

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, 2015  
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 \$.01 per share | New York Stock Exchange                   |
| Floating Rate Senior Notes due 2020             | New York Stock Exchange                   |
| 1.625% Senior Notes due 2025                    | New York Stock Exchange                   |

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

(Title of Class)

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

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

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

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

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

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

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

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

The aggregate market value of the class B common stock held by non-affiliates of the registrant was \$67,688,103,890 as of June 30, 2015. 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 16, 2016, there were 194,211,012 outstanding shares of class A common stock and 690,180,604 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 5, 2016 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, we are 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 8.4 million receivers (“consignees”) in over 220 countries and territories. In 2015, we delivered an average of 18.3 million pieces per day, or a total of 4.7 billion packages. Total revenue in 2015 was \$58.4 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 overall market strategy is to provide customers with advanced logistics solutions made possible by a broad portfolio of differentiated services and capabilities expertly assembled and integrated into our customers’ businesses. This approach, supported by our efficient and globally balanced multimodal network, enables us to deliver considerable value to our customers and thereby build lasting partnerships with them.

Over the last 15 years, we have 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 and know-how, UPS enables our customers to bridge time zones, cultures and distances to keep their supply chains moving smoothly.

In 2015, we continued our capabilities expansion by acquiring Coyote Logistics, a leading asset-light truckload broker, and several other specialized businesses. Each provides our customers with an ever-expanding range of high value services and expertise, while simultaneously contributing to operational efficiency and positive returns.

We serve the global market for logistics services, which include transportation, distribution, contract logistics, ground freight, ocean freight, air freight, customs brokerage, insurance 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 12 of our consolidated financial statements.

## **Business Strategy**

Customers leverage our broad portfolio of logistics capabilities; balanced global presence in North America, Europe, Middle East, Africa, Asia Pacific 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. We actively monitor and invest to gain insights into emerging technologies such as additive manufacturing (3D printing), route and network optimization tools, and advanced product monitoring and tracking functionality.

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 and our consolidated balance sheet reflects financial strength that few companies can match. Cash generation is a significant strength of UPS, giving us strong capacity to service our obligations and allowing for distributions to shareowners, reinvestment in our business and the pursuit of growth opportunities.

We enable and are the beneficiaries of the following trends:

### *Expansion of Global Trade*

We continue to invest to expand in both developed and emerging international markets. In Europe, we have committed to nearly \$2 billion of capital to expand our infrastructure to meet the growing demand for cross-border commerce. The enhancements to our European ground network are designed to ensure that we provide fast, reliable service to high-value customers moving goods across country borders.

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 an understandable focus of investment and growth for our current customers and will be a source of our next generation of customers. To take advantage of these opportunities, we continue to make long-term investments in markets where our customers choose to grow. Over the past ten years, we have established a strong market presence in three leading emerging markets: China, Poland and Turkey. The Middle East, Latin America, Africa and Eastern Europe are also becoming increasingly important to us.

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. The 2015 Trans-Pacific Partnership agreement will connect 12 global economies and 800 million consumers across the Americas and the Asia-Pacific regions. We believe free trade is a catalyst for job creation, economic growth and improved living standards.

These trends underscore why we believe our international business is a catalyst for our future growth.

### *e-Commerce Growth in Retail Sectors*

Throughout much of the world, e-commerce growth continues to outpace traditional lines of business. Our integrated network puts us in an ideal position to capitalize on the shift towards residential deliveries. We continue to create new services, supported by our 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 chains, from global sourcing to distribution and returns. We offer cost-effective solutions such as UPS SurePost, for U.S. domestic shipments and UPS i-parcel for a low-cost deferred cross border solution, where economy takes precedence over speed. We also offer feature-rich solutions, such as UPS My Choice, a service that provides receivers with visibility and control of their inbound shipments.

UPS My Choice keeps 22 million members up-to-date on their parcels' delivery status through proactive alerts and offers flexible delivery options to control when and where these deliveries are made. Following on the success of UPS My Choice in the U.S., we expanded the service to 15 additional countries and territories in the Americas and Europe regions. With UPS My Choice, receivers may adjust the timing and location of their deliveries to obtain delivery on the first attempt. We strive to give our customers the best delivery experience in the industry and we intend to continue to expand the service in new markets in conjunction with the growing UPS Access Point network.

UPS My Choice members have the added flexibility to direct packages to UPS Access Point locations when they will not be home to accept a delivery. UPS Access Point locations are convenient places – such as the The UPS Store and other local businesses – that offer easy package drop-off and pickup. With evening and weekend hours, UPS Access Point locations better fit consumers' schedules. Merchants in nearly 50 origin countries and territories can ship directly to UPS Access Point locations in 12 destination countries, giving merchants and consumers greater control over package deliveries. At the end of 2015, we had more than 23,000 locations worldwide. In 2016, we plan to continue our expansion of UPS Access Point locations. This move enhances our cross-border e-commerce offerings for merchants, while increasing choice for their customers, who can opt to pick up and drop off parcels at retail locations that are convenient to them.

#### *Industry-focused Solutions and Offerings*

We offer differentiated value propositions in several segments, including aerospace, automotive, industrial manufacturing, retail, 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 solutions process and are shared with customers through direct engagement, industry forums, and publications. We help customers achieve their business objectives and improve their performance through our value-added solutions.

Demographic trends support growth in healthcare: an aging global population, a rising middle class and rapid urbanization are catalysts for chronic disease growth. The combination of rising global demand for healthcare, new product innovations, increasing regulatory demands and downward pressure on reimbursement is creating both opportunities and challenges for healthcare and life sciences firms. 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 to gain regulatory and trade management expertise, leverage scalable access to healthcare compliant infrastructure and to ensure product integrity through validated temperature and time-sensitive transportation solutions.

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 are optimizing their supply chains to remain competitive. Every year, product life cycles 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 experience 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 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 over 110 countries, we help high-tech companies identify better ways to manage inventories and meet their crucial logistics needs. Our experience and global capabilities make us a strong partner in the high-tech industry.

We are expanding our presence in the aerospace industry. The precise requirements of this industry's manufacturing, assembly and post-sales fit well within our service portfolio.

In each of our focus industries, our aim is to increase the number of customers using logistics capabilities across our portfolio.

## *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.

## **Technology**

Technology powers logistics, 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:

- Continued rollout of telematics to our international delivery fleet to complement our telematics-enabled U.S. small package, freight forwarding and freight ground fleets. By the end of 2015, telematics was installed in close to 83,000 vehicles. 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.
- Expanded implementation of 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 2015, ORION was deployed to over 40,000 drivers.
- Accelerated 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 has been deployed in about 300 sites globally.

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 our 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; multiple payment options, including PayPal™; order and shipment history; and automatic tracking updates.

### *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 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 single 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*

We selectively choose UPS Access Point locations that meet our business standards and ensure the safety of our customers' packages. Then, we equip each one with the latest UPS technology to help make package pickup quick and convenient. Consumers can track their packages on [www.ups.com](http://www.ups.com), [m.ups.com](http://m.ups.com) or the UPS Mobile app to know when their packages are ready for pickup.

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 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 faster and simpler 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® and Android devices, is readily available for our customers in over 80 countries. 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, 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, we offer a broad range of domestic and export delivery services; the facilitation of international trade; and the deployment of advanced technologies 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*

Our global small package operations provide time-definite delivery services for express letters, documents, small packages and palletized freight via air and ground services. We serve more than 220 countries and territories around the world along with domestic delivery service within 54 countries. 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 more than 150 pounds. All of our package services are supported by numerous shipping, visibility and billing technologies.

We handle 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 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 more than 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, which allow 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*

We are a leader in time-definite, money-back guaranteed, small package delivery services in the U.S. 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 8:00 AM, 10:30 AM, noon, end of day, etc.).
- In 2015, we expanded UPS Next Day Air Early (previously known as "UPS Next Day Air Early AM") service to over 4,000 additional ZIP Codes where previously only an end-of-day guarantee was available. This enhancement provides shippers and their customers the option of an earlier first-of-day delivery with commit times from 8:00 AM to 2:00 PM and enlarged our early delivery coverage. With this expansion, more of our customers can get critical shipments delivered earlier, across the U.S. and from around the world.
- 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. We deliver more ground packages than any other carrier, with average daily package volume of 13 million in the U.S., most within one to three business days.
- We also offer 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.

Growth in U.S. online sales, which are estimated to nearly double by 2020, is driving significant growth in package delivery volume, with a large seasonal spike during peak season beginning at Thanksgiving and lasting through Christmas. In order to meet the demand and ensure successful peak season operations, we have invested over \$1 billion in facility expansions and equipment modernization since 2014. We continue to make other improvements to effectively manage the seasonal volume fluctuations associated with peak season:

- Enhancing Cyber Week operations in the U.S. including ground and air pickup and delivery operations on Black Friday.
- Adding weekend pickup, sort, and delivery operations as needed in the U.S. to smooth out geographical spikes in volume.
- Utilizing additional aircraft and regional air hubs to add significant capacity to our air network during critical periods.
- Adding new delivery vehicles and trailers to our fleet of 100,000 package cars, vans, tractors, trailers and other vehicles.



- Automating facilities to expand our existing capabilities through enhanced technology.
- Updating [www.ups.com](http://www.ups.com) and expanding UPS communications to enhance the timeliness and relevance of alerts when service disruptions occur.

#### *International Package Reporting Segment*

Our International Package reporting segment includes the small package operations in Europe, Asia-Pacific, Canada and Latin America, the Indian sub-continent and the Middle East and Africa. We offer a wide selection of guaranteed day and time-definite international shipping services.

- We offer more guaranteed time-definite express options (Express Plus, Express and Express Saver) than any other carrier.
- In 2015, we undertook the largest one-time expansion in the history of UPS Worldwide Express service by adding coverage to more than 41,000 new postal codes around the world, creating earlier guaranteed-delivery options for customers that previously had only end-of-day guarantees. UPS Worldwide Express service offers guaranteed delivery on the next possible business day by 10:30 AM, noon or 2:00 PM, depending on the destination, and is available in 65 countries. We will continue this expansion in 2016, with plans to add UPS Worldwide Express service to additional countries and postal codes.
- 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 expanded our origin footprint for this service in 2015 by adding two new countries, bringing the total origins to more than 80. This expansion helps our 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 (Express, Expedited and Standard) delivery services within Europe, between the U.S. and Canada and between the U.S. and Mexico.
- In 2013, we introduced UPS Worldwide Express Freight for palletized shipments over 150 pounds. This service was enhanced to include a total of 58 origins and 56 destinations in 2015, enabling our customers to send their palletized shipments to more markets throughout the world. More expansion is planned for 2016 with additional origin and destination countries. UPS Worldwide Express Freight leverages our unique combination of package and freight networks to provide industry leading transit times with a money-back guarantee.

Europe, our largest region outside of the U.S., accounts for approximately half of international revenue and is one of the primary drivers of our growth. Several characteristics of the European market provide us with opportunities, including its highly fragmented nature and the fact that exports make up a significant part of Europe's GDP. To accommodate the strong potential for growth in small package exports, we expanded our facility at Nuremberg, Germany in the second quarter of 2015, doubling the sorting capacity to 30,000 packages per hour.

Asia-Pacific remains a strategic market due to growth rates in intra-Asia trade, the expanding Chinese economy, and the trade opportunities created by the Trans-Pacific Partnership agreement. To capitalize on these opportunities, we are bringing faster time-in-transit to customers focused on intra-Asia trade, and reducing transit days from Asia to the U.S. and Europe. Through added flight frequencies, we provide our customers the ability to ship next day to more places in the U.S. and Europe, guaranteed, than any other express carrier. We continue to build our presence in China through the expansion of our service capabilities, investing in our transportation network and strengthening brand awareness across 13 cities.

Additional international highlights include the following:

- We expanded the International Special Commodities program in 2015 with the addition of seven destination countries. Customers can now ship biological substances, dry ice and dangerous goods to and from more than 50 countries around the world.
- During 2015, we added Trade Management Services to the UPS customs brokerage portfolio in Asia to facilitate customers' expansion opportunities. These services include: trade consulting, import/export technologies and managed services.
- By the end of 2015, we expanded the UPS Access Point network coverage to over 15,000 locations across 11 countries including Canada and Mexico (U.S. locations excluded). We plan to further expand the UPS Access Point network to new countries in 2016.
- We increased the availability of the UPS Mobile App for Apple iPhone® and Android devices to ten additional countries in 2015, for a total of 16 countries. The UPS Mobile App is now available in Austria, Belgium, Canada,

Denmark, France, Germany, Italy, Mexico, Netherlands, Poland, Puerto Rico, Spain, Sweden, Switzerland, the United Kingdom and the United States. The UPS Mobile App includes on-the-go access to UPS My Choice®, which now has over 22 million members around the world.

### ***Supply Chain & Freight Reporting Segment***

The Supply Chain & Freight reporting segment consists of our forwarding and logistics services, truckload freight brokerage, UPS Freight 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 complementary financial and information services. We meet this demand by offering a broad array of supply chain services in over 195 countries and territories.

In 2015, we continued to invest in our global logistics network by adding an additional two million square feet of warehouse space in the United States, Canada and Western Europe. This follows our 2014 facility expansions in several key emerging markets including Brazil and China where the demand for outsourced value-added warehousing and logistics services continues to grow.

#### *Freight Forwarding*

We are one of the largest U.S. domestic air freight carriers and among the top international air freight forwarders globally. We offer a portfolio of guaranteed and non-guaranteed global air freight services. Additionally, as one of the world's leading non-vessel operating common carriers, we also provide ocean freight full-container load, less-than-container load and multi-modal transportation services between most major ports around the world.

#### *Truckload Freight Brokerage (Coyote)*

In 2015, we acquired Coyote Logistics, a U.S.-based truckload freight brokerage company. The acquisition added large scale truckload freight brokerage and other transportation management services to our Supply Chain & Freight reporting segment. In addition, we expect to benefit from synergies in purchased transportation, backhaul utilization, cross-selling to customers, as well as technology systems and industry best practices.

#### *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. We also provide 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 field stocking locations to ensure that the right type and quantity of our customers' stock is in the right locations to meet the needs of their end-customers. These solutions allow 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. In 2015, we launched UPS Mail Innovations Returns, an easy-to-use postal solution that combines the convenience of mailbox drop-off with the best-in-class speed, reliability and tracking of the UPS Mail Innovations network. Consumers can use their mailboxes to return lightweight parcels and the packages will flow through the UPS Mail Innovations network for delivery back to the shippers. UPS Mail Innovations Returns rounds out the industry-leading UPS Returns portfolio by giving consumers convenient postal access for returning lightweight shipments.
- **UPS Express Critical:** UPS Express Critical provides a broad range of urgent global transportation options designed to complement UPS's core services and fill the gaps for late cut-offs, weekends and holidays. UPS Express Critical expanded its capabilities into Mexico in 2015. The initial time-critical service solutions offered for volume between the U.S. and Mexico as well as intra-Mexico are Next Flight Out, Charter, Hand Carry and Surface for lightweight to heavyweight shipments.

### *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 systems allow freight customers to process and track LTL shipments, create electronic bills of lading and reconcile billing.

### *Customs Brokerage*

We are 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.

### *UPS Capital*

UPS Capital provides financial, insurance, and payment services to help protect companies from risk and leverage cash in their supply chains. With services available in over 20 countries, UPS Capital and its affiliates support all aspects of the order-to-cash cycle, including financing inventory warehoused overseas, insuring shipments and providing payment solutions. The UPS Capital suite of customizable cargo and credit insurance, trade finance and payment solutions is designed to help customers protect their assets and keep their businesses running smoothly. With the recent acquisitions of Parcel Pro and the Insured Parcel Services business of G4S International Logistics, UPS Capital now offers services and insurance coverage for the transport of high value luxury goods.

## **Sustainability**

Our 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 enabling global commerce and making global supply chains more efficient and less expensive.
- The environment, by enabling our global customers to leverage UPS's network efficiency and thereby reduce the greenhouse gas emissions 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 and fuel 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 regularly collaborate with a diverse set of global stakeholders on sustainability issues. Our most material global sustainability issues primarily involve our energy use, emissions and workplace policies. The full results of the global assessment are available at [www.ups.com/sustainability](http://www.ups.com/sustainability).

Sustainability highlights in 2015 include:

- One of Corporate Responsibility's "100 Best Corporate Citizens" for the 6th consecutive year.
- Recognized by Ethisphere Institute as one of the "World's Most Ethical Companies" for the 9th consecutive year.
- Recognized as a constituent of the Dow Jones Sustainability North America Index for the 11th consecutive year; in addition, we were included on the Dow Jones Sustainability World Index for the 3rd consecutive year.
- Recognized as a constituent of the NASDAQ OMX Global Sustainability Index for the 6th consecutive year.
- Achieved a disclosure score of 100% in response to the Carbon Disclosure Project. It is the 5th consecutive year we have achieved a rating at or above 99%.
- Received a Climate Leadership Award for Excellence in Greenhouse Gas Management from the U.S. Environmental Protection Agency.

More information on how we address our 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, we help drive positive change for organizations and communities in need across the globe. The highlights of our corporate citizenship efforts in 2015 include:

- Local non-profits around the world received nearly 2.35 million hours of volunteer service from our employees participating in our Neighbor-to-Neighbor program.
- The UPS Foundation, which oversees corporate citizenship efforts for the company, invested \$111 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.
- Our employees, both active and retired, contributed approximately \$55 million to United Way 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 2015, we have supported the planting of five million trees worldwide.
- We continued to aid communities impacted by disasters through our UPS Humanitarian Relief and Resilience program, by providing our logistics expertise, skilled volunteers, capacity building support and in-kind services. In 2015, we coordinated more than 350 humanitarian relief shipments across 50 countries and provided funding and logistics support to strengthen long-term recovery efforts of communities impacted by the Ebola Crisis, the Syrian Refugee Crisis and the Nepal Earthquake.
- 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 our 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, investors and other stakeholders with honesty and transparency. In working to develop these connections, we regularly receive high accolades from independent brand and reputation evaluations.

In 2015, we continued to be ranked highly by the following:

- Forbes' 2015 ranking of *America's Most Reputable Companies*, as rated by the Reputation Institute,
- Interbrand's *Best Global Brands*,
- Millward Brown's *BrandZ Most Valuable Global Brands and*
- Rittenhouse Rankings' annual *CEO Candor and Culture Survey*.

## Employees

The strength of our company is our people, working together with a common purpose. We had approximately 444,000 employees (excluding temporary seasonal employees) as of December 31, 2015, of which 362,000 are in the U.S. and 82,000 are located internationally. Our global workforce includes approximately 76,000 management employees (38% of whom are part-time) and 368,000 hourly employees (48% of whom are part-time).

As of December 31, 2015, we had approximately 266,000 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. The ongoing contract negotiations between UPS and the IPA are in mediation by the National Mediation Board.

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") 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, Wellness and Safety are core values at UPS and an enduring belief that the well-being of our people, business partners and the general public is of utmost importance. We train our people to recognize hazards, mitigate risk and 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 to educate and 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, 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 promote wellness and prevent occupational injuries, illnesses and auto crashes 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 health, wellness and safety 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 our 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. The "Five Being Habits" themes are: Fitness, Sleep, Hydration, Nutrition, and Stress Management.
- *Recognition.* We have a well-defined safe driving honor plan to recognize our drivers when they achieve accident-free milestones. We have more than 7,800 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, including startups that combine technology with crowdsourcing to focus on local market needs. 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.* We serve 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 8.4 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 service 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 encourage 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 of 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

We are subject to numerous laws and regulations in connection with our package and non-package businesses in the countries in which we operate. A summary of certain laws and regulations are described below.

### *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 insurance requirements, 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 or, in the absence of such agreements, by principles of reciprocity. We are also subject to current and potential aviation regulations imposed by foreign governments in the countries in which we operate, including registration and license requirements and security regulations. 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 regulation by the DOT and its agency, the Federal Motor Carrier Safety Administration (the “FMCSA”) and the states’ jurisdiction with respect to the regulation of operations, safety, insurance and hazardous materials. We also must comply with the safety and fitness regulations promulgated by the FMCSA, including those relating to drug and alcohol testing and hours-of service. 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.

Our ground operations are subject to compliance with various cargo-security and transportation regulations issued by the U.S. Department of Homeland Security, including regulation by the TSA.

#### *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. Our activities, including customs brokerage and freight forwarding, are subject to regulation by the Bureau of Customs and Border Protection and the TSA, the U.S. Federal Maritime Commission and the DOT.

#### *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 waste materials; appropriately 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. We have established site- and activity-specific environmental compliance and pollution prevention programs to address our environmental responsibilities and remain compliant. In addition, we have created numerous programs which seek to minimize waste and prevent pollution within our operations.

Pursuant to the Federal Aviation Act, the FAA, with the assistance of the Environmental Protection Agency (the "EPA"), is authorized to establish standards governing aircraft noise. Our aircraft fleet is in compliance with current noise standards of the federal aviation regulations. Our international operations are also subject to noise regulations in certain of the countries in which we operate.

#### *Communications*

Because of our extensive use of radio and other communication facilities in our aircraft and ground transportation operations, we are subject to the Federal Communications Act of 1934, as amended. Additionally, the Federal Communications Commission regulates and licenses our activities pertaining to satellite communications.

#### **Where You Can Find More Information**

We maintain 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. 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 our 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 our 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; trends in the e-commerce industry, such as 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 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 or intangible 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 444,000 employees, including approximately 362,000 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 historically low discount rates that we use to value our benefit plan obligations. 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 benefit plans. The new national master agreement with the IBT 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.

In addition to our ongoing multi-employer pension plan obligations, we may have additional exposure with respect to benefits earned in the Central States Pension Fund (the "CSPF"), from which UPS withdrew in 2007 in return for fully funding its allocable share of unfunded vested benefits thereunder. In 2015, CSPF submitted a proposed pension suspension plan to the U.S. Department of Treasury under the Multiemployer Pension Reform Act of 2014 ("MPRA") which proposes to make retirement benefit reductions to CSPF participants, including to the benefits of certain UPS employee participants. Separately, UPS agreed to provide supplemental benefits under the UPS/IBT Full-Time Employee Pension Plan to offset certain benefit reductions under the CSPF. We have no other multi-employer pension plans subject to such a funding obligation. UPS has reviewed the CSPF's proposed plan to evaluate the validity of the actions taken by the CSPF, the plan's compliance with the MPRA (and proposed regulations thereunder) and its potential impact on UPS's funding obligations under the UPS/IBT Full-Time Employee Pension Plan. We are vigorously challenging the proposed suspension plan because it does not fully comply with the law and we do not believe certain actions by CSPF are valid. Accordingly, we have not assumed or recognized a liability for supplemental benefits within the UPS/IBT Full-Time Employee Pension Plan due to the submission of CSPF's proposed plan to the U.S. Department of Treasury. Further, we are not able to estimate a range of additional obligations, if any, or determine whether any such amounts are material due to a number of uncertainties relating to the MPRA (and proposed regulations thereunder) and assumptions made by the CSPF in its proposed plan.

***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 30 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.

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 with a sorting capacity of approximately 416,000 packages per hour and includes 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.

UPS has made a successful transition to become the first wholly-owned foreign express carrier in China. The UPS International Air Hub at Pudong International Airport, 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.

We also have 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, 2015:

| Description       | Owned and<br>Capital<br>Leases | Short-term<br>Leased or<br>Chartered<br>From<br>Others | On<br>Order | Under<br>Option |
|-------------------|--------------------------------|--|-------------|-----------------|
| Boeing 757-200F   | 75                             | —  | —           | —               |
| Boeing 767-300ERF | 59                             | —  | —           | —               |
| Airbus A300-600F  | 52                             | —  | —           | —               |
| Boeing MD-11F     | 38                             | —  | —           | —               |
| Boeing 747-400F   | 11                             | —  | —           | —               |
| Boeing 747-400BCF | 2                              | —  | —           | —               |
| Other             | —                              | 413  | —           | —               |
| Total             | 237                            | 413  | —           | —               |

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 110,000 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 undernote 4 to the audited consolidated financial statements for a discussion of pension related matters and note 9 for a discussion of judicial proceedings and other matters arising from the conduct of our business activities.

## 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 2015 and 2014. Our class B common stock is listed on the New York Stock Exchange under the symbol "UPS".

|                | High      | Low      | Close     | Dividends Declared |
|----------------|-----------|----------|-----------|--------------------|
| <b>2015:</b>   |           |          |           |                    |
| First Quarter  | \$ 114.25 | \$ 96.59 | \$ 96.94  | \$ 0.73            |
| Second Quarter | \$ 102.13 | \$ 95.38 | \$ 96.91  | \$ 0.73            |
| Third Quarter  | \$ 103.43 | \$ 94.46 | \$ 98.69  | \$ 0.73            |
| Fourth Quarter | \$ 106.80 | \$ 96.23 | \$ 96.23  | \$ 0.73            |
| <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            |

As of February 17, 2016, there were 154,153 and 18,383 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 10, 2016, our Board declared a dividend of \$0.78 per share, which is payable on March 9, 2016 to shareowners of record on February 22, 2016. This represents a nearly 7% increase from the previous \$0.73 quarterly dividend in 2015.

A summary of repurchases of our class A and class B common stock during the fourth quarter of 2015 is as follows (in millions, except per share amounts):

|                             | Total Number of Shares Purchased <sup>(1)</sup> | Total Number of Shares Purchased as Part of Publicly Announced Program | Average Price Paid Per Share | Approximate Dollar Value of Shares that May Yet be Purchased Under the Program (as of month-end) |
|-----------------------------|---|--|------------------------------|--|
| October 1—October 31        | 4.3   | 4.3  | \$ 102.94                    | \$ 1,680   |
| November 1—November 30      | 0.9   | 0.8  | 104.17                       | 1,596  |
| December 1—December 31      | 1.5   | 1.5  | 101.08                       | 1,441  |
| Total October 1—December 31 | <u>6.7</u>                                      | <u>6.6</u>   | <u>\$ 102.66</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.

