate will remain fixed for the duration of the loan except to the extent otherwise required by applicable law.

(5) Method of Repayment. Repayment of a loan made under this Section 10.1 shall be made through payroll withholding except that payment by check will be permitted under any circumstances where the Committee determines that payroll deduction would be impracticable or prohibitive. Further, a loan may be repaid in full at any time prior to the expiration of the installment period of such loan by a single sum payment to the Trustees of the outstanding principal balance then due plus any accrued but unpaid interest. All repayments made to an Affiliate shall be transferred to the Trustees as soon as practicable after such Affiliate deducts them or receives them.

(6) Security and Default.

(iv) Any loan made to a Participant or Beneficiary under this Section 10.1 shall be secured by an amount equal to the lesser of (A) the outstanding principal and interest due under such loan or (B) fifty percent (50%) of his or her total vested interest in his or her Account (excluding any amounts in such person's SavingsPLUS Account or Roth Contribution Account).

(v) The events of default shall be set forth in the promissory note and security agreement which evidences the loan, and such events may include the following:

(A) failure to repay the loan before the end of the five (5) year maximum period or fifteen (15) year period in the case of a residential loan set forth in Section 10.1(c)(2).

(B) failure to repay the amount due and payable on the loan upon the occurrence of an event described in Section 10.1(c)(2)(iii).

(vi) Upon default of a loan the Trustees shall upon direction by the Committee foreclose on such loan and exercise the Plan's security interest in the Participant's or Beneficiary's Account by reducing the amount otherwise distributable to him or her under



this Plan by the principal amount of the loan plus any accrued but unpaid interest then due at the time of default as determined without regard to whether the loan had been discharged through a bankruptcy or any other legal process or action which did not actually result in payment in full.

(vii) The Committee shall have the power to direct the Trustees to take such action as the Committee deems necessary or appropriate to stop the payment of an Account to or on behalf of a Participant or Beneficiary who fails to repay a loan (without regard to whether his or her obligation to repay such loan had been discharged through a bankruptcy or any other legal process or action) until his or her Account has been reduced by the principal plus accrued but unpaid interest due (without regard to such discharge) on such loan or to distribute the note which evidences such loan in full satisfaction of any interest in such Account which is attributable to the value of such note.

(7) Distribution and Default. The vested portion of an Account actually payable to an individual who has an outstanding loan will be determined by reducing the vested portion of an Account by the amount of the security interest in the Account. Notwithstanding anything to the contrary in this Plan or in the written loan procedures, in the event of default, foreclosure on the note and execution of the security interest in an Account will not occur until a distributable event occurs under this Plan.

(8) Other Conditions. Any loan made under this Plan shall be subject to such other terms, limitations and conditions as the Committee from time to time shall deem necessary or appropriate

(9) Accounting. A loan to a Participant shall be considered a separate investment of the Account of the Participant. The proceeds of the loan shall be withdrawn pro rata from each Investment Option in which the Participant's Account is invested at the time of the loan and repayments of principal and interest on the loan shall be invested in the Investment Options in effect at the time of repayment pursuant to the Participant's investment election under Article VII.

Section 10.2 Rollover of Loan Balances. An Eligible Employee who becomes an Eligible Employee as a result of an acquisition by the Employer or an Affiliate may elect to rollover one or more loans from another qualified retirement plan in connection with the rollover of the Participant's entire balance under such plan. Notwithstanding the foregoing, (a) if a Participant rolls over more than two loans under this Section 10.2 such Participant may not apply for or take a new loan under Section 10.1(a) until he or she has repaid in full all but one loan, and after such repayment such Participant shall be subject to the limitation set forth in Section 10.1(a) and (b) in no event shall a loan rolled over

from another qualified retirement plan include any amounts distributed from a designated Roth account (as defined in Treasury Regulation § 1.402A-1, Q&A-1).

Section 10.3 Loans from Merged Plans. Any outstanding loan under a Merged Plan shall continue to be repaid under this Plan following the merger in accordance with Appendix 14.3. Notwithstanding the foregoing, if a Participant had more than two loans under a Merged Plan such Participant may not apply for or take a new loan under Section 10.1(a) until he or she has repaid in full all but one loan, and after such repayment such Participant shall be subject to the limitation set forth in Section 10.1(a).

#### Article XI. TRUST FUND

Section 11.1 Trustee Responsibilities. The Trustees will hold in trust all assets of the Trust Funds and will manage, invest and administer the Trust Funds in accordance with the terms of the trust agreements between the Employer and the Trustees, as amended from time to time, and incorporated herein by reference and this Plan without distinction between principal and income and the Trustees will be responsible for valuing all assets other than UPS Stock.

#### Article XII. EXPENSES

All reasonable and proper expenses of the Plan and the Trust Funds (within the meaning of ERISA § 403(c)(1) and § 404(a)(1)(A)), including (a) the compensation of each Investment Manager and the Trustees, (b) the expenses related to the Plan's administration and (c) any taxes that may be levied or assessed against the Trustees on account of the Trust Funds will be paid from the Trust Funds, unless the payment of the expense would constitute a "prohibited transaction" within the meaning of ERISA § 406 or Code § 4975. Charges for processing distributions, rollovers and loans ("Distribution Expenses") will be allocated directly to the Account of each Participant or Beneficiary who has requested a distribution, rollover or loan. The charges for Distribution Expenses shall be established by the Committee from time to time and may vary depending on the type of distribution, rollover or loan requested by the Participant or Beneficiary. All expenses (other than Distribution Expenses) shall be paid from forfeitures or to the extent forfeitures are insufficient, shall be allocated among all of the Accounts on a per capita basis. The Employer Companies, however, will have the right to pay all or any part of any expenses and to be reimbursed from the Trust Funds for any expenses paid by them that are properly payable from the Trust Funds. Any expenses that cannot be paid from the Trust Funds will be paid by the Employer Companies.

#### Article XIII. ADMINISTRATIVE COMMITTEE

Section 13.1 Committee. The Plan will be administered by a Committee consisting of not less than three members appointed by the Board, each of whom is and shall be a "named fiduciary" with respect to the Plan. The Committee will be the "plan administrator" of the Plan as that term is used in ERISA and the agent for service of process on or with respect to the Plan.

Section 13.2 Vacancies on Committee. Committee members will serve at the pleasure of the Board, and all vacancies will be filled by the Board. Committee members may resign at any time, such resignation to be effective when accepted by the Board.

Section 13.3 Authority of Committee. The Committee will establish rules for the administration of the Plan, and will decide all questions arising in the administration of the Plan not specifically delegated or reserved to the Board, the Employer or the Trustees. Except as otherwise expressly provided in this Plan, the Committee will have the exclusive right and complete discretion and authority to control the operation, management and administration of this Plan, with all powers necessary to enable the Committee to properly carry out such responsibilities, including but not limited to, the power to interpret the Plan, to construe the Plan's terms, and to decide any matters arising in and with respect to the administration and operation of the Plan, and, subject to the claims procedure described in Section 9.18, any interpretations or decisions so made will be final and binding on all persons; provided, however that all such interpretations and decisions will be applied in a uniform manner to all similarly situated persons.

Section 13.4 Action by Committee . The Committee will act by a majority of the Committee members at that time in office. Such action may be taken either by a vote at a meeting or in writing without a meeting. The Committee may appoint subcommittees and also may authorize any one or more of the Committee members or any agent to execute any document or documents or to take any other action on behalf of the Committee, except that no member of the Committee will have the right to take any such action on any matter relating solely to himself or herself or to any of his or her rights or benefits under the Plan.

Section 13.5 Liability of the Committee. The Committee and its members, to the extent of the exercise of their authority, will discharge their duties with respect to the Plan in accordance with ERISA. No member will be responsible for the actions or omissions of another member or of any other party that is a fiduciary with respect to this Plan, other than himself or herself, which are not in conformity with the Plan or ERISA, unless (a) the member knowingly participates in or knowingly conceals such conduct which he or she knows to be in breach of this standard, (b) his or her own conduct has enabled the other member or other fiduciary to be in breach of this standard, or (c) he or she has knowledge of such breach by another member or other fiduciary and fails to make reasonable efforts under the circumstances to remedy such breach.

Section 13.6 Authority to Appoint Officers and Advisors. The Committee may appoint such officers as it may deem advisable and may adopt by-laws covering the transaction of its business. The Committee may appoint and employ an Investment Manager or Managers, counsel, agents and such other service providers, including clerical, accounting and advisory service providers, as it may require in carrying out the provisions of the Plan, and will be fully protected in relying upon any action taken in reliance upon advice given by such persons.

Section 13.7 Committee Meeting. The Committee will hold meetings at such place or places, and at such time or times as it may determine from time to time, but not less frequently than once each calendar quarter.

Section 13.8 Compensation and Expenses of Committee. The members of the Committee may receive reasonable compensation for their services as the Board from time to time may determine. Such compensation and all other expenses of the Committee, including the compensation of officers, actuaries or counsel, agents or others that the Committee may employ, will constitute expenses of the Trust Funds unless paid by the Employer Companies. Notwithstanding the foregoing, any Committee member who is employed on a full-time basis by an Employer Company will receive no compensation, but may be reimbursed for expenses incurred.

Section 13.9 Records. The Committee will keep or cause to be kept accurate and complete books and records.

Section 13.10 Fiduciary Responsibility Insurance, Bonding. If the Employer has not done so, the Committee may purchase appropriate insurance on behalf of the Plan and the Plan's fiduciaries, including the members of the Committee, to cover liability or losses occurring by reason of the acts or omissions of a fiduciary; provided, however, that such insurance, to the extent purchased by the Plan, must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary duty or obligation by such fiduciary. The cost of such insurance will be borne by the Trust Funds, unless the insurance is paid for by the Employer. The Committee will also obtain a bond covering all of the Plan's fiduciaries, to be paid from the assets of the Trust Funds.

Section 13.11 Delegation of Specific Responsibilities. The members of the Committee may agree in writing signed by each member to allocate to any one of their number or to other persons (including corporations or other entities) any of the responsibilities with which they are charged pursuant hereto, including the appointment of a record keeper and one or more Investment Managers, provided any agreement allocating such duties will be in writing and kept with the records of the Plan and, in the case of the appointment of an Investment Manager, the person is a named fiduciary. If such delegation is made to a person who is not a member of the Committee, that person or, in the case of a corporation or other entity, its responsible officer, will acknowledge the acceptance and understanding of such duties and responsibilities.

Section 13.12 Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration. The fiduciaries of this Plan, including the Trustees, the Employer, the Board and the Committee, will have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan. Each fiduciary warrants that any directions given, information furnished, or action taken will be in accordance with the provisions of the Plan authorizing or providing for such direction, information or action. Furthermore, each fiduciary may rely upon any such direction, information or action of another fiduciary as being proper under this Plan, and is not required under this Plan to inquire into the propriety of any such direction, information or action. It is intended that

each fiduciary will be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and will not be responsible for any act or failure to act of another fiduciary. No fiduciary guarantees the Trust Funds in any manner against investment loss or depreciation in asset value.

Section 13.13 Indemnification. The Employer (to the extent permissible under the Employer's charter and by-laws and applicable law) will indemnify the officers and employees of the Employer and each Employer Company and the members of the Committee, and their heirs, successors and assigns from and against any liability, assessment, loss, expense or other cost of any kind or description whatsoever, including legal fees and expenses, actually incurred by him or her on account of any action or proceeding, actual or threatened, that arises as a result of his or her acting within the scope of his or her authority under this Plan, provided (a) such action or proceeding does not arise as a result of his or her own gross negligence, willful misconduct or lack of good faith and (b) such protection is not otherwise provided through insurance.

#### Article XIV. AMENDMENT, TERMINATION AND MERGER

Section 14.1 Amendment. The Board reserves the right at any time and from time to time to amend this Plan in any respect in writing, and the amendment will be binding upon a Trustee and all Employer Companies without further action; provided, that no amendment will be made that (unless otherwise permissible under applicable law) would (a) divert any of the assets of the Trust Funds to any purpose other than the exclusive benefit of Participants and Beneficiaries, (b) eliminate or reduce an optional form of benefit except to the extent permissible under Code § 411(d)(6) or (c) change the rights and duties of the Trustees without its consent. Notwithstanding the foregoing, this Plan may be amended retroactively to affect the Account maintained for any person if necessary to cause this Plan and the Trust Funds to be exempt from income taxes under the Code.

Section 14.2 Termination. The Employer expects this Plan to be continued indefinitely but, of necessity, reserves the right to terminate or to partially terminate this Plan or to discontinue its contributions at any time by action of the Board. The Employer also reserves the right to terminate or to partially terminate the participation in this Plan by an Employer Company by action of the Board. An Employer Company's participation in this Plan automatically will terminate if, and at such time as, it ceases to satisfy the requirements to be an Employer Company for any reason whatsoever (other than through a merger or consolidation into another Employer Company), but termination of participation by an Employer Company will not be deemed to be a termination or partial termination of the Plan except to the extent required under the Code.

If there is a termination or partial termination of this Plan or a declaration of a discontinuance of contributions to this Plan, the Accounts of all affected Participants who are employees as of the effective date of the termination, partial termination or declaration will become fully vested. The Committee will cause all unallocated amounts to be allocated to the appropriate Accounts of the affected Participants and Beneficiaries. Upon direction of the Committee, the Trustees will distribute Accounts to Participants and Beneficiaries in

accordance with uniform rules established by the Committee consistent with Code § 401(a) and Code § 401(k).

Section 14.3 Merger, Consolidation or Transfer of Plan Assets. No merger or consolidation of this Plan with, or transfer of assets or liabilities of this Plan to, any other plan will occur unless each Participant in the Plan would (if the Plan then terminated) receive a benefit immediately after the merger, consolidation, or transfer that is equal to or greater than the benefit he or she would have been entitled to receive immediately before the merger, consolidation or transfer (if the Plan had then terminated).

The Committee may authorize the Trustees to accept a transfer of assets from or to transfer Trust Fund assets to the trustee, custodian or insurance company holding assets of any other plan that satisfies the requirements of Code § 401(a) in connection with a merger or consolidation with or other transfer of assets and liabilities to or from any such plan, provided that the transfer will not affect the qualification of this Plan under Code § 401(a).

