

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

Form 10-K

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

- (Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006
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:

Table with 2 columns: Title of Each Class, Name of Each Exchange on Which Registered. Row 1: Class B common stock, par value \$.01 per share, 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 [X] No [ ]

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

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

Indicate by check mark 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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ]

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

The aggregate market value of the class B common stock held by non-affiliates of the registrant was approximately \$54,302,158,108 as of June 30, 2006. 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 26, 2007, there were 391,502,236 outstanding shares of class A common stock and 674,954,331 outstanding shares of class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its annual meeting of shareowners scheduled for May 10, 2007 are incorporated by reference into Part III of this report.

**PART I**

**Item 1. Business**

**Overview**

United Parcel Service, Inc. (“UPS”) is the world’s largest package delivery company and a global leader in supply chain management. We were founded in 1907 as a private messenger and delivery service in Seattle, Washington. Today, we deliver packages each business day for 1.8 million shipping customers to 6.1 million consignees in over 200 countries and territories. In 2006, we delivered an average of 15.6 million pieces per day worldwide. In addition, our supply chain solutions capabilities are available to clients in over 175 countries and territories.

Total revenue in 2006 was over \$47.5 billion. Although our primary business is the time-definite delivery of packages and documents, we have extended our capabilities in recent years to encompass the broader spectrum of services known as supply chain solutions, such as freight forwarding, customs brokerage, fulfillment, returns, financial transactions and even repairs. We are also a leading provider of less-than-truckload (“LTL”) transportation services. We have established a global transportation infrastructure and a comprehensive portfolio of services and integrated solutions. We support these services with advanced operational and customer-facing technology. Our supply chain solutions provide visibility into moving inventory across the global supply chain.

We believe the future is bright for this industry, for the following reasons:

- Globalization of trade is a worldwide economic reality, which we believe will continue to expand as trade barriers are eliminated and large consumer markets, in particular China, India and Europe, experience economic expansion.
- We believe package shipments will continue to increase as a result of just-in-time inventory management, the increased use of the Internet for ordering goods and direct-to-consumer business models. UPS is enhancing its ability to be a “warehouse in motion” for inventory on the move. The company is also an industry leader in the delivery of goods purchased over the Internet.
- We believe the drive toward outsourcing supply chain management will continue, as customers increasingly view effective management of their supply chains as a strategic advantage rather than a cost center.

Our vision for the future is to synchronize the world of commerce, managing the complexities of our customers’ supply chain needs. Our goal is to develop business solutions that create value and competitive advantages for any size customers through product differentiation, better customer service and improved cash flow.

**Competitive Strengths**

Our competitive strengths include:

*Global Reach and Scale.* We believe that our integrated global ground and air network is the most extensive in the industry. It is the only network that handles all levels of service (express, ground, domestic, international, commercial, residential) through one integrated pickup and delivery service system.

We operate a ground fleet of approximately 101,000 vehicles, ranging from custom-built package cars to large tractors and trailers, and utilize approximately 600 airplanes. In the contiguous U.S., we reach all business and residential addresses. We are the eighth largest airline in the world. Our primary air hub is in Louisville, KY. Regional air hubs are located in Columbia, SC; Dallas, TX; Hartford, CT; Ontario, CA; Philadelphia, PA; and Rockford, IL. Our largest international air hub is in Cologne, Germany, with other regional hubs in Hong Kong, Singapore, Taiwan, Miami, FL and Pampanga, Philippines.

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From the beginnings in Germany 30 years ago, our European network has grown significantly and now fully supports air and ground shipments throughout the continent. We believe we have the most comprehensive integrated delivery and information services portfolio of any carrier in Europe. In other regions of the world, we rely on both our own and local service providers' capabilities to meet our service commitments.

Through more than two dozen alliances with Asian delivery companies that supplement company-owned operations, we currently serve more than 40 Asia Pacific countries and territories. Two of the fastest growing economies in the world, China and India, are among our most promising opportunities.

Our Canadian operations include both intra-Canada and import/export capabilities. We deliver to all addresses throughout Canada. We are also the largest air cargo carrier and a leading logistics provider in Latin America and the Caribbean.

*Technology.* We are a global leader in developing technology that helps our customers optimize their business processes to lower costs, improve service and increase efficiency. We have a strong global capability as a mover of electronic information. We currently collect electronic data on 97% of the packages that move through our U.S. system each day – more than any of our competitors.

In 2003, we announced plans to re-engineer our package pickup and delivery processes, which we believe will result in gains in efficiency, reliability and flexibility. Once the new technology is deployed in our package sorting facilities, we anticipate achieving savings through productivity improvements as well as in reduced fuel usage. By the end of 2006 we had deployed this technology for use by almost 74% of our drivers.

Technology powers virtually every service we offer and every operation we perform. Our technology initiatives are driven by our customers' needs. We offer a variety of on-line service options that enable our customers to integrate UPS functionality into their own businesses not only to conveniently send, manage and track their shipments, but 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 web sites.

*Broad, Flexible Range of Services and Integrated Solutions.* Our portfolio of services enables customers to choose the delivery option that is most appropriate for their requirements. Substantially all of our U.S. small package delivery services are guaranteed.

Our express air services are integrated with our vast ground delivery system – one system handling all products. This integrated air and ground network enhances efficiency, improves productivity and asset utilization, and provides us with the flexibility to transport packages using the most reliable and cost-effective transportation mode or combination of modes. 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 – by far the best in our industry.

Increasingly, our customers benefit from business solutions that integrate many UPS services in addition to package delivery. We offer over 60 supply chain services – such as freight forwarding, customs brokerage, order fulfillment, and returns management – that help improve efficiency of the supply chain management process.

*Customer Relationships.* We focus on building and maintaining long-term customer relationships. Thousands of customers access us daily through UPS On-Call Pickup<sup>SM</sup> for air and ground delivery services. In addition, there are approximately 150,000 domestic and international access points to UPS. These include: nearly 40,000 branded drop-boxes, more than 1,000 UPS Customer Centers, over 5,800 independently owned and operated The UPS Store<sup>®</sup> and Mail Boxes Etc.<sup>®</sup> locations worldwide (over 4,400 in the U.S.), more than 2,400 Alliance partner locations, in excess of 15,000 Authorized Shipping Outlets and commercial counters – along with more than 85,000 UPS drivers who can accept packages given to them.

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We place significant value on the quality of our customer relationships, and we conduct comprehensive research to monitor customer perceptions. Since 1993, we have conducted telephone interviews with shipping decision-makers virtually every business day to determine their satisfaction with small package carriers and perception of performance on 19 service factors. Results from this survey for 2006 continue to show high levels of customer satisfaction.

*Brand Equity.* We have built a leading and trusted brand in our industry – a brand that stands for quality service, reliability and product innovation. The distinctive appearance of our vehicles and the friendliness and helpfulness of our drivers are major contributors to our brand equity.

*Distinctive Culture.* We believe that the dedication of our employees results in large part from our distinctive “employee-owner” concept. Our employee stock ownership tradition dates from 1927, when our founders, who believed that employee stock ownership was a vital foundation for successful business, first offered stock to employees. To facilitate employee stock ownership, we maintain several stock-based compensation programs.

Our long-standing policy of “promotion from within” complements our tradition of employee ownership, and this policy makes it generally unnecessary for us to hire managers and executive officers from outside UPS. The vast majority of our management team began their careers as full-time or part-time hourly UPS employees, and has spent their entire careers with us. Our chief executive officer and many of our executive officers have more than 30 years of service with UPS and have accumulated a meaningful ownership stake in our company. Therefore, our executive officers have a strong incentive to effectively manage UPS, which benefits all our shareowners.

*Financial Strength.* Our balance sheet reflects financial strength that few companies can match. As of December 31, 2006, we had a balance of cash, cash equivalents, marketable securities and short-term investments of approximately \$1.983 billion and shareowners’ equity of \$15.482 billion. Long-term debt was \$3.133 billion. We carry long-term debt ratings of AAA/Aaa from Standard & Poor’s and Moody’s, respectively, reflecting our low use of debt and strong capacity to service our obligations. Our financial strength gives us the resources to achieve global scale and to make investments in technology, transportation equipment and buildings as well as to pursue strategic opportunities which will facilitate our growth.

### **Growth Strategy**

Our growth strategy takes advantage of our competitive strengths while maintaining our focus on meeting or exceeding our customers’ requirements. The principal components of our growth strategy are:

*Build on Our Leadership Position in Our U.S. Business.* We believe that our tradition of reliable package delivery service, our experienced and dedicated employees and our unmatched integrated air and ground network provide us with the advantages of reputation, service quality and economies of scale that differentiate us from our competitors. Our strategy is to increase domestic revenue through cross-selling our existing and new services to our large and diverse customer base, to limit the rate of expense growth and to employ technology-driven efficiencies to increase operating profit.

*Continued International Expansion.* We have built a strong international presence through significant investments over several decades. The international package delivery market continues to grow at a faster rate than that of the U.S. We will use our worldwide infrastructure and broad product portfolio to grow high-margin premium services and to implement cost, process and technology improvements in our international operations. Both Europe and Asia offer significant opportunities for growth.

Europe is our largest region outside the United States – accounting for approximately half of our international revenue.

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In early 2006, to accommodate growth opportunities across the whole of Europe, we completed the expansion of our automated package sorting hub at the Cologne / Bonn airport in Germany. The expansion doubled the hub's original sorting capacity to 110,000 packages per hour, largely through the deployment of new automation technology.

Growth in Asia will be driven by global demand, leading to improved demographic and economic trends throughout the region, with specific emphasis on China and India. We continue to invest in infrastructure and technology in Asia. In 2002, we opened a new intra-Asia hub at Clark Air Force Base in Pampanga, Philippines to enable future growth in the region. This hub allows us to compete more effectively in the Asian express market and improve our service between Europe and Asia.

In 2003, we received from the U.S. Department of Transportation the authority to expand service to and through Hong Kong, including permanent authority to fly from Hong Kong to other cities, specifically to our Cologne hub in Europe. We continue our development efforts in the fast-growing China market.

In 2004, the U.S. Department of Transportation authorized us to significantly expand our air operations in China with the award of 12 new frequencies, which tripled our access to China.

In 2005, we announced expansion plans to triple the intra-Asia hub's sorting capacity from 2,500 packages to 7,500 packages per hour. In the same year, UPS became the first U.S. airline to launch non-stop service between the U.S. and Guangzhou, which lies strategically in one of China's fastest growing manufacturing regions. We also launched express delivery service for customers within China.

In 2006, we added another three daily flights between Shanghai, China and the U.S., and another new flight between Qingdao, China and Incheon, Korea. We also began direct air service between Shanghai and Cologne with five flights per week. Those flights are supporting international express volume into and out of China, which has seen dramatic growth in recent quarters. To continue our expansion, we plan to develop a new air hub in Shanghai. We also added two weekly flights between the U.S. and Australia.

Our Americas international gateway in Miami, Florida is the focal point for trade between Latin America and the U.S. This gateway complements our operations in Florida and Latin America, and represents our commitment to the Americas market. We believe that there is long-term potential for us to expand our service offerings in Latin America and in 2006, UPS de Mexico enhanced territory coverage by expanding to nine additional cities across Mexico. UPS de Mexico is now able to offer improved service and broader coverage to our customers in Mexico.

*Provide Comprehensive Supply Chain Solutions.* In today's global economy, entire industries have outsourced all or part of their supply chains to streamline and gain efficiencies, to strengthen their balance sheets, to support new business models and to improve service. Companies' global supply chains are growing increasingly complex. This is creating further demand for a global service offering that incorporates transportation, distribution and international trade services with financial and information services. We believe that we are well positioned to capitalize on this growth for the following reasons:

- We manage supply chains for large and small companies in over 175 countries and territories, with about 35 million square feet of distribution space and over 900 facilities worldwide.
- We focus on supply chain redesign, freight forwarding, international trade services and management-based solutions for our customers rather than solely on more traditional asset-based logistics such as warehouses and vehicle fleets.

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- We provide a broad range of transportation solutions to customers worldwide, including air, ocean and ground freight, as well as customs brokerage and trade and materials management. We provide standardized service, information technology systems and specialized distribution facilities and services adapted to the unique supply chains of specific industries such as healthcare, technology, and consumer/retail.
- We offer a portfolio of financial services that provides customers with short-term and long-term financing, secured lending, working capital, government guaranteed lending, letters of credit, global trade financing, credit cards and equipment leasing.

*Leverage Our Leading-Edge Technology.* Our goal is to provide our customers with easy-to-use, flexible technology offerings that streamline their shipment processing and integrate critical transportation information into their business processes, helping them create supply chain efficiencies, improve their cash flows and better serve their customers. Our leading-edge technology has enabled our e-commerce partners to utilize UPS capabilities within their products by integrating UPS shipping and visibility functionality.

*Pursue Strategic Acquisitions and Global Alliances.* Strategic acquisitions and global alliances play a significant role in spurring growth. We look for opportunities that:

- complement our global package business;
- build our global brand;
- enhance our technological capabilities or service offerings;
- lower our costs; or
- expand our geographic presence.

### **Products and Services**

*Domestic Package Products and Services.* Throughout our history, we have been engaged in the delivery of packages traveling by ground transportation. We expanded this service gradually, and today our standard ground service is available to every address in the 48 contiguous United States. With the addition of Hawaii and Alaska, we were the first to reach every address in all 50 states. We handle packages that weigh up to 150 pounds and are up to 165 inches in combined length and girth. We offer same-day pickup of air and ground packages. In 2006, we made the most significant upgrade ever to our U.S. ground package delivery network, accelerating the transit times for more than a half-million packages nationwide by one day or more.

In addition to our standard ground delivery product, UPS Hundredweight Service® offers guaranteed, time-definite service to customers sending multiple package shipments having a combined weight of 200 pounds or more, or air shipments totaling 100 pounds or more, addressed to one recipient.

We provide domestic air delivery throughout the United States. UPS Next Day Air® offers guaranteed next business day delivery by 10:30 a.m. to 75% of the United States population and delivery by noon to areas covering an additional 15% of the population. We offer Saturday delivery for UPS Next Day Air shipments for an additional fee. In 2006, we accelerated the guaranteed commit time for our UPS 2<sup>nd</sup> Day Air A.M.® delivery service to 10:30 a.m. from 12 p.m. and added a Saturday delivery option for UPS 2<sup>nd</sup> Day Air®.

Additional products and services, such as UPS CampusShip, Consignee Billing, Quantum View Manage, Delivery Confirmation and UPS Return\$<sup>SM</sup>, are available to customers who require customized package distribution solutions.

*International Package Products and Services.* We deliver international shipments to more than 200 countries and territories worldwide, and we provide delivery within one to two business days to the world's

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major business centers. We offer a complete portfolio of import, export and domestic services. This portfolio includes guaranteed early morning, morning and noon delivery to major cities around the world, as well as scheduled day-definite air and ground services. We offer worldwide customs clearance service for any mode of transportation.

In January 2007, we had the largest service expansion of our international shipping portfolio in more than a decade. UPS began offering customers three, rather than two, daily time-definite delivery options to and from the world's most active trading markets, giving customers the flexibility they need to manage their businesses. The changes expand the number of early morning, morning and afternoon commit times UPS offers for urgent deliveries to and from cities throughout the world.

We classify our service as export (packages that cross national borders) and domestic (packages that stay within a single country's boundaries). We have a portfolio of domestic services in 23 major countries throughout the world.

The Trade Direct portfolio of ocean and air services integrates our small package and supply chain solutions capabilities to provide additional value to our international customers. In essence, the Trade Direct service consolidates individually labeled packages or pallets into one movement across borders. When the goods arrive in the destination country, packages are deconsolidated and entered into the UPS system for delivery, often eliminating the receiving, sorting and handling necessary in distribution centers. This service significantly cuts the supply chain cycle from point of origin to consignee. It also provides our customers with faster time to market, reduced costs, increased visibility and better management of their global supply chain. In 2006, we completed the rollout of Trade Direct air and ocean services to facilitate export shipments from the U.S. and Canada to Europe, and introduced Trade Direct service inbound to Japan. Previously in 2005, we had launched Trade Direct services outbound from Europe to the U.S., as well as inbound from Asia to Europe.

Mexico and Canada are also important to our international business. We developed the UPS Trade Direct<sup>SM</sup> Cross Border service to manage package movements between the U.S. and these countries. This service combines our small package, freight and brokerage capabilities to create an integrated, streamlined and economical door-to-door solution for customers with complex cross-border distribution needs. We are also the only carrier to offer guaranteed 8:00 a.m. next day delivery to most major metropolitan cities in Canada.

Starting on January 2, 2007, UPS introduced UPS Standard service support for the shipping of dangerous goods / hazardous materials, becoming the only carrier to offer a small package ground service for dangerous goods between Canada and the United States.

*Supply Chain & Freight Services.* UPS Supply Chain Solutions, which comprises our freight forwarding and logistics businesses, meets customers' supply chain needs by selecting the most appropriate solution from a portfolio of over 60 services. Among these are:

- *Transportation and Freight Forwarding:* air, ocean, rail and ground freight for all size shipments utilizing UPS and other carriers, and multimodal transportation network management.
- *Logistics and Distribution:* supply chain management, distribution center design, planning and management, order fulfillment, inventory management, receiving and shipping, service parts logistics, reverse logistics and cross docking.
- *International Trade Management:* freight forwarding, full-service customs brokerage and international trade consulting.
- *Consulting Services:* strategic supply chain design and re-engineering.

Asset-based lending, global trade finance and export-import lending services are available through UPS Capita<sup>SM</sup>.

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In 2005, we expanded our LTL transportation services with the acquisition of Overnite Corp., which offers a full range of regional, inter-regional and long-haul LTL services in all 50 states, Canada, Puerto Rico, Guam, the Virgin Islands and Mexico. Overnite Corp. was rebranded as UPS Freight in 2006. UPS Freight provides LTL services through a network of owned and leased service centers and carrier partnerships. UPS Freight transports a variety of products, including fabricated metal products, health care products, chemicals, textiles, machinery, furniture and fixtures, electronics, paper products and general commodities, including consumer goods, packaged food stuffs, industrial equipment and auto parts. UPS Freight also provides our customers with truckload and dedicated truckload transportation solutions.

*Visibility and Technology Solutions.* Customers trust UPS with their goods and reputation. Our technology strategy is to provide our customers with the convenience of tools right on their computer or at one of our shipping outlets. We provide a variety of UPS technology solutions that support automated shipping and tracking:

- *UPS WorldShip®* helps shippers streamline their shipping activities by processing shipments, printing address labels, tracking packages and providing management reports, all from a desktop computer. Our technology allows us to connect to a company's order management and fulfillment software, eliminating the need for the company to perform many time consuming tasks, such as re-keying orders.
- *UPS CampusShip®* is a Web-based, UPS-hosted distributed shipping solution that allows employees of companies with multiple facilities and decentralized workforces to easily process and ship packages with UPS from their computer desktops. At the same time, the system gives transportation and mailroom decision-makers centralized control over shipping procedures and costs.
- *UPS Internet Shipping* is a quick and convenient way to ship packages using the web without installing additional software.
- *UPS OnLine® Host Access* provides electronic connectivity between UPS and the shipper's host computer system, linking UPS shipping information directly to all parts of the customer's organization.
- *UPS Ready®* encompasses electronic solutions provided by third-party vendors that benefit customers who want to automate their small package shipping and tracking processes.
- *Quantum View®* is a suite of three visibility services (Quantum View Manage, Quantum View Data and Quantum View Notify) that give businesses and their customers detailed, timely information about the status of their UPS outbound and inbound shipments. The services can be used separately or together, depending on customer needs.
- *Flex® Global View* provides UPS Supply Chain Solutions customers supply chain visibility of multimodal (air, ocean, ground and rail—freight or UPS small package) transportation, purchase order, customer and inventory management data via the Internet. Like Quantum View, Flex Global View provides customers proactive notification of events they deem important in their daily business operations—from notification of an item held in Customs to confirmation that a critical shipment is en route to their location.
- *UPS TradeAbility<sup>SM</sup>* is a software tool that helps customers navigate the complex process of international shipping by identifying harmonized tariff codes, generating landed cost estimates, and locating up-to-date compliance information.
- *UPS TradeSense<sup>TM</sup>* is a suite of trade management software (including TradeAbility) that provides a neutral technology platform that customers can leverage to manage global trade data and requirements. The software helps automate import-export transactions, enabling businesses to streamline their operations, boost efficiencies, enhance compliance, and send and receive trade information in a collaborative environment.
- *UPS Billing Analysis Tool* is downloadable technology that allows customers to manipulate UPS Billing Data to analyze and allocate shipping costs. The tool is available in 36 countries and 21 languages, as

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well as the converted currencies of the customer's choosing. It provides a variety of expense summaries and subtotals, which can be arranged by the customer's cost codes, by UPS service, shipping method, and more.

UPS.com processes over 15 million package tracking transactions daily. A growing number of those tracking requests now come from customers in those countries that have wireless access to UPS tracking information. Package tracking, pickup requests, rate quotes, account opening, wireless registration, drop-off locator, transit times and supply ordering services are all available at the customer's desktop or laptop. The site also displays full domestic and international service information and allows customers to process outbound shipments as well as return labels for their customers.

Businesses in a number of countries also can download UPS OnLine Tools<sup>SM</sup>, to their own websites for direct use by their customers. This allows users to access the information they need without leaving our customers' websites.

### **Sales and Marketing**

The UPS worldwide sales organization includes both our traditional U.S. domestic and international small package delivery business and our Supply Chain & Freight business. This field sales organization consists primarily of locally-based account executives assigned to our individual operating units. For our largest multi-shipping site customers, we manage sales through an organization of regionally-based account managers, reporting directly to our corporate office.

Our sales force also includes specialized groups that work together with our general sales organization to support the sale of customer technology solutions, international package delivery, LTL and freight transportation, and warehousing and distribution services.

Our worldwide marketing organization also supports both our traditional U.S. domestic and international small package delivery business and our Supply Chain & Freight business. Our corporate marketing function is engaged in market and customer research, brand management, rate-making and revenue management policy, new product development, product portfolio management, marketing alliances and e-commerce, including the non-technical aspects of our web presence. Advertising, public relations, and most formal marketing communications are centrally developed and controlled.

In addition to our corporate marketing group, field-based marketing personnel are assigned to our individual operating units, and are primarily engaged in business planning, bid preparation and revenue management activities. These local marketing teams support the execution of corporate initiatives while also managing limited promotional and public relations activities pertinent to their local markets.

### **Employees**

As of December 31, 2006, we had approximately 428,000 employees.

We have received numerous awards and wide recognition as an employer-of-choice, including the following:

- In February 2006, we were rated "America's Most Admired" company in our industry in a FORTUNE magazine survey, as well as ranked in the Top 20 among all American companies. We achieved Top 10 rankings for "people management" and "management quality".
- In 2006, we were ranked in the Top 10 companies in *The Wall Street Journal* / *Harris Interactive* Corporate Reputation Study.
- In February 2007, we were ranked eighth overall among 25 companies recognized in *Business Week*'s first-ever ranking of "Customer Service Champs".

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- In 2006, UPS was recognized by *Hispanic Business Magazine* as one of the top companies in the world for Hispanics in the workforce. Overall, 50 companies were chosen based on their efforts to hire and retain those of Hispanic descent in their organization.
- In August 2005, *Black Professionals Magazine* named UPS to its “Top 25 Companies for African Americans” list, based on workforce diversity initiatives.
- In September 2006, UPS ranked ninth in a survey of 152 brands ranked for corporate citizenship. Public relations firm GolinHarris interviewed 5,000 Americans, who rated 152 brands for the GolinHarris Corporate Citizenship Index (CCI).
- UPS was recognized in 2006 as one of America’s most supportive companies of both black and Hispanic engineering students by two independent surveys. The fourth annual survey by U.S. Black Engineer and Information Technology magazine named UPS as a private sector organization supportive of historically black engineering schools in the United States. A second survey, conducted by Hispanic Engineer and Information Technology magazine, ranked UPS in the top five private sector organizations supportive of engineering schools at America’s Hispanic Serving Institutions.

As of December 31, 2006, we had approximately 246,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters (“Teamsters”). These agreements run through July 31, 2008. In the third quarter of 2006, we began formal negotiations with the Teamsters on a new agreement. We have approximately 2,800 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association (“IPA”). On June 30, 2006, UPS and the IPA announced a tentative agreement on a new labor contract, which was ratified in the third quarter. This new contract becomes amendable at the end of 2011. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable on November 1, 2006. We began formal negotiations with Teamsters Local 2727 on October 2, 2006. In addition, the majority of our ground 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. These agreements run through July 31, 2009.

We believe that our relations with our employees are good. Every year we 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.

### **Competition**

We are the largest package delivery company in the world, in terms of both revenue and volume. We offer a broad array of services in the package delivery industry and, therefore, compete with many different companies and services on a local, regional, national and international basis. Our competitors include the postal services of the United States and other nations, various motor carriers, express companies, freight forwarders, air couriers and others.

We believe one increasingly important element of competition is a carrier’s ability to integrate its distribution and information systems with its customers’ systems to provide transportation solutions at competitive prices. We rely on our vast infrastructure and service portfolio to attract and maintain customers. As we expand our supply chain solutions service offerings, we compete with a number of participants in the supply chain, financial services and information technology industries.

### **Government Regulation**

The U.S. Department of Homeland Security, through the Transportation Security Administration (“TSA”), the U.S. Department of Transportation (“DOT”) and the Federal Aviation Administration (“FAA”), regulates air transportation services.

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The TSA regulates various security aspects of air cargo transportation in a manner consistent with the TSA mission statement to “protect[s] the Nation’s transportation systems to ensure freedom of movement for people and commerce.”

The DOT’s authority primarily relates to economic aspects of air transportation, such as discriminatory pricing, non-competitive practices, interlocking relations and cooperative agreements. The DOT also regulates, subject to the authority of the President of the United States, international routes, fares, rates and practices, and is authorized to investigate and take action against discriminatory treatment of U.S. air carriers abroad. We are subject to U.S. customs laws and related DOT regulations regarding the import and export of shipments to and from the U.S. In addition, our customs brokerage entities are subject to those same laws and regulations as they relate to the filing of documents on behalf of client importers and exporters.

The FAA’s authority primarily relates to safety aspects of air transportation, including aircraft standards and maintenance, personnel and ground facilities. In 1988, the FAA granted us an operating certificate, which remains in effect so long as we meet the operational requirements of federal aviation regulations.

FAA regulations mandate an aircraft corrosion control program, and aircraft inspection and repair at periodic intervals specified by approved programs and procedures, for all aircraft. Our total expenditures under these programs for 2006 were \$18 million. The future cost of repairs pursuant to these programs may fluctuate. All mandated repairs have been completed, or are scheduled to be completed, within the timeframes specified by the FAA.

Our ground transportation of packages in the U.S. is subject to the DOT’s jurisdiction with respect to the regulation of routes and to both the DOT’s and the states’ jurisdiction with respect to the regulation of safety, insurance and hazardous materials.

We are subject to similar regulation in many non-U.S. jurisdictions. In addition, we are subject to non-U.S. government regulation of aviation rights to and beyond non-U.S. jurisdictions, and non-U.S. customs regulation.

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 vested the power to recommend domestic postal rates in a regulatory body, the Postal Rate Commission. We participate in the proceedings before the Postal Rate Commission in an attempt to secure fair postal rates for competitive services.

We are subject to numerous other laws and regulations in connection with our non-package businesses, including customs regulations, Food and Drug Administration regulation of our transportation of pharmaceuticals and state and federal lending regulations.

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

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports available free of charge through the investor relations page of our website, located at [www.shareholder.com/ups](http://www.shareholder.com/ups), as soon as reasonably practicable after they are filed with or furnished to the SEC.

We have adopted a written Code of Business Conduct that applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers. It is available in the governance section of the investor relations page of our website, located at [www.shareholder.com/ups](http://www.shareholder.com/ups). 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.

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Our Corporate Governance Guidelines and the charters for our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are also available free of charge in the governance section of the investor relations page of our website.

See Footnote 12 to our consolidated financial statements for financial information regarding our reporting segments and geographic areas in which we operate.

### Executive Officers of the Registrant

<u>Name and Office</u>	<u>Age</u>	<u>Principal Occupation and Employment For the Last Five Years</u>
David P. Abney Senior Vice President, Chief Operating Officer, and President – UPS Airlines	51	Senior Vice President, Chief Operating Officer and President, UPS Airlines (2007 – present), Senior Vice President and President, UPS International (2003 – 2007), UPS/Fritz Companies Integration Manager (2001 – 2002).
David A. Barnes Senior Vice President and Chief Information Officer	51	Senior Vice President and Chief Information Officer (2005 – present), Corporate IS Portfolio Coordinator (2001 – 2004).
D. Scott Davis Vice Chairman and Chief Financial Officer	55	Vice Chairman (2007 – present), Senior Vice President (2001-2007), Chief Financial Officer and Treasurer (2001 – present), Director (2006 – present).
Michael L. Eskew Chairman and Chief Executive Officer	57	Chairman and Chief Executive Officer (2002 – present), Vice Chairman (2000 – 2001), Executive Vice President (1999 – 2001), Director (1998 – present).
Alan Gershenhorn Senior Vice President and President, UPS International	48	Senior Vice President and President, UPS International (2007 – present), President, UPS Supply Chain Solutions – Asia and Europe (2005 – 2007), President, UPS Supply Chain Solutions – Shared Services (2004 – 2005), President, United Parcel Service Canada, Ltd. (2001 – 2004).
Allen E. Hill Senior Vice President	51	Senior Vice President, Human Resources (2007 – present), Senior Vice President, Human Resources and Public Affairs (2006 – 2007), Senior Vice President, General Counsel and Corporate Secretary (2004 – 2006), Corporate Legal Department Manager (1995 – 2004).
Kurt P. Kuehn Senior Vice President	52	Senior Vice President, Worldwide Sales and Marketing (2004 – present), Vice President, Investor Relations (1999 – 2003).
Teri P. McClure Senior Vice President and Secretary	43	Senior Vice President, General Counsel and Corporate Secretary (2006 – present), Corporate Legal Department Manager (2005 – 2006), Compliance Department Manager (2004 – 2005), District Manager (2003 – 2005), and Vice President (1999 – 2003).

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<u>Name and Office</u>	<u>Age</u>	<u>Principal Occupation and Employment For the Last Five Years</u>
John J. McDevitt Senior Vice President	48	Senior Vice President, Global Transportation Services (2005 – present), Senior Vice President, Strategic Integration (2003 – 2005), Air Region Manager (2000 – 2002).
Christine M. Owens Senior Vice President	51	Senior Vice President, Corporate Communications and Brand Management (2005 – present), Corporate Transportation Group Manager (2004 – 2005), Region Manager (1997 – 2004).
Robert E. Stoffel Senior Vice President	51	Senior Vice President, Engineering, Strategy and Supply Chain Distribution (2007 – present), Senior Vice President of Supply Chain Group (2004 – 2007), President, UPS Supply Chain Solutions, Inc. (2002 – 2003), Vice President, UPS Logistics Group, Inc. (2000 – 2002).
James F. Winestock Senior Vice President	55	Senior Vice President, U.S. Operations (2004 – present), Region Manager (1998 – 2003).

### **Item 1A. Risk Factors**

Information about risk factors can be found in Item 7 of this report under the caption “Risk Factors”.

### **Item 1B. Unresolved Staff Comments**

Not applicable.

### **Item 2. Properties**

#### **Operating Facilities**

We own our headquarters, which are located in Atlanta, Georgia and consist of about 735,000 square feet of office space on an office campus, and our UPS Supply Chain Solutions group’s headquarters, which are located in Alpharetta, Georgia and consist of about 310,000 square feet of office space.

We also own our 27 principal U.S. package operating facilities, which have floor spaces that range from about 310,000 to 693,000 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 1,600 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 facilities 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 almost 600 facilities that support our international package operations and over 900 facilities that support our freight forwarding and logistics operations. Our freight forwarding and logistics operations maintain facilities with about 35 million square feet of floor space. We own and operate a logistics campus consisting of approximately 3.5 million square feet in Louisville, Kentucky.

UPS Freight operates over 200 service centers with a total of 5.5 million square feet of floor space. UPS Freight owns 141 of these service centers, while the remainder are occupied under operating lease agreements. The main offices of UPS Freight are located in Richmond, Virginia and consist of about 240,000 square feet of office space.

Our aircraft are operated in a hub and spokes pattern in the U.S. Our principal air hub in the U.S., known as Worldport, is located in Louisville, KY. The Worldport facility consists of over 3.5 million square feet and the site includes approximately 596 acres. We are able to sort over 300,000 packages per hour in the Worldport

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facility. We also have regional air hubs in Columbia, SC; Dallas, TX; Hartford, CT; Ontario, CA; Philadelphia, PA; and Rockford, IL. These hubs house facilities for the sorting, transfer and delivery of packages. Our European air hub is located in Cologne, Germany, and our Asia-Pacific air hub is located in Taipei, Taiwan. Our intra-Asia air hub is located at Clark Air Force Base in Pampanga, Philippines, 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, FL.

In 2006, we announced a major expansion to our Worldport facility that will increase the sorting capacity over the next five years by 60 percent to 487,000 packages per hour. The expansion involves the addition of three aircraft load / unload wings to the hub building, followed by the installation of high-speed conveyor and computer control systems. The overall size of the Worldport facility will increase by 1.1 million square feet to 5.1 million square feet, and the facility will be able to accommodate the Airbus A380-800 and Boeing 747-400 aircraft currently on order. The expansion will cost over \$1 billion and is expected to be completed by 2010.

In 2006, we closed the former Menlo Worldwide Forwarding air freight facility in Dayton, OH, and integrated the former Menlo Worldwide Forwarding air freight business into other UPS facilities, including a new facility in Louisville consisting of approximately 715,000 square feet and five new regional air freight facilities in Ontario, CA; Rockford, IL; Dallas, TX; Philadelphia, PA; and Columbia, SC that have a combined square footage of 269,000.

Our primary information technology operations are consolidated in a 435,000 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 us 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, 2006, including the Boeing 767-300 order discussed further below:

Description	Owned and Capital Leases	Short- term Leased or Chartered From Others	On Order	Under Option
McDonnell-Douglas DC-8-71	20	—	—	—
McDonnell-Douglas DC-8-73	26	—	—	—
Boeing 727-100	29	—	—	—
Boeing 727-200	2	—	—	—
Boeing 747-100	7	—	—	—
Boeing 747-200	4	—	—	—
Boeing 747-400F	—	—	8	—
Boeing 747-400BCF	—	—	2	—
Boeing 757-200	75	—	—	—
Boeing 767-300	32	—	—	—
Boeing 767-300ER	—	—	27	—
Boeing MD-11	34	—	4	—
Airbus A300-600	53	—	—	—
Airbus A380-800	—	—	10	10
Other	—	325	—	—
Total	282	325	51	10

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

All of the aircraft we own meet Stage III federal noise regulations and can operate at airports that have aircraft noise restrictions. We became the first major airline to successfully operate a 100% Stage III fleet more than three years in advance of the date required by federal regulations.

During 2006, we took delivery of 13 Boeing MD-11 aircraft and six Airbus A300-600 aircraft. We have firm commitments to purchase four Boeing MD-11 aircraft, and we expect to take delivery of these aircraft during 2007. In February 2007, we announced an order for 27 Boeing 767-300ER freighters to be delivered between 2009 and 2012 (this order is reflected in the table above). We also have firm commitments to purchase eight Boeing 747-400F aircraft scheduled for delivery during 2007 and 2008, and two Boeing 747-400BCF aircraft scheduled for delivery during 2008.

In addition, we currently have a firm commitment to purchase 10 Airbus A380-800 freighter aircraft and options to purchase 10 additional A380-800 aircraft. In February 2007, we announced that we had signed an agreement with Airbus to set out a timetable for deciding the status of this previous order. The agreement specifies changed delivery dates for the A380-800 and provides for possible termination of the original purchase agreement by either party later in 2007. The revised delivery schedule specifies the delivery dates for the 10 Airbus A380-800's on order as being between 2012 and 2013, whereas we were originally scheduled to take delivery of the Airbus A380-800 aircraft between 2009 and 2012. The signing of this agreement will have no material impact on our results of operations or financial condition.

### *Vehicles*

We operate a ground fleet of approximately 101,000 package cars, vans, tractors and motorcycles. Our ground support fleet consists of over 26,000 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 about 41,000 containers used to transport cargo in our aircraft.

### **Safety**

We promote safety throughout our operations. Our Automotive Fleet Safety Program is built with the following components:

- *Selection.* Five out of every six drivers come from our part-time ranks. Therefore, many of our new drivers are familiar with our philosophies, policies, practices and training programs.
- *Training.* Training is the cornerstone of our Fleet Safety Program. Our approach starts with training the trainer. All trainers are certified to ensure that they have the skills and motivation to effectively train novice drivers. A new driver's employment includes extensive classroom and on-line training as well as on-road training, followed by three safety training rides integrated into his or her training cycle.
- *Responsibility.* Our operations managers are responsible for their drivers' safety records. We investigate every accident. If we determine that an accident could have been prevented, we retrain the driver.
- *Preventive Maintenance.* An integral part of our Fleet Safety Program is a comprehensive Preventive Maintenance Program. Our fleet is tracked by computer to ensure that each vehicle is serviced before a breakdown or accident is likely to occur.
- *Honor Plan.* A well-defined safe driver honor plan recognizes and rewards our drivers when they achieve success. We have over 4,200 drivers who have driven for 25 years or more without an avoidable accident.

Our workplace safety program is built upon a comprehensive health and safety process. The foundation of this process is our employee-management health and safety committees. The workplace safety process focuses

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on employee conditioning and safety-related habits. Our employee co-chaired health and safety committees complete comprehensive facility audits and injury analyses, and recommend facility and work process changes.

### **Item 3.        *Legal 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. In one of these cases, Marlo v. UPS, which has been certified as a class action in a California federal court, plaintiffs allege that they improperly were denied overtime, and seek penalties for missed meal and rest periods, and interest and attorneys' fees. Plaintiffs purport to represent a class of 1,200 full-time supervisors. The court granted summary judgment in favor of UPS on all claims and plaintiffs have appealed. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In another case, Cornn v. UPS, which has been certified as a class action in a California federal court, plaintiffs allege that they were improperly denied wages and/or overtime and meal and rest periods. Plaintiffs purport to represent a class of approximately 23,600 drivers and seek back wages, penalties, interest and attorneys' fees. UPS has agreed in principle to settle this matter in full for a total payment of \$87 million. On December 6, 2006, the court granted tentative approval of the settlement.

We are named as a defendant in four putative class action lawsuits filed in federal courts, alleging a conspiracy relating to certain surcharges by a number of air cargo carriers. We are not named as a defendant in at least eighty-six related cases that make similar allegations. These cases have been consolidated in a Multi-District Litigation proceeding pending in the United States District Court for the Eastern District of New York. UPS was not included as a defendant in the amended consolidated complaint on which the Multi-District Litigation is proceeding. In addition, in July 2006, we were named as a defendant in a comparable lawsuit filed in the Ontario (Canada) Superior Court of Justice. We intend to vigorously defend ourselves in these cases.