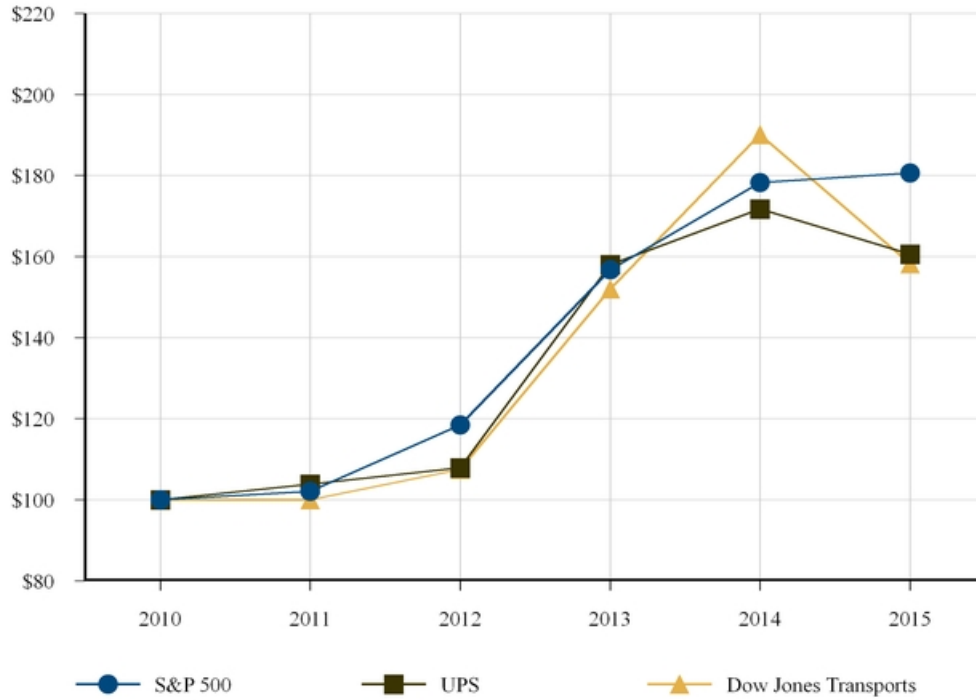
On February 14, 2013, the Board of Directors approved a share repurchase authorization of \$10.0 billion, which replaced an authorization previously announced in 2012. The new share repurchase authorization has no expiration date. We anticipate repurchasing approximately \$2.7 billion of shares in 2016.

**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, 2010 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**



|                                  | 12/31/2010 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 |
|----------------------------------|------------|------------|------------|------------|------------|------------|
| United Parcel Service, Inc.      | \$ 100.00  | \$ 103.88  | \$ 107.87  | \$ 158.07  | \$ 171.77  | \$ 160.61  |
| Standard & Poor's 500 Index      | \$ 100.00  | \$ 102.11  | \$ 118.43  | \$ 156.77  | \$ 178.22  | \$ 180.67  |
| Dow Jones Transportation Average | \$ 100.00  | \$ 100.01  | \$ 107.49  | \$ 151.97  | \$ 190.08  | \$ 158.23  |



**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, 2015 (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, including *Items Affecting Comparability* section, and other financial data appearing elsewhere in this report.

|   | Years Ended December 31, |                 |                 |               |                 |
|---|--------------------------|-----------------|-----------------|---------------|-----------------|
|   | 2015                     | 2014            | 2013            | 2012          | 2011            |
| <b>Selected Income Statement Data</b>       |                          |                 |                 |               |                 |
| <b>Revenue:</b>                             |                          |                 |                 |               |                 |
| U.S. Domestic Package                       | \$ 36,747                | \$ 35,851       | \$ 34,074       | \$ 32,856     | \$ 31,717       |
| International Package                       | 12,149                   | 12,988          | 12,429          | 12,124        | 12,249          |
| Supply Chain & Freight                      | 9,467                    | 9,393           | 8,935           | 9,147         | 9,139           |
| Total Revenue                               | 58,363                   | 58,232          | 55,438          | 54,127        | 53,105          |
| <b>Operating Expenses:</b>                  |                          |                 |                 |               |                 |
| Compensation and benefits                   | 31,028                   | 32,045          | 28,557          | 33,102        | 27,575          |
| Other                                       | 19,667                   | 21,219          | 19,847          | 19,682        | 19,450          |
| Total Operating Expenses                    | 50,695                   | 53,264          | 48,404          | 52,784        | 47,025          |
| <b>Operating Profit:</b>                    |                          |                 |                 |               |                 |
| U.S. Domestic Package                       | 4,767                    | 2,859           | 4,603           | 459           | 3,764           |
| International Package                       | 2,137                    | 1,677           | 1,757           | 869           | 1,709           |
| Supply Chain and Freight                    | 764                      | 432             | 674             | 15            | 607             |
| Total Operating Profit                      | 7,668                    | 4,968           | 7,034           | 1,343         | 6,080           |
| <b>Other Income and (Expense):</b>          |                          |                 |                 |               |                 |
| Investment income                           | 15                       | 22              | 20              | 24            | 44              |
| Interest expense                            | (341)                    | (353)           | (380)           | (393)         | (348)           |
| <b>Income Before Income Taxes</b>           | <b>7,342</b>             | <b>4,637</b>    | <b>6,674</b>    | <b>974</b>    | <b>5,776</b>    |
| <b>Income Tax Expense</b>                   | <b>2,498</b>             | <b>1,605</b>    | <b>2,302</b>    | <b>167</b>    | <b>1,972</b>    |
| <b>Net Income</b>                           | <b>\$ 4,844</b>          | <b>\$ 3,032</b> | <b>\$ 4,372</b> | <b>\$ 807</b> | <b>\$ 3,804</b> |
| <b>Per Share Amounts:</b>                   |                          |                 |                 |               |                 |
| Basic Earnings Per Share                    | \$ 5.38                  | \$ 3.31         | \$ 4.65         | \$ 0.84       | \$ 3.88         |
| Diluted Earnings Per Share                  | \$ 5.35                  | \$ 3.28         | \$ 4.61         | \$ 0.83       | \$ 3.84         |
| Dividends Declared Per Share                | \$ 2.92                  | \$ 2.68         | \$ 2.48         | \$ 2.28       | \$ 2.08         |
| <b>Weighted Average Shares Outstanding:</b> |                          |                 |                 |               |                 |
| Basic                                       | 901                      | 916             | 940             | 960           | 981             |
| Diluted                                     | 906                      | 924             | 948             | 969           | 991             |
| <b>As of December 31,</b>                   |                          |                 |                 |               |                 |
|   | 2015                     | 2014            | 2013            | 2012          | 2011            |
| <b>Selected Balance Sheet Data:</b>         |                          |                 |                 |               |                 |
| Cash and marketable securities              | \$ 4,726                 | \$ 3,283        | \$ 5,245        | \$ 7,924      | \$ 4,275        |
| Total assets                                | 38,311                   | 35,440          | 35,553          | 38,818        | 34,077          |
| Long-term debt                              | 11,316                   | 9,856           | 10,824          | 11,089        | 11,095          |
| Shareowners' equity                         | 2,491                    | 2,158           | 6,488           | 4,733         | 7,108           |

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

**Overview**

Growth in the US economy proceeded at a moderately slow and uneven pace throughout 2015, resulting in 2.4% GDP growth for the year with an initial estimate of 1.8% GDP growth in the fourth quarter of 2015 when compared to 2014. Consumer spending remains the primary driver of growth in the economy, as the combination of low inflation, healthy employment growth and a strong dollar have created a favorable environment for U.S. households. However, much of the growth in consumer spending has been centered in the service sector and not in the manufacturing sector. Retail sales growth was disappointing throughout most of 2015, and finished the year on a soft note with an underwhelming holiday season. E-commerce has been one of the few bright spots for retailers, as growth in digital sales far outpaced traditional brick-and mortar retailers. U.S. manufacturing continues to struggle, with weak export demand and sharp cutbacks in the mining sector combining to curb domestic industrial production and investment spending in the economy. These conditions are likely to continue in upcoming quarters, and growth is expected to remain fairly uneven in the economy as the bifurcation of the economy continues through the first half of 2016. Given these trends, overall volume grew slowly during 2015, with those products most aligned with the retail industry and e-commerce in particular experiencing the most growth.

Global GDP forecasts have been reduced in recent months, largely driven by growth concerns in emerging markets. China's economy continues to decelerate, particularly in the manufacturing sector, and recent financial market turmoil has raised concerns that the pace of deceleration might be faster than initially expected. This in turn has driven down commodity prices worldwide, and weakened the outlook for China's major trading partners such as the EU and other emerging Asian nations. The fall in commodity prices has negative implications for many other emerging economies, particularly in Latin America and Russia, which rely on commodity exports to drive economic growth. Outside of emerging markets, growth in the developed world appears to be continuing at a moderate pace, and advanced economies such as the many EU nations should continue to experience solid growth in 2016. The uneven nature of economic growth worldwide, combined with a trend towards more intra-regional trade, has continued the shifting of trade patterns and weakened demand in certain trade lanes. As a result of these circumstances, we continued to adjust our air capacity and cost structure in our transportation network to better match the prevailing volume 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 remained challenging in 2015, we have continued to undertake several initiatives in the U.S. and internationally to (1) improve the flexibility and capacity in our transportation 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 utilize newly 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   |            |
|---|-------------------------|-----------|-----------|------------|------------|
|   | 2015                    | 2014      | 2013      | 2015/ 2014 | 2014/ 2013 |
| Revenue (in millions)                       | \$ 58,363               | \$ 58,232 | \$ 55,438 | 0.2 %      | 5.0 %      |
| Operating Expenses (in millions)            | 50,695                  | 53,264    | 48,404    | (4.8)%     | 10.0 %     |
| Operating Profit (in millions)              | \$ 7,668                | \$ 4,968  | \$ 7,034  | 54.3 %     | (29.4)%    |
| Operating Margin                            | 13.1 %                  | 8.5%      | 12.7%     |            |            |
| Average Daily Package Volume (in thousands) | 18,324                  | 18,016    | 16,938    | 1.7 %      | 6.4 %      |
| Average Revenue Per Piece                   | \$ 10.37                | \$ 10.58  | \$ 10.76  | (2.0)%     | (1.7)%     |
| Net Income (in millions)                    | \$ 4,844                | \$ 3,032  | \$ 4,372  | 59.8 %     | (30.6)%    |
| Basic Earnings Per Share                    | \$ 5.38                 | \$ 3.31   | \$ 4.65   | 62.5 %     | (28.8)%    |
| Diluted Earnings Per Share                  | \$ 5.35                 | \$ 3.28   | \$ 4.61   | 63.1 %     | (28.9)%    |

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**Items Affecting Comparability**

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

|   | Year Ended December 31, |                 |                |
|---|-------------------------|-----------------|----------------|
|   | 2015                    | 2014            | 2013           |
| <b>Operating Expenses:</b>                        |                         |                 |                |
| Defined Benefit Plans Mark-to-Market Charge       | \$ 118                  | \$ 1,062        | \$ —           |
| Health & Welfare Plan Charges                     | —                       | 1,102           | —              |
| TNT Termination Fee and Related Expenses          | —                       | —               | 284            |
| Gain Upon Liquidation of Foreign Subsidiary       | —                       | —               | (245)          |
| <b>Total Adjustments to Operating Expenses</b>    | <b>118</b>              | <b>2,164</b>    | <b>39</b>      |
| Income Tax Expense (Benefit) from the Items Above | (39)                    | (807)           | (75)           |
| <b>Total Adjustments to Net Income</b>            | <b>\$ 79</b>            | <b>\$ 1,357</b> | <b>\$ (36)</b> |

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

*Defined Benefit Plans Mark-to-Market Charge*

In 2015, we recognized pre-tax mark-to-market losses in compensation and benefits expense of \$118 million (\$79 million after-tax) on our pension and postretirement defined benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor. These charges impacted our U.S. Domestic Package segment (\$62 million), International Package segment (\$44 million) and Supply Chain & Freight segment (\$12 million).

In 2014, we recognized pre-tax mark-to-market losses in compensation and benefits expense of \$1.062 billion (\$670 million after-tax) on our pension and postretirement defined benefit plans related to the remeasurement of plan assets and liabilities recognized outside of a 10% corridor. These charges impacted our U.S. Domestic Package segment (\$660 million), International Package segment (\$200 million) and Supply Chain & Freight segment (\$202 million).

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).

The table below indicates the amounts associated with each component of the pre-tax mark-to-market loss, as well as the weighted-average actuarial assumptions used to determine our net periodic benefit costs, for each year:

|  | Year Ended December 31, |                   |             |
|--|-------------------------|-------------------|-------------|
|  | 2015                    | 2014              | 2013        |
| <b>Components of mark-to-market gain (loss) (in millions):</b>                             |                         |                   |             |
| Discount rates   | \$ 1,624                | \$ (954)          | \$ —        |
| Return on assets   | (1,550)                 | 42                | —           |
| Demographic and assumption changes   | (133)                   | (150)             | —           |
| Reclassification of prior year unrecognized benefit cost                                   | (59)                    | —                 | —           |
| <b>Total mark-to-market gain (loss)</b>  | <b>\$ (118)</b>         | <b>\$ (1,062)</b> | <b>\$ —</b> |
| <b>Weighted-average actuarial assumptions used to determine net periodic benefit cost:</b> |                         |                   |             |
| Expected rate of return on plan assets   | 8.66%                   | 8.66%             | 8.69%       |
| Actual rate of return on plan assets   | 0.37%                   | 9.45%             | 8.36%       |
| Discount rate used for net periodic benefit cost   | 4.36%                   | 5.24%             | 4.38%       |
| Discount rate at measurement date  | 4.81%                   | 4.36%             | 5.24%       |

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The \$118 million and \$1.062 billion pre-tax mark-to-market losses for the years ended December 31, 2015 and 2014, respectively, were comprised of the following components:

2015 - \$118 million pre-tax mark-to-market loss:

- *Discount Rates* (\$1.624 billion pre-tax gain): The weighted-average discount rate for our pension and postretirement medical plans increased from 4.36% at December 31, 2014 to 4.81% at December 31, 2015, primarily due to an increase in U.S. treasury yields and credit spreads on AA-rated corporate bonds in 2015.
- *Return on Assets* (\$1.550 billion pre-tax loss): In 2015, the actual 0.37% rate of return on plan assets fell short of our expected rate of return of 8.66%, primarily due to weak global equity markets.
- *Demographic and Assumption Changes* (\$133 million pre-tax loss): This represents the difference between actual and estimated participant data and demographic factors, including items such as health care cost trends, compensation rate increases, and rates of termination, retirement and mortality.
- *Reclassification of Prior Year Unrecognized Benefit Cost* (\$59 million pre-tax loss): Our mark-to-market accounting policy requires recognition of gains and losses in excess of a corridor equal to 10% of the plans' projected benefit obligations (or fair value of the plans' assets, if greater). The decrease in certain plans' projected benefit obligations resulted in a lower corridor, which required recognition of prior year unrecognized benefit costs for some of our plans.

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

- *Discount Rates* (\$954 million pre-tax loss): The weighted-average discount rate for our pension and postretirement medical plans declined from 5.24% at December 31, 2013 to 4.36% at December 31, 2014. This overall decline in discount rates was primarily 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.
- *Return on Assets* (\$42 million pre-tax gain): 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 gains in the world equity markets.
- *Demographic and Assumption Changes* (\$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.

*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 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.

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*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 2013, we realized a pre-tax foreign currency gain of \$245 million (\$213 million after-tax), which impacted our International 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 for company-sponsored pension and post-retirement liabilities 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 2015, 2014 or 2013.

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**U.S. Domestic Package Operations**

|   | Year Ended December 31, |           |           | % Change   |            |
|---|-------------------------|-----------|-----------|------------|------------|
|   | 2015                    | 2014      | 2013      | 2015/ 2014 | 2014/ 2013 |
| <b>Average Daily Package Volume (in thousands):</b>         |                         |           |           |            |            |
| Next Day Air  | 1,316                   | 1,274     | 1,271     | 3.3 %      | 0.2 %      |
| Deferred  | 1,313                   | 1,155     | 1,074     | 13.7 %     | 7.5 %      |
| Ground  | 12,969                  | 12,893    | 12,060    | 0.6 %      | 6.9 %      |
| Total Avg. Daily Package Volume                             | 15,598                  | 15,322    | 14,405    | 1.8 %      | 6.4 %      |
| <b>Average Revenue Per Piece:</b>                           |                         |           |           |            |            |
| Next Day Air  | \$ 19.66                | \$ 20.42  | \$ 20.12  | (3.7)%     | 1.5 %      |
| Deferred  | 11.70                   | 12.57     | 12.70     | (6.9)%     | (1.0)%     |
| Ground  | 7.98                    | 7.85      | 7.96      | 1.7 %      | (1.4)%     |
| Total Avg. Revenue Per Piece                                | \$ 9.28                 | \$ 9.25   | \$ 9.39   | 0.3 %      | (1.5)%     |
| <b>Operating Days in Period</b>                             | 254                     | 253       | 252       |            |            |
| <b>Revenue (in millions):</b>                               |                         |           |           |            |            |
| Next Day Air  | \$ 6,570                | \$ 6,581  | \$ 6,443  | (0.2)%     | 2.1 %      |
| Deferred  | 3,903                   | 3,672     | 3,437     | 6.3 %      | 6.8 %      |
| Ground  | 26,274                  | 25,598    | 24,194    | 2.6 %      | 5.8 %      |
| Total Revenue   | \$ 36,747               | \$ 35,851 | \$ 34,074 | 2.5 %      | 5.2 %      |
| <b>Operating Expenses (in millions):</b>                    |                         |           |           |            |            |
| Operating Expenses  | \$ 31,980               | \$ 32,992 | \$ 29,471 | (3.1)%     | 11.9 %     |
| Defined Benefit Plans Mark-to-Market Charge                 | (62)                    | (660)     | —         |            |            |
| Health & Welfare Plan Charges                               | —                       | (990)     | —         |            |            |
| Adjusted Operating Expenses                                 | \$ 31,918               | \$ 31,342 | \$ 29,471 | 1.8 %      | 6.3 %      |
| <b>Operating Profit (in millions) and Operating Margin:</b> |                         |           |           |            |            |
| Operating Profit  | \$ 4,767                | \$ 2,859  | \$ 4,603  | 66.7 %     | (37.9)%    |
| Adjusted Operating Profit                                   | \$ 4,829                | \$ 4,509  | \$ 4,603  | 7.1 %      | (2.0)%     |
| Operating Margin  | 13.0%                   | 8.0%      | 13.5%     |            |            |
| Adjusted Operating Margin                                   | 13.1%                   | 12.6%     | 13.5%     |            |            |

**Revenue**

The change in overall revenue was impacted by the following factors for the years ended December 31, 2015 and 2014, compared with the corresponding prior year periods:

|                                | Volume | Rates /<br>Product Mix | Fuel<br>Surcharge | Total<br>Revenue<br>Change |
|--------------------------------|--------|------------------------|-------------------|----------------------------|
|                                |        |                        |                   |                            |
| <b>Revenue Change Drivers:</b> |        |                        |                   |                            |
| 2015/ 2014                     | 2.2%   | 2.7 %                  | (2.4)%            | 2.5%                       |
| 2014/ 2013                     | 6.8%   | (1.6)%                 | — %               | 5.2%                       |

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***Volume***

*2015 compared to 2014*

Our total volume increased in 2015, largely due to faster growing premium air products and continued 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 nearly 3% for the year and drove increases in both air and ground shipments. Business-to-business volume grew 1% in 2015, 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.

Among our air products, we experienced increased volume for our deferred air services in 2015, particularly for those products most aligned with business-to-consumer shipping, such as our residential Second Day Air Package and Three Day Select products. We also experienced solid growth in our business-to-business deferred air volume, largely due to increases in the retail sector. Next Day Air volume increased 3.3% in 2015, due to strong growth in e-commerce.

The increase in ground volume in 2015 was driven by growth in residential ground and SurePost volume and business-to-business shipping activity. The continued growth in e-commerce drove demand for our SurePost service, with volume increasing 3% in 2015. The increase 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 retail sector.

*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.

***Rates and Product Mix***

*2015 compared to 2014*

Overall revenue per piece increased 0.3% in 2015, 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 which took effect on December 29, 2014 and an increase in surcharge rates that took effect November 2, 2015. We implemented an average 4.9% net increase in base and accessorial rates on UPS Next Day Air, UPS 2nd Day Air, UPS 3 Day Select and UPS Ground. Additionally, a pricing change involving the application of dimensional weight pricing to all UPS Ground services took effect on December 29, 2014. On November 2, 2015, the surcharge increased for Over Maximum Packages and the indices for Ground, Air and International fuel surcharges were adjusted.

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Revenue per piece decreased for our Next Day Air and deferred air products in 2015, as lower fuel surcharge rates more than offset the positive impact of the base rate increase. Product mix adversely impacted Next Day Air and 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 Next Day Air and deferred revenue per piece, due to faster volume growth among our larger customers, which typically have a lower average yield than our small and middle-market customers.

Ground revenue per piece increased in 2015, primarily due to the base rate increase, the dimensional weight pricing change and product mix. Additionally, the revenue per piece for our traditional ground residential products was positively impacted by our decision not to pursue certain lower-yielding customer contract renewals. These factors were partially offset by declines in fuel surcharge rates as well as changes in customer mix, as we experienced faster volume growth among our larger customers.

*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, 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 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.

***Fuel Surcharges***

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

|                         | Year Ended December 31, |       |       | % Point Change |            |
|-------------------------|-------------------------|-------|-------|----------------|------------|
|                         | 2015                    | 2014  | 2013  | 2015/ 2014     | 2014/ 2013 |
| Next Day Air / Deferred | 4.8%                    | 10.2% | 10.7% | (5.4)%         | (0.5)%     |
| Ground                  | 5.5%                    | 7.1%  | 7.2%  | (1.6)%         | (0.1)%     |

Total domestic fuel surcharge revenue decreased by \$843 million in 2015 as a result of lower fuel surcharge rates caused by declining jet and diesel fuel prices; however, the impact of lower fuel prices was partially mitigated by changes to the fuel surcharge indices, as well as the overall increase in package volume for the period. In 2014, total fuel surcharge revenue declined by \$8 million as lower fuel surcharge rates (driven by lower fuel prices) more than offset the impact of increased air and ground volume.



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***Operating Expenses***

*2015 compared to 2014*

Adjusted operating expenses for the segment increased \$576 million in 2015, primarily due to pick-up and delivery costs (up \$602 million), the costs of package sorting (up \$172 million) and indirect operating costs (up \$122 million). The cost increases were partially offset by a reduction in the cost of operating our domestic integrated air and ground transportation network (down \$319 million). These costs were impacted by several factors:

- We incurred higher employee compensation, largely resulting from an increase in average daily union labor hours (up 0.8%), union contractual wage rate increases and growth in the overall size of the workforce.
- Employee benefit costs increased, largely due to increased employee healthcare, pension expense and workers compensation expense.
- We incurred lower fuel expense in 2015 primarily due to lower fuel prices. This was partially offset by higher fuel usage (due to an increase in aircraft block hours and vehicle miles driven offset by an increase in average miles per gallon).
- We incurred lower expenses associated with purchased transportation, primarily due to the decreased use of, and lower fuel surcharge rates passed to us from rail carriers and outside contract carriers.
- 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 2015 compared with 2014. Productivity improvements have continued to be realized through adjusting our air and ground networks to better match volume levels and utilizing technology to increase package sorting and delivery efficiency. The continued deployment of ORION has contained the average daily vehicle miles driven (down 0.4%) even as package volume increased (up 1.8%).

*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 densities. 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%).

***Operating Profit and Margin***

*2015 compared to 2014*

Adjusted operating profit increased \$320 million in 2015 compared with 2014, while the adjusted operating margin increased 50 basis points to 13.1%. Overall volume growth allowed us to better leverage our transportation network, leading to improved productivity (resulting in a lower cost per piece) discussed previously. This was slightly offset by higher pension and healthcare costs, contractual union wage increases and the negative impact of fuel (fuel surcharge revenue decreased at a faster rate than fuel expense).

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*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.

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**International Package Operations**

|  | Year Ended December 31, |           |           | % Change   |            |
|--|-------------------------|-----------|-----------|------------|------------|
|  | 2015                    | 2014      | 2013      | 2015/ 2014 | 2014/ 2013 |
| <b>Average Daily Package Volume (in thousands):</b>          |                         |           |           |            |            |
| Domestic   | 1,575                   | 1,579     | 1,499     | (0.3)%     | 5.3 %      |
| Export   | 1,151                   | 1,115     | 1,034     | 3.2 %      | 7.8 %      |
| Total Avg. Daily Package Volume                              | 2,726                   | 2,694     | 2,533     | 1.2 %      | 6.4 %      |
| <b>Average Revenue Per Piece:</b>                            |                         |           |           |            |            |
| Domestic   | \$ 6.06                 | \$ 6.97   | \$ 7.06   | (13.1)%    | (1.3)%     |
| Export   | 31.10                   | 33.98     | 35.18     | (8.5)%     | (3.4)%     |
| Total Avg. Revenue Per Piece                                 | \$ 16.63                | \$ 18.15  | \$ 18.54  | (8.4)%     | (2.1)%     |
| <b>Operating Days in Period</b>                              | 254                     | 253       | 252       |            |            |
| <b>Revenue (in millions):</b>                                |                         |           |           |            |            |
| Domestic   | \$ 2,425                | \$ 2,784  | \$ 2,667  | (12.9)%    | 4.4 %      |
| Export   | 9,092                   | 9,586     | 9,166     | (5.2)%     | 4.6 %      |
| Cargo  | 632                     | 618       | 596       | 2.3 %      | 3.7 %      |
| Total Revenue  | \$ 12,149               | \$ 12,988 | \$ 12,429 | (6.5)%     | 4.5 %      |
| <b>Operating Expenses (in millions):</b>                     |                         |           |           |            |            |
| Operating Expenses   | \$ 10,012               | \$ 11,311 | \$ 10,672 | (11.5)%    | 6.0 %      |
| Defined Benefit Plan Mark-to-Market Charge                   | (44)                    | (200)     | —         |            |            |
| Health & Welfare Plan Charges                                | —                       | (28)      | —         |            |            |
| Gain Upon Liquidation of Foreign Subsidiary                  | —                       | —         | 245       |            |            |
| TNT Termination Fee and Related Expenses                     | —                       | —         | (284)     |            |            |
| Adjusted Operating Expenses                                  | \$ 9,968                | \$ 11,083 | \$ 10,633 | (10.1)%    | 4.2 %      |
| <b>Operating Profit (in millions) and Operating Margin:</b>  |                         |           |           |            |            |
| Operating Profit   | \$ 2,137                | \$ 1,677  | \$ 1,757  | 27.4 %     | (4.6)%     |
| Adjusted Operating Profit                                    | \$ 2,181                | \$ 1,905  | \$ 1,796  | 14.5 %     | 6.1 %      |
| Operating Margin   | 17.6%                   | 12.9%     | 14.1%     |            |            |
| Adjusted Operating Margin                                    | 18.0%                   | 14.7%     | 14.5%     |            |            |
| <b>Currency Translation Benefit / (Cost)—(in millions)*:</b> |                         |           |           |            |            |
| Revenue  |                         |           |           | \$ (880)   | \$ (72)    |
| Operating Expenses   |                         |           |           | 858        | 87         |
| Operating Profit   |                         |           |           | \$ (22)    | \$ 15      |

\* 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, 2015 and 2014, compared with the corresponding prior year periods:

|                                | Volume | Rates /<br>Product Mix | Fuel<br>Surcharge | Currency | Total<br>Revenue<br>Change |
|--------------------------------|--------|------------------------|-------------------|----------|----------------------------|
| <b>Revenue Change Drivers:</b> |        |                        |                   |          |                            |
| 2015/ 2014                     | 1.6%   | 1.9 %                  | (3.2)%            | (6.8)%   | (6.5)%                     |
| 2014/ 2013                     | 6.8%   | (1.7)%                 | — %               | (0.6)%   | 4.5 %                      |

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***Volume***

*2015 compared to 2014*

Our overall average daily volume increased in 2015, largely due to continued strength in business-to-consumer volume, as well as strong demand from several sectors including healthcare and diversified vehicles and parts.