Any special provisions that apply to amounts transferred under this Section 14.3 shall be set forth in Appendix 14.3.

#### Article XV. MISCELLANEOUS

Section 15.1 Headings. The headings and subheadings in this Plan have been inserted for convenience of reference only and are to be ignored in the construction of the provisions of this Plan. All references to Articles, Sections and to paragraphs will be to Sections, and to subsections of this Plan unless otherwise indicated.

Section 15.2 Construction. In the construction of this Plan, the singular will include the plural in all cases where that meaning would be appropriate. This Plan will be construed in accordance with the laws of the State of Georgia, to the extent that those laws are not preempted by federal law. This Plan will not be construed to grant, nor will grant, any rights or interests to Participants or Beneficiaries in addition to those minimum rights and interests required under ERISA. Further, the Trust Fund is intended to be tax exempt under the Code.

Any reference to a statute will also include a reference to any successor statute and if any amendment renumbers a section of a statute referenced in this Plan, any such reference to such section automatically will become a reference to that section as renumbered.

Section 15.3 Counterparts. This Plan may be executed by the Employer and the Trustees in two or more counterparts, each of which shall be deemed to be an original but all of which taken together shall be deemed to be one document.

Section 15.4 Prohibition Against Attachment.

(a) None of the benefits payable hereunder will be subject to the claims of any creditor of any Participant or Beneficiary other than this Plan nor will those

benefits be subject to attachment, garnishment or other legal or equitable process by any creditor of a Participant or Beneficiary other than this Plan, nor will any Participant or Beneficiary have any right to alienate, anticipate, commute, pledge, encumber, or assign any of such benefits.

(b) If any Participant or Beneficiary under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, the interest of such person in such benefit shall, in the discretion of the Committee, cease and terminate, and in that event the Committee may direct the Trustees to hold or apply the same or any part thereof to or for the benefit of such Participant or Beneficiary, his or her Spouse, children, or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.

(c) The restrictions of subsections (a) and (b) of this Section will not be violated by either (1) the creation of a right to payments from this Plan by reason of a qualified domestic relations order (as defined in Code § 414(p)) or (2) the making of such payments. In accordance with uniform and nondiscriminatory procedures established by the Committee from time to time, the Committee upon the receipt of a domestic relations order that seeks to require the distribution of a Participant's Account in whole or in part to an alternate payee (as the term is defined in Code § 414(p)(8)) will:

(1) promptly notify the Participant and such alternate payee of the receipt of such order and of the procedure that the Committee will follow to determine whether such order constitutes a qualified domestic relations order within the meaning of Code § 414(p);

(2) determine whether such order constitutes a qualified domestic relations order, notify the Participant and the alternate payee of the results of such determination and, if the Committee determines that such order does constitute a qualified domestic relations order;

(3) transfer such amounts, if any, from the Participant's Account to a separate bookkeeping account for such alternate payee as the Committee determines necessary to satisfy the requirements of the order and Code § 414(p); and

(4) make such distribution to such alternate payee as the Committee deems called for under the terms of such order in accordance with Code § 414(p) without regard to whether a distribution would be permissible at such time to the Participant under the terms of this Plan.

An alternate payee will be treated the same as a Beneficiary of a deceased Participant pending the distribution of such alternate payee's entire interest under this Plan. Further, an alternate payee who is the Spouse or former Spouse of the Participant may elect that any

distribution that qualifies as an eligible rollover distribution (within the meaning of Code § 401(a)(31)) be transferred directly to an eligible retirement plan in accordance with Section 9.13.

Section 15.5 Benefits Supported Only by the Trust Funds. Any person having any claim for any benefit under this Plan must look solely to the assets of the Trust Funds for satisfaction. In no event will the Trustees, the Employer, an Employer Company, the Committee or any of their officers, directors or agents be liable in their individual capacities to any person whomsoever for the payment of benefits under the provisions of this Plan.

Section 15.6 Satisfaction of Claims. Any payment to a Participant or Beneficiary, or to the legal representative or heirs-at-law of either, made in accordance with the provisions of this Plan will to the extent of such payment be in full satisfaction of all claims under this Plan against the Trustees, the Employer, any Employer Company and the Committee, any of whom may require that person, his or her legal representative or heirs-at-law, as a condition precedent to such payment, to execute a receipt and release in a form acceptable to the Committee.

Section 15.7 Nonreversion. No part of the Trust Funds will ever be used for or be diverted to purposes other than for the exclusive benefit of Participants and Beneficiaries except that, upon direction of the Committee, the Trustees will return contributions to the Employer Companies in the following circumstances, to the extent permitted by the Code and ERISA:

- (a) a contribution that is made by a mistake of fact will be returned, provided the return is made within one year after the payment of such contribution; and
- (b) a contribution may be returned to the extent that the Internal Revenue Service denies an income tax deduction of such contribution, provided such return is made within one year after such denial, all such contributions being made expressly on the condition that such contributions are deductible in full for federal income tax purposes.

Section 15.8 Top-Heavy Plan.

(a) Determination. The Committee as of the last day of each Plan Year (the “determination date”) will determine the sum of the present value of the accrued benefits of “key employees” (as defined in Code § 416(i)(1)) and the sum of the present value of the accrued benefits of all other employees in accordance with the rules set forth in Code § 416(g), or will take such other action as the Committee deems appropriate to conclude that no such determination is necessary under the circumstances. If the sum of the present value of the accrued benefits of such key employees exceeds sixty percent (60%) of the sum of the present value of the accrued benefits of all employees as of the determination date, this Plan will be “top-heavy”



for the immediately following Plan Year. For purposes of this Section, the present value of the accrued benefit of each employee will be equal to the sum of:

(7) the balance of the employee's Account under this Plan (determined for this purpose as of the last day of each Plan Year, which is the "valuation date" for this Plan);

(8) the present value of the employee's accrued benefit, if any, (determined as of the most recent valuation date occurring within a twelve (12)-month period ending on the determination date) under:

(i) each qualified plan (as described in Code § 401(a)) maintained by an Affiliate (A) in which a key employee is a participant or (B) that enables any plan described in subclause (ii) to meet the requirements of Code § 401(a)(4) or § 410 (the "required aggregation group"), and

(ii) each other qualified plan maintained by an Affiliate (other than a plan described in clause (i) that may be aggregated with this Plan and the plans described in clause (i), provided such aggregation group (including a plan described in this clause (ii) continues to meet the requirements of Code § 401(a)(4) and § 410 (the "permissive aggregation group"); and

(9) the value of any withdrawals and distributions made from this Plan and the plans described in (2) above during the 1-year period ending on such determination date and the value of any contributions due under this Plan and the defined contribution plans described in (2) above but as yet unpaid as of such determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been required to be aggregated with the Plan under Code § 416(g)(2)(A)(i). In the case of a distribution made for a reason other than Severance from Employment, death or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

provided, however, the accrued benefit of any employee will be disregarded if such employee has not performed any services for any Affiliate at any time during the one (1) year period ending on the date as of which such determination is made.

(b) Special Top-Heavy Contribution. If the Committee determines that this Plan is "top-heavy" for any Plan Year, the following special rules will apply notwithstanding any other rules to the contrary set forth elsewhere in this Plan.

A contribution will be made for each Participant who is an Eligible Employee on the last day of such Plan Year that, when added to the employer contribution and forfeitures otherwise allocated on behalf of such individual for such Plan Year under

this Plan and any other defined contribution plan maintained by an Affiliate, is equal to:

(1) for each such Eligible Employee who is not a participant in a top-heavy defined benefit plan maintained by the Employer or an Affiliate, the lesser of (a) three percent (3%) of such Eligible Employee's Compensation for such year or (b) the percentage at which contributions are made (or are required to be made) for such year to the key employee for whom such percentage is the highest; or

(2) for each such Eligible Employee who also participates in a top-heavy defined benefit plan maintained by the Employer or an Affiliate, five percent (5%) of such Eligible Employee's Compensation for such year;

provided, however, that no such contribution will be made under this Section for any Eligible Employee to the extent such Eligible Employee receives the top-heavy minimum contributions (as described in Code § 416(c)) under another defined contribution plan maintained by the Employer or an Affiliate for such Plan Year.

SavingsPLUS Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Code § 416(c)(2) and the Plan. The preceding sentence shall apply with respect to SavingsPLUS Contributions or, if the minimum contribution requirement is met in another defined contribution plan, such other plan. SavingsPLUS Contributions that are used to satisfy the minimum contribution requirements shall be treated as employer matching contributions for purposes of the actual contribution percentage test and the other requirements of Code § 401(m).

Section 15.9 USERRA. Notwithstanding anything in this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Code § 414(u). Additionally, to the extent required under Code § 414(u), a Participant eligible to make contributions to this Plan with respect to a period of military leave from an employer that sponsored a merged plan (as listed in Appendix 15.9) and which leave occurred (all or in part) prior to the merger of such merged plan into this Plan, and the amount of such contributions for the portion of the leave that occurred prior to the merger shall be determined under the terms of the merged Plan as in effect during the period of the applicable leave.

In the case of a Participant who dies while performing qualified military service (as defined in Section 414(u) of the Code), his or her Beneficiary shall be entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed and then terminated employment on account of death.

Section 15.10 Family and Medical Leave Act. Notwithstanding any other provision, this Plan shall be interpreted and administered in all respects so that it complies with the Family and Medical Leave Act of 1993, as may be amended from time to time.

Section 15.11 No Estoppel of Plan. No person is entitled to any benefit under this Plan except and to the extent expressly provided under this Plan. The fact that payments have been made from this Plan in connection with any claim for benefits under this Plan does not (a) establish the validity of the claim, (b) provide any right to have such benefits continue for any period of time, or (c) prevent this Plan from recovering the benefits paid to the extent that the Committee determines that there was no right to payment of the benefits under this Plan. Thus, if a benefit is paid to a person under this Plan and it is thereafter determined by the Committee that such benefit should not have been paid (whether or not attributable to an error by such person, the Committee or any other person), then the Committee may take such action as the Committee deems necessary or appropriate to remedy such situation, including without limitation by (1) deducting the amount of any overpayment theretofore made to or on behalf of such person from any succeeding payments to or on behalf of such person under this Plan or from any amounts due or owing to such person by the Employer or any Affiliate or under any other plan, program or arrangement benefiting the employees or former employees of the Employer or any Affiliate, or (2) otherwise recovering such overpayment from whoever has benefited from it.

If the Committee determines that an underpayment of benefits has been made, the Committee will take such action as it deems necessary or appropriate to remedy such situation. However, in no event will interest be paid on the amount of any underpayment other than the investment gains (or losses) credited to the Participant's Account pending payment.

IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc., based upon action by its Board of Directors has caused this Amendment and Restatement to be adopted.

UNITED PARCEL SERVICE OF AMERICA, INC.

/s/ David P. Abney

David P. Abney  
Chairman

**Appendix 1.25  
Employer Companies**

<b>Employer</b>	<b>Savings Plan Adoption Date</b>	<b>Participation Ended</b>
BT Realty Holdings II, Inc.	May 18, 1999	
BT Realty Holdings, Inc.	May 18, 1999	December 21, 2011
Fritz Companies, Inc. (including UPS Full Service Brokerage, Inc. merged 7/1/02)	July 1, 2001	July 1, 2002
iShip, Inc.	December 1, 2001	
Motor Cargo Industries, Inc. (includes Motor Cargo which was merged 5/1/06)	January 1, 2006	May 1, 2006
New Neon Company, Inc.	November 1, 2001	No longer in existence
Overnite Corporation	January 1, 2006	July 13, 2011
Overnite Transportation Company (includes Motor Cargo Distribution Services, Inc. which was merged 5/1/06)	January 1, 2006	December 31, 2008
Trailer Conditioners, Inc.	January 1, 1998	December 31, 2009
United Parcel Service Co.	January 1, 1998	
United Parcel Service of America, Inc.	January 1, 1998	
United Parcel Service, Inc. (New York)	January 1, 1998	Merged into Limited Parcel Service, Inc. (Ohio) January 1, 2009
United Parcel Service, Inc. (Ohio)	January 1, 1998	
UPS Aviation Services, Inc.	January 1, 1998	No longer in existence
UPS Aviation Technologies, Inc.	January 1, 1998	August 22, 2003
UPS Capital Business Credit (Formerly First International Bank)	September 1, 2001	
UPS Capital Business Credit of New Jersey, Inc. (Formerly First International Capital Corporation of New Jersey)	September 1, 2001	
UPS Capital Corporation, Inc.	May 28, 1998	
UPS Capital Insurance Agency, Inc. (Formerly Glenlake Insurance Agency, Inc.)	July 29, 1998	
UPS Capital Insurance Agency, Inc. of California (Formerly Glenlake Insurance Agency, Inc. of California)	August 10, 1999	December 21, 2009
UPS Consulting, Inc.	February 8, 2001	Dissolved August 20, 2007
UPS Customhouse Brokerage, Inc.	January 1, 1998	
UPS Full Service Brokerage, Inc.	June 6, 2000	July 1, 2002
UPS General Services Co.	January 1, 1998	
UPS Global Forwarding Services, Inc. (including Livingston Healthcare Services, Inc. merged 12/31/01)	July 1, 2001	December 31, 2001
UPS Ground Freight d/b/a UPS Freight (Formerly Overnite Transportation Company)	January 1, 2006	
UPS International General Services Co.	January 1, 1998	
UPS Latin America, Inc.	January 1, 1998	
UPS Logistics Group, Inc.	January 1, 1998	December 31, 2002