We are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations, or liquidity.

### **Item 4.        *Submission of Matters to a Vote of Security Holders***

None

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 2006 and 2005. Our Class B common stock is listed on the New York Stock Exchange under the symbol "UPS."

	High	Low	Close	Dividends Declared
<b>2006:</b>				
First Quarter	\$80.16	\$72.74	\$79.38	\$ 0.38
Second Quarter	\$83.99	\$77.55	\$82.33	\$ 0.38
Third Quarter	\$83.00	\$65.50	\$71.94	\$ 0.38
Fourth Quarter	\$79.72	\$71.95	\$74.98	\$ 0.38
<b>2005:</b>				
First Quarter	\$85.84	\$71.59	\$72.74	\$ 0.33
Second Quarter	\$75.88	\$66.80	\$69.16	\$ 0.33
Third Quarter	\$74.21	\$66.75	\$69.13	\$ 0.33
Fourth Quarter	\$79.97	\$66.90	\$75.15	\$ 0.33

As of January 31, 2007, there were 174,096 and 17,237 record holders of Class A and Class B common stock, respectively.

The policy of our Board of Directors is to declare dividends each year out of current earnings. The declaration of future dividends is subject to the discretion of the Board of Directors in light of all relevant facts, including earnings, general business conditions and working capital requirements.

On February 8, 2007, our Board declared a dividend of \$0.42 per share, which is payable on March 6, 2007 to shareowners of record on February 20, 2007.

In February 2007, the Board of Directors approved an increase in our share repurchase authorization to \$2.0 billion. This amount replaced the remaining authority available under the previously authorized \$2.0 billion share repurchase program approved in July 2006. 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.

A summary of repurchases of our Class A and Class B common stock during the fourth quarter of 2006 is as follows (in millions, except per share amounts):

	Total Number of Shares Purchased(1)	Average Price Paid Per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased Under the Program
October 1 – October 31, 2006	2.1	\$ 74.77	2.0	\$ 1,250
November 1 – November 30, 2006	2.1	77.08	2.0	1,094
December 1 – December 31, 2006	2.1	75.95	2.1	936
Total October 1 – December 31, 2006	<u>6.3</u>	<u>\$ 75.94</u>	<u>6.1</u>	<u>\$ 936</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.

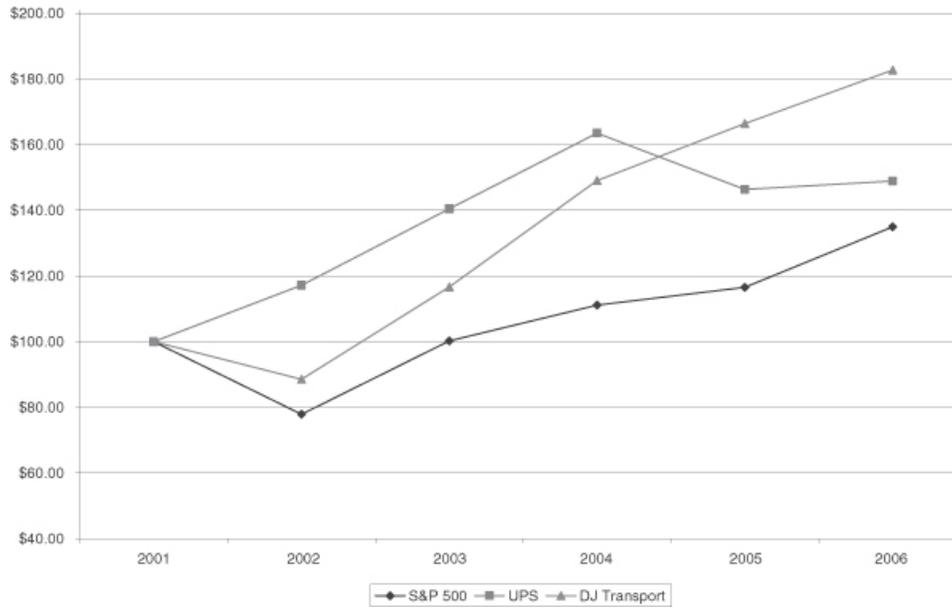
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**Shareowner Return Performance Graph**

The following Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, 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 it 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 S&P 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, 2001 in the S&P 500 Index, the Dow Jones Transportation Average, and the class B common stock of United Parcel Service, Inc.

**Comparison of Five Year Cumulative Total Return**



	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
United Parcel Service, Inc.	\$ 100.00	\$ 117.19	\$ 140.49	\$ 163.54	\$ 146.35	\$ 148.92
S&P 500 Index	\$ 100.00	\$ 77.90	\$ 100.24	\$ 111.15	\$ 116.61	\$ 135.02
Dow Jones Transportation Average	\$ 100.00	\$ 88.52	\$ 116.70	\$ 149.06	\$ 166.42	\$ 182.76

**Securities Authorized for Issuance under Equity Compensation Plans**

The following table provides information as of December 31, 2006 regarding compensation plans under which our Class A common stock is authorized for issuance. These plans do not authorize the issuance of our Class B common stock.

**EQUITY COMPENSATION PLANS**

<b>Plan category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders			53,407,810
Equity compensation plans not approved by security holders	29,108,486	\$39.07	—
Total	<u>29,108,486</u>	<u>\$39.07</u>	<u>53,407,810</u>

Our shareowners have approved the United Parcel Service, Inc. Incentive Compensation Plan and the United Parcel Service, Inc. Discounted Employee Stock Purchase Plan. The material features of each of these plans are described in Note 11 to our consolidated financial statements included in this Form 10-K.

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**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, 2006 (amounts in millions, except per share amounts). This financial data should be read together with our consolidated financial statements and related notes, Management's Discussion and Analysis of Financial Condition and Results of Operations, and other financial data appearing elsewhere in this report.

	Years Ended December 31,				
	2006	2005	2004	2003	2002
<b>Selected Income Statement Data</b>					
Revenue:					
U.S. Domestic Package	\$30,456	\$28,610	\$26,960	\$25,362	\$24,280
International Package	9,089	7,977	6,809	5,609	4,720
Supply Chain & Freight	<u>8,002</u>	<u>5,994</u>	<u>2,813</u>	<u>2,514</u>	<u>2,272</u>
Total revenue	47,547	42,581	36,582	33,485	31,272
Operating expenses:					
Compensation and benefits	24,421	22,517	20,823	19,251	17,849
Other	<u>16,491</u>	<u>13,921</u>	<u>10,770</u>	<u>9,789</u>	<u>9,327</u>
Total operating expenses	40,912	36,438	31,593	29,040	27,176
Operating profit (loss):					
U.S. Domestic Package	4,923	4,493	3,702	3,657	3,925
International Package	1,710	1,494	1,149	732	338
Supply Chain and Freight	<u>2</u>	<u>156</u>	<u>138</u>	<u>56</u>	<u>(167)</u>
Total operating profit	6,635	6,143	4,989	4,445	4,096
Other income (expense):					
Investment income	86	104	82	18	63
Interest expense	(211)	(172)	(149)	(121)	(173)
Gain on redemption of long-term debt	—	—	—	28	—
Reversal of tax assessment	—	—	—	—	1,023
Income before income taxes	6,510	6,075	4,922	4,370	5,009
Income taxes	(2,308)	(2,205)	(1,589)	(1,472)	(1,755)
Cumulative effect of change in accounting principle	—	—	—	—	(72)
Net income	<u>\$ 4,202</u>	<u>\$ 3,870</u>	<u>\$ 3,333</u>	<u>\$ 2,898</u>	<u>\$ 3,182</u>
Per share amounts:					
Basic earnings per share	\$ 3.87	\$ 3.48	\$ 2.95	\$ 2.57	\$ 2.84
Diluted earnings per share	\$ 3.86	\$ 3.47	\$ 2.93	\$ 2.55	\$ 2.81
Dividends declared per share	\$ 1.52	\$ 1.32	\$ 1.12	\$ 0.92	\$ 0.76
Weighted average shares outstanding:					
Basic	1,085	1,113	1,129	1,128	1,120
Diluted	1,089	1,116	1,137	1,138	1,134
<b>As of December 31,</b>					
	2006	2005	2004	2003	2002
<b>Selected Balance Sheet Data</b>					
Cash and marketable securities	\$ 1,983	\$ 3,041	\$ 5,197	\$ 3,952	\$ 3,014
Total assets	33,210	34,947	32,847	29,734	26,868
Long-term debt	3,133	3,159	3,261	3,149	3,495
Shareowners' equity	15,482	16,884	16,378	14,852	12,455

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

**Operations**

The following tables set forth information showing the change in revenue, average daily package volume, and average revenue per piece, both in dollars or amounts and in percentage terms:

	Year Ended December 31,		Change	
	2006	2005	\$	%
<b>Revenue (in millions):</b>				
U.S. Domestic Package:				
Next Day Air	\$ 6,778	\$ 6,381	\$ 397	6.2%
Deferred	3,424	3,258	166	5.1
Ground	20,254	18,971	1,283	6.8
Total U.S. Domestic Package	30,456	28,610	1,846	6.5
International Package:				
Domestic	1,950	1,588	362	22.8
Export	6,554	5,856	698	11.9
Cargo	585	533	52	9.8
Total International Package	9,089	7,977	1,112	13.9
Supply Chain & Freight:				
Forwarding and Logistics	5,681	4,859	822	16.9
Freight	1,952	797	1,155	144.9
Other	369	338	31	9.2
Total Supply Chain & Freight	8,002	5,994	2,008	33.5
Consolidated	<u>\$47,547</u>	<u>\$42,581</u>	<u>\$4,966</u>	11.7%
<b>Average Daily Package Volume (in thousands):</b>				
U.S. Domestic Package:				
Next Day Air	1,267	1,228	39	3.2%
Deferred	993	946	47	5.0
Ground	11,537	11,044	493	4.5
Total U.S. Domestic Package	13,797	13,218	579	4.4
International Package:				
Domestic	1,108	916	192	21.0
Export	689	616	73	11.9
Total International Package	1,797	1,532	265	17.3
Consolidated	<u>15,594</u>	<u>14,750</u>	<u>844</u>	5.7%
Operating days in period	253	254		
<b>Average Revenue Per Piece:</b>				
U.S. Domestic Package:				
Next Day Air	\$ 21.14	\$ 20.46	\$ 0.68	3.3%
Deferred	13.63	13.56	0.07	0.5
Ground	6.94	6.76	0.18	2.7
Total U.S. Domestic Package	8.73	8.52	0.21	2.5
International Package:				
Domestic	6.96	6.83	0.13	1.9
Export	37.60	37.43	0.17	0.5
Total International Package	18.70	19.13	(0.43)	(2.2)
Consolidated	<u>\$ 9.88</u>	<u>\$ 9.62</u>	<u>\$ 0.26</u>	2.7%

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	Year Ended December 31,		Change	
	2005	2004	\$	%
<b>Revenue (in millions):</b>				
U.S. Domestic Package:				
Next Day Air	\$ 6,381	\$ 6,084	\$ 297	4.9%
Deferred	3,258	3,193	65	2.0
Ground	<u>18,971</u>	<u>17,683</u>	<u>1,288</u>	7.3
Total U.S. Domestic Package	28,610	26,960	1,650	6.1
International Package:				
Domestic	1,588	1,346	242	18.0
Export	5,856	4,991	865	17.3
Cargo	<u>533</u>	<u>472</u>	<u>61</u>	12.9
Total International Package	7,977	6,809	1,168	17.2
Supply Chain & Freight:				
Forwarding and Logistics	4,859	2,476	2,383	96.2
UPS Freight	797	—	797	—
Other	<u>338</u>	<u>337</u>	<u>1</u>	0.3
Total Supply Chain & Freight	5,994	2,813	3,181	113.1
Consolidated	<u>\$42,581</u>	<u>\$36,582</u>	<u>\$5,999</u>	16.4%
<b>Average Daily Package Volume (in thousands):</b>				
U.S. Domestic Package:				
Next Day Air	1,228	1,194	34	2.8%
Deferred	946	910	36	4.0
Ground	<u>11,044</u>	<u>10,676</u>	<u>368</u>	3.4
Total U.S. Domestic Package	13,218	12,780	438	3.4
International Package:				
Domestic	916	815	101	12.4
Export	<u>616</u>	<u>541</u>	<u>75</u>	13.9
Total International Package	1,532	1,356	176	13.0
Consolidated	<u>14,750</u>	<u>14,136</u>	<u>614</u>	4.3%
Operating days in period	254	254		
<b>Average Revenue Per Piece:</b>				
U.S. Domestic Package:				
Next Day Air	\$ 20.46	\$ 20.06	\$ 0.40	2.0%
Deferred	13.56	13.81	(0.25)	(1.8)
Ground	<u>6.76</u>	<u>6.52</u>	<u>0.24</u>	3.7
Total U.S. Domestic Package	8.52	8.31	0.21	2.5
International Package:				
Domestic	6.83	6.50	0.33	5.1
Export	37.43	36.32	1.11	3.1
Total International Package	19.13	18.40	0.73	4.0
Consolidated	<u>\$ 9.62</u>	<u>\$ 9.27</u>	<u>\$ 0.35</u>	3.8%

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The following table sets forth information showing the change in UPS Freight's less-than-truckload revenue, shipments, and weight hauled, both in dollars or amounts and in percentage terms:

	Year Ended		Change	
	December 31,			
	2006	2005	\$	%
LTL revenue (in millions)	\$ 1,831	\$ 754	\$ 1,077	142.8%
LTL revenue per LTL hundredweight	\$ 15.93	\$ 15.53	\$ 0.40	2.6%
LTL shipments (in thousands)	9,638	4,113	5,525	134.3%
LTL shipments per day (in thousands)	38	41	(3)	(7.3)%
LTL gross weight hauled (in millions of pounds)	11,498	4,855	6,643	136.8%
LTL weight per shipment	1,193	1,180	13	1.1%
Operating days in period	252	101		

Overnite Corp., now known as UPS Freight, was acquired on August 5, 2005. The information presented above reflects the performance of UPS Freight for the period subsequent to the date of acquisition.

### Operating Profit and Operating Margin

The following tables set forth information showing the change in operating profit, both in dollars (in millions) and in percentage terms, as well as the operating margin for each reporting segment:

Reporting Segment	Year Ended		Change	
	December 31,			
	2006	2005	\$	%
U.S. Domestic Package	\$4,923	\$4,493	\$ 430	9.6%
International Package	1,710	1,494	216	14.5
Supply Chain & Freight	2	156	(154)	(98.7)
Consolidated Operating Profit	<u>\$6,635</u>	<u>\$6,143</u>	<u>\$ 492</u>	8.0%

Reporting Segment	Year Ended		Change	
	December 31,			
	2005	2004	\$	%
U.S. Domestic Package	\$4,493	\$3,702	\$ 791	21.4%
International Package	1,494	1,149	345	30.0
Supply Chain & Freight	156	138	18	13.0
Consolidated Operating Profit	<u>\$6,143</u>	<u>\$4,989</u>	<u>\$1,154</u>	23.1%

Reporting Segment	Year Ended December 31,			
	2006	2005	2004	
	U.S. Domestic Package		16.2%	15.7%
International Package		18.8%	18.7%	16.9%
Supply Chain & Freight		0.0%	2.6%	4.9%
Consolidated Operating Margin		14.0%	14.4%	13.6%

***U.S. Domestic Package Operations***

*2006 compared to 2005*

U.S. Domestic Package revenue increased \$1.846 billion, or 6.5%, for the year, with average daily package volume up 4.4%. Volume gains were realized across all products primarily due to a solid U.S. economy, strong small package market and continuing efforts to generate new volume. Overall domestic volume growth moderated in the latter half of 2006 compared with 2005, due to slower overall economic growth in the U.S. and a downturn in industrial production during the fourth quarter.

Pricing remained firm as overall revenue per piece was up 2.5% for the year. Ground revenue per piece increased 2.7% and Next Day Air revenue per piece increased 3.3% for the year, primarily due to the impact of a rate increase that took effect in 2006 and the impact of an increased fuel surcharge rate in 2006 compared to 2005. Deferred revenue per piece increased 0.5% for the year for the same reasons, but was adversely affected by the growth in lighter weight, lower revenue packages.

On January 2, 2006, a rate increase took effect which was in line with previous years' rate increases. We increased rates 5.5% on UPS Next Day Air, UPS 2nd Day Air, and UPS 3 Day Select, and 3.9% on UPS Ground. Other pricing changes included a new charge for undeliverable packages after three delivery attempts and an increase in rates for proof of delivery features for our Delivery Required and Signature Confirmation services. The residential surcharge increased \$0.25 for UPS Ground services and \$0.35 for UPS Next Day Air, UPS 2nd Day Air and UPS 3 Day Select.

In January 2006, we modified the fuel surcharge on domestic air services by reducing the index used to determine the fuel surcharge by 2%. The air fuel surcharge was subject to a maximum cap of 12.50% through June 4, 2006. Effective June 5, 2006, we reduced the index by another 2% and no longer applied a cap to the air fuel surcharge. This fuel surcharge continues to be based on the U.S. Energy Department's Gulf Coast spot price for a gallon of kerosene-type jet fuel. Based on published rates, the average fuel surcharge on domestic air products was 14.02% in 2006, as compared with 10.23% in 2005. Additionally, the UPS Ground fuel surcharge continues to fluctuate based on the U.S. Energy Department's On-Highway Diesel Fuel Price. Based on published rates, the average fuel surcharge on domestic ground products was 4.13% in 2006, as compared to 2.86% in 2005. Total domestic fuel surcharge revenue increased by \$542 million in 2006, due to higher jet and diesel fuel prices, volume growth, and the modifications to our fuel surcharges noted above. These fuel surcharges are used to provide some protection against the increased fuel expense that we incur due to higher fuel prices, as well as the increased purchased transportation expense which is also affected by higher fuel prices.

U.S. Domestic Package operating profit increased \$430 million, or 9.6%, for the year, and the operating margin increased by approximately 50 basis points to 16.2%. This increase was primarily a result of the revenue growth described previously, combined with efficiencies from leveraging our integrated ground and air networks. The 2006 operating profit for our U.S. Domestic Package segment was negatively impacted by a tentative settlement of a class action litigation (see "Contingencies" section below), which resulted in an \$87 million charge to expense.

The expense associated with our self-insurance accruals for workers' compensation claims, automotive liability and general business liabilities was \$83 million less in 2006 compared with 2005. 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 ultimate reserve levels determined by outside actuaries, who incorporate historical loss experience and judgments about the present and expected levels of cost per claim. The lower expense reflects favorable claims experience resulting from company initiatives put into place over the last several years and other factors, including initiatives to decrease accident frequencies, improved oversight and management of claims, improved trends in health care costs, and favorable state legislative reforms, primarily in California.

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### *2005 compared to 2004*

U.S. Domestic Package revenue increased \$1.650 billion, or 6.1%, for the year, primarily due to a 3.4% increase in average daily package volume and a 2.5% increase in revenue per piece. Ground volume grew 3.4%, and was positively impacted by a solid U.S. economy and our focus on middle market sales initiatives. Next Day Air volume grew 2.8% and deferred volume increased 4.0%, with growth in the manufacturing, business services, telecommunications and retail sectors. The growth in total U.S. Domestic Package volume strengthened throughout the year.

Ground revenue per piece increased 3.7% for the year, primarily due to the impact of a rate increase that took effect in 2005, as well as the implementation of a fuel surcharge on ground products. Next Day Air revenue per piece increased 2.0% for the year, primarily due to the rate increase and an increased fuel surcharge rate in 2005 compared to 2004. Next Day Air revenue per piece was adversely affected by relatively higher growth in our Saver product. Both Next Day Air and deferred revenue per piece were adversely affected by lighter average package weights.

On January 3, 2005, a rate increase took effect which was in line with previous years' rate increases. We increased rates 2.9% on UPS Next Day Air, UPS 2nd Day Air, UPS 3 Day Select, and UPS Ground. Other pricing changes included an increase of \$0.25 for delivery area surcharge on both residential and commercial services to certain ZIP codes. The residential surcharge increased \$0.10 for UPS Ground services and \$0.35 for UPS Next Day Air, UPS 2nd Day Air and UPS 3 Day Select.

In January 2005, we modified the fuel surcharge on domestic air services by setting a maximum cap of 9.50%, which was increased to 12.50% effective in October 2005. This fuel surcharge continued to be based on the U.S. Energy Department's Gulf Coast spot price for a gallon of kerosene-type jet fuel. Based on published rates, the average fuel surcharge on domestic air products was 10.23% in 2005, as compared with 7.07% in 2004. Additionally, an initial fuel surcharge of 2.00% was applied to UPS Ground services in January 2005, which fluctuated based on the U.S. Energy Department's On-Highway Diesel Fuel Price. Based on published rates, the average fuel surcharge on domestic ground products was 2.86% in 2005. Total domestic fuel surcharge revenue increased by \$683 million for the year, due to higher jet and diesel fuel prices, volume increases, and the modifications to our fuel surcharges noted above.

U.S. Domestic Package operating profit increased \$791 million, or 21.4%, for the year, and domestic operating margin increased by 200 basis points. Operating profit increased by \$274 million due to a change in our Management Incentive Awards program (discussed below in "Operating Expenses"), which also favorably impacted the operating margin. The remaining increase in operating profit and margin resulted from the revenue growth described previously, as well as controlled growth of operating expenses.

### ***International Package Operations***

#### *2006 compared to 2005*

International Package revenue improved \$1.112 billion, or 13.9%, for the year, primarily due to the 11.9% volume growth for our export products and the impact of acquisitions completed in 2005. Total international revenue per piece declined slightly for the year due to changes in product mix, as lower-yielding domestic products comprised a larger proportion of overall international volume. The change in revenue was positively affected by \$83 million during the year due to currency fluctuations, net of hedging activity. Revenue increased by \$247 million during the year due to business acquisitions completed previously.

In January 2006, we increased rates 5.5% for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service). Rate changes for international shipments originating outside the United States varied by geographical market and occurred throughout the year.

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Also in January 2006, we modified the fuel surcharge on certain U.S.-related international air services by reducing the index used to determine the fuel surcharge by 2%. The air fuel surcharge continued to remain subject to a maximum cap of 12.5% through June 4, 2006. Effective June 5, 2006, we reduced the index by another 2% and no longer applied a cap to the air fuel surcharge. The fuel surcharge for products originating outside the United States continues to be indexed to fuel prices in our different international regions, depending upon where the shipment takes place. Total international fuel surcharge revenue increased by \$189 million during the year due to higher jet fuel prices and increased international air volume.

Export volume increased throughout the world, with solid volume increases in Europe, Asia, and U.S. export products. Asian export volume continues to benefit from geographic service expansion and strong economic growth in Asia, while European export volume gains are impacted by our growing transborder business and the expansion of the European Union. International domestic volume increased 21.0% for the year, due to volume growth in Canada and Europe, which also benefited from the acquisition of Stolica in Poland during the second quarter of 2005 and the acquisition of Lynx in the U.K. during the third quarter of 2005. Excluding the impact of acquisitions, international domestic volume and revenue increased 6.9% and 8.3%, respectively, for the year.

Export revenue per piece increased 0.5% for the year, largely due to the rate increases discussed previously, the impact of the fuel surcharge, and currency fluctuations, partially offset by relatively higher growth in lower revenue per piece transborder products. For the year, total international average daily package volume increased 17.3%, while average revenue per piece decreased 2.2% (decreased 3.3% currency-adjusted).

The improvement in operating profit for our International Package segment was \$216 million for the year, or 14.5%, and the operating margin increased 10 basis points to 18.8%. The increases in operating profit and margin were driven by the volume and revenue growth described previously. The change in operating profit was also positively affected by \$26 million during the year due to currency fluctuations.

### *2005 compared to 2004*

International Package revenue improved \$1.168 billion, or 17.2%, for the year, primarily due to the 13.9% volume growth for our export products and revenue per piece improvements. The improvements in revenue per piece were impacted by rate changes, currency fluctuations, and the fuel surcharge applied to international shipments. Revenue increased \$121 million during the year due to currency fluctuations, net of hedging activity, and also increased by \$133 million during the year due to business acquisitions.

In January 2005, we increased rates 2.9% for international shipments originating in the United States, which includes our Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard services. Rate changes for international shipments originating outside the United States varied by geographical market and occurred throughout the year.

In January 2005, we modified the fuel surcharge on U.S. export products by setting a maximum cap of 9.50%, which was increased to 12.50% effective in October 2005. The fuel surcharge for products originating outside the United States continued to be indexed to fuel prices in our different international regions, depending upon where the shipment takes place. Total international fuel surcharge revenue increased by \$246 million during the year, due to higher jet fuel prices and increased international air volume.

Export volume increased throughout the world, with strong growth in Asia and Europe. Asian export volume, which increased 29% for the year, was driven by export growth from China. Asian export volume continues to benefit from our expanding international delivery network, including the additional flights from Shanghai, China that were added in the fourth quarter of 2004, and express air service between the U.S. and Guangzhou, China that began in the second quarter of 2005. European export volume increased 13% for the year, while export volume from the U.S. and Americas also showed solid increases. International domestic volume

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increased 12.4% for the year, due to volume growth in Canada and Europe, which also benefited from the acquisition of Messenger Service Stolica S.A. in Poland during the second quarter of 2005 and Lynx Express Ltd. in the United Kingdom in the third quarter of 2005. Excluding the impact of acquisitions, international domestic volume increased 3.7%.

Export revenue per piece increased 3.1% for the year (1.4% currency-adjusted), due to the rate increases discussed previously and the impact of the fuel surcharge, but was adversely affected by relatively higher growth in lower revenue per piece transborder product. In total, international average daily package volume increased 13.0% and average revenue per piece increased 4.0% (2.4% currency-adjusted).

The improvement in operating profit for our International Package operations was \$345 million for the year, or 30.0%, with an increase in the operating margin of 180 basis points. This increase in operating profit and margin was positively impacted by the strong volume growth described previously, as well as better network utilization due to volume growth and geographic service expansion. The increase in operating profit was also favorably affected by \$78 million due to the impact of currency fluctuations on revenue and expense (net of hedging activity), and by \$45 million due to a change in our Management Incentive Awards program (discussed below in "Operating Expenses"). Operating profit was negatively affected in 2005 by \$23 million in currency repatriation losses, as compared with repatriation gains of \$32 million in 2004.

### ***Supply Chain & Freight Operations***

*2006 compared to 2005*

Supply Chain & Freight revenue increased \$2.008 billion, or 33.5%, for the year. UPS Freight, formerly known as Overnite Corp., provided \$1.155 billion of the increase in revenue for the year. Excluding the impact of the Overnite acquisition in August 2005, segment revenues grew 16.4% for the year. Total average daily LTL shipments for UPS Freight in 2006 declined against the full year 2005 (both the pre and post-acquisition period) due to service issues caused by the integration of the UPS Freight business, as well as a weakening in the overall LTL market in the United States in the latter half of 2006. LTL revenue per LTL hundredweight increased as we proactively reduced less profitable accounts and focused on higher yielding customer segments.

Forwarding and logistics revenue increased \$822 million, or 16.9% for the year, largely due to continued changes in the business model for this unit. The forwarding and logistics business is moving towards a model that places more transactional ownership risk on UPS, including increased utilization of UPS-owned assets. This has the effect of increasing revenue as well as purchased transportation expense. The increased revenue associated with these forwarding transactions was somewhat offset by certain revenue management initiatives, which involved reducing less profitable accounts. In addition, revenue increased by \$29 million during the year due to currency fluctuations.

The other businesses within Supply Chain & Freight, which include our retail franchising business and our financial business, increased revenue by 9.2% during the year. This revenue growth was primarily due to increased financial services revenue, as well as revenue earned from our previously-announced contract to provide domestic air transportation for the U.S. Postal Service.

For the year, the Supply Chain & Freight segment reported \$2 million in operating profit, as compared with a \$156 million in operating profit for 2005. These results were impacted by the integration of the acquired Menlo Worldwide Forwarding business into our air network, and the integration of the Motor Cargo business unit within the acquired Overnite Corp. operations into the UPS Freight network. The UPS Freight integration led to service issues, which resulted in a loss of revenue, as well as productivity setbacks resulting in increased costs. The integration of the Menlo Worldwide Forwarding business resulted in increased costs and some lost sales resulting from customer turnover. The increase in operating profit was positively affected by \$2 million during 2006 due to the impact of currency fluctuations on revenue and expense.

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In an effort to rationalize our cost structure and focus on profitable revenue growth, we initiated a restructuring plan for our forwarding and logistics operations in the fourth quarter of 2006. This restructuring plan is expected to generate efficiencies resulting in improved operating profits by further integrating all of our transportation services to better serve our customers. This restructuring involves plans to reduce non-operating expenses by approximately 20%, including a reduction in non-operating staff of approximately 1,400 people. As of December 31, 2006, \$12 million in costs have been accrued related to employee severance.

### *2005 compared to 2004*

Supply Chain & Freight revenue increased \$3.181 billion, or 113.1%, for the year. Forwarding services and logistics revenue increased by \$2.383 billion during the year, largely due to the acquisition of Menlo Worldwide Forwarding in December 2004. The growth in our existing forwarding services and logistics businesses (excluding Menlo Worldwide Forwarding) was driven by solid growth in our ocean and ground forwarding operations. Revenue increased by \$17 million during the year due to favorable currency fluctuations. Overall growth continues to benefit from the expansion of our freight forwarding network throughout the world, as well as the increase in global trade and the increased outsourcing of manufacturing and distribution.

During the third quarter of 2005, we completed our acquisition of Overnite Corp., now known as UPS Freight, which offers a variety of LTL and truckload services to customers in North America. Overnite's results have been included in the Supply Chain & Freight reporting segment since the August 5, 2005 acquisition date. Overnite generally reported improvements in its operating performance measures in the post-acquisition period versus the same period a year ago when it was not a part of UPS, including improvements in average daily LTL shipments and average LTL revenue per LTL hundredweight.

The other businesses within Supply Chain & Freight, which include our retail franchising business, our mail and consulting services, and our financial business, increased revenue by 0.3% during the year. This revenue growth was primarily due to increased revenue at our mail and financial services units.

Operating profit for the Supply Chain & Freight segment increased by \$18 million, or 13.0%, for the year, largely due to the operating profits generated by Overnite. Operating profit and margin were negatively affected by operating losses incurred in the acquired Menlo Worldwide Forwarding operations, as well as costs incurred in integrating this business into our existing forwarding services business. Currency fluctuations positively affected operating profit by \$4 million during the year. Operating profit also was favorably impacted by \$15 million due to a change in our Management Incentive Awards program (discussed below in "Operating Expenses").

### ***Operating Expenses***

#### *2006 compared to 2005*

Consolidated operating expenses increased by \$4.474 billion, or 12.3%, for the year, and were significantly impacted by the acquisitions of Overnite, Stolica, and Lynx. Currency fluctuations in our International Package and Supply Chain & Freight segments resulted in operating expenses increasing by \$84 million for the year.

Compensation and benefits increased by \$1.904 billion, or 8.5%, for the year, largely due to the acquisitions mentioned above, as well as increased health and welfare benefit costs and higher pension expense. These increases were partially offset by the decline in workers compensation expense, as previously discussed. Excluding the effect of acquisitions, compensation and benefits expense increased 5.1% for the year. Stock-based and other management incentive compensation expense increased \$49 million, or 8.0% in 2006, due to the expensing of restricted stock units granted in the fourth quarter of 2005, the impact of a new grant of stock options and restricted performance units in the second quarter of 2006, and the impact of adopting the non-substantive vesting period approach of FAS 123R (discussed further in Note 1 to the consolidated financial statements). These grants were partially offset by lower accruals for our Management Incentive Awards program in 2006.

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Other operating expenses increased by \$2.570 billion, or 18.5%, for the year, largely due to the acquisitions mentioned above, as well as increases in fuel expense and purchased transportation. The table below indicates the impact of business acquisitions completed in 2005 on the increase in operating expenses by category in 2006.

	Total % Increase	Acquisition Impact	% Increase without Acquisitions
Other Operating Expenses:			
Repairs and maintenance	5.3%	3.0%	2.3%
Depreciation and amortization	6.3%	3.1%	3.2%
Purchased transportation	34.9%	4.8%	30.1%
Fuel	27.3%	7.1%	20.2%
Other occupancy	7.6%	4.2%	3.4%
Other expenses	8.5%	3.9%	4.6%
	<u>18.5%</u>	<u>4.5%</u>	<u>14.0%</u>

Excluding the effect of acquisitions, the 20.2% increase in fuel expense for the year was impacted by higher prices for jet-A, diesel and unleaded gasoline as well as higher usage, but was partially mitigated by hedging gains. The 30.1% increase in purchased transportation was influenced by volume growth in our International Package business, currency fluctuations, higher fuel prices, increased rail costs, and changes to the freight forwarding business model described previously. The 2.3% increase in repairs and maintenance was largely due to increased expense on airframe and engine repairs. The 3.2% increase in depreciation and amortization for the year was caused primarily by higher depreciation expense on plant equipment, aircraft and engines, and higher amortization expense on intangible assets. The 3.4% increase in other occupancy expense was largely due to higher electricity and other utilities expenses. The increase in other expenses was impacted by several items, including the \$87 million tentative settlement of a class action litigation (see "Contingencies" section below).

### 2005 compared to 2004

Consolidated operating expenses increased by \$4.845 billion, or 15.3%, for the year, and were significantly impacted by the acquisitions of Menlo Worldwide Forwarding and Overnite. Operating expenses also increased \$56 million for the year due to the impact on revenue and expense of currency fluctuations (net of hedging activity) in our International Package and Supply Chain & Freight segments, and increased \$55 million for the year due to currency repatriation losses in our International Package segment.

Compensation and benefits increased by \$1.694 billion, or 8.1%, for the year, largely due to the acquisitions of Menlo Worldwide Forwarding and Overnite, as well as increased health and welfare benefit costs and higher pension expense for our union benefit plans. Stock-based and other management incentive compensation expense decreased \$297 million, or 33.4%, in the year, due to a change in our Management Incentive Awards program implemented in 2005, described in the next paragraph, which was partially offset by the impact of prospectively adopting the measurement provisions of FAS 123 beginning with 2003 stock-based compensation awards.

During the first quarter of 2005, we modified our Management Incentive Awards program under our Incentive Compensation Plan to provide that half of the annual award be made in restricted stock units ("RSUs"). The RSUs granted in November 2005 under this program have a five-year graded vesting period, with approximately 20% of the total RSU award vesting at each anniversary date of the grant. The other half of the award granted in November 2005 was in the form of cash and unrestricted shares of Class A common stock and was fully vested at the time of grant. Previous awards under the Management Incentive Awards program were made in common stock that was fully vested in the year of grant. This change had the effect of lowering 2005 expense. As a result, 2005 expense for our Management Incentive Awards program (reported in operating expenses under "compensation and benefits"), including the RSUs, decreased \$334 million (\$213 million after-tax, or \$0.19 per diluted share) compared with 2004.

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Other operating expenses increased by \$3.151 billion, or 29.3%, for the year, largely due to the Menlo Worldwide Forwarding and Overnite acquisitions, as well as increases in fuel expense and purchased transportation. The 47.2% increase in fuel expense for the year was impacted by higher prices for jet-A, diesel and unleaded gasoline, as well as higher fuel usage, but was partially mitigated with hedging gains. The 95.5% increase in purchased transportation was primarily due to the Menlo Worldwide Forwarding acquisition, but was also influenced by volume growth in our International Package business and higher fuel prices. The 9.2% increase in repairs and maintenance was largely due to higher expense on vehicle parts (partially affected by the Overnite acquisition), airframe and aircraft engine maintenance. The 6.5% increase in depreciation and amortization for the year was impacted by higher depreciation expense on buildings (largely due to acquisitions), aircraft, and capitalized software. The 16.0% increase in other occupancy expense was largely due to higher facilities rent expense in our Supply Chain & Freight segment, which was impacted by the Menlo Worldwide Forwarding acquisition, and increased utilities expense. The 4.5% increase in other expenses was primarily due to the Overnite acquisition, but partially offset by the absence in 2005 of the \$110 million aircraft impairment charge that we incurred in 2004.

### ***Investment Income and Interest Expense***

#### *2006 compared to 2005*

The decrease in investment income of \$18 million during the year was primarily due to a lower average balance of interest-earning investments, due to the timing of cash payments for pension fundings, business acquisitions, and capital expenditures. This was partially offset by a higher average interest rate earned on investments, as well as the absence of any investment impairments during 2006 (\$16 million of investment impairments were recognized in 2005, as described below).

The \$39 million increase in interest expense during the year was primarily due to higher average interest rates on variable rate debt and interest rate swaps, as well as interest expense incurred on debt related to real estate investment partnerships. This was partially offset by slightly lower average debt balances during 2006, as well as higher capitalized interest due to large aircraft contract deposit payments made during the year.

#### *2005 compared to 2004*

The increase in investment income of \$22 million during the year was primarily due to higher average yields earned caused by the increasing short-term interest rates in the United States, but partially offset by a lower average balance of interest-earning investments, increased equity-method losses on certain investment partnerships, and an investment impairment charge on certain available-for-sale securities. We periodically review our 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. After considering these factors, we recorded an impairment charge of \$16 million in the fourth quarter of 2005 related to several variable rate preferred securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC).

The \$23 million increase in interest expense for the year was primarily due to higher floating interest rates on variable rate debt and interest rate swaps, as well as higher imputed interest expense associated with real estate investment partnerships.

### ***Net Income and Earnings Per Share***

#### *2006 compared to 2005*

Net income for 2006 was \$4.202 billion, an 8.6% increase from the \$3.870 billion achieved in 2005, resulting in a 11.2% increase in diluted earnings per share to \$3.86 in 2006 from \$3.47 in 2005. Net income in 2006 benefited from a \$52 million reduction in income tax expense (\$0.05 impact to diluted earnings per share)

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due to favorable developments with certain U.S. Federal tax contingency matters involving non-U.S. operations. Diluted earnings per share has increased at a faster rate than the growth in net income due to the reduction in shares outstanding as a result of our ongoing share repurchase program. The increase in net income for 2006 was largely due to higher operating profits for both our U.S. Domestic and International Package segments.

### *2005 compared to 2004*

Net income for 2005 was \$3.870 billion, a 16.1% increase from the \$3.333 billion achieved in 2004, resulting in an 18.4% increase in diluted earnings per share to \$3.47 in 2005 from \$2.93 in 2004. The increase in net income for 2005 was largely due to higher operating profit for both our U.S. Domestic and International Package segments. Net income was adversely impacted by an increase in our effective tax rate to 36.3% in 2005 from 32.3% in 2004. The lower tax rate in 2004 was impacted by credits to income tax expense totaling \$142 million (\$0.13 per diluted share) related to various items, including the resolution of certain tax matters, the removal of a portion of the valuation allowance on certain deferred tax assets on net operating loss carryforwards, and an adjustment for identified tax contingency items.

Net income in 2004 was adversely impacted by a \$70 million after-tax impairment charge (\$0.06 per diluted share) on Boeing 727, 747, and McDonnell Douglas DC-8 aircraft, engines, and parts, as well as a \$40 million after-tax charge (\$0.04 per diluted share) to pension expense resulting from the consolidation of data systems used to collect and accumulate plan participant data.