We continued to experience solid export volume growth in 2015. The growth was mainly driven by our European and Americas operations, which experienced solid increases in volume to most regions of the world. European export volume increased in 2015, with particular strength in the Europe-to-U.S., intra-European and Europe-to-Americas trade lanes. Americas export volume increased in 2015, with solid growth in the Americas-to-Europe and Americas-to-U.S. trade lanes. However, Asian export volume declined across all trade lanes due to the economic slowdown throughout the region, particularly China, while U.S. export volume declined largely due to the impact of the stronger U.S. Dollar. Export volume growth was led by our Transborder products, such as Transborder Standard and Transborder Express.

Domestic volume in 2015 decreased slightly from 2014 driven by selective revenue management initiatives focused on disciplined growth. Additionally, the results were impacted by slowing overall economic conditions in Germany and Canada.

*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.

***Rates and Product Mix***

*2015 compared to 2014*

Total average revenue per piece decreased 1.4% in 2015 on a currency-adjusted basis. The decline in fuel surcharge revenues (discussed in detail under *Fuel Surcharges*) more than offset the increases in base rates and revenue management activities.

On December 29, 2014, 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). On November 2, 2015, the surcharge increased for Over Maximum Packages and the tables for Ground, Air and International fuel surcharges were adjusted. 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 2015, due to lower fuel surcharge revenues, which more than offset the increase in base rates and disciplined yield and growth initiatives in Europe.

Currency-adjusted domestic revenue per piece increased 1.8% in 2015, largely due to base rate increases and disciplined yield and growth initiatives in Europe and Canada, offset by declining fuel surcharge rates.

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*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.

***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.

Total international fuel surcharge revenue decreased by \$516 million in 2015, primarily due to lower fuel prices; however, this was partially offset by an increase in overall volume and pricing changes made to the fuel surcharge indices. 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.

***Operating Expenses***

*2015 compared to 2014*

Overall adjusted operating expenses for the segment decreased \$1.115 billion in 2015. This decrease was mostly due to currency exchange rate movements and lower fuel expense.

The decrease in operating expenses was impacted by the cost of operating our international integrated air and ground network, which decreased \$617 million, as well as pick-up and delivery costs, which decreased \$332 million. The decreases in network and pick-up and delivery costs were largely due to the impact of currency exchange rate movements, lower fuel expense, and a reduction in expense for outside transportation carriers (due to lower fuel surcharges passed to us from the carriers). Additionally, network costs were mitigated by restraining the growth in aircraft block hours (down 1.1% in 2015), as a result of ongoing modifications to our air network; this was achieved with a 3.2% increase in international export volume and continuing air product service enhancements.

The remaining decrease in operating expenses in 2015 was largely due to reductions of indirect operating costs and the cost of package sorting. Indirect operating costs decreased \$130 million and the cost of package sorting decreased by \$36 million. Both of these decreases were mainly attributable to the impact of currency.

Excluding the impact of currency exchange rate changes, the total adjusted cost per piece for the segment decreased 4.0% in 2015.

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*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.

***Operating Profit and Margin***

*2015 compared to 2014*

Adjusted operating profit increased by \$276 million in 2015, while the adjusted operating margin increased 330 basis points. Operating profit and margin were positively affected by several factors including base rate increases, modifications to the fuel surcharge indices and the net impact of fuel (fuel expense declined at a faster rate than fuel surcharge revenue). These items were partially offset by the net impact of currency exchange rate movements (including our currency hedging gains), which reduced operating profit by \$22 million when comparing 2015 with 2014.

*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.

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**Supply Chain & Freight Operations**

|  | Year Ended December 31, |          |          | % Change   |            |
|--|-------------------------|----------|----------|------------|------------|
|  | 2015                    | 2014     | 2013     | 2015/ 2014 | 2014/ 2013 |
| <b>Freight LTL Statistics:</b>                               |                         |          |          |            |            |
| Revenue (in millions)  | \$ 2,479                | \$ 2,633 | \$ 2,502 | (5.8)%     | 5.2 %      |
| Revenue Per Hundredweight                                    | \$ 22.94                | \$ 22.64 | \$ 22.05 | 1.3 %      | 2.7 %      |
| Shipments (in thousands)                                     | 10,433                  | 10,762   | 10,497   | (3.1)%     | 2.5 %      |
| Shipments Per Day (in thousands)                             | 41.2                    | 42.5     | 41.5     | (3.1)%     | 2.5 %      |
| Gross Weight Hauled (in millions of lbs)                     | 10,808                  | 11,632   | 11,348   | (7.1)%     | 2.5 %      |
| Weight Per Shipment (in lbs)                                 | 1,036                   | 1,081    | 1,081    | (4.2)%     | — %        |
| Operating Days in Period                                     | 253                     | 253      | 253      |            |            |
| <b>Revenue (in millions):</b>                                |                         |          |          |            |            |
| Forwarding and Logistics                                     | \$ 5,900                | \$ 5,758 | \$ 5,492 | 2.5 %      | 4.8 %      |
| Freight  | 2,881                   | 3,048    | 2,882    | (5.5)%     | 5.8 %      |
| Other  | 686                     | 587      | 561      | 16.9 %     | 4.6 %      |
| Total Revenue  | \$ 9,467                | \$ 9,393 | \$ 8,935 | 0.8 %      | 5.1 %      |
| <b>Operating Expenses (in millions):</b>                     |                         |          |          |            |            |
| Operating Expenses   | \$ 8,703                | \$ 8,961 | \$ 8,261 | (2.9)%     | 8.5 %      |
| Defined Benefit Plans Mark-to-Market Charge                  | (12)                    | (202)    | —        |            |            |
| Health & Welfare Plan Charges                                | —                       | (84)     | —        |            |            |
| Adjusted Operating Expenses                                  | \$ 8,691                | \$ 8,675 | \$ 8,261 | 0.2 %      | 5.0 %      |
| <b>Operating Profit (in millions) and Operating Margins:</b> |                         |          |          |            |            |
| Operating Profit   | \$ 764                  | \$ 432   | \$ 674   | 76.9 %     | (35.9)%    |
| Adjusted Operating Profit                                    | \$ 776                  | \$ 718   | \$ 674   | 8.1 %      | 6.5 %      |
| Operating Margin   | 8.1%                    | 4.6%     | 7.5%     |            |            |
| Adjusted Operating Margin                                    | 8.2%                    | 7.6%     | 7.5%     |            |            |
| <b>Currency Translation Benefit / (Cost)—(in millions)*:</b> |                         |          |          |            |            |
| Revenue  |                         |          |          | \$ (249)   | \$ (65)    |
| Operating Expenses   |                         |          |          | 279        | 54         |
| Operating Profit   |                         |          |          | \$ 30      | \$ (11)    |

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

**Revenue**

2015 compared to 2014

Forwarding and logistics revenue increased \$142 million in 2015 compared with 2014. Excluding the effect of Coyote, revenue decreased \$532 million in 2015 compared with 2014. Forwarding revenue decreased largely due to the adverse impact of currency exchange rate movements, lower fuel surcharge rates (due to declining fuel prices) and volume and tonnage declines in our North American air freight and international air freight businesses (impacted by management focus on reducing lower-yielding accounts). Revenue for our logistics products increased in 2015, as we experienced solid growth in our healthcare and aerospace solutions.

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Freight revenue decreased \$167 million in 2015, driven by lower tonnage of 7.1% and a \$157 million decrease in fuel surcharge revenue due to lower diesel fuel prices. The decline in average daily shipments and the reduction in weight per shipment was impacted by revenue management initiatives, customer mix, and an overall decline in market demand. LTL Revenue per hundredweight increased slightly, as LTL base rate increases averaging 4.9% took effect on December 29, 2014, covering non-contractual shipments in the United States, Canada and Mexico.

Revenue for the other businesses within Supply Chain & Freight increased \$99 million in 2015, due to revenue growth from our service contracts with the U.S. Postal Service and at The UPS Store, UPS Capital and UPS Customer Solutions.

*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.

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.

***Operating Expenses***

*2015 compared to 2014*

Forwarding and logistics adjusted operating expenses increased \$91 million in 2015 compared with 2014. This increase was largely due to the acquisition of Coyote during the third quarter of 2015, partially offset by the impact of currency exchange rate movements and lower fuel expense. Purchased transportation expense increased by \$37 million in 2015 due to the acquisition of Coyote offset by lower tonnage, fuel expense, and the impact of foreign currency exchange rates. The remaining operating expense increase was related to several other expense categories, including payroll and benefits expense.

Freight adjusted operating expenses decreased \$151 million in 2015, while the total adjusted cost per LTL shipment decreased 1.9%. The decrease in adjusted operating expense was largely due to the cost associated with operating our linehaul network (which decreased \$142 million) and decreases in pick-up and delivery expenses. The decreases in network costs and pick-up and delivery expenses were driven by a reduction in fuel expense and expense for outside transportation carriers (largely due to lower LTL volume and fuel surcharges passed to us from the carriers). These benefits were partially offset by an increase in other operating expenses of \$3 million for 2015 largely due to higher pension costs (impacted by lower discount rates for UPS-sponsored plans).

Operating expenses for the other businesses within Supply Chain & Freight increased \$76 million in 2015 compared with 2014 primarily due to UPS Capital and our service contracts with the U.S. Postal Service.



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*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.

***Operating Profit and Margin***

*2015 compared to 2014*

Adjusted operating profit for the forwarding and logistics unit increased by \$51 million in 2015 compared with 2014, primarily due to improved results in our international air business, partially offset by the impact of Coyote acquisition costs. The net impact of fuel costs and revenue management initiatives had a positive impact on operating profit. Operating results for the international air forwarding business improved, as the rates at which we procure capacity from third party air carriers decreased faster than the rates we charge our customers. Profitability in our ocean freight unit grew largely as a result of transportation expense decreasing at a faster rate than the rates we charge our customers. However, operating profit for the logistics unit declined, as investments in technology and infrastructure continued to pressure distribution margins during 2015.

Adjusted operating profit for our freight unit decreased \$16 million in 2015 compared with 2014, as declines in tonnage and increased pension costs more than offset the increased LTL revenue per hundredweight realized during the year.

The combined operating profit for all of our other businesses in this segment increased \$23 million in 2015, primarily due to higher operating profit at UPS Capital and our service contracts with the U.S. Postal Service.

*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.

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**Operating Expenses**

|   | Year Ended December 31, |           |           | % Change   |            |
|---|-------------------------|-----------|-----------|------------|------------|
|   | 2015                    | 2014      | 2013      | 2015/ 2014 | 2014/ 2013 |
| <b>Operating Expenses (in millions):</b>      |                         |           |           |            |            |
| Compensation and Benefits:                    | \$ 31,028               | \$ 32,045 | \$ 28,557 | (3.2)%     | 12.2 %     |
| Defined Benefit Plans Mark-to-Market Charge   | (118)                   | (1,062)   | —         |            |            |
| Health & Welfare Plan Charges                 | —                       | (1,102)   | —         |            |            |
| Adjusted Compensation and Benefits            | 30,910                  | 29,881    | 28,557    | 3.4 %      | 4.6 %      |
| Repairs and Maintenance                       | 1,400                   | 1,371     | 1,240     | 2.1 %      | 10.6 %     |
| Depreciation and Amortization                 | 2,084                   | 1,923     | 1,867     | 8.4 %      | 3.0 %      |
| Purchased Transportation                      | 8,043                   | 8,460     | 7,486     | (4.9)%     | 13.0 %     |
| Fuel  | 2,482                   | 3,883     | 4,027     | (36.1)%    | (3.6)%     |
| Other Occupancy                               | 1,022                   | 1,044     | 950       | (2.1)%     | 9.9 %      |
| Other Expenses:                               | 4,636                   | 4,538     | 4,277     | 2.2 %      | 6.1 %      |
| TNT Termination Fee and Related Expenses      | —                       | —         | (284)     |            |            |
| Gain Upon Liquidation of Foreign Subsidiary   | —                       | —         | 245       |            |            |
| Adjusted Other Expenses                       | 4,636                   | 4,538     | 4,238     | 2.2 %      | 7.1 %      |
| Total Operating Expenses                      | \$ 50,695               | \$ 53,264 | \$ 48,404 | (4.8)%     | 10.0 %     |
| Adjusted Total Operating Expenses             | \$ 50,577               | \$ 51,100 | \$ 48,365 | (1.0)%     | 5.7 %      |
| <b>Currency Translation Cost / (Benefit)*</b> |                         |           |           | \$ (1,137) | \$ (141)   |

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

**Compensation and Benefits**

*2015 compared to 2014*

Employee payroll costs increased \$351 million in 2015, compared with 2014, largely due to contractual union wage rate increases, a 1.2% increase in union labor hours, higher incentive compensation and a merit salary increase for management employees, partially offset by productivity improvements and the impact of currency exchange rates. The increase in average daily union labor hours was impacted by volume growth. Additionally, adverse weather conditions in the early part of 2014 contributed to a decrease in labor hours in the comparison between 2015 and 2014.

Adjusted benefits expense increased \$679 million in 2015, primarily due to increased pension costs, health and welfare costs, workers compensation expenses, vacation, holiday and excused absence expenses and payroll taxes. These factors are discussed further as follows:

- Adjusted pension costs increased \$333 million in 2015, due to increased expenses in both company-sponsored pension plans (largely due to lower discount rates used to determine ongoing pension cost for 2015) and multiemployer pension plans (due to both increased contribution rates and higher union labor hours).
- Health and welfare costs increased \$275 million in 2015, largely due to contractual contribution rate increases and higher union labor hours.

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- Workers compensation expense increased \$36 million in 2015. 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 2015, we experienced less favorable actuarial expense adjustments than the prior year as well as increased program costs and taxes.
- Vacation, holiday and excused absence expense increased \$32 million in 2015, due to an increase in the overall number of employees and increased vacation entitlements earned based on employees' years of service; however, these factors were partially offset by the impact of currency exchange rates.

*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 over year 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.
- 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.

***Repairs and Maintenance***

*2015 compared to 2014*

The \$29 million increase in repairs and maintenance expense in 2015 was primarily due to an 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.

*2014 compared to 2013*

The \$131 million 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.

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***Depreciation and Amortization***

*2015 compared to 2014*

Depreciation and amortization expense increased \$161 million in 2015 compared with 2014, primarily due to three factors: (1) Amortization expense increased largely due to new internally developed capitalized software, as well as intangible assets resulting from business acquisitions; (2) Depreciation expense for buildings and facilities increased due to new leasehold improvements and purchases of new equipment and (3) Depreciation expense on vehicles increased due to the replacement of older, fully-depreciated vehicles, technology upgrades on new vehicles and an overall increase in the size of our vehicle fleet in our U.S. Domestic Package and UPS Freight operations.

*2014 compared to 2013*

The \$56 million 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.

***Purchased Transportation***

*2015 compared to 2014*

The \$417 million decrease in purchased transportation expense charged to us by third-party air, ocean and truck carriers in 2015 was driven by several factors:

- U.S. Domestic Package expense decreased \$322 million in 2015, primarily due to the decreased use of, and lower fuel surcharge rates passed to us from rail carriers and outside contract carriers. Additionally, adverse weather conditions in the early months of 2014 resulted in the additional use of outside contract carriers, which impacted the comparison with 2015.
- International Package expense decreased \$64 million in 2015, primarily due to the impact of currency exchange rate movements and lower fuel surcharges passed from outside transportation providers. These factors were partially offset by international volume growth.
- UPS Freight expense decreased \$68 million in 2015, largely due to decreased LTL shipments and fuel efficiency, and the resulting decreased use of, and lower fuel surcharges passed to us from, outside transportation carriers.
- The expense for Forwarding and Logistics and other businesses increased \$37 million in 2015 primarily due to the acquisition of Coyote; however, this was offset by the impact of decreased volume and tonnage in our international and North American air freight businesses, the impact of currency exchange movements and lower fuel surcharges passed to us from outside transportation providers.

*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.

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- 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.

***Fuel***

*2015 compared to 2014*

The \$1.401 billion decrease in fuel expense in 2015 was primarily due to lower fuel prices, which decreased fuel expense by \$1.383 billion. Increases in fuel efficiency, fuel hedging activities, alternative fuel credits and fewer miles driven by Freight and International Package decreased expense by \$99 million. These decreases were partially offset by an increase of \$82 million related to increases in aircraft block hours and Domestic Package delivery stops and miles driven due to higher volume.

*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.

***Other Occupancy***

*2015 compared to 2014*

The \$22 million decrease in other occupancy expense in 2015 was largely due to a decrease in facility rent expense and utility costs, but partially offset by an increase in facility maintenance expense.

*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.

***Other Expenses***

*2015 compared to 2014*

The \$98 million increase in other expenses in 2015 was caused by a number of factors. Automotive liability insurance expense increased \$36 million largely due to established estimates of the loss that will ultimately be incurred on reported 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. Outside professional service fees increased \$16 million primarily due to transaction costs associated with Coyote. Advertising expense increased \$15 million mostly driven by the "United Problem Solver" campaign. We also incurred increases in several other expense categories, including software license fees, computer supplies and employee expense reimbursement. These increases were partially offset by lower bad debt expense and other items.

*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.

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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, 2015, 2014 and 2013 (in millions):

|                   | Year Ended December 31, |          |          | % Change   |            |
|-------------------|-------------------------|----------|----------|------------|------------|
|                   | 2015                    | 2014     | 2013     | 2015/ 2014 | 2014/ 2013 |
| Investment Income | \$ 15                   | \$ 22    | \$ 20    | (31.8)%    | 10.0 %     |
| Interest Expense  | \$ (341)                | \$ (353) | \$ (380) | (3.4)%     | (7.1)%     |

*Investment Income*

*2015 compared to 2014*

The decrease in investment income was primarily due to lower realized gains on the sale of investments in 2015 compared with 2014, and a decline in interest income. This was partially offset by a decrease in losses from fair value adjustments on real estate partnerships.

*2014 compared to 2013*

The increase in investment income in 2014 compared with 2013 was primarily due to a 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.

*Interest Expense*

*2015 compared to 2014*

Interest expense decreased in 2015 compared with 2014 largely due to a decrease in effective interest rates related to the termination of our British Pound Sterling cross-currency interest rate swaps, the prior year repayment of senior notes at maturity and the impact of foreign currency. This was partially offset by an increase in average outstanding commercial paper and long-term debt.

*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.

**Income Tax Expense**

The following table sets forth income tax expense and our effective tax rate for the years ended December 31, 2015, 2014 and 2013 (in millions):

|   | Year Ended December 31, |          |          | % Change   |            |
|---|-------------------------|----------|----------|------------|------------|
|   | 2015                    | 2014     | 2013     | 2015/ 2014 | 2014/ 2013 |
| <b>Income Tax Expense :</b>                 | \$ 2,498                | \$ 1,605 | \$ 2,302 | 55.6%      | (30.3)%    |
| Income Tax Impact of:                       |                         |          |          |            |            |
| Defined Benefit Plans Mark-to-Market Charge | 39                      | 392      | —        |            |            |
| Health & Welfare Plan Charges               | —                       | 415      | —        |            |            |
| TNT Termination Fee and Related Expenses    | —                       | —        | 107      |            |            |
| Gain Upon Liquidation of Foreign Subsidiary | —                       | —        | (32)     |            |            |
| Adjusted Income Tax Expense                 | \$ 2,537                | \$ 2,412 | \$ 2,377 | 5.2%       | 1.5 %      |
| <b>Effective Tax Rate</b>                   | 34.0%                   | 34.6%    | 34.5%    |            |            |
| <b>Adjusted Effective Tax Rate</b>          | 34.0%                   | 35.5%    | 35.4%    |            |            |

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Our effective tax rate is affected by recurring factors, such as statutory tax rates in the jurisdictions we operate in and the relative amounts of taxable income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year but are not consistent from year to year. See note 13 to the audited consolidated financial statements for a more complete description of the significant recurring and discrete items affecting our effective tax rate. As described in the *Items Affecting Comparability* section, certain items have been excluded from comparisons of "adjusted" income taxes in the discussion that follows.

*2015 compared to 2014*

Our adjusted effective tax rate decreased to 34.0% in 2015 from 35.5% in 2014 primarily due to favorable discrete tax adjustments related to: (1) prior years' deferred tax balances; (2) execution of advance pricing agreements with certain foreign tax jurisdictions; (3) resolution of several U.S. state and local tax matters; and (4) the extension of several previously expired U.S. tax provisions in 2015. These benefits were partially offset by the additional U.S. tax expense associated with a cash distribution from a Canadian subsidiary to its U.S. parent.

*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.

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**Liquidity and Capital Resources**

*Operating Activities*

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

|   | 2015            | 2014            | 2013            |
|---|-----------------|-----------------|-----------------|
| Net Income  | \$ 4,844        | \$ 3,032        | \$ 4,372        |
| Non-cash operating activities(a)  | 4,122           | 5,901           | 3,318           |
| Pension and postretirement plan contributions (UPS-sponsored plans)     | (1,229)         | (1,258)         | (212)           |
| Settlement of postretirement benefit obligation                         | —               | (2,271)         | —               |
| Hedge margin receivables and payables                                   | 170             | 421             | 67              |
| Income tax receivables and payables                                     | (6)             | (224)           | (155)           |
| Changes in working capital and other non-current assets and liabilities | (418)           | 91              | 54              |
| Other operating activities  | (53)            | 34              | (140)           |
| <b>Net cash from operating activities</b>                               | <b>\$ 7,430</b> | <b>\$ 5,726</b> | <b>\$ 7,304</b> |

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

Cash from operating activities remained strong throughout the 2013 to 2015 time period. Operating cash flow was adversely impacted by \$1.527 billion in 2014 and \$33 million in 2015 due to certain transactions resulting from the ratification of our collective bargaining agreement with the Teamsters. These transactions are discussed further in the "Collective Bargaining Agreements" section:

- We paid \$2.271 billion in 2014 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).
- We paid \$53 million in 2015 for additional retroactive economic benefits under the collective bargaining agreement and we received \$20 million of cash tax benefits (through reduced U.S. Federal and state quarterly income tax payments) from the payment.

Most of the remaining variability in operating cash flows during the 2013 to 2015 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 2015, we made discretionary contributions to our three primary company-sponsored U.S. pension plans totaling \$1.030 billion.
- 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.
- The remaining contributions in the 2013 through 2015 period were largely due to contributions to our international pension plans and U.S. postretirement medical benefit plans.

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



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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. Cash payments for income taxes were \$1.913, \$1.524 and \$2.712 billion for 2015, 2014 and 2013, respectively, and were primarily impacted by the timing of current tax deductions. The net hedge margin collateral received from derivative counterparties was \$170, \$421 and \$67 million during 2015, 2014 and 2013, 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, 2015, the total of our worldwide holdings of cash, cash equivalents and marketable securities were \$4.726 billion, of which \$2.516 billion was held by foreign subsidiaries. The amount of cash, cash equivalents and marketable securities 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, cash equivalents and marketable securities held by foreign subsidiaries would be subject to tax if such amounts were repatriated in the form of dividends; however, not all international 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):

|   | 2015              | 2014              | 2013              |
|---|-------------------|-------------------|-------------------|
| Net cash used in investing activities                           | \$ (5,309)        | \$ (2,801)        | \$ (2,114)        |
| <b>Capital Expenditures:</b>                                    |                   |                   |                   |
| Buildings and facilities  | \$ (996)          | \$ (808)          | \$ (483)          |
| Aircraft and parts  | (27)              | (44)              | (478)             |
| Vehicles  | (936)             | (1,061)           | (662)             |
| Information technology  | (420)             | (415)             | (442)             |
|   | <u>\$ (2,379)</u> | <u>\$ (2,328)</u> | <u>\$ (2,065)</u> |
| Capital Expenditures as a % of Revenue                          | 4.1%              | 4.0%              | 3.7%              |
| <b>Other Investing Activities:</b>                              |                   |                   |                   |
| Proceeds from disposals of property, plant and equipment        | \$ 26             | \$ 53             | \$ 104            |
| Net decrease in finance receivables                             | \$ 5              | \$ 44             | \$ 39             |
| Net (purchases) sales of marketable securities                  | \$ (1,027)        | \$ (419)          | \$ 9              |
| Cash received (paid) for business acquisitions and dispositions | \$ (1,904)        | \$ (88)           | \$ (22)           |
| Other investing activities                                      | \$ (30)           | \$ (63)           | \$ (179)          |

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 2016 will be approximately \$2.8 billion.

Capital spending on aircraft declined over the 2013 to 2015 period, as we completed the scheduled deliveries of a previous order for the Boeing 767-300ERF aircraft in 2013. Capital spending on vehicles increased during the 2013 to 2015 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 2013 to 2015 period, and included hub automation and capacity expansion projects in the U.S. during 2015, 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 2013 through 2015 period, as well as the proceeds from insurance recoveries in 2013. The net decline in finance receivables in the 2013 through 2015 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 2013 to 2015 period was largely due to the acquisitions of Cemelog Ltd. in Hungary (2013), i-parcel LLC in the U.S. (2014), Polar Speed Distribution Limited in the U.K. (2014), Poltraft Sp. z.o.o in Poland (2015) Parcel Pro, Inc in the U.S. (2015) and Coyote Logistics Midco, Inc (2015), 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 2015, 2014 and 2013, we increased the restricted cash balance associated with our self-insurance requirements by \$0, \$17 and \$137 million, respectively.