UPS Logistics Technologies, Inc.	January 1, 1998	December 31, 2010
UPS Mail Boxes Etc., Inc.	April 30, 2001	October 1, 2012
UPS Mail Innovations, Inc. (Formerly UPS Messaging Inc.)	February 1, 2001	
UPS Mail Technologies, Inc. (Formerly Mail2000, Inc.)	February 1, 2001	May 29, 2003 (Sold to DST Output of California, Inc.)
UPS Procurement Services Corporation	January 1, 1998	
UPS Service Parts Logistics, Inc.	July 1, 2001	Dissolved December 31, 2004
UPS Supply Chain Solutions, Inc. (includes Diversified Trimodal, Inc. d/b/a Martrac, UPS Supply Chain Management Nevada, Inc., UPS Supply Chain Management Tristate, Inc., UPS Logistics Group Americas, Inc. which were all merged through a series of mergers 12/31/02)	January 1, 1998 (July 1, 2001 for UPS Supply Chain Management Tristate, Inc., UPS Logistics Group Americas, Inc. and UPS Supply Chain Management Nevada, Inc.)	
UPS Telecommunications, Inc. (UPS Teleservices)	July 1, 2001	
UPS Worldwide Forwarding, Inc.	January 1, 1998	
UPSLG Puerto Rico, Inc.	July 1, 2001	Dissolved December 31, 2004
Worldwide Dedicated Services, Inc.	January 1, 1998	

**Appendix 2.3**  
**[This Appendix is intentionally blank]**

**APPENDIX 4.1(a)(1)(A)**  
**Effective as of January 1, 2014**

SavingsPLUS Contribution Level = Zero

Affected Employer Companies:  
NONE



**APPENDIX 4.1(a)(1)(B)**  
**Effective as of January 1, 2014**

SavingsPLUS Contribution Level = 50% of Pre-Tax Contributions  
that do not exceed 6% of Eligible Compensation

Affected Employer Companies:  
NONE

**APPENDIX 4.1(a)(1)(C)**  
**Effective as of January 1, 2014**

Savings PLUS Contribution Level =

For each Participant with an Employment Commencement Date prior to January 1, 2008 who is not described in paragraph (iii)(B), 50% of his or her Pre-Tax Contributions that do not exceed 5% of his or her Eligible Compensation for such Plan Year, or

For each Participant with an Employment Commencement Date, Reemployment Commencement Date or who is transferred from ineligible to Eligible Employee status, on or after January 1, 2008, 100% of his or her Pre-Tax Contributions that do not exceed 3 ½% of his or her Eligible Compensation for such Plan Year;

Affected Employer Companies:

<b>Employer</b>
BT Realty Holdings II, Inc.
iShip, Inc.
United Parcel Service Co.
United Parcel Service of America, Inc.
United Parcel Service, Inc. (Ohio)
UPS Capital Business Credit (Formerly First International Bank)
UPS Capital Business Credit of New Jersey, Inc. (Formerly First International Capital Corporation of New Jersey)
UPS Capital Corporation, Inc.
UPS Capital Insurance Agency, Inc. (Formerly Glenlake Insurance Agency, Inc.)
UPS Customhouse Brokerage, Inc.
UPS General Services Co.
UPS International General Services Co.
UPS Latin America, Inc.
UPS Mail Innovations, Inc. (Formerly UPS Messaging Inc.)
UPS Procurement Services Corporation
UPS Supply Chain Solutions, Inc. (includes Diversified Trimodal, Inc. d/b/a Martrac, UPS Supply Chain Management Nevada, Inc., UPS Supply Chain Management Tristate, Inc., UPS Logistics Group Americas, Inc. which were all merged through a series of mergers 12/31/02)
UPS Telecommunications, Inc. (UPS Teleservices)
UPS Worldwide Forwarding, Inc.
Worldwide Dedicated Services, Inc.

**APPENDIX 4.1(a)(1)(D)**  
**Effective as of January 1, 2014**

SavingsPLUS Contribution Level = 100% of Pre-Tax Contributions up to 3% of Eligible Compensation Plus 50% of Pre-Tax Contributions in excess of 3% of Eligible Compensation but not in excess of 6% of Eligible Compensation

Affected Employer Companies:

NONE

**APPENDIX 4.1(a)(1)(E)**  
**Effective as of January 1, 2014**

SavingsPLUS Contribution Level =

For each Participant with an Employment Commencement Date prior to January 1, 2008 and is not described below, 50% of his or her Pre-Tax Contributions that do not exceed 2% of his or her Eligible Compensation for such Plan Year, or

For each Participant with an Employment Commencement Date, Reemployment Commencement Date or is transferred from ineligible to Eligible Employee status, on or after January 1, 2008, 100% of his or her Pre-Tax Contributions that do not exceed 1% of his or her Eligible Compensation for such Plan Year;

Affected Employer Companies:  
UPS Ground Freight, Inc.

**Appendix 5.2**  
**MAXIMUM BENEFITS**

The limitations of this Appendix shall apply in Limitation Years beginning on or after July 1, 2007, except as otherwise provided herein. Capitalized terms are defined in Section 3 hereof or, if not defined in Section 3, in the main body of the Plan. All Section references are to Sections of this Appendix 5.2, except as otherwise provided.

Section 1.1. If the Participant does not participate in, and has never participated in another qualified plan maintained by the Employer or a welfare benefit fund, as defined in Code § 419(e) maintained by the Employer, or an individual medical account, as defined in Code § 415(1)(2), maintained by the Employer, or a simplified employee pension, as defined in Code § 408(k), maintained by the Employer, which provides an annual addition as defined in Section 3.1, the amount of Annual Additions which may be credited to the Participant's Account for any Limitation Year will not exceed the lesser of the Maximum Permissible Amount or any other limitation contained in this Plan. If the Employer contribution that would otherwise be contributed or allocated to the Participant's Account would cause the Annual Additions for the Limitation Year to exceed the Maximum Permissible Amount, the amount contributed or allocated will be reduced so that the Annual Additions for the Limitation Year will equal the Maximum Permissible Amount.

Section 2.1. This Section applies if, in addition to this Plan, the Participant is covered under another qualified defined contribution plan maintained by the Employer, a welfare benefit fund maintained by the Employer, an individual medical account maintained by the Employer, or a simplified employee pension maintained by the Employer (collectively "Qualified Plans"), that provides an Annual Addition during any Limitation Year. The Annual Additions which may be credited to a Participant's Account under this Plan for any such Limitation Year will not exceed the Maximum Permissible Amount reduced by the Annual Additions credited to a Participant's Account under the other Qualified Plans for the same Limitation Year. If the Annual Additions with respect to the Participant under other Qualified Plans maintained by the Employer are less than the Maximum Permissible Amount and the Employer contribution that would otherwise be contributed or allocated to the Participant's Account under this Plan would cause the Annual Additions for the Limitation Year to exceed this limitation, the amount contributed or allocated will be reduced so that the Annual Additions under all such plans and funds for the Limitation Year will equal the Maximum Permissible Amount. If the Annual Additions with respect to the Participant under such other Qualified Plans, in the aggregate are equal to the Maximum Permissible Amount, no amount will be contributed or allocated to the Participant's Account under this Plan for the Limitation Year.

Section 3. Definitions.

Section 3.1. Annual Additions. The sum of the following amounts credited to a Participant's Account for the Limitation Year:

- (a) employer contributions;

(b) employee contributions;

(c) forfeitures;

(d) amounts allocated to an individual medical account, as defined in Code § 415(1)(2), which is part of a pension or annuity plan maintained by the Employer are treated as Annual Additions to a defined contribution plan. Also amounts derived from contributions paid or accrued which are attributable to post-retirement medical benefits, allocated to the separate account of a key employee, as defined in Code § 419A(d)(3), under a welfare benefit fund, as defined in Code § 419(e), maintained by the Employer are treated as Annual Additions to a defined contribution plan; and

(e) allocations under a simplified employee pension.

Section 3.2. Compensation. For purposes of Code § 415, Compensation is defined as wages, within the meaning of Code § 3401(a), and all other payments of compensation to an employee by the Employer (in the course of the employer's trade or business) for which the Employer is required to furnish the employee a written statement under §§ 6041(d), 6051(a)(3), and 6052 (i.e., wages, tips and other compensation as reported on Form W-2). Compensation shall be determined without regard to any rules under Code § 3401(a) that limit the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code § 3401(s)(2)).

Except as provided herein, Compensation for a Limitation Year is the compensation actually paid or made available during such Limitation Year.

For Limitation Years beginning on or after July 1, 2007, Compensation for a Limitation Year shall also include compensation paid by the later of 2 ½ months after an employee's severance from employment with the employer maintaining the plan or the end of the Limitation Year that includes the date of the employee's severance from employment with the employer maintaining the plan if: (a) the payment is regular compensation for services during the employee's regular working hours, or compensation for services outside the employee's regular working hours (such as overtime or shift differential), commissions, bonuses, or other similar payments, and, absent a severance from employment, the payments would have been paid to the employee while the employee continued in employment with the employer; (b) the payment is for unused accrued bona fide sick, vacation or other leave that the employee would have been able to use if employment had continued; or (c) the payment is received by the employee pursuant to a nonqualified unfunded deferred compensation plan and would have been paid at the same time if employment had continued, but only to the extent includible in gross income.

Any payments not described above shall not be considered Compensation if paid after severance from employment, even if they are paid by the later of 2 ½ months after the date of severance from employment or the end of the Limitation Year that includes the date of severance from employment, except, payments to an individual who does not currently perform services for the employer by reason of qualified military service (within the meaning of Code § 414(u)(1)) to the extent these

payments do not exceed the amounts the individual would have received if the individual had continued to perform services for the employer rather than entering qualified military service.

Back pay, within the meaning of Treasury Regulation § 1.415(c)-2(g)(8), shall be treated as Compensation for the Limitation Year to which the back pay relates to the extent the back pay represents wages and compensation that would otherwise be included under this definition.

For Limitation Years beginning after December 31, 1997, Compensation paid or made available during such Limitation Year shall include amounts that would otherwise be included in Compensation but for an election under Code § 125(a), § 402(e)(3), § 402(h)(1)(B), § 402(k), or § 457(b). For Limitation Years beginning after December 31, 2000, Compensation shall also include any elective amounts that are not includible in the gross income of the employee by reason of Code § 132(f)(4). For Limitation Years beginning after December 31, 2001, Compensation shall also include deemed § 125 compensation. Deemed § 125 compensation is an amount that is excludable under Code § 106 that is not available to a participant in cash in lieu of group health coverage under a Code § 125 arrangement solely because the participant is unable to certify that he or she has other health coverage. Amounts are deemed § 125 compensation only if the employer does not request or otherwise collect information regarding the participant's other health coverage as part of the enrollment process for the health plan.

Effective for years beginning after December 31, 2008, a Participant receiving a differential wage payment (as described in Code § 414(u)(12)) shall be treated as an employee of the Employer making the differential wage payment and, for purposes of this Appendix 5.2, the differential wage payment shall be treated as Compensation.

Section 3.3. Defined Contribution Dollar Limitation. \$40,000, as adjusted under Code § 415(d).

Section 3.4. Employer. Employer means United Parcel Service of America, Inc. and Affiliates.

Section 3.5. Limitation Year. The calendar year. All qualified plans maintained by the Employer must use the same Limitation Year. If the Limitation Year is amended to a different 12-consecutive month period, the new Limitation Year must begin on a date within the Limitation Year in which the amendment is made.

Section 3.6. Maximum Permissible Amount.

Except for catch up contributions described in Code § 414(v), the Maximum Permissible Amount for any Limitation Year shall not exceed the lesser of:

- (a) \$40,000, as adjusted for increases in the cost-of-living under Code § 415(d),  
or
- (b) 100 percent of the Participant's Compensation for the Limitation Year.

The Compensation limit referred to in (b) shall not apply to any contribution for medical benefits after separation from service (within the meaning of Code §§ 401(h) or 419A(f)(2)) which is otherwise treated as an Annual Addition.

If a short Limitation Year is created because of an amendment changing the Limitation Year to a different 12-consecutive month period, the Maximum Permissible Amount will not exceed the Defined Contribution Dollar Limitation multiplied by the following fraction:

$$\frac{\text{Number of months in the short Limitation Year}}{12}$$



**Appendix 7.1**  
**Diversification Requirements of Code § 401(a)(35)**

Effective for Plan Years beginning after December 31, 2007.

Diversification Requirements for Pre-Tax Contributions, After-Tax Contributions, Catch-Up Contributions, Roth Contributions and Rollover Contributions Invested in Employer Securities.

Section 1. The provisions of this Appendix apply only if the Plan holds any publicly traded employer security, except as described in Section 1.1. For purposes of this Appendix a publicly traded security is a security which is traded on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1935 or which is traded on a foreign national securities exchange that is officially recognized, sanctioned, or supervised by a governmental authority and the security is deemed by the Securities and Exchange Commission as having a “ready market” under SEC Rule 15c3-1 (17 CFR 240.15c3).

Section 1.1. If the Employer, or any member of a controlled group of corporations which includes the Employer, has issued a class of stock which is a publicly traded employer security, and the Plan holds employer securities which are not publicly traded employer securities, then the Plan shall be treated as holding publicly traded employer securities.

Section 1.2. With respect to a Participant (including for purposes of this section an alternate payee who has an account or a deceased Participant’s Beneficiary), if any portion of the Participant’s account is invested in publicly traded employer securities, then the Participant must be offered the opportunity to elect to divest those employer securities and reinvest an equivalent amount in other investment options as described in Section 1.3.

Section 1.3. At least three investment options (other than employer securities) must be offered to Participants described in Section 1.2. Each investment option must be diversified and have materially different risk and return characteristics. Periodic reasonable divestment and reinvestment opportunities must be provided at least quarterly.

Except as provided in Code Section 401(a)(35)(D)(ii)(I), restrictions (either direct or indirect) or conditions will not be imposed on the investment of publicly traded employer securities if such restrictions or conditions are not imposed on the investment of other plan assets.

Effective for Plan Years beginning on or after January 1, 2011.

Diversification Requirements for Pre-Tax Contributions, After-Tax Contributions, Catch-Up Contributions, Roth Contributions and Rollover Contributions Invested in Employer Securities.

Section 2. The provisions of this Appendix apply only if the Plan holds any publicly traded employer security, except as described in Section 2.1. For purposes of this Appendix, a publicly traded security is a security which is traded on a national securities exchange that is registered under section 6 of the Securities Exchange Act of 1935 or which is traded on a foreign national securities exchange that is officially recognized, sanctioned, or supervised by a governmental authority and

the security is deemed by the Securities and Exchange Commission as having a “ready market” under SEC Rule 15c3-1 (17 CFR 240.15c3).