### **Liquidity and Capital Resources**

#### *Net Cash From Operating Activities*

Net cash provided by operating activities was \$5.589, \$5.793, and \$5.331 billion in 2006, 2005, and 2004, respectively. The decrease in 2006 operating cash flows compared with 2005 was primarily due to higher pension and retirement plan fundings, but partially offset by increased net income. In 2006, we funded \$1.625 billion to our pension and postretirement benefit plans as compared to \$995 million in 2005. As discussed in Note 5 to the consolidated financial statements, pension and postretirement health contributions to plan trusts in 2007 are projected to be approximately \$581 million. In 2005, we received a \$374 million tax refund associated with the 1985-1990 settlement with the Internal Revenue Service ("IRS") reached previously, primarily on tax matters related to excess value package insurance. In 2004, we received \$610 million from a tax settlement with the IRS for tax years 1983-84 and 1991-98. Additionally, we expect to pay a total of \$69 million between 2007 and 2008 related to employees who accepted a recently-announced special voluntary separation opportunity, which is discussed further in Note 16 to the consolidated financial statements.

On November 17, 2006, we announced a rate increase and a change in the fuel surcharge that took effect on January 1, 2007. We increased the base rates 6.9% on UPS Next Day Air, UPS 2nd Day Air, and UPS 3 Day Select, and 4.9% on UPS Ground. We also increased the base rates 6.9% for international shipments originating in the United States (Worldwide Express, Worldwide Express Plus, UPS Worldwide Expedited and UPS International Standard service). We increased our Ground Hundredweight rates by an average of 5.9%. Other pricing changes included a \$0.10 increase in the residential surcharge, and a \$0.75 increase in the charge for undeliverable packages after three delivery attempts. These rate changes are customary, and are consistent with previous years' rate increases. Additionally, in January 2007 we will modify the fuel surcharge on domestic and U.S.-origin international air services by reducing by 2% the index used to determine the fuel surcharge. The UPS Ground fuel surcharge continues to fluctuate based on the U.S. Energy Department's On-Highway Diesel Fuel Price. Rate changes for shipments originating outside the U.S. are made throughout the year and vary by geographic market.

#### *Net Cash Used In Investing Activities*

Net cash used in investing activities was \$2.340 billion, \$975 million, and \$3.638 billion in 2006, 2005, and 2004, respectively. The increased cash used in 2006 compared with 2005 was primarily due to increased capital expenditures and fewer net sales of marketable securities and short-term investments. During 2006, we

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sold a net \$482 million in marketable securities and short-term investments, primarily due to the pension and postretirement medical benefit plan fundings in the third quarter. During 2005, we sold a net \$2.752 billion in marketable securities and short-term investments, largely to fund the acquisition of Overnite as well as to make fundings to our pension and postretirement medical benefit plans. In 2005, we spent \$1.488 billion on business acquisitions, primarily Overnite Corp., Lynx Express Ltd. in the United Kingdom, Messenger Service Stolica S.A. in Poland, and the express operations of Sinotrans Air Transportation Development Co. Ltd. in China (See Note 7 to the consolidated financial statements). We generated cash of \$68, \$95, and \$318 million in 2006, 2005, and 2004 respectively, due to the sales and customer paydowns of finance receivables, primarily in our leasing, asset-based lending, and receivable factoring businesses.

In the second quarter of 2006, we terminated several energy derivatives and received \$229 million in cash, which is reported in other investing activities in the statement of cash flows. These derivatives were designated as hedges of forecasted cash outflows for purchases of fuel products. As these derivatives maintained their effectiveness and qualified for hedge accounting, we anticipate that the gains associated with these hedges will be recognized in income over the original term of the hedges through 2007.

Capital expenditures represent a primary use of cash in investing activities, as follows (in millions):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Buildings and facilities	\$ 720	\$ 495	\$ 547
Aircraft and parts	1,150	874	829
Vehicles	831	456	393
Information technology	384	362	358
	<u>\$ 3,085</u>	<u>\$ 2,187</u>	<u>\$ 2,127</u>

As described in the "Commitments" section below, we have commitments for the purchase of aircraft, vehicles, equipment and other fixed assets to provide for the replacement of existing capacity and anticipated future growth. We fund our capital expenditures with our cash from operations.

### *Net Cash Used In Financing Activities*

Net cash used in financing activities was \$3.851, \$4.175, and \$2.014 billion in 2006, 2005, and 2004, respectively. Our primary uses of cash in financing activities have been to repurchase stock, pay dividends, and repay long-term debt. In July 2006, the Board of Directors authorized an additional \$2.0 billion for future share repurchases, in addition to the amount remaining under our August 2005 share repurchase authorization. We repurchased a total of 32.6 million shares of Class A and Class B common stock for \$2.455 billion in 2006 (\$2.460 billion reported on statement of cash flows due to timing of settlements), and 33.9 million shares for \$2.479 billion in 2005. As of December 31, 2006, we had \$936 million of our share repurchase authorization remaining; in February 2007, the Board of Directors approved an increase in our share repurchase authorization to \$2.0 billion, which replaced the remaining amounts available under our July 2006 authorization. On February 8, 2007, our Board declared a dividend of \$0.42 per share, which is payable on March 6, 2007 to shareowners of record on February 20, 2007.

We increased our quarterly cash dividend payment to \$0.38 per share in 2006 from \$0.33 per share in 2005, resulting in an increase in total cash dividends paid to \$1.577 billion from \$1.391 billion. 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.

Issuances of debt during 2006 consisted primarily of issuances of commercial paper, UPS Notes, and facility notes and bonds. Repayments of debt consisted primarily of scheduled principal payments on our capital lease obligations and principal payments on debt related to our investment in certain equity-method partnerships. 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.

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### *Sources of Credit*

We maintain two commercial paper programs under which we are authorized to borrow up to \$7.0 billion in the United States. We had \$791 million outstanding under these programs as of December 31, 2006, with an average interest rate of 5.20%. The entire balance outstanding has been classified as a current liability in our balance sheet. We also maintain a European commercial paper program under which we are authorized to borrow up to €1.0 billion in a variety of currencies. There were no amounts outstanding under this program as of December 31, 2006.

We maintain two credit agreements with a consortium of banks. These agreements provide revolving credit facilities of \$1.0 billion each, with one expiring on April 19, 2007 and the other on April 21, 2010. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. There were no borrowings under either of these agreements as of December 31, 2006.

In August 2003, we filed a \$2.0 billion shelf registration statement under which we may issue debt securities in the United States. There was \$136 million issued under this shelf registration statement at December 31, 2006, all of which consists of issuances under our UPS Notes program.

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. These covenants generally require us to maintain a \$3.0 billion minimum net worth and limit the amount of secured indebtedness available to the company. These covenants are not considered material to the overall financial condition of the company, and all covenant tests were satisfied as of December 31, 2006.

### *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 our contractual obligations and commitments as of December 31, 2006 (in millions), including the Boeing 767-300ER order discussed further below:

<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Debt Principal</u>	<u>Debt Interest</u>	<u>Purchase Commitments</u>	<u>Other Liabilities</u>
2007	\$ 75	\$ 404	\$ 918	\$ 196	\$ 1,072	\$ 67
2008	75	335	27	170	988	78
2009	41	243	83	169	499	74
2010	62	168	30	165	1,022	71
2011	1	119	33	164	1,184	69
After 2011	—	505	2,766	2,849	1,636	270
Total	<u>\$ 254</u>	<u>\$ 1,774</u>	<u>\$ 3,857</u>	<u>\$ 3,713</u>	<u>\$ 6,401</u>	<u>\$ 629</u>

Our capital lease obligations relate primarily to leases on aircraft. These lease obligations and 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, 2006. The calculations of debt interest do not take into account the effect of interest rate swap agreements.

Purchase commitments represent contractual agreements to purchase goods or services that are legally binding, the largest of which are orders for aircraft, engines, and parts. We have firm commitments to purchase four Boeing MD-11 aircraft, and we expect to take delivery of these aircraft during 2007. In February 2007, we announced an order for 27 Boeing 767-300ER freighters to be delivered between 2009 and 2012 (this order is

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reflected in the purchase commitment numbers above). We also have firm commitments to purchase eight Boeing 747-400F aircraft scheduled for delivery during 2007 and 2008, and two Boeing 747-400BCF aircraft scheduled for delivery during 2008. These aircraft purchase orders will provide for the replacement of existing capacity and anticipated future growth.

In addition, we currently have a firm commitment to purchase 10 Airbus A380-800 freighter aircraft and options to purchase 10 additional A380-800 aircraft (this order is reflected in the purchase commitment numbers above). In February 2007, we announced that we had signed an agreement with Airbus to set out a timetable for deciding the status of this previous order. The agreement specifies changed delivery dates for the A380-800 and provides for possible termination of the original purchase agreement by either party later in 2007. The revised delivery schedule specifies the delivery dates for the 10 Airbus A380-800's on order as being between 2012 and 2013, whereas we were originally scheduled to take delivery of the Airbus A380-800 aircraft between 2009 and 2012. The signing of this agreement will have no material impact on our results of operations or financial condition.

The contractual payments due under the other liabilities column includes commitment payments related to our investment in certain partnerships. The commitments above exclude our planned pension and postretirement benefit plan contributions, as we do not have any material funding requirements for our UPS-sponsored pension and postretirement plans as of December 31, 2006. In 2007, we plan to contribute \$533 million to our U.S. pension and postretirement benefit plans and \$48 million to our international pension plans. 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 pension plans will be funded in accordance with local regulations. We have also guaranteed our obligations for certain international pension plans up to a maximum amount of \$118 million. See Note 5 to the consolidated financial statements for a further discussion of our pension and postretirement benefit plans.

As of December 31, 2006, we had outstanding letters of credit totaling approximately \$2.213 billion issued in connection with routine business requirements. As of December 31, 2006, we had unfunded loan commitments totaling \$604 million associated with our financial business.

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

### *Contingencies*

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. In one of these cases, Marlo v. UPS, which has been certified as a class action in a California federal court, plaintiffs allege that they improperly were denied overtime, and seek penalties for missed meal and rest periods, and interest and attorneys' fees. Plaintiffs purport to represent a class of 1,200 full-time supervisors. The court granted summary judgment in favor of UPS on all claims and plaintiffs have appealed. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In another case, Cornn v. UPS, which has been certified as a class action in a California federal court, plaintiffs allege that they were improperly denied wages and/or overtime and meal and rest periods. Plaintiffs purport to represent a class of approximately 23,600 drivers and seek back wages, penalties, interest and attorneys' fees. UPS has agreed in principle to settle this matter in full for a total payment of \$87 million. On December 6, 2006, the court granted tentative approval of the settlement.

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We are named as a defendant in four putative class action lawsuits filed in federal courts, alleging a conspiracy relating to certain surcharges by a number of air cargo carriers. We are not named as a defendant in at least eighty-six related cases that make similar allegations. These cases have been consolidated in a Multi-District Litigation proceeding pending in the United States District Court for the Eastern District of New York. UPS was not included as a defendant in the amended consolidated complaint on which the Multi-District Litigation is proceeding. In addition, in July 2006, we were named as a defendant in a comparable lawsuit filed in the Ontario (Canada) Superior Court of Justice. We intend to vigorously defend ourselves in these cases.

We are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations, or liquidity.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could result in potential funding deficiencies which could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, changes in demographics, and increased benefits to participants. 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 would result from our participation in these plans.

As of December 31, 2006, we had approximately 246,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("Teamsters"). These agreements run through July 31, 2008. In the third quarter of 2006, we began formal negotiations with the Teamsters on a new agreement. We have approximately 2,800 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"). On June 30, 2006, UPS and the IPA announced a tentative agreement on a new labor contract, which was ratified in the third quarter. This new contract becomes amendable at the end of 2011. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable on November 1, 2006. We began formal negotiations with Teamsters Local 2727 on October 2, 2006. In addition, the majority of our ground 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. These agreements run through July 31, 2009.

### *Other Matters*

On July 14, 2006, we received a grand jury subpoena from the Antitrust Division of the U.S. Department of Justice ("DOJ"). The subpoena relates to the DOJ's publicly-announced criminal investigation of the air cargo pricing practices of a number of domestic and foreign airlines. We do not believe that we are a target of this investigation and we intend to cooperate.

With the assistance of outside counsel, we investigated certain conduct within our Supply Chain Solutions subsidiary in certain locations outside the United States. Our investigation determined that certain conduct, which commenced prior to our subsidiary's 2001 acquisition of a freight forwarding business that was part of Fritz Companies Inc., may have violated the United States Foreign Corrupt Practices Act. The monetary value involved in this conduct appears to be immaterial. We have implemented numerous remediation steps. We informed the SEC and the DOJ of our investigation, and we intend to cooperate fully with any review by the government of these issues. We do not believe that the results of this investigation, the remediation or related penalties, if any, will have a material adverse effect on our financial condition, liquidity or results of operations, nor do we believe that these matters will have a material adverse effect on our business and prospects.

### **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

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engage in speculative trading activities. In order to manage the risk arising from these exposures, we utilize a variety of foreign exchange, interest rate, equity and commodity forward contracts, options, and swaps.

The following analysis provides quantitative information regarding our exposure to commodity price risk, foreign currency exchange risk, interest rate risk, and equity price risk. We utilize valuation models to evaluate the sensitivity of the fair value of financial instruments with exposure to market risk that assume instantaneous, parallel shifts in exchange rates, interest rate yield curves, and commodity and equity prices. For options and instruments with non-linear returns, models appropriate to the instrument are utilized to determine the impact of market shifts. There are certain limitations inherent in the sensitivity analyses presented, primarily due to the assumption that exchange rates change in a parallel fashion and that interest rates change instantaneously. In addition, the analyses are unable to reflect the complex market reactions that normally would arise from the market shifts modeled.

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 an increase in the prices of refined fuels, principally jet-A, diesel, and unleaded gasoline, which are used in the transportation of packages. Additionally, we are exposed to an increase in the prices of other energy products, primarily natural gas and electricity, used in our operating facilities throughout the world. We use a combination of options, swaps, and futures contracts to provide some protection from rising fuel and energy prices. These derivative instruments generally cover forecasted fuel and energy consumption for periods of one to three years. The net fair value of such contracts subject to price risk, excluding the underlying exposures, as of December 31, 2006 and 2005 was an asset of \$10 and \$192 million, respectively. The potential loss in the fair value of these derivative contracts, assuming a hypothetical 10% adverse change in the underlying commodity price, would be approximately \$8 and \$35 million at December 31, 2006 and 2005, respectively. This amount excludes the offsetting impact of the price risk inherent in the physical purchase of the underlying commodities.

In the second quarter of 2006, we terminated several energy derivatives and received \$229 million in cash. These derivatives were designated as hedges of forecasted cash outflows for purchases of fuel products. As these derivatives maintained their effectiveness and qualified for hedge accounting, we anticipate that the gains associated with these hedges will be recognized in income over the original term of the hedges through 2007.

### *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, the British Pound Sterling and the Canadian Dollar. We use a combination of purchased and written options and forward contracts to hedge cash flow currency exposures. These derivative instruments generally cover forecasted foreign currency exposures for periods up to one year. As of December 31, 2006 and 2005, the net fair value of the hedging instruments described above was an asset of \$30 and \$52 million, respectively. The potential loss in fair value for such instruments from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be approximately \$183 and \$65 million at December 31, 2006 and 2005, respectively. This sensitivity analysis assumes a parallel shift in the foreign currency exchange rates. Exchange rates rarely move in the same direction. The assumption that exchange rates change in a parallel fashion may overstate the impact of changing exchange rates on assets and liabilities denominated in a foreign currency.

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### *Interest Rate Risk*

As described in Note 8 to the consolidated financial statements, 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 derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. These swaps are generally entered into concurrently with the issuance of the debt that they are intended to modify, and the notional amount, interest payment, and maturity dates of the swaps match the terms of the associated debt.

Our floating rate debt and interest rate swaps subject us to risk resulting from changes in short-term (primarily LIBOR) interest rates. The potential change in annual interest expense resulting from a hypothetical 100 basis point change in short-term interest rates applied to our floating rate debt and swap instruments at December 31, 2006 and 2005 would be approximately \$29 million each year.

We have investments in debt and preferred equity securities (including auction rate securities), as well as cash-equivalent instruments, some of which accrue income at variable rates of interest. The potential change in annual investment income resulting from a hypothetical 100 basis point change in interest rates applied to our investments exposed to variable interest rates at December 31, 2006 and 2005 would be approximately \$12 and \$14 million, respectively.

Additionally, as described in Note 3 to the consolidated financial statements, we hold a portfolio of finance receivables that accrue income at fixed and floating rates of interest. The potential change in the annual income resulting from a hypothetical 100 basis point change in interest rates applied to our variable rate finance receivables at December 31, 2006 and 2005 would be immaterial.

This interest rate sensitivity analysis assumes interest rate changes are instantaneous, parallel shifts in the yield curve. In reality, interest rate changes are rarely instantaneous or parallel. 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.

### *Equity Price Risk*

We hold investments in various common equity securities that are subject to price risk, and for certain of these securities, we utilize options to hedge this price risk. At December 31, 2006 and 2005, the fair value of such investments was \$80 and \$89 million, respectively. The potential change in the fair value of such investments, assuming a 10% change in equity prices net of the offsetting impact of any hedges, would be approximately \$8 and \$9 million at December 31, 2006 and 2005.

### *Credit Risk*

The forward contracts, swaps, and options previously discussed 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 large banks and financial institutions that meet established credit guidelines. We do not expect to incur any losses as a result of counterparty default.

### **New Accounting Pronouncements**

In September 2006, the FASB issued Statement No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))" ("FAS 158"). This statement requires the recognition of the funded status of defined benefit pension and other postretirement plans as an asset or liability in the balance sheet for fiscal years ending after December 15, 2006.

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FAS 158 also requires delayed recognition items, consisting of actuarial gains and losses and prior service costs and credits, to be recognized in other comprehensive income and subsequently amortized to the income statement. On December 31, 2006, we adopted the recognition and disclosure provisions of FAS 158. The effect of adopting FAS 158 on our balance sheet as of December 31, 2006 has been included in Note 5 to the consolidated financial statements, while there was no effect on our balance sheet for prior periods.

Additionally, we currently utilize the early measurement date option available under Statement No. 87 “Employers’ Accounting for Pensions”, and we measure the funded status of our plans as of September 30 each year. Under the provisions of FAS 158, we will be required to use a December 31 measurement date for all of our pension and postretirement benefit plans no later than 2008. We do not expect the impact of the change in measurement date to have a material impact on our financial statements.

In June 2006, the FASB issued Interpretation No. 48 “Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)”. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, financial statement classification, tax-related interest and penalties, and additional disclosure requirements. We are required to adopt this interpretation effective January 1, 2007. We are currently in the process of evaluating the impact of this standard on our financial statements. Any necessary transition adjustments will not affect net income in the period of adoption and will be reported as a change in accounting principle in our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157 “Fair Value Measurements” (“FAS 157”), which is effective for fiscal years beginning after November 15, 2007. FAS 157 was issued to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. FAS 157 is not anticipated to have a material impact on our results of operations or financial condition.

The adoption of the following recent accounting pronouncements did not have a material impact on our results of operations or financial condition:

- FSP AUG AIR-1 “Accounting for Planned Major Maintenance Activities”;
- FAS 156 “Accounting for Servicing of Financial Assets”; and
- FSP FAS 13-2 “Accounting for a Change in the Timing of Cash Flows Related to Income Taxes Generated by a Leveraged Lease Transaction”.

### **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 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. We have recorded liabilities for these matters in accordance with Statement of Financial Accounting Standards No. 5, “Accounting for Contingencies” (“FAS 5”). FAS 5 requires a liability to be recorded based on our estimate of the probable cost of the resolution of a contingency. The actual resolution of these contingencies may differ from our estimates. If a contingency is settled for an amount greater than our estimate, a future charge to income would result. Likewise, if a contingency is settled for an amount that is less than our estimate, a future credit to income would result.

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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 FAS 5 evaluation. We record a liability for a loss that meets the recognition criteria of FAS 5. These criteria require recognition of a liability 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 meet the recognition criteria under FAS 5, excluding those related to income taxes and self insurance which are discussed further below, were not material to the Company's financial position as of December 31, 2006. In addition, we have certain contingent liabilities that have not been recognized as of December 31, 2006, because a loss is not reasonably estimable.

*Goodwill Impairment*—We account for goodwill in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"), which requires annual impairment testing of goodwill for each of our reporting units. Goodwill impairment testing requires that we estimate the fair value of our goodwill and compare that estimate to the amount of goodwill recorded on our balance sheet.

We use a discounted cash flow model (DCF model) to estimate the fair value of our goodwill. The completion of the DCF model requires that we make a number of significant assumptions to produce an estimate of future cash flows. These assumptions include projections of future revenue, costs and working capital changes. In addition, we make assumptions about the estimated cost of capital and other relevant variables, as required, in estimating the fair value of our reporting units. The projections that we use in our DCF model are updated annually and will change over time based on the historical performance and changing business conditions for each of our reporting units.

As of December 31, 2006, our recorded goodwill was \$2.533 billion, of which \$2.243 billion relates to our Supply Chain and Freight segment. This segment of our business has experienced rapid growth over the last several years, largely due to a number of acquisitions that we have made. Because of its growth, this segment continues to experience significant change as we integrate the acquired companies, resulting in higher volatility in our DCF model projections than for our other segments. Our annual impairment tests performed in 2006, 2005 and 2004 resulted in no goodwill impairment.

*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 determined by outside actuaries, who incorporate historical loss experience and judgments about the present and expected levels of cost per claim. Trends in actual experience are a significant factor in the determination of such reserves. We believe our estimated reserves for such claims are adequate, but actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations.

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

We sponsor a number of health and welfare insurance plans for our employees. We use estimates from third party actuaries to establish the liabilities for these plans. These liabilities and related expenses are based on

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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.

*Pension and Postretirement Medical Benefits*—As discussed in Note 5 to our consolidated financial statements, we maintain several defined benefit and postretirement benefit plans. Our pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies as prescribed by Statement of Financial Accounting Standards No. 87, “Employers’ Accounting for Pensions” and Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits Other than Pensions.” These assumptions include discount rates, health care cost trend rates, inflation, rate of compensation increases, expected return on plan assets, mortality rates, and other factors. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense and recorded obligation in such future periods. We believe that the assumptions utilized in recording the obligations under our plans are reasonable based on input from our outside actuaries and other advisors and information as to historical experience and performance. Differences in actual experience or changes in assumptions may affect our pension and other postretirement obligations and future expense. A 25 basis point change in the assumed discount rate, expected return on assets, and health care cost trend rate for the pension and postretirement benefit plans would result in the following increases (decreases) on the Company’s costs and obligations for the year 2006 (in millions):

	25 Basis Point Increase	25 Basis Point Decrease
<b>Pension Plans</b>		
<i>Discount Rate:</i>		
Effect on net periodic benefit cost	\$ (67)	\$ 68
Effect on projected benefit obligation	(571)	595
<i>Return on Assets:</i>		
Effect on net periodic benefit cost	(31)	31
<b>Postretirement Medical Plans</b>		
<i>Discount Rate:</i>		
Effect on net periodic benefit cost	(7)	7
Effect on projected benefit obligation	(83)	86
<i>Health Care Cost Trend Rate:</i>		
Effect on net periodic benefit cost	3	(2)
Effect on projected benefit obligation	17	(16)

*Financial Instruments*—As discussed in Notes 2, 3, 8, and 15 to our consolidated financial statements, and in the “Market Risk” section of this report, we hold and issue financial instruments that contain elements of market risk. Certain of these financial instruments are required to be recorded at fair value. 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 “Market Risk” section of this report.

*Depreciation, Residual Value, and Impairment of Fixed Assets*—As of December 31, 2006, we had \$16.779 billion of net fixed assets, the most significant category of which is aircraft. In accounting for fixed assets, we

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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.

In accordance with the provisions of Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("FAS 144"), 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, a significant decrease in the market value of an asset, 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).

During 2006, we reevaluated the anticipated service lives of our Boeing 757, Boeing 767, and Airbus A300 fleets, and as a result of this evaluation, increased the depreciable lives from 20 to 30 years and reduced the residual values from 30% to 10% of original cost. This change did not have a material effect on our results of operations.

In December 2004, we permanently removed from service a number of Boeing 727, 747 and McDonnell Douglas DC-8 aircraft. As a result of the actual and planned retirement of these aircraft, we conducted an impairment evaluation, which resulted in a \$110 million impairment charge during the fourth quarter of 2004 for these aircraft (including the related engines and parts), \$91 million of which impacted the U.S. domestic package segment and \$19 million of which impacted the international package segment. This charge was classified in the caption "other expenses" on the income statement. UPS continues to operate all of its other aircraft and continues to experience positive cash flow, and no impairments of aircraft were recognized in 2006 or 2005.

*Income Taxes*—We operate in numerous countries around the world and are subject to income taxes in many jurisdictions. We estimate our annual effective income tax rate based on statutory income tax rates in these jurisdictions and take into consideration items that are treated differently for financial reporting and tax purposes. The process of estimating our effective income tax rate involves judgments related to tax planning and expectations regarding future events, including the impact of adjustments, if any, resulting from the resolution of audits of open tax years by the Internal Revenue Service or other taxing authorities.

We recognize deferred tax assets for items that will generate tax deductions or credits in future years. Realization of deferred tax assets requires sufficient future taxable income (subject to any carry-forward limitations) in the applicable jurisdictions. We make judgments regarding the realizability of deferred tax assets based, in part, on estimates of future taxable income. A valuation allowance is recognized if, based on the weight of the available evidence, it is more likely than not (likelihood of more than 50 percent) that some portion, or all, of the deferred tax asset will not be realized. Income tax related contingency matters also affect our effective income tax rate. In this regard, we make judgments related to the identification and quantification of income tax related contingency matters.

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During the third quarter of 2006, we recognized a \$52 million reduction of income tax expense related to favorable developments with certain U.S. Federal tax contingency matters involving non-U.S. operations.

During 2004, the resolution of tax matters with the Internal Revenue Service and other taxing authorities produced reductions in income tax expense of \$142 million.

### **Forward-Looking Statements**

“Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other parts of this report contain “forward-looking” statements about matters that inherently are difficult to predict. The words “believes,” “expects,” “anticipates,” “we see,” and similar expressions are intended to identify forward-looking statements. These statements include statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. We have described some of the important factors that affect these statements as we discussed each subject. Forward-looking statements involve risks and uncertainties, and certain factors may cause actual results to differ materially from those contained in the forward-looking statements.

### **Risk Factors**

The following are some of the factors that could cause our actual results to differ materially from the expected results described in our forward-looking statements:

- The effect of general economic and other conditions in the markets in which we operate, both in the United States and internationally. Our operations in international markets are also affected by currency exchange and inflation risks.
- The impact of 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. Our industry is undergoing rapid consolidation, and the combining entities are competing aggressively for business.
- The impact of complex and stringent aviation, transportation, environmental, labor, employment and other governmental laws and regulations, and the impact of new laws and regulations that may result from increased security concerns following the events of September 11, 2001. Our failure to comply with applicable laws, ordinances or regulations could result in substantial fines or possible revocation of our authority to conduct our operations.
- Strikes, work stoppages and slowdowns by our employees. Such actions may affect our ability to meet our customers needs, and customers may do more business with competitors if they believe that such actions may adversely affect our ability to provide service. We may face permanent loss of customers if we are unable to provide uninterrupted service. The terms of future collective bargaining agreements also may affect our competitive position and results of operations.
- Possible disruption of supplies, or an increase in the prices, of gasoline, diesel and jet fuel for our aircraft and delivery vehicles as a result of war or other factors. We require significant quantities of fuel and are exposed to the commodity price risk associated with variations in the market price for petroleum products.
- Cyclical and seasonal fluctuations in our operating results due to decreased demand for our services.

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

Information about market risk can be found in Item 7 of this report under the caption "Market Risk."

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

Our financial statements are filed together with this report. See the Index to Financial Statements and Financial Statement Schedules on page F-1 for a list of the financial statements filed together with this report. Supplementary data appear in Note 17 to our financial statements.

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

None.

**Item 9A. *Controls and Procedures***

As of the end of the period covered by this report, management, including our chief executive officer and chief financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures and internal controls over financial reporting. Based upon, and as of the date of, the evaluation, our chief executive officer and chief financial officer concluded that the disclosure controls and procedures and internal controls over financial reporting 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.

There were no changes in the Company's internal controls over financial reporting during the year ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

See page F-2 for management's report on internal control over financial reporting.

**Item 9B. *Other Information***

None.

**PART III**

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

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 10, 2007 and is incorporated herein by reference.

Information about our executive officers can be found in Part I of this report under the caption “Executive Officers of the Registrant” in accordance with Instruction 3 of Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K.

Information about our Audit Committee is presented under the caption “Election of Directors — Committees of the Board of Directors — Audit Committee” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 10, 2007 and is incorporated herein by reference.

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

Information about our compliance with Section 16 of the Exchange Act of 1934, as amended, is presented under the caption “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 10, 2007 and is incorporated herein by reference.

**Item 11. Executive Compensation**

Information about executive compensation is presented under the captions “Compensation to Executive Officers,” “Compensation of Directors,” “Report of the Compensation Committee” and “Compensation Committee Interlocks and Insider Participation” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 10, 2007 and is incorporated herein by reference.

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

Information about security ownership is presented under the caption “Beneficial Ownership of Common Stock” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 10, 2007 and is incorporated herein by reference.

Information about our equity compensation plans is presented under the caption “Securities Authorized for Issuance under Equity Compensation Plans” in Part II, Item 5 of this report.

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

Information about transactions with related persons is presented under the caption “Related Person Transactions” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 10, 2007 and is incorporated herein by reference.

Information about director independence is presented under the caption “Election of Directors — Director Independence” in our definitive Proxy Statement for the Annual Meeting of Shareowners to be held on May 10, 2007 and is incorporated herein by reference.

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

Information about aggregate fees billed to us by our principal accountant is presented under the caption “Principal Accounting Firm Fees” in our definitive Proxy Statement for the Annual Meetings of Shareowners to be held on May 10, 2007 and is incorporated herein by reference.

**PART IV**

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

(a) 1. *Financial Statements.*

See the Index to Financial Statements on page F-1 for a list of 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.



UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES  
INDEX TO FINANCIAL STATEMENTS

Item 8—Financial Statements

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

UPS management is responsible for establishing and maintaining adequate internal controls over financial reporting for United Parcel Service, Inc. and its subsidiaries ("the Company"). Based on the criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework* 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, 2006. The independent registered public accounting firm of Deloitte & Touche LLP, as auditors of the consolidated balance sheet of United Parcel Service, Inc. and its subsidiaries as of December 31, 2006 and the related consolidated statements of income, comprehensive income and cash flows for the year ended December 31, 2006, has issued an attestation report on management's assessment of the Company's internal control over financial reporting.

United Parcel Service, Inc.  
March 1, 2007

**Report of Independent Registered Public Accounting Firm  
on Internal Control over Financial Reporting**

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that United Parcel Service, Inc. and its subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of United Parcel Service, Inc. and its subsidiaries as of December 31, 2006, and the related consolidated statements of income, comprehensive income, and cash flows for the year ended December 31, 2006 of the Company and our report dated March 1, 2007 expressed an unqualified opinion on those financial statements, and included an explanatory paragraph regarding the Company's changes in accounting for share-based payments and pensions and postretirement benefits.

Deloitte & Touche LLP

Atlanta, Georgia  
March 1, 2007

**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 its subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, comprehensive income, and cash flows for each of the three years in the period ended December 31, 2006. 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 its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the consolidated financial statements, on January 1, 2006 the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," and on December 31, 2006, the Company adopted the recognition and disclosure provisions of Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Deloitte & Touche LLP

Atlanta, Georgia  
March 1, 2007

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

	December 31,	
	2006	2005
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 794	\$ 1,369
Marketable securities and short-term investments	1,189	1,672
Accounts receivable, net	5,794	5,743
Finance receivables, net	426	411
Deferred income tax assets	414	475
Other current assets	760	1,058
Total Current Assets	9,377	10,728
Property, Plant and Equipment, Net	16,779	15,289
Pension and Postretirement Benefit Assets	2,044	3,932
Goodwill	2,533	2,549
Intangible Assets, Net	688	684
Long-Term Finance Receivables, Net	374	471
Other Non-Current Assets	1,415	1,294
Total Assets	\$33,210	\$34,947
<b>LIABILITIES AND SHAREOWNERS' EQUITY</b>		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	\$ 983	\$ 821
Accounts payable	1,841	1,806
Accrued wages and withholdings	1,303	1,283
Dividends payable	400	364
Self-insurance reserves	682	752
Income taxes payable	101	180
Other current liabilities	1,409	1,312
Total Current Liabilities	6,719	6,518
Long-Term Debt	3,133	3,159
Pension and Postretirement Benefit Obligations	2,748	2,454
Deferred Income Tax Liabilities	2,529	3,425
Self-Insurance Reserves	1,604	1,354
Other Non-Current Liabilities	995	1,153
Shareowners' Equity:		
Class A common stock (401 and 454 shares issued in 2006 and 2005)	4	5
Class B common stock (672 and 646 shares issued in 2006 and 2005)	7	6
Additional paid-in capital	—	—
Retained earnings	17,676	17,037
Accumulated other comprehensive loss	(2,205)	(164)
Deferred compensation obligations	147	161
Total Shareowners' Equity	15,629	17,045
Less: Treasury stock (3 shares in 2006 and 2005)	(147)	(161)
Total Shareowners' Equity	15,482	16,884
Total Liabilities and Shareowners' Equity	\$33,210	\$34,947

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,		
	2006	2005	2004
Revenue	\$47,547	\$42,581	\$36,582
Operating Expenses:			
Compensation and benefits	24,421	22,517	20,823
Repairs and maintenance	1,155	1,097	1,005
Depreciation and amortization	1,748	1,644	1,543
Purchased transportation	5,496	4,075	2,084
Fuel	2,655	2,085	1,416
Other occupancy	938	872	752
Other expenses	4,499	4,148	3,970
Total Operating Expenses	<u>40,912</u>	<u>36,438</u>	<u>31,593</u>
Operating Profit	<u>6,635</u>	<u>6,143</u>	<u>4,989</u>
Other Income and (Expense):			
Investment income	86	104	82
Interest expense	(211)	(172)	(149)
Total Other Income and (Expense)	<u>(125)</u>	<u>(68)</u>	<u>(67)</u>
Income Before Income Taxes	6,510	6,075	4,922
Income Taxes	2,308	2,205	1,589
Net Income	<u>\$ 4,202</u>	<u>\$ 3,870</u>	<u>\$ 3,333</u>
Basic Earnings Per Share	<u>\$ 3.87</u>	<u>\$ 3.48</u>	<u>\$ 2.95</u>
Diluted Earnings Per Share	<u>\$ 3.86</u>	<u>\$ 3.47</u>	<u>\$ 2.93</u>

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

	Years Ended December 31,		
	2006	2005	2004
Net income	\$4,202	\$3,870	\$3,333
Change in foreign currency translation adjustment	54	(36)	(71)
Change in unrealized gain (loss) on marketable securities, net of tax	1	16	(19)
Change in unrealized gain (loss) on cash flow hedges, net of tax	(15)	112	43
Change in minimum pension liability, net of tax	16	(14)	(18)
Comprehensive income	<u>\$4,258</u>	<u>\$3,948</u>	<u>\$3,268</u>

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2006	2005	2004
<b>Cash Flows From Operating Activities:</b>			
Net income	\$ 4,202	\$ 3,870	\$ 3,333
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	1,748	1,644	1,543
Pension and postretirement benefit expense	568	442	483
Pension and postretirement benefit contributions	(1,625)	(995)	(586)
Deferred taxes, credits and other	279	450	289
Stock compensation expense	369	234	610
Other (gains) losses	128	170	144
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable, net	(77)	(789)	(686)
Other current assets	81	213	390
Accounts payable	24	158	318
Accrued wages and withholdings	12	56	(73)
Income taxes payable	(58)	179	(399)
Other current liabilities	(62)	161	(35)
Net cash from operating activities	<u>5,589</u>	<u>5,793</u>	<u>5,331</u>
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures	(3,085)	(2,187)	(2,127)
Proceeds from disposals of property, plant and equipment	75	27	75
Purchases of marketable securities and short-term investments	(9,056)	(7,623)	(6,322)
Sales and maturities of marketable securities and short-term investments	9,538	10,375	4,724
Net decrease in finance receivables	68	95	318
Cash paid for business acquisitions	(50)	(1,488)	(238)
Other investing activities	170	(174)	(68)
Net cash (used in) investing activities	<u>(2,340)</u>	<u>(975)</u>	<u>(3,638)</u>
<b>Cash Flows From Financing Activities:</b>			
Net change in short-term debt	(513)	(287)	471
Proceeds from long-term borrowings	649	128	340
Repayments of long-term borrowings	(90)	(302)	(468)
Purchases of common stock	(2,460)	(2,479)	(1,310)
Issuances of common stock	164	164	193
Dividends	(1,577)	(1,391)	(1,208)
Other financing activities	(24)	(8)	(32)
Net cash (used in) financing activities	<u>(3,851)</u>	<u>(4,175)</u>	<u>(2,014)</u>
<b>Effect Of Exchange Rate Changes On Cash and Cash Equivalents</b>	<u>27</u>	<u>(13)</u>	<u>(4)</u>
<b>Net Increase (Decrease) In Cash And Cash Equivalents</b>	<u>(575)</u>	<u>630</u>	<u>(325)</u>
<b>Cash And Cash Equivalents:</b>			
Beginning of period	1,369	739	1,064
End of period	<u>\$ 794</u>	<u>\$ 1,369</u>	<u>\$ 739</u>
<b>Cash Paid During The Period For:</b>			
Interest (net of amount capitalized)	<u>\$ 210</u>	<u>\$ 169</u>	<u>\$ 120</u>
Income taxes	<u>\$ 2,061</u>	<u>\$ 1,465</u>	<u>\$ 2,037</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 financial statements 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.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Revenue Recognition*

*U.S. Domestic and International Package Operations*—Revenue is recognized upon delivery of a letter or package, in accordance with EITF 91-9 “Revenue and Expense Recognition for Freight Services in Process”.

*Forwarding and Logistics*—Freight forwarding revenue and the expense related to the transportation of freight is recognized at the time the services are performed in accordance with EITF 99-19 “Reporting Revenue Gross as a Principal Versus Net as an Agent”. 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, in accordance with EITF 91-9.

*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.

During 2006, we began classifying deferred revenue and cost on our consolidated balance sheet as reductions of accounts receivable, accounts payable, and accrued wages and withholdings. Previously, deferred revenue and cost had been included in other current liabilities and other current assets in our consolidated balance sheet. We reclassified 2005 balance sheet line items for consistent presentation. This reclassification had the effect of reducing reported 2005 accounts receivable by \$207 million, other current assets by \$68 million, accounts payable by \$27 million, accrued wages and withholdings by \$41 million, and other current liabilities by \$207 million.

*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.