*Financing Activities*

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

|   | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|---|-------------|-------------|-------------|
| Net cash used in financing activities         | \$ (1,565)  | \$ (5,161)  | \$ (7,807)  |
| <b>Share Repurchases:</b>                     |             |             |             |
| Cash expended for shares repurchased          | \$ (2,702)  | \$ (2,695)  | \$ (3,838)  |
| Number of shares repurchased                  | (26.8)      | (26.4)      | (43.2)      |
| Shares outstanding at year-end                | 886         | 905         | 923         |
| Percent reduction in shares outstanding       | (2.1)%      | (2.0)%      | (3.1)%      |
| <b>Dividends:</b>                             |             |             |             |
| Dividends declared per share                  | \$ 2.92     | \$ 2.68     | \$ 2.48     |
| Cash expended for dividend payments           | \$ (2,525)  | \$ (2,366)  | \$ (2,260)  |
| <b>Borrowings:</b>                            |             |             |             |
| Net borrowings (repayments) of debt principal | \$ 3,588    | \$ (169)    | \$ (1,775)  |
| <b>Other Financing Activities:</b>            |             |             |             |
| Cash received for common stock issuances      | \$ 249      | \$ 274      | \$ 491      |
| Other financing activities                    | \$ (175)    | \$ (205)    | \$ (425)    |
| <b>Capitalization:</b>                        |             |             |             |
| Total debt outstanding at year-end            | \$ 14,334   | \$ 10,779   | \$ 10,872   |
| Total shareowners' equity at year-end         | 2,491       | 2,158       | 6,488       |
| Total capitalization                          | \$ 16,825   | \$ 12,937   | \$ 17,360   |
| Debt to Total Capitalization %                | 85.2 %      | 83.3 %      | 62.6 %      |

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, 2015, we had \$1.441 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 2016.

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 2016, we increased our quarterly dividend payment from \$0.73 to \$0.78 per share, a 7% increase.

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Issuances of debt in 2015 consisted of floating rate senior notes totaling \$144 million, euro denominated floating rate senior notes totaling €500 million (\$547 million), euro denominated fixed rate senior notes totaling €700 million (\$765 million), and facility bonds associated with our Philadelphia, Pennsylvania airport facilities totaling \$100 million. The remainder consisted primarily of commercial paper. Issuances of debt in 2014 and 2013 consisted primarily of commercial paper.

Repayments of debt in 2015 consisted primarily of the maturity of our \$100 million facility bonds associated with our Philadelphia, Pennsylvania airport facilities. 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 2013 through 2015 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 \$2.965 billion of commercial paper outstanding at December 31, 2015, which includes euro denominated commercial paper totaling €310 million (\$339 million) and pound sterling denominated commercial paper totaling £234 million (\$347 million). We had \$772 million of commercial paper outstanding at December 31, 2014, and no commercial paper outstanding at December 31, 2013. During 2015, the average balance of our U.S dollar denominated commercial paper was \$2.159 billion and the average interest rate paid was 0.13%. The average balance of our pound sterling denominated commercial paper was £241 million (\$368 million) and the average interest rate paid was 0.50%. The average balance of our euro denominated commercial paper was €10 million (\$11 million) and the average interest rate was -0.09%. The average commercial paper balance for 2014 and 2013 was \$1.356 and \$1.013 billion and the average interest rate paid was 0.10% and 0.07%, respectively. The amount of commercial paper outstanding fluctuates throughout the year based on daily liquidity needs.

The variation in cash received from common stock issuances was primarily due to the level of stock option exercises by employees in the 2013 through 2015 period.

The cash outflows in other financing activities were impacted by several factors. Cash outflows from the premium payments and settlements of capped call options for the purchase of UPS class B shares were \$(17), \$(47) and \$(93) million for 2015, 2014 and 2013, respectively. Cash outflows related to the repurchase of shares to satisfy tax withholding obligations on vested employee stock awards were \$217, \$224 and \$253 million for 2015, 2014 and 2013, 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.

*Sources of Credit*

See note 8 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.

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*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, 2015 (in millions):

| Commitment Type      | 2016            | 2017            | 2018            | 2019            | 2020          | After 2020       | Total            |
|----------------------|-----------------|-----------------|-----------------|-----------------|---------------|------------------|------------------|
| Capital Leases       | \$ 72           | \$ 73           | \$ 61           | \$ 59           | \$ 53         | \$ 392           | \$ 710           |
| Operating Leases     | 324             | 263             | 197             | 125             | 84            | 266              | 1,259            |
| Debt Principal       | 2,978           | 377             | 751             | 1,000           | 547           | 8,039            | 13,692           |
| Debt Interest        | 296             | 296             | 282             | 257             | 231           | 3,856            | 5,218            |
| Purchase Commitments | 257             | 119             | 53              | 24              | 15            | 11               | 479              |
| Pension Fundings     | 1,161           | —               | 292             | NA              | NA            | NA               | 1,453            |
| Other Liabilities    | 23              | 10              | 5               | —               | —             | —                | 38               |
| Total                | <u>\$ 5,111</u> | <u>\$ 1,138</u> | <u>\$ 1,641</u> | <u>\$ 1,465</u> | <u>\$ 930</u> | <u>\$ 12,564</u> | <u>\$ 22,849</u> |

Our capital lease obligations relate primarily to leases on aircraft. Capital leases, operating leases, and purchase commitments, as well as our debt principal obligations, are discussed further in note 8 to our consolidated financial statements. The amount of interest on our debt was calculated as the contractual interest payments due on our fixed-rate debt, in addition to interest on variable rate debt that was calculated based on interest rates as of December 31, 2015. 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, 2015, we have no open aircraft orders.

Pension fundings represent a voluntary contribution for 2016 and anticipated required minimum cash contributions that will be made to our qualified U.S. pension plans during 2017 and 2018 (these plans are discussed further in note 4 to the consolidated financial statements). 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, discount rates, and changes to pension plan funding regulations. 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. Actual contributions made in future years could materially differ from the amounts shown in the table above, and consequently required minimum contributions beyond 2018 cannot be reasonably estimated.

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 \$207 million of liabilities for uncertain tax positions because we are uncertain if or when such amounts will ultimately be settled in cash. In addition, we also have recognized assets associated with uncertain tax positions in excess of the related liabilities such that we do not believe a net contractual obligation exists to the taxing authorities. Uncertain tax positions are further discussed in note 13 to the consolidated financial statements.

As of December 31, 2015, we had outstanding letters of credit totaling approximately \$1.808 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, 2015, we had \$623 million of surety bonds written. As of December 31, 2015, we had unfunded loan commitments totaling \$162 million associated with UPS Capital.

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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 4 to the audited consolidated financial statements for a discussion of pension related matters and note 9 for a discussion of judicial proceedings and other matters arising from the conduct of our business activities.

**Collective Bargaining Agreements**

*Status of Collective Bargaining Agreements*

As of December 31, 2015, we had approximately 266,000 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. The ongoing contract negotiations between UPS and the IPA are in mediation by the National Mediation Board.

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") 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

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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 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.

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*Rate Adjustments*

Effective December 28, 2015, UPS Ground rates and accessorial charges increased by an average net 4.9 percent. UPS Air and International services and accessories, including UPS Air Freight rates within and between the U.S., Canada and Puerto Rico, increased an average net 5.2 percent. UPS Freight® rates increased an average net 4.9 percent, effective October 26, 2015.

Effective November 2, 2015, the surcharge increased for Over Maximum Packages and the tables for Ground, Air and International fuel surcharges were adjusted. Effective January 4, 2016, there will be a charge for UPS's Third-Party Billing Service.

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 9 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, 2015. In addition, we have certain contingent liabilities that have not been recognized as of December 31, 2015, 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 U.S. Domestic Package, 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 and Coyote Logistic 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.

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, capital expenditures 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 2015, 2014 or 2013. 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 for any of our reporting units as of our most recent goodwill testing date (October 1, 2015) would not result in a goodwill impairment charge.

A trade name with a carrying value of \$200 million and licenses with a carrying value of \$4 million as of December 31, 2015 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 2015 or 2014.

*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.





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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, (4) participant experience different from demographic assumptions and (5) changes in coordinating benefits with plans not sponsored by UPS.

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 reported 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, 2015 (in millions).

| <b>Pension Plans</b>   | <b>25 Basis Point<br/>Increase</b> | <b>25 Basis Point<br/>Decrease</b> |
|--|------------------------------------|------------------------------------|
| <i>Discount Rate:</i>  |                                    |                                    |
| Effect on ongoing net periodic benefit cost  | \$ (63)                            | \$ 66                              |
| Effect on net periodic benefit cost for amounts recognized outside the 10% corridor                | (86)                               | 1,048                              |
| Effect on projected benefit obligation   | (1,490)                            | 1,651                              |
| <i>Return on Assets:</i>   |                                    |                                    |
| Effect on ongoing net periodic benefit cost <sup>(1)</sup>   | (73)                               | 73                                 |
| Effect on net periodic benefit cost for amounts recognized outside the 10% corridor <sup>(2)</sup> | (46)                               | 47                                 |

**Postretirement Medical Plans**

|   |      |      |
|---|------|------|
| <i>Discount Rate:</i>   |      |      |
| Effect on ongoing net periodic benefit cost   | 3    | (3)  |
| Effect on net periodic benefit cost for amounts recognized outside the 10% corridor | (11) | 13   |
| Effect on accumulated postretirement benefit obligation                             | (57) | 67   |
| <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 | 11   | (11) |
| Effect on accumulated postretirement benefit obligation                             | 17   | (19) |

(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 remain flat in 2016 compared with 2015, due primarily to the increase in the weighted-average discount rate used to determine ongoing net periodic benefit cost from 4.36% for 2015 to 4.81% for 2016 (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). The impact of increases in discount rates is offset primarily by lower than expected asset returns in 2015.

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

As of December 31, 2015, we had \$18.352 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 2015, 2014 and 2013.

***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, pension assets, 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.

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

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***Income Taxes***

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

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

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

***Allowance for Doubtful Accounts***

Losses on accounts receivable are recognized when they are incurred, which requires us to make our best estimate of the probable losses inherent in our customer receivables at each balance sheet date. These estimates require consideration of historical loss experience adjusted for current conditions, trends in customer payment frequency, and judgments about the probable effects of relevant observable data, including present economic conditions and the financial health of specific customers and market sectors. Our risk management process includes standards and policies for reviewing major account exposures and concentrations of risk. Deterioration in macroeconomic variables could result in our ultimate loss exposures on our accounts receivable being significantly higher than what we have currently estimated and reserved for in our allowance for doubtful accounts. Our total allowance for doubtful accounts as of December 31, 2015 and 2014 was \$118 and \$121 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2015, 2014 and 2013 was \$121, \$143 and \$129 million, respectively.

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

We are exposed to market risk from changes in certain commodity prices, foreign currency exchange rates, interest rates and equity prices. All of these market risks arise in the normal course of business, as we do not engage in speculative trading activities. In order to manage the risk arising from these exposures, we utilize a variety of commodity, foreign exchange and interest rate forward contracts, options and swaps. A discussion of our accounting policies for derivative instruments and further disclosures are provided in note 15 to the consolidated financial statements.

*Commodity Price Risk*

We are exposed to changes in the prices of refined fuels, principally jet-A, diesel and unleaded gasoline, 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, 2015 and 2014, 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 forwards as well as 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 48 months. We also utilize forward contracts to hedge portions of our anticipated cash settlements of intercompany transactions subject to foreign currency remeasurement.

*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.

*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.

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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<br>As of December 31, |          |
|---|---|----------|
|   | 2015                                    | 2014     |
| <b>Change in Fair Value:</b>              |   |          |
| Currency Derivatives <sup>(1)</sup>       | \$ (435)                                | \$ (229) |
| <b>Change in Annual Interest Expense:</b> |   |          |
| Variable Rate Debt <sup>(2)</sup>         | \$ 44                                   | \$ 15    |
| Interest Rate Derivatives <sup>(2)</sup>  | \$ 66                                   | \$ 81    |

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

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

The sensitivity of our pension and postretirement benefit obligations to changes in interest rates is quantified in "Critical Accounting Policies and Estimates". The sensitivity in the fair value and interest income of our marketable securities and finance receivables due to changes in interest rates was not material as of December 31, 2015 and 2014.

**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, 2015 and 2014, 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, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, 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 24, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 24, 2016



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

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2015             | 2014             |
| <b>ASSETS</b>   |                  |                  |
| Current Assets:   |                  |                  |
| Cash and cash equivalents   | \$ 2,730         | \$ 2,291         |
| Marketable securities   | 1,996            | 992              |
| Accounts receivable, net  | 7,134            | 6,661            |
| Other current assets  | 1,348            | 1,274            |
| Total Current Assets  | 13,208           | 11,218           |
| Property, Plant and Equipment, Net                                | 18,352           | 18,281           |
| Goodwill  | 3,419            | 2,184            |
| Intangible Assets, Net  | 1,549            | 847              |
| Investments and Restricted Cash                                   | 473              | 489              |
| Deferred Income Tax Assets  | 255              | 1,219            |
| Other Non-Current Assets  | 1,055            | 1,202            |
| Total Assets  | <u>\$ 38,311</u> | <u>\$ 35,440</u> |
| <b>LIABILITIES AND SHAREOWNERS' EQUITY</b>                        |                  |                  |
| Current Liabilities:  |                  |                  |
| Current maturities of long-term debt and commercial paper         | \$ 3,018         | \$ 923           |
| Accounts payable  | 2,587            | 2,754            |
| Accrued wages and withholdings                                    | 2,253            | 2,373            |
| Hedge margin liabilities  | 717              | 548              |
| Self-insurance reserves   | 657              | 656              |
| Other current liabilities   | 1,464            | 1,367            |
| Total Current Liabilities   | 10,696           | 8,621            |
| Long-Term Debt  | 11,316           | 9,856            |
| Pension and Postretirement Benefit Obligations                    | 10,638           | 11,452           |
| Deferred Income Tax Liabilities                                   | 115              | 78               |
| Self-Insurance Reserves   | 1,831            | 1,916            |
| Other Non-Current Liabilities                                     | 1,224            | 1,359            |
| Shareowners' Equity:  |                  |                  |
| Class A common stock (194 and 201 shares issued in 2015 and 2014) | 2                | 2                |
| Class B common stock (693 and 705 shares issued in 2015 and 2014) | 7                | 7                |
| Additional paid-in capital  | —                | —                |
| Retained earnings   | 6,001            | 5,726            |
| Accumulated other comprehensive loss                              | (3,540)          | (3,594)          |
| Deferred compensation obligations                                 | 51               | 59               |
| Less: Treasury stock (1 share in 2015 and 2014)                   | (51)             | (59)             |
| Total Equity for Controlling Interests                            | 2,470            | 2,141            |
| Noncontrolling Interests  | 21               | 17               |
| Total Shareowners' Equity   | <u>2,491</u>     | <u>2,158</u>     |
| Total Liabilities and Shareowners' Equity                         | <u>\$ 38,311</u> | <u>\$ 35,440</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, |           |           |
|----------------------------------|--------------------------|-----------|-----------|
|                                  | 2015                     | 2014      | 2013      |
| Revenue                          | \$ 58,363                | \$ 58,232 | \$ 55,438 |
| Operating Expenses:              |                          |           |           |
| Compensation and benefits        | 31,028                   | 32,045    | 28,557    |
| Repairs and maintenance          | 1,400                    | 1,371     | 1,240     |
| Depreciation and amortization    | 2,084                    | 1,923     | 1,867     |
| Purchased transportation         | 8,043                    | 8,460     | 7,486     |
| Fuel                             | 2,482                    | 3,883     | 4,027     |
| Other occupancy                  | 1,022                    | 1,044     | 950       |
| Other expenses                   | 4,636                    | 4,538     | 4,277     |
| Total Operating Expenses         | 50,695                   | 53,264    | 48,404    |
| Operating Profit                 | 7,668                    | 4,968     | 7,034     |
| Other Income and (Expense):      |                          |           |           |
| Investment income                | 15                       | 22        | 20        |
| Interest expense                 | (341)                    | (353)     | (380)     |
| Total Other Income and (Expense) | (326)                    | (331)     | (360)     |
| Income Before Income Taxes       | 7,342                    | 4,637     | 6,674     |
| Income Tax Expense               | 2,498                    | 1,605     | 2,302     |
| Net Income                       | \$ 4,844                 | \$ 3,032  | \$ 4,372  |
| Basic Earnings Per Share         | \$ 5.38                  | \$ 3.31   | \$ 4.65   |
| Diluted Earnings Per Share       | \$ 5.35                  | \$ 3.28   | \$ 4.61   |

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

|   | Years Ended December 31, |          |          |
|---|--------------------------|----------|----------|
|   | 2015                     | 2014     | 2013     |
| Net Income  | \$ 4,844                 | \$ 3,032 | \$ 4,372 |
| Change in foreign currency translation adjustment, net of tax               | (440)                    | (331)    | (260)    |
| Change in unrealized gain (loss) on marketable securities, net of tax       | (1)                      | 1        | (7)      |
| Change in unrealized gain (loss) on cash flow hedges, net of tax            | 6                        | 280      | 67       |
| Change in unrecognized pension and postretirement benefit costs, net of tax | 489                      | (3,084)  | 3,094    |
| Comprehensive Income (Loss)   | \$ 4,898                 | \$ (102) | \$ 7,266 |

See notes to consolidated financial statements.

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

|  | Years Ended December 31, |                 |                 |
|--|--------------------------|-----------------|-----------------|
|  | 2015                     | 2014            | 2013            |
| <b>Cash Flows From Operating Activities:</b>                               |                          |                 |                 |
| Net income   | \$ 4,844                 | \$ 3,032        | \$ 4,372        |
| Adjustments to reconcile net income to net cash from operating activities: |                          |                 |                 |
| Depreciation and amortization  | 2,084                    | 1,923           | 1,867           |
| Pension and postretirement benefit expense                                 | 1,189                    | 3,040           | 1,115           |
| Pension and postretirement benefit contributions                           | (1,229)                  | (1,258)         | (212)           |
| Settlement of postretirement benefit obligation                            | —                        | (2,271)         | —               |
| Self-insurance reserves  | (80)                     | (201)           | 34              |
| Deferred tax expense   | 540                      | 385             | (246)           |
| Stock compensation expense   | 574                      | 536             | 513             |
| Other (gains) losses   | (185)                    | 218             | 35              |
| Changes in assets and liabilities, net of effect of acquisitions:          |                          |                 |                 |
| Accounts receivable  | (452)                    | (523)           | (515)           |
| Other current assets   | 414                      | 112             | (13)            |
| Accounts payable   | (147)                    | 276             | 218             |
| Accrued wages and withholdings   | (63)                     | 106             | 416             |
| Other current liabilities  | (6)                      | 317             | (140)           |
| Other operating activities   | (53)                     | 34              | (140)           |
| Net cash from operating activities   | <u>7,430</u>             | <u>5,726</u>    | <u>7,304</u>    |
| <b>Cash Flows From Investing Activities:</b>                               |                          |                 |                 |
| Capital expenditures   | (2,379)                  | (2,328)         | (2,065)         |
| Proceeds from disposals of property, plant and equipment                   | 26                       | 53              | 104             |
| Purchases of marketable securities   | (7,415)                  | (3,525)         | (2,948)         |
| Sales and maturities of marketable securities                              | 6,388                    | 3,106           | 2,957           |
| Net decrease in finance receivables  | 5                        | 44              | 39              |
| Cash paid for business acquisitions  | (1,904)                  | (88)            | (22)            |
| Other investing activities   | (30)                     | (63)            | (179)           |
| Net cash used in investing activities                                      | <u>(5,309)</u>           | <u>(2,801)</u>  | <u>(2,114)</u>  |
| <b>Cash Flows From Financing Activities:</b>                               |                          |                 |                 |
| Net change in short-term debt  | 2,529                    | —               | —               |
| Proceeds from long-term borrowings   | 3,783                    | 1,525           | 100             |
| Repayments of long-term borrowings   | (2,724)                  | (1,694)         | (1,875)         |
| Purchases of common stock  | (2,702)                  | (2,695)         | (3,838)         |
| Issuances of common stock  | 249                      | 274             | 491             |
| Dividends  | (2,525)                  | (2,366)         | (2,260)         |
| Other financing activities   | (175)                    | (205)           | (425)           |
| Net cash used in financing activities                                      | <u>(1,565)</u>           | <u>(5,161)</u>  | <u>(7,807)</u>  |
| <b>Effect Of Exchange Rate Changes On Cash And Cash Equivalents</b>        | <u>(117)</u>             | <u>(138)</u>    | <u>(45)</u>     |
| <b>Net Increase (Decrease) In Cash And Cash Equivalents</b>                | <u>439</u>               | <u>(2,374)</u>  | <u>(2,662)</u>  |
| <b>Cash And Cash Equivalents:</b>  |                          |                 |                 |
| Beginning of period  | 2,291                    | 4,665           | 7,327           |
| End of period  | <u>\$ 2,730</u>          | <u>\$ 2,291</u> | <u>\$ 4,665</u> |
| <b>Cash Paid During The Period For:</b>                                    |                          |                 |                 |
| Interest (net of amount capitalized)                                       | <u>\$ 345</u>            | <u>\$ 366</u>   | <u>\$ 409</u>   |
| Income taxes   | <u>\$ 1,913</u>          | <u>\$ 1,524</u> | <u>\$ 2,712</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. Truckload freight brokerage revenue and related transportation costs are recognized upon delivery of the shipment by a third party carrier. 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.

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

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

*Accounts Receivable*

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, 2015 and 2014 was \$118 and \$121 million, respectively. Our total provision for doubtful accounts charged to expense during the years ended December 31, 2015, 2014 and 2013 was \$121, \$143 and \$129 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 \$308 and \$344 million as of December 31, 2015 and 2014, 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 \$13, \$11 and \$14 million for 2015, 2014, and 2013, 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 2 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 coordination of benefits with plans not sponsored by UPS. 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, investment income and interest expense were \$7, \$14 and \$76 million in 2015, 2014 and 2013, 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.

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

*Derivative Instruments*

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

*Adoption of New Accounting Standards*

In November 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that simplifies the presentation of deferred tax assets and liabilities. The update removes the requirement to separate deferred tax liabilities and assets into current and non-current amounts in a classified statement of financial position. The update permits the entity to present deferred tax liabilities and assets as non-current in a classified statement of financial position. The new guidance would have become effective for us in the fourth quarter of 2016; however, we have elected to early adopt this

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standard on a retrospective basis in the fourth quarter of 2015 as we expect it to reduce the complexity in the preparation of our consolidated financial statements. We have reclassified \$590 and \$18 million of current deferred tax assets and liabilities, respectively, to non-current assets and liabilities within our consolidated financial position in 2014. This accounting standards update did not have a material impact on our results of operations.

In September 2015, the FASB issued an accounting standards update that simplifies the accounting for measurement-period adjustments related to business combinations. This update removes the requirement to retrospectively apply adjustments made to estimated amounts recognized in a business combination. This update permits the purchaser to adjust the estimated amounts in the reporting period in which the adjustment amounts are determined. This new guidance would have become effective for us in the first quarter of 2016; however, we have elected to early adopt this standard in the third quarter of 2015 as we expect it to reduce the complexity in the preparation of our consolidated financial statements. This accounting standards update did not have a material impact on our consolidated financial position or results of operations.

In April 2015, the FASB issued an accounting standards update to simplify the presentation of debt issuance costs. This update amends existing guidance to require the presentation of debt issuance costs in the consolidated balance sheets as a direct deduction from the carrying amount of the associated debt liability instead of a deferred charge. In August 2015, the FASB issued updated guidance pertaining to the presentation of debt issuance costs related to line-of-credit arrangements. This update allows an entity to defer and present debt issuance costs as an asset, subsequently amortizing the deferred debt issuance costs over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. We have elected to early adopt this standard in the fourth quarter of 2015 on a retrospective basis as we expect it to reduce the complexity in the preparation of our consolidated financial statements. This accounting standards update did not 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 provided that a performance target that affects vesting could be achieved after the requisite service period. This new guidance became effective for us in the first quarter of 2015 and did not have a material impact on our consolidated financial position or results of operations.

*Accounting Standards Issued But Not Yet Effective*

In May 2015, the FASB issued an accounting standards update that changes the disclosure requirement for reporting investments at fair value. This update removes the requirement to categorize investments for which fair value is measured using the net asset value per share practical expedient within the fair value hierarchy. These disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This new guidance will be applied retrospectively and become effective for us in the first quarter of 2016, but early adoption is permitted. At this time, we do not expect this new guidance to have a material impact on our disclosures.

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. In August 2015, the FASB issued an accounting standards update that defers the effective date of the new revenue recognition guidance for one year to interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date beginning after December 15, 2016. At this time, we do not expect this accounting standards update 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.



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**NOTE 2. CASH AND INVESTMENTS**

The following is a summary of marketable securities classified as trading and available-for-sale at December 31, 2015 and 2014 (in millions):

|   | Cost            | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair Value |
|---|-----------------|---------------------|----------------------|-------------------------|
| <b>2015</b>                                       |                 |                     |                      |                         |
| Current trading marketable securities:            |                 |                     |                      |                         |
| Corporate debt securities                         | \$ 715          | \$ —                | \$ —                 | \$ 715                  |
| Non-U.S. government debt securities               | 363             | —                   | —                    | 363                     |
| Carbon credit investments                         | 347             | 9                   | (5)                  | 351                     |
| Total trading marketable securities               | <u>1,425</u>    | <u>9</u>            | <u>(5)</u>           | <u>1,429</u>            |
| Current available-for-sale marketable securities: |                 |                     |                      |                         |
| U.S. government and agency debt securities        | \$ 341          | \$ —                | \$ (1)               | \$ 340                  |
| Mortgage and asset-backed debt securities         | 74              | 1                   | (1)                  | 74                      |
| Corporate debt securities                         | 147             | —                   | (1)                  | 146                     |
| U.S. state and local municipal debt securities    | 2               | —                   | —                    | 2                       |
| Equity securities                                 | 2               | —                   | —                    | 2                       |
| Non-U.S. government debt securities               | 3               | —                   | —                    | 3                       |
| Total available-for-sale marketable securities    | <u>569</u>      | <u>1</u>            | <u>(3)</u>           | <u>567</u>              |
| Total current marketable securities               | <u>\$ 1,994</u> | <u>\$ 10</u>        | <u>\$ (8)</u>        | <u>\$ 1,996</u>         |
|   | Cost            | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair Value |
| <b>2014</b>                                       |                 |                     |                      |                         |
| Current trading marketable securities:            |                 |                     |                      |                         |
| Corporate debt securities                         | \$ 388          | \$ —                | \$ —                 | \$ 388                  |
| Non-U.S. government debt securities               | 42              | —                   | —                    | 42                      |
| Carbon credit investments                         | —               | —                   | —                    | —                       |
| Total trading marketable securities               | <u>430</u>      | <u>—</u>            | <u>—</u>             | <u>430</u>              |
| Current available-for-sale 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                         | 146             | —                   | —                    | 146                     |
| U.S. state and local municipal debt securities    | 2               | —                   | —                    | 2                       |
| Equity securities                                 | 3               | —                   | —                    | 3                       |
| Non-U.S. government debt securities               | 1               | —                   | —                    | 1                       |
| Total available-for-sale marketable securities    | <u>562</u>      | <u>2</u>            | <u>(2)</u>           | <u>562</u>              |
| Total current marketable securities               | <u>\$ 992</u>   | <u>\$ 2</u>         | <u>\$ (2)</u>        | <u>\$ 992</u>           |

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The gross realized gains on sales of available-for-sale securities totaled \$1, \$1 and \$11 million in 2015, 2014, and 2013, respectively. The gross realized losses on sales of available-for-sale securities totaled \$1, \$0 and \$6 million in 2015, 2014, and 2013, respectively.