Section 2.1. If the Employer, or any member of a controlled group of corporations (as described in Treasury Regulation § 1.401(a)(35)-1(f)(2)(iv)(A)) which includes the Employer, has issued a class of stock which is a publicly traded employer security, and the Plan holds employer securities which are not publicly traded employer securities, then the Plan shall be treated as holding publicly traded employer securities.

Section 2.2. With respect to a Participant (including for purposes of this section an alternate payee who has an account or a deceased Participant’s Beneficiary), if any portion of the Participant’s account is invested in publicly traded employer securities, then the Participant must be offered the opportunity to elect to divest those employer securities and reinvest an equivalent amount in other investment options as described in Section 2.3.

Section 2.3. At least three investment options (other than employer securities) must be offered to Participants described in Section 2.2. Each investment option must be diversified and have materially different risk and return characteristics. Periodic reasonable divestment and reinvestment opportunities must be provided at least quarterly. Except as provided in Treasury Regulation sections 1.401(a)(35)-1(e)(2) and (3), restrictions (either direct or indirect) or conditions will not be imposed on the investment of publicly traded employer securities if such restrictions or conditions are not imposed on the investment of other plan assets.

**APPENDIX 9.4**  
**Minimum Distribution Requirements**

Section 1. General Rules

- 1.1. Effective Date. The provisions of this Appendix 9.4 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.
- 1.2. Precedence. The requirements of this article will take precedence over any inconsistent provisions of the Plan. However, the only benefit payment options available from the Plan are contained in Section 9.5 of the Plan. This Appendix 9.4 does not provide any benefit payment option that is not provided in such Section.
- 1.3. Requirements of Treasury Regulations Incorporated. All distributions required under this Appendix 9.4 will be determined and made in accordance with the Code § 401(a)(9) Treasury Regulations.

Section 2. Time and Manner of Distribution.

- 2.1. Required Beginning Date. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's required beginning date.
- 2.2. Death of Participant Before Distributions Begin. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:
  - (a) If the Participant's surviving Spouse is the Participant's sole designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.
  - (b) If the Participant's surviving Spouse is not the Participant's sole designated Beneficiary, then distributions to the designated Beneficiary will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
  - (c) If there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(d) If the Participant's surviving Spouse is the Participant's sole designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse begin, this section 2.2, other than section 2.2(a), will apply as if the surviving Spouse were the Participant.

For purposes of this section 2.2 and section 4, unless section 2.2(d) applies, distributions are considered to begin on the Participant's required beginning date. If section 2.2(d) applies, distributions are considered to begin on the date distributions are required to begin to the surviving Spouse under section 2.2(a). If distributions under an annuity purchased from an insurance company irrevocably commence to the participant before the participant's required beginning date (or to the participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse under section 2.2(a)), the date distributions are considered to begin is the date distributions actually commence.

2.3. Forms of Distribution. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the required beginning date, as of the first distribution calendar year all benefit payments from the Plan will be made in accordance with sections 3 and 4 of this Appendix. If the Participant's interest is distributed in a benefit payment option other than a single sum, such payments will be made in accordance with the requirements of Code § 401(a)(9) and the Treasury Regulations thereunder.

### Section 3. Required Minimum Distributions During Participant's Lifetime.

3.1. Amount of Required Minimum Distribution For Each Distribution Calendar Year. During the Participant's lifetime, the minimum amount that will be distributed for each distribution calendar year is the lesser of:

- (a) the quotient obtained by dividing the Participant's Account balance by the distribution period in the Uniform Lifetime Table set forth in Treasury Regulation 1.401(a)(9)-9, using the Participant's age as of the Participant's birthday in the distribution calendar year; or
- (b) if the Participant's sole designated Beneficiary for the distribution calendar year is the Participant's Spouse, the quotient obtained by dividing the Participant's Account balance by the number in the Joint and Last Survivor Table set forth in Treasury Regulation 1.401(a)(9)-9, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the distribution calendar year.

3.2. Lifetime Required Minimum Distributions Continue Through Year of Participant's Death. Required minimum distributions will be determined under this Section 3 beginning with the first distribution calendar year and up to and including the distribution calendar year that includes the Participant's date of death.

#### Section 4. Required Minimum Distributions After Participant's Death.

##### 4.1. Death On or After Date Distributions Begin.

(a) **Participant Survived by Designated Beneficiary.** If the Participant dies on or after the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the longer of the remaining life expectancy of the Participant or the remaining life expectancy of the Participant's designated Beneficiary, determined as follows:

(1) The Participant's remaining life expectancy is calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

(2) If the Participant's surviving Spouse is the Participant's sole designated Beneficiary, the remaining life expectancy of the surviving Spouse is calculated for each distribution calendar year after the year of the Participant's death using the surviving Spouse's age as of the Spouse's birthday in that year. For distribution calendar years after the year of the surviving Spouse's death, the remaining life expectancy of the surviving Spouse is calculated using the age of the surviving Spouse as of the Spouse's birthday in the calendar year of the Spouse's death, reduced by one for each subsequent calendar year.

(3) If the Participant's surviving Spouse is not the Participant's sole designated Beneficiary, the designated Beneficiary's remaining life expectancy is calculated using the age of the designated Beneficiary in the year following the year of the Participant's death, reduced by one for each subsequent year.

(b) **No Designated Beneficiary.** If the Participant dies on or after the date distributions begin and there is no designated Beneficiary as of September 30 of the year after the year of the Participant's death, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account balance by the Participant's remaining life expectancy calculated using the age of the Participant in the year of death, reduced by one for each subsequent year.

##### 4.2. Death Before Date Distributions Begin.

(a) **Participant Survived by Designated Beneficiary.** If the Participant dies before the date distributions begin and there is a designated Beneficiary, the minimum amount that will be distributed for each distribution calendar year after the year of the Participant's death is the quotient obtained by dividing the Participant's Account

balance by the remaining life expectancy of the Participant's designated Beneficiary, determined as provided in section 4.1.

(b) **No Designated Beneficiary.** If the Participant dies before the date distributions begin and there is no designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(c) **Death of Surviving Spouse Before Distributions to Surviving Spouse Are Required to Begin.** If the Participant dies before the date distributions begin, the Participant's surviving Spouse is the Participant's sole designated Beneficiary, and the surviving Spouse dies before distributions are required to begin to the surviving Spouse under section 2.2(a), this section 4.2 will apply as if the surviving Spouse were the Participant.

Section 5. **Definitions.** The following terms have the following meanings for purposes of this Appendix 9.4.

5.1. **Designated Beneficiary.** The individual who is designated as the Beneficiary under Section 9.6 of the Plan and is the designated Beneficiary under Code § 401(a)(9) and Treasury Regulation 1.401(a)(9)-4, Q&A-1.

5.2. **Distribution calendar year.** A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first distribution calendar year is the calendar year immediately preceding the calendar year which contains the Participant's required beginning date. For distributions beginning after the Participant's death, the first distribution calendar year is the calendar year in which distributions are required to begin under section 2.2 of this Appendix. The required minimum distribution for the Participant's first distribution calendar year will be made on or before the Participant's required beginning date. The required minimum distribution for other distribution calendar years, including the required minimum distribution for the distribution calendar year in which the Participant's required beginning date occurs, will be made on or before December 31 of that distribution calendar year.

5.3. **Life expectancy.** Life expectancy as computed by use of the Single Life Table in Treasury Regulation 1.401(a)(9)-9.

5.4. **Participant's Account Balance.** The Account balance as of the last valuation date in the calendar year immediately preceding the distribution calendar year (valuation calendar year) increased by the amount of any contributions made and allocated or forfeitures allocated to the Account balance as of dates in the valuation calendar year after the valuation date and decreased by distributions made in the valuation calendar year after the valuation date. The Account balance for the valuation calendar year includes any amounts rolled over

or transferred to the Plan either in the valuation calendar year or in the distribution calendar year if distributed or transferred in the valuation calendar year.

5.5 Required beginning date. The date specified in § 9.4 of the Plan

(a) 5.6 Coordination with Code § 401(k) and Code § 402(g). Any Pre-Tax Contributions refunded under this Section 5.2 will be disregarded for the purposes of Code § 402(g) limitations under Section 5.3 and the Code § 401(k) limitations under Section 5.4.

**Appendix 14.3**  
**Special Provisions Relating to Mergers, Acquisitions and Other Transfers**

Section 14.3.1 General. This Section describes special rules applicable to individuals who were employed by an employer acquired by an Employer Company or who otherwise became Employees of an Employer Company as a result of a corporate transaction, or who participated in a qualified plan that was merged into the Plan or the assets of which were transferred to this Plan pursuant to Section 14.3.

Any assets transferred to this Plan shall be invested as directed by the Committee pending completion of any allocations or other steps necessary or advisable to properly transfer investment authority of Merged Plan assets to the Participants in accordance with Article 7 of the Plan. Any loans outstanding under a Merged Plan will become loans under this Plan and, if the Participant is an Employee, will be repaid by payroll deduction following the merger or transfer.

Section 14.3.2 UPS Global Forwarding Services, Inc.

(a) GFS Plan. For purposes of this Section 14.3.2, GFS Plan means the UPS Global Forwarding Services Company, Inc. Retirement/ Savings Plan, as in effect on June 30, 2001.

(a) Merger. The assets and liabilities of the GFS Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be assets and liabilities of this Plan as of July 1, 2001.

(b) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the GFS Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's account under the GFS Plan attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre-tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account under the GFS Plan will become a part of his or her Merged Account.

Section 14.3.3 UPS Logistics Group.

(b) LG Plan. For purposes of this Section 14.3.3, LG Plan means the UPS Logistics Group Retirement Savings Plan, as in effect on June 30, 2001.

(c) Merger. The assets and liabilities of the LG Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be assets and liabilities of this Plan as of July 1, 2001.

(d) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the LG Plan to the extent he or she does not already



have an Account under this Plan. The portion of a Participant's account under the LG Plan attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre-tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account under the LG Plan will become a part of his or her Merged Account.

Section 14.3.4 Sonic Air, Inc.

(a) SA Plan. For purposes of this Section 14.3.4, SA Plan means the Sonic Air, Inc. 401(k) Plan, as in effect on June 30, 2001.

(b) Merger. The assets and liabilities of the SA Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be the assets and liabilities of this Plan as of July 1, 2001.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the SA Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's Merged Account attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre-tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; and the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account, if any, under the SA Plan will become part of his or her Merged Account.

Section 14.3.5 Trans-Border Customs Services, Inc.

(a) TBCS. For purposes of this Section 14.3.5, TBCS Plan means the Trans-Border Customs Services Profit Sharing Plan, as in effect on June 30, 2001

(b) Merger. The assets and liabilities of the TCBS Plan as of the close of business on June 30, 2001 will be merged into this Plan and will be assets and liabilities of this Plan as of July 1, 2001.

(a) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the TCBS Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's Merged Account attributable to his or her "after-tax contributions", if any, will become a part of his or her After-Tax Contribution Account; the portion attributable to his or her "pre-tax contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; and the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account, if any, under the TCBS Plan will become a part of his or her Merger Account.

Section 14.3.6 Overnite Corporation and Overnite Transportation Company

( a ) Overnite Plan. For purposes of this Section 14.3.7, Overnite Plan means the Overnite Transportation Company Tax Reduction Investment Plan, as in effect immediately prior to the transfer of its assets and liabilities into this Plan effective on or about February 28, 2006.

(b) Merger. The assets and liabilities of the Overnite Plan will be merged with and into this Plan on or about February 28, 2006.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant in the Overnite Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's account under the Overnite Plan attributable to his or her "salary deferrals" and "catch-up contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account under the Overnite Plan will become a part of his or her Merged Account under this Plan.

(d) In-Service Distribution. A Participant who has a Merged Account attributable to assets transferred from the Overnite Plan to this Plan on or about February 28, 2006 may withdraw all or any portion of this or her entire Account balance pursuant to Section 9.8(b) of the Plan (59 ½ Withdrawal).

( e ) 2006 Plan Year Non-Discrimination Testing. Effective January 1, 2006, Article V, Limitations of Contributions and Allocations, of this Plan shall apply to any elective contributions a Participant made to the Overnite Plan during the 2006 Plan Year.

Section 14.3.8 Motor Cargo

(a) Motor Cargo Plan. For purposes of this Section 14.3.8, Motor Cargo Plan means the Motor Cargo Profit Sharing Plan, as in effect immediately prior to the transfer of its assets and liabilities into this Plan effective on or about February 28, 2006.

(b) Merger. The assets and liabilities of the Motor Cargo Profit Sharing Plan attributable to (i) participants who are employees as of December 31, 2005 and whose terms and conditions of employment are not governed by a collective bargaining agreement and (ii) terminated vested participants whose terms and conditions of employment as of their most recent termination date were not governed by a collective bargaining agreement, will be merged with and into this Plan effective on or about February 28, 2006.

(c) Accounts. An Account will be established under this Plan to reflect the interest of each former participant who had an account balance transferred from the Motor Cargo Plan to the extent he or she does not already have an Account under this Plan. The portion of a Participant's account under the Motor Cargo Plan attributable to his or her "deferral

contributions" and "catch-up contributions", if any, will become part of his or her Pre-Tax Contribution Account under this Plan; the portion attributable to his or her "rollover contributions", if any, will become part of his or her Rollover Contribution Account under this Plan; and the remaining portion of a Participant's account under the Motor Cargo Plan will become a part of his or her Merged Account.

(d) In-Service Distribution Amounts. A Participant who has a Merged Account attributable to assets transferred from the Motor Cargo Plan to this Plan on or about February 28, 2006 may withdraw all or any portion of that Merged Account balance pursuant to Section 9.8(b) of the Plan (59 ½ Withdrawal). Additionally, a Participant who receives an in-service hardship distribution from the Motor Cargo Plan and who would be prevented from making contributions to the Motor Cargo Plan after December 31, 2005 as a result of such withdrawal, will to be subject to such contribution suspension under this Plan as if it were the Motor Cargo Plan.