*Marketable Securities and Short-Term Investments*

Marketable securities are classified as available-for-sale and are carried at fair value, with related unrealized gains and losses reported, net of tax, as accumulated other comprehensive income (“AOCI”), a separate component of shareholders’ equity. The amortized cost of debt securities is adjusted for amortization of

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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.

Investment securities are reviewed for impairment in accordance with FASB Statement No. 115 “Accounting for Certain Investments in Debt and Equity Securities” and FASB Staff Position (FSP) 115-1 “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” We periodically review our 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 investment securities results in a charge to income when a market decline below cost is other than temporary.

*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—terms of leases; Plant Equipment—6 to 10 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. During 2006, we reevaluated the anticipated service lives of our Boeing 757, Boeing 767, and Airbus A300 fleets, and as a result of this evaluation, increased the depreciable lives from 20 to 30 years and reduced the residual values from 30% to 10% of original cost. This change did not have a material effect on our results of operations.

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 \$48, \$32, and \$25 million for 2006, 2005, and 2004, respectively.

*Impairment of Long-Lived Assets*

In accordance with the provisions of FASB Statement No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets,” 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.

In December 2004, we permanently removed from service a number of Boeing 727, 747 and McDonnell Douglas DC-8 aircraft. As a result of the actual and planned retirement of these aircraft, we conducted an impairment evaluation, which resulted in a \$110 million impairment charge during the fourth quarter for these aircraft (including the related engines and parts), \$91 million of which impacted the U.S. domestic package segment and \$19 million of which impacted the international package segment.

This charge is included in the caption “Other expenses”. UPS continues to operate all of its other aircraft and continues to experience positive cash flow, and no impairments of aircraft were recognized in 2006 or 2005.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Goodwill and Intangible Assets*

Costs of purchased businesses in excess of net assets acquired (goodwill), and intangible assets are accounted for under the provisions of FASB Statement No. 142 “Goodwill and Other Intangible Assets” (“FAS 142”). Under FAS 142, we are required to test all goodwill 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.

A fair value approach is used to test goodwill for impairment. An impairment charge is recognized for the amount, if any, by which the carrying amount of goodwill exceeds its fair value. Fair values are established using discounted cash flows. When available and as appropriate, comparative market multiples were used to corroborate discounted cash flow results. Our annual impairment tests performed in 2006, 2005, and 2004 resulted in no goodwill impairment.

Finite-lived intangible assets, including trademarks, licenses, patents, customer lists, and franchise rights are amortized over the estimated useful lives of the assets, which range from 2 to 20 years. Capitalized software is amortized over periods ranging from 3 to 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 determined by outside actuaries, who incorporate historical loss experience and judgments about the present and expected levels of cost per claim.

*Income Taxes*

Income taxes are accounted for under FASB Statement No. 109, “Accounting for Income Taxes” (“FAS 109”). FAS 109 is 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 financial statements or tax returns. In estimating future tax consequences, FAS 109 generally considers 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 record accruals for tax contingencies related to potential assessments by tax authorities. Such accruals are based on management’s judgment and best estimate as to the ultimate outcome of any potential tax audits. Actual tax audit results could vary from these estimates.

*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 OCI. Net currency transaction gains and losses included in other operating expenses were pre-tax gains (losses) of \$(5), \$(22), and \$44 million in 2006, 2005 and 2004, respectively.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Stock-Based Compensation*

In December 2004, the FASB issued Statement No. 123 (revised 2004), "Share-Based Payment" ("FAS 123(R)"), which replaces FASB Statement No. 123 "Accounting for Stock-Based Compensation" and supercedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". FAS 123(R) requires all share-based awards to employees, including grants of employee stock options, to be 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 had previously adopted the fair value recognition provisions of the original FAS 123, prospectively for all new stock compensation awards granted to employees subsequent to January 1, 2003. FAS 123(R) was effective beginning with the first interim or annual period after September 15, 2005; the Securities and Exchange Commission ("SEC") deferred the effective date, and as a result, we adopted FAS 123(R) on January 1, 2006 using the modified prospective method. On that date, there were no unvested stock options or other forms of employee stock compensation issued prior to January 1, 2003, and thus all unvested stock-based awards were being expensed. A comparison of reported net income and pro-forma net income (assuming all stock-based compensation was expensed in each year) for the years ended December 31, 2006, 2005, and 2004, is as follows (in millions, except per share amounts):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Net income	\$4,202	\$3,870	\$3,333
Add: Stock-based employee compensation expense included in net income, net of tax effects	231	157	563
Less: Total pro forma stock-based employee compensation expense, net of tax effects	<u>(231)</u>	<u>(165)</u>	<u>(588)</u>
Pro forma net income	<u>\$4,202</u>	<u>\$3,862</u>	<u>\$3,308</u>
Basic earnings per share			
As reported	\$ 3.87	\$ 3.48	\$ 2.95
Pro forma	\$ 3.87	\$ 3.47	\$ 2.93
Diluted earnings per share			
As reported	\$ 3.86	\$ 3.47	\$ 2.93
Pro forma	\$ 3.86	\$ 3.46	\$ 2.91

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 five year period, "the nominal vesting period," or at the date the employee retires (as defined by the plan), if earlier. For awards that specify an employee vests in the award upon retirement, we account for the awards using the nominal vesting period approach. Under this approach, we record compensation expense over the nominal vesting period. If the employee retires before the end of the nominal vesting period, any remaining unrecognized compensation expense is recorded at the date of retirement.

Upon our adoption of FAS 123(R), we revised our approach to apply the non-substantive vesting period approach to all new share-based compensation awards. Under this approach, 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. We continue to apply the nominal vesting period approach for any awards granted prior to January 1, 2006, and for the remaining portion of the then unvested outstanding awards.

If we had accounted for all share-based compensation awards granted prior to January 1, 2006 under the non-substantive vesting period approach, the impact to our net income and earnings per share would have been immaterial for all prior periods. The adoption of the non-substantive vesting period approach reduced 2006 net income by \$23 million, or \$0.02 per diluted share.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Derivative Instruments*

Derivative instruments are accounted for in accordance with FASB Statement No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“FAS 133”), as amended, which requires all financial derivative instruments to be recorded on our balance sheet at fair value. Derivatives not designated as hedges must be adjusted to fair value through income. If a derivative is designated as a hedge, depending on the nature of the hedge, changes in its fair value that are considered to be effective, as defined, either offset the change in fair value of the hedged assets, liabilities, or firm commitments through income, or are recorded in OCI until the hedged item is recorded in income. Any portion of a change in a derivative’s fair value that is considered to be ineffective, or is excluded from the measurement of effectiveness, is recorded immediately in income.

*New Accounting Pronouncements*

In September 2006, the FASB issued Statement No. 158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132(R))” (“FAS 158”). This statement requires the recognition of the funded status of defined benefit pension and other postretirement plans as an asset or liability in the balance sheet for fiscal years ending after December 15, 2006. FAS 158 also requires delayed recognition terms, consisting of actuarial gains and losses and prior service costs and credits, to be recognized in other comprehensive income and subsequently amortized to the income statement. On December 31, 2006, we adopted the recognition and disclosure provisions of FAS 158. The effect of adopting FAS 158 on our balance sheet as of December 31, 2006 has been included in Note 5 to the consolidated financial statements, while there was no effect on our balance sheet for prior periods.

Additionally, we currently utilize the early measurement date option available under Statement No. 87 “Employers’ Accounting for Pensions”, and we measure the funded status of our plans as of September 30 each year. Under the provisions of FAS 158, we will be required to use a December 31 measurement date for all of our pension and postretirement benefit plans no later than 2008. We do not expect the impact of the change in measurement date to have a material impact on our financial statements.

In June 2006, the FASB issued Interpretation No. 48 “Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109)”. This interpretation was issued to clarify the accounting for uncertainty in income taxes recognized in the financial statements by prescribing a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, financial statement classification, tax-related interest and penalties, and additional disclosure requirements. We are required to adopt this interpretation effective January 1, 2007. We are currently in the process of evaluating the impact of this standard on our financial statements. Any necessary transition adjustments will not affect net income in the period of adoption and will be reported as a change in accounting principle in our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157 “Fair Value Measurements” (“FAS 157”), which is effective for fiscal years beginning after November 15, 2007. FAS 157 was issued to define fair value, establish a framework for measuring fair value, and expand disclosures about fair value measurements. FAS 157 is not anticipated to have a material impact on our results of operations or financial condition.

The adoption of the following recent accounting pronouncements did not have a material impact on our results of operations or financial condition:

- FSP AUG AIR-1 “Accounting for Planned Major Maintenance Activities”;
- FAS 156 “Accounting for Servicing of Financial Assets”; and
- FSP FAS 13-2 “Accounting for a Change in the Timing of Cash Flows Related to Income Taxes Generated by a Leveraged Lease Transaction”.

*Changes in Presentation*

Certain prior year amounts have been reclassified to conform to the current year presentation.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 2. MARKETABLE SECURITIES AND SHORT-TERM INVESTMENTS**

The following is a summary of marketable securities and short-term investments classified as available-for-sale at December 31, 2006 and 2005 (in millions):

	Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
<b>2006</b>				
U.S. government & agency securities	\$ 124	\$ —	\$ —	\$ 124
U.S. mortgage & asset-backed securities	234	1	2	233
U.S. corporate securities	79	—	1	78
U.S. state and local municipal securities	582	—	—	582
Other debt securities	2	—	—	2
Total debt securities	1,021	1	3	1,019
Common equity securities	38	10	—	48
Preferred equity securities	122	—	—	122
Current marketable securities & short-term investments	1,181	11	3	1,189
Non-current common equity securities	24	8	—	32
Total marketable securities & short-term investments	<u>\$1,205</u>	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ 1,221</u>
<b>2005</b>				
U.S. government & agency securities	\$ 400	\$ 1	\$ 3	\$ 398
U.S. mortgage & asset-backed securities	393	1	5	389
U.S. corporate securities	425	—	4	421
U.S. state and local municipal securities	70	—	—	70
Other debt securities	2	—	—	2
Total debt securities	1,290	2	12	1,280
Common equity securities	42	19	—	61
Preferred equity securities	331	—	—	331
Current marketable securities & short-term investments	1,663	21	12	1,672
Non-current common equity securities	21	7	—	28
Total marketable securities & short-term investments	<u>\$1,684</u>	<u>\$ 28</u>	<u>\$ 12</u>	<u>\$ 1,700</u>

The gross realized gains on sales of marketable securities totaled \$12, \$2, and \$7 million in 2006, 2005, and 2004, respectively. The gross realized losses totaled \$21, \$12, and \$5 million in 2006, 2005, and 2004, respectively. Impairment losses recognized on marketable securities and short-term investments totaled \$16 million during 2005, with no such losses recognized in 2006 or 2004.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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, 2006 (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 & agency securities	\$ 60	\$ —	\$ 20	\$ —	\$ 80	\$ —
U.S. mortgage & asset-backed securities	74	—	76	2	150	2
U.S. corporate securities	8	—	50	1	58	1
U.S. state and local municipal securities	—	—	—	—	—	—
Other debt securities	—	—	—	—	—	—
Total debt securities	142	—	146	3	288	3
Common equity securities	—	—	—	—	—	—
Preferred equity securities	—	—	1	—	1	—
	<u>\$ 142</u>	<u>\$ —</u>	<u>\$ 147</u>	<u>\$ 3</u>	<u>\$ 289</u>	<u>\$ 3</u>

The unrealized losses in the U.S. government & agency securities, mortgage & asset-backed securities, and corporate securities relate to various fixed income securities, and 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.

The amortized cost and estimated fair value of marketable securities and short-term investments at December 31, 2006, 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	\$ 32	\$ 32
Due after one year through three years	140	140
Due after three years through five years	22	22
Due after five years	827	825
	1,021	1,019
Equity securities	184	202
	<u>\$ 1,205</u>	<u>\$ 1,221</u>

**NOTE 3. FINANCE RECEIVABLES**

The following is a summary of finance receivables at December 31, 2006 and 2005 (in millions):

	2006	2005
Commercial term loans	\$ 280	\$ 317
Investment in finance leases	138	153
Asset-based lending	273	281
Receivable factoring	131	151
Gross finance receivables	822	902
Less: Allowance for credit losses	(22)	(20)
Balance at December 31	<u>\$ 800</u>	<u>\$ 882</u>

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Outstanding receivable balances at December 31, 2006 and 2005 are net of unearned income of \$29 and \$34 million, respectively.

When we “factor” (i.e., purchase) a customer invoice from a client, we record the customer receivable as an asset and also establish a liability for the funds due to the client, which is recorded in accounts payable on the consolidated balance sheet. The following is a reconciliation of receivable factoring balances at December 31, 2006 and 2005 (in millions):

	<u>2006</u>	<u>2005</u>
Customer receivable balances	\$131	\$ 151
Less: Amounts due to client	(77)	(101)
Net funds employed	<u>\$ 54</u>	<u>\$ 50</u>

Non-earning finance receivables were \$23 and \$24 million at December 31, 2006 and 2005, respectively. The following is a rollforward of the allowance for credit losses on finance receivables (in millions):

	<u>2006</u>	<u>2005</u>
Balance at January 1	\$20	\$ 25
Provisions charged to operations	8	11
Charge-offs, net of recoveries	(6)	(16)
Balance at December 31	<u>\$22</u>	<u>\$ 20</u>

The carrying value of finance receivables at December 31, 2006, by contractual maturity, is shown below (in millions). Actual maturities may differ from contractual maturities because some borrowers have the right to prepay these receivables without prepayment penalties.

	<u>Carrying Value</u>
Due in one year or less	\$ 435
Due after one year through three years	60
Due after three years through five years	53
Due after five years	274
	<u>\$ 822</u>

Based on interest rates for financial instruments with similar terms and maturities, the estimated fair value of finance receivables is approximately \$795 and \$883 million as of December 31, 2006 and 2005, respectively. At December 31, 2006, we had unfunded loan commitments totaling \$604 million, consisting of standby letters of credit of \$63 million and other unfunded lending commitments of \$541 million.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 4. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment as of December 31 consists of the following (in millions):

	<u>2006</u>	<u>2005</u>
Vehicles	\$ 4,970	\$ 4,286
Aircraft (including aircraft under capitalized leases)	13,162	12,289
Land	1,026	968
Buildings	2,667	2,404
Leasehold improvements	2,496	2,469
Plant equipment	5,230	4,975
Technology equipment	1,673	1,646
Equipment under operating leases	142	87
Construction-in-progress	<u>715</u>	<u>433</u>
	32,081	29,557
Less: Accumulated depreciation and amortization	<u>(15,302)</u>	<u>(14,268)</u>
	<u>\$ 16,779</u>	<u>\$ 15,289</u>

**NOTE 5. EMPLOYEE BENEFIT PLANS**

We sponsor various retirement and pension plans, including defined benefit and defined contribution plans which cover our employees worldwide. In the U.S. we maintain the following defined benefit pension plans: UPS Retirement Plan, UPS Pension Plan, and several non-qualified plans including the UPS Excess Coordinating Benefit Plan. Effective January 1, 2006, the qualified defined benefit plans covering Overnite and Motor Cargo employees were merged with the UPS Retirement Plan and UPS Pension Plan.

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 (including the Lynx acquisition in 2005). 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.

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. 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.

The UPS Excess Coordinating Benefit Plan is a non-qualified plan that provides benefits to 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 provides for retirement benefits based on service credits earned by employees prior to retirement.

We also sponsor postretirement medical plans in the U.S. that provide health care benefits to our retirees who meet certain eligibility requirements and who are not otherwise covered by multi-employer 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

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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.

On December 31, 2006, we adopted the recognition and disclosure provisions of FAS 158. FAS 158 required us to recognize the funded status of our defined benefit pension and other postretirement plans in our balance sheet with a corresponding adjustment to AOCI, net of tax. The adoption of FAS 158 did not affect our operating results in the current period and will not have any effect in future periods. We have presented below the incremental effects of adopting FAS 158 to our balance sheet for the individual line items impacted from this adoption, as of December 31, 2006 (in millions).

	Prior to Adopting FAS 158	Effect of Adopting FAS 158	As Reported under FAS 158
Pension and Postretirement Benefit Assets	\$ 4,681	\$ (2,637)	\$ 2,044
Intangible Assets, Net	699	(11)	688
Other Current Liabilities	1,336	73	1,409
Pension and Postretirement Benefit Obligations	2,114	634	2,748
Deferred Income Tax Liabilities	3,787	(1,258)	2,529
Accumulated Other Comprehensive Loss	108	2,097	2,205

**Net Periodic Benefit Cost**

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

	U.S. Pension Benefits			U.S. Postretirement Medical Benefits			International Pension Benefits		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
<b>Net Periodic Cost:</b>									
Service cost	\$ 474	\$ 374	\$ 334	\$102	\$ 92	\$ 91	\$ 24	\$ 14	\$ 10
Interest cost	726	612	521	170	170	164	26	16	12
Expected return on assets	(1,106)	(922)	(800)	(43)	(38)	(34)	(22)	(13)	(9)
Amortization of:									
Transition obligation	3	3	6	—	—	—	—	—	—
Prior service cost	36	37	37	(8)	(7)	—	1	1	—
Actuarial (gain) loss	148	68	118	29	31	30	7	4	3
Settlements / curtailments	—	—	—	—	—	—	1	—	—
Net periodic benefit cost	<u>\$ 281</u>	<u>\$ 172</u>	<u>\$ 216</u>	<u>\$250</u>	<u>\$248</u>	<u>\$251</u>	<u>\$ 37</u>	<u>\$ 22</u>	<u>\$ 16</u>

**Actuarial Assumptions**

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

	Pension Benefits			Postretirement Medical Benefits			International Pension Benefits		
	2006	2005	2004	2006	2005	2004	2006	2005	2004
Discount rate	5.75%	6.25%	6.25%	5.75%	6.25%	6.25%	4.93%	5.76%	5.92%
Rate of compensation increase	4.00%	4.00%	4.00%	N/A	N/A	N/A	3.94%	3.46%	2.88%
Expected return on assets	8.96%	8.96%	8.96%	9.00%	9.00%	9.00%	7.67%	7.68%	7.90%

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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

	Pension Benefits		Postretirement Medical Benefits		International Pension Benefits	
	2006	2005	2006	2005	2006	2005
Discount rate	6.00%	5.75%	6.00%	5.75%	4.96%	4.93%
Rate of compensation increase	4.50%	4.00%	N/A	N/A	3.79%	3.94%

Our pension and other postretirement benefit costs are calculated using various actuarial assumptions and methodologies as prescribed by Statement of Financial Accounting Standards No. 87, “Employers’ Accounting for Pensions” and Statement of Financial Accounting Standards No. 106, “Employers’ Accounting for Postretirement Benefits Other than Pensions.” These assumptions include discount rates, expected return on plan assets, health care cost trend rates, inflation, rate of compensation increases, mortality rates, and other factors. Actuarial assumptions are reviewed on an annual basis.

A discount rate is used to determine the present value of our future benefit obligations. For U.S. plans, the discount rate is determined by matching the expected cash flows to a yield curve based on long-term, high quality fixed income debt instruments available as of the measurement date. For international plans, the discount rate is selected based on high quality fixed income indices available in the country in which the plan is domiciled. These assumptions are updated each year.

An assumption for return on plan assets is used to determine the expected return on asset component of net periodic benefit cost for the fiscal year. This assumption for our U.S. plans was evaluated using input from third-party consultants and various pension plan asset managers, including their long-term projection of returns for each asset class and our target allocation. For our U.S. plans, the 10-year U.S. Treasury yield is the foundation for all other asset class returns, and various risk premiums are added to determine the expected return for each allocation.

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

Health care cost trends are used to project future postretirement benefits payable from our plans. For year-end 2006 obligations, future postretirement medical benefit costs were forecasted assuming an initial annual increase of 9.0%, decreasing to 5.0% by the year 2011 and with consistent annual increases at those ultimate levels thereafter.

Assumed health care cost trends have a significant effect on the amounts reported for the U.S. postretirement medical plans. A one-percent change in assumed health care cost trend rates would have the following effects (in millions):

	1% Increase	1% Decrease
Effect on total of service cost and interest cost	\$ 7	\$ (4)
Effect on postretirement benefit obligation	70	(65)

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**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 our measurement date on September 30 (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2006	2005	2006	2005	2006	2005
<b>Benefit Obligations:</b>						
Net benefit obligation at October 1, prior year	\$12,299	\$ 9,042	\$ 2,927	\$ 2,648	\$ 476	\$ 238
Service cost	474	374	102	92	24	14
Interest cost	726	612	170	170	26	16
Gross benefits paid	(304)	(242)	(158)	(149)	(13)	(7)
Plan participants' contributions	—	—	13	10	2	1
Plan amendments	309	—	—	(21)	—	13
Acquired businesses	—	1,327	—	119	5	149
Actuarial (gain)/loss	54	1,186	(62)	58	(5)	74
Foreign currency exchange rate changes	—	—	—	—	40	(16)
Curtailments and settlements	—	—	—	—	(4)	(6)
Net benefit obligation at September 30	<u>\$13,558</u>	<u>\$12,299</u>	<u>\$ 2,992</u>	<u>\$ 2,927</u>	<u>\$ 551</u>	<u>\$ 476</u>
<b>Fair Value of Plan Assets:</b>						
Fair value of plan assets at October 1, prior year	\$12,943	\$ 9,962	\$ 509	\$ 455	\$ 266	\$ 132
Actual return on plan assets	1,310	1,473	50	62	36	26
Employer contributions	1,425	842	137	131	35	22
Plan participants' contributions	—	—	13	10	2	1
Gross benefits paid	(304)	(242)	(158)	(149)	(13)	(7)
Acquired businesses	—	908	—	—	3	104
Foreign currency exchange rate changes	—	—	—	—	23	(7)
Curtailments and settlements	—	—	—	—	(4)	(5)
Fair value of plan assets at September 30	<u>\$15,374</u>	<u>\$12,943</u>	<u>\$ 551</u>	<u>\$ 509</u>	<u>\$ 348</u>	<u>\$ 266</u>

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Funded Status**

The following table discloses the funded status of our plans as of our measurement date on September 30 and the amounts recognized in our balance sheet as of year-end, on a pre-tax basis (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2006	2005	2006	2005	2006	2005
<b>Funded Status:</b>						
Fair value of plan assets at September 30	\$ 15,374	\$ 12,943	\$ 551	\$ 509	\$ 348	\$ 266
Benefit obligation at September 30	<u>(13,558)</u>	<u>(12,299)</u>	<u>(2,992)</u>	<u>(2,927)</u>	<u>(551)</u>	<u>(476)</u>
Funded Status at September 30	1,816	644	(2,441)	(2,418)	(203)	(210)
<b>Amounts Not Yet Recognized in Net Periodic Cost:</b>						
Unrecognized net transition obligation	12	15	—	—	—	—
Unrecognized net prior service cost / (benefit)	532	260	(106)	(118)	12	14
Unrecognized net actuarial loss	2,189	2,486	727	817	110	127
Employer contributions	9	2	20	15	22	6
Net asset / (liability) at December 31	<u>\$ 4,558</u>	<u>\$ 3,407</u>	<u>\$ (1,800)</u>	<u>\$ (1,704)</u>	<u>\$ (59)</u>	<u>\$ (63)</u>
<b>Amounts Recognized in our Balance Sheet:</b>						
Pension and postretirement benefit assets	\$ 2,043	\$ 3,931	\$ —	\$ —	\$ 1	\$ 1
Intangible assets, net	—	2	—	—	—	11
Other current liabilities	(19)	—	(52)	—	(2)	—
Pension and postretirement benefit obligations	(199)	(619)	(2,369)	(1,704)	(180)	(131)
Accumulated other comprehensive loss	2,733	93	621	—	122	56
Net asset / (liability) at December 31	<u>\$ 4,558</u>	<u>\$ 3,407</u>	<u>\$ (1,800)</u>	<u>\$ (1,704)</u>	<u>\$ (59)</u>	<u>\$ (63)</u>

The accumulated benefit obligation for our pension plans as of September 30, 2006 and 2005 was \$12.481 and \$11.485 billion, respectively. In general, we use a measurement date of September 30 for our pension and postretirement benefit plans.

Employer contributions and benefits paid under the pension plans include \$24 and \$9 million paid from employer assets in 2006 and 2005, respectively. Employer contributions and benefits paid (net of participant contributions) under the postretirement medical benefit plans include \$72 and \$69 million paid from employer assets in 2006 and 2005, respectively.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

At September 30, 2006 and 2005, the projected benefit obligation, the accumulated benefit obligation, and the fair value of plan assets for pension plans with a projected benefit obligation in excess of plan assets and for pension plans with an accumulated benefit obligation in excess of plan assets were as follows (in millions):

As of September 30	Projected Benefit Obligation Exceeds the Fair Value of Plan Assets		Accumulated Benefit Obligation Exceeds the Fair Value of Plan Assets	
	2006	2005	2006	2005
<b>U.S. Pension Benefits</b>				
Projected benefit obligation	\$ 227	\$ 229	\$ 227	\$ 229
Accumulated benefit obligation	176	192	176	192
Fair value of plan assets	—	—	—	—
<b>International Pension Benefits</b>				
Projected benefit obligation	\$ 551	\$ 476	\$ 541	\$ 476
Accumulated benefit obligation	453	386	448	386
Fair value of plan assets	347	266	342	266

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

**Accumulated Other Comprehensive Income**

The amounts recorded in AOCI (pre-tax), which have not yet been recognized as components of net periodic cost, are as follows (in millions):

	U.S. Pension Benefits		U.S. Postretirement Medical Benefits		International Pension Benefits	
	2006	2005	2006	2005	2006	2005
<b>Accumulated Other Comprehensive Income:</b>						
Unrecognized transition obligation	\$ 12	\$ —	\$ —	\$ —	\$ —	\$ —
Unrecognized prior service cost / (benefit)	532	—	(106)	—	12	—
Unrecognized actuarial loss	2,189	—	727	—	110	—
Net asset / (liability) at December 31	<u>\$ 2,733</u>	<u>\$ —</u>	<u>\$ 621</u>	<u>\$ —</u>	<u>\$ 122</u>	<u>\$ —</u>

The amounts in AOCI expected to be amortized and recognized as a component of net periodic benefit cost in 2007 are as follows (in millions):

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
Transition obligation	\$ 3	\$ —	\$ —
Prior service cost / (benefit)	57	(8)	1
Actuarial loss	110	23	5
	<u>\$ 170</u>	<u>\$ 15</u>	<u>\$ 6</u>

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Plan Asset Investment Policy**

The asset allocation for our U.S. pension and other postretirement plans as of September 30, 2006 and 2005 and the target allocation as of September 30, 2006, by asset category, are as follows:

	Weighted Average Target Allocation 2006	Percentage of Plan Assets at September 30,	
		2006	2005
Equity securities	55% - 65%	61.5%	62.1%
Debt securities	20% - 30%	26.5%	25.9%
Real estate / other	10% - 15%	12.0%	12.0%
Total		100.0%	100.0%

Equity securities include UPS Class A shares of common stock in the amounts of \$440 (2.8% of total plan assets) and \$423 million (3.4% of total plan assets), as of September 30, 2006 and 2005, respectively.

The applicable benefit plan committees establish investment guidelines and strategies, and regularly monitor the performance of the funds and portfolio managers. Our investment strategy with respect to pension assets is to invest the assets in accordance with applicable laws and regulations. The long-term primary objectives for our pension assets are to (1) provide for a reasonable amount of long-term growth of capital, without undue exposure to risk; and protect the assets from erosion of purchasing power, and (2) provide investment results that meet or exceed the plans' actuarially assumed long-term rate of return.

**Expected Cash Flows**

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

	U.S. Pension Benefits	U.S. Postretirement Medical Benefits	International Pension Benefits
<b>Employer Contributions:</b>			
2007 (expected) to plan trusts	\$ 461	\$ 72	\$ 48
2007 (expected) to plan participants	19	52	2
<b>Expected Benefit Payments:</b>			
2007	\$ 340	\$ 138	\$ 9
2008	404	148	10
2009	440	160	11
2010	486	174	12
2011	537	189	14
2012 - 2016	3,679	1,175	93

Expected benefit payments for pensions will be primarily paid from plan trusts. Expected benefit payments for postretirement benefits will be paid from plan trusts and corporate assets. 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. We have also guaranteed our obligations for certain international pension plans up to a maximum amount of \$118 million. Additional discretionary contributions will be made when deemed appropriate to meet the long-term obligations of the plans.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**Other Plans**

We also contribute to several multi-employer pension plans for which the previous disclosure information is not determinable. Amounts charged to operations for pension contributions to these multi-employer plans were \$1.405, \$1.234, and \$1.111 billion during 2006, 2005, and 2004, respectively.

We also contribute to several multi-employer health and welfare plans that cover both active and retired employees for which the previous disclosure information is not determinable. Amounts charged to operations for contributions to multi-employer health and welfare plans were \$862, \$798, and \$761 million during 2006, 2005, and 2004, respectively.

We also sponsor a defined contribution plan for all employees not covered under collective bargaining agreements. The Company matches, in shares of UPS common stock, a portion of the participating employees' contributions. Matching contributions charged to expense were \$113, \$105, and \$94 million for 2006, 2005, and 2004, respectively.

Contributions are also made to defined contribution money purchase plans under certain collective bargaining agreements. Amounts charged to expense were \$62, \$55, and \$52 million for 2006, 2005, and 2004, respectively.

**NOTE 6. GOODWILL AND INTANGIBLE ASSETS**

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

	U.S. Domestic Package	International Package	Supply Chain & Freight	Consolidated
December 31, 2004 balance	\$ —	141	1,114	1,255
Acquired	—	134	836	970
Purchase Accounting Adjustments	—	11	335	346
Currency / Other	—	4	(26)	(22)
December 31, 2005 balance	—	\$ 290	\$ 2,259	\$ 2,549
Acquired	—	28	4	32
Purchase Accounting Adjustments	—	(39)	(60)	(99)
Currency / Other	—	11	40	51
December 31, 2006 balance	<u>\$ —</u>	<u>\$ 290</u>	<u>\$ 2,243</u>	<u>\$ 2,533</u>

The goodwill acquired in the International Package segment during 2006 resulted primarily from the purchase of the express operations of Sinotrans Air Transportation Development Co. Ltd. in China, offset by adjustments to the purchase price allocation of Lynx Express Delivery Ltd. The decrease in goodwill for the Supply Chain & Freight segment during 2006 resulted primarily from finalizing the purchase price allocation of Overnite Corp. The goodwill acquired in the International Package segment during 2005 resulted primarily from the purchase of Lynx Express Delivery Ltd. in the United Kingdom, Messenger Service Stolica S.A. in Poland, and the express operations of Sinotrans Air Transportation Development Co. Ltd. in China. The goodwill acquired in the Supply Chain & Freight segment in 2005 resulted primarily from the purchase of Overnite Corp., as well as purchase accounting adjustments resulting from the restructuring costs incurred in exiting certain activities from the Menlo Worldwide Forwarding operations acquired previously (See Note 16 for further discussion of the restructuring). The currency / other balance includes the translation effect on goodwill from fluctuations in currency exchange rates, as well as escrow reimbursements from acquisitions completed previously. See Note 7 for further discussion of these business acquisition transactions.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The following is a summary of intangible assets at December 31, 2006 and 2005 (in millions):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Weighted- Average Amortization Period (in years)
<b>December 31, 2006:</b>				
Trademarks, licenses, patents, and other	\$ 80	\$ (37)	\$ 43	4.2
Customer lists	159	(24)	135	10.5
Franchise rights	108	(29)	79	20.0
Capitalized software	1,576	(1,145)	431	3.2
Total Intangible Assets, Net	<u>\$ 1,923</u>	<u>\$ (1,235)</u>	<u>\$ 688</u>	<u>4.8</u>
<b>December 31, 2005:</b>				
Trademarks, licenses, patents, and other	\$ 43	\$ (20)	\$ 23	
Customer lists	78	(5)	73	
Franchise rights	108	(23)	85	
Capitalized software	1,409	(919)	490	
Intangible pension asset	13	—	13	
Total Intangible Assets, Net	<u>\$ 1,651</u>	<u>\$ (967)</u>	<u>\$ 684</u>	

Amortization of intangible assets was \$255, \$255, and \$221 million during 2006, 2005 and 2004, respectively. Expected amortization of finite-lived intangible assets recorded as of December 31, 2006 for the next five years is as follows (in millions): 2007—\$181; 2008—\$131; 2009—\$70; 2010—\$24; 2011—\$20. Amortization expense in future periods will be affected by business acquisitions, software development, and other factors.

**NOTE 7. BUSINESS ACQUISITIONS AND DISPOSITIONS**

We regularly explore opportunities to make acquisitions that would enhance our businesses. During the three years ended December 31, 2006, we completed several acquisitions, including both domestic and international transactions, which were accounted for under the purchase method of accounting. In connection with these transactions, we paid cash (net of cash acquired) in the aggregate amount of \$50 million, \$1.488 billion, and \$238 million in 2006, 2005, and 2004, respectively. Pro forma results of operations have not been presented for any of the acquisitions because the effects of these transactions were not material on either an individual or aggregate basis. The results of operations of each acquired company are included in our statements of consolidated income from the date of acquisition. The purchase price allocations of acquired companies can be modified up to one year after the date of acquisition.

In March 2004, we acquired the remaining 49% minority interest in UPS Yamato Express Co., which was previously a joint venture with Yamato Transport Co. in Japan, for \$65 million in cash. UPS Yamato Express provides express package delivery services in Japan. Upon the close of the acquisition, UPS Yamato Express became a wholly-owned subsidiary of UPS, and is included in our International Package reporting segment. The acquisition had no material effect on our financial condition or results of operations.

In December 2004, we acquired Menlo Worldwide Forwarding, Inc. from CNF Inc. for \$150 million in cash (net of cash acquired) plus the assumption of \$110 million in principal amount of debt and capital lease obligations. Menlo Worldwide Forwarding, Inc. was a global freight forwarder that provided a full suite of heavy air freight forwarding services, ocean services and international trade management, including customs brokerage. The former operations of Menlo Worldwide Forwarding, Inc. are included as part of our Supply Chain & Freight reporting segment.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

In December 2004, we agreed with Sinotrans Air Transportation Development Co., Ltd. (“Sinotrans”) to acquire direct control of the international express operations in 23 cities within China, and to purchase Sinotrans’ interest in our current joint venture in China. As of December 31, 2006, we have made all cash payments under the purchase agreement, a total of \$114 million, and have taken direct control of operations in all 23 locations. The operations acquired are reported within our International Package reporting segment from the dates of acquisition.

In May 2005, we acquired Messenger Service Stolica S.A. (“Stolica”), one of the leading parcel and express delivery companies in Poland. Stolica’s operating results are included in our International Package reporting segment from the date of acquisition.

In August 2005, we acquired Overnite Corporation (“Overnite”) for approximately \$1.225 billion in cash. Overnite offers a variety of LTL and TL services to more than 60,000 customers in North America. The operating results of Overnite, which is now known as UPS Freight, are included in our Supply Chain & Freight reporting segment from the date of acquisition.

In September 2005, we acquired Lynx Express Ltd. (“Lynx”) for approximately \$68 million in cash. Lynx Express was one of the largest independent parcel carriers in the United Kingdom. Lynx also offers customers a broad suite of logistics and spare parts logistics services. The operating results of Lynx are included in our International Package reporting segment from the date of acquisition.

**NOTE 8. LONG-TERM DEBT AND COMMITMENTS**

Long-term debt, as of December 31, consists of the following (in millions):

	<u>2006</u>	<u>2005</u>
8.38% debentures, due April 1, 2020	\$ 446	\$ 457
8.38% debentures, due April 1, 2030	285	293
Commercial paper	791	739
Floating rate senior notes	441	441
Capital lease obligations	230	278
Facility notes and bonds	437	397
UPS Notes	379	377
Pound Sterling notes	979	863
Other debt	128	135
	<u>4,116</u>	<u>3,980</u>
Less current maturities	(983)	(821)
	<u>\$3,133</u>	<u>\$3,159</u>

**8.38% Debentures:**

On January 22, 1998, we exchanged \$276 million of an original \$700 million in debentures for new debentures of equal principal with a maturity of April 1, 2030. The new debentures have the same interest rate as the 8.38% debentures due 2020 until April 1, 2020, and, thereafter, the interest rate will be 7.62% for the final 10 years. The 2030 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. The remaining \$424 million of 2020

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

debentures are not subject to redemption prior to maturity. Interest is payable semiannually on the first of April and October for both debentures and neither debenture is subject to sinking fund requirements. The fixed obligations associated with the debentures are swapped to floating rates, based on six month LIBOR plus a spread. Including the effect of the swaps, the average interest rate paid on the debentures for 2006 and 2005 was 8.00% and 7.39%, respectively.

**Commercial Paper:**

The weighted average interest rate on the commercial paper outstanding as of December 31, 2006 and 2005, was 5.20% and 4.01%, respectively. At December 31, 2006 and 2005, the entire commercial paper balance has been classified as a current liability. The amount of commercial paper outstanding in 2007 is expected to fluctuate. We are authorized to borrow up to \$7.0 billion under the two U.S. commercial paper programs we maintain as of December 31, 2006. We also maintain a European commercial paper program under which we are authorized to borrow up to €1.0 billion in a variety of currencies, however no amounts were outstanding under this program as of December 31, 2006.

**Floating Rate Senior Notes:**

The floating rate senior notes bear interest at one-month LIBOR less 45 basis points. The average interest rates for 2006 and 2005 were 4.66% and 2.87%, 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 2053.

**Capital Lease Obligations:**

We have certain aircraft subject to capital leases. Some of the obligations associated with these capital leases have been legally defeased. The recorded value of aircraft subject to capital leases, which are included in Property, Plant and Equipment is as follows as of December 31 (in millions):

	<u>2006</u>	<u>2005</u>
Aircraft	\$2,383	\$2,054
Accumulated amortization	(390)	(315)
	<u>\$1,993</u>	<u>\$1,739</u>

These capital lease obligations have principal payments due at various dates from 2007 through 2010.

**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, KY; Dallas, TX; Philadelphia, PA; and Dayton, OH. 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, KY. The bonds, which are due in January 2029, bear interest at a variable rate, and the average interest rates for 2006 and 2005 were 3.43% and 2.41%, respectively.
- Bonds with a principal balance of \$43 million issued by the Louisville Regional Airport Authority associated with our air freight facility in Louisville, KY. The bonds were issued in November 2006 and are due in November 2036. The bonds bear interest at a variable rate, and the average interest rate from the time of issuance in November 2006 was 3.77%.

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- Bonds with a principal balance of \$29 million issued by the Dallas / Forth Worth International Airport Facility Improvement Corporation associated with our Dallas, TX 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, PA airport facilities. The bonds, which are due in December 2015, bear interest at a variable rate, and the average interest rates for 2006 and 2005 were 3.34% and 2.21%, respectively.
- Bonds with a principal balance of \$108 million issued by the city of Dayton, OH associated with the Dayton airport facility, \$62 million of which is due in 2009 and the remaining \$46 million is due in 2018. The balance due in 2018 is callable beginning in 2008. The bond principal due in 2018 bears interest at a fixed rate of 5.63%, while the bond principal due in 2009 bears interest at fixed rates ranging from 6.05% to 6.20%.