There were no material impairment losses recognized on marketable securities during 2015, 2014 or 2013.

*Investment Other-Than-Temporary Impairments*

We have concluded that no material other-than-temporary impairment losses existed as of December 31, 2015. 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, 2015 (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     | \$ 168              | \$ (1)            | \$ —              | \$ —              | \$ 168        | \$ (1)            |
| Mortgage and asset-backed debt securities      | —                   | —                 | 28                | (1)               | 28            | (1)               |
| Corporate debt securities                      | —                   | —                 | 50                | (1)               | 50            | (1)               |
| U.S. state and local municipal debt securities | —                   | —                 | —                 | —                 | —             | —                 |
| Equity securities                              | —                   | —                 | —                 | —                 | —             | —                 |
| Non-U.S. government debt securities            | —                   | —                 | —                 | —                 | —             | —                 |
| Carbon credit investments                      | 189                 | (5)               | —                 | —                 | 189           | (5)               |
| Other investment securities                    | —                   | —                 | —                 | —                 | —             | —                 |
| <b>Total marketable securities</b>             | <b>\$ 357</b>       | <b>\$ (6)</b>     | <b>\$ 78</b>      | <b>\$ (2)</b>     | <b>\$ 435</b> | <b>\$ (8)</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.

*Maturity Information*

The amortized cost and estimated fair value of marketable securities at December 31, 2015, 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                  | \$ 1,131        | \$ 1,131             |
| Due after one year through three years   | 425             | 423                  |
| Due after three years through five years | 14              | 15                   |
| Due after five years                     | 75              | 74                   |
|  | 1,645           | 1,643                |
| Equity and other investment securities   | 349             | 353                  |
|  | <b>\$ 1,994</b> | <b>\$ 1,996</b>      |

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*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, 2015 and 2014, we had \$442 million in self-insurance restricted cash.

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, 2015 and 2014. 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 \$12 and \$28 million as of December 31, 2015 and 2014, respectively.

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 8.22% and 7.81% as of December 31, 2015 and 2014, respectively. These inputs and the resulting fair values are updated on a quarterly basis.

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The following table presents information about our investments measured at fair value on a recurring basis as of December 31, 2015 and 2014, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value (in millions):

|  | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total    |
|--|--|--|--|----------|
| <b>2015</b>                                    |  |  |  |          |
| Marketable securities:                         |  |  |  |          |
| U.S. government and agency debt securities     | \$ 340   | \$ —   | \$ —   | \$ 340   |
| Mortgage and asset-backed debt securities      | —  | 74   | —  | 74       |
| Corporate debt securities                      | —  | 861  | —  | 861      |
| U.S. state and local municipal debt securities | —  | 2  | —  | 2        |
| Equity securities                              | —  | 2  | —  | 2        |
| Non-U.S. government debt securities            | —  | 366  | —  | 366      |
| Carbon credit investments                      | 351  | —  | —  | 351      |
| Total marketable securities                    | 691  | 1,305  | —  | 1,996    |
| Other non-current investments                  | 19   | —  | 32   | 51       |
| Total  | \$ 710   | \$ 1,305   | \$ 32  | \$ 2,047 |

|  | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(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        |
| Equity securities                              | —  | 2   | —  | 2        |
| Non-U.S. government debt securities            | —  | 44  | —  | 44       |
| Total marketable securities                    | 321  | 671   | —  | 992      |
| Other investments                              | 19   | —   | 64   | 83       |
| Total  | \$ 340   | \$ 671  | \$ 64  | \$ 1,075 |

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The following table presents the changes in the above Level 3 instruments measured on a recurring basis for the years ended December 31, 2015 and 2014 (in millions).

|  | Marketable<br>Securities | Other<br>Investments | Total  |
|--|--------------------------|----------------------|--------|
| Balance on January 1, 2014                                   | \$ —                     | \$ 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  |
| Transfers into (out of) Level 3                              | —                        | —                    | —      |
| Net realized and unrealized gains (losses):                  |                          |                      |        |
| Included in earnings (in investment income)                  | —                        | (32)                 | (32)   |
| Included in accumulated other comprehensive income (pre-tax) | —                        | —                    | —      |
| Purchases  | —                        | —                    | —      |
| Settlements  | —                        | —                    | —      |
| Balance on December 31, 2015                                 | \$ —                     | \$ 32                | \$ 32  |

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**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):

|   | 2015      | 2014      |
|---|-----------|-----------|
| Vehicles  | \$ 8,111  | \$ 7,542  |
| Aircraft  | 15,815    | 15,801    |
| Land  | 1,263     | 1,145     |
| Buildings                                       | 3,280     | 3,276     |
| Building and leasehold improvements             | 3,450     | 3,266     |
| Plant equipment                                 | 8,026     | 7,649     |
| Technology equipment                            | 1,670     | 1,608     |
| Equipment under operating leases                | 30        | 34        |
| Construction-in-progress                        | 273       | 299       |
|   | 41,918    | 40,620    |
| Less: Accumulated depreciation and amortization | (23,566)  | (22,339)  |
|   | \$ 18,352 | \$ 18,281 |

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 2015, 2014 or 2013.

**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 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 \$104, \$95 and \$90 million for 2015, 2014 and 2013, respectively.

Contributions are also made to defined contribution money purchase plans under certain collective bargaining agreements. Amounts charged to expense were \$3, \$82 and \$80 million for 2015, 2014 and 2013, 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 |              |              |
|-----------------------------------|-----------------------|-----------------|---------------|--------------------------------------|-----------------|---------------|--------------------------------|--------------|--------------|
|                                   | 2015                  | 2014            | 2013          | 2015                                 | 2014            | 2013          | 2015                           | 2014         | 2013         |
| <b>Net Periodic Benefit Cost:</b> |                       |                 |               |                                      |                 |               |                                |              |              |
| Service cost                      | \$ 1,527              | \$ 1,137        | \$ 1,349      | \$ 34                                | \$ 62           | \$ 103        | \$ 48                          | \$ 43        | \$ 47        |
| Interest cost                     | 1,694                 | 1,604           | 1,449         | 117                                  | 152             | 185           | 44                             | 49           | 44           |
| Expected return on assets         | (2,489)               | (2,257)         | (2,147)       | (17)                                 | (25)            | (33)          | (61)                           | (61)         | (55)         |
| Amortization of:                  |                       |                 |               |                                      |                 |               |                                |              |              |
| Transition obligation             | —                     | —               | —             | —                                    | —               | —             | —                              | —            | —            |
| Prior service cost                | 168                   | 169             | 172           | 5                                    | —               | 4             | 1                              | 1            | 2            |
| Actuarial (gain) loss             | 70                    | 991             | —             | 17                                   | 767             | —             | 31                             | 48           | —            |
| Curtailment and settlement loss   | —                     | —               | —             | —                                    | 356             | —             | —                              | —            | —            |
| Other                             | —                     | —               | —             | —                                    | —               | —             | —                              | 4            | (5)          |
| Net periodic benefit cost         | <u>\$ 970</u>         | <u>\$ 1,644</u> | <u>\$ 823</u> | <u>\$ 156</u>                        | <u>\$ 1,312</u> | <u>\$ 259</u> | <u>\$ 63</u>                   | <u>\$ 84</u> | <u>\$ 33</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 |       |       |
|-------------------------------|-----------------------|-------|-------|--------------------------------------|-------|-------|--------------------------------|-------|-------|
|                               | 2015                  | 2014  | 2013  | 2015                                 | 2014  | 2013  | 2015                           | 2014  | 2013  |
| Discount rate                 | 4.40%                 | 5.32% | 4.42% | 4.18%                                | 4.89% | 4.21% | 3.56%                          | 4.35% | 4.00% |
| Rate of compensation increase | 4.29%                 | 4.29% | 4.16% | N/A                                  | N/A   | N/A   | 3.08%                          | 3.22% | 3.03% |
| Expected return on assets     | 8.75%                 | 8.75% | 8.75% | 8.75%                                | 8.75% | 8.75% | 6.03%                          | 6.29% | 6.90% |

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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 |       |
|-------------------------------|-----------------------|-------|--------------------------------------|-------|--------------------------------|-------|
|                               | 2015                  | 2014  | 2015                                 | 2014  | 2015                           | 2014  |
| Discount rate                 | 4.86%                 | 4.40% | 4.79%                                | 4.18% | 3.51%                          | 3.56% |
| Rate of compensation increase | 4.29%                 | 4.29% | N/A                                  | N/A   | 3.04%                          | 3.08% |

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, 2015, 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 | \$  | (60) | \$                              | (2) |
| One basis point decrease in discount rate | \$  | 66   | \$                              | 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.

Assumptions for the expected return on plan assets are used to determine a component of net periodic benefit cost for the fiscal year. The 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.

On September 25, 2015, the Central States Pension Fund ("CSPF") submitted a proposed pension suspension plan to the U.S. Department of Treasury under the Multiemployer Pension Reform Act of 2014 ("MPRA"). The CSPF plan proposes to make retirement benefit reductions to the CSPF participants, including to the benefits of UPS employee participants retiring on or after January 1, 2008. In 2007, UPS fully funded its allocable share of the unfunded vested benefits in the CSPF when it was agreed that UPS could withdraw from the CSPF in consideration of a \$6.100 billion withdrawal liability. Under a collective bargaining agreement with the IBT, UPS agreed to provide supplemental benefits under the UPS/IBT Full-Time Employee Pension Plan to offset the effect of certain benefit reductions by the CSPF applicable to UPS participants retiring on or after January 1, 2008, which resulted in the initial recognition of a \$1.701 billion pension liability in 2007. UPS has reviewed the CSPF's proposed plan to evaluate the validity of the actions taken by the CSPF, the plan's compliance with the MPRA (and proposed regulations thereunder) and its potential impact on UPS's funding obligations under the UPS/IBT Full-Time Employee Pension Plan.



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We are vigorously challenging the proposed suspension plan because it does not fully comply with the law and we do not believe certain actions by the CSPF are valid. Accordingly, we have not assumed or recognized a liability for supplemental benefits within the UPS/IBT Full-Time Employee Pension Plan due to the submission of the CSPF's proposed plan to the U.S. Department of Treasury. Further we are not able to estimate a range of potential additional obligations, if any, or determine whether any such amounts are material, due to uncertainties regarding the validity of actions taken by the CSPF, incomplete information regarding the CSPF's proposed benefit reductions, uncertainties regarding the process and standards under the MPRA, whether the proposed plan complies with the MPRA (and proposed regulations thereunder) and the effect of various discount rates and other actuarial assumptions.

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 2015 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 2021 and with consistent annual increases at those ultimate levels thereafter.

Assumed healthcare cost trends can have a significant effect on the amounts reported for our postretirement medical plans. A one percent change in assumed healthcare cost trend rates would have had the following effects on 2015 results (in millions):

|   | 1% Increase | 1% Decrease |
|---|-------------|-------------|
| Effect on total of service cost and interest cost | \$ 4        | \$ (4)      |
| Effect on postretirement benefit obligation       | \$ 73       | \$ (79)     |

*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 |                 |
|---|-----------------------|-------------------|--------------------------------------|-------------------|--------------------------------|-----------------|
|   | 2015                  | 2014              | 2015                                 | 2014              | 2015                           | 2014            |
| <b>Funded Status:</b>                                 |                       |                   |                                      |                   |                                |                 |
| Fair value of plan assets                             | \$ 28,887             | \$ 28,828         | \$ 130                               | \$ 259            | \$ 1,014                       | \$ 1,042        |
| Benefit obligation                                    | (36,846)              | (37,521)          | (2,673)                              | (2,883)           | (1,219)                        | (1,274)         |
| Funded status recognized at December 31               | <u>\$ (7,959)</u>     | <u>\$ (8,693)</u> | <u>\$ (2,543)</u>                    | <u>\$ (2,624)</u> | <u>\$ (205)</u>                | <u>\$ (232)</u> |
| <b>Funded Status Recognized in our Balance Sheet:</b> |                       |                   |                                      |                   |                                |                 |
| Other non-current assets                              | \$ —                  | \$ —              | \$ —                                 | \$ —              | \$ 48                          | \$ 25           |
| Other current liabilities                             | (16)                  | (17)              | (98)                                 | (102)             | (3)                            | (3)             |
| Pension and postretirement benefit obligations        | (7,943)               | (8,676)           | (2,445)                              | (2,522)           | (250)                          | (254)           |
| Net liability at December 31                          | <u>\$ (7,959)</u>     | <u>\$ (8,693)</u> | <u>\$ (2,543)</u>                    | <u>\$ (2,624)</u> | <u>\$ (205)</u>                | <u>\$ (232)</u> |
| <b>Amounts Recognized in AOCI:</b>                    |                       |                   |                                      |                   |                                |                 |
| Unrecognized net prior service cost                   | \$ (954)              | \$ (1,122)        | \$ (26)                              | \$ (32)           | \$ (4)                         | \$ (7)          |
| Unrecognized net actuarial gain (loss)                | (3,263)               | (3,752)           | 32                                   | (89)              | (103)                          | (103)           |
| Gross unrecognized cost at December 31                | (4,217)               | (4,874)           | 6                                    | (121)             | (107)                          | (110)           |
| Deferred tax assets (liabilities) at December 31      | 1,585                 | 1,833             | (2)                                  | 45                | 26                             | 29              |
| Net unrecognized cost at December 31                  | <u>\$ (2,632)</u>     | <u>\$ (3,041)</u> | <u>\$ 4</u>                          | <u>\$ (76)</u>    | <u>\$ (81)</u>                 | <u>\$ (81)</u>  |

The accumulated benefit obligation for our pension plans as of the measurement dates in 2015 and 2014 was \$35.320 and \$35.867 billion, respectively.

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Benefit payments under the pension plans include \$22 and \$19 million paid from employer assets in 2015 and 2014, respectively. Benefit payments (net of participant contributions) under the postretirement medical benefit plans include \$111 and \$122 million paid from employer assets in 2015 and 2014, respectively. Such benefit payments from employer assets are also categorized as employer contributions.

At December 31, 2015 and 2014, 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<br>Exceeds the Fair Value of Plan Assets |           | Accumulated Benefit Obligation<br>Exceeds the Fair Value of Plan Assets |           |
|--|---|-----------|---|-----------|
|  | 2015  | 2014      | 2015  | 2014      |
| <b>U.S. Pension Benefits:</b>          |   |           |   |           |
| Projected benefit obligation           | \$ 36,846   | \$ 37,521 | \$ 36,846   | \$ 37,521 |
| Accumulated benefit obligation         | 34,210  | 34,725    | 34,210  | 34,725    |
| Fair value of plan assets              | 28,887  | 28,828    | 28,887  | 28,828    |
| <b>International Pension Benefits:</b> |   |           |   |           |
| Projected benefit obligation           | \$ 493  | \$ 510    | \$ 477  | \$ 474    |
| Accumulated benefit obligation         | 416   | 426       | 401   | 398       |
| Fair value of plan assets              | 247   | 261       | 232   | 232       |

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

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*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 |                 |
|---|-----------------------|------------------|--------------------------------------|-----------------|--------------------------------|-----------------|
|   | 2015                  | 2014             | 2015                                 | 2014            | 2015                           | 2014            |
| <b>Benefit Obligations:</b>                       |                       |                  |                                      |                 |                                |                 |
| Projected benefit obligation at beginning of year | \$ 37,521             | \$ 29,508        | \$ 2,883                             | \$ 4,046        | \$ 1,274                       | \$ 1,076        |
| Service cost                                      | 1,527                 | 1,137            | 34                                   | 62              | 48                             | 43              |
| Interest cost                                     | 1,694                 | 1,604            | 117                                  | 152             | 44                             | 49              |
| Gross benefits paid                               | (1,056)               | (924)            | (262)                                | (255)           | (30)                           | (26)            |
| Plan participants' contributions                  | —                     | —                | 21                                   | 15              | 6                              | 5               |
| Plan amendments                                   | —                     | 5                | —                                    | 65              | (2)                            | —               |
| Actuarial (gain)/loss                             | (2,840)               | 6,191            | (120)                                | 1,069           | 13                             | 194             |
| Foreign currency exchange rate changes            | —                     | —                | —                                    | —               | (138)                          | (103)           |
| Curtailments and settlements                      | —                     | —                | —                                    | (2,271)         | (3)                            | (2)             |
| Other   | —                     | —                | —                                    | —               | 7                              | 38              |
| Projected benefit obligation at end of year       | <u>\$ 36,846</u>      | <u>\$ 37,521</u> | <u>\$ 2,673</u>                      | <u>\$ 2,883</u> | <u>\$ 1,219</u>                | <u>\$ 1,274</u> |

|  | U.S. Pension Benefits |                  | U.S. Postretirement Medical Benefits |               | International Pension Benefits |                 |
|--|-----------------------|------------------|--------------------------------------|---------------|--------------------------------|-----------------|
|  | 2015                  | 2014             | 2015                                 | 2014          | 2015                           | 2014            |
| <b>Fair Value of Plan Assets:</b>              |                       |                  |                                      |               |                                |                 |
| Fair value of plan assets at beginning of year | \$ 28,828             | \$ 26,224        | \$ 259                               | \$ 355        | \$ 1,042                       | \$ 931          |
| Actual return on plan assets                   | 67                    | 2,471            | —                                    | 22            | 43                             | 106             |
| Employer contributions                         | 1,048                 | 1,057            | 111                                  | 122           | 70                             | 79              |
| Plan participants' contributions               | —                     | —                | 21                                   | 15            | 3                              | 3               |
| Gross benefits paid                            | (1,056)               | (924)            | (261)                                | (255)         | (30)                           | (26)            |
| Foreign currency exchange rate changes         | —                     | —                | —                                    | —             | (113)                          | (79)            |
| Curtailments and settlements                   | —                     | —                | —                                    | —             | (3)                            | (2)             |
| Other  | —                     | —                | —                                    | —             | 2                              | 30              |
| Fair value of plan assets at end of year       | <u>\$ 28,887</u>      | <u>\$ 28,828</u> | <u>\$ 130</u>                        | <u>\$ 259</u> | <u>\$ 1,014</u>                | <u>\$ 1,042</u> |

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).

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

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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, 2015, unfunded commitments to these hedge funds totaling approximately \$234 million are expected to be contributed over the remaining investment period, typically ranging between two and four 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 funds as of December 31, 2015.
- **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 and private equity investments consist of U.S. and non-U.S. investments and are broadly diversified. Limited provision exists for the redemption of these interests by the limited 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, 2015, unfunded commitments to such limited partnerships totaling approximately \$1.855 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, 2015 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 - 2015</b> | <b>Target Allocation 2015</b> |
|--|------------------|-----------------|-----------------|---------------------|---|-------------------------------|
| Cash and cash equivalents                    | \$ 716           | \$ 95           | \$ —            | \$ 811              | 2.8%                                    | 0-5                           |
| <b>Equity Securities:</b>                    |                  |                 |                 |                     |   |                               |
| U.S. Large Cap                               | 2,542            | 1,704           | —               | 4,246               |   |                               |
| U.S. Small Cap                               | 310              | 42              | —               | 352                 |   |                               |
| Emerging Markets                             | 1,271            | 155             | —               | 1,426               |   |                               |
| Global Equity                                | 2,935            | —               | —               | 2,935               |   |                               |
| International Equity                         | 2,308            | 781             | —               | 3,089               |   |                               |
| Total Equity Securities                      | 9,366            | 2,682           | —               | 12,048              | 41.5                                    | 35-55                         |
| <b>Fixed Income Securities:</b>              |                  |                 |                 |                     |   |                               |
| U.S. Government Securities                   | 3,257            | 212             | —               | 3,469               |   |                               |
| Corporate Bonds                              | —                | 3,682           | 279             | 3,961               |   |                               |
| Global Bonds                                 | —                | 147             | 586             | 733                 |   |                               |
| Municipal Bonds                              | —                | 36              | —               | 36                  |   |                               |
| Total Fixed Income Securities                | 3,257            | 4,077           | 865             | 8,199               | 28.2                                    | 25-35                         |
| <b>Other Investments:</b>                    |                  |                 |                 |                     |   |                               |
| Hedge Funds                                  | —                | —               | 3,617           | 3,617               | 12.5                                    | 5-15                          |
| Private Equity                               | —                | —               | 1,415           | 1,415               | 4.9                                     | 1-10                          |
| Real Estate                                  | 126              | 155             | 1,567           | 1,848               | 6.4                                     | 1-10                          |
| Structured Products <sup>(1)</sup>           | —                | 324             | —               | 324                 | 1.1                                     | 0-5                           |
| Risk Parity Funds                            | —                | —               | 755             | 755                 | 2.6                                     | 1-10                          |
| Total U.S. Plan Assets                       | <u>\$ 13,465</u> | <u>\$ 7,333</u> | <u>\$ 8,219</u> | <u>\$ 29,017</u>    | <u>100.0%</u>                           |                               |
| <b>Asset Category (International Plans):</b> |                  |                 |                 |                     |   |                               |
| Cash and cash equivalents                    | \$ 9             | \$ 16           | \$ —            | 25                  | 2.5                                     | 0-5                           |
| <b>Equity Securities:</b>                    |                  |                 |                 |                     |   |                               |
| Local Markets Equity                         | 133              | 107             | —               | 240                 |   |                               |
| U.S. Equity                                  | 16               | —               | —               | 16                  |   |                               |
| Emerging Markets                             | 16               | —               | —               | 16                  |   |                               |
| International / Global Equity                | 84               | 92              | —               | 176                 |   |                               |
| Total Equity Securities                      | 249              | 199             | —               | 448                 | 44.1                                    | 50-65                         |
| <b>Fixed Income Securities:</b>              |                  |                 |                 |                     |   |                               |
| Local Government Bonds                       | 72               | —               | —               | 72                  |   |                               |
| Corporate Bonds                              | 56               | 93              | —               | 149                 |   |                               |
| Total Fixed Income Securities                | 128              | 93              | —               | 221                 | 21.8                                    | 15-35                         |
| <b>Other Investments:</b>                    |                  |                 |                 |                     |   |                               |
| Real Estate                                  | —                | 111             | —               | 111                 | 10.9                                    | 0-17                          |
| Other  | —                | 160             | 49              | 209                 | 20.7                                    | 0-20                          |
| Total International Plan Assets              | <u>\$ 386</u>    | <u>\$ 579</u>   | <u>\$ 49</u>    | <u>\$ 1,014</u>     | <u>100.0%</u>                           |                               |
| Total Plan Assets                            | <u>\$ 13,851</u> | <u>\$ 7,912</u> | <u>\$ 8,268</u> | <u>\$ 30,031</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, 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 following table presents the changes in the Level 3 instruments measured on a recurring basis for the years ended December 31, 2015 and 2014 (in millions).

|                                 | Corporate<br>Bonds | Hedge<br>Funds | Real<br>Estate | Private<br>Equity | Global Bonds | Risk Parity<br>Funds | Other | Total    |
|---------------------------------|--------------------|----------------|----------------|-------------------|--------------|----------------------|-------|----------|
| Balance on January 1, 2014      | \$ 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 |
| Actual Return on Assets:        |                    |                |                |                   |              |                      |       |          |
| Assets Held at End of Year      | (8)                | 62             | 79             | (39)              | 11           | (62)                 | (4)   | 39       |
| Assets Sold During the Year     | —                  | 39             | 45             | 149               | (2)          | —                    | —     | 231      |
| Purchases                       | 22                 | 283            | 545            | 347               | 130          | —                    | —     | 1,327    |
| Sales                           | (4)                | (362)          | (409)          | (365)             | (166)        | —                    | —     | (1,306)  |
| Transfers Into (Out of) Level 3 | —                  | —              | —              | —                 | —            | —                    | —     | —        |
| Balance on December 31, 2015    | \$ 279             | \$ 3,617       | \$ 1,567       | \$ 1,415          | \$ 586       | \$ 755               | \$ 49 | \$ 8,268 |

There were no UPS class A or B shares of common stock directly held in plan assets as of December 31, 2015 or December 31, 2014.

*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 2016 are as follows (in millions):

|                                | U.S. Pension Benefits | U.S. Postretirement<br>Medical Benefits | International Pension<br>Benefits |
|--------------------------------|-----------------------|---|-----------------------------------|
| Prior service cost / (benefit) | \$ 166                | \$ 5                                    | \$ 1                              |

*Expected Cash Flows*

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

|   | U.S.<br>Pension Benefits | U.S. Postretirement<br>Medical Benefits | International Pension<br>Benefits |
|---|--------------------------|---|-----------------------------------|
| <b>Expected Employer Contributions:</b> |                          |   |                                   |
| 2016 to plan trusts                     | \$ 1,161                 | \$ —                                    | \$ 55                             |
| 2016 to plan participants               | 16                       | 101                                     | 3                                 |
| <b>Expected Benefit Payments:</b>       |                          |   |                                   |
| 2016                                    | \$ 1,067                 | \$ 237                                  | \$ 23                             |
| 2017                                    | 1,168                    | 236                                     | 23                                |
| 2018                                    | 1,278                    | 232                                     | 26                                |
| 2019                                    | 1,398                    | 232                                     | 29                                |
| 2020                                    | 1,529                    | 228                                     | 32                                |
| 2021 - 2025                             | 9,822                    | 1,005                                   | 222                               |

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

**NOTE 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, 2015, 2014 and 2013 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 2015, 2014 and 2013 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, 2015, we had approximately 266,000 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 2014 and 2015, we remitted \$278 and \$53 million, respectively, 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. The ongoing contract negotiations between UPS and the IPA are in mediation by the National Mediation Board.



**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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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") that will expire on July 31, 2019.

***Multiemployer Pension Plans***

The following table outlines our participation in multiemployer pension plans for the periods ended December 31, 2015, 2014 and 2013, 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 2015 and 2014 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, 2015, all plans that have either a FIP or RP requirement have had the respective FIP or RP implemented.

Our collectively-bargained contributions satisfy the requirements of all implemented FIPs and RPs and do not currently require the payment of any surcharges. In addition, minimum contributions outside of the agreed upon contractual rate are not required. For the plans detailed in the following table, the expiration date of the associated collective bargaining agreements is July 31, 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 2015, 2014 and 2013 (as disclosed in the Form 5500 for each respective plan).