(e) 2006 Plan Year Non-Discrimination Testing. Effective January 1, 2006, Article V, Limitations of Contributions and Allocations, of this Plan shall apply to any elective contributions a Participant made to the Motor Cargo Plan during the 2006 Plan Year.

**Appendix 15.9  
Merged Plans**

<b>NAME OF MERGED PLAN</b>	<b>EFFECTIVE DATE OF MERGER</b>
UPS Logistics Group Retirement Savings Plan	July 1, 2001
SonicAir, Inc. 401(k) Plan	July 1, 2001
Trans-Border Customs Services, Inc. 401(k) and Profit Sharing Plan	July 1, 2001
UPS Global Forwarding Services, Inc. Retirement/Savings Plan	July 1, 2001
Overnite Transportation Company Tax Reduction Investment Plan	February 28, 2006
Motor Cargo Profit Sharing Plan	February 28, 2006

**Appendix A**  
**Puerto Rico Qualification**

Solely for purposes of administering and securing its tax qualifications in Puerto Rico, the Plan shall be subject to the following terms and conditions:

Definitions:

1. The definition of “Affiliate” in Article I, Section 1.7, of the Plan is amended to add the following second paragraph:

“For purposes of tax qualification in Puerto Rico, “Affiliate” shall mean any corporation, trade or business other than the Employer which joins the Employer as a member of a controlled group of corporations, an affiliated services group or is under common control, as defined by Section 1081.01(a)(14) of the Puerto Rico Internal Revenue Code of 2011, as amended”.

2. The definition of “Employer” in Article I, Section 1.22, of the Plan is amended to read as follows:

“‘Employer’ means United Parcel Service of America, Inc. and each Affiliate (or a division or unit of an Affiliate) which is designated as a participating employer in the Plan by the Employer and which adopts the Plan, or that is deemed an Employer under Section 1081.01(a)(14) of the Puerto Rico Internal Revenue Code of 2011, as amended.”

3. The definition of “Highly Compensated Employee” in Article I, Section 1.31, of the Plan is amended to add an additional paragraph at the end of Subsection (b)(2), which shall read as follows:

“Solely for purposes of qualifying the Plan in Puerto Rico, the term “highly compensated employee” shall mean an employee who is:

(i) an officer of the Employer;

(ii) a shareholder that own more than five percent (5%) of the voting stock or the total value of all classes of stock of the Employer;

(iii) that for the preceding year earned a compensation in excess of any dollar amount limitation imposed by Section 414(q)(1)(B) of the U.S. Internal Revenue Code of 1986, as amended, for the applicable Plan Year; or

(iv) the Spouse or dependent (within the meaning of Section 1033.18(c)(1) of the Puerto Rico Internal Revenue Code of 2011) of one of the individuals listed in items (i) through (iii) of this paragraph.”

4. Puerto Rico Eligible Compensation - means for each Participant, his or her Eligible Compensation excluding the Participant's half month bonus and discretionary days pay off.

(b) Puerto Rico. Subject to the rules and limitations in this Section 3.1(d) and in Article 5, except as otherwise provided, each Participant who is an Eligible Employee and who is treated by an Employer as a Puerto Rico tax resident ("Puerto Rico Employee") may make the following contributions:

(1) Pre-Tax Contributions through authorizing the pre-tax payroll deduction of:

- (iii) from 1% to 35% (in 1% increments) of his or her Puerto Rico Eligible Compensation for each pay period;
- (iv) 1% to 100%, in 1% increments, of his or her half month bonus;
- (v) 1% to 100%, in 1% increments, of his or her discretionary days pay off.

Notwithstanding the forgoing, a Puerto Rico Participant may not contribute Pre-Tax Contributions under this Section 3.1(d)(1) in excess of the following (as adjusted by Puerto Rico law):

<u>Plan Year</u>	<u>Contribution Limit</u>
2008	\$8,000
2009 and 2010	\$9,000
2011 and 2012	\$10,000
2013 and beyond	\$12,000

(2) Each Puerto Rico Participant who will attain age 50 or older before the close of the Plan Year shall be eligible to make Catch-Up Contributions in 1% increments from 1% to 35% of his or her Puerto Rico Eligible Compensation in accordance with, and subject to the limitations of Puerto Rico law. Catch-Up Contributions shall be treated as Pre-Tax Contributions for purposes of Sections 3.5, 3.6, 3.7, 6.2 and Article VII. Catch-Up Contributions shall be credited to a Puerto Rico Participant's Pre-Tax Contribution Account unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a separate subaccount.

(3) Each Puerto Rico Employee who has an Employment Commencement Date, Reemployment Commencement Date, or otherwise becomes eligible to participate or resumes eligibility to participate on or after January 1, 2008 shall be

treated as a Targeted Participant and shall be subject to the deemed Pre-Tax Contribution election provisions of Section 3.1(b), Deemed Enrollment and Automatic Annual Increases, based on his or her Puerto Rico Eligible Compensation.

(4) All contributions made to the Plan pursuant to this Section 3.1(d) shall comply with the requirements of Appendix A, Puerto Rico Qualification.

An election under this Section 3.1 must be made via VRU or in accordance with such other procedures prescribed by the Committee. A Participant may make an election to begin making Pre-Tax Contributions on any business day that coincides with or follows the date he or she becomes a Participant. A Participant's initial payroll deduction contribution election will be effective for the first pay period beginning after his or her election is processed and will continue while the Participant is an Eligible Employee until the Participant changes his or her election in accordance with Section 3.4 or suspends his or her contributions in accordance with Section 3.5.

The Committee has the right at any time unilaterally to reduce prospectively the amount or percentage of Pre-Tax Contributions elected by any Participant who is a Highly Compensated Employee or by all Highly Compensated Employees as a group if it determines that reduction is appropriate in light of the limitations under Section 5.4.

5. Article III, Section 3.1(d)(1), of the Plan is amended to add the following paragraph at the end of the Section:

“The maximum Pre-Tax Contribution for a Participant for any taxable year, shall not exceed ten percent (10%) of the annual Compensation of the employee up to a maximum of eight thousand dollars (\$8,000) annually, or such other amount as may be determined by the Puerto Rico Secretary of Treasury under Section 1033.09 and 1081.01(d) of the Puerto Rico Internal Revenue Code of 2011, as amended. If the employee participates in two (2) or more plans, such plans shall be treated as if they were one for the purposes of determining the amount of the limitation. For taxable years commencing on or after January 1, 2013, shall be \$15,000, regardless of the employee’s annual compensation.”

6. Article III, Section 3.1(d)(2), of the Plan is amended to add the following paragraph at the end of the Section:

“Participant who attain age fifty (50) by the end of a Plan Year will be eligible to make additional Pre-Tax Contributions for such Plan Year under this Subsection to the extent such Pre-Tax Contributions constitute Catch-up Contributions in accordance with, and subject to the maximum limits allowed, under Section 1081.01(d)(7)(C) of the Puerto Rico Internal Revenue Code of 2011, as amended. The maximum annual limit for Catch-Up Contributions shall be \$1,500 per year. Such Catch-Up Contributions shall be credited to the Participant’s Pre-Tax Contribution Account of each Participant who has made such Catch-Up Contribution. Any such Catch-Up Contribution shall be paid to the Trust within the time period required under ERISA and the regulations thereunder. Any

Catch-Up Contribution under this Subsection, and any deferral election relating to such contribution, shall be made in accordance with the rules and procedures adopted by the Committee.”

7. Article V of the Plan is amended to add a new section 5.7, which shall read as follows:

“5.7 Puerto Rico Limitation on Contributions. As required by Section 1081.01(a)(11)(B) of the Puerto Rico Internal Revenue Code of 2011, as amended, the total amount of employer contributions (including the employer matching contributions and the profit sharing contributions) and the employees contributions (excluding the Rollover Contributions but including the employees’ salary deferral contributions and the after-tax contributions) that may be credited to the Participants account during any Plan Year shall not exceed any dollar amount imposed as limitation by Section 415(c) of the U.S. Internal Revenue Code of 1986, as amended, for the applicable Plan Year, or 100% of the employees Compensation (including the employees contributions hereunder) for the Plan Year or whatever other dollar limitation may be imposed by the Puerto Rico Internal Revenue Code of 2011, as amended, or the Puerto Rico Treasury Department by way of regulation or administrative determination.”

8. Article IX, Section 9.13, of the Plan is amended to add to it a new paragraph (c), which shall read as follows:

“(c) Puerto Rico Direct Rollover

(1) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee’s election under this Section 9.13, a distributee, that due to his termination of employment, elects to receive all or part of the value of his Account in a single lump-sum distribution, within a single taxable year, in a distribution that otherwise meets the requirements of Section 1081.01(b)(2)(A) of the Puerto Rico Internal Revenue Code of 2011, as amended, may elect, at the time and in the manner prescribed by the Committee, to have the total amount of such distribution rolled over into another Puerto Rico qualified plan or Puerto Rico Individual Retirement Account (“IRA”), specified by the distributee.

(2) Direct rollovers under this Section 9.13 shall be made in accordance with rules and procedures established by the Committee.

(3) For purposes of this Section 9.13, a distributee may include (1) a Participant, and, to the extent permitted by the Puerto Rico Internal Revenue Code of 2011, as amended, or by the Puerto Rico Treasury Department, (2) a Participant’s Spouse, or (3) an alternate payee under a qualified domestic relations order who is the Spouse or former Spouse of a Participant.”

9. Article IX is amended to add a new Section 9.21, which shall read as follows:

“9.21 Puerto Rico Taxation of Lump Sum Distribution. Under Section 1081.01(b) of the 2011 Puerto Rico Internal Revenue Code of 2011, as amended, the distribution of the entire interest of a Participant in the Plan (in excess of his or her after-tax contributions, if any), within the same taxable year, and as a result of his or her termination of employment, shall be treated as a long term capital



gain taxable at a 20% rate. However, if the Plan: (i) uses a trust organized in Puerto Rico or a Puerto Rico co-trustee which will act as paying agent, and (ii) invest no less than 10% of its assets (determined on an average daily basis) in the Plan Year of the distribution and the two preceding Plan Years, in certain assets treated as located in Puerto Rico (as defined in the Puerto Rico Internal Revenue Code of 2011, as amended, and the regulations issued thereunder), the long term capital gain arising from the distribution will be taxed instead at a rate of 10%.”

10. Article X, Section 10.1(c), of the Plan is amended to add to it a new paragraph (10), which shall read as follows:

“(10) Any loan to a Participant that fails to meet these requirements shall be treated as a taxable distribution to the Participant and shall be subject to the withholding requirements of Section 1081.01(b)(3) of the Puerto Rico Internal Revenue Code of 2011, as amended.”

11. Article XIV, Section 14.3, of the Plan is amended to add a new paragraph at the end of it, which shall read as follows:

“In the event of any of the above transactions, the Plan shall be subject to the tax qualification requirements of Section 1081.01(a)(3)(D) of the Puerto Rico Internal Revenue Code of 2011, as amended.”

12. The definition of “Compensation” in Appendix 1.17 of the Plan is amended to add the following fourth paragraph:

“The maximum amount of compensation that shall be taken into account for purposes of computing contributions under the Plan, as well as discrimination testing and the limitations to benefits and contributions under Section 1081.01(a) and (d) of the Puerto Rico Internal Revenue Code of 2011, as amended, shall not exceed any amount established under Section 401(a)(17) of the U.S. Internal Revenue Code of 1986, as amended, or any other amount established by the Puerto Rico Treasury Department through regulations or administrative determinations.”

13. These amendments shall govern the administration of the Plan, to the extent it is applicable to Participants employed in Puerto Rico (“Puerto Rico Participant”). To the extent the Plan covers any Puerto Rico Participant, it will be administered pursuant to, and in compliance with, the requirements of Sections 1033.09 and 1081.01 of the Puerto Rico Internal Revenue Code of 2011, as amended.

14. Puerto Rico

Effective January 1, 2008, a Puerto Rico Participant may not contribute Pre-Tax Contributions in excess of the following (as adjusted by Puerto Rico law):

<u>Plan Year</u>	<u>Contribution Limit</u>
2008	\$8,000
2009 and 2010	\$9,000

2011 and 2012	\$10,000
2013 and beyond	\$12,000

Effective August 22, 2007, each Puerto Rico Participant who will attain age 50 or older before the close of the Plan Year shall be eligible to make Catch-Up Contributions in 1% increments from 1% to 35% of his or her Puerto Rico Eligible Compensation in accordance with, and subject to the limitations of Puerto Rico law; provided that the maximum percentage from August 22, 2007 to December 31, 2012 was 10%. Catch-Up Contributions shall be treated as Pre-Tax Contributions for purposes of Sections 3.5, 3.6, 3.7, 6.2 and Article VII. Catch-Up Contributions shall be credited to a Puerto Rico Participant's Pre-Tax Contribution Account unless the Committee determines that such contributions (and investment gains or losses on such contributions) should be credited to a separate subaccount.

Each Puerto Rico Employee who has an Employment Commencement Date, Reemployment Commencement Date, or otherwise becomes eligible to participate or resumes eligibility to participate on or after January 1, 2008 and, effective January 1, 2011, each Puerto Rico Employee who satisfies the requirements described in Section 3.1(b)(4)(iv) shall be treated as a Targeted Participant and shall be subject to the deemed Pre-Tax Contribution election provisions of Section 3.1(b), Deemed Enrollment and Automatic Annual Increases, based on his or her Puerto Rico Eligible Compensation.

## Appendix B

### Historical Provisions

This Appendix B contains provisions of the Plan effective prior to January 1, 2014.

#### Article I, DEFINITIONS

Section 1.1 Account - The SavingsPLUS Account was first effective November 23, 1998, the Roth Contribution Account was first effective July 30, 2007 and the Merged Account was first effective July 1, 2001.