***UPS Notes:***

The UPS Notes program involves the periodic issuance of fixed rate notes in \$1,000 increments with various terms and maturities. At December 31, 2006, the coupon rates of the outstanding notes varied between 3.00% and 6.20%, and the interest payments are made either monthly, quarterly or semiannually. The maturities of the notes range from 2008 to 2024. Substantially all of the fixed obligations associated with the notes were swapped to floating rates, based on different LIBOR indices plus or minus a spread. The average interest rate payable on the swaps for 2006 and 2005 was 4.73% and 3.09%, respectively.

***Pound Sterling Notes:***

The Pound Sterling notes were issued in 2001 with a principal balance of £500 million, accrue interest at a 5.50% fixed rate, and are due on February 12, 2031.

***Other Debt:***

The other debt balance primarily relates to loans entered into in conjunction with our investment in various partnerships. Substantially all of this debt is classified as a current liability. The implied interest rates on this debt range from 3.2% to 6.4%.

***Other Information***

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 \$4.391 and 4.327 billion as of December 31, 2006 and 2005, respectively.

We lease certain aircraft, facilities, equipment and vehicles under operating leases, which expire at various dates through 2055. Certain of the leases contain escalation clauses and renewal or purchase options. Rent expense related to our operating leases was \$912, \$843, and \$759 million for 2006, 2005 and 2004, respectively.

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

Year	Capital Leases	Operating Leases	Debt Principal	Purchase Commitments
2007	\$ 75	\$ 404	\$ 918	\$ 1,072
2008	75	335	27	988
2009	41	243	83	499
2010	62	168	30	1,022
2011	1	119	33	1,184
After 2011	—	505	2,766	1,636
<b>Total</b>	<b>254</b>	<b>\$ 1,774</b>	<b>\$ 3,857</b>	<b>\$ 6,401</b>
Less: imputed interest	(24)			
Present value of minimum capitalized lease payments	230			
Less: current portion	(65)			
<b>Long-term capitalized lease obligations</b>	<b>\$ 165</b>			

As described in Note 18, we placed orders for 27 Boeing 767-300ER freighter aircraft in February 2007, which are scheduled to be delivered between 2009 and 2012. Additionally, also described in Note 18, we reached an agreement with Airbus in February 2007 to set out a timetable for deciding the status of our previous order for the freighter version of the Airbus A380-800. We have included the purchase commitments associated with both the new Boeing 767-300ER order and the existing Airbus A380-800 order in the purchase commitments information presented in the table above.

As of December 31, 2006, we had outstanding letters of credit totaling approximately \$2.213 billion issued in connection with routine business requirements.

We maintain two credit agreements with a consortium of banks that provide revolving credit facilities of \$1.0 billion each, with one expiring April 19, 2007 and the other April 21, 2010. Interest on any amounts we borrow under these facilities would be charged at 90-day LIBOR plus 15 basis points. At December 31, 2006, there were no outstanding borrowings under these facilities.

We have a \$2.0 billion shelf registration statement under which we may issue debt securities in the U.S. The debt may be denominated in a variety of currencies. There was approximately \$136 million issued under this shelf registration statement at December 31, 2006.

Our existing debt instruments and credit facilities do not have cross-default or ratings triggers, however these debt instruments and credit facilities do subject us to certain financial covenants. These covenants generally require us to maintain a \$3.0 billion minimum net worth and limit the amount of secured indebtedness available to the company. These covenants are not considered material to the overall financial condition of the company, and all covenant tests were passed as of December 31, 2006.

**NOTE 9. LEGAL PROCEEDINGS AND CONTINGENCIES**

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. In one of these cases, Marlo v. UPS, which has been certified as a class action in a California federal court, plaintiffs allege that they improperly were denied overtime, and seek penalties for missed meal and rest periods, and interest and attorneys' fees. Plaintiffs purport to represent a class

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

of 1,200 full-time supervisors. The court granted summary judgment in favor of UPS on all claims and plaintiffs have appealed. We have denied any liability with respect to these claims and intend to vigorously defend ourselves in this case. At this time, we have not determined the amount of any liability that may result from this matter or whether such liability, if any, would have a material adverse effect on our financial condition, results of operations, or liquidity.

In another case, *Cornn v. UPS*, which has been certified as a class action in a California federal court, plaintiffs allege that they were improperly denied wages and/or overtime and meal and rest periods. Plaintiffs purport to represent a class of approximately 23,600 drivers and seek back wages, penalties, interest and attorneys' fees. UPS has agreed in principle to settle this matter in full for a total payment of \$87 million. On December 6, 2006, the court granted tentative approval of the settlement.

We are named as a defendant in four putative class action lawsuits filed in federal courts, alleging a conspiracy relating to certain surcharges by a number of air cargo carriers. We are not named as a defendant in at least eighty-six related cases that make similar allegations. These cases have been consolidated in a Multi-District Litigation proceeding pending in the United States District Court for the Eastern District of New York. UPS was not included as a defendant in the amended consolidated complaint on which the Multi-District Litigation is proceeding. In addition, in July 2006, we were named as a defendant in a comparable lawsuit filed in the Ontario (Canada) Superior Court of Justice. We intend to vigorously defend ourselves in these cases.

We are a defendant in various other lawsuits that arose in the normal course of business. We believe that the eventual resolution of these cases will not have a material adverse effect on our financial condition, results of operations, or liquidity.

We participate in a number of trustee-managed multi-employer pension and health and welfare plans for employees covered under collective bargaining agreements. Several factors could result in potential funding deficiencies which could cause us to make significantly higher future contributions to these plans, including unfavorable investment performance, changes in demographics, and increased benefits to participants. 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 would result from our participation in these plans.

As of December 31, 2006, we had approximately 246,000 employees employed under a national master agreement and various supplemental agreements with local unions affiliated with the International Brotherhood of Teamsters ("Teamsters"). These agreements run through July 31, 2008. In the third quarter of 2006, we began formal negotiations with the Teamsters on a new agreement. We have approximately 2,800 pilots who are employed under a collective bargaining agreement with the Independent Pilots Association ("IPA"). On June 30, 2006, UPS and the IPA announced a tentative agreement on a new labor contract, which was ratified in the third quarter. This new contract becomes amendable at the end of 2011. Our airline mechanics are covered by a collective bargaining agreement with Teamsters Local 2727, which became amendable on November 1, 2006. We began formal negotiations with Teamsters Local 2727 on October 2, 2006. In addition, the majority of our ground 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. These agreements run through July 31, 2009.

**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

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vote per share. Class A shares are primarily held by UPS employees and retirees, 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, 2006, 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, with no par value, authorized to be issued; as of December 31, 2006, 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):

	2006		2005		2004	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
<b>Class A Common Stock</b>						
Balance at beginning of year	454	\$ 5	515	\$ 5	571	\$ 6
Common stock purchases	(17)	—	(16)	—	(12)	—
Stock award plans	3	—	2	—	12	—
Common stock issuances	2	—	3	—	3	—
Conversions of Class A to Class B common stock	(41)	(1)	(50)	—	(59)	(1)
Class A shares issued at end of year	<u>401</u>	<u>\$ 4</u>	<u>454</u>	<u>\$ 5</u>	<u>515</u>	<u>\$ 5</u>
<b>Class B Common Stock</b>						
Balance at beginning of year	646	\$ 6	614	\$ 6	560	\$ 5
Common stock purchases	(15)	—	(18)	—	(5)	—
Conversions of Class A to Class B common stock	41	1	50	—	59	1
Class B shares issued at end of year	<u>672</u>	<u>\$ 7</u>	<u>646</u>	<u>\$ 6</u>	<u>614</u>	<u>\$ 6</u>
<b>Additional Paid-In Capital</b>						
Balance at beginning of year		\$ —		\$ 417		\$ 662
Stock award plans		371		335		677
Common stock purchases		(539)		(922)		(1,075)
Common stock issuances		168		170		153
Balance at end of year		<u>\$ —</u>		<u>\$ —</u>		<u>\$ 417</u>
<b>Retained Earnings</b>						
Balance at beginning of year		\$ 17,037		\$ 16,192		\$ 14,356
Net income		4,202		3,870		3,333
Dividends (\$1.52, \$1.32, and \$1.12 per share)		(1,647)		(1,468)		(1,262)
Common stock purchases		(1,916)		(1,557)		(235)
Balance at end of year		<u>\$ 17,676</u>		<u>\$ 17,037</u>		<u>\$ 16,192</u>

We repurchased a total of 32.6 million shares of Class A and Class B common stock for \$2.455 billion in 2006, and 33.9 million shares for \$2.479 billion in 2005. As of December 31, 2006, we had \$936 million of our share repurchase authorization remaining. In February 2007, the Board of Directors approved an increase in our share repurchase authorization to \$2.0 billion, which replaces the remaining amount available under our July 2006 share repurchase authorization.

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*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):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Foreign currency translation adjustment:</b>			
Balance at beginning of year	\$ (163)	\$(127)	\$ (56)
Aggregate adjustment for the year	54	(36)	(71)
Balance at end of year	<u>(109)</u>	<u>(163)</u>	<u>(127)</u>
<b>Unrealized gain (loss) on marketable securities, net of tax:</b>			
Balance at beginning of year	11	(5)	14
Current period changes in fair value (net of tax effect of \$(3), \$0, and \$(10))	(4)	—	(18)
Reclassification to earnings (net of tax effect of \$3, \$10, and \$(1))	5	16	(1)
Balance at end of year	<u>12</u>	<u>11</u>	<u>(5)</u>
<b>Unrealized gain (loss) on cash flow hedges, net of tax:</b>			
Balance at beginning of year	83	(29)	(72)
Current period changes in fair value (net of tax effect of \$(4), \$81, and \$21)	(7)	135	37
Reclassification to earnings (net of tax effect of \$(5), \$(14), and \$4)	(8)	(23)	6
Balance at end of year	<u>68</u>	<u>83</u>	<u>(29)</u>
<b>Unrecognized pension and postretirement benefit costs, net of tax:</b>			
Balance at beginning of year	(95)	(81)	(63)
Minimum pension liability adjustment (net of tax effect of \$11, \$(8), and \$(10))	16	(14)	(18)
Adoption of FAS 158 (net of tax effect of \$(1,258))	<u>(2,097)</u>	<u>—</u>	<u>—</u>
Balance at end of year	<u>(2,176)</u>	<u>(95)</u>	<u>(81)</u>
Accumulated other comprehensive income (loss) at end of year	<u><u>\$ (2,205)</u></u>	<u><u>\$ (164)</u></u>	<u><u>\$ (242)</u></u>

As discussed in Note 5, we adopted the recognition and disclosure provisions of FAS 158 on December 31, 2006. The adoption of FAS 158 required us to eliminate the previous minimum pension liability charge to AOCI, and to record a charge, net of tax, to AOCI representing the unrecognized pension and postretirement benefit costs as of December 31, 2006.

*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 balance sheet. The amount 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

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from stock options vesting subsequent to April 2004. Activity in the deferred compensation program for the years ended December 31, 2006, 2005, and 2004 is as follows (in millions):

	2006		2005		2004	
	Shares	Dollars	Shares	Dollars	Shares	Dollars
<b>Deferred Compensation Obligations</b>						
Balance at beginning of year		\$ 161		\$ 169		\$ 136
Reinvested dividends		4		4		2
Option exercise deferrals		—		—		39
Benefit payments		(18)		(12)		(8)
Balance at end of year		<u>\$ 147</u>		<u>\$ 161</u>		<u>\$ 169</u>
<b>Treasury Stock</b>						
Balance at beginning of year	(3)	\$ (161)	(3)	\$ (169)	(2)	\$ (136)
Reinvested dividends	—	(4)	—	(4)	—	(2)
Option exercise deferrals	—	—	—	—	—	(39)
Benefit payments	—	18	—	12	(1)	8
Balance at end of year	<u>(3)</u>	<u>\$ (147)</u>	<u>(3)</u>	<u>\$ (161)</u>	<u>(3)</u>	<u>\$ (169)</u>

**NOTE 11. STOCK-BASED COMPENSATION**

*Incentive Compensation Plan*

The UPS Incentive Compensation Plan permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and management incentive awards to eligible employees. The number of shares reserved for issuance under the Plan is 112 million, with the number of shares reserved for issuance as restricted stock limited to 34 million. As of December 31, 2006, management incentive awards, stock options, restricted performance units, and restricted stock units had been granted under the Incentive Compensation Plan.

*Management Incentive Awards & Restricted Stock Units*

Persons earning the right to receive management incentive awards are determined annually by the Compensation Committee of the UPS Board of Directors. Our management incentive awards program provides that half of the annual management incentive award, with certain exceptions, be made in restricted stock units ("RSUs"), which generally vest over a five-year period. The other 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. These management incentive awards are generally granted in the fourth quarter of each year.

Upon vesting, RSUs 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, RSUs granted for our management incentive awards 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 RSUs granted are subject to earlier cancellation or vesting under certain conditions. Dividends earned on management incentive award RSUs are reinvested in additional RSUs at each dividend payable date.

We also award RSUs in conjunction with our long-term incentive performance awards program to certain eligible employees. The RSUs ultimately granted under the long-term incentive performance award will be 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 growth in consolidated earnings, over the entire three year performance award cycle.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

As of December 31, 2006, we had the following RSUs outstanding, including reinvested dividends:

	Shares (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Nonvested at January 1, 2006	5,104	\$ 72.82		
Vested	(1,115)	72.83		
Granted	3,706	74.87		
Reinvested Dividends	76	N/A		
Forfeited / Expired	(210)	72.90		
Nonvested at December 31, 2006	<u>7,561</u>	<u>73.82</u>	<u>2.58</u>	<u>\$ 567</u>
RSUs Expected to Vest	<u>7,205</u>	<u>73.82</u>	<u>2.54</u>	<u>\$ 540</u>

The fair value of each RSU is the New York Stock Exchange (“NYSE”) closing price on the date of grant. The weighted-average grant date fair value of RSUs granted during 2006 and 2005 was \$74.87 and \$72.82, respectively. The total fair value of RSUs vested was \$82 million in 2006, and zero in 2005 and 2004. As of December 31, 2006, there was \$437 million of total unrecognized compensation cost related to nonvested RSUs. That cost is expected to be recognized over a weighted average period of 4 years and 5 months.

*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 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.

Persons earning the right to receive stock options are determined each year by the Compensation Committee. Except in the case of death, disability, or retirement, options granted under the Plan are generally exercisable three to five years from the date of grant and before the expiration of the option 10 years after the date of grant. All options granted are subject to earlier cancellation or exercise 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. Options granted to eligible employees will generally be granted annually during the second quarter of each year at the discretion of the Compensation Committee.

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

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2006	18,734	\$ 61.84		
Exercised	(1,993)	56.55		
Granted	2,433	80.88		
Forfeited / Expired	(292)	68.14		
Outstanding at December 31, 2006	<u>18,882</u>	<u>\$ 64.75</u>	<u>6.23</u>	<u>\$ 208</u>
Exercisable at December 31, 2006	<u>10,108</u>	<u>\$ 58.63</u>	<u>4.79</u>	<u>\$ 166</u>
Options Expected to Vest	<u>8,487</u>	<u>\$ 71.57</u>	<u>7.85</u>	<u>\$ 42</u>

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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:

	2006	2005	2004
Expected dividend yield	1.80%	1.60%	1.50%
Risk-free interest rate	5.13%	4.18%	4.31%
Expected life in years	7	7	7
Expected volatility	18.42%	18.21%	15.69%
Weighted average fair value of options granted	\$21.05	\$17.33	\$16.24

Expected volatilities are based on the historical returns on our stock and, due to our limited history of being a publicly-traded company, an index of peer companies, as well as 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.

We received cash of \$30, \$21, and \$60 million during 2006, 2005, and 2004, respectively, from option holders resulting from the exercise of stock options. We received a tax benefit of \$12, \$5, and \$38 million during 2006, 2005, and 2004, respectively, from the exercise of stock options. The adoption of FAS 123(R) required us to change the statement of cash flow classification of these tax benefits, and as a result, these tax benefits are reported as cash from financing activities rather than cash from operating activities.

The total intrinsic value of options exercised during 2006, 2005, and 2004 was \$45, \$24, and \$331 million, respectively. As of December 31, 2006, there was \$80 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 4 months.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2006:

Exercise Price Range	Options Outstanding			Options Exercisable	
	Shares (in thousands)	Average Life (in years)	Average Exercise Price	Shares (in thousands)	Average Exercise Price
\$ 19.93 - \$50.00	1,581	2.86	\$49.94	1,581	\$49.94
\$ 50.37 - \$56.90	3,161	4.23	56.85	3,161	56.85
\$ 57.45 - \$60.22	4,078	5.26	60.19	4,078	60.19
\$ 60.38 - \$70.70	5,096	6.81	66.45	936	65.88
\$ 71.88 - \$116.48	4,966	8.79	76.41	352	76.23
	<u>18,882</u>	6.23	\$64.75	<u>10,108</u>	\$58.63

*Restricted Performance Units*

Beginning in 2003, we issued restricted performance units (“RPU”) under the Plan. Upon vesting, RPUs result in the issuance of the equivalent number of UPS class A common shares after required tax withholdings. Persons earning the right to receive RPUs are determined each year by the Compensation Committee. Except in the case of death, disability, or retirement, RPUs vest five years after the date of grant. All RPUs granted are

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

subject to earlier cancellation or vesting under certain conditions. Dividends earned on RPUs are reinvested in additional restricted performance units at each dividend payable date. RPUs also allow for an additional award equal to 10% of the outstanding RPUs to be issued if certain company-wide performance goals are attained in the year of vesting. RPUs granted to eligible employees will generally be granted annually during the second quarter of each year at the discretion of the Compensation Committee.

As of December 31, 2006, we had the following RPUs outstanding, including reinvested dividends:

	Shares (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Nonvested at January 1, 2006	2,886	\$ 68.49		
Vested	(174)	70.93		
Granted	990	80.88		
Reinvested Dividends	74	N/A		
Forfeited / Expired	(107)	72.27		
Nonvested at December 31, 2006	<u>3,669</u>	<u>71.64</u>	<u>2.87</u>	<u>\$ 275</u>
RPUs Expected to Vest	<u>3,534</u>	<u>71.48</u>	<u>2.84</u>	<u>\$ 265</u>

The fair value of each RPU is the NYSE closing price on the date of grant. The weighted-average grant date fair value of RPUs granted during 2006, 2005, and 2004 was \$80.88, \$72.07, and \$70.70, respectively. The total fair value of RPUs vested during 2006, 2005, and 2004 was \$13, \$13, and \$11 million, respectively. As of December 31, 2006, there was \$140 million of total unrecognized compensation cost related to nonvested RPUs. That cost is expected to be recognized over a weighted average period of 3 years and 4 months.

*Discounted Employee Stock Purchase Plan*

We maintain an employee stock purchase plan for all eligible employees. Under the plan, shares of UPS class A common stock may be purchased at quarterly intervals at 90% of the lower of the NYSE closing price of UPS class B common stock on the first or the last day of each quarterly period. Employees purchased 1.9, 2.0, and 1.8 million shares at average prices of \$66.64, \$64.54, and \$62.75 per share during 2006, 2005, and 2004, respectively. Compensation cost is measured for the fair value of employees' purchase rights under our discounted employee stock purchase plan using the Black-Scholes option pricing model.

The weighted average assumptions used and the calculated weighted average fair value of employees' purchase rights granted, are as follows:

	2006	2005	2004
Expected dividend yield	1.79%	1.62%	1.42%
Risk-free interest rate	4.59%	2.84%	1.18%
Expected life in years	0.25	0.25	0.25
Expected volatility	15.92%	15.46%	16.83%
Weighted average fair value of purchase rights*	<u>\$10.30</u>	<u>\$ 9.46</u>	<u>\$ 9.56</u>

\* Includes the 10% discount from the market price.

Expected volatilities are based on the historical price volatility on our publicly-traded class B shares. 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 on U.S. Treasury securities at the time of the option grant. The expected life represents the three month option period applicable to the purchase rights.

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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 operations 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 200 countries and territories worldwide, including shipments wholly outside the United States, as well as shipments with either origin or distribution outside the United States. Our International Package reporting segment includes the operations of our Europe, Asia, and Americas operating segments.

*Supply Chain & Freight*

Supply Chain & Freight includes our forwarding and logistics operations, UPS Freight, and other aggregated business units. Our forwarding and logistics business provides services in more than 175 countries and territories worldwide, and includes supply chain design and management, freight distribution, customs brokerage, 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 Mail Boxes, Etc. (the franchisor of Mail Boxes, Etc. and 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, short-term investments, and equity-method real estate investments.

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

	2006	2005	2004
Revenue:			
U.S. Domestic Package	\$ 30,456	\$ 28,610	\$ 26,960
International Package	9,089	7,977	6,809
Supply Chain & Freight	8,002	5,994	2,813
Consolidated	<u>\$ 47,547</u>	<u>\$ 42,581</u>	<u>\$ 36,582</u>
Operating Profit:			
U.S. Domestic Package	\$ 4,923	\$ 4,493	\$ 3,702
International Package	1,710	1,494	1,149
Supply Chain & Freight	2	156	138
Consolidated	<u>\$ 6,635</u>	<u>\$ 6,143</u>	<u>\$ 4,989</u>

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
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	2006	2005	2004
<b>Assets:</b>			
U.S. Domestic Package	\$ 19,274	\$ 20,572	\$ 18,749
International Package	5,496	4,931	4,682
Supply Chain & Freight	7,150	7,116	4,878
Unallocated	1,290	2,328	4,538
Consolidated	<u>\$ 33,210</u>	<u>\$ 34,947</u>	<u>\$ 32,847</u>
<b>Depreciation and Amortization Expense:</b>			
U.S. Domestic Package	\$ 989	\$ 1,005	\$ 971
International Package	547	491	465
Supply Chain & Freight	212	148	107
Consolidated	<u>\$ 1,748</u>	<u>\$ 1,644</u>	<u>\$ 1,543</u>

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

	2006	2005	2004
<b>U.S. Domestic Package:</b>			
Next Day Air	\$ 6,778	\$ 6,381	\$ 6,084
Deferred	3,424	3,258	3,193
Ground	20,254	18,971	17,683
Total U.S. Domestic Package	30,456	28,610	26,960
<b>International Package:</b>			
Domestic	1,950	1,588	1,346
Export	6,554	5,856	4,991
Cargo	585	533	472
Total International Package	9,089	7,977	6,809
<b>Supply Chain &amp; Freight:</b>			
Forwarding and Logistics	5,681	4,859	2,476
Freight	1,952	797	—
Other	369	338	337
Total Supply Chain & Freight	8,002	5,994	2,813
Consolidated	<u>\$ 47,547</u>	<u>\$ 42,581</u>	<u>\$ 36,582</u>

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

	2006	2005	2004
<b>United States:</b>			
Revenue	\$ 34,445	\$ 31,871	\$ 28,035
Long-lived assets	\$ 18,659	\$ 19,704	\$ 16,033
<b>International:</b>			
Revenue	\$ 13,102	\$ 10,710	\$ 8,547
Long-lived assets	\$ 4,800	\$ 4,044	\$ 3,975
<b>Consolidated:</b>			
Revenue	\$ 47,547	\$ 42,581	\$ 36,582
Long-lived assets	\$ 23,459	\$ 23,748	\$ 20,008

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Revenue, for geographic disclosure, is based on the location in which service originates. Long-lived assets include property, plant and equipment, pension and postretirement benefit assets, long-term investments, goodwill, and intangible assets.

**NOTE 13. INCOME TAXES**

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

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Current:</b>			
U.S. Federal	\$1,674	\$1,683	\$1,675
U.S. State & Local	217	176	71
Non-U.S.	129	135	98
Total Current	<u>2,020</u>	<u>1,994</u>	<u>1,844</u>
<b>Deferred:</b>			
U.S. Federal	291	211	(155)
U.S. State & Local	33	6	(84)
Non-U.S.	(36)	(6)	(16)
Total Deferred	<u>288</u>	<u>211</u>	<u>(255)</u>
Total	<u>\$2,308</u>	<u>\$2,205</u>	<u>\$1,589</u>

Income before income taxes includes income of non-U.S. subsidiaries of \$490, \$337, and \$270 million in 2006, 2005, and 2004, respectively.

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:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
U.S. state & local income taxes (net of federal benefit)	2.2	2.0	1.2
Other	(1.7)	(0.7)	(3.9)
Effective income tax rate	<u>35.5%</u>	<u>36.3%</u>	<u>32.3%</u>

During the third quarter of 2006, we recognized a \$52 million reduction of income tax expense related to favorable developments with certain U.S. Federal tax contingency matters involving non-U.S. operations.

During the third quarter of 2004, we recognized a \$99 million reduction of income tax expense related to the favorable settlement of various U.S. federal tax contingency matters with the IRS pertaining to tax years 1985 through 1998, and various state and non-U.S. tax contingency matters.

During the fourth quarter of 2004, we recognized a \$109 million reduction of income tax expense primarily related to the favorable resolution of a U.S. state tax contingency matter, improvements in U.S. state and non-U.S. effective tax rates, and the reversal of valuation allowances associated with certain U.S. state & local and non-U.S. net operating loss and credit carryforwards due to sufficient positive evidence that the related subsidiaries will be profitable and generate taxable income before such carryforwards expire.

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

	<u>2006</u>	<u>2005</u>
Property, plant and equipment	\$2,802	\$2,572
Goodwill and intangible assets	578	491
Pension plans	579	1,722
Other	343	251
Gross deferred tax liabilities	<u>4,302</u>	<u>5,036</u>
Other postretirement benefits	789	681
Loss and credit carryforwards (non-U.S. and state)	130	113
Insurance reserves	586	543
Vacation pay accrual	171	154
Other	<u>659</u>	<u>649</u>
Gross deferred tax assets	2,335	2,140
Deferred tax assets valuation allowance	<u>(43)</u>	<u>(54)</u>
Net deferred tax assets	<u>2,292</u>	<u>2,086</u>
Net deferred tax liability	<u>\$2,010</u>	<u>\$2,950</u>
<b>Amounts recognized in the balance sheet:</b>		
Current deferred tax asset	<u>\$ 414</u>	<u>\$ 475</u>
Non-current deferred tax asset	<u>\$ 105</u>	<u>\$ —</u>
Non-current deferred tax liabilities	<u>\$2,529</u>	<u>\$3,425</u>

The valuation allowance decreased by \$11, \$32, and \$31 million during the years ended December 31, 2006, 2005 and 2004, respectively.

As of December 31, 2006, we have U.S. state & local operating loss and credit carryforwards of approximately \$937 million and \$54 million, respectively. The operating loss carryforwards expire at varying dates through 2026. The majority of the credit carryforwards may be carried forward indefinitely. We also have non-U.S. loss carryforwards of approximately \$874 million as of December 31, 2006, 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 loss carryforwards, due to the uncertainty resulting from a lack of previous taxable income within the applicable tax jurisdictions.

Undistributed earnings of our non-U.S. subsidiaries amounted to approximately \$1.225 billion at December 31, 2006. Those earnings are considered to be indefinitely reinvested and, accordingly, no U.S. federal or state deferred income taxes have been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, we would be subject to U.S. income taxes and withholding taxes payable in various non-U.S. jurisdictions, which could potentially be offset by foreign tax credits. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable because of the complexities associated with its hypothetical calculation.

The American Jobs Creation Act of 2004, which provided for a temporary 85% dividends received deduction on certain foreign earnings repatriated during a one-year period (expired in December 2005), did not have an impact on UPS as we did not repatriate any earnings subject to the Act.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**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):

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Numerator:			
Net income	\$ 4,202	\$ 3,870	\$ 3,333
Denominator:			
Weighted average shares	1,082	1,110	1,125
Management incentive awards	—	—	1
Deferred compensation obligations	3	3	3
Denominator for basic earnings per share	<u>1,085</u>	<u>1,113</u>	<u>1,129</u>
Effect of dilutive securities:			
Management incentive awards	—	—	4
Restricted performance units	1	1	—
Restricted stock units	1	—	—
Stock option plans	2	2	4
Denominator for diluted earnings per share	<u>1,089</u>	<u>1,116</u>	<u>1,137</u>
Basic earnings per share	<u>\$ 3.87</u>	<u>\$ 3.48</u>	<u>\$ 2.95</u>
Diluted earnings per share	<u>\$ 3.86</u>	<u>\$ 3.47</u>	<u>\$ 2.93</u>

Diluted earnings per share for the years ended December 31, 2006, 2005, and 2004 exclude the effect of 6.3, 5.9, and 4.1 million shares, respectively, of common stock that may be issued upon the exercise of employee stock options because such effect would be antidilutive.

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

We are exposed to market risk, primarily related to foreign exchange rates, commodity prices, equity 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, equity 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.

*Commodity Price Risk Management*

We are exposed to an increase in the prices of refined fuels, principally jet-A, diesel, and unleaded gasoline. Additionally, we are exposed to an increase in the prices of other energy products, principally natural gas and electricity. We use a combination of options, swaps, and futures contracts to provide partial protection from rising fuel and energy prices. The net fair value of such contracts subject to price risk, excluding the underlying exposures, as of December 31, 2006 and 2005 was an asset of \$10 and \$192 million, respectively. We have

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

designated and account for these contracts as cash flow hedges, and, therefore, the resulting gains and losses from these hedges are recognized as a component of fuel expense or other occupancy expense when the underlying fuel or energy product being hedged is consumed.

In the second quarter of 2006, we terminated several energy derivatives and received \$229 million in cash, which is reported in other investing activities in the statement of cash flows. These derivatives were designated as hedges of forecasted cash outflows for purchases of fuel products. As these derivatives maintained their effectiveness and qualified for hedge accounting, we anticipate that the gains associated with these hedges will be recognized in income over the original term of the hedges through 2007.

*Foreign Currency Exchange Risk Management*

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, the British Pound Sterling, and the Canadian Dollar. We use a combination of purchased and written options and forward contracts to hedge currency cash flow exposures. As of December 31, 2006 and 2005, the net fair value of the hedging instruments described above was an asset of \$30 and \$52 million, respectively. 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 occur.

*Interest Rate Risk Management*

Our indebtedness under our various financing arrangements creates interest rate risk. We use a combination of derivative instruments, including interest rate swaps and cross-currency interest rate swaps, as part of our program to manage the fixed and floating interest rate mix of our total debt portfolio and related overall cost of borrowing. These swaps are entered into concurrently with the issuance of the debt that they are intended to modify, and the notional amount, interest payment, and maturity dates of the swaps match the terms of the associated debt. Interest rate swaps allow us to maintain a target range of floating rate debt.

We have designated and account for these contracts as either hedges of the fair value of the associated debt instruments, or as hedges of the variability in expected future interest payments. Any periodic settlement payments are accrued monthly, as either a charge or credit to interest expense, and are not material to net income. The net fair value of our interest rate swaps at December 31, 2006 and 2005 was a liability of \$79 and \$47 million, respectively.

*Credit Risk Management*

The forward contracts, swaps, and options previously discussed 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 large banks and financial institutions that meet established credit guidelines. We do not expect to incur any losses as a result of counterparty default.

*Derivatives Not Designated As Hedges*

Derivatives not designated as hedges primarily consist of a small portfolio of stock warrants in public and private companies that are held for investment purposes. These warrants are recorded at fair value, and the impact of these warrants on our results was immaterial for 2006, 2005 and 2004.

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

*Income Effects of Derivatives*

In the context of hedging relationships, “effectiveness” refers to the degree to which fair value changes in the hedging instrument offset corresponding changes in the hedged item. Certain elements of hedge positions cannot qualify for hedge accounting under FAS 133 whether effective or not, and must therefore be marked to market through income. Both the effective and ineffective portions of gains and losses on hedges are reported in the income statement category related to the hedged exposure. Both the ineffective portion of hedge positions and the elements excluded from the measure of effectiveness were immaterial for 2006, 2005 and 2004.

As of December 31, 2006, \$111 million in pre-tax gains related to cash flow hedges that are currently deferred in OCI are expected to be reclassified to income over the 12 month period ending December 31, 2007. 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. No amounts were reclassified to income during 2006 in connection with forecasted transactions that were no longer considered probable of occurring.

At December 31, 2006, the maximum term of derivative instruments that hedge forecasted transactions, except those related to cross-currency interest rate swaps on existing financial instruments, was 2 years. We maintain cross-currency interest rate swaps that extend through 2009.

*Fair Value of Financial Instruments*

At December 31, 2006 and 2005, our financial instruments included cash and cash equivalents, marketable securities and short-term investments, accounts receivable, finance receivables, accounts payable, short-term and long-term borrowings, and commodity, interest rate, foreign currency, and equity options, forwards, and swaps. The fair values of cash and cash equivalents, accounts receivable, and accounts payable approximate carrying values because of the short-term nature of these instruments. The fair value of our marketable securities and short-term investments is disclosed in Note 2, finance receivables in Note 3, and debt instruments in Note 8.

**NOTE 16. RESTRUCTURING COSTS**

In connection with recent acquisitions and integration initiatives, we have incurred restructuring costs associated with the termination of employees, facility consolidations and other costs directly related to the restructuring initiatives implemented. These costs have resulted from the integration of our Menlo Worldwide Forwarding and Lynx acquisitions as well as restructuring activities associated with our Supply Chain Solutions operations. For specific restructuring costs recognized in conjunction with the cost from acquisitions, we have accounted for these costs in accordance with EITF 95-3, “Recognition of Liabilities Assumed in Connection with a Purchase Business Combination.” All other restructuring costs have been accounted for in accordance with SFAS No. 146, “Accounting for Costs Associated with Exit or Disposal Activities” and SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”

*Menlo Worldwide Forwarding*

In February 2005, we announced our intention to transfer the heavy air freight operations at our facility in Dayton, Ohio (acquired with the operations of Menlo Worldwide Forwarding in December 2004) to other UPS facilities over approximately 12 to 18 months. This action was taken to remove redundancies between the Dayton air freight facility and existing UPS transportation networks, and thus provide efficiencies and better leverage the current UPS infrastructure in the movement of air freight. During the third quarter of 2005, we finalized our plans to exit the Dayton facility, as well as various other acquired facilities, and accrued certain costs related to employee severance, lease terminations, and related items. As part of this restructuring program, the recorded

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

value of the Dayton facility was reduced to its fair market value as of the date of the acquisition. These accrued costs, and related reductions in the fair value of recorded assets, resulted in an adjustment of \$160 million to the amount of goodwill initially recorded in the Menlo Worldwide Forwarding acquisition.

Additionally, we incurred costs related to integration activities, such as employee relocations, the moving of inventory and fixed assets, and the consolidation of information systems, and these amounts were expensed as incurred. We completed the majority of our integration activities for the air freight restructuring program in the fourth quarter of 2006. The remaining restructuring liabilities existing as of December 31, 2006, primarily represent costs that will continue to be incurred under various long-term contracts without any economic benefit to our Company.

Set forth below is a summary of activity related to the air freight restructuring program and resulting liability for the year ended December 31, 2006 (in millions):

	<u>Employee Severance</u>	<u>Asset Impairment</u>	<u>Facility Consolidation</u>	<u>Other</u>	<u>Total</u>
Balance at January 1, 2005	\$ —	\$ —	\$ —	\$ —	\$ —
Costs accrued	31	56	48	25	160
Cash spent	(7)	—	(1)	—	(8)
Charges against assets	—	(56)	—	—	(56)
Balance at December 31, 2005	<u>24</u>	<u>—</u>	<u>47</u>	<u>25</u>	<u>96</u>
Cash spent	(17)	—	(3)	(10)	(30)
Charges against assets	—	—	—	—	—
Reversals, currency, and other	(7)	—	(4)	(2)	(13)
Balance at December 31, 2006	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 40</u>	<u>\$ 13</u>	<u>\$ 53</u>

Employee severance costs related to severance packages for approximately 550 people. These packages were involuntary and were formula-driven based on salary levels and past service. The separations spanned the entire business unit, including the operations, information technology, finance, and business development functions.

Asset impairment charges resulted from establishing new carrying values for assets which were abandoned. Impaired assets consisted primarily of the Menlo Worldwide Forwarding facility in Dayton, Ohio, which we closed in June 2006.

Facility consolidation costs are associated with terminating operating leases on offices, warehouses, and other acquired facilities as well as other maintenance costs associated with certain facilities.

Other costs consist primarily of costs associated with the termination of certain acquired legal entities and joint ventures, as well as environmental remediation costs.

*Lynx Express Ltd.*

In conjunction with our integration of the Lynx business, we have implemented a series of initiatives to reduce operating costs and maximize the efficiencies of the UPS network in the United Kingdom. These initiatives include closing existing hubs and constructing a consolidated sorting facility as well as establishing a European shared service center in Poland. As a result of these initiatives, we have accrued certain costs related to employee severance, lease terminations and other facility costs as well as recorded a reduction in the fair value of

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

certain assets acquired. These restructuring costs impacting the acquired Lynx business have resulted in an adjustment to goodwill of \$7 million. The remaining integration costs for this restructuring program, including facility costs associated with capacity expansion, will be recognized as incurred. We anticipate completing this integration program by fiscal year 2008 at which time certain hubs will be closed and the new consolidated sorting facility will be fully operational.

*Supply Chain Solutions*

In an effort to rationalize our cost structure and focus on profitable revenue growth, we initiated a restructuring plan for our Supply Chain Solutions Forwarding & Logistics operations in the fourth quarter of 2006. This restructuring plan is expected to generate efficiencies resulting in improved revenues and operating profits by further integrating all of our transportation services to better serve our customers. This restructuring involves plans to reduce non-operating expenses by approximately 20%, including a reduction in non-operating staff of approximately 1,400 people. As of December 31, 2006, \$12 million in costs have been accrued related to employee severance.

*UPS Special Voluntary Separation Opportunity*

In December 2006, we offered a special voluntary separation opportunity (“SVSO”) to approximately 640 employees who work in non-operating functions. This program is an effort to improve the efficiency of non-operating processes by eliminating duplication and sharing expertise across the company. The SVSO ended in February 2007, and approximately 30% of eligible employees accepted the offer. As a result, we will record a charge to expense of approximately \$80 million in the first quarter of 2007, to reflect the anticipated cash payout and the acceleration of stock compensation and certain retiree healthcare benefits under the SVSO program.