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Certain plans have been aggregated in the “all other multiemployer pension plans” line in the following table, as the contributions to each of these individual plans 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 |
|---|---------------------------|------------------------------------|--------|---------------------------------------|--|-----------------|-----------------|-------------------|
|   |                           | 2015                               | 2014   |                                       | 2015   | 2014            | 2013            |                   |
| Alaska Teamster-Employer Pension Plan                                       | 92-6003463-024            | Red                                | Red    | Yes/Implemented                       | \$ 5   | \$ 5            | \$ 5            | No                |
| Automotive Industries Pension Plan  | 94-1133245-001            | Red                                | Red    | Yes/Implemented                       | 4  | 5               | 4               | No                |
| Central Pennsylvania Teamsters Defined Benefit Plan                         | 23-6262789-001            | Green                              | Green  | No                                    | 36   | 33              | 30              | No                |
| Eastern Shore Teamsters Pension Fund  | 52-0904953-001            | Green                              | Green  | No                                    | 4  | 4               | 4               | No                |
| Employer-Teamsters Local Nos. 175 & 505 Pension Trust Fund                  | 55-6021850-001            | Red                                | Red    | Yes/Implemented                       | 11   | 10              | 9               | No                |
| Hagerstown Motor Carriers and Teamsters Pension Fund                        | 52-6045424-001            | Red                                | Red    | Yes/Implemented                       | 7  | 6               | 5               | No                |
| I.A.M. National Pension Fund / National Pension Plan                        | 51-6031295-002            | Green                              | Green  | No                                    | 29   | 27              | 27              | No                |
| International Brotherhood of Teamsters Union Local No. 710 Pension Fund     | 36-2377656-001            | Green                              | Green  | No                                    | 106  | 89              | 88              | No                |
| Local 705, International Brotherhood of Teamsters Pension Plan              | 36-6492502-001            | Red                                | Red    | Yes/Implemented                       | 91   | 69              | 68              | No                |
| Local 804 I.B.T. & Local 447 I.A.M.—UPS Multiemployer Retirement Plan       | 51-6117726-001            | Red                                | Red    | Yes/Implemented                       | 97   | 92              | 88              | No                |
| Milwaukee Drivers Pension Trust Fund  | 39-6045229-001            | Green                              | Green  | No                                    | 35   | 32              | 29              | No                |
| New England Teamsters & Trucking Industry Pension Fund                      | 04-6372430-001            | Red                                | Red    | Yes/Implemented                       | 110  | 108             | 102             | No                |
| New York State Teamsters Conference Pension and Retirement Fund             | 16-6063585-074            | Red                                | Red    | Yes/Implemented                       | 86   | 81              | 72              | No                |
| Teamster Pension Fund of Philadelphia and Vicinity                          | 23-1511735-001            | Yellow                             | Yellow | Yes/Implemented                       | 53   | 50              | 46              | No                |
| Teamsters Joint Council No. 83 of Virginia Pension Fund                     | 54-6097996-001            | Yellow                             | Yellow | Yes/Implemented                       | 57   | 52              | 49              | No                |
| Teamsters Local 639—Employers Pension Trust                                 | 53-0237142-001            | Green                              | Green  | No                                    | 48   | 45              | 41              | No                |
| Teamsters Negotiated Pension Plan   | 43-6196083-001            | Green                              | Yellow | No                                    | 30   | 27              | 26              | No                |
| Truck Drivers and Helpers Local Union No. 355 Retirement Pension Plan       | 52-6043608-001            | Yellow                             | Yellow | Yes/Implemented                       | 17   | 16              | 14              | No                |
| United Parcel Service, Inc.—Local 177, I.B.T. Multiemployer Retirement Plan | 13-1426500-419            | Red                                | Red    | Yes/Implemented                       | 83   | 85              | 68              | No                |
| Western Conference of Teamsters Pension Plan                                | 91-6145047-001            | Green                              | Green  | No                                    | 646  | 604             | 553             | No                |
| Western Pennsylvania Teamsters and Employers Pension Fund                   | 25-6029946-001            | Red                                | Red    | Yes/Implemented                       | 26   | 24              | 23              | No                |
| All Other Multiemployer Pension Plans                                       |                           |                                    |        |                                       | 42   | 53              | 45              |                   |
| Total Contributions   |                           |                                    |        |                                       | <u>\$ 1,623</u>                              | <u>\$ 1,517</u> | <u>\$ 1,396</u> |                   |

*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. As of December 31, 2015 and 2014, we had \$872 and \$878 million, respectively, recognized in “other non-current liabilities” on our consolidated balance sheets representing the remaining balance of the NETTI Fund 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 Fund withdrawal liability as of December 31, 2015 and 2014 was \$841 and \$913 million. We utilized Level 2 inputs in the fair value hierarchy of valuation techniques to determine the fair value of this liability.

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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.

|  | (in millions)                  |                 |                 |
|--|--------------------------------|-----------------|-----------------|
|  | UPS Contributions and Accruals |                 |                 |
| <b>Health and Welfare Fund</b>   | <b>2015</b>                    | <b>2014</b>     | <b>2013</b>     |
| Central States, South East & South West Areas Health and Welfare Fund                | \$ 2,081                       | \$ 1,306        | \$ 505          |
| Teamsters Western Region & Local 177 Health Care Plan                                | 515                            | 239             | —               |
| Health & Welfare Insurance Fund Teamsters Local 653                                  | 6                              | 5               | —               |
| Bay Area Delivery Drivers  | 34                             | 32              | 29              |
| Central Pennsylvania Teamsters Health & Pension Fund                                 | 23                             | 21              | 20              |
| Delta Health Systems—East Bay Drayage Drivers  | 27                             | 24              | 24              |
| Employer—Teamster Local Nos. 175 & 505   | 10                             | 9               | 9               |
| Joint Council #83 Health & Welfare Fund  | 28                             | 26              | 24              |
| Local 191 Teamsters Health Fund  | 11                             | 11              | 9               |
| Local 401 Teamsters Health & Welfare Fund  | 7                              | 7               | 6               |
| Local 804 Welfare Trust Fund   | 75                             | 70              | 67              |
| Milwaukee Drivers Pension Trust Fund—Milwaukee Drivers Health and Welfare Trust Fund | 34                             | 32              | 31              |
| Montana Teamster Employers Trust   | 7                              | 7               | 6               |
| New York State Teamsters Health & Hospital Fund                                      | 53                             | 51              | 46              |
| North Coast Benefit Trust  | 8                              | 9               | 8               |
| Northern California General Teamsters (DELTA)  | 108                            | 96              | 84              |
| Northern New England Benefit Trust   | 42                             | 39              | 35              |
| Oregon / Teamster Employers Trust  | 31                             | 29              | 28              |
| Teamsters 170 Health & Welfare Fund  | 15                             | 15              | 12              |
| Teamsters Benefit Trust  | 36                             | 40              | 38              |
| Teamsters Local 251 Health & Insurance Plan  | 13                             | 12              | 11              |
| Teamsters Local 404 Health & Insurance Plan  | 7                              | 7               | 6               |
| Teamsters Local 638 Health Fund  | 39                             | 35              | 32              |
| Teamsters Local 639—Employers Health & Pension Trust Funds                           | 26                             | 26              | 24              |
| Teamsters Local 671 Health Services & Insurance Plan                                 | 15                             | 14              | 13              |
| Teamsters Union 25 Health Services & Insurance Plan                                  | 46                             | 44              | 37              |
| Teamsters Union Local 677 Health Services & Insurance Plan                           | 10                             | 9               | 8               |
| Truck Drivers and Helpers Local 355 Baltimore Area Health & Welfare Fund             | 15                             | 15              | 13              |
| Utah-Idaho Teamsters Security Fund   | 25                             | 22              | 18              |
| Washington Teamsters Welfare Trust   | 44                             | 36              | 35              |
| All Other Multiemployer Health and Welfare Plans                                     | 95                             | 64              | 44              |
| Total Contributions  | <u>\$ 3,486</u>                | <u>\$ 2,352</u> | <u>\$ 1,222</u> |

The increase in 2015 and 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.

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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 retired 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.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**NOTE 6. GOODWILL AND INTANGIBLE ASSETS**

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

|                              | U.S. Domestic<br>Package | International<br>Package | Supply Chain &<br>Freight | Consolidated    |
|------------------------------|--------------------------|--------------------------|---------------------------|-----------------|
| Balance on January 1, 2014   | \$ 6                     | \$ 420                   | \$ 1,764                  | \$ 2,190        |
| Acquired                     | —                        | 52                       | 13                        | 65              |
| Currency / Other             | —                        | (23)                     | (48)                      | (71)            |
| Balance on December 31, 2014 | \$ 6                     | \$ 449                   | \$ 1,729                  | \$ 2,184        |
| Acquired                     | 709                      | —                        | 585                       | 1,294           |
| Currency / Other             | —                        | (24)                     | (35)                      | (59)            |
| Balance on December 31, 2015 | <u>\$ 715</u>            | <u>\$ 425</u>            | <u>\$ 2,279</u>           | <u>\$ 3,419</u> |

*2015 Goodwill Activity:*

The goodwill acquired in the U.S. Domestic Package segment was related to our August 2015 acquisition of Coyote Logistics Midco, Inc ("Coyote"). The goodwill acquired in the Supply Chain & Freight segment was related to our March 2015 acquisition of Poltraf Sp. z.o.o. ("Poltraf"), our May 2015 acquisition of Parcel Pro, Inc. ("Parcel Pro"), our June 2015 acquisition of the Insured Parcel Services division of G4S International Logistics ("IPS") and our August 2015 acquisition of Coyote.

The purchase price allocation for acquired companies can be modified for up to one year from the date of acquisition. The purchase price allocations for Coyote, Parcel Pro and IPS have not been finalized. See note 7 for further discussion of these acquisitions.

*2014 Goodwill Activity:*

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.

*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 U.S. Domestic Package, 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, UPS Capital and Coyote Logistics 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.

In 2015, we utilized a qualitative assessment to determine that it was more likely than not that the reporting unit fair value exceeded the carrying value for our U.S. Domestic Package, Europe, Asia, Americas, ISMEA, The UPS Store, UPS Capital and Coyote reporting units. For the remaining reporting units, we utilized the two-step process to test goodwill for impairment. We did not have any goodwill impairment charges in 2015, 2014 or 2013. Cumulatively, our Supply Chain & Freight reporting segment has recorded goodwill impairment charges of \$622 million, while our International and U.S. Domestic Package segments have not recorded any impairment charges.

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*Intangible Assets*

The following is a summary of intangible assets at December 31, 2015 and 2014 (in millions):

|                                | Gross Carrying<br>Amount | Accumulated<br>Amortization | Net Carrying<br>Value | Weighted-<br>Average<br>Amortization<br>Period<br>(in years) |
|--------------------------------|--------------------------|-----------------------------|-----------------------|--|
| <b>December 31, 2015</b>       |                          |                             |                       |  |
| Capitalized software           | \$ 2,739                 | \$ (2,026)                  | \$ 713                | 5.0  |
| Licenses                       | 189                      | (116)                       | 73                    | 6.1  |
| Franchise rights               | 125                      | (83)                        | 42                    | 20.0   |
| Customer relationships         | 511                      | (35)                        | 476                   | 10.3   |
| Trade name                     | 200                      | —                           | 200                   | NA   |
| Trademarks, patents, and other | 61                       | (16)                        | 45                    | 7.8  |
| Total Intangible Assets, Net   | <u>\$ 3,825</u>          | <u>\$ (2,276)</u>           | <u>\$ 1,549</u>       | <u>5.1</u>   |
| <b>December 31, 2014</b>       |                          |                             |                       |  |
| Capitalized software           | \$ 2,641                 | \$ (1,997)                  | \$ 644                |  |
| Licenses                       | 217                      | (133)                       | 84                    |  |
| Franchise rights               | 117                      | (77)                        | 40                    |  |
| Customer relationships         | 123                      | (66)                        | 57                    |  |
| Trademarks, patents, and other | 31                       | (9)                         | 22                    |  |
| Total Intangible Assets, Net   | <u>\$ 3,129</u>          | <u>\$ (2,282)</u>           | <u>\$ 847</u>         |  |

Trade name and licenses with a carrying value of \$200 and \$4 million, respectively as of December 31, 2015 are deemed to be indefinite-lived intangibles, and therefore are not amortized. Impairment tests for indefinite-lived intangibles are performed on an annual basis. All of our other recorded intangible assets are deemed to be finite-lived intangibles, and are thus amortized over their estimated useful lives. Impairment tests for these intangible assets are only performed when a triggering event occurs that indicates that the carrying value of the intangible may not be recoverable. There were no impairments of any finite-lived or indefinite-lived intangible assets in 2015 or 2014.

Amortization of intangible assets was \$261, \$195 and \$185 million during 2015, 2014 and 2013, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2015 for the next five years is as follows (in millions): 2016—\$332; 2017—\$276; 2018—\$218; 2019—\$167; 2020—\$112. 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. BUSINESS ACQUISITIONS**

In March 2015, we acquired Poltraf, a Polish-based pharmaceutical logistics company recognized for its temperature-sensitive warehousing and transportation solutions. In May 2015 and June 2015, we acquired Parcel Pro and IPS, respectively. These businesses provide services and insurance coverage for the transport of high value luxury goods. These acquisitions were funded with cash from operations. These acquisitions were not material to our consolidated financial position or results of operations.

In August 2015, we acquired Coyote, a U.S.-based truckload freight brokerage company for \$1.829 billion. This acquisition will allow us to expand our existing portfolio by adding large scale truckload freight brokerage and transportation management services to our Supply Chain & Freight reporting segment. In addition, we expect to benefit from synergies in purchased transportation, backhaul utilization, cross-selling to customers, as well as technology systems and industry best practices. The acquisition was funded using cash from operations and issuances of commercial paper.

The estimates of deferred income taxes and goodwill are subject to change based on the final determination of fair values of acquired assets and assumed liabilities. The purchase price allocation for acquired companies can be modified for up to one year from the date of acquisition.

The following table summarizes the estimated fair values of the Coyote assets acquired and liabilities assumed at the acquisition date (in millions):

| <b>Coyote Assets Acquired and (Liabilities) Assumed</b> |                 |
|---|-----------------|
| Cash and cash equivalents                               | \$ 18           |
| Accounts receivable                                     | 249             |
| Other current assets                                    | 1               |
| Property, plant, and equipment                          | 17              |
| Goodwill  | 1,233           |
| Intangible assets                                       | 664             |
| Other non-current assets                                | 2               |
| Accounts payable and other current liabilities          | (132)           |
| Other non-current liabilities                           | (11)            |
| Deferred tax liability                                  | (212)           |
| <b>Total purchase price</b>                             | <b>\$ 1,829</b> |

The goodwill recognized of approximately \$1.233 billion is attributable to synergies anticipated from more efficient usage of our existing transportation networks and the assembled workforce of Coyote. We have allocated \$709 and \$524 million of the recognized goodwill to the U.S. Domestic Package and Supply Chain & Freight segments, respectively. None of the goodwill is expected to be deductible for income tax purposes.

The intangible assets acquired of approximately \$664 million primarily consist of \$426 million of customer relationships (amortized over 10 years), \$27 million of non-compete agreements (amortized over 4 years), and \$200 million of trade name, which has an indefinite useful life. The carrying value of acquired accounts receivable approximates fair value.

We recognized approximately \$17 million of acquisition related costs that were expensed in 2015. These costs are included in "other expenses" within the statements of consolidated income.

The financial results of these acquired businesses are included in the Supply Chain & Freight segment from the date of acquisition and were not material to our results of operations.

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**NOTE 8. DEBT AND FINANCING ARRANGEMENTS**

The following table sets forth the principal amount, maturity or range of maturities, as well as the carrying value of our debt obligations, as of December 31, 2015 and 2014 (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        |             | Carrying Value   |                 |
|----------------------------|------------------|-------------|------------------|-----------------|
|                            | Amount           | Maturity    | 2015             | 2014            |
| Commercial paper           | \$ 2,965         | 2016        | \$ 2,965         | \$ 772          |
| Fixed-rate senior notes:   |                  |             |                  |                 |
| 1.125% senior notes        | 375              | 2017        | 372              | 369             |
| 5.50% senior notes         | 750              | 2018        | 787              | 802             |
| 5.125% senior notes        | 1,000            | 2019        | 1,064            | 1,076           |
| 3.125% senior notes        | 1,500            | 2021        | 1,613            | 1,616           |
| 2.45% senior notes         | 1,000            | 2022        | 991              | 976             |
| 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        | 474              | 480             |
| 8.375% debentures          | 276              | 2030        | 282              | 282             |
| Pound Sterling Notes:      |                  |             |                  |                 |
| 5.50% notes                | 98               | 2031        | 92               | 97              |
| 5.125% notes               | 670              | 2050        | 638              | 673             |
| Euro Senior Notes:         |                  |             |                  |                 |
| 1.625% notes               | 765              | 2025        | 759              | —               |
| Floating rate senior notes | 547              | 2020        | 544              | —               |
| Floating rate senior notes | 606              | 2049 – 2065 | 600              | 458             |
| Capital lease obligations  | 475              | 2016 – 3005 | 475              | 505             |
| Facility notes and bonds   | 320              | 2016 – 2045 | 319              | 320             |
| Other debt                 | 21               | 2016 – 2022 | 22               | 16              |
| Total debt                 | <u>\$ 14,167</u> |             | 14,334           | 10,779          |
| Less: current maturities   |                  |             | (3,018)          | (923)           |
| Long-term debt             |                  |             | <u>\$ 11,316</u> | <u>\$ 9,856</u> |

*Commercial Paper*

We are authorized to borrow up to \$10.0 billion in a variety of currencies under our U.S. commercial paper program. We had \$2.618 billion outstanding under this program, including euro denominated commercial paper totaling €310 million (\$339 million), as of December 31, 2015, with an average interest rate of 0.21% for our U.S. dollar denominated commercial paper and -0.12% for our euro denominated commercial paper. 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. We had £234 million (\$347 million) outstanding under this program as of December 31, 2015 with an average rate of 0.50%. The amount of commercial paper outstanding under these programs in 2016 is expected to fluctuate.



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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 2015 and 2014, respectively, were as follows:

|                     | Principal |          | Average Effective Interest Rate |       |
|---------------------|-----------|----------|---------------------------------|-------|
|                     | Value     | Maturity | 2015                            | 2014  |
| 3.875% senior notes | \$ 1,000  | 2014     | —%                              | 0.94% |
| 1.125% senior notes | \$ 375    | 2017     | 0.68%                           | 0.60% |
| 5.50% senior notes  | \$ 750    | 2018     | 2.54%                           | 2.49% |
| 5.125% senior notes | \$ 1,000  | 2019     | 2.06%                           | 1.97% |
| 3.125% senior notes | \$ 1,500  | 2021     | 1.04%                           | 1.06% |
| 2.45% senior notes  | \$ 1,000  | 2022     | 0.87%                           | 0.82% |

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 tranches and neither tranche 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 2015 and 2014 was 5.04% and 4.99%, 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 2015 and 2014 was 0.01% and 0.00%, respectively. These notes are callable at various times after 30 years at a stated percentage of par value, and putable by the note holders at various times after 10 years at a stated percentage of par value. The notes have maturities ranging from 2049 through 2065. In 2014, we redeemed notes with a principal value of \$1 million after put options were exercised by the note holders.

In September 2015 and December 2015, we issued floating rate senior notes with principal balances of \$104 and \$40 million, respectively. These issuances bear interest at a rate equal to three-month LIBOR less 30 basis points and mature in 2065.

In December 2014, we issued floating rate senior notes with a principal amount of \$0 million that bears interest at three-month LIBOR less 30 basis points. These notes mature in 2064.

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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):

|   | 2015            | 2014            |
|---|-----------------|-----------------|
| Vehicles  | \$ 74           | \$ 86           |
| Aircraft  | 2,289           | 2,289           |
| Buildings   | 207             | 197             |
| Accumulated amortization                                | (849)           | (781)           |
| Property, plant and equipment subject to capital leases | <u>\$ 1,721</u> | <u>\$ 1,791</u> |

These capital lease obligations have principal payments due at various dates from 2016 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 2015 and 2014 were 0.03% and 0.05%, 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 2015 and 2014 were 0.02% and 0.05%, 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 were due in December 2015, had a variable interest rate, and the average interest rates for 2015 and 2014 were 0.02% and 0.04%, respectively. As of December 2015, these \$100 million bonds were repaid in full.
- In September 2015, we entered into an agreement with the Delaware County, Pennsylvania Industrial Development Authority, associated with our Philadelphia, Pennsylvania airport facilities, for bonds issued with a principal balance of \$100 million. These bonds, which are due September 2045, bear interest at a variable rate. The average interest rate for 2015 was 0.00%.

*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.

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*Euro Senior Notes*

In November 2015, we issued euro denominated senior notes. The euro senior notes consist of two separate issuances, as follows:

- Notes with a principal amount of €500 million accrue interest at a variable rate equal to three-month EURIBOR plus 43 basis points and are due in July 2020. Interest is payable quarterly on the notes, commencing April 15, 2016. These notes are not callable.
- Notes with a principal amount of €700 million accrue interest at a 1.625% fixed rate and are due in November 2025. Interest is payable annually on the notes, commencing November 15, 2016. These notes are callable at our option at a redemption price equal to the greater of 100% of the principal amount, or the sum of the present values of the remaining scheduled payout of principal and interest thereon discounted to the date of redemption at a benchmark German government bond yield plus 20 basis points and accrued interest.

*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 \$669, \$676 and \$575 million for 2015, 2014 and 2013, 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<br>Leases | Operating<br>Leases | Debt<br>Principal | Purchase<br>Commitments |
|---|-------------------|---------------------|-------------------|-------------------------|
| 2016  | \$ 72             | \$ 324              | \$ 2,978          | \$ 257                  |
| 2017  | 73                | 263                 | 377               | 119                     |
| 2018  | 61                | 197                 | 751               | 53                      |
| 2019  | 59                | 125                 | 1,000             | 24                      |
| 2020  | 53                | 84                  | 547               | 15                      |
| After 2020  | 392               | 266                 | 8,039             | 11                      |
| <b>Total</b>  | <b>710</b>        | <b>\$ 1,259</b>     | <b>\$ 13,692</b>  | <b>\$ 479</b>           |
| Less: imputed interest                              | (235)             |                     |                   |                         |
| Present value of minimum capitalized lease payments | 475               |                     |                   |                         |
| Less: current portion                               | (46)              |                     |                   |                         |
| <b>Long-term capitalized lease obligations</b>      | <b>\$ 429</b>     |                     |                   |                         |

As of December 31, 2015, we had outstanding letters of credit totaling approximately \$1.808 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, 2015, we had \$623 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 26, 2016. 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, 2015.

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The second agreement provides revolving credit facilities of \$3.0 billion, and expires on March 27, 2020. 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, 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, 2015.

*Debt Covenants*

Our existing debt instruments and credit facilities subject us to certain financial covenants. As of December 31, 2015 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, 2015, 10% of net tangible assets is equivalent to \$2.265 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 \$15.524 and \$12.257 billion as of December 31, 2015 and 2014, 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 9. LEGAL PROCEEDINGS AND CONTINGENCIES**

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

Although there can be no assurance as to the ultimate outcome, we have generally denied, or believe we have a meritorious defense and will deny, liability in all litigation pending against us, including (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. Trial is scheduled for January 2017.

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.

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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.

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. The Court granted these motions on April 30, 2015, entered judgment in favor of UPS and FedEx, and dismissed the case. On May 21, 2015, plaintiff filed a notice of appeal to the Court of Appeals for the Ninth Circuit. The Antitrust Division of the U.S. Department of Justice (“DOJ”) has an open civil investigation of our policies and practices for dealing with third-party negotiators. We have cooperated 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) the DOJ investigation is pending; (2) the Court granted our motion for summary judgment; and (3) plaintiff has filed a notice of appeal. 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 entered an order granting final approval of the settlement in January 2016.

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.

We are cooperating with the Brazil investigation, and intend to continue to vigorously defend ourselves. There are multiple factors that prevent us from being able to estimate the amount of loss, if any, that may result from this matter including: (1) we are vigorously defending the 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 this matter, including the calculation of any potential fine; and (3) there is uncertainty about the time period that is the subject of the investigation. Accordingly, at this time, we are not able to estimate a possible loss or range of loss that may result from this matter or to determine whether such loss, if any, would have a material adverse effect on our financial condition, results of operations or liquidity.

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In January 2014, we received a Civil Investigative Demand from the DOJ seeking documents related to possible damages under 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. We also have been contacted by multiple states requesting this information. The Company cooperated with these inquiries and has reached agreements with the DOJ and a group of state and local governments to resolve all of their respective claims. The terms of the settlements did not have a material adverse effect on our financial condition, results of operations or liquidity.

In February 2015, the State and City of New York filed suit against UPS in the U.S. District Court for the Southern District of New York, arising from alleged shipments of cigarettes to New York State and City residents. The complaint 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 in 2005 concerning cigarette deliveries. Discovery is ongoing. 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.