Section 1.15 Break in Service - The definition in the main Plan was effective May 1, 2000. Effective before May 1, 2000, Break in Service means a Period of Separation of at least 12 consecutive months. For each individual whose Employment Commencement Date or Reemployment Commencement Date is on or after May 1, 2000 and before July 1, 2001, Break in Service means the period of time described in this Appendix B, Section 1.15 or in Section 1.15 of the main body of the Plan, whichever is most favorable to the individual.

Section 1.16 Catch-Up Contributions - Effective July 30, 2007, Catch-Up Contributions may include Roth Contributions.

Section 1.21 Eligible Compensation - Effective for limitation years beginning on or after July 1, 2007, Eligible Compensation includes only "compensation" as defined in Code § 415(c)(3) and Section 3.2 of Appendix 5.2, Maximum Benefits.

The annual Eligible Compensation of each Participant taken into account under the Plan shall not exceed \$200,000 for Plan Years beginning on or after January 1, 2002, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17)(B). For Plan Years beginning before January 1, 2002, the annual Eligible Compensation of each Participant taken into account under the Plan shall not exceed \$150,000 for Plan Years, as adjusted for cost-of-living increases in accordance with Code § 401(a)(17). The cost-of-living adjustment in effect for a calendar year applies to any Plan Year beginning in such calendar year. If a Plan Year consists of fewer than 12 months, the annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the short Plan Year, and the denominator of which is 12. The annual compensation limit does not apply for purposes of Section 5.2.

Effective January 1, 2009, a Participant receiving a differential wage payment (as described in Code § 414(u)(12)) shall be treated as an employee of the Employer making the differential wage payment for purposes of this Plan and the differential wage payment shall be treated as Eligible Compensation.

Section 1.34 Hour of Service. For Employees who first became Participants before July 1, 2001, if an individual has a Period of Separation of less than 12 months, he or she will

be credited with 190 Hours of Service for each calendar month during that Period of Separation.

Section 1.34A Period of Separation means for those Employees who first become Participants before July 1, 2001, a continuous period of time during which an individual does not perform an Hour of Service. Such a Period of Separation begins on the date the individual has a Severance from Employment.

Section 1.53 SavingsPLUS Account - may include SavingsPLUS Contributions made to the UPS Qualified Stock Ownership Plan, as effective on or before December 31, 2008, when it was merged into this Plan (the "QSOP").

Section 1.55 Severance from Employment - means, effective before January 1, 2002 but on or after May 1, 2000, the date on which an individual terminates employment with all Affiliates by reason of a voluntarily quit, retirement, death, the end of a period of disability of more than 52 weeks at which time a physician certifies that the individual is currently disabled and unable to return to work for an Affiliate, discharge, failure to return from layoff or authorized leave of absence, or for any other reason (unless a grievance is pending) provided for periods before January 1, 2002, such separation constitutes a "Severance from Employment" within the meaning of Code § 401(k). Effective before May 1, 2000, the term "Severance from Employment" means the earlier of the date described in the definition of Severance from Employment in Section 1.55 of the main text of the Plan or the date on which a 12-consecutive month period ends during which the individual did not perform an Hour of Service.

Notwithstanding the foregoing, and solely for the purpose of determining the length of a Period of Service before May 1, 2000, in the case of an Employee who ceases active employment (i) by reason of the pregnancy of the Employee, (ii) by reason of the birth of a child of the Employee, (iii) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement, the term "Severance from Employment" shall mean the second anniversary of said cessation of active employment.

## **ARTICLE II, PARTICIPATION**

Section 2.3 (a) Transfer to the Teamster 401(k) Plan. A Participant who was an Employee and eligible to participate in The Teamster - UPS National 401(k) Tax Deferred Savings Plan (the "Teamster 401(k) Plan") may elect to have all of the investments of his or her Account, other than his or her loan(s), liquidated and converted to cash and the amount of such cash and the loan(s) transferred to the trustees of the Teamster 401(k) Plan. Such transfer election must be completed between April 29, 2011 and July 15, 2011 in accordance with procedures established by the Committee. The transfer from the Plan to the Trustees of the Teamster 401(k) Plan shall be completed on or about August 1, 2011. A Participant shall not be eligible to transfer his or her Account to the Teamster Plan if he or she has a domestic relations order under review by the Committee on the date the transfer is completed.

If a Participant who is eligible to participate in the Teamster 401(k) Plan does not elect to transfer his or her Account to the Teamster 401(k) Plan, he or she will be subject to Section 2.3(a) of the main body of the Plan.

(a) Transfer to the IAM National Plan. A Participant who is an Employee and eligible to participate in The I. A. M. National 401(k) Plan (the "IAM 401(k) Plan") may elect to have all of the investments of his or her Account, other than his or her loan(s), liquidated and converted to cash and the amount of such cash and the loan(s) transferred to the trustees of the IAM 401(k) Plan. Such transfer election must be completed between July 15, 2011 and September 16, 2011 in accordance with procedures established by the Committee. The transfer from the Plan to the Trustees of the IAM Plan shall be completed on or about September 23, 2011. A Participant shall not be eligible to transfer his or her Account to the IAM Plan if he or she has a domestic relations order under review by the Committee on the date the transfer is completed. If a Participant who is eligible to participate in the IAM 401(k) Plan does not elect to transfer his or her Account to the IAM 401(k) Plan, he or she will be subject to Section 2.3(a) of the main body of the Plan.

### **ARTICLE III, EMPLOYEE CONTRIBUTIONS, ROLLOVER CONTRIBUTIONS AND TRANSFERS**

#### Section 3.1(a) Voluntary Elections

Effective January 1, 2012, a Participant who is an Eligible Employee may elect to make Pre-Tax Contributions from 1% to 100%, in 1% increments, of the portion of his or her Eligible Compensation attributable to sales incentive program bonus payments.

Section 3.1(b)(1) The Deemed Enrollment Election described in Section 3.1 of the main text of the Plan was effective January 1, 2008.

#### Targeted Participants on or after January 1, 2011

Effective January 1, 2011, subject to the rules and limitations in Section 3.1 and in Article V of the main text of the Plan, each Targeted Participant who on January 1, 2011 did not have an election in effect to have his or her Employer Company make Pre-Tax Contributions shall be deemed to have made an election to have his or her Employer Company make Pre-Tax Contributions on his or her behalf in an amount equal to 1% of Eligible Compensation per payroll period. Notwithstanding any contrary provision in this Section, a Targeted Participant shall not be deemed enrolled if such Targeted Participant makes an Affirmative Election on or after January 1, 2011 and before the Automatic Enrollment Deadline.

#### Section 3.1(b)(2) Deemed Annual Increase Election

A Participant or Targeted Participant who is deemed to have made a Pre-Tax Contribution deferral election, has not made an Affirmative Election and remains an Eligible Employee,

shall also be deemed to have elected to increase his or her Pre-Tax Contributions in 1% increments in each Plan Year following the Plan Year of automatic enrollment up to a maximum deferral rate of 6% (5% for Targeted Participants) of Eligible Compensation. The automatic annual increase will be effective in each Plan Year following the Plan Year of automatic enrollment on the first Friday in March for Eligible Employees who are considered for a merit increase in March and on the first Friday in June for all other Eligible Employees.

Each Targeted Participant who on January 1, 2011 had an election in effect to have his or her Employer Company make Pre-Tax Contributions of at least 1% but less than 5% of his or her Eligible Compensation shall be deemed to have elected to increase his or her Pre-Tax Contributions in 1% increments in 2011 and each following Plan Year up to a maximum deferral rate of 5%. The automatic annual increase will be effective on the Automatic Enrollment Deadline and annually thereafter on the first Friday in March for Targeted Participants who are considered for a merit increase in March and on the first Friday in June for all other Targeted Participants.

The automatic annual increase will continue while he or she is an Eligible Employee until he or she (i) makes an Affirmative Election, (ii) becomes ineligible to participate in the Plan or (iii) takes a hardship withdrawal under the Plan.

#### Section 3.1(b)(3) Notice of Deemed Elections

Within a reasonable period following a Post-2007 Eligible Employee's Employment Commencement Date, Reemployment Commencement Date, transfer from ineligible to Eligible Employee status or for a Targeted Participant, January 1, 2011 and before the applicable Automatic Enrollment Deadline, the Committee shall provide each Eligible Employee with a notice informing him or her of his or her rights and obligations under this Section including the following: (1) his or her right to make an Affirmative Election to change the deemed percentage (including 0%), (2) how the Pre-Tax Contributions will be invested in the absence of an Affirmative Election and his or her right to change such election, and (3) the procedures for making any such elections. The Committee shall provide each Post-2007 Eligible Employee and Targeted Participant who has not made an Affirmative Election with a similar notice within a reasonable period prior to each subsequent Plan Year.

Section 3.1(b)(4) Definitions. For purposes of this Section 3.1(b), the following phrases have the following meanings:

- (i) Affirmative Election means an election (A) through the regular or pinless enrollment system for the Plan (I) to make, or not make, Pre-Tax Contributions, After-Tax Contributions, Catch-Up Contributions or Roth Contributions or (II) to utilize the automatic escalation of Pre-Tax Contributions or (B) an Affirmative Investment Election.
- (ii) Automatic Enrollment Deadline means:

(A) For a Post-2007 Eligible Employee, the Friday immediately following the 90th day following the later of his or her (I) Employment Commencement Date, (II) Reemployment Commencement Date, or (III) date of transfer into Eligible Employee status.

(B) For a Targeted Participant, March 4, 2011 for Targeted Participants who are considered for a merit increase in March and the June 3, 2011 for Targeted Participants considered for a merit increase in June.

(i) Post-2007 Eligible Employee means an Eligible Employee (including Eligible Employees transferred from ineligible to Eligible Employee status) with an Employment Commencement Date, Reemployment Commencement Date, or otherwise becomes eligible to participate or resumes eligibility to participate on or after January 1, 2008.

(ii) Targeted Participant means each Eligible Employee (including Eligible Employees employed in Puerto Rico) who, as of January 1, 2011:

(A) has an Employment Commencement Date or Reemployment Commencement Date prior to January 1, 2008;

(B) has a balance credited to his or her Account greater than zero dollars (\$0.00);

(C) has a Pre-Tax Contribution deferral rate of less than 5% of Eligible Compensation;

(D) does not have an effective election to have his or her Employer Company make Roth Contributions; and

(E) does not have an affirmative effective election to have automatic escalation of Pre-Tax Contributions through the Plan's recordkeeper.

#### Section 3.1(c) Catch-Up Contributions

The maximum percentage of Catch-Up Contributions from January 1, 2003 to December 31, 2012 was 10% and from August 1, 2002 to December 31, 2002, 20%. Effective

September 1, 2005, each Participant who is an Eligible Employee (other than an Eligible Employee employed in Puerto Rico) who attained age 50 before the close of the 2005 Plan Year was eligible to make Catch-Up Contributions in 1% increments from 1% to 100% of the portion of his or her MIP award payable in the form of cash (less amounts withheld for FICA and Medicare taxes). Catch-Up Contributions could not be made from MIP cash advance payments paid to Participants during the month of December 2011.

Section 3.3 Roth Contributions.

Effective January 1, 2012, each Participant who is an Eligible Employee may make Roth Contributions in 1% increments from 1% to 100% of his or her Eligible Compensation from sales incentive program bonus payments.

**Article IV, EMPLOYER CONTRIBUTIONS**

Section 4.1(a) SavingsPLUS Contribution.

Effective August 1, 2002, no SavingsPLUS Contributions will be made with respect to any Catch-Up Contributions (unless such contributions are reclassified as Pre-Tax Contributions).

Section 4.1(b) Application of Suspense Account and Forfeitures

Excess amounts that are transferred to a Code § 415 suspense account for a Plan Year prior to 2008 pursuant to Section 5.2, if any, and any amounts treated as forfeitures under the Plan will be applied to reduce the SavingsPLUS Contributions for the next Plan Year (and succeeding Plan Years, if necessary).

Section 4.1(c) No SavingsPLUS Contributions on Refunds

SavingsPLUS Contributions refunded for limitation years beginning before July 1, 2007 were transferred to a Code § 415 suspense account (if the refund of Pre-Tax Contributions was for purposes of Code § 415) and the refund was made in limitation years beginning before July 1, 2007.

Suspension of SavingsPLUS Contributions

The SavingsPLUS Contribution was suspended from January 31, 2009 until the first payroll period ending on or after January 1, 2011.

**Article V, LIMITATIONS ON CONTRIBUTIONS AND ALLOCATIONS**

Section 5.2 Code § 415 Limitations

(a) General Rule. The provisions of Appendix B, Section 5.2 apply to limitation years ending after December 31, 2002 and before July 1, 2007. The term "limitation year"



as defined in Code § 415 and the corresponding regulations means the calendar year. Except to the extent permitted under Section 3.1(c) of the main text of the Plan (Catch-Up Contributions), the total annual additions (as described in Section 5.2(b)) allocated to a Participant's Account for any limitation year when added to the contributions that are treated as made on behalf of such Participant for such limitation year under the coordination rules in Section 5.2(d) will not exceed the lesser of:

- (2) 100% (25% for limitation years before January 1, 2002) of the Participant's Compensation for the limitation year;
- (3) \$40,000 (\$30,000 for limitation years beginning after December 31, 1994 but before January 1, 2002) as adjusted for cost-of-living increases in accordance with Code § 415(d), or
- (4) such lesser amount as the Committee deems necessary or appropriate to satisfy the requirements of Code § 415 in light of Section 5.2(c) and the benefits, if any, accrued and the contributions, if any, made for such Participant under any other employee benefit plan maintained by an Affiliate.

If a short limitation year (less than 12 months) is created because of an amendment, the limitation described in (2) above will be prorated.

(b) Annual Additions

The term "annual additions" means, for each Plan Year, the total contributions allocated to a Participant's Account for that Plan Year as Pre-Tax Contributions or After-Tax Contributions. Any corrective allocations made under this Plan will be treated as annual additions in the limitation year to which such allocations relate.

For the purpose of this Section 5.2, contributions allocated to an "individual medical benefit account" described in Code § 415(l) and contributions credited under a welfare benefit fund maintained by an Affiliate for any year to a reserve for post-retirement medical benefits for a Participant who is a "key employee" within the meaning of Code § 416(i) will be treated as a contribution made on his or her behalf under this Plan when, and to the extent, required under Code § 415 or § 419A(d).