**NOTE 17. QUARTERLY INFORMATION (unaudited)**

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>Revenue:</b>								
U.S. Domestic Package	\$ 7,463	\$ 6,811	\$ 7,462	\$ 6,942	\$ 7,402	\$ 7,033	\$ 8,129	\$ 7,824
International Package	2,161	1,842	2,233	1,997	2,251	1,918	2,444	2,220
Supply Chain & Freight	1,897	1,233	2,041	1,252	2,009	1,599	2,055	1,910
<b>Total revenue</b>	<b>\$ 11,521</b>	<b>\$ 9,886</b>	<b>\$ 11,736</b>	<b>\$ 10,191</b>	<b>\$ 11,662</b>	<b>\$ 10,550</b>	<b>\$ 12,628</b>	<b>\$ 11,954</b>
<b>Operating profit (loss):</b>								
U.S. Domestic Package	1,185	1,028	1,234	1,118	1,208	1,110	1,296	1,237
International Package	395	348	414	397	387	318	514	431
Supply Chain & Freight	(25)	9	47	34	(19)	70	(1)	43
<b>Total operating profit</b>	<b>\$ 1,555</b>	<b>\$ 1,385</b>	<b>\$ 1,695</b>	<b>\$ 1,549</b>	<b>\$ 1,576</b>	<b>\$ 1,498</b>	<b>\$ 1,809</b>	<b>\$ 1,711</b>
<b>Net income</b>	<b>\$ 975</b>	<b>\$ 882</b>	<b>\$ 1,061</b>	<b>\$ 986</b>	<b>\$ 1,038</b>	<b>\$ 953</b>	<b>\$ 1,128</b>	<b>\$ 1,049</b>
<b>Earnings per share:</b>								
Basic	\$ 0.89	\$ 0.78	\$ 0.98	\$ 0.88	\$ 0.96	\$ 0.86	\$ 1.05	\$ 0.95
Diluted	\$ 0.89	\$ 0.78	\$ 0.97	\$ 0.88	\$ 0.96	\$ 0.86	\$ 1.04	\$ 0.95

**UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**NOTE 18. SUBSEQUENT EVENTS**

In February 2007, we announced an order for 27 Boeing 767-300ER freighters to be delivered between 2009 and 2012. We anticipate using these 767-300ER aircraft primarily to support the growth in our International Package business, and to improve the efficiency and speed of our air network as we eventually replace aging aircraft.

In February 2007, we signed an agreement with Airbus to set out a timetable for deciding the status of our previous order for the freighter version of the Airbus A380-800. The agreement specifies changed delivery dates for the A380-800 and provides for possible termination of the original purchase agreement by either party later in 2007. The revised delivery schedule specifies the delivery dates for the 10 Airbus A380-800's on order as being between 2012 and 2013, whereas we were originally scheduled to take delivery of the Airbus A380-800 aircraft between 2009 and 2012. The signing of this agreement will have no material impact on our results of operations or financial condition.

In conjunction with these changes, we have initiated a re-evaluation process of our aircraft fleet types, to ensure that we maintain the optimum mix of aircraft types to service our international and domestic package businesses. This process might result in the planned retirement of certain less-efficient and older aircraft models at dates earlier than originally anticipated. As a result, we will reassess our assumptions of the expected lives and residual values on these aircraft. Any resulting adjustments would be accounted for on a prospective basis, potentially resulting in increased depreciation expense in future periods. Additionally, this process could result in circumstances that would indicate the net book value of the aircraft might not be recoverable, based on the undiscounted future cash flows the aircraft are anticipated to generate. If the net book value of the aircraft is determined not to be recoverable, we would be required to record an impairment based on the fair value of the aircraft, in accordance with FAS 144. We anticipate completing this process by the end of the first quarter of 2007.

**EXHIBIT INDEX**

<b>Exhibit No.</b>	<b>Description</b>
2.1	— Agreement and Plan of Merger, dated as of September 22, 1999, among United Parcel Service of America, Inc., United Parcel Service, Inc. and UPS Merger Subsidiary, Inc. (incorporated by reference to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
2.2	— Agreement and Plan of Merger, dated as of May 15, 2005, among United Parcel Service, Inc., Overnite Corporation, and Olympic Merger Sub, Inc. (incorporated by reference to the Form 8-K, filed on May 18, 2005).
3.1	— Form of Restated Certificate of Incorporation of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.1 to Form 10-Q for the Quarter Ended June 30, 2002).
3.2	— Form of Bylaws of United Parcel Service, Inc. (incorporated by reference to Exhibit 3.2 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
4.1	— Form of Class A Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
4.2	— Form of Class B Common Stock Certificate (incorporated by reference to Exhibit 4.2 to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999).
4.3	— Specimen Certificate of 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.4	— Indenture relating to 8 3/8% Debentures due April 1, 2020 (incorporated by reference to Exhibit 4(c) to Registration Statement No. 33-32481, filed December 7, 1989).
4.5	— Specimen Certificate of 8 3/8% Debentures due April 1, 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.6	— Indenture relating to Exchange Offer Notes Due 2030 (incorporated by reference to Exhibit T-3C to Form T-3 filed December 18, 1997).
4.7	— Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369), filed on January 26, 1999).
4.8	— Form of Supplemental Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 to Registration Statement on Form S-3 (No. 333-08369-01), filed on March 15, 2000).
4.9	— Form of Second Supplemental Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4 to Form 10-Q for the Quarter Ended September 30, 2001).
4.10	— Form of Indenture relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 (No. 333-108272), filed on August 27, 2003).
4.11	— Underwriting Agreement relating to 1.75% Cash-Settled Convertible Senior Notes due September 27, 2007 (incorporated by reference to Exhibit 1 to Form 10-Q for the Quarter Ended September 30, 2000).
4.12	— Form of Underwriting Agreement relating to \$2,000,000,000 of debt securities (incorporated by reference to Exhibit 1.1 to Registration Statement on Form S-3 (No. 333-108272), filed on August 27, 2003).
4.13	— Selling Agent Agreement relating to UPS Notes with maturities of 9 months or more from date of issue (incorporated by reference to Exhibit 10.1 to Form 8-K filed November 21, 2006) and Form of Note (incorporated by reference to Exhibit 4.1 to Form 8-K filed September 12, 2003).

## Index to Financial Statements

<u>Exhibit No.</u>	<u>Description</u>
10.1	— UPS Thrift Plan, as Amended and Restated, including Amendment Nos. 1 through 24 (incorporated by reference to Exhibit 10.1 to 2001 Annual Report on Form 10-K). (1) Amendment No. 25 to the UPS Thrift Plan (incorporated by reference to Exhibit 10.1(1) to 2002 Annual Report on Form 10-K).
†10.2	— UPS Retirement Plan, as Amended and Restated, including Amendment Nos. 1 through 34.
10.3	— UPS Savings Plan, as Amended and Restated, including Restatement Amendment Nos. 1 through 8 (incorporated by reference to Exhibit 10.3 to 2001 Annual Report on Form 10-K). (1) Amendment No. 1 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(1) to 2004 Annual Report on Form 10-K). (2) Amendment No. 2 to the UPS Savings Plan (incorporated by reference to Exhibit 10.3(2) to 2004 Annual Report on Form 10-K). (3) Amendment No. 3 to the UPS Savings Plan (incorporated by reference to Exhibit 10.4 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2005).
10.4	— Credit Agreement (364-Day Facility) dated April 20, 2006 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. as joint arrangers, Bank of America, N.A., Barclays Bank PLC, and BNP Paribas as co-documentation agents, Citibank, N.A. as administrative agent, and JPMorgan Chase Bank, N.A., as syndication agent. (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2006).
10.5	— Credit Agreement (Five-Year Facility) dated April 21, 2005 among United Parcel Service, Inc., the initial lenders named therein, Citigroup Global Markets Inc. and J.P. Morgan Securities Inc. as Joint Arrangers, Bank of America, N.A., Barclays Bank PLC, and BNP Paribas as Co-Documentation Agents and Citibank, N.A. as Administrative Agent and JP Morgan Chase Bank, N.A., as Syndication Agent (incorporated by reference to Exhibit 10.2 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2005).
10.6	— UPS Excess Coordinating Benefit Plan (incorporated by reference to Exhibit 10.8 to 2003 Annual Report on Form 10-K).
10.7	— UPS 1996 Stock Option Plan, as amended and restated (incorporated by reference to Exhibit 10.9 to 2003 Annual Report on Form 10-K).
10.8	— UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 4.1 to Registration Statement No. 333-67479, filed November 18, 1998). (1) Amendment No. 1 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(1) to 1999 Annual Report on Form 10-K). (2) Amendment No. 2 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(2) to 1999 Annual Report on Form 10-K). (3) Amendment No. 3 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(3) to 1999 Annual Report on Form 10-K). (4) Amendment No. 4 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.19(4) to 2000 Annual Report on Form 10-K). (5) Amendment No. 5 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(5) to 2001 Annual Report on Form 10-K). (6) Amendment No. 6 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(6) to 2001 Annual Report on Form 10-K).

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<u>Exhibit No.</u>	<u>Description</u>
	(7) Amendment No. 7 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.8(7) to 2002 Annual Report on Form 10-K).
	(8) Amendment No. 8 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.10(8) to 2003 Annual Report on Form 10-K).
	(9) Amendment No. 9 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.10(9) to 2003 Annual Report on Form 10-K).
	(10) Amendment No. 10 to the UPS Qualified Stock Ownership Plan and Trust Agreement (incorporated by reference to Exhibit 10.5 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2005).
10.9	— Form of United Parcel Service, Inc. Incentive Compensation Plan (incorporated by reference to the registration statement on Form S-4 (No. 333-83349), filed on July 21, 1999, as amended).
	(1) Form of Non-Qualified Stock Option Award Agreement and Restricted Performance Unit Award Agreement (incorporated by reference to Exhibit 10.11(1) to 2004 Annual Report on Form 10-K).
	(2) Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.7 to Quarterly Report on Form 10-Q for the Quarter Ended March 31, 2005).
	(3) Form of Restricted Stock Unit Award Agreement for the 2006 Long-Term Incentive Performance Awards (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on March 7, 2006).
	(4) Form of Nonqualified Stock Option Award Agreement (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on May 5, 2006).
	(5) Form of Restricted Performance Unit Award Agreement (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on May 5, 2006).
10.10	— UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to 2000 Annual Report on Form 10-K).
	(1) Amendment to the UPS Deferred Compensation Plan (incorporated by reference to Exhibit 10.12(1) to 2004 Annual Report on Form 10-K).
10.11	— United Parcel Service, Inc. Nonqualified Employee Stock Purchase Plan (incorporated by reference to the registration statement on Form S-8 (No. 333-34054), filed on April 5, 2000).
10.12	— Form of United Parcel Service, Inc. Discounted Employee Stock Purchase Plan (incorporated by reference to Appendix B to Definitive Proxy Statement for 2001 Annual Meeting of Shareowners).
	(1) Amendment to the Discounted Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.12(1) to the 2005 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 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 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.

† Filed herewith.

AMENDMENT NO. 35  
TO THE  
UPS RETIREMENT PLAN

WHEREAS, United Parcel Service of America, Inc. ("UPS") and its affiliated corporations established the UPS Retirement Plan ("Plan") for the benefit of its employees, in order to provide benefits to those employees upon their retirement, disability, or death, effective as of September 1, 1961; and

WHEREAS, the Plan, as adopted and amended from time to time, was amended and restated in its entirety, effective as of January 1, 1976, to comply with the Employee Retirement Income Security Act of 1974; and

WHEREAS, the Plan has been amended on a number of occasions since January 1, 1976, the most recent being Amendment No. 34; and

WHEREAS, UPS desires to amend to:

- Restate the entire document and incorporate all previous amendments;
- Amend and/or add definitions to clarify the intended meaning and to comply with requirements applicable to the qualified joint and survivor annuity benefit
- Eliminate the one-year holdout rule;
- Link entitlement to disability benefits to a finding of disability under the United States Social Security Act;
- Revise the benefit formula to apply the Overnite formula to all eligible UPS Ground Freight employees beginning in 2006 and clarify the rules that apply when a participant accrues benefits under multiple formulas in the same plan year;
- Eliminate years of zero compensation in calculating final average compensation;
- Clarify the suspension of benefit rules and the application of the minimum distribution rules;
- Amend the claims procedures, the procedures for unlocatable participants and add a procedure for recovery of overpayments;
- Provide retiree medical benefits for certain UPS Ground Freight employees; and
- Add an appendix providing benefits for certain former Aviation Technologies employees in connection with the sale of Aviation Technologies to Garmin International, Inc.

NOW THEREFORE, pursuant to the authority vested in the Board of Directors by Section 7.1 of the UPS Retirement Plan (the "Plan"), such Plan is hereby amended and restated in the form attached to this Amendment Number 35.

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IN WITNESS WHEREOF, the undersigned certify that United Parcel Service of America, Inc. based upon action by the Board of Directors on December\_\_\_\_\_, 2006 has caused this Amendment No. 35 to be adopted.

ATTEST:

UNITED PARCEL SERVICE  
OF AMERICA, INC.

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Teri P. McClure  
Secretary

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Michael L. Eskew  
Chairman

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**THE UPS RETIREMENT PLAN**

**(Amended and Restated Effective January 1, 2006,  
incorporating Amendments 1 through 34)**

THE UPS RETIREMENT PLAN

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**THE UPS RETIREMENT PLAN**

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

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

**WHEREAS**, the Plan has subsequently been amended on a number of occasions, the most recent of which is Amendment No. 34;

**NOW, THEREFORE**, this Amendment No. 35 hereby amends and restates the Plan for ease of administration to incorporate all amendments made to date, and make other amendments which are generally effective as to individuals with at least one Hour of Service as an Employee on or after as of January 1, 2006 and new Employees hired thereafter. The rights and benefits, if any, of an individual without at least one Hour of Service as an Employee on or after January 1, 2006 shall be determined in accordance with the terms of the Plan in effect on the date he last earned an Hour of Service, except as expressly provided in this amended and restated plan or as otherwise provided by the Code or ERISA.

**ARTICLE I  
DEFINITIONS**

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

(a) “Accrued Benefit” means the monthly benefit defined in Section 5.2(a).

(b) “Actuarial Equivalent

(i) General Optional Form of Payment For purposes of determining the amount of an Optional Form of Benefit, a benefit having in the aggregate equality in value to the amounts expected to be received under the Normal Form of benefit payment based upon an interest rate of 6% and the 1983 GAM Mortality Table for Males for Participants and the 1983 GAM Mortality Table for Females for beneficiaries and Alternate Payees.

(ii) Special Rules Optional Form of Payment Notwithstanding the foregoing, the following factors will apply to the Participants described below in determining the amount of the Optional Forms of Benefit described below:

(A) Grandfathered Participants and Pre-2001 Benefits For purposes of determining the amount payable to (I) any Grandfathered Participant or (II) any other Participant who had accrued a benefit under the Plan as of December 31, 2000 and who is not in pay status as of December 31, 2000, in the form of a Qualified Joint and Survivor Annuity, Joint and 50% Survivor Annuity or a Single Life Annuity with 120-Month Guarantee:

(1) Qualified and 50% Joint and Survivor Annuity. If the Optional Form of Benefit is a Qualified Joint and Survivor Annuity or a 50% Joint and Survivor Annuity the greater of (I) the amount determined under Section 1.1(b)(i) above or (II) the amount determined in accordance with paragraph (a) or (b) below:

a. 94 percent of the Participant’s monthly benefit in the Normal Form increased (or decreased) by 0.5 percent for each year the Spouse’s or beneficiary’s age is greater (or less) than the Participant’s age, to a minimum of 82 percent if the beneficiary is the Participant’s Spouse (but no minimum shall apply if the beneficiary is not the Participant’s Spouse), and a maximum of 99 percent (without regard to whether the beneficiary is the Participant’s Spouse), if the Normal Form of the Participant’s benefit is a Single Life Annuity with 120-Month Guarantee; and

b. 90 percent of the Participant's monthly benefit in the Normal Form increased (or decreased) by 0.5 percent for each year the Spouse's or beneficiary's age is greater (or less) than the Participant's age, with no minimum but a maximum of 99 percent if the Normal Form of the Participant's benefit is a Single Life Only Annuity.

(2) Single Life with 120-Month Guarantee. If the benefit is payable to a Participant described in Section 1.1(b)(2)(A) with at least one Hour of Service as an Employee on or after January 1, 1992 in the form of a Single Life Annuity with 120-Month Guarantee, the greater of (I) the amount determined under Section 1.1(b)(i) above or (II) 95 percent of his monthly benefit payable in the Normal Form.

(3) Adjustment for Certain Qualified Joint and Survivor Annuities. If the benefit is payable on or after January 1, 2007 to a Participant described in Section 1.1(b)(2)(A) with at least one Hour of Service as an Employee on or after January 1, 1992 in the form of a Qualified Joint and Survivor Annuity, then the amount of the benefit determined under Section 1.1(b)(ii)(A) shall be increased by five percent (5%) or such greater percentage as is required to make the Qualified Joint and Survivor Annuity equivalent to the most valuable benefit available to such Participant if such Participant retires on or after age 65.

(B) Grandfathered Overnite Participant. For purposes of determining the benefit payable to any Grandfathered Overnite Participant with an Annuity Starting Date occurring on or after January 1, 2006:

(1) If the Optional Form of Payment is a Qualified Joint and Survivor Annuity or a 50% or 100% Joint and Survivor Annuity the greater of (A) the amount determined under Section 1.1(b)(i) above or (B) the amount determined using an interest rate of 7% and the UP 1984 Unisex Pension Mortality Table;

(2) If the Optional Form of Benefit is a Social Security Leveling Option, the greater of (A) the amount determined under Section 1.1(b)(i) above, (B) the amount determined using an interest rate of 7% and the UP 1984 Unisex Pension Mortality Table or (C) the amount determined using the Applicable Interest Rate (determined as if the benefit commencement date is the date of distribution) and the Applicable Mortality Table.

(C) Grandfathered Motor Cargo Participant. For purposes of determining the benefit payable to any Grandfathered Motor Cargo Participant with an Annuity Starting Date occurring on or after January 1, 2006:

(1) If the Optional Form of Benefit is a Qualified Joint and Survivor Annuity, a 50% or 100% Joint and Survivor Annuity or a Five

Year Certain and Life Annuity, the greater of (A) the amount determined under Section 1.1(b)(i) above or (B) the amount determined using an interest rate of 8% and the UP 1984 Unisex Pension Mortality Table;

(2) For purposes of the adjustment for a Postponed Retirement Benefit described in Section 5.2(d), an interest rate of 8% and the UP 1984 Unisex Pension Mortality Table.

(iii) Offsets from Other Plans. For any purpose other than as described above, for example, for the purpose of determining the amount of any offset under Section 5.7 or benefits provided under Article XIII, Actuarial Equivalence shall be determined based upon an interest rate of 6% and the 1971 Towers, Perrin, Forster and Crosby Forecast Mortality Table with ages set back one year.

(iv) Other Purposes. For any purpose other than described in Section 1.1(b)(iii) above, Actuarial Equivalence shall be determined under Section 1.1(b)(i) above.

(c) "Actuary" means the individual actuary or firm of actuaries selected by the Committee to provide actuarial services in connection with the administration of the Plan.

(d) "Alternative Formula" means the benefit formula described in Section 5.3(f).

(e) "Annuity Starting Date" means (1) the first day of the first period for which an amount is payable as an annuity, or (2) in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to such benefit.

(f) "Applicable Interest Rate" means

(i) for lump sum benefits paid before January 1, 2000, "Applicable Interest Rate" shall mean the lesser of (i) 6% or (ii) the interest rate or rates which would be used, as of the date distribution commences, by the Pension Benefit Guaranty Corporation for purposes of determining the present value of a Participant's benefits under the Plan if the Plan had terminated on the date distribution commences with insufficient assets to provide benefits guaranteed by the Pension Benefit Guaranty Corporation on that date; and

(ii) for lump sum benefits paid on or after January 1, 2000, the "Applicable Interest Rate" shall be as described in Section 417(e)(3) of the Code for the "lookback month" preceding the "stability period" that includes the date the distribution is made. The term "lookback month" means August, which is the fifth month preceding the first day of the stability period containing the date of distribution. The term "stability period" means the calendar year in which the distribution is made. Notwithstanding the foregoing, for distributions made on or after January 1, 2000 and before July 1, 2001, the Applicable Interest Rate means the lesser of (i) the "applicable interest rate" as described in Section 417(e)(3) of the Code for the second month preceding the month that includes the date the distribution is made or (ii) the "applicable interest rate" as described in Section 417(e)(3) of the Code for the month of August preceding the calendar year that includes the date the distribution is made.

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(iii) For lump sum benefits paid on or after January 1, 2006 and before January 1, 2007 to a Grandfathered Overnite Participant or a Grandfathered Motor Cargo Participant, "Applicable Interest Rate" shall be the lesser of (a) the "applicable interest rate" as described in Section 417(e)(3) of the Code for the November preceding the calendar year that includes the date the distribution is made or (b) the "applicable interest rate" as described in Section 417(e)(3) of the Code for the month of August preceding the calendar year that includes the date the distribution is made.

(g) "Applicable Mortality Table" means

(i) for lump sums paid before January 1, 2000, the 1971 Towers, Perrin, Forster, and Crosby Forecast Mortality Table with ages set back one year; and

(ii) for lump sums paid on or after January 1, 2000, the "applicable mortality table" prescribed by the Secretary of the Treasury for purposes of Section 417(e)(3) of the Code.

(h) "Benefit Service" means, subject to the special rules described below, the number of a Participant's years (including fractions of a year) of (i) employment as an Employee with one or more Employer Companies while such Employer Company is an Employer Company, and (ii) employment with one or more Employer Companies while such Employer Company is an Employer Company, but not as an Employee, provided that such employment precedes the Participant's period of employment as an Employee. No Benefit Service credit will be given with respect to service with an Employer Company that follows a Participant's period of employment as an Employee, unless the Participant subsequently becomes an Employee and earns at least one month of Benefit Service in such capacity. Except as specifically provided otherwise, no Benefit Service credit will be given with respect to employment with an Employer Company prior to the date it first becomes an Employer Company.

(i) General. Years and months of Benefit Service shall be determined based on Hours of Service earned by a Participant in the capacities described above in accordance with the following charts:

(A) Before 1992. For any Participant without at least one Hour of Service as an Employee on or after January 1, 1992:

<u>Hours of Service in Each Calendar Year</u>	<u>Months of Benefit Service</u>
Less than 1000	0 months
1000 - 1050	6 months
1051 - 1200	7 months
1201 - 1350	8 months
1351 - 1500	9 months
1501 - 1650	10 months
1651 - 1800	11 months
1801 or over	12 months

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

<u>Hours of Service in Each Calendar Year</u>	<u>Months of Benefit Service</u>
Less Than 125	0 months
125 - 249	1 month
250 - 374	2 months
375 - 499	3 months
500 - 624	4 months
625 - 749	5 months
750 - 874	6 months
875 - 999	7 months
1000 - 1124	8 months
1125 - 1249	9 months
1250 - 1374	10 months
1375 - 1499	11 months
1500 - over	12 months

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

(ii) Break in Service. If a Participant with no vested interest, as determined under Section 6.1, incurs one or more consecutive Breaks in Service:

(A) Rule of Parity. Benefit Service credit prior to the Break in Service shall not be taken into account for purposes of calculating years of Benefit Service if the number of consecutive Breaks in Service equals or exceeds the greater of (i) the aggregate number of the Participant's Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (ii) six;

(B) One-Year Hold Out. Prior to July 1, 2000, Benefit Service before such Break in Service shall not be taken into account for purposes of calculating years of Benefit Service until the Participant completes one Year of Service after the Break in Service.

(iii) LTD Participant. Benefit Service with respect to an LTD Participant whose Retirement Benefits commence after December 31, 2000 shall be calculated in accordance with the applicable table in subparagraph (i) above, but there shall be included as Benefit Service (for purposes of benefit accrual and early retirement subsidies) all years and months while the Participant is an LTD Participant and continues to be "totally disabled" for purposes of the UPS Income Protection Plan (or a successor long term disability plan), as amended from time to time. Such Benefit Service shall be determined as if such LTD Participant had worked at least 1500 Hours of Service in each calendar year and at least 216 Hours of Service in each month in excess of a calendar year. Provided, however, the total Benefit Service credited under this Section 1.1(g)(iii) to an LTD Participant when aggregated with his actual Benefit Service under other Sections of this definition shall not exceed thirty-five (35) years or if lesser, the maximum service cap imposed by the particular benefit formula applicable to the LTD Participant. No Benefit Service will be credited to a Disabled Participant while such Participant is receiving Disability Retirement Benefits or is an LTD Participant.

(iv) Special Rules for Acquisitions/Mergers. The Benefit Service of certain Participants who became Participants as a result of certain acquisitions or mergers shall include the additional Benefit Service if any, described in the Appendix applicable to such Participants.

(i) "Beneficiary" means a beneficiary designated by the Participant or the Plan in accordance with Section 5.10.

(j) "Board of Directors" means the Board of Directors and/or the Executive Committee of United Parcel Service of America, Inc.

(k) "Break in Service" means, with respect to a Participant with at least one Hour of Service as an Employee on or after January 1, 1992, a Plan Year during which the Participant does not complete more than 124 Hours of Service. With respect to a Participant without at least one Hour of Service as an Employee on or after January 1, 1992, "Break in Service" means a Plan Year during which a Participant does not complete more than 500 Hours of Service (375 Hours of Service in the case of a Participant employed on a part-time basis for whom the regular time hour equivalency described in the definition of Hour of Service is used).

(l) "Code" means the Internal Revenue Code of 1986 as amended.

(m) "Committee" means the Administrative Committee of the Plan, the establishment and responsibilities of which are set forth in Article IX. The Committee shall be and is the Plan Administrator, the agent for service of process on or with respect to the Plan and a named fiduciary with respect to this Plan.

(n) "Company" means all of the following corporations collectively:

- 
- (i) United Parcel Service of America, Inc.; and
  - (ii) any corporation or trade or business that is considered to be a single employer with United Parcel Service of America, Inc., under Code Section 414(b), (c), (m) or (o).

(o) “Compensation” means, generally, remuneration currently earned and actually paid by an Employer Company or a domestic Related Employer to an employee who is a Participant in the Plan, and reported on such employee’s Form W-2 for the applicable calendar year, including basic salary or wages (without reducing wages to account for the Participant’s elective deferral of a portion of his salary or wages, if any, pursuant to a cash or deferred arrangement described in Section 401(k) of the Code, a plan described in Section 125 of the Code, the UPS Deferred Compensation Plan and /or the UPS Deferred Compensation Plan 2000), overtime pay, certain incentive and bonus payments, and including the value of awards made pursuant to the UPS Managers’ Incentive Plan or management incentive awards under the United Parcel Service, Inc. Incentive Compensation Plan. Notwithstanding anything to the contrary in the immediately preceding sentence, effective for management incentive awards made under the United Parcel Service, Inc. Incentive Compensation Plan on or after November 1, 2005, Compensation shall include the value (as of the award date) of the restricted stock unit portion of the award, even if unvested and not reported on the employee’s Form W-2 related to the year of the award. Compensation shall not include any other payments received by the Participant, including, but not limited to, the following, notwithstanding that such payments may be included in the Participant’s Form W-2 for the applicable year:

- (i) Payments in the nature of compensation from an insurance carrier, from a state unemployment or worker’s compensation fund, or from any health and welfare or other benefit program or plan maintained by an Employer Company or a Related Employer other than the United Parcel Service, Inc. Incentive Compensation Plan for management incentive awards thereunder;

- (ii) Disability payments from an insurance carrier, a state disability insurance fund, this Plan or any other disability plan maintained by an Employer Company or a Related Employer except, effective January 1, 2007, payments from a state disability insurance fund that are applied to offset salary continuation benefits from the UPS Income Protection Plan;

- (iii) ‘Foreign service differentials’ or other supplemental payments made by an Employer Company or a Related Employer to a Participant working outside his country of citizenship on account of such foreign service;

- (iv) Payment or reimbursement by an Employer Company or a Related Employer of relocation expenses incurred by a Participant or his family;

- (v) The value of employee fringe benefits provided by an Employer Company or a Related Employer, including but not limited to the payment of life insurance premiums, whether or not the value of such fringe benefits is includable in an employee’s taxable income;

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- (vi) Payments made under deferred compensation plans or programs;
  - (vii) Employer contributions to any pension, profit-sharing or stock bonus plan to which the Employer Company or a Related Employer contributes;
  - (viii) Employer contributions to any welfare benefit plan to which an Employer Company or a Related Employer contributes;
  - (ix) Income attributable to awards under the UPS Stock Option Plan or the United Parcel Service, Inc. Incentive Compensation Plan other than management incentive awards; provided, however, that income attributable to the vesting of that portion of a management incentive award that is made in restricted stock units shall be excluded; and
  - (x) Effective January 1, 2006, bonuses paid pursuant to retention agreements paid in connection with mergers or acquisitions and any other bonuses or payments that are not directly related to the performance of the Participant's duties including, but not limited to:
    - (A) any bonuses paid under a general bonus payroll code;
    - (B) gift card awards;
    - (C) loss prevention awards;
    - (D) referral bonuses; and
    - (E) sales lead incentive bonuses.

In no event shall the Compensation of any participant taken into account under the Plan for any Plan Year exceed the applicable dollar amounts for such Plan Year determined under Section 401(a)(17) of the Code increased by the applicable cost-of-living adjustment, if any, for the calendar year sanctioned by Section 401(a)(17) of the Code. For Plan Years commencing before January 1, 1997, in determining the Compensation of a Participant, the rules of Section 414(q)(6) of the Code (as in effect immediately prior to January 1, 1997) shall apply, except that in applying such rules, the term "family" shall include only the Participant's Spouse and any lineal descendants of the Participants who have not attained age 19 before the close of the Plan Year. If, as a result of the application of such rules the applicable Compensation limitation is exceeded, then such limitation shall be prorated among the affected individuals in proportion to each such individual's Compensation as determined under this Section prior to the application of this limitation.

In determining a Participant's Final Average Compensation, the \$200,000 Compensation limitation shall apply retroactively with respect to Compensation earned prior to 2002 by a Participant with at least one Hour of Service on or after January 1, 2002. Similarly, the \$150,000 Compensation limitation shall apply retroactively with respect to Compensation earned prior to 1994 by a Participant with at least one Hour of Service on or after January 1, 1994 (but without an Hour of Service on or after January 1, 2002) and the \$200,000 Compensation limitation in

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

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

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

(p) "Deferred Vested Benefit" means the benefit, if any, described in Section 5.2(c).

(q) "Disability" or "Disabled" means:

(i) for determinations made prior to January 1, 2003, total and permanent disability that renders the Participant unable to engage in any substantially gainful activity for the Employer Company by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration, and it is not the result of military service or the commission of a crime by the Participant. The Committee may require such proof of disability as will be satisfactory to it, and may withhold payments until such proof is provided; and

(ii) for determinations made on or after January 1, 2003, a total and permanent physical or mental impairment that qualifies a Participant (and continues to qualify him) for a monthly disability insurance benefit under the United States Social Security Act. The determination by the Social Security Administration as to whether and when a Participant has a total and permanent disability shall be conclusive. No other medical findings will be considered.

(r) "Disability Retirement Benefit" means the benefit, if any, described in Section 5.5 or for certain Participants who became Participants as a result of certain acquisitions or mergers, the disability benefit described in the applicable Appendix.

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- (s) “Domestic Partner” means, effective January 1, 2006, an individual other than a Spouse, in a relationship with a Participant that meets the following conditions:
- (i) Both the individual and the Participant are at least 18 years old and mentally competent to consent to a contract,
  - (ii) The individual and the Participant have been in a committed and exclusive relationship of mutual caring and support for at least the immediately preceding 12 months and intend to remain in the partnership permanently,
  - (iii) The individual and the Participant are jointly responsible for each other’s financial, emotional and physical well-being,
  - (iv) The individual has lived with the Participant continuously for at least the immediately preceding 12 months and intends to do so indefinitely,
  - (v) The individual is not related to the employee by blood or other relationship that would violate applicable state law if the individual and the Participant were married (other than laws related to gender),
  - (vi) Neither the individual nor the Participant has had a Spouse or has been in another relationship with an individual that would qualify as a “domestic partner” under this definition in the immediately preceding 12 months,
  - (vii) The relationship is registered in the applicable state or local registry, if available,
  - (viii) The individual and the Participant are the same sex,
  - (ix) Not be in the relationship solely for the purpose of obtaining benefits coverage, and
  - (x) Be unable to enter into a legal marriage because the Employee’s State of residence at his death does not recognize same sex marriages.

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

(t) “Early Commencement Service Requirement” means for each Participant, the completion of the service requirement specified in the definition of Early Retirement Date applicable to such Participant.

(u) “Earliest Commencement Age” means for each Participant, the minimum age for the Early Retirement Date applicable to such Participant.

(v) “Early Retirement Date” means the first day of any calendar month coincident with or next following the attainment of 55 years of age and the completion of ten Years of Service, or, for a Grandfathered Motor Cargo Participant, five Years of Service, but not later than Normal Retirement Date.

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(w) "Effective Date" means September 1, 1961.

(x) "Employee" means (1) an individual who is employed by a domestic Employer Company, or (2) a Foreign Employee, neither of whose terms and conditions of employment are governed by a collective bargaining agreement to which the Employer Company is a party, unless the collective bargaining agreement expressly provides for coverage under this Plan (for periods after January 1, 1992, changes to the Plan's benefit formula shall not apply to employees subject to a collective bargaining agreement and participating in this Plan except to the extent so provided in the applicable collective bargaining agreement), and neither of whom is an active participant on whose behalf contributions are being made by the Employer Company under any other qualified pension or retirement plan, except any cash or deferred plan described in Section 401(k) of the Code or the UPS Qualified Stock Ownership Plan.

Notwithstanding the foregoing and except to the extent provided otherwise in an Appendix for an acquisition or merger, any individual who becomes an Employee for the first time as a result of employment with an Employer Company which first elected to participate in this Plan as of January 1, 1985, or later, shall not be considered an Employee until such individual has completed one Year of Service during or after the first Plan Year for which the Employer has agreed to participate.

The term "Employee" shall not include (1) an individual employed as a leased employee as that term is defined in Section 414(n)(2) of the Code; (2) any person while assigned to Overnite's or UPS Freight's Special Services Division or OMC Logistics who either (i) first became an employee of Overnite on or after September 1, 2002, or (ii) has a termination of employment and was re-employed as an employee on or after September 1, 2002, without retaining credit for Years of Vesting Service and years of Benefit Service completed prior to such termination of employment; and (3) any person employed by Overnite or UPS Freight who is classified as a "work at home customer service employee".

Under no circumstances will an individual who performs services for a Employer Company, but who is not classified on the payroll as an employee of the Employer Company, for example, an individual performing services for a Employer Company under a leasing arrangement, be treated as an Eligible Employee even if such individual is treated as an "employee" of a Employer Company as a result of common law principals or the leased employee rules under Section 414(n) of the Code. Further, if an individual performing services for a Employer Company is retroactively reclassified as an employee of a Employer Company for any reason, such reclassified individual shall not be treated as an Eligible Employee for any period prior to the actual date (and not the effective date) of such reclassification unless the Employer Company determines that retroactive reclassification is necessary to correct a payroll classification error.

(y) "Employer Company" means any Company which (1) is listed on Appendix H or (2) by action of its board of directors has elected to participate in this Plan with the consent of

United Parcel Service of America, Inc. An entity shall cease to be an Employer Company when it withdraws from the Plan in accordance with Section 7.2 or when it ceases to be a Company.

(z) "ERISA" means Public Law No. 93-406, the Employee Retirement Income Security Act of 1974, as amended from time to time

(aa) "Final Average Compensation" means,

(i) Before 2007. For calendar years prior to January 1, 2007, a Participant's average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last consecutive ten calendar years of employment (or actual number of consecutive years of employment if less than ten) preceding the earlier of the calendar year in which:

(A) the Participant terminated his period of employment with the Employer Company and all Related Employers, whether by reason of retirement or other termination of employment, or

(B) the Plan terminated, whether in whole or in part.

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

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

(A) the Participant terminated his period of employment with the Employer Company and all Related Employers prior to the last day of such calendar year, or

(B) the Plan terminated, whether in whole or in part.

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

(iii) Special Grandfather Rule. For a Grandfathered Participant and each other Participant who has an accrued benefit under the Plan as of December 31, 2000, his accrued benefit in no event shall be less than his accrued benefit determined as of December 31, 2000 using his average annual Compensation for the highest consecutive five full calendar years of employment (or actual number of consecutive full years of employment if less than five) out of the last consecutive ten calendar years of employment (or actual number of consecutive years of employment if less than ten) preceding the calendar year in which occurs the earlier of (A) the Participant terminated his most recent period of employment included in the calculation of Benefit Service prior to December 31, 2000, whether by reason of retirement or other termination of employment with an Employer Company, or by transfer to a position in which he is no longer an Employee or (B) December 31, 2000.

(iv) Special rule for Grandfathered Overnight Participants and Grandfathered Motor Cargo Participants. For purposes of avoiding a double proration, within the meaning of Department of Labor Regulations, Section 2530.204-2(d) in calculating a Grandfathered Overnight Participant; or Grandfathered Motor Cargo Participant's benefit, if calendar years before 2006 are taken into account to determine Final Average Compensation, only those years in which a Grandfathered Overnight Participant or a Grandfathered Motor Cargo Participant received a year of benefit service credit under the Overnight Plan or the Motor Cargo Plan, respectively, shall be included and any years in which the Participant did not earn a year of benefit service shall be ignored.

(bb) "Five Year Certain and Life Annuity" means a reduced monthly benefit payable to a Participant for his lifetime, with a guarantee of 60 payments. If the Participant dies after the Annuity Starting Date but before receiving 60 monthly payments, the monthly payments shall be paid to the Participant's Beneficiary, until the Participant and his Beneficiary have received a total of 60 monthly payments.

(cc) "Foreign Employee" means a citizen of the United States transferred from a domestic Employer Company to employment by a foreign corporation shall be considered an Employee of the domestic Employer Company which has entered into an agreement under Section 3121(1) of the Internal Revenue Code of 1986, as amended, to provide social security coverage for all citizens of the United States employed by such foreign corporation, during such time as he remains employed by the foreign corporation and the foreign corporation remains covered under such agreement.

(dd) "Fund", "Trust", or "Trust Fund" means all of the assets of the Plan that are held by the Trustee for the purposes of the Plan.

(ee) "Grandfathered Participant" means any Participant

(i) who performed an Hour of Service as an Employee on or before December 31, 2000 or was classified as an employee on the payroll of an Employer Company on or before December 31, 2000, but was not an Employee because the terms or conditions of his employment were governed by a collective bargaining agreement which did not expressly provide for coverage under the Plan;

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(ii) who performs an Hour of Service as an Employee on or after January 1, 2001; and

(iii) whose Hours of Service as an Employee prior to January 1, 2001 are not disregarded (without regard to whether such Participant received a month of Benefit Service with respect to such Hours of Service).

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

(ff) "Grandfathered Motor Cargo Participant" means a Participant who was a participant in the Motor Cargo Plan on December 31, 2005.

(gg) "Grandfathered Overnite Participant" means a Participant who was a participant in the Overnite Plan on December 31, 2005.

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

Notwithstanding any of the foregoing, no more than 1040 Hours of Service will be credited to a Participant for any single continuous period during which the employee performs no duties; and no credit shall be given for a payment which is made or due under a plan maintained solely for the purpose of complying with unemployment compensation or disability insurance laws or which solely reimburses an employee for medical or medically related expenses incurred by the employee; provided, however, Hours of Service shall be credited as required under the Uniformed Services Employment and Reemployment Rights Act of 1994 effective December 12, 1994.

A payment shall be deemed to be made by or due from the Employer Company whether made by or due from the Employer Company directly or indirectly through a trust fund, insurer or other entity to which the Employer Company contributes or pays premiums, regardless of whether such contributions are for the benefit of particular employees or are on behalf of a group

of employees in the aggregate. Stated generally, Hours of Service credited to a Participant during a period of absence as described above shall be credited at the same rate at which the Participant would have normally been credited with Hours of Service but for the absence; provided however, that the crediting of Hours of Service shall in all events be consistent with the terms of Department of Labor Regulations, Section 2530.200b-2 and 3.