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**NOTE 10. SHAREOWNERS' EQUITY**

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

We maintain two classes of common stock, which are distinguished from each other by their respective voting rights. Class A shares of UPS are entitled to 10 votes per share, whereas class B shares are entitled to one vote per share. Class A shares are primarily held by UPS employees and retirees, as well as trusts and descendants of the Company's founders, and these shares are fully convertible into class B shares at any time. Class B shares are publicly traded on the New York Stock Exchange ("NYSE") under the symbol "UPS". Class A and B shares both have a \$0.01 par value, and as of December 31, 2015, 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, 2015, 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):

|  | 2015       |                 | 2014       |                 | 2013       |                 |
|--|------------|-----------------|------------|-----------------|------------|-----------------|
|  | Shares     | Dollars         | Shares     | Dollars         | Shares     | Dollars         |
| <b>Class A Common Stock:</b>                     |            |                 |            |                 |            |                 |
| Balance at beginning of year                     | 201        | \$ 2            | 212        | \$ 2            | 225        | \$ 3            |
| Common stock purchases                           | (4)        | —               | (5)        | —               | (8)        | (1)             |
| Stock award plans                                | 5          | —               | 5          | —               | 9          | —               |
| Common stock issuances                           | 3          | —               | 3          | —               | 4          | —               |
| Conversions of class A to class B common stock   | (11)       | —               | (14)       | —               | (18)       | —               |
| Class A shares issued at end of year             | <u>194</u> | <u>\$ 2</u>     | <u>201</u> | <u>\$ 2</u>     | <u>212</u> | <u>\$ 2</u>     |
| <b>Class B Common Stock:</b>                     |            |                 |            |                 |            |                 |
| Balance at beginning of year                     | 705        | \$ 7            | 712        | \$ 7            | 729        | \$ 7            |
| Common stock purchases                           | (23)       | —               | (21)       | —               | (35)       | —               |
| Conversions of class A to class B common stock   | 11         | —               | 14         | —               | 18         | —               |
| Class B shares issued at end of year             | <u>693</u> | <u>\$ 7</u>     | <u>705</u> | <u>\$ 7</u>     | <u>712</u> | <u>\$ 7</u>     |
| <b>Additional Paid-In Capital:</b>               |            |                 |            |                 |            |                 |
| Balance at beginning of year                     |            | \$ —            |            | \$ —            |            | \$ —            |
| Stock award plans                                |            | 492             |            | 656             |            | 554             |
| Common stock purchases                           |            | (791)           |            | (918)           |            | (768)           |
| Common stock issuances                           |            | 316             |            | 309             |            | 307             |
| Option premiums received (paid)                  |            | (17)            |            | (47)            |            | (93)            |
| Balance at end of year                           |            | <u>\$ —</u>     |            | <u>\$ —</u>     |            | <u>\$ —</u>     |
| <b>Retained Earnings:</b>                        |            |                 |            |                 |            |                 |
| Balance at beginning of year                     |            | \$ 5,726        |            | \$ 6,925        |            | \$ 7,997        |
| Net income attributable to controlling interests |            | 4,844           |            | 3,032           |            | 4,372           |
| Dividends (\$2.92, \$2.68 and \$2.48 per share)  |            | (2,649)         |            | (2,487)         |            | (2,367)         |
| Common stock purchases                           |            | (1,920)         |            | (1,744)         |            | (3,077)         |
| Balance at end of year                           |            | <u>\$ 6,001</u> |            | <u>\$ 5,726</u> |            | <u>\$ 6,925</u> |

For the years ended December 31, 2015, 2014 and 2013, we repurchased a total of 26.8, 26.4 and 43.2 million shares of class A and class B common stock for \$2.711, \$2.662 and \$3.846 billion, respectively (\$2.702, \$2.695 and \$3.838 billion in repurchases for 2015, 2014 and 2013, 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, 2015, we had \$1.441 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 2015, we entered into an accelerated share repurchase program, which allowed us to repurchase \$400 million of shares (3.9 million shares). The program was completed in December 2015.

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 \$17 and \$47 million during 2015 and 2014, respectively, related to entering into and settling capped call options for the purchase of class B shares. As of December 31, 2015, we had outstanding options for the purchase of 2.0 million shares with an average strike price of \$88.75 per share that will settle in the first quarter of 2016.

*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):

|  | 2015       | 2014       | 2013     |
|--|------------|------------|----------|
| <b>Foreign Currency Translation Gain (Loss):</b>   |            |            |          |
| Balance at beginning of year   | \$ (457)   | \$ (126)   | \$ 134   |
| Reclassification to earnings (no tax impact in any period)   | —          | —          | (161)    |
| Translation adjustment (net of tax effect of \$0, \$105, and \$(5))  | (440)      | (331)      | (99)     |
| Balance at end of year   | (897)      | (457)      | (126)    |
| <b>Unrealized Gain (Loss) on Marketable Securities, Net of Tax:</b>  |            |            |          |
| Balance at beginning of year   | —          | (1)        | 6        |
| Current period changes in fair value (net of tax effect of \$(1), \$1, and \$(3))  | (1)        | 2          | (4)      |
| Reclassification to earnings (net of tax effect of \$0, \$0, and \$(2))  | —          | (1)        | (3)      |
| Balance at end of year   | (1)        | —          | (1)      |
| <b>Unrealized Gain (Loss) on Cash Flow Hedges, Net of Tax:</b>   |            |            |          |
| Balance at beginning of year   | 61         | (219)      | (286)    |
| Current period changes in fair value (net of tax effect of \$103, \$133, and \$1)  | 171        | 220        | 1        |
| Reclassification to earnings (net of tax effect of \$(99), \$35, and \$39)   | (165)      | 60         | 66       |
| Balance at end of year   | 67         | 61         | (219)    |
| <b>Unrecognized Pension and Postretirement Benefit Costs, Net of Tax:</b>  |            |            |          |
| Balance at beginning of year   | (3,198)    | (114)      | (3,208)  |
| Reclassification to earnings (net of tax effect of \$97, \$870, and \$67)  | 195        | 1,462      | 111      |
| Net actuarial gain (loss) and prior service cost resulting from remeasurements of plan assets and liabilities (net of tax effect of \$197, \$(2,714), and \$1,786) | 294        | (4,546)    | 2,983    |
| Balance at end of year   | (2,709)    | (3,198)    | (114)    |
| Accumulated other comprehensive income (loss) at end of year   | \$ (3,540) | \$ (3,594) | \$ (460) |



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Detail of the gains (losses) reclassified from AOCI to the statements of consolidated income for the years ended December 31, 2015, 2014 and 2013 is as follows (in millions):

|   | 2015 Amount<br>Reclassified from<br>AOCI | 2014 Amount<br>Reclassified from<br>AOCI | 2013 Amount<br>Reclassified from<br>AOCI | Affected Line Item in the Income<br>Statement |
|---|--|--|--|---|
| <b>Foreign Currency Translation Gain (Loss):</b>              |  |  |  |   |
| Liquidation of foreign subsidiary                             | \$ —                                     | \$ —                                     | \$ 161                                   | Other expenses                                |
| Impact on net income  | —  | —  | 161                                      | Net income                                    |
| <b>Unrealized Gain (Loss) on Marketable Securities:</b>       |  |  |  |   |
| Realized gain (loss) on sale of securities                    | —  | 1  | 5  | Investment income                             |
| Income tax (expense) benefit                                  | —  | —  | (2)                                      | Income tax expense                            |
| Impact on net income  | —  | 1  | 3  | Net income                                    |
| <b>Unrealized Gain (Loss) on Cash Flow Hedges:</b>            |  |  |  |   |
| Interest rate contracts                                       | (24)                                     | (23)                                     | (22)                                     | Interest expense                              |
| Foreign exchange contracts                                    | (25)                                     | (48)                                     | 18                                       | Interest expense                              |
| Foreign exchange contracts                                    | 313                                      | (24)                                     | (53)                                     | Revenue                                       |
| Commodity contracts   | —  | —  | (48)                                     | Fuel expense                                  |
| Income tax (expense) benefit                                  | (99)                                     | 35                                       | 39                                       | Income tax expense                            |
| Impact on net income  | 165                                      | (60)                                     | (66)                                     | Net income                                    |
| <b>Unrecognized Pension and Postretirement Benefit Costs:</b> |  |  |  |   |
| Prior service costs   | (174)                                    | (170)                                    | (178)                                    | Compensation and benefits                     |
| Curtailment and settlement loss                               | —  | (356)                                    | —  | Compensation and benefits                     |
| Remeasurement of benefit obligation                           | (118)                                    | (1,806)                                  | —  | Compensation and benefits                     |
| Income tax (expense) benefit                                  | 97                                       | 870                                      | 67                                       | Income tax expense                            |
| Impact on net income  | (195)                                    | (1,462)                                  | (111)                                    | Net income                                    |
| Total amount reclassified for the period                      | <u>\$ (30)</u>                           | <u>\$ (1,521)</u>                        | <u>\$ (13)</u>                           | Net income                                    |

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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, 2015, 2014 and 2013 is as follows (in millions):

|   | 2015       |                | 2014       |                | 2013       |                |
|---|------------|----------------|------------|----------------|------------|----------------|
|   | Shares     | Dollars        | Shares     | Dollars        | Shares     | Dollars        |
| <b>Deferred Compensation Obligations:</b> |            |                |            |                |            |                |
| Balance at beginning of year              |            | \$ 59          |            | \$ 69          |            | \$ 78          |
| Reinvested dividends                      |            | 3              |            | 2              |            | 4              |
| Options exercise deferrals                |            | —              |            | —              |            | —              |
| Benefit payments                          |            | (11)           |            | (12)           |            | (13)           |
| Balance at end of year                    |            | <u>\$ 51</u>   |            | <u>\$ 59</u>   |            | <u>\$ 69</u>   |
| <b>Treasury Stock:</b>                    |            |                |            |                |            |                |
| Balance at beginning of year              | (1)        | \$ (59)        | (1)        | \$ (69)        | (1)        | \$ (78)        |
| Reinvested dividends                      | —          | (3)            | —          | (2)            | —          | (4)            |
| Options exercise deferrals                | —          | —              | —          | —              | —          | —              |
| Benefit payments                          | —          | 11             | —          | 12             | —          | 13             |
| Balance at end of year                    | <u>(1)</u> | <u>\$ (51)</u> | <u>(1)</u> | <u>\$ (59)</u> | <u>(1)</u> | <u>\$ (69)</u> |

*Noncontrolling Interests*

We have noncontrolling interests in certain consolidated subsidiaries in our International Package and Supply Chain & Freight segments. Noncontrolling interests increased \$4 and \$3 million for the years ended December 31, 2015 and 2014, respectively. 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.

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**NOTE 11. 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 24 million shares available to be issued under the Incentive Compensation Plan as of December 31, 2015.

The primary compensation programs offered under the UPS Incentive Compensation Plan include the UPS Management Incentive Award program, the Coyote Restricted Stock Award, the UPS Long-Term Incentive Performance Award program and the UPS Stock Option program. These awards are discussed in the following paragraphs. The total expense recognized in our income statement under all stock compensation award programs was \$574, \$536 and \$513 million during 2015, 2014 and 2013, respectively. The associated income tax benefit recognized in our income statement was \$215, \$199 and \$190 million during 2015, 2014 and 2013, respectively. The cash income tax benefit received from the exercise of stock options and the lapsing of Restricted Units was \$252, \$261 and \$286 million during 2015, 2014 and 2013, respectively.

*Management Incentive Award Program ("MIP")*

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.

*Coyote Restricted Stock Award*

In August 2015, we acquired Coyote, a U.S.-based truckload freight brokerage company. During the third quarter of 2015, we granted Restricted Units to certain eligible Coyote management employees. The vesting of Restricted Units granted under this award will vary between one and four years with an equal number of restricted units vesting at each anniversary date. The entire grant is expensed on a straight-line basis over the requisite service period (except in the case of death, disability, or retirement, in which case immediate vesting occurs).

*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, 2015, we had the following Restricted Units outstanding, including reinvested dividends, that were granted under our Management Incentive Award program, Coyote Restricted Stock Award and Long-Term Incentive Performance Award program (granted prior to 2014):

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|                                   | Shares<br>(in thousands) | Weighted Average<br>Grant Date<br>Fair Value | Weighted Average Remaining<br>Contractual Term<br>(in years) | Aggregate Intrinsic<br>Value (in millions) |
|-----------------------------------|--------------------------|--|--|--|
| Nonvested at January 1, 2015      | 11,559                   | \$ 82.58                                     |  |  |
| Vested                            | (5,867)                  | 80.27  |  |  |
| Granted                           | 5,118                    | 100.63                                       |  |  |
| Reinvested Dividends              | 359                      | N/A  |  |  |
| Forfeited / Expired               | (157)                    | 90.23  |  |  |
| Nonvested at December 31, 2015    | <u>11,012</u>            | \$ 90.71                                     | 1.37   | \$ 1,060                                   |
| Restricted Units Expected to Vest | <u>10,783</u>            | \$ 90.77                                     | 1.36   | \$ 1,038                                   |

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 2015, 2014 and 2013 was \$100.63, \$92.35 and \$80.18, respectively. The total fair value of Restricted Units vested was \$564, \$579 and \$510 million in 2015, 2014 and 2013, respectively. As of December 31, 2015, there was \$488 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 and one month.

*Long-Term Incentive Performance Award granted after 2013*

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 65.86% and 109.84% of the target grant in 2015 and 2014, respectively, and is recognized as compensation expense (less estimated forfeitures) ratably over the vesting period.

As of December 31, 2015, we had the following Restricted Units outstanding, including reinvested dividends, that were granted under our Long-Term Incentive Performance Award program (granted after 2013):

|                                    | Shares<br>(in thousands) | Weighted<br>Average<br>Grant Date<br>Fair Value | Weighted Average Remaining<br>Contractual Term<br>(in years) | Aggregate Intrinsic<br>Value (in millions) |
|------------------------------------|--------------------------|---|--|--|
| Nonvested at January 1, 2015       | 815                      | \$ 96.98  |  |  |
| Vested                             | (57)                     | 96.90   |  |  |
| Granted                            | 912                      | 96.64   |  |  |
| Reinvested Dividends               | 43                       | N/A   |  |  |
| Forfeited / Expired                | (98)                     | 96.81   |  |  |
| Nonvested at December 31, 2015     | <u>1,615</u>             | \$ 96.80  | 1.62   | \$ 155                                     |
| Performance Units Expected to Vest | <u>1,547</u>             | \$ 96.80  | 1.62   | \$ 149                                     |

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 2015 and 2014 was \$96.64 and \$96.98, respectively. The total fair value of Restricted Units vested was \$5 and \$2 million in 2015 and 2014, respectively. As of December 31, 2015, there was \$74 million of total unrecognized compensation cost related to nonvested Restricted Units. That cost is expected to be recognized over a weighted average period of one year and eight months.

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

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

|                                     | Shares<br>(in thousands) | Weighted Average<br>Exercise<br>Price | Weighted Average Remaining<br>Contractual Term<br>(in years) | Aggregate Intrinsic<br>Value (in millions) |
|-------------------------------------|--------------------------|---------------------------------------|--|--|
| Outstanding at January 1, 2015      | 3,691                    | \$ 75.07                              |  |  |
| Exercised                           | (1,060)                  | 73.25                                 |  |  |
| Granted                             | 160                      | 101.93                                |  |  |
| Forfeited / Expired                 | (20)                     | 72.47                                 |  |  |
| Outstanding at December 31, 2015    | <u>2,771</u>             | \$ 77.33                              | 2.94   | \$ 53                                      |
| Options Vested and Expected to Vest | <u>2,771</u>             | \$ 77.33                              | 2.94   | \$ 53                                      |
| Exercisable at December 31, 2015    | <u>2,451</u>             | \$ 75.31                              | 2.27   | \$ 51                                      |

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:

|  | 2015     | 2014     | 2013     |
|--|----------|----------|----------|
| Expected dividend yield                        | 2.63%    | 2.56%    | 2.75%    |
| Risk-free interest rate                        | 2.07%    | 2.40%    | 1.38%    |
| Expected life in years                         | 7.5      | 7.5      | 7.5      |
| Expected volatility                            | 20.61%   | 24.26%   | 24.85%   |
| Weighted average fair value of options granted | \$ 18.07 | \$ 20.48 | \$ 15.50 |

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 \$56, \$85 and \$292 million during 2015, 2014 and 2013, respectively, from option holders resulting from the exercise of stock options. The total intrinsic value of options exercised during 2015, 2014 and 2013 was \$31, \$47 and \$92 million, respectively. As of December 31, 2015, 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 3 months.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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The following table summarizes information about stock options outstanding and exercisable at December 31, 2015:

| Exercise Price Range | Options Outstanding      |                            |                              | Options Exercisable      |                              |  |
|----------------------|--------------------------|----------------------------|------------------------------|--------------------------|------------------------------|--|
|                      | Shares<br>(in thousands) | Average Life<br>(in years) | Average<br>Exercise<br>Price | Shares<br>(in thousands) | Average<br>Exercise<br>Price |  |
| \$55.01 - \$70.00    | 218                      | 3.94                       | \$ 62.48                     | 218                      | \$ 62.48                     |  |
| \$70.01 - \$80.00    | 1,320                    | 2.53                       | 72.14                        | 1,266                    | 71.96                        |  |
| \$80.01 - \$90.00    | 947                      | 1.52                       | 81.23                        | 884                      | 81.11                        |  |
| \$90.01 - \$105.00   | 286                      | 8.74                       | 99.75                        | 83                       | 98.36                        |  |
|                      | <u>2,771</u>             | 2.94                       | \$ 77.33                     | <u>2,451</u>             | \$ 75.31                     |  |

*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, 0.9 and 1.1 million shares at average prices of \$95.41, \$95.67 and \$79.74 per share during 2015, 2014 and 2013, respectively. This plan is not considered to be compensatory, and therefore no compensation cost is measured for the employees' purchase rights.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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**NOTE 12. SEGMENT AND GEOGRAPHIC INFORMATION**

We report our operations in three segments: U.S. Domestic Package operations, International Package operations and Supply Chain & Freight operations. Package operations represent our most significant business and are broken down into regional operations around the world. Regional operations managers are responsible for both domestic and export 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, logistics, Coyote, UPS Freight and other aggregated business units. Our forwarding, logistics, and Coyote units provide services in more than 195 countries and territories worldwide, and include international air and ocean freight forwarding, customs brokerage, truckload freight 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 and UPS Capital.

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

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

|   | 2015             | 2014             | 2013             |
|---|------------------|------------------|------------------|
| <b>Revenue:</b>                               |                  |                  |                  |
| U.S. Domestic Package                         | \$ 36,747        | \$ 35,851        | \$ 34,074        |
| International Package                         | 12,149           | 12,988           | 12,429           |
| Supply Chain & Freight                        | 9,467            | 9,393            | 8,935            |
| Consolidated                                  | <u>\$ 58,363</u> | <u>\$ 58,232</u> | <u>\$ 55,438</u> |
| <b>Operating Profit:</b>                      |                  |                  |                  |
| U.S. Domestic Package                         | \$ 4,767         | \$ 2,859         | \$ 4,603         |
| International Package                         | 2,137            | 1,677            | 1,757            |
| Supply Chain & Freight                        | 764              | 432              | 674              |
| Consolidated                                  | <u>\$ 7,668</u>  | <u>\$ 4,968</u>  | <u>\$ 7,034</u>  |
| <b>Assets:</b>                                |                  |                  |                  |
| U.S. Domestic Package                         | \$ 21,701        | \$ 20,708        | \$ 19,052        |
| International Package                         | 7,858            | 7,850            | 8,460            |
| Supply Chain & Freight                        | 7,728            | 6,004            | 6,564            |
| Unallocated                                   | 1,024            | 878              | 1,477            |
| Consolidated                                  | <u>\$ 38,311</u> | <u>\$ 35,440</u> | <u>\$ 35,553</u> |
| <b>Depreciation and Amortization Expense:</b> |                  |                  |                  |
| U.S. Domestic Package                         | \$ 1,408         | \$ 1,276         | \$ 1,229         |
| International Package                         | 475              | 478              | 473              |
| Supply Chain & Freight                        | 201              | 169              | 165              |
| Consolidated                                  | <u>\$ 2,084</u>  | <u>\$ 1,923</u>  | <u>\$ 1,867</u>  |

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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Revenue by product type for the years ended December 31 is as follows (in millions):

|                                    | 2015      | 2014      | 2013      |
|------------------------------------|-----------|-----------|-----------|
| <b>U.S. Domestic Package:</b>      |           |           |           |
| Next Day Air                       | \$ 6,570  | \$ 6,581  | \$ 6,443  |
| Deferred                           | 3,903     | 3,672     | 3,437     |
| Ground                             | 26,274    | 25,598    | 24,194    |
| Total U.S. Domestic Package        | 36,747    | 35,851    | 34,074    |
| <b>International Package:</b>      |           |           |           |
| Domestic                           | 2,425     | 2,784     | 2,667     |
| Export                             | 9,092     | 9,586     | 9,166     |
| Cargo                              | 632       | 618       | 596       |
| Total International Package        | 12,149    | 12,988    | 12,429    |
| <b>Supply Chain &amp; Freight:</b> |           |           |           |
| Forwarding and Logistics           | 5,900     | 5,758     | 5,492     |
| Freight                            | 2,881     | 3,048     | 2,882     |
| Other                              | 686       | 587       | 561       |
| Total Supply Chain & Freight       | 9,467     | 9,393     | 8,935     |
| Consolidated                       | \$ 58,363 | \$ 58,232 | \$ 55,438 |

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

|                       | 2015      | 2014      | 2013      |
|-----------------------|-----------|-----------|-----------|
| <b>United States:</b> |           |           |           |
| Revenue               | \$ 45,309 | \$ 43,840 | \$ 41,772 |
| Long-lived assets     | \$ 18,196 | \$ 15,902 | \$ 15,651 |
| <b>International:</b> |           |           |           |
| Revenue               | \$ 13,054 | \$ 14,392 | \$ 13,666 |
| Long-lived assets     | \$ 5,828  | \$ 6,105  | \$ 6,297  |
| <b>Consolidated:</b>  |           |           |           |
| Revenue               | \$ 58,363 | \$ 58,232 | \$ 55,438 |
| Long-lived assets     | \$ 24,024 | \$ 22,007 | \$ 21,948 |

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, 2015, 2014 or 2013.



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**NOTE 13. INCOME TAXES**

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

|                          | 2015     | 2014     | 2013     |
|--------------------------|----------|----------|----------|
| <b>Current:</b>          |          |          |          |
| U.S. Federal             | \$ 1,634 | \$ 932   | \$ 2,181 |
| U.S. State and Local     | 88       | 103      | 205      |
| Non-U.S.                 | 236      | 185      | 162      |
| Total Current            | 1,958    | 1,220    | 2,548    |
| <b>Deferred:</b>         |          |          |          |
| U.S. Federal             | 469      | 427      | (242)    |
| U.S. State and Local     | 65       | (11)     | (22)     |
| Non-U.S.                 | 6        | (31)     | 18       |
| Total Deferred           | 540      | 385      | (246)    |
| Total Income Tax Expense | \$ 2,498 | \$ 1,605 | \$ 2,302 |

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

|                                   | 2015     | 2014     | 2013     |
|-----------------------------------|----------|----------|----------|
| United States                     | \$ 6,348 | \$ 3,819 | \$ 6,040 |
| Non-U.S.                          | 994      | 818      | 634      |
| Total Income Before Income Taxes: | \$ 7,342 | \$ 4,637 | \$ 6,674 |

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:

|  | 2015   | 2014   | 2013   |
|--|--------|--------|--------|
| Statutory U.S. federal income tax rate                     | 35.0 % | 35.0 % | 35.0 % |
| U.S. state and local income taxes (net of federal benefit) | 1.7    | 1.2    | 2.1    |
| Non-U.S. tax rate differential                             | (1.2)  | (2.4)  | (1.3)  |
| Nondeductible/nontaxable items                             | 0.2    | 1.3    | (0.2)  |
| U.S. federal tax credits                                   | (1.3)  | (1.5)  | (1.2)  |
| Other  | (0.4)  | 1.0    | 0.1    |
| Effective income tax rate                                  | 34.0 % | 34.6 % | 34.5 % |

Our effective tax rate is affected by recurring factors, such as statutory tax rates in the jurisdictions we operate in and the relative amounts of taxable income we earn in those jurisdictions. It is also affected by discrete items that may occur in any given year, but are not consistent from year to year.

Our effective tax rate decreased to 34.0% in 2015, compared with 34.6% in 2014, primarily due to the effects of the following discrete tax items and recurring factors:

*2015 Discrete Items*

During the third quarter of 2015 and after the filing of our annual federal tax returns, we reconciled our deferred tax balances and identified adjustments to be made with respect to prior years' deferred tax balances. The adjustments resulted in a reduction of income tax expense of \$66 million.

In connection with our acquisition of Coyote Logistics (see note 7), we distributed \$500 million of cash held by a Canadian subsidiary to its U.S. parent during the fourth quarter of 2015. As a result of the distribution, we recorded additional net income tax expense of \$28 million.

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In the fourth quarter of 2015, we recognized an income tax benefit of \$39 million related to pre-tax mark-to-market losses of \$118 million on our pension and postretirement defined benefit plans. This income tax benefit was generated at a lower average statutory tax rate than our U.S. federal statutory tax rate because it was due, in part, to non-U.S. benefit plans.

Other favorable rate impacting items in 2015 include: resolution of several U.S. state and local tax matters; the extension of favorable U.S. federal tax provisions associated with the Protecting Americans from Tax Hikes Act of 2015 related to research and development tax credits and work opportunity tax credits; and the execution of two bilateral advance pricing agreements. These agreements established intercompany transfer pricing arrangements between the U.S. and certain non-U.S. jurisdictions related to our small package operations for tax years 2010 through 2019.

*2014 Discrete Items*

In 2014, we recorded a \$415 million tax benefit related to a pre-tax charge of \$1.102 billion for certain health and welfare plan changes (see note 5). This income tax benefit was generated at a higher average statutory tax rate than our U.S. federal statutory tax rate because it included the effect of U.S. state and local taxes.

In the fourth quarter of 2014, we recognized an income tax benefit of \$392 million related to pre-tax mark-to-market losses of \$1.062 billion on our pension and postretirement defined benefit plans. This income tax benefit was generated at a higher average statutory tax rate than the U.S. federal statutory tax rate because it included the effect of U.S. state and local taxes.

*Other Items*

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 \$25, \$21 and \$20 million for 2015, 2014, and 2013, respectively.

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

|   | 2015       | 2014       |
|---|------------|------------|
| Fixed assets and capitalized software                         | \$ (4,776) | \$ (4,816) |
| Other   | (699)      | (424)      |
| Deferred tax liabilities                                      | (5,475)    | (5,240)    |
| Pension and postretirement benefits                           | 3,915      | 4,722      |
| Loss and credit carryforwards                                 | 261        | 250        |
| Insurance reserves  | 730        | 745        |
| Stock compensation  | 256        | 242        |
| Other   | 650        | 630        |
| Deferred tax assets   | 5,812      | 6,589      |
| Deferred tax assets valuation allowance                       | (197)      | (208)      |
| Deferred tax asset (net of valuation allowance)               | 5,615      | 6,381      |
| Net deferred tax asset  | \$ 140     | \$ 1,141   |
| <b>Amounts recognized in the consolidated balance sheets:</b> |            |            |
| Non-current deferred tax assets                               | \$ 255     | \$ 1,219   |
| Non-current deferred tax liabilities                          | (115)      | (78)       |
| Net deferred tax asset  | \$ 140     | \$ 1,141   |

The valuation allowance changed by \$(11), \$(43) and \$31 million during the years ended December 31, 2015, 2014 and 2013, respectively.