(c) Corrections in this Plan

If as the result of the allocation of forfeitures, the failure to estimate a Participant's compensation, the failure to estimate a Participant's Pre-Tax Contributions or pre-tax contributions under other plans of an Affiliate or under such other facts and circumstances which the Commissioner of the Internal Revenue finds so justify, the limitations imposed by Code § 415(c) are exceeded for any Participant in a limitation year, the Participant's Account shall be reduced to the extent required to comply with such limitations. Such reductions shall be made in the following order:

(1) by refunding After-Tax Contributions for such limitation year (and any investment gain attributable to those refunded contributions);

(2) by refunding unmatched Pre-Tax Contributions for such limitation year (and any investment gain attributable to those refunded contributions); and

(3) by refunding matched Pre-Tax Contributions for such limitation year (and any investment gain attributable to those attributable to those refunded contributions) and transferring the related SavingsPLUS Contributions to a Code § 415 suspense account.

(d) Coordination Rules for Limitation Years Beginning on or after January 1, 2000 and Prior to July 1, 2007. If any adjustment is required under Code § 415 as a result of a Participant's participation in any other defined contribution plans, the adjustment will be made in the following steps: (1) from unmatched employee contributions in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k); (2) from unmatched elective deferrals in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k); (3) from matched employee contributions in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k) and the related SavingsPLUS Contributions under the QSOP, or matching contribution under any other defined contribution plan in which the individual is a participant (4) from matched elective deferrals in this Plan or any other defined contribution plan with a cash or deferred arrangement intended to satisfy Code § 401(k) and the related SavingsPLUS Contributions under the QSOP, or matching contribution under any other defined contribution plan in which the individual is a participant; (5) from other contributions made to the QSOP and (6) from other contributions to any other defined contribution plans in which the individual is a participant.

(e) Coordination with Code § 401(k) and Code § 402(g).

Any Pre-Tax Contributions refunded under this Section 5.2 will be disregarded for the purposes of Code § 402(g) limitations under Section 5.3 and the Code § 401(k) limitations under Section 5.4.

(f) Compensation. The term "Compensation" means for purposes of Code § 415, for each Participant:

(1) his or her wages within the meaning of Code §3401(a) and all other compensation paid by the Affiliates to, or on behalf of, such Participant for the Plan Year that is reportable as "wages, tips and other compensation" on Form W-2 or such other form as the Affiliates are required to provide the Participant under Code §§ 3401(a), 6041(d), 6051(a)(3) and 6052; and

(2) his or her Pre-Tax Contributions, any elective deferrals under any other Code § 401(k) plan maintained by an Affiliate that are excludible from income under

Code § 401(e)(3), any contributions made to a cafeteria plan of an Affiliate that are excludible under Code § 125 and any other contributions or deferrals excludible under Code §§ 132(f)(4) (for Plan Years beginning on or after January 1, 2001), 402(h), 403(b), 414(h)(2) or 457(b).

The annual Compensation of each Participant taken into account under the Plan shall not exceed \$200,000 for Plan Years beginning on or after January 1, 2002, as adjusted for cost-of-living increases in accordance with Code §401(a)(17)(B). For Plan Years beginning before January 1, 2002, the annual Compensation of each Participant taken into account under the Plan shall not exceed \$150,000 for Plan Years, as adjusted for cost-of-living increases in accordance with Code §401(a)(17). The cost-of-living adjustment in effect for a calendar year applies to any Plan Year beginning in such calendar year. If a Plan Year consists of fewer than 12 months, the annual compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the short Plan Year, and the denominator of which is 12.

#### Section 5.3 Code § 402(g) Limitations

Effective January 1 2007, refunds of excess Pre-Tax Contributions shall be adjusted for investment gain or loss for the period between the end of such calendar year and the date the deferrals are distributed in accordance with the regulations under Code § 402(g).

#### Section 5.4(d)(2), Section 5.5(c)(2) Determination of Investment Gain or Loss.

Effective only for the 2006 and 2007 Plan Years investment gain or loss for the period after the close of the Plan Year and prior to distribution of Excess Contributions or Excess Aggregate Contributions, (the “gap period”), shall be distributed and shall be determined using the safe harbor method for allocating gap period income described in Treasury Regulation § 1.401(k)-2(b)(2)(iv)(D) and § 1.401(m)-2(b)(2)(iv)(D).

#### Section 5.5 Code § 401(m) Limitations for Highly Compensated Employees.

For Plan Years beginning before January 1, 2002, the multiple use test described in Treasury Regulation § 1.401(m)-2 will apply.

### **Article VII, INVESTMENTS**

#### Section 7.1(a) Investment of Trust Funds.

Effective for Plan Years beginning after December 31, 2006, the Committee shall provide for at least three Investment Options in addition to the UPS Stock Fund each of which is diversified and has materially different risk and return characteristics. The Committee shall permit a Participant to divest his or her investment in the UPS Stock Fund and reinvest an equivalent amount in other Investment Options at periodic, reasonable opportunities occurring no less frequently than quarterly. The Committee shall not impose any restrictions

or conditions with respect to the investment in the UPS Stock Fund that are not imposed on other Investment Options except as required or as are reasonably designed to ensure compliance with applicable securities laws or as otherwise permitted under the Treasury Regulations under Code § 401(a)(35). To the extent that the Plan is an “applicable defined contribution plan” within the meaning of Code § 401(a)(35)(E) and the regulations thereunder, the requirements of Appendix 7.1, Diversification Requirements of Code § 401(a)(35), shall apply.

## **Article IX, DISTRIBUTIONS, WITHDRAWALS AND TRANSFERS**

### **Section 9.3 Automatic Deferral of Payment**

If the Latest Deferral Date occurs prior to January 1, 2010, any amount remaining in the Account on the Latest Deferral Date (including amounts invested in the Self-Managed Account and the UPS Stock Fund) shall be paid in a cash lump sum as soon as administratively practicable following the Latest Deferral Date.

### **Section 9.4 Required Beginning Date under Code § 401(a)(9)**

Notwithstanding any contrary Plan provision, for Plan Years beginning on or after January 1, 1997 a Participant’s Account will be paid to him or her no later than April 1 of the calendar year following (a) the calendar year in which he or she reaches age seventy and one-half (70½) or (b) if later, for a Participant who is not a five percent (5%) owner (as defined in Code § 416), the calendar year in which he or she has a Severance from Employment.

Effective January 1, 2003, distributions under Article IX shall conform to the minimum distribution requirements of Code § 401(a)(9) in accordance with Appendix 9.4 to the Plan as in effect as of January 1, 2003 and the Code § 401(a)(9) Regulations that were published in the Federal Register on April 17, 2002. However, the provisions of Appendix 9.4 shall not be interpreted to defer a payment that would otherwise be made under Article IX or to permit installment distributions that would not be permissible under Section 9.5(b) of the main text of the Plan.

Effective January 1, 2010, distributions under Article IX shall conform to the minimum distribution requirements of Code § 401(a)(9) in accordance with Appendix 9.4 as effective as of December 31, 2008. The distribution required by Code § 401(a)(9) may, at the election of the Participant or Beneficiary, be the minimum distribution required by Code § 401(a)(9). If a Participant or Beneficiary is required to receive a minimum distribution for a Plan Year but such Participant or Beneficiary does not provide the information required to determine the exact amount of such distribution, the Committee will establish procedures for completing distributions required by Code § 401(a)(9).

Notwithstanding the foregoing, a Participant or Beneficiary who would have been required to receive required minimum distributions for calendar year 2009 (“2009 RMDs”) but for the enactment of Code § 401(a)(9)(H), will receive 2009 RMDs. In addition, notwithstanding Section 9.13(b)(1), 2009 RMDs are not eligible rollover distributions.

#### Section 9.5(b) Distribution Form: Installment Options

Prior to May 1, 2010. A Participant who has a Severance from Employment shall be eligible to receive all or a portion of his or her Account in the form of a monthly installment distribution only if (1) he or she has at the time monthly installment payments commence at least twenty-thousand dollars (\$20,000) credited to his or her Account, excluding any amounts that are invested in a Self-Managed Account or the UPS Stock Fund and (2) has an account established at a financial institution that can accept wire transfers of monthly installment payments. A Participant shall select in accordance with procedures prescribed by the Committee the number of monthly installment payments that he or she wants to receive; provided, however, a Participant must select a minimum of twelve (12) monthly installment payments and each monthly installment payment must be at least fifty dollars (\$50). Each monthly installment payment shall be equal to the balance credited to the Participant's Account as of the last business day of the month prior to the date of payment divided by the number of then remaining installment payments. Only the Spouse of a Participant may, as Beneficiary, elect to continue to receive monthly installment payments following the death of the Participant; any other Beneficiary shall receive the balance of the Participant's Account in a lump sum payment in accordance with Section 9.6(d).

Notwithstanding any other provision, (i) if the amount of a monthly installment becomes less than fifty dollars (\$50), installment payments will cease immediately and no further payments will be made from the Account until the Participant (or a deceased Participant's Spouse) requests a lump sum distribution and (ii) any balance remaining in a Participant's Account upon his or her seventieth (70th) birthday shall be paid out in a cash lump sum in accordance with Section 9.3.

A Participant (or Spouse of a deceased Participant) who begins receiving installment payments may elect to terminate such installments at any time, and make a new election of monthly installments at any time, provided the requirements of this Section 9.5(b) are independently satisfied with respect to each such new election.

Prior to January 1, 2007, monthly installment distributions were available if, in addition to the above, the Participant had a Severance from Employment on or after attaining age fifty-five (55) and completing at least ten (10) years of service (as described in Section 1.42), from his or her Employment Commencement Date or most recent Reemployment Commencement Date with such employer.

For a Participant whose monthly installment payments began prior to May 1, 2010, monthly installment payments will not cease if the installment payment becomes less than fifty dollars (\$50) and a Participant may elect not to have his or her account paid out in a cash lump sum upon his or her seventieth (70th) birthday.

Notwithstanding anything contrary, installment payments shall not be made from the Self-Managed Account or the UPS Stock Fund.

Section 9.6 (b) Determination of Beneficiary. For Participants who die prior to January 1, 2014, the Participant's Beneficiaries will be the surviving children of the Participant in equal shares, if any of the following apply:

- (i) The Participant did not have a Spouse and failed to properly designate another Beneficiary;
- (ii) Neither the Participant's Spouse, if any, nor any other Beneficiaries survive the Participant; or
- (iii) After following the procedures in Section 9.19 (Forfeiture in Case of Unlocatable Participant), the whereabouts of each person designated as a Beneficiary is unknown and no death benefit claim is submitted to the Committee prior to December 31 of the calendar year following the calendar year in which the Participant.

If a Beneficiary is not identified and located pursuant to Section 9.6(b)(1), (2) or (3) of the main text of the Plan, the Participant's Account will be paid to the Participant's estate.

Section 9.8(c)(1) Hardship Withdrawals: Reasons for Financial Need

A hardship withdrawal was permitted due to economic loss caused by Hurricane Sandy for Participants whose principal residence on October 26, 2012, was located in one of the counties or Tribal Nations that have been identified as "covered disaster areas" because of the devastation caused by Hurricane Sandy or whose place of employment was located in one of these counties or Tribal Nations on that date or whose lineal ascendant or descendant, dependent or Spouse had a principal residence or place of employment in one of these counties or Tribal Nations on that date. "Covered disaster areas" are identified as federally declared disaster areas in the News Releases issued by the IRS for Victims of Hurricane Sandy, which are found on IRS.gov at: <http://www.irs.gov/uac/Newsroom/Help-for-Vicims-of-Hurricane-Sandy>. The provisions in Section 9.8(c)(3)(i) do not apply to these distributions. Distributions shall be made on or after October 26, 2012 and no later than February 1, 2013 for the purpose described under this Section 9.8(c)(1)(viii).

Section 9.8(c)(3) Suspension of Contributions and Adjusted Limits

With respect to a hardship withdrawal made before January 1, 2003, Section 9.8(c)(3) of the main text of the Plan shall be applied by substituting "12-month period" for "6-month period."

For hardship withdrawals made before January 1, 2003, for the calendar year immediately following the calendar year in which the withdrawal occurs, the Participant's Pre-Tax Contributions under this Plan and elective deferrals under all other plans maintained by an Affiliate cannot exceed the dollar limitation under Code § 402(g) for that calendar year (as

described in Section 5.3 of the main text of the Plan) reduced by the amount of the Participant's Pre-Tax Contributions and elective deferrals under those other plans for the calendar year in which the withdrawal occurs.

Section 9.13(b) Eligible Rollover Distribution: Definitions

Effective for distributions made before January 1, 2002, an Eligible Rollover Distribution does not include the portion of any distribution that is not includible in gross income.

Effective for distributions made after December 31, 2001, a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion which consists of after-tax contributions may be paid only to an individual retirement annuity described in Code § 408(a) or Code § 408(b), to a Roth IRA or to a qualified defined contribution plan described in Code § 401(a) or 403(a) or an annuity contract described in Code § 403(b) that agrees to account separately for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such portion which is not so includible.

Effective for Plan Years beginning on or after January 1, 2007, after-tax employee contributions may be paid to an annuity contract described in Code § 403(b) that agrees to account separately for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such portion which is not so includible.

An Eligible Retirement Plan is an individual retirement account described in Code § 408(a), an individual retirement annuity described in Code § 408(b), an annuity plan described in Code § 403(a), a qualified trust described in Code § 401(a) and, effective for distributions made after December 31, 2001, an annuity contract described in Code § 403(b) or an eligible plan under Code § 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan in order to be an Eligible Retirement Plan. The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, as defined in Code § 414(p).