Notwithstanding the foregoing and, except as provided below, only for the purpose of determining whether a Break in Service has occurred for purposes of eligibility for participation under Section 2.1 or vesting Section 6.2 of the Plan, there shall be treated as Hours of Service, with respect to a Participant who is an Employee on or after January 1, 1985, and who is absent from work (i) by reason of the pregnancy of the Participant, (ii) by reason of the birth of a child of the Participant, (iii) by reason of the placement of a child with the Participant in connection with the adoption of a child by the Participant, or (iv) for purposes of caring for a child of the Participant immediately following its birth or placement, either:

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

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

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

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

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

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

(ii) “Integrated Formula” means the benefit formula described in Section 5.3(e).

(jj) “Joint and Survivor Annuity”, “Joint and 50% Survivor Annuity”, and “Joint and 100% Survivor Annuity” means the Optional Form of Benefit described in Section 5.4(d)(ii).

(kk) “LTD Participant” means a Participant who, as of the time he terminates employment with all Employer Companies and Related Employers, has (i) completed five Years of Service, (ii) is a full-time Employee and (iii) has been approved for disability benefits under the UPS Income Protection Plan (or a successor long term disability plan), as amended from time to time.

(ll) “Motor Cargo Plan” means the Pension Plan for Employees of Motor Cargo as in effect on December 31, 2005.

(mm) “Normal Form” means

(i) For a Participant without at least one Hour of Service as an Employee on or after January 1, 1992, the Single Life Annuity and 120-Monthly Guarantee; and

(ii) For a Participant with at least one Hour of Service as an Employee on or after January 1, 1992, a Single Life Only Annuity.

(nn) “Normal Retirement Benefit” means the benefit described in Section 5.2(a).

(oo) “Normal Retirement Date” means, for individuals who become Participants on or after January 1, 1989, the first day of the calendar month coincident with or next following the later to occur of (i) the Participant’s attainment of age 65 or (ii) the Participant’s earning of five Years of Service or, if earlier, the fifth anniversary of his participation in this Plan. For an individual who became a Participant prior to 1989, a Grandfathered Overnite Participant, or a Grandfathered Motor Cargo Participant, Normal Retirement Date means the first day of the calendar month coincident with or next following the Participant’s attainment of age 65.

(pp) “Optional Form of Benefit” means an optional form of benefit other than a single sum amount.

(qq) “Overnite” means Overnite Corporation or Overnite Transportation Company.

(rr) “Overnite Plan” means the Retirement Plan for Employees of Overnite Transportation Company as in effect on December 31, 2005.

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- (ss) "Participant" means an Employee who has satisfied the eligibility requirements of Article II hereof.
- (tt) "Pre-2001 Participant" means a Participant who does not have an Hour of Service on or after January 1, 2001.
- (uu) "Pre-2006 Motor Cargo Benefit Service" means for each Grandfathered Motor Cargo Participant the least of (i) 30 minus his actual number of years of UPS Freight Service completed after 2005, (ii) his actual number of years of pre-2006 Benefit Service described in Appendix K, or (iii) 25 years.
- (vv) "Pre-2006 Motor Cargo Formula" means the benefit formula described in Section 5.3(c).
- (ww) "Pre-2006 Overnite Benefit Service" means the pre-2006 Benefit Service described in Appendix J.
- (xx) "Plan" means the United Parcel Service Retirement Plan, also called the UPS Retirement Plan, as set forth herein, as the same may hereafter be amended from time to time by written resolution of the Board of Directors.
- (yy) "Plan Year" means a calendar year, except that the first Plan Year shall begin September 1, 1961 and end December 31, 1961.
- (zz) "Postponed Retirement Benefit" means the benefit payable under Section 5.2(d).
- (aaa) "Postponed Retirement Date" means the first day of the calendar month coincident with or next following a Participant's actual retirement, when that retirement is later than his Normal Retirement Date.
- (bbb) "Preretirement Survivor Annuity" means the benefit described in Section 5.6.
- (ccc) "Present Value" The term "Present Value" means the single sum amount of such benefit based on the Applicable Interest Rate and the Applicable Mortality Table. Notwithstanding the foregoing, with respect to distributions made on or after January 1, 2000 and before July 1, 2000 and with respect to distributions made to Participants who terminated prior to January 1, 2000, the single sum amount shall be the greater of the amount determined without regard to Section 1.1(e)(ii) and 1.1(f)(ii) or the amount determined taking into account Sections 1.1(e)(ii) and 1.1(f)(ii). Additionally, the single sum amount of the Participant's benefit shall not be less than the single sum benefit the Participant would have received based on his benefit accrued as of the earlier of his date of termination or June 30, 2000 calculated using an interest rate of 6% and the Applicable Mortality Table under Section 1.1(f)(i).
- (ddd) "Qualified Joint and Survivor Annuity" means a reduced monthly benefit payable to the Participant for his lifetime, and following his death, 50% of the monthly benefit paid to the Participant shall be payable to the person who was his Spouse as of the Annuity Starting Date, and to whom the Participant is married at his death provided such Spouse survives the Participant. The last payment of such benefit shall be made as of the first day of the month in

which the death of the last to die of the Participant and his Spouse has occurred. This benefit shall be the Actuarial Equivalent of the Normal Form of the Participant's benefit.

(eee) "Related Employer" means (1) any other corporation on and after the date that it, together with the Employer Company, is a member of a controlled group of corporations as described in Section 414(b) of the Code; (2) any other trade or business (whether or not incorporated) on and after the date that it and the Employer Company are under common control as described in Section 414(c) of the Code; and (3) any organization (whether or not incorporated) on and after the date that it, together with the Employer Company, is a member of an affiliated group of employers as described in Section 414(m) of the Code.

(fff) "Retirement Benefit" means a Normal Retirement Benefit, Early Retirement Benefit, Deferred Vested Benefit, and a Postponed Retirement Benefit.

(ggg) "RPA Benefit Service" means the sum of (i) years of Benefit Service completed before 2001 and (ii) years of Benefit Service completed after 2000 for an Employer Company described in Appendix F as providing benefits under the RPA Benefit Formula, in each case excluding years of Benefit Service prior to the date an individual first became a Participant in the Plan as a result of an acquisition or merger unless expressly provided in the applicable Appendix.

(hhh) "RPA Formula" means the benefit formula described in Section 5.3(a).

(iii) "RPA Points" has the meaning ascribed to such term in Section 5.3(a)(iii).

(jjj) "Single Life Only Annuity" means a monthly benefit continuing for the life of the Participant only. The last payment of a Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.

(kkk) "Single Life Only Annuity and 120-Monthly Guarantee" means the monthly benefit described in Section 5.4(d)(iii).

(lll) "Social Security Amount" with respect to an Employee who is a Participant, means the yearly Primary Old Age Insurance benefit which a Participant is eligible or may become eligible to receive at the age at which unreduced Primary Old Age Insurance benefits commence (whether or not such application is made by the Participant) under the provisions of the Federal Social Security Act (as it is in effect on his Normal Retirement Date or earlier termination of employment with the Employer Company or any member of an affiliated group of which the Employer Company is a part), which amount shall be determined by the Committee under rules adopted by it based upon:

(i) the assumption that the Participant has made or will make proper and timely application for such benefits;

(ii) if a Participant documents his salary history to the Committee, such history, provided, however, that for such history to be used in lieu of the estimated amount determined under paragraphs (iii) and (iv) below, the Participant must supply such history to the Committee no later than one year following the later of (A) the Participant's termination of employment or (B) the time when the Participant is notified of the Retirement Benefit to which he is entitled.

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(iii) subject to paragraph (ii), above, an estimated preseparation or preretirement salary history with respect to the Participant; and

(iv) with respect to a Participant whose employment terminated for reason of retirement or otherwise prior to his Normal Retirement Date, on the assumption that the Participant continued in employment with the Employer Company to his Normal Retirement Date at the rate of compensation as in effect on his earlier date of retirement or termination of employment.

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

(mmm) "Social Security Leveling Option" means for a Grandfathered Overnite Participant, the Optional Form of Benefit described in Section 5.4(d)(v).

(nnn) "Spouse" means that one person who is recognized under applicable law of the State of the Employee's residence as the Employee's Spouse on the earlier of (a) his date of death, or (b) his Annuity Starting Date.

(ooo) "Trust Agreement" or "Trust Agreements" means the trust agreements establishing the UPS Retirement Plan Trust, as restated effective as of January 1, 1976, including any future amendments and modifications thereof, which form a part of this Plan.

(ppp) "Trustee" means the corporations or individuals so designated by the Board of Directors to hold assets of the Plan for the purposes of the Plan.

(qqq) "UPS Freight Formula" means the benefit formula described in Section 5.3(b).

(rrr) "UPS Freight Service" means the sum (not to exceed 30) of (i) the Pre-2006 Overnite Benefit Service and (ii) the number of years of Benefit Service completed after 2005 for an Employer Company described on Appendix G as providing benefits under the UPS Freight Formula.

(sss) "Year of Service" means, with respect to each Participant with at least one Hour of Service as an Employee on or after January 1, 1992, each calendar year in which he completes not less than 750 Hours of Service (whether or not as an Employee) with the Employer Company or any Related Employer. With respect to any other Participant without at least one Hour of Service as an Employee on or after January 1, 1992, a Year of Service means each calendar year in which he completes not less than 1,000 Hours of Service (whether or not as an Employee) with the Employer Company or a Related Employer.

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

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

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

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

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

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

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

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

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

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

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

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**ARTICLE III  
FUNDING**

SECTION 3.1. Funding Method and Policy. The Employer Companies shall contribute to the Plan with respect to each Plan Year an amount sufficient to satisfy their obligations hereunder and the minimum funding standard, which shall be considered met if at the end of each Plan Year, the Plan insofar as it relates to each Employer Company does not have an accumulated funding deficiency, as defined in Section 302 of ERISA. Additional amounts may be contributed, in the Employer Companies' discretion.

The funding method shall be contributions from the Employer Companies and the funding policy shall be such as is consistent with the objectives of the Plan.

SECTION 3.2. Establishment of Funding Standard Account. The Committee hereby establishes a funding standard account which shall be maintained in accordance with Section 302 of ERISA. Each Employer Company shall contribute to the Plan with respect to each Plan Year an amount sufficient to prevent the occurrence of an accumulated funding deficiency insofar as it is concerned. The Committee shall notify each Employer Company of the existence of an accumulated funding deficiency but failure to so notify the Employer Company shall not relieve the Employer Company from their obligations hereunder. The Committee shall take whatever action is appropriate to prevent an accumulated funding deficiency, including making application for a variance from the minimum funding standard or an extension of amortization periods, or establishing an alternative minimum funding standard in accordance with Sections 303, 304 and 305 of ERISA.

SECTION 3.3. Payment of Contributions. An Employer Company may pay its contribution for any Plan Year on any date or dates, provided, however, that the total amount of the Employer Company's contribution for any Plan Year shall be paid in full not later than the last day for timely filing of its Federal income tax return for the year with respect to which the contribution is made, including extensions thereof granted by the Internal Revenue Service. In determining when to make its contributions as aforesaid, the Employer Company shall be mindful of the quarterly contribution rules described in Section 412(m) of the Code.

SECTION 3.4. Contributions by Employer. All contributions to this Plan to fund the benefits described in Article IV shall be made only by the Employer Companies. Except as described in Article XII with respect to medical benefits funded by means of this Plan, no Participant contributions shall be required or permitted.

SECTION 3.5. Permissible Contributions and Irrevocability. Any amounts contributed by the Employer Company pursuant to this Article III may be contributed by the Employer Company in cash or other property. In no such event and under no circumstances shall such contributions, or any part thereof, revert to or be recoverable by the Employer Company until all obligations under this Plan have been fully satisfied as provided in Section 7.5, except as follows:

(a) in the case of a contribution, or any part thereof, made under a mistake of fact, the Employer Company may recover such contribution within one year of payment; and

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(b) because all contributions are conditioned on deductibility, in the event that a contribution cannot be deducted by the Employer Company pursuant to Section 404 of the Code, the Employer Company shall recover such contribution, to the extent disallowed, within one year after the disallowance of the deduction.

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

**ARTICLE IV  
ELIGIBILITY FOR BENEFITS**

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

SECTION 4.2. Normal Retirement Benefit. Each Participant who has attained his Normal Retirement Date may retire from the service of an Employer Company and all Related Employers and upon so retiring shall be paid a pension in an amount determined under Article V. Payment of such a pension shall commence:

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

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

SECTION 4.3. Early Retirement Benefit. A Participant who attains his Early Retirement Date while in the active employ of an Employer Company and all Related Employers, and who retires at any time thereafter and prior to his Normal Retirement Date, may elect to receive an Early Retirement Benefit in an amount determined under Section 5.2(b), commencing on the first day of any month coincident with or immediately following his termination of employment with an Employer Company and all Related Employers, provided he has complied with the application provisions of Section 4.1.

SECTION 4.4. Deferred Vested Benefit.

(a) In general. A Participant who has five or more Years of Service will be eligible for a Deferred Vested Benefit if (i) his employment with an Employer Company and all Related Employees is terminated other than by reason of death before the earliest date on which he would be eligible for retirement under the terms of Sections 4.2 or 4.3, and (ii) he does not later reenter

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the service of any Employer Company or Related Employer. Said benefit shall commence on the first day of any month after his Earliest Commencement Age, but no later than his Normal Retirement Date, provided he has complied with the provisions of Section 4.1. The amount of such benefit shall be determined under Article V.

SECTION 4.5. Postponed Retirement Benefit. A Participant who terminates employment with an Employer Company and all Related Employers after his Normal Retirement Date shall be entitled to a benefit in an amount determined under Article V. Payment of such pension shall commence as of his Postponed Retirement Date.

SECTION 4.6. Disability Retirement Benefit.

(a) Eligibility. A Participant with at least ten (10) Years of Service who is not approved for disability income benefits under the UPS Income Protection Plan (or a successor long term disability plan) or who has exhausted his benefits under the UPS Income Protection Plan (or successor long term disability plan) shall be eligible for a Disability Retirement Benefit determined under Article V if he terminates employment with the Employer Company and all Related Employers due to a Disability before his Early Retirement Date or after December 31, 2006 and he makes an application for a Disability Retirement Benefit as described in Section 4.6(b). However, a Participant who has attained his Early Retirement Date or Normal Retirement Date prior to experiencing a Disability will be eligible to elect to receive his Early Retirement Benefit or Normal Retirement Benefit instead of a Disability Retirement Benefit.

(b) Disability Application. A Participant must make a written application for a Disability Retirement Benefit to the Committee in accordance with Section 4.1. If the application for a Disability Retirement Benefit is approved by the Committee, the first monthly payment of the Disability Retirement Benefit shall begin with the first calendar month following the month in which the Committee determines the Participant is entitled to a Disability Retirement Benefit but the first such payment shall include a payment for each calendar month during which the Participant is Disabled from (i) the later of (A) the date the Participant made an application for Disability Retirement Benefits or (B) the date the Participant made an application for Social Security benefits through (ii) the benefit commencement date. No interest shall be paid on such make-up payments.

SECTION 4.7. Termination of Disability. If a Participant receiving a Disability Retirement Benefit shall subsequently cease to be Disabled, his Disability Retirement Benefit shall cease, and he may, if he meets the eligibility requirements, apply for a Normal Retirement Benefit or an Early Retirement Benefit. If the Participant's application is approved, payments under either the Normal Retirement Benefit or Early Retirement Benefit shall commence as of the first day of the month following the termination of the Disability Retirement Benefit (benefit payments cannot commence prior to the Early Retirement Date and will not commence retroactively if timely application is not made to the Plan.)

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

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

(a) Benefits Subject to Limits of Plan Provisions in Effect The benefit to which a Participant under this Plan is entitled shall be determined by the provisions of the Plan which were in effect on the date of the Participant's retirement, death, or the date he otherwise ceases to accrue Benefit Service, whichever is the earliest. No amendment made to the Plan after such date shall affect the entitlement of a Participant to any benefit hereunder, unless the amendment specifically provides to the contrary.

(b) Benefit Increase After December 31, 1984, for Retirees in Pay Status as of January 1, 1985 Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1984:

(i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire), and who was receiving benefit payments under this Plan as of January 1, 1985, or to a beneficiary of such Participant,

(ii) to a Participant who become totally and permanently disabled on or before January 1, 1985, while in service with an Employer Company, or to a beneficiary of such a Participant, and

(iii) to the beneficiary of a Participant who died on or before January 1, 1985, while in service with an Employer Company

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

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

(c) Benefit Increase After December 31, 1988, for Retirees in pay Status as of September 1, 1979 Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1988:

(i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire) and who was receiving benefit payments under this Plan as of September 1, 1979, or to a beneficiary of such a Participant,

(ii) to a Participant who became totally and permanently disabled on or before September 1, 1979, while in service with an Employer Company, or to a beneficiary of such a Participant, and

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(iii) to a beneficiary of a Participant who died on or before September 1, 1979, while in service with an Employer Company

shall be increased so that it is equal to the sum of (A), (B), and (C) below:

(A) The Participant's original monthly benefit (or the Participant's beneficiary's share of such benefit, in the case of a beneficiary entitled to monthly payments) calculated under the Plan at the time of retirement, death or disability without regard to the 10% benefit increase provided by paragraph (b) above,

(B) The amount in subparagraph (1) above multiplied by the applicable factor set forth in Appendix B to this Plan for the year the Participant retired, died or became totally and permanently disabled and as a result ceased to be employed by an Employer Company, which factor represents 75% of the actual percentage increase in the Consumer Price Index from the year in which the Participant retired, died or became disabled through December 31, 1987 (adjusted to take into account fluctuations in the Consumer Price Index within each such year), and

(C) The amount of the 10% benefit increase provided pursuant to the paragraph (b) above.

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

(d) Benefit Increase after December 31, 1994, for Retirees in Pay Status as of January 1, 1985 Notwithstanding the foregoing provisions of this Section 5.1, each benefit payment made after December 31, 1994:

(i) to a Participant who retired from service with an Employer Company (but not including a Participant who left service with an Employer Company for reasons other than death or disability before being eligible to retire) and who was receiving benefit payments under this Plan as of January 1, 1985, or to a beneficiary of such a Participant;

(ii) to a Participant who became totally and permanently disabled on or before January 1, 1985, while in service with an Employer Company, or to a beneficiary of such a Participant, and

(iii) to the beneficiary of a Participant who died on or before January 1, 1985, while in service with an Employer Company

shall be increased so that it is equal to the sum of (A) and (B) below:

(A) The Participant's original monthly benefit (or the Participant's beneficiary's share of such benefit, in the case of a beneficiary entitled to monthly payments) calculated under the Plan at the time of retirement, death or disability without regard to the 10% benefit increase provided by paragraph (b) above, and without regard to any increase provided by paragraph (c) above; and

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(B) The amount in subparagraph (1) above multiplied by the by the applicable factor set forth in Appendix C to this Plan for the year the Participant retired, died or became totally and permanently disabled and as a result ceased to be employed by an Employer Company, which factor represents 75% of the actual percentage increase in the Consumer Price Index from the year in which the Participant retired, died or became disabled through December 31, 1991 (adjusted to take into account fluctuations in the Consumer Price Index within each such year).

SECTION 5.2. Benefit Amounts.

(a) Accrued Benefit. The amount of the monthly pension payable to a Participant in the Normal Form commencing as of his Normal Retirement Date or, if later, the date he actually retires determined as follows:

(i) General. For a Participant other than a Grandfathered Participant or a Pre-2001 Participant, the sum of A, B and C, where

(A) = the RPA Formula benefit, if any,

(B) = the UPS Freight Formula benefit, if any, and

(C) = the Pre-2006 Motor Cargo Formula benefit, if any.

(ii) Grandfathered Participant. For a Grandfathered Participant, the greater of A, B or C, where

(A) = the benefit described in Section 5.2(a)(i) determined as if he were not a Grandfathered Participant;

(B) = the Alternative Formula benefit; and

(C) = the Integrated Formula benefit.

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

(A) = the Alternative Formula benefit; and

(B) = the Integrated Formula benefit.

(b) Early Retirement Benefit.

(i) Normal Commencement. A Participant who terminates employment with all Employer Companies and Related Employers on or after the Participant's Early Retirement Date but before his Normal Retirement Date shall be entitled to his Accrued Benefit, determined as of his most recent termination of employment with all Employer Companies and Related Employers. The Accrued Benefit shall be payable at his Normal Retirement Date.

(ii) Early Commencement. A Participant who is eligible for an Early Retirement Benefit under Section 5.2(b)(i) may commence such benefit at any time on or after he terminates employment with all Employer Companies and Related Employers and before his Normal Retirement Date provided that the amount of such benefit shall be reduced for early commencement in accordance with the following:

(A) General. For a Participant other than a Grandfathered Participant or a Pre-2001 Participant, the early retirement benefit that commences before his Normal Retirement Date shall be the sum of his early retirement benefit under the RPA Formula, his early retirement benefit determined under the UPS Freight Formula and the early retirement benefit determined under the Pre-2006 Motor Cargo Formula.

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

a. Less Than 20 Years of Benefit Service. With less than 20 years of Benefit Service as of his Annuity Starting Date, the benefit under the RPA Formula shall be reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

b. 20 Years or More of Benefit Service. With 20 or more years of Benefit Service as of his Annuity Starting Date, the benefit under the RPA Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

c. 25 or More Years of Benefit Service. With 25 or more Years of Benefit Service as of his Annuity Starting Date, the benefit shall be equal to the greater of i. or ii. below:

i. the benefit calculated under the Alternative Account Formula under Section 5.3(a) without any reduction applied; or

ii. the benefit calculated under the Integrated Account Formula under Section 5.3(b) reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his 60th birthday.

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

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

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

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

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

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

i. 25 or More Years of Benefit Service. If such Participant has completed at least 25 years of Benefit Service as of his termination of employment, the benefit determined under the UPS Freight Formula shall not be reduced; or

ii. Less Than 25 Years of Benefit Service. If such Participant has not completed at least 25 years of

Benefit Service as of his termination of employment, the benefit determined under the UPS Freight Formula shall be reduced in accordance with the following table:

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

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

iii. Represented Participant. If a Represented Participant's termination of employment occurs when he is a Represented Participant but before the Approval Date, the benefit payable to the Participant shall equal the benefit determined under Section 5.2(b)(ii)(A)(2) a. or b. without regard to subparagraph c.

(3) Pre-2006 Motor Cargo Formula Benefit Reductions. The benefit determined under the Pre-2006 Motor Cargo Formula shall be reduced for early commencement by 0.375% for each month by which his Early Retirement Date precedes his Normal Retirement Date.

(B) Grandfathered Participant. For a Grandfathered Participant the early retirement benefit that commences before his Normal Retirement Date shall be the greatest of his early retirement benefit determined under Section 5.2(b)(ii)(A) above determined as if he were not a Grandfathered Participant, his early retirement benefit determined under the Alternative Formula and his early retirement benefit determined under the Integrated Formula.

(1) Alternative Formula Reductions. The benefit determined under the Alternative Formula shall be reduced as follows for early commencement:

a. Less Than 25 Years of Benefit Service. With less than 25 years of Benefit Service, the benefit under the Alternative Formula shall be reduced by one-quarter of one percent (0.25%)

for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

b. 25 or More Years of Benefit Service. With 25 or more Years of Benefit Service as of his Annuity Starting Date, the benefit under the Alternative Formula shall be without any reduction.

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

a. Less Than 25 Years of Benefit Service. With less than 25 years of Benefit Service, the benefit under the Integrated Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

b. 25 or More Years of Benefit Service. With 25 or more years of Benefit Service, the benefit under the Integrated Formula shall be reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his 60<sup>th</sup> birthday.

(C) Pre-2001 Participant. The Early Retirement Benefit for a Pre-2001 Participant shall be the amount determined under (1) through (5) below, as applicable:

(1) Retires After August 1979 With no Hours After 1984. For a Pre-2001 Participant who retires on or after September 1, 1979 but who earns no Hours of Service on or after January 1, 1985, the greater of the benefit calculated under the Alternative Formula or the Integrated Formula, each reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

(2) Retires After 1984 With No Hours After 1991. Except as provided in Section 5.2(b)(ii)(C)(3) below, for a Pre-2001 Participant who retires on or after January 1, 1985 but who earns no Hours of Service as an Employee on or after January 1, 1992, the greater of the benefit calculated under the Alternative Formula or the Integrated Formula, each reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

(3) Retires After 1984 With No Hours After 1991 and 29½ Years of Benefit Service. For a Pre-2001 Participant who (I) retires on or after January 1, 1985, (II) who earns no Hours of Service as an Employee on or

after January 1, 1992, (III) whose Annuity Starting Date precedes his Normal Retirement Date by 91 months or more, and (IV) who has at least 29 years and six months of Benefit Service (without regard to the rounding rules described in Section 5.2(e)), his Accrued Benefit shall be reduced in accordance with (2) above and for purposes of calculating such Participant's benefit amount under the Integrated Formula the term "50 percent of his Social Security Amount" shall be deemed to mean the applicable percentage of his Social Security Amount set forth in the following table:

<u>Age at Retirement Date</u>		<u>Applicable Percentage</u>
<u>Years</u>	<u>Months</u>	
55	0	49.19%
55	1	49.21%
55	2	49.22%
55	3	49.24%
55	4	49.27%
55	5	49.29%
55	6	49.30%
55	7	49.32%
55	8	49.35%
55	9	49.36%
55	10	49.38%
55	11	49.40%
56	0	49.42%
56	1	49.45%
56	2	49.48%
56	3	49.51%
56	4	49.54%
56	5	49.56%
56	6	49.60%
56	7	49.63%
56	8	49.65%
56	9	49.69%
56	10	49.71%
56	11	49.74%
57	0	49.78%
57	1	49.81%
57	2	49.84%
57	3	49.89%
57	4	49.92%
57	5	49.97%

(4) Hours After 1991 With Less Than 20 Years Benefit Service For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992 but with less than 25 years of Benefit Service, the Early Retirement Benefit shall be equal to the greater

of the benefit determined under the Alternative Formula or the Integrated Formula, each reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

(5) Hours After 1991 With 25 or More Years of Benefit Service For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992, and with 25 or more Years of Benefit Service as of his Annuity Starting Date, the Early Retirement Benefit shall be equal to the greater of

- a. the benefit calculated under the Integrated Formula reduced by one-quarter of one percent (0.25%) for each month by which the Participant's Annuity Starting Date precedes the first day of the month that coincides with or immediately follows his 60th birthday; or
- b. the benefit calculated under the Alternative Formula without any reduction applied.

(c) Deferred Vested Benefit

(i) Normal Commencement. A Participant who terminates employment with all Employer Companies and Related Employers after he is vested as described in Section 4.4 shall be entitled to his Accrued Benefit as of his most recent termination of employment with all Employer Companies and Related Employers. Such Accrued Benefit shall be payable at his Normal Retirement Date.

(ii) Early Commencement

(A) General. A Participant (other than a Grandfathered Participant or a Pre-2001 Participant) who is eligible for a Deferred Vested Benefit and who has satisfied the Early Commencement Service Requirement may commence such benefit as of the first day of any calendar month on or after he terminates employment with all Employer Companies and Related Employers and reaches Earliest Commencement Age but before his Normal Retirement Date, subject to the following reductions:

(1) RPA Formula Benefit Reductions. The benefit determined under the RPA Formula shall be reduced for early commencement by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

(2) UPS Freight Formula Benefit Reductions. The benefit determined under the UPS Freight Formula shall be reduced in the same manner as the benefit reductions described in Section 5.2(b)(ii)(A)(2), the reduction for early commencement of the Early Retirement Benefit.

(3) Pre-2006 Motor Cargo Formula Benefit Reductions. The benefit determined under the Pre-2006 Motor Cargo Formula shall be reduced in the same manner as the benefit reductions described in Section 5.2(b)(ii)(A)(3), the same as the reduction for early commencement of the Early Retirement Benefit.

(B) Grandfathered Participant. For a Grandfathered Participant the Deferred Vested Benefit that commences before his Normal Retirement Date shall be the greatest of:

- (1) his reduced Deferred Vested Benefit determined under Section 5.2(c)(ii)(A)(1) for Participants other than Grandfathered Participants,
- (2) his benefit under the Alternative Formula reduced by one-half of one percent (0.5%) per month for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date and
- (3) his benefit under the Integrated Formula reduced for early commencement by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.
- (4) December 31, 1991 Benefit. Notwithstanding the foregoing, the Deferred Vested Benefit of a Grandfathered Participant shall not be less than the Deferred Vested Benefit, if any, the Participant would have earned under the provisions of this Plan immediately prior to January 1, 1992, taking into account for this purpose Compensation, if any, earned by the Participant through December 31, 1991 and Benefit Service earned by him through December 31, 1992, if any, reduced by one-quarter of one percent (0.25%) instead of one-half of one percent (0.50%).

(C) Pre-2001 Participant. For a Pre-2001 Participant, his reduced Deferred Vested Benefit shall be the greater of the benefit calculated under the Alternative Formula or the Integrated Formula reduced as described below:

(1) No Hours After 1991. For a Pre-2001 Participant with at least one Hour of Service on or after September 1, 1979 but without at least one Hour of Service as an Employee on or after January 1, 1992, the benefit shall be reduced by the following percentage thereof for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date:

- a. for terminations before January 1, 1985, one-half of one percent (0.5%); and
- b. for terminations after December 31, 1984, one-quarter of one percent (0.25%).

(2) Hours After 1991. For a Pre-2001 Participant with at least one Hour of Service as an Employee on or after January 1, 1992, the benefit shall be reduced by one-half of one percent (0.5%) for each month by which the Participant's Annuity Starting Date precedes his Normal Retirement Date.

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

(d) Postponed Retirement Benefit - Subject to Section 5.9 regarding mandatory distributions, a Participant, other than a Grandfathered Motor Cargo Participant, who terminates employment with all Employer Companies and all Related Employers after his Normal Retirement Date shall receive a benefit as of his Postponed Retirement Date equal to his Accrued Benefit determined as of his Postponed Retirement Date. Such benefit shall be payable as of his Postponed Retirement Date.

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

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

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

SECTION 5.3. Formulas.

(a) RPA Formula.

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

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

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

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

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

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

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

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

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

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

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

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

B = \$240.00.

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

(i) First, determine the RPA Benefit Service accrued under each RPA Schedule and the UPS Freight Service based on the Hours of Service with the Employer Company or Companies providing such RPA Schedule or such UPS Freight Formula;

(ii) Second, allocate the Benefit Service determined under (i) above to the UPS Freight Formula;

(iii) Third, allocate the excess of the Participant's Benefit Service determined under (i) above, over the UPS Freight Service allocated under (ii) above to the RPA Schedules starting with the actual service completed under the RPA Schedule that provides the highest point value and continuing with the actual Benefit Service under the RPA Schedule with the next highest point value until the sum of the Benefit Service allocated under (ii) and the Benefit Service allocated under this (iii) equals the total actual Benefit Service or 12 months, whichever is less;

For example, assume a Participant has 2000 total Hours of Service for Employer Companies during the Plan Year, 874 hours are under the RPA Schedule with the lowest point value (Schedule 3), 874 hours are under the highest RPA Point value (Schedule 1) and 252 hours are UPS Freight Service. The Participant's total Benefit Service is 12 months. The Participant has 6 months of RPA Benefit Service under RPA Schedule 1 and Schedule 3, and 2 months of UPS Freight Service. The Participant will be credited with 2 months of UPS Freight Service, 6 months of RPA Benefit Service under RPA Schedule 1 and 4 months of RPA Benefit Service under Schedule 3;

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

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

(i) No Hours After 1996. For a Participant who does not have at least one Hour of Service as an Employee on or after January 1, 1997, the Integrated Formula is  $1/12^{\text{th}}$  of 50 percent of such Participant's Final Average Compensation less  $1/12^{\text{th}}$  of 50 percent of his Social Security Amount where such Participant has 30 or more years of Benefit Service. If such Participant has less than 30 years of Benefit Service at his Annuity Starting Date, the amount calculated above shall be multiplied by a fraction, the numerator of which is the number of years of Benefit Service to his Annuity Starting Date, and the denominator of which is 30.

In the case of a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 for whom the Normal Form of benefit is a Single Life Only Annuity, the Integrated Formula benefit shall not be less than such Participant's benefit under the Integrated Formula, if any, calculated in accordance with this Section 5.3(e) and payable in the form of a Single Life Only Annuity 120 Month Guarantee, but taking into account for this purpose only that Compensation earned by the Participant through December 31, 1991 and Benefit Service earned by him through December 31, 1992.

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

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

(i) Hours After August 1979.

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

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

If a Participant without at least one Hour of Service on or after January 1, 1989 has less than 10 Years of Service prior to his Normal Retirement Date or Postponed Retirement Date, the amount shall be determined as set forth in Section (A) or (B) above, as applicable, using the number of years of Benefit Service multiplied by a fraction, the numerator of which is his number of Years of Service to Normal Retirement Date (or, for a Participant with at least one Hour of Service on or after January 1, 1987, his actual retirement date) not in excess of 10, and the denominator of which is 10. If a Participant with at least one Hour of Service on or after January 1, 1989, and who first became a Participant in the Plan prior to January 1, 1989, has less than 5 Years of Service prior to his Normal Retirement Date, the amount shall be determined under subparagraph (B) using the number of years of Benefit Service multiplied by a fraction, the numerator of which is his number of Years of Service to his actual retirement date, not in excess of 5, and the denominator of which is 5. The foregoing sentence shall not apply to any individual who first became a Participant on or after January 1, 1989.

(ii) Hours After 1991.

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

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

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

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

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

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

For purposes of this subparagraph, the term "the Threshold Amount" means \$48,000 for a Participant who was born in 1957 or later, \$54,000 for a Participant who was born in or after 1951 but before 1957, and \$60,000 for a Participant born in 1950 or earlier.

Notwithstanding the foregoing, the benefit amount calculated in accordance with this Section 5.3(c)(ii) shall not be less than the Participant's Accrued Benefit, if any, calculated in accordance with Section 5.3(e)(2)(i) and payable in the form of a Single Life Annuity and 120-Monthly Guarantee, taking into account all Benefit Service earned by the Participant through December 31, 1992.

SECTION 5.4. Benefit Payment.

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

- (i) If a Participant is married on his Annuity Starting Date, in the form of a Qualified Joint and Survivor Annuity and
- (ii) If the Participant is not married on the Annuity Starting Date, in the Normal Form.

(b) Election out of Normal Form of Benefit or Qualified Joint and Survivor Annuity. In lieu of the Normal Form or the Qualified Joint and Survivor Annuity, a Participant who is eligible for an annuity form of benefit, may elect, at any time within the 90-day period ending on the Annuity Starting Date, to waive the Normal Form or the Qualified Joint and Survivor Annuity in favor of one of the Actuarial Equivalent Optional Forms of Benefit described below.

(i) Form of Election. An election by a Participant under this Section must be in writing in a form approved by the Committee, and, if the Participant is married, such election shall not be effective unless:

(A) the Spouse of the Participant consents to the election, and such consent (1) is in writing, (2) acknowledges the Participant's selection of an alternate form of benefit and/or Beneficiary, which may not thereafter be changed without spousal consent unless the Spouse's prior consent expressly permits the Participant to change the Beneficiary without further consent by the Spouse, (3) acknowledges the effect of such election, and (4) is witnessed by a notary public; or

(B) it is established to the satisfaction of a representative of the Plan that the Spouse's consent cannot be obtained because (1) the Participant has no Spouse, (2) the Participant's Spouse cannot be located, or (3) one of the conditions prescribed in Treasury regulations is satisfied.

(ii) Spouse Affected by Election. A Participant's election to waive the Qualified Joint and Survivor Annuity shall be effective only with respect to the Spouse who consented to the election or who was deemed to consent pursuant to Section 5.4(b)(i)(B).

(iii) Revocation of Election. A Participant may revoke an election made under this Section 5.4(b) at any time prior to the Annuity Starting Date. A Spouse's consent to the waiver of the Qualified Joint and Survivor Annuity and to the specific Beneficiary and optional form designations made by the Participant is irrevocable unless the Participant revokes his waiver election.

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

- (i) the terms and conditions of the Normal Form and the Qualified Joint and Survivor Annuity;
  - (ii) the Participant's right to make, and the effect of, an election to waive the Normal Form or the Qualified Joint and Survivor Annuity;
  - (iii) the requirement that the Participant's Spouse consent in writing to the election in accordance with the spousal consent provisions set forth in Section 5.4(b)(i);
- and
- (iv) the right to make, and the effect of, a revocation of an election not to receive the Normal Form or a Qualified Joint and Survivor Annuity.

(d) Optional Forms of Benefit

(i) Actuarial Equivalent. Each benefit payment form described in this Section 5.4(d) will be the Actuarial Equivalent of the Participant's benefit payable in the Normal Form.

(ii) Joint and Survivor Annuity. Under the Joint and Survivor Annuity, a reduced monthly benefit shall be paid to the Participant for his lifetime, and his beneficiary, if such beneficiary survives at the Participant's death, shall be entitled to receive thereafter a lifetime survivorship benefit in a monthly amount equal to 50% or 100%, as selected by the Participant, of the monthly amount which had been payable to the Participant. The last payment of the Joint and Survivor Annuity shall be made as of the first day of the month in which the death of the last to die of the Participant and his beneficiary has occurred. This optional form shall be available to any Participant whose Annuity Starting Date is on or after January 1, 2001 without regard to whether such Participant has an Hour of Service on or after such date.

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

(iii) Single Life Annuity with 120-Month Guarantee. Under the Single Life Annuity with 120-Month Guarantee, a reduced monthly benefit shall be paid to the Participant for his lifetime, with a guarantee of 120 monthly payments. If the Participant dies after the Annuity Starting Date but before receiving 120 monthly payments, the monthly payments shall be paid to the Participant's Beneficiary, until the Participant and his Beneficiary have received a total of 120 monthly payments.

(iv) Single Life Only Annuity. Under the Single Life Only Annuity, a monthly benefit shall be paid to the Participant for his lifetime. The last payment of the Single Life Only Annuity shall be made as of the first day of the month in which the death of the Participant occurs.

(v) Grandfathered Overnite Participant Optional Forms. In addition to the Optional Forms of Benefit available under Sections 5.4(d)(i) through (iv), a Grandfathered Overnite Participant whose Annuity Starting Date is prior to his Normal Retirement Date may elect, as an Optional Form of Benefit, a "social security leveling income option", which shall be a benefit for the Participant's lifetime providing for the adjustment of the Participant's Normal Retirement Benefit to produce, so far as practicable, a level combined pension from this Plan and the Participant's Social Security benefit (both before and after such Social Security benefit is payable).

(vi) Grandfathered Motor Cargo Participant Optional Forms. In addition to the Optional Forms of Benefit available under Section 5.4(d)(i) through (iv), a Grandfathered Motor Cargo Participant may elect, as an Optional Form of Benefit, a Five Year Certain and Life Annuity for his entire Accrued Benefit.