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

|   | 2015   | 2014   |
|---|--------|--------|
| U.S. state and local operating loss carryforwards | \$ 894 | \$ 815 |
| U.S. state and local credit carryforwards         | \$ 53  | \$ 52  |

The U.S. state and local operating loss carryforwards expire at varying dates through 2035. The U.S. state and local credits can be carried forward for periods ranging from three years to indefinitely. We also have non-U.S. loss carryforwards of approximately \$83 million as of December 31, 2015, 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 \$4.954 billion at December 31, 2015. 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, 2013                       | \$ 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         |
| Additions for tax positions of the current year  | 24     | —        | —         |
| Additions for tax positions of prior years       | 45     | 21       | 3         |
| Reductions for tax positions of prior years for: |        |          |           |
| Changes based on facts and circumstances         | (85)   | (8)      | —         |
| Settlements during the period                    | (6)    | (2)      | —         |
| Lapses of applicable statute of limitations      | (2)    | —        | —         |
| Balance at December 31, 2015                     | \$ 148 | \$ 53    | \$ 6      |

The total amount of gross unrecognized tax benefits as of December 31, 2015, 2014 and 2013 that, if recognized, would affect the effective tax rate was \$147, \$166 and \$185 million, respectively. We also had gross recognized tax benefits of \$73, \$54 and \$281 million recorded as of December 31, 2015, 2014 and 2013, 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, 2015 and 2014, and a net receivable recorded with respect to prior years' income tax matters as of December 31, 2013. We have also recognized a receivable for interest of \$3, \$4 and \$25 million for the recognized tax benefits associated with outstanding refund claims as of December 31, 2015, 2014 and 2013, respectively. Our continuing policy 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.

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 14. EARNINGS PER SHARE**

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

|   | 2015           | 2014           | 2013           |
|---|----------------|----------------|----------------|
| <b>Numerator:</b>                             |                |                |                |
| Net income attributable to common shareowners | \$ 4,844       | \$ 3,032       | \$ 4,372       |
| <b>Denominator:</b>                           |                |                |                |
| Weighted average shares                       | 896            | 913            | 937            |
| Deferred compensation obligations             | 1              | 1              | 1              |
| Vested portion of restricted shares           | 4              | 2              | 2              |
| Denominator for basic earnings per share      | 901            | 916            | 940            |
| <b>Effect of Dilutive Securities:</b>         |                |                |                |
| Restricted performance units                  | 4              | 7              | 7              |
| Stock options                                 | 1              | 1              | 1              |
| Denominator for diluted earnings per share    | 906            | 924            | 948            |
| <b>Basic Earnings Per Share</b>               | <u>\$ 5.38</u> | <u>\$ 3.31</u> | <u>\$ 4.65</u> |
| <b>Diluted Earnings Per Share</b>             | <u>\$ 5.35</u> | <u>\$ 3.28</u> | <u>\$ 4.61</u> |

Diluted earnings per share for the years ended December 31, 2015, 2014, and 2013 exclude the effect of 0.2, 0.1 and 0.1 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

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**NOTE 15. DERIVATIVE INSTRUMENTS AND RISK MANAGEMENT**

*Risk Management Policies*

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

*Credit Risk Management*

The forward contracts, swaps and options discussed below contain an element of risk that the counterparties may be unable to meet the terms of the agreements. However, we minimize such risk exposures for these instruments by limiting the counterparties to banks and financial institutions that meet established credit guidelines and by 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, 2015 and 2014, we held cash collateral of \$717 and \$548 million, respectively, under these agreements; this collateral is included in "cash and cash equivalents" on the consolidated balance sheets and its use by UPS is not restricted.

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, 2015 and 2014, we were required to post \$0 and \$1 million, respectively, in collateral with our counterparties. At December 31, 2015, 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, a company must designate the derivative, based upon the exposure being hedged, as a cash flow hedge, a fair value hedge or a hedge of a net investment in a foreign operation.

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

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

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

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*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 foreign currency option and forward 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 hedge our net investment in certain foreign operations with foreign currency denominated debt instruments. The use of foreign denominated debt as the hedging instrument allows the debt to be remeasured to cumulative translation adjustment within AOCI to offset the translation risk from those investments. Any ineffective portion of net investment hedging is recognized as a component of interest expense. Balances in the cumulative translation adjustment accounts remain until the sale or complete liquidation of the foreign entity.

*Interest Rate Risk Management*

Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments 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 date and maturity date 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 the majority of our interest rate swaps that convert fixed rate interest payments into floating rate interest payments as hedges of the fair value of the associated debt instruments. Therefore, the gains and losses resulting from fair value adjustments to the interest rate swaps and fair value adjustments to the associated debt instruments are recorded to interest expense in the period in which the gains and losses occur. We have designated and account for interest rate swaps that convert floating rate interest payments into fixed rate interest payments as cash flow hedges of the forecasted payment obligations. The gains and losses resulting from fair value adjustments to the interest rate 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.

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*Outstanding Positions*

The notional amounts of our outstanding derivative positions were as follows as of December 31, 2015 and 2014 (in millions):

|  |     | 2015   | 2014  |
|--|-----|--------|-------|
| <b>Currency Hedges:</b>                |     |        |       |
| Euro                                   | EUR | 3,750  | 2,833 |
| British Pound Sterling                 | GBP | 1,140  | 1,149 |
| Canadian Dollar                        | CAD | 177    | 293   |
| Indian Rupee                           | INR | —      | 85    |
| Malaysian Ringgit                      | MYR | —      | 150   |
| Mexican Peso                           | MXN | 3,863  | 152   |
| Japanese Yen                           | JPY | 20,000 | —     |
| <b>Interest Rate Hedges:</b>           |     |        |       |
| Fixed to Floating Interest Rate Swaps  | USD | 5,799  | 5,799 |
| Floating to Fixed Interest Rate Swaps  | USD | 778    | 779   |
| Interest Rate Basis Swaps              | USD | —      | 1,500 |
| <b>Investment Market Price Hedges:</b> |     |        |       |
| Marketable Securities                  | EUR | 496    | —     |

As of December 31, 2015, we had no outstanding commodity hedge positions. The maximum term over which we are hedging exposures to the variability of cash flow is 17 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, 2015 and 2014 (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 |               |
|--|--------------------------|--|---------------|---|---------------|
|  |                          | 2015   | 2014          | 2015  | 2014          |
| <b>Derivatives designated as hedges:</b>     |                          |  |               |   |               |
| Foreign exchange contracts                   | Other current assets     | \$ 408   | \$ 204        | \$ 408  | \$ 204        |
| Foreign exchange contracts                   | Other non-current assets | 92   | 229           | 92  | 229           |
| Interest rate contracts                      | Other non-current assets | 204  | 227           | 185   | 194           |
| <b>Derivatives not designated as hedges:</b> |                          |  |               |   |               |
| Foreign exchange contracts                   | Other current assets     | 2  | 2             | —   | 2             |
| Investment market price contracts            | Other current assets     | 5  | —             | —   | —             |
| Interest rate contracts                      | Other non-current assets | 57   | 59            | 53  | 57            |
| Total Asset Derivatives                      |                          | <u>\$ 768</u>  | <u>\$ 721</u> | <u>\$ 738</u>                                   | <u>\$ 686</u> |



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| Liability Derivatives                        | Balance Sheet Location        | Gross Amounts Presented in Consolidated Balance Sheets |              | Net Amounts if Right of Offset had been Applied |              |
|--|-------------------------------|--|--------------|---|--------------|
|  |                               | 2015   | 2014         | 2015  | 2014         |
| <b>Derivatives Designated As Hedges:</b>     |                               |  |              |   |              |
| Foreign exchange contracts                   | Other non-current liabilities | —  | 34           | —   | 34           |
| Interest rate contracts                      | Other non-current liabilities | 19   | 35           | —   | 2            |
| <b>Derivatives Not Designated As Hedges:</b> |                               |  |              |   |              |
| Foreign exchange contracts                   | Other current liabilities     | 12   | —            | 10  | —            |
| Interest rate contracts                      | Other current liabilities     | —  | 1            | —   | 1            |
| Investment market price contracts            | Other current liabilities     | 9  | —            | 4   | —            |
| Interest rate contracts                      | Other non-current liabilities | 13   | 7            | 9   | 5            |
| Total Liability Derivatives                  |                               | <u>\$ 53</u>   | <u>\$ 77</u> | <u>\$ 23</u>                                    | <u>\$ 42</u> |

*Income Statement and AOCI Recognition*

The following table indicates the amount of gains and losses that have been recognized in AOCI within "unrealized gain (loss) on cash flow hedges" for the years ended December 31, 2015 and 2014 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) |               |
|---|--|---------------|
|   | 2015   | 2014          |
| Interest rate contracts                                   | \$ (1)   | \$ (5)        |
| Foreign exchange contracts                                | 275  | 358           |
| Total   | <u>\$ 274</u>  | <u>\$ 353</u> |

As of December 31, 2015, \$366 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, 2016. 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, 2015, 2014 and 2013.

The following table indicates the amount of gains and losses that have been recognized in AOCI within "foreign currency translation gain (loss)" for the years ended December 31, 2015 and 2014 for those instruments designated as net investment hedges (in millions):

| Non-derivative Instruments in Net Investment Hedging Relationships | Amount of Gain (Loss) Recognized in AOCI on Debt (Effective Portion) |             |
|--|--|-------------|
|  | 2015   | 2014        |
| Foreign denominated debt   | \$ (33)  | \$ —        |
| Total  | <u>\$ (33)</u>   | <u>\$ —</u> |

The amount of ineffectiveness recognized in income on non-derivative instruments designated in net investment hedging relationships was immaterial for the years ended December 31, 2015, 2014 and 2013.

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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, 2015 and 2014 (in millions):

| Derivative Instruments<br>in Fair Value Hedging<br>Relationships | Location of<br>Gain (Loss)<br>Recognized in<br>Income | Amount of Gain (Loss)<br>Recognized in Income |       | Hedged Items in<br>Fair Value Hedging<br>Relationships | Location of<br>Gain (Loss)<br>Recognized in<br>Income | Amount of Gain (Loss)<br>Recognized in Income |         |
|--|---|---|-------|--|---|---|---------|
|  |   | 2015  | 2014  |  |   | 2015  | 2014    |
| Interest rate contracts  | Interest Expense                                      | \$ (7)  | \$ 90 | Fixed-Rate Debt<br>and Capital Leases                  | Interest Expense                                      | \$ 7  | \$ (90) |

Additionally, we maintain some interest rate swaps, foreign currency forwards, investment market price forwards and commodity contracts that are not designated as hedges. These interest rate swap contracts are intended to provide an economic hedge of portions of our outstanding debt. 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 investment market price forward contracts are intended to provide an economic offset to fair value fluctuations of certain investments in marketable securities. 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 impact of changes in market valuation.

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 forwards, interest rate swaps, and commodity contracts not designated as hedges for the years ended December 31, 2015 and 2014 (in millions):

| Derivative Instruments Not Designated in<br>Hedging Relationships | Location of Gain<br>(Loss) Recognized<br>in Income | Amount of Gain (Loss) Recognized in Income |         |
|---|--|--|---------|
|   |  | 2015                                       | 2014    |
| Commodity contracts   | Fuel Expense                                       | \$ (2)                                     | \$ (15) |
| Foreign exchange contracts  | Other Operating Expenses                           | 22   | 27      |
| Foreign exchange contracts  | Investment Income                                  | 43   | 7       |
| Investment market price contracts                                 | Investment Income                                  | (5)  | —       |
| Foreign exchange contracts  | Interest Expense                                   | (14)                                       | —       |
| Interest rate contracts   | Interest Expense                                   | (7)  | (5)     |
| Total   |  | \$ 37                                      | \$ 14   |

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

*Fair Value Measurements*

Our foreign currency, interest rate and investment market price 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, 2015 and 2014 by hedge type are as follows (in millions):

|                                   | Quoted Prices in<br>Active Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total         |
|-----------------------------------|---|---|--|---------------|
| <b>2015</b>                       |   |   |  |               |
| <b>Assets:</b>                    |   |   |  |               |
| Foreign Exchange Contracts        | \$ —  | \$ 502  | \$ —   | \$ 502        |
| Investment Market Price Contracts | —   | 5   | —  | 5             |
| Interest Rate Contracts           | —   | 261   | —  | 261           |
| Total                             | <u>\$ —</u>   | <u>\$ 768</u>   | <u>\$ —</u>  | <u>\$ 768</u> |
| <b>Liabilities:</b>               |   |   |  |               |
| Foreign Exchange Contracts        | \$ —  | \$ 12   | \$ —   | \$ 12         |
| Investment Market Price Contracts | —   | 9   | —  | 9             |
| Interest Rate Contracts           | —   | 32  | —  | 32            |
| Total                             | <u>\$ —</u>   | <u>\$ 53</u>  | <u>\$ —</u>  | <u>\$ 53</u>  |

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

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

**NOTE 16. 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 17. 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  |               |  |
|---------------------------------|-----------------|---------------|-----------------|---------------|-----------------|-----------------|-----------------|---------------|--|
|                                 | 2015            | 2014          | 2015            | 2014          | 2015            | 2014            | 2015            | 2014          |  |
| <b>Revenue:</b>                 |                 |               |                 |               |                 |                 |                 |               |  |
| U.S. Domestic Package           | \$ 8,814        | \$ 8,488      | \$ 8,808        | \$ 8,668      | \$ 8,860        | \$ 8,691        | \$ 10,265       | \$ 10,004     |  |
| International Package           | 2,970           | 3,127         | 3,045           | 3,252         | 2,959           | 3,183           | 3,175           | 3,426         |  |
| Supply Chain & Freight          | 2,193           | 2,164         | 2,242           | 2,348         | 2,418           | 2,416           | 2,614           | 2,465         |  |
| Total revenue                   | 13,977          | 13,779        | 14,095          | 14,268        | 14,237          | 14,290          | 16,054          | 15,895        |  |
| <b>Operating Profit (Loss):</b> |                 |               |                 |               |                 |                 |                 |               |  |
| U.S. Domestic Package           | 1,024           | 927           | 1,201           | 209           | 1,258           | 1,279           | 1,284           | 444           |  |
| International Package           | 498             | 438           | 552             | 444           | 507             | 460             | 580             | 335           |  |
| Supply Chain & Freight          | 151             | 148           | 207             | 94            | 219             | 215             | 187             | (25)          |  |
| Total operating profit          | 1,673           | 1,513         | 1,960           | 747           | 1,984           | 1,954           | 2,051           | 754           |  |
| <b>Net Income</b>               | <b>\$ 1,026</b> | <b>\$ 911</b> | <b>\$ 1,230</b> | <b>\$ 454</b> | <b>\$ 1,257</b> | <b>\$ 1,214</b> | <b>\$ 1,331</b> | <b>\$ 453</b> |  |
| <b>Net Income Per Share:</b>    |                 |               |                 |               |                 |                 |                 |               |  |
| Basic                           | \$ 1.13         | \$ 0.99       | \$ 1.37         | \$ 0.49       | \$ 1.40         | \$ 1.33         | \$ 1.49         | \$ 0.50       |  |
| Diluted                         | \$ 1.12         | \$ 0.98       | \$ 1.35         | \$ 0.49       | \$ 1.39         | \$ 1.32         | \$ 1.48         | \$ 0.49       |  |

Operating profit for the quarter ended December 31, 2015 was impacted by mark-to-market loss of \$118 million 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 \$62 million, International Package \$44 million and Supply Chain & Freight \$12 million). This loss reduced fourth quarter net income by \$79 million, and basic and diluted earnings per share by \$0.09.

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.

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

- 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.

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.

**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. The scope of their assessment of the effectiveness of our disclosure controls and procedures does not include any disclosure controls or procedures of Coyote, which was acquired in August 2015, that are also part of Coyote's internal controls over financial reporting. The acquired business constituted approximately three percent of total assets, one percent of revenues, and less than one percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2015. Further discussion of this acquisition can be found in note 7 "Business Acquisitions" to our consolidated financial statements. This exclusion is in accordance with the SEC's general guidance that a recently acquired business may be omitted from the scope of the assessment in the year of acquisition. 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, 2015 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"). Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. The scope of management's assessment of the effectiveness of internal control over financial reporting includes all of the Company's businesses except for the Coyote Logistics Midco, Inc. business acquired in August 2015. The acquired business constituted approximately three percent of total assets, one percent of revenues, and less than one percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2015. Further discussion of this acquisition can be found in note 7 "Business Acquisitions" to our consolidated financial statements. 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, 2015. 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, 2015 and the related statements of consolidated income, consolidated comprehensive income and consolidated cash flows for the year ended December 31, 2015, has issued an attestation report on the Company's internal control over financial reporting, which is included herein.

/s/ United Parcel Service, Inc.  
February 24, 2016

## 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, 2015, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Coyote Logistics Midco, Inc., which was acquired on August 18, 2015 and whose financial statements constitute approximately three percent of total assets, one percent of revenues, and less than one percent of net income of the consolidated financial statement amounts as of and for the year ended December 31, 2015. Accordingly, our audit did not include the internal control over financial reporting at Coyote Logistics Midco, Inc. 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, 2015, 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, 2015 of the Company and our report dated February 24, 2016 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 24, 2016

**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<br>Chief Executive Officer   | 60         | Chief Executive Officer ( 2014 - present), Senior Vice President and Chief Operating Officer (2007 - 2014).  |
| James J. Barber, Jr.<br>Senior Vice President and President, UPS International                        | 55         | Senior Vice President and President, UPS International (2013 - present), President and Chief Operating Officer, UPS Europe, Middle East, and Africa (2010 - 2013).   |
| David A. Barnes<br>Senior Vice President, Chief Information and Global Business Services Officer      | 60         | Senior Vice President and Chief Information and Global Business Services Officer (2014 - present), Senior Vice President, Chief Information Officer (2005-2014).   |
| Teresa M. Finley<br>Senior Vice President, Global Marketing   | 55         | Senior Vice President of Global Marketing (2015 - Present), Corporate Controller and Treasurer (2010 - 2015), International CFO (2010).  |
| Alan Gershenhorn<br>Executive Vice President and Chief Commercial Officer                             | 57         | Executive Vice President and Chief Commercial Officer (2014 - present), Senior Vice President, Worldwide Sales, Marketing and Strategy (2011 - 2014).  |
| Myron Gray<br>Senior Vice President and President, United States Operations                           | 58         | Senior Vice President and President, United States Operations (2014 - present), Senior Vice President, United States Operations (2009 - 2014).   |
| Kate Gutmann<br>Senior Vice President, Worldwide Sales and Solutions                                  | 47         | Senior Vice President, Worldwide Sales and Solutions (2014 - present), President, Worldwide Sales (2011 - 2014).   |
| Teri P. McClure<br>Senior Vice President and Chief Legal, Communications, and Human Resources Officer | 52         | Senior Vice President and Chief Legal, Communications, and Human Resources Officer (2015 - 2016), Senior Vice President of Legal, Compliance and Public Affairs, General Counsel and Corporate Secretary (2006 - 2014).                                |
| Richard N. Peretz<br>Senior Vice President, Chief Financial Officer and Treasurer                     | 54         | Senior Vice President, Chief Financial Officer and Treasurer (2015 - present), Corporate Controller and Treasurer (2014-2015), Corporate Controller (2013 - 2015), Vice President of Corporate Finance and Accounting (2008 - 2013).                   |
| Mark Wallace<br>Senior Vice President, Global Engineering and Sustainability                          | 53         | Senior Vice President, Global Engineering and Sustainability (2015 - present), President, Global Logistics & Distribution (2013 - 2015), Corporate U.S. Engineering Coordinator (2012 - 2013), Corporate I.E. International Coordinator (2007 - 2012). |



Information about our directors is presented under the caption "Election of Directors" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 and is incorporated herein by reference.

Information about our Audit Committee is presented under the caption "Your Board of Directors - Committees of the Board of Directors" and "Audit Committee Matters" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 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 "Ownership of Our Securities - Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 and is incorporated herein by reference.

**Item 11. *Executive Compensation***

Information about executive compensation is presented under the captions "Your Board of Directors - Director Compensation," "Executive Compensation - Executive Summary," "Executive Compensation - Compensation Committee Report," "Executive Compensation - 2015 Compensation Discussion and Analysis" and "Executive Compensation - Summary Compensation Table for 2015" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 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 "Ownership of Our Securities - Securities Ownership of Certain Beneficial Owners and Management" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 and is incorporated herein by reference.

Information about our equity compensation plans is presented under the caption "Executive Compensation - Equity Compensation Plans" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 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 "Corporate Governance Matters - Conflicts of Interest and Related Person Transactions" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 and is incorporated herein by reference.

Information about director independence is presented under the caption "Corporate Governance Matters—Director Independence" in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 5, 2016 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 "Audit Committee Matters - Principal Accounting Firm Fees" in our definitive Proxy Statement for the Annual Meetings of Shareowners to be held on May 5, 2016 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).  |
| 4.10        | — 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).  |
| 4.17        | — Form of Note for Floating Rate Senior Notes due September 15, 2065 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on September 17, 2015).  |
| 4.18        | — Form of Note for Floating Rate Senior Notes due July 15, 2020 (incorporated by reference to Exhibit 4.1 and Exhibit 4.2 to Form 8-K filed on November 20, 2015).  |
| 4.19        | — Form of Note for 1.625% Senior Notes due November 15, 2025 (incorporated by reference to Exhibit 4.1 and Exhibit 4.2 to Form 8-K filed on November 20, 2015).   |

- 4.20 — Form of Note for Floating Rate Senior Notes due September 15, 2065 (incorporated by reference to Exhibit 4.1 to Form 8-K filed on December 15, 2015).
- 10.1 — UPS Retirement Plan, as Amended and Restated, effective as of January 1, 2014 (incorporated by reference to Exhibit 10.1 to the 2014 Annual Report on Form 10-K).
- 10.2 — UPS Savings Plan, as Amended and Restated, effective as of January 1, 2014 (incorporated by reference to Exhibit 10.2 to the 2014 Annual Report on Form 10-K).
- (1) Amendment Number One to the UPS Savings Plan Amendment and Restated (incorporated by reference to Exhibit 10.2 to the registration statement on Form S-8 (No. 333-208151), filed on November 20, 2015).
- 10.3 — Credit Agreement (364-Day Facility) dated March 27, 2015 among United Parcel Service, Inc., the initial lenders named therein, J.P. Morgan Securities LLC, Citigroup Global Markets, Inc., Barclays Bank PLC, BNP Paribas Securities Corp. and SG Americas Securities, LLC as joint lead arrangers and joint bookrunners, Barclays Bank PLC, BNP Paribas and Société Générale 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 ended March 31, 2015).
- 10.4 — Credit Agreement (5 Year Facility) dated March 27, 2015 among United Parcel Service, Inc., the initial lenders named therein, J.P. Morgan Securities LLC, Citigroup Global Markets, Inc., Barclays Bank PLC, BNP Paribas Securities Corp. and SG Americas Securities, LLC as joint lead arrangers and joint bookrunners, Barclays Bank PLC, BNP Paribas and Société Générale 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 ended March 31, 2015).
- 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 — 2015 Omnibus Incentive Compensation Plan (incorporated by reference to Annex A to the Definitive Proxy Statement filed on March 24, 2015).
- 11 — Statement regarding Computation of per Share Earnings (incorporated by reference to note 14 to Part I, Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K).

- †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, 2015, 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.

**United Parcel Service, Inc. and Subsidiaries**  
**Ratio of Earnings to Fixed Charges**  
**(dollar amounts in millions)**

|  | <b>Year Ended December 31,</b> |                 |                 |                 |                 |
|--|--------------------------------|-----------------|-----------------|-----------------|-----------------|
|  | <b>2015</b>                    | <b>2014</b>     | <b>2013</b>     | <b>2012</b>     | <b>2011</b>     |
| Earnings:                              |                                |                 |                 |                 |                 |
| Income before income taxes             | \$ 7,342                       | \$ 4,637        | \$ 6,674        | \$ 974          | \$ 5,776        |
| Add: Interest expense                  | 341                            | 353             | 380             | 393             | 348             |
| Add: Interest factor in rental expense | 223                            | 225             | 192             | 206             | 210             |
| Total earnings                         | <u>\$ 7,906</u>                | <u>\$ 5,215</u> | <u>\$ 7,246</u> | <u>\$ 1,573</u> | <u>\$ 6,334</u> |
| Fixed charges:                         |                                |                 |                 |                 |                 |
| Interest expense                       | \$ 341                         | \$ 353          | \$ 380          | \$ 393          | \$ 348          |
| Interest capitalized                   | 13                             | 11              | 14              | 18              | 17              |
| Interest factor in rental expense      | 223                            | 225             | 192             | 206             | 210             |
| Total fixed charges                    | <u>\$ 577</u>                  | <u>\$ 589</u>   | <u>\$ 586</u>   | <u>\$ 617</u>   | <u>\$ 575</u>   |
| Ratio of earnings to fixed charges     | <u>13.7</u>                    | <u>8.9</u>      | <u>12.4</u>     | <u>2.5</u>      | <u>11.0</u>     |

**SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.**  
As of December 31, 2015

| <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                            |
| Coyote Logistics Midco, Inc.                     | Delaware                            |
| United Parcel Service Canada Ltd.                | Canada                              |
| United Parcel Service Co.                        | Delaware                            |
| United Parcel Service France SNC                 | France                              |
| United Parcel Service General Services Co.       | Delaware                            |
| United Parcel Service of America, Inc.           | Delaware                            |
| United Parcel Service, Inc.                      | Ohio                                |
| United Parcel Service, Inc.                      | Delaware                            |
| UPICO Corporation                                | Delaware                            |
| UPINSCO, Inc.                                    | Virgin Islands                      |
| UPS Asia Group Pte. Ltd.                         | Singapore                           |
| United Parcel Service Deutschland Inc and Co OHG | Germany                             |
| UPS Expedited Mail Services, Inc.                | Delaware                            |
| UPS Global Treasury Plc                          | United Kingdom                      |
| UPS Ground Freight, Inc.                         | Virginia                            |
| UPS Limited                                      | United Kingdom                      |
| UPS Parcel Delivery Service Limited              | Hong Kong                           |
| UPS SCS GmbH & Co OHG                            | Germany                             |
| UPS SCS Holding Limited                          | Hong Kong                           |
| 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. 333-208151, 333-206239, 333-181436, 333-61112 and 333-70708 on Form S-8 of our reports dated February 24, 2016, 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, 2015.

/s/ Deloitte & Touche LLP

Atlanta, Georgia  
February 24, 2016

## 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(s) 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 the 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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  
Chairman and Chief Executive Officer

February 24, 2016

## CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, Richard N. Peretz, 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(s) 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 the 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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(s) 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/ RICHARD N. PERETZ

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Richard N. Peretz  
Senior Vice President, Chief Financial Officer and Treasurer

February 24, 2016

**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, 2015, 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  
Chairman and Chief Executive Officer

February 24, 2016

**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, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Senior Vice President, Chief Financial Officer and Treasurer 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/ RICHARD N. PERETZ

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Richard N. Peretz  
Senior Vice President, Chief Financial Officer and Treasurer

February 24, 2016