Section 9.13(b)(6) Nonspouse Beneficiary Direct Rollover. Effective January 1, 2007, a Beneficiary who is not (i) the Participant's surviving Spouse or (ii) the Participant's Spouse or former Spouse designated as an alternate payee under a qualified domestic relations order, as defined in Code § 414(p), may elect, at the time and in the manner prescribed by the Committee to have any portion of his or her distribution from the Plan paid in a direct trustee-to-trustee transfer to an individual retirement account described in Code § 408(a) or an individual retirement annuity described in Code § 408(b), or effective January 1, 2008, a Roth IRA, each of which is established for the purpose of receiving such distribution on behalf of such Beneficiary and is treated as an inherited individual retirement account or

individual retirement annuity (within the meaning of Code § 408(d)(3)(C)) for purposes of Code § 402(c)(11) (each, an “Inherited IRA”). The minimum distribution rules of Code § 401(a)(9) as described in Section 9.4 shall apply for purposes of determining the amount of the distribution that may be transferred to the Inherited IRA.

#### **Article X, LOANS**

Section 10.1(a) Subject to Section 10.2 of the main text of the Plan, Participants who are employees of Menlo Worldwide Forwarding, Inc. may have up to three loans “rolled over” at the time they become Eligible Employees.

##### Section 10.1(c)(2)(11) Repayment Period

Effective as of July 31, 2000, the Committee may permit a Participant who is on a bona fide leave of absence either without pay or with pay that is at a rate that is less than the amount of the installment payments required under the terms of the loan to suspend repayment for the period of the absence (but not to exceed a year, except in the case of a Participant who is performing qualified military service within the meaning of Code § 414(u)(5)) subject to the rules of Section 10.1(c)(2)(ii) of the main text of the Plan.

#### **Article XV, MISCELLANEOUS**

##### Top-Heavy Plan

##### Section 15.8(a) Determination.

For Plan Years beginning before January 1, 2002, the value of any withdrawals and distributions made from this Plan and the plans described in Section 15.8(a)(2) above during the 5 year period ending on such determination date and the value of any contributions due under this Plan and the defined contribution plans described in Section 15.8(a)(2) of the main text of the Plan during the 5 year period ending on such determination date and the value of any contributions due under this Plan and the defined contribution plans described in Section 15.8(a)(2) of the main text of the plan but as yet unpaid as of such determination date;

Effective for Plan Year beginning on or after January 1, 2002, the accrued benefit of any employee will be disregarded if such employee has not performed any services for any Affiliate at any time during the one (1) year period ending on the date as of which such determination is made and, effective for Plan Years beginning before January 1, 2002, the accrued benefit of any employee will be disregarded if such employee has not performed any services for any Affiliate at any time during the five (5) year period ending on the date as of which such determination is made.

##### Section 15.8(b) Special Top Heavy Contribution



Effective for Plan Years beginning after January 1, 2002, SavingsPLUS Contributions shall be taken into account for purposes of satisfying the minimum contribution requirements of Code § 416(c)(2) and the Plan. The preceding sentence shall apply with respect to SavingsPLUS Contributions or, if the minimum contribution requirement is met in another defined contribution plan, such other plan. SavingsPLUS Contributions that are used to satisfy the minimum contribution requirements shall be treated as employer matching contributions for purposes of the actual contribution percentage test and the other requirements of Code § 401(m).

For Plan Years beginning before January 1, 2000, if the sum of the present value of the accrued benefits of key employees (computed as described in Section 15.8(a) of the main text of the Plan) exceeds ninety percent (90%) of the sum of the present value of the accrued benefits of all employees (computed as described in Section 15.8(a)) of the main text of the Plan as of the determination date this Plan will be "super top heavy" for the immediately following Plan Year. With respect to "limitation years" (within the meaning of Appendix 5.2) which begin prior to January 1, 2000, in computing the denominators of the defined benefit and defined contribution fractions described in Code § 415(e), (i) a factor of 1.0 will be used instead of 1.25 while the Plan is super top heavy and (ii) if the Plan is top heavy, but not super top heavy and the Plan uses a factor of 1.25, the minimum contribution described in Section 15.8(b)(2) of the main text of the Plan is increased to 7½% of Compensation. The Committee will take such other action as necessary to satisfy the requirements of Code § 415(e) and § 416(h) if the Committee determines that this Plan fails to meet the requirements set forth in Code § 416(h)(2)(B).

#### Section 15.9 USERRA

Effective January 1, 2007, in the case of a Participant who dies while performing qualified military service (as defined in Code § 414(u)), his or her Beneficiary shall be entitled to any additional benefits (other than benefit accruals relating to the period of qualified military service) provided under the Plan had the Participant resumed and then terminated employment on account of death.

#### **Appendix 7.1, Diversification Requirements of Code § 401(a)(35)**

#### **Appendix A, Puerto Rico Qualification**

The following provisions were effective prior to January 1, 2014.

The definition of "Affiliate" in Article I, Section 1.7, of the Plan is amended to add the following second paragraph:

"Effective as of January 1, 2011, for purposes of tax qualification in Puerto Rico, "Affiliate" shall mean any corporation, trade or business other than the Employer which joins the Employer as a member of a controlled group of corporations, an affiliated services group

or is under common control, as defined by Section 1081.01(a)(14) of the Puerto Rico Internal Revenue Code of 2011, as amended”.

The definition of “Highly Compensated Employee” in Article I, Section 1.31, of the Plan is amended to add an additional paragraph at the end of Subsection (b)(2), which shall read as follows:

“Effective for Plan Years commencing on and after January 1, 2011, and solely for purposes of qualifying the Plan in Puerto Rico, the term “highly compensated employee” shall mean an employee who is:

- (i) an officer of the Employer;
- (ii) a shareholder that own more than five percent (5%) of the voting stock or the total value of all classes of stock of the Employer;
- (iii) that for the preceding year earned a compensation in excess of \$110,000 for Plan Year 2011, \$115,000 for Plan Year 2012 or any other dollar amount limitation imposed by Section 414(q)(1)(B) of the U.S. Internal Revenue Code of 1986, as amended, for the applicable Plan Year; or
- (iv) the Spouse or dependent (within the meaning of Section 1033.18(c)(1) of the Puerto Rico Internal Revenue Code of 2011) of one of the individuals listed in items (i) through (iii) of this paragraph.”

Article III, Section 3.1(d)(1), of the Plan is amended to add the following paragraph at the end of the Section:

“The maximum Pre-Tax Contribution for a Participant for any taxable year, shall not exceed ten percent (10%) of the annual Compensation of the employee up to a maximum of seven thousand five hundred dollars (\$7,500) annually until December 31, 1997, then eight thousand dollars (\$8,000) annually thereafter, or such other amount as may be determined by the Puerto Rico Secretary of Treasury under Section 1033.09 and 1081.01(d) of the Puerto Rico Internal Revenue Code of 2011, as amended. If the employee participates in two (2) or more plans, such plans shall be treated as if they were one for the purposes of determining the amount of the limitation. For taxable years ending on or before December 31, 2008, the annual limit on Pre-Tax Contribution by a Participant shall be \$8,000; for taxable years commencing on January 1, 2009 and January 1, 2010, shall be \$9,000; for taxable years commencing on January 1, 2011, shall be \$10,000; for taxable years commencing January 1, 2012, shall be \$13,000; and for taxable years commencing on or after January 1, 2013, shall be \$15,000, regardless of the employee’s annual compensation.”

Article III, Section 3.1(d)(2), of the Plan is amended to add the following paragraph at the end of the Section:

“Participant who attain age fifty (50) by the end of a Plan Year will be eligible to make additional Pre-Tax Contributions for such Plan Year under this Subsection to the extent such Pre-Tax Contributions constitute Catch-up Contributions in accordance with, and subject to the maximum limits allowed, under Section 1081.01(d)(7)(C) of the Puerto Rico Internal Revenue Code of 2011, as amended. For taxable years commencing on January 1, 2006, the maximum annual limit for Catch-Up Contributions shall be \$500. For taxable years commencing after December 31, 2006, and before December 31, 2011, shall be \$1,000 per year. For taxable years commencing on and after January 1, 2012, shall be \$1,500 per year. Such Catch-Up Contributions shall be credited to the Participant’s Pre-Tax Contribution Account of each Participant who has made such Catch-Up Contribution. Any such Catch-Up Contribution shall be paid to the Trust within the time period required under ERISA and the regulations thereunder. Any Catch-Up Contribution under this Subsection, and any deferral election relating to such contribution, shall be made in accordance with the rules and procedures adopted by the Committee.”

Article V of the Plan is amended to add a new section 5.7, which shall read as follows:

“5.7 Puerto Rico Limitation on Contributions. As required by Section 1081.01(a)(11)(B) of the Puerto Rico Internal Revenue Code of 2011, as amended, the total amount of employer contributions (including the employer matching contributions and the profit sharing contributions) and the employees contributions (excluding the Rollover Contributions but including the employees’ salary deferral contributions and the after-tax contributions) that may be credited to the Participants account during any Plan Year shall not exceed \$50,000 for Plan Year 2012, \$51,000 for Plan Year 2013 or any other dollar amount imposed as limitation by Section 415(c) of the U.S. Internal Revenue Code of 1986, as amended, for the applicable Plan Year, or 100% of the employees Compensation (including the employees contributions hereunder) for the Plan Year or whatever other dollar limitation may be imposed by the Puerto Rico Internal Revenue Code of 2011, as amended, or the Puerto Rico Treasury Department by way of regulation or administrative determination. This provision shall be effective for Plan Year commencing on or after January 1, 2012.”

Article X, Section 10.1(c), of the Plan is amended to add to it a new paragraph (10), which shall read as follows:

“(10) Any loan to a Participant, after January 1, 2012, that fails to meet these requirements shall be treated as a taxable distribution to the Participant and shall be subject to the withholding requirements of Section 1081.01(b)(3) of the Puerto Rico Internal Revenue Code of 2011, as amended.”

The definition of “Compensation” in Appendix 1.17 of the Plan is amended to add the following fourth paragraph:

“For taxable years commencing after January 1, 2012, the maximum amount of compensation that shall be taken into account for purposes of computing contributions under

the Plan, as well as discrimination testing and the limitations to benefits and contributions under Section 1081.01(a) and (d) of the Puerto Rico Internal Revenue Code of 2011, as amended, shall not exceed annually \$250,000 for Plan Year 2012, \$255,000 for Plan Year 2013 or any other amount established under Section 401(a)(17) of the U.S. Internal Revenue Code of 1986, as amended, or any other amount established by the Puerto Rico Treasury Department through regulations or administrative determinations.”

**United Parcel Service, Inc. and Subsidiaries**  
**Ratio of Earnings to Fixed Charges**  
**(dollar amounts in millions)**

	<b>Year Ended December 31,</b>				
	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Earnings:					
Income before income taxes	\$ 4,637	\$ 6,674	\$ 974	\$ 5,776	\$ 5,290
Add: Interest expense	353	380	393	348	354
Add: Interest factor in rental expense	225	192	206	210	205
Total earnings	<u>\$ 5,215</u>	<u>\$ 7,246</u>	<u>\$ 1,573</u>	<u>\$ 6,334</u>	<u>\$ 5,849</u>
Fixed charges:					
Interest expense	\$ 353	\$ 380	\$ 393	\$ 348	\$ 354
Interest capitalized	11	14	18	17	18
Interest factor in rental expense	225	192	206	210	205
Total fixed charges	<u>\$ 589</u>	<u>\$ 586</u>	<u>\$ 617</u>	<u>\$ 575</u>	<u>\$ 577</u>
Ratio of earnings to fixed charges	<u>8.9</u>	<u>12.4</u>	<u>2.5</u>	<u>11.0</u>	<u>10.1</u>

**SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.**  
**As of December 31, 2014**

<u>Name of Subsidiary</u>	<u>Jurisdiction of Organization</u>
BT Property Holdings, Inc.	Delaware
BT Realty II, Inc.	Maryland
BT Realty, Inc.	Maryland
C.C. & E.I., L.L.C.	Delaware
The UPS Store, Inc.	Delaware
United Parcel Service Canada Ltd.	Canada
United Parcel Service Co.	Delaware
United Parcel Service Deutschland Inc & Co OHG	Germany
United Parcel Service France SNC	France
United Parcel Service General Services Co.	Delaware
United Parcel Service Italia SRL	Italy
United Parcel Service of America, Inc.	Delaware
United Parcel Service, Inc.	Ohio
UPB Aircraft Ventures	California
UPICO Corporation	Delaware
UPINSCO, Inc.	Virgin Islands
UPS Asia Group Pte. Ltd.	Singapore
UPS Capital Corporation	Delaware
UPS Cartage Services, Inc.	Delaware
UPS Expedited Mail Services, Inc.	Delaware
UPS Ground Freight, Inc.	Virginia
UPS Limited	United Kingdom
UPS Parcel Delivery (Guangdong) Co., LTD.	China (PRC)
UPS SCS GmbH & Co OHG	Germany
UPS SCS (Nederland) B.V.	Netherlands
UPS SCS, Inc.	Canada
UPS Supply Chain Solutions, Inc.	Delaware
UPS Worldwide Forwarding, Inc.	Delaware

The names of particular subsidiaries are omitted pursuant to Item 601(b)(21)(ii) of Regulation S-K.

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-192369 on Form S-3 and in Registration Statement Nos. 333-181436, 333-61112 and 333-70708 on Form S-8 of our reports dated February 27, 2015, relating to the consolidated financial statements of United Parcel Service, Inc. and subsidiaries (the "Company") and the effectiveness of the Company's internal control over financial reporting appearing in this Annual Report on Form 10-K of United Parcel Service, Inc. for the year ended December 31, 2014.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 27, 2015

## CERTIFICATE OF CHIEF EXECUTIVE OFFICER

I, David P. Abney, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ DAVID P. ABNEY

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David P. Abney  
Chief Executive Officer

February 27, 2015



## CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, Kurt P. Kuehn, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ KURT P. KUEHN

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Kurt P. Kuehn  
Chief Financial Officer

February 27, 2015

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman and Chief Executive Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ DAVID P. ABNEY

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David P. Abney  
Chief Executive Officer

February 27, 2015

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with the Annual Report on Form 10-K of United Parcel Service, Inc. (the "Corporation") for the year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman and Chief Executive Officer of the Corporation, certifies that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

/s/ KURT P. KUEHN

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Kurt P. Kuehn  
Chief Financial Officer

February 27, 2015