(e) Cash-Out of Benefits. Notwithstanding any other provisions of this Plan, if following a Participant's termination of employment the Present Value of his vested Retirement Benefit does not exceed \$3,500, for Participants who terminate employment with all Employer Companies and Related Employers before January 1, 2000, or \$5,000, for Participants who terminate employment with all Employer Companies and Related Employers on or after January 1, 2000, the Committee shall, in lieu of such benefit, pay to the Participant, without his consent, such Present Value in a lump sum. Provided however, that if the Present Value of such benefit is \$1,000 or greater, no such payment shall be made after March 1, 2005. In the case of a Participant who terminates employment prior to earning a vested benefit hereunder, said benefit shall be deemed to be distributed immediately following such termination of employment. In the event such nonvested Participant is reemployed, his Benefit Service shall be restored in accordance with the rules set forth in the definition of such term.

(f) Repayment of Cash-Out. After a distribution described in Section 5.4(e), the Participant's service with respect to which the distribution was made shall be disregarded for purposes of the Plan unless, following reemployment, the Participant repays the amount of the distribution to the Trustee together with interest at the rate of 120 percent of the Federal mid-term rate, as in effect under Code Section 1274 for the first month of the Plan Year in which the restoration occurs or otherwise in accordance with Code Section 411(a)(7). Such repayment must be made within five years of the Participant's resumption of employment.

(g) Special Transitional Rules for Certain Participants in Pay Status. In the case of a Participant with at least one Hour of Service as an Employee on or after January 1, 1992 and whose Annuity Starting Date is in 1992, the monthly amount of the Participant's Normal or Early Retirement Benefit, or Deferred Vested Benefit shall, if calculated in accordance with the

terms of this Plan prior to the adoption of Amendment No. 15, be adjusted, retroactive to the Participant's Annuity Starting Date, to reflect his greater benefit, if any, determined in accordance with the terms of this Plan as amended by Amendment No. 15. Such increase shall be calculated based on the same payment form as selected by the Participant.

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

(a) With reference to a Disability occurring prior to January 1, 1978, the amount determined by multiplying \$8.00 by the number of years of Benefit Service, to a maximum of 25, completed by the Participant prior to his Disability, or

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

The benefit payable under this Section 5.5 shall be paid to the disabled Participant so long as he remains Disabled.

SECTION 5.6. Preretirement Survivor Annuity.

(a) If a vested Participant dies on or after January 1, 2006 and prior to his Annuity Starting Date, his Spouse or Domestic Partner will be entitled to receive a Preretirement Survivor Annuity commencing:

(i) if the Participant dies after attaining his Earliest Commencement Age, as of the first day of the month coincident with or next following the date of the Participant's death; and

(ii) if the Participant dies on or before attaining his Earliest Commencement Age, as of the first day of the month coincident with or next following the date the Participant would have attained his Earliest Commencement Age.

(b) The Preretirement Survivor Annuity to which the Participant's surviving Spouse or Domestic Partner shall be entitled hereunder shall be equal to, for a surviving Spouse, the amount which would have been payable to the Participant's Spouse under the Qualified Joint and Survivor Annuity or, for a Domestic Partner, the Joint and 50% Survivor Annuity:

(i) if the Participant dies after he attains his Earliest Commencement Age, had the Participant retired and commenced receiving benefits on the day immediately preceding his death;

(ii) if the Participant dies on or before attaining his Earliest Commencement Age, had the Participant:

(A) separated from service on the date of his death (or his actual date of separation, if earlier);

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(B) survived to his Earliest Commencement Age;

(C) retired with an immediate Qualified Joint and Survivor Annuity for the Spouse or, in the case of a Participant with a Domestic Partner, the Joint and 50% Survivor Annuity at his Earliest Commencement Age; and

(D) died on the day after he would have attained his Earliest Commencement Age; and

(c) Notwithstanding the foregoing, if a Participant (other than a UPS Freight Participant) with at least one Hour of Service as an Employee on or after January 1, 1992 dies before attaining his Early Retirement Date while actively employed by an Employer Company after having earned at least 25 Years of Service, the Qualified Joint and Survivor Annuity or the Joint and 50% Survivor Annuity used as the basis for calculating the amount of the Preretirement Survivor Annuity shall be determined by using the early commencement reduction factors that would have been applicable to such Participant with respect to Early Retirement Benefits had he survived to his Early Retirement Date.

(d) The Participant's surviving Spouse or Domestic Partner may elect to defer commencement of the Preretirement Survivor Annuity, but not later than the date the Participant would have attained his Normal Retirement Date.

(e) In lieu of the Preretirement Survivor Annuity, before the first payment with respect to such benefit, the Committee shall pay to the surviving Spouse, without his consent, the Present Value of the benefit if such Present Value is less than \$1,000 for payments made after March 1, 2005. For payments made before January 1, 1985, such Present Value does not exceed, \$1,750, for payments made after December 31, 1984 but before January 1, 2000, \$3,500, and for payments after December 31, 1999, \$5,000.

SECTION 5.7. Benefit Payments Under Other Plans and Programs. The benefits otherwise provided in Sections 5.2 through 5.6 of this Plan shall be reduced by the amount of any benefits payable to or on behalf of a Participant, under any other non-government pension or retirement plan or program to which contributions have been made by an Employer Company on behalf of such person or under which service is counted in calculating benefits under this Plan, except any cash or deferred plan described in Section 401(k) of the Code or the UPS Qualified Stock Ownership Plan, to the extent that such benefits payable under such other plan or program are based on a period of time included in the calculation of Benefit Service within the meaning of Section 1.1(f), for purposes of this Plan and are not attributable to contributions made to such other plan or program by the Participant.

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

If the Participant receives one form of benefit under this Plan and another form of benefit under any such other plan, any reduction hereunder shall be based on actuarially equivalent forms of benefit.

SECTION 5.8. Preservation of Benefits and Maximum Pensions. Anything to the contrary notwithstanding, a retirement benefit computed under this Article V shall be subject to the following:

(a) Minimum Benefit for Participation as of the Effective Date. If a Participant was included under the provisions of the Plan prior to January 1, 1976, and a benefit becomes payable under this Plan resulting from termination of employment for any reason on or after the January 1, 1976, such benefit shall not be less than the actuarial equivalent of the benefit that would have been payable had the provisions of the Plan in effect immediately prior to January 1, 1976 remained in effect until the Participant's termination of employment, considering the years of continuous employment accumulated at termination of employment and the benefits in effect immediately prior to January 1, 1976.

(b) Maximum Benefits.

(i) General Limitation. For limitation years ending after December 31, 2002, the maximum annual benefit payable under this Plan shall not exceed the lesser of: (A) \$160,000 as adjusted, effective January 1 of each year, under Section 415(d) of the Code in such manner as the Secretary shall prescribe (the "dollar limitation") or (B) 100% of the Participant's average compensation (as defined in Treasury Regulation Section 1.415-2(d)) and reduced, if necessary, to reflect the applicable annual compensation limitation under Section 401(a)(17) of the Code, paid for the three consecutive calendar years during which he was an active Participant in the Plan, and in which he received the greatest aggregate compensation (as defined above) from the Employer Company, subject to the following:

(A) If the benefit is payable in any form other than a straight life annuity, a Qualified Joint and Survivor Annuity, or a joint and survivor annuity with the Spouse as the beneficiary, then the limitations of this subsection (1) shall be applied to the straight life annuity which is the actuarial equivalent of such benefit. The actuarially equivalent straight life annuity is equal to the greater of the annuity benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for adjusting benefits in the same form, and the annuity benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table. In determining the actuarially equivalent straight life annuity for a lump sum benefit, the Applicable Interest Rate will be substituted for 5 percent. No actuarial adjustment is required for the value of a qualified joint and survivor annuity, benefits that are not directly related to retirement benefits and the value of post-retirement cost-of-living increases made in accordance with Section 415(d) of the Code and the regulations thereunder.

(B) (1) If the retirement benefit of the Participant commences before the age 62, such dollar limitation shall be adjusted as described below so that it is the actuarial equivalent of an annual benefit of the dollar limitation beginning at age 62, reduced for each month by which benefits commence before the month in which the Participant attains age 62. The retirement benefit beginning prior to age 62 shall be determined as the lesser of the actuarial equivalent retirement benefit computed using the interest rate and mortality table (or other tabular factor) equivalence for early retirement benefits specified in the Plan, and the equivalent retirement benefit computed using a 5 percent interest rate and the Applicable Mortality Table. Any decrease in the adjusted defined benefit dollar limitation determined in accordance with this provision (B)(1) shall not reflect any mortality decrement to the extent that benefits will not be forfeited upon the death of the Participant. If any benefits are forfeited upon death, the full mortality decrement is taken into account.

(2) If the retirement benefit of a Participant commences after age 65, the defined benefit dollar limitation shall be adjusted so that it is the actuarial equivalent of a retirement benefit of such dollar limitation beginning at age 65. The actuarial equivalent retirement benefit beginning after age 65 shall be determined as the lesser of the actuarial equivalent retirement benefit computed using the interest rate and mortality table (or other tabular factor) specified in the Plan for purposes of determining actuarial equivalence for delayed retirement benefits, and the equivalent retirement benefit computed using a 5 percent interest rate assumption and the Applicable Mortality Table.

(C) Subject to limitations imposed elsewhere in this Plan, an annual benefit of \$10,000 or less may be paid regardless of the limitations set forth in this subsection (b)(i) if the benefit paid the Participant from all defined benefit plans of the Employer Company does not exceed \$10,000 for the Plan Year or any prior Plan Year, and the Employer Company has not at any time maintained a defined contribution plan in which the Participant participated.

(D) If a Participant has less than 10 Years of service with the Employer Company at the time the Participant begins to receive retirement benefits under the Plan, the average compensation limitation, as well as the \$10,000 benefit exception described in subparagraph (b)(i)(C) above, shall be reduced by multiplying such limitation by a fraction, the numerator of which is the number of Years of Service with the Employer Company as of and including the current limitation year, and the denominator of which is 10. In the case of the dollar limitation where the Participant has less than 10 years of participation in the Plan, such limitation shall be reduced by a fraction, the numerator of which is the number of years of participation in the Plan as of and including the current limitation year, and the denominator of which is 10.

(ii) Limitation Adjustment. The rate of a Participant's benefit accrual will be automatically frozen or reduced to a level necessary to prevent the limitations of this subsection (b) from being exceeded; provided, that if the limitations of this subsection (b)

will be exceeded only as a result of considering another defined benefit plan sponsored by the Employer Company and this Plan as one plan, the Participant's benefit accrual under this plan will not be frozen or reduced to a level necessary to prevent the limitations of this subsection (b) from being exceeded in the event that such other defined benefit plan provides for the freezing or reduction of benefit accruals.

(iii) Single Plan Rule. For purposes of this subsection (b), all defined benefit plans of the Employer Company (whether or not terminated) shall be considered as one defined benefit plan.

(iv) Automatic Adjustment. The limitations imposed by this subsection (b) shall be adjusted automatically when permitted or required by law. With respect to increases in these limitations which are permitted by law to reflect the impact of inflation, in the event that a Participant's Normal Retirement Benefit or Early Retirement Benefit as of his Annuity Starting Date, must be reduced by reason of the foregoing limitations in effect at such time, the following rules shall apply:

(A) A Participant's Normal Retirement Benefit or Early Retirement Benefit, taking into account the Compensation limitation under Section 401(a)(17) of the Code (the "Compensation limitation"), and applying the applicable limitation or limitations of Section 5.8(b)(i) or Section 5.7(b)(i)(B)(1) (as applicable, the "415 limitations") shall, following the Annuity Starting Date, be adjusted upward as the result of any subsequent increase in the 415 limitations, provided however, that in no event shall such benefit exceed the Participant's Normal Retirement Benefit or Early Retirement Benefit, as the case may be, including the Compensation limitation.

(B) Notwithstanding the foregoing, in no event shall a Participant's Normal Retirement Benefit or Early Retirement Benefit, for any particular year, exceed the 415 limitation for such year (based on the Participant's age on his Annuity Starting Date), and no increase as described in subparagraph (A) above shall be retroactive for any preceding year.

(C) A Participant's Normal Retirement Benefit or Early Retirement benefit shall not be adjusted upward as the result of any change to the Compensation limitation following the Annuity Starting Date.

(v) Limitation Year. For purposes of this subsection (b), the limitation year is the calendar year.

(vi) Employer Company. Solely for purposes of this Section 5.8(b), "Employer Company" means the Employer Company and each entity who would be determined to be a member of the Employer Company's controlled group under Section 414(b) or (c) of the Code if the standard of "more than fifty percent" was substituted for the standard of "at least eighty percent."

(vii) Transitional Rules.

(A) The limitation under Section 5.8(b)(i) for an Employee who was a Participant in this Plan prior to January 1, 1983, shall be the greater of (1) the limitation contained in such Section or (2) the Participant's accrued benefit, expressed as an annual benefit, as of December 31, 1982. For purposes of this paragraph (A), neither changes in the terms and conditions of this Plan nor cost of living adjustments occurring after July 1, 1982, shall be taken into account.

(B) The numerator of the defined contribution fraction shall, if necessary, be adjusted as permitted by Treasury Regulations so that the sum of the defined benefit fraction and the defined contribution fraction does not exceed 1.0 for the last limitation year beginning before January 1, 1983.

(c) Incorporation by Reference. Notwithstanding anything to the contrary in this Section 5.8, the limitations on the maximum benefits payable from this Plan shall be in accordance with Code Section 415 and the regulations thereunder, which are incorporated into this Plan by reference.

SECTION 5.9. Limitations Regarding Time of Payment of Benefits

(a) General Limitation. All payments authorized under this Plan shall commence no later than the 60th day after the close of the Plan Year in which the Participant terminates his service with the Employer Company, provided proper application under Section 4.1 is filed.

(b) Mandatory Limitation.

(i) Commencement of payments.

(A) Notwithstanding subsection (a), the entire interest of a Participant shall be, or shall begin to be, distributed no later than April 1 of the calendar year following the calendar year in which he attains age 70 1/2; provided however, that the interest of a Participant (other than an individual who is or was a Five-percent Owner, in any Plan Year ending in the year the individual attained age 66 1/2 or any succeeding Plan Year) who attained age 70 1/2 before January 1, 1988, shall not be required to begin to be distributed prior to April 1 of the calendar year following the calendar year in which he retires or otherwise terminates employment. A Participant who receives a distribution or distributions in accordance with the preceding sentence while still employed shall continue to earn years of Benefit Service (up to the maximum under the applicable benefit formula), and the amount of his benefit shall be adjusted annually, or otherwise in accordance with Treasury regulations.

(B) In the case of an Employee who is a Five-percent Owner of the Employer Company in the calendar year in which such Employee attains age 70-1/2, his entire interest shall be, or begin to be, distributed not later than the April 1 following such calendar year.

(C) No distribution pursuant to the Plan shall be inconsistent with the requirements of Section 401(a)(9) of the Code and the regulations thereunder.

(D) If a Participant continues to work past the date benefits are required to commence under this Section 5.9, the benefit shall be adjusted annually on or before April 1 following the date benefits commenced to reflect the additional benefits, if any, accrued in the immediately preceding Plan Year.

(ii) Payments after death of Participant or Spouse. If distribution of a Participant's interest has begun as provided in paragraph (i), and the Participant dies before his entire interest has been distributed to him, then the remaining portion of such interest shall be distributed at least as rapidly as under the method of periodic distribution being used on the date of his death. If a Participant dies before distribution of his benefit has begun, then the entire interest of the Participant shall be distributed within five years after the death of the Participant unless one of the following exceptions applies:

(A) If any portion of the Participant's interest is payable to a designated beneficiary for life, or over a period not extending beyond such beneficiary's life expectancy, and such distributions begin not later than one year after the Participant's death or such longer period as may be prescribed by Treasury regulations, distribution shall be deemed to have occurred on the date periodic distributions began and the five year limitation shall not apply to such portion.

(B) If the designated beneficiary is the Participant's surviving Spouse, distributions shall begin not later than the date on which the Participant would have attained age 70 1/2; but if the surviving Spouse dies before distributions to such Spouse begin, the above distribution rules shall be applied as though the surviving Spouse were the Participant.

(iii) Transitional rule. Any designation by a Participant of a method of distribution permitted by this Plan which does not meet the requirements of this subsection (b) will be honored, if such designation was submitted to the Committee before January 1, 1984.

(c) No Distribution to Five-percent Owner Before Age 59-1/2. Notwithstanding any other provision of this Plan, no distribution shall be made to an Employee who is or has been a Five-percent Owner, before such Employee attains age 59-1/2, of any amount attributable to a contribution made on behalf of such Employee while he was a Five-percent Owner, except in the case of his death or disability.

(d) Five-percent Owner. For purposes of this Section 5.9, the term "Five-percent Owner" means a person who owns more than five percent of the outstanding stock of the Employer Company or stock possessing more than five percent of the total combined voting power of all stock of the Employer Company. For purposes of determining ownership in the Employer Company: (i) the constructive ownership rules of Section 318 of the Code, as modified by substituting "5 percent" for "50 percent" in subsection (a) (2)(C) thereof, shall apply, but (ii) the rules of subsections (b), (c), and (m) of Section 414 of the Code shall not apply.

SECTION 5.10. Designation of Beneficiary. (a) Each Participant may designate beneficiaries (including a primary beneficiary and one or more contingent beneficiaries in the event of the death of the primary beneficiary) to receive such benefits as may be payable under the provisions of this Plan. The designation of any beneficiary may be changed from time to time by the Participant filing a new designation with the Committee, to be effective upon receipt by the Committee, provided it is received by the Committee prior to the Participant's death. The consent of any previously designated beneficiary to such change shall not be required to effect the change. No designation of a beneficiary shall be effective to the extent that honoring such designation would conflict with the rights of the Participant's Spouse under Section 5.4, and no such designation shall be effective to the extent that, in conjunction with such spousal rights, it would require duplication of benefit payments.

(b) In the event that a Participant fails to designate a beneficiary or if a designated beneficiary does not survive the Participant or is not specified elsewhere in this Plan, payment will be made to the Spouse of the deceased Participant, if any, but if none survives the Participant, to his surviving children. If no children survive the Participant, payment will be made to the Participant's estate. If a beneficiary who has begun to receive payments pursuant to Article V dies before all payments are made, the balance due, if any, shall be paid in a lump sum or in installments, as the Committee shall direct, to the estate of the deceased beneficiary.

SECTION 5.11. Final Payment to Participant or Beneficiary. Any final payment or distribution to any Participant or a legal representative or Beneficiary of a Participant, or any one claiming under them, in accordance with this Plan, shall be in full satisfaction of all claims against the Trust Fund, the Trustee, the Committee, any Employer Company, and all representatives, officers, employees and agents thereof. The person receiving the payment or distribution may be required to execute a receipt and release of all claims under the Plan upon a final payment or distribution or a receipt and release to the extent of any partial payment or distribution. The form and content of such receipt or release shall be determined by the Committee.

SECTION 5.12. Suspension of Benefits.

(a) If a Participant, other than a Grandfathered Motor Cargo Participant, entitled to receive benefits (which shall be deemed to include the actual receipt of such benefits) should (i) return to employment or (ii) remain in employment after attaining Normal Retirement Age, the payment of benefits to said Participant shall be suspended for the period in which the Participant remains employed but not beyond the required beginning date set forth in Section 5.9(b). Benefit payments will be resumed no later than the first day of the third calendar month after the month in which the Participant ceases to be employed, provided the Participant has informed the Plan Administrator that he has ceased such employment.

(b) For purposes of this Section 5.12, a period of employment as to which benefits shall be suspended means any calendar month or a four or five week period ending in a calendar month, if the Participant completes at least forty hours of service (as defined in 29 CFR §2530.200b-2(a)(1) and (2)) with the Employer Company or a Related Employer in such month or payroll period.

(c) Any Participant coming under this provision will be notified by first class mail or personal delivery within the first calendar month or payroll period in which the Plan withholds the payment of Retirement Benefits.

(d) Any Participant may request a determination of whether or contest a determination that specific contemplated employment will be considered employment for purposes of this Section 5.12. Request for status determinations may be submitted in accordance with the claim procedures set forth in Section 9.4.

(e) When the Participant is entitled to recommence benefits, his benefits shall be recalculated on the basis of Compensation earned and years of Benefit Service credited during such period of reemployment or continued employment, and no actuarial or other adjustment shall be made to such Participant's benefit so as to reflect payments so suspended. In addition, such resumed payment shall be offset by (i) any benefit paid with respect to a month in which the Participant was in service described in Section 5.12(b) where the amount so paid has not been returned or repaid to the Plan by such Participant and (ii) the Actuarial Equivalent of any payments made to the Participant before his Normal Retirement Date. A Participant whose benefits have been suspended during a period of reemployment or continued employment shall be entitled to elect the form of payment for his entire benefit, including amounts accrued both before and during reemployment, in accordance with Section 5.4.

#### SECTION 5.13. Withholding of Income Tax.

(a) Notification of Withholding of Federal Income Tax. All Participants, Spouses, Domestic Partners and Beneficiaries entitled to receive benefits under the Plan (each, a "payee") shall be notified of the Plan's obligation to withhold federal income tax from any benefits payable pursuant to the terms of the Plan. Such notice shall be in writing, be given at the time set forth in subsection (b) and contain the information set forth in subsection (c) of this Section.

(b) Time of Notice. The notice described in subsection (a) shall be provided not earlier than six months before such payment is to be made and not later than the time the payee is furnished with his claim for benefits application.

(c) Content of the Notice. The notice required by subsection (a) shall, at a minimum:

(i) with respect to any distribution which is an eligible rollover distribution within the meaning of Code Section 3405(c)(3) (other than an eligible rollover distribution of less than \$200 which is exempt from withholding under regulations prescribed by the Secretary of the Treasury), advise the payee that there shall be withheld from such distribution an amount equal to 20 percent thereof (or such other amount as may from time to time be prescribed by the Code, or the Secretary of the Treasury or his delegate), unless the payee directs the Committee to transfer such distribution as a direct rollover to an eligible retirement plan, within the meaning of Section 5.14 hereof, in accordance with such procedures as the Committee may prescribe (a "transfer direction"),

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(ii) with respect to any distribution which is not an eligible rollover distribution within the meaning of Code Section 3405(c)(3):

(A) advise the payee of his right to elect not to have withholding apply to any payment or distribution and explain the manner in which such election may be made, and include or indicate the source of any forms necessary to make the election;

(B) advise the payee of his right to revoke such an election at any time;

(C) advise the payee that any election remains effective until revoked;

(D) advise the payee that penalties may be incurred under the estimated tax payment rules if the payee's payments of estimated tax are not adequate and sufficient tax is not withheld from payments under this Plan; and

(E) advise the payee that the election not to have federal income tax withheld from benefits is prospective only and that any election made after a payment or distribution to the payee is not an election with respect to such payment or distribution.

(d) Effective Date of Election. Any transfer direction, election or revocation of any election by a payee shall become effective immediately upon receipt by the Committee of the transfer direction, election or revocation. Thereafter, the Committee shall, unless otherwise provided by applicable law, regulation or other guidance by the Secretary of the Treasury or his delegate, instruct the Trustee to withhold federal income tax in accordance or consistent with the instructions filed by the payee.

(e) Failure to Make Election.

(i) In the case of an eligible rollover distribution, if the payee fails to provide the Committee with a transfer direction, the Committee shall instruct the Trustee to withhold an amount equal to 20% of the amount of the distribution (or such other amount as may be from time to time prescribed by the Code, or the Secretary of the Treasurer or his delegate).

(ii) In the case of a distribution which is not an eligible rollover distribution, if the payee fails to provide the Committee with a withholding certificate, the Committee shall instruct the Trustee to withhold, in the case of a periodic distribution, the amount which would be required to be withheld from such payment if such payment were a payment of wages by an employer to an employee for the appropriate payroll period, determined as if the payee were a married person claiming three withholding allowances. In the case of a nonperiodic distribution, 10% of the amount of the distribution shall be withheld.

(f) Coordination with Internal Revenue Code and Regulations Notwithstanding the foregoing, the Committee shall discharge its withholding and notice obligations in accordance with the Code and regulations and such other guidance with respect thereto as may be promulgated from time to time by the Secretary of the Treasury or his delegate.

SECTION 5.14. Direct Rollover.

(a) With respect to any distribution described in this Article V which constitutes an eligible rollover distribution within the meaning of Code Section 401(a)(31)(C), the distributee thereof shall, in accordance with procedures established by the Committee, be afforded the opportunity to direct that such distribution be transferred directly to the trustee of an eligible retirement plan (a "direct rollover"). For purposes of the foregoing sentence, an "eligible retirement plan" is (1) a qualified trust within the meaning of Code Section 402 which is a defined contribution plan the terms of which permit the acceptance of rollover distributions, (2) an individual retirement account or annuity within the meaning of Code Section 408 (other than an endowment contract), (3) an annuity plan within the meaning of Code Section 403(a), which is specified by the distributee in such form and at such time as the Committee may prescribe, and effective for distributions made after December 31, 2001, (4) an annuity contract described in Code Section 403(b) and (5) an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan. For distributions made after December 31, 2001, the definition of "eligible retirement plan" shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the alternate payee under a qualified domestic relation order, as defined in Code Section 414(p).

(b) Notwithstanding the foregoing, if the distributee elects to have his eligible rollover distribution paid in part to him, and paid in part as a direct rollover:

(i) The direct rollover must be in an amount of \$500 or more.

(ii) A direct rollover to two or more eligible retirement plans shall not be permitted.

(c) The Committee shall, within a reasonable period of time prior to making an eligible rollover distribution from this Plan, provide a written explanation to the distributee of the direct rollover option described above, as well as the provisions under which such distribution will not be subject to tax if transferred to an eligible retirement plan within 60 days after the date on which the distributee received the distribution.

SECTION 5.15. Recovery of Overpayments. No person is entitled to any benefit under this Plan except and to the extent expressly provided under this Plan. The fact that payments have been made from this Plan in connection with any claim for benefits under this Plan does not (a) establish the validity of the claim, (b) provide any right to have such benefits continue for any period of time, or (c) prevent the Plan from recovering the benefits paid to the extent that the Committee determines that there was no right to payment of the benefits under this Plan or that there was a mistake in the calculation of benefits under this Plan. Thus, if a benefit is paid under this Plan and it is thereafter determined by the Committee that such benefit should not have been paid, or that such benefit was overpaid (whether or not attributable to an error by the Participant, the Committee or any other person), then the Committee may take such action as it deems necessary or appropriate to remedy such situation, including, without limitation, deducting the amount of any overpayment theretofore made to or on behalf of the Participant from any succeeding payments to or on behalf of the Participant or instituting legal action to recover such overpayments. The period over which the Committee may recover any benefit overpayment shall not be limited by the period during which the error occurred.

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**ARTICLE VI**  
**VESTING**

SECTION 6.1. Vesting. Each Participant shall have a 100% vested interest in his Accrued Benefit, after completing at least five Years of Service, but except as provided in the applicable Appendix or in Article XI, Top-Heavy Provisions, shall have no vested interest prior thereto. In addition, the benefit to which a Participant is entitled shall be fully vested in such Participant upon his attainment of his Normal Retirement Date.

Any Participant in the Plan on the date of adoption of any amendment to the vesting schedule may, within an election period which begins on the date of adoption of such amendment to the vesting schedule and ends on the sixtieth day after the latest of: (i) the date the amendment is adopted; (ii) the date the amendment becomes effective; or (iii) the date the Participant is given written notice of the amendment by the Committee, elect to have his vested percentage determined under his vesting schedule as in effect immediately prior to the effective date of amendment, provided he has completed three Years of Service prior to the end of the election period. Any election made will be irrevocable. Further no Participant shall have his vested percentage decreased by any change in the vesting schedule.

SECTION 6.2. Breaks in Service for Vesting Purposes. If a Participant with no vested interest, as determined under Section 6.1, incurs one or more consecutive Breaks in Service:

(a) Prior to 2000, Years of Service before such Break in Service shall not be taken into account for purposes of Section 6.1 until the Participant completes one Year of Service after the Break in Service; and

(b) Years of Service prior to the Break in Service shall not be taken into account for purposes of Section 6.1 if the number of consecutive Breaks in Service equals or exceeds the greater of (i) the aggregate number of the Participant's Years of Service (excluding Years of Service not required to be taken into account by reason of any prior Breaks in Service), or (ii) with respect to a Break in Service incurred by a person who is an Employee on or after January 1, 1985, regardless of when the Break in Service occurred, six.

SECTION 6.3. Forfeitures. All forfeitures of nonvested interests in the Plan occurring during the Plan Year shall be applied to reduce future contributions and shall not be used or applied to increase the benefits to which any Participant would be entitled hereunder.

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**ARTICLE VII**  
**AMENDMENT, MODIFICATION AND TERMINATION; MERGER**

SECTION 7.1. Right to Amend or Terminate. The Employer Companies hope, and expect, to continue this Plan and the funding of benefits hereunder indefinitely; but such continuance is not assumed as a contractual obligation and, in order to protect both Participants and the Employer Companies against unforeseen contingencies, the Employer Companies expressly reserve the right, by action of their boards of directors, to discontinue contributions to this Plan or to terminate this Plan at any time with respect to its Participants, without the consent of any party. The right to amend this Plan in any respect or particular is vested exclusively in the Board of Directors which right is not conditional on the consent or approval of any other Employer Company. Additionally, any amendment or modification may be made retroactive, if necessary or appropriate to qualify or maintain the Plan as a qualified Plan within the meaning of Section 401(a) of the Code, and to qualify or maintain the Trust as tax exempt under Section 501(a) of the Code, and the regulations issued thereunder. Notice of any amendment or modification of the Plan may be given by posting, by mail, or by such other means as may be acceptable under ERISA.

SECTION 7.2. Withdrawal of Employer Company. Any Employer Company, by action of its board of directors, may withdraw from the Plan at any time.

SECTION 7.3. Liquidation of Trust Fund. Upon termination or partial termination of the Plan, each affected Participant's benefits, determined prior to the date of termination, shall become fully vested and non-forfeitable, to the extent funded and to the extent such benefit is not restricted pursuant to the provisions of Section 7.9 herein. The assets of the Trust Fund, shall be allocated among Participants and beneficiaries, after payment of administration expenses of the Plan, in the following order of priority as modified by the provisions of IRS regulations 1.414(l)-1(f) or (h) if a special schedule of benefits (as defined in the regulations) is in effect as a result of a plan merger within the five year period prior to the date of termination:

(a) Benefits Payable Three Years Prior to Termination First, to provide benefits that become payable three or more years before the date of termination of the Plan, or that would have become payable had the Participant retired immediately prior to the beginning of such three year period, provided that

(i) the benefit payable to a Participant or Beneficiary (or that could have been payable) shall be based on the provisions of the Plan in effect during the five year period prior to the date of termination of the Plan; and further provided that,

(ii) the lowest benefit payable during such three year period shall be considered the benefit payable for purposes of this category (a).

(b) Other Benefits Eligible for Termination Insurance. Second, to the extent that a benefit has not been provided in category (a), the remaining assets shall be allocated to provide any benefit provided under the Plan for Participants and beneficiaries to the extent guaranteed by the Pension Benefit Guaranty Corporation pursuant to Title IV of ERISA.

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(c) Other Benefits. To the extent that a benefit under the Plan has not been provided in the foregoing categories, the assets of the Plan shall be allocated to provide all other non-forfeitable benefits under the Plan and, finally, to provide all other benefits under the Plan.

If the assets of the Trust Fund applicable to any of the above categories are insufficient to provide full benefits for all persons in such group, the benefits otherwise payable to such persons shall be allocated pro rata on the basis of the present value of benefits as of the termination date. The Actuary shall calculate the allocation of the assets of the Trust Fund in accordance with the above priority categories, and certify his calculations to the Committee. Each of the above classes shall be divided into subclasses, giving first preference within the class to those Participants over 65 and those beneficiaries receiving benefits; second preference to Participants over 60 years of age; third preference to Participants over 55 years of age; fourth preference to Participants under 55 years of age having a deferred vested benefit; and fifth preference to all others. The Committee may establish additional subclasses within the classes set forth in subsection (a), (b), and (c).

SECTION 7.4. Finality of Payment. Prior to making any distribution under the terms of Section 7.3, the Committee shall satisfy itself that this procedure complies with applicable law and shall obtain such waivers and authorizations from Participants and beneficiaries as it deems advisable.

SECTION 7.5. Non-diversion of Assets. Except as provided in Section 3.5 hereof, regarding return of contributions no part of the assets of the Trust, by reason of any amendment or otherwise, shall at any time be used for, or diverted to, purposes other than for the exclusive benefit of Participants, former Participants, or their beneficiaries, and for the payment of administrative expenses under the Plan, or as will cause, or permit the assets of the Trust to revert to, or become the property of an Employer Company at any time prior to the satisfaction of all liabilities under the Plan. When all such liabilities have been satisfied, any assets remaining will revert to the Employer Companies.

SECTION 7.6. Committee Functions during Termination. If the Plan is terminated, the Committee in office at the time of such termination shall continue to act with its full powers hereunder until the completion of the allocation and distribution of the assets of the Trust Fund as in this Article VII provided; and a majority of the members of the Committee then in office shall have the power to fill any vacancies occurring in the Committee after such termination by resignation, death, or otherwise. In the event the Committee within a reasonable time after such termination shall not have provided for such allocation and distribution, the Board of Directors shall succeed to all powers and duties of the Committee and shall provide for such allocation and distribution of the assets of the Trust Fund.

SECTION 7.7. Notice of Termination. Notice of termination of the Plan, in whole or in part, shall be deemed adequately given if an Employer Company of the Committee mails written notice of the same to the latest address on file of each Participant or beneficiary who is affected by such termination; or by such other means as may be acceptable under ERISA.

SECTION 7.8. Merger and Consolidation of Plan, Transfer of Assets. In the case of any merger or consolidation with, or transfer of assets and liabilities to, any other plan, provisions

shall be made so that each Participant in the Plan on the date thereof (if the Plan then terminated) would receive a benefit immediately after the merger, consolidation or transfer which is equal to or greater than the benefit he would have been entitled to receive immediately prior to the merger, consolidation or transfer if the Plan had been terminated.

**SECTION 7.9. Discontinuance of Plan Within Ten Years of Amendment** In the event that the Plan is discontinued by any Employer Company within ten (10) years after any amendment to the Plan which increases the benefits payable under the Plan, or if the full current costs (including current service contributions and interest on any unfunded liability for the initial cost of retroactive increases in benefits not covered by current service contributions) are not met by such Employer Company during such ten (10) year period, the contributions which may be used to provide benefits for any one of the twenty-five (25) most highly compensated employees on the effective date of such amendment, whose anticipated retirement annuity based upon the rate of compensation as of that date would be more than \$1,500 per year, until such full current costs are funded for the first time, shall not exceed the greatest of:

(a) The total contributions which would have been applied to provide a retirement annuity for any such employee if the Plan prior to such amendment had continued without change;

(b) \$20,000; or

(c) The amount which would have been provided by contributions under the Plan prior to such amendment if the Plan had been terminated the day before the effective date of such amendment, plus an amount computed by multiplying the number of years during which current costs beginning with the effective date of such amendment are met by (i) 20% of any such employee's annual compensation or (ii) \$10,000, whichever is less.

Any excess reserves resulting from the application of the foregoing provisions of this Section shall be used and applied toward the funding of the benefits due to other Participants in the Plan who are employees of such Employer Company, in accordance with the provisions of the Plan.

If the Plan is in full force and effect and the full current costs have been met, the foregoing conditions shall not restrict the current payment of full benefits called for by the Plan to any Participant. The limitations of this Section shall be inapplicable to the extent the Commissioner of Internal Revenue or his duly authorized representative may later rule that the limitations are no longer necessary for the Plan to meet the requirements for qualifications under the Internal Revenue Code.

If this Plan is not terminated within the period specified above, the benefits, if any, which have been withheld from a Participant in accordance with this Section shall be turned over to the Participant or his representative at the end of said period or as soon thereafter as the full current costs of the Plan attributable to the said period have been met for the first time.

If this Plan is terminated within any of the said periods or thereafter, but before the full current costs of the Plan attributable to any of the said periods have been met for the first time, then any benefits which have been withheld from a Participant in accordance with this Section shall, upon termination of this Plan, be distributed as provided in Section 7.3, except that no part of such funds shall be distributed or used to fund benefits for any Participant who is affected by the limitations of this Article.

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**ARTICLE VIII  
INVESTMENTS**

SECTION 8.1. Direction of Investments. The Committee shall, except to the extent it has expressly delegated such authority to Trustees, or an investment manager, have full and exclusive power and authority, to direct the Trustees as to the investment of the assets of the Trust, and the Trustees shall invest, reinvest, buy, sell, hypothecate or otherwise deal with the assets of the Trust Fund in accordance with the Committee's directions. Such directions shall be certified in writing by two members of the Committee. Investments shall not be restricted to investments now or hereafter legal for trust funds under the laws of the States of New York, New Jersey, Connecticut or any other jurisdiction. The Committee may, to the extent permitted by law, direct investment in:

(a) Qualifying employer real property (as defined in Section 407(d)(4) of ERISA);

(b) Qualifying employer securities (as defined in Section 407(d)(5) of ERISA);

(c) Other securities and other investments as directed by the Committee, including but not limited to common trust funds and collective employee benefit trusts of the Trustee and contributions to the capital of any corporation all of whose stock is owned by the Trustee.

SECTION 8.2. Seventy-Five Percent Limitation.

(a) In directing the investment of the assets of the Trust, the Committee may direct the investment of up to seventy-five percent (75%) of the total assets of the Trust in the investments described in Section 8.1(a) and/or (b); except that such investments shall constitute less than such percentage of the total assets of the Trust as provided by ERISA:

(i) To the extent required in order that contributions by the Employer Companies to the Plan will be deductible under the Code, or to qualify or maintain the qualification of the Plan under the Code or to establish or maintain the exempt status of the Trust under the Code; or

(ii) To the extent required to maintain and preserve liquidity to permit distributions in accordance with the terms of the Plan, or to provide suitable temporary investments for the assets of the Trust; or

(iii) To the extent otherwise directed by the Board of Directors.

SECTION 8.3. Annual Valuation of Trust Fund. As of December 31st in each year, or as of the end of any shorter accounting period that the Committee shall select, all of the assets in the Trust shall be valued by or under the supervision of the Committee. Such valuation shall be made in accordance with market quotations, when available, and on the basis of such other factors as the Committee deems appropriate.

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**ARTICLE IX**  
**ADMINISTRATIVE COMMITTEE**

SECTION 9.1. Establishment of Administrative Committee. The Plan shall be operated and administered by an Administrative Committee consisting of not less than three (3) members ("named fiduciaries"), who shall be appointed by the Board of Directors. The Administrative Committee shall be the Plan Administrator as that term is used in ERISA, agent for service of process on or with respect to the Plan and a named fiduciary with respect to the Plan. Committee members may be removed at any time by the Board of Directors and may resign at any time, such resignation to be effective when accepted by the Board of Directors. All vacancies shall be filled by the Board of Directors. The Committee may appoint from their number such committees, which may include individuals not members of the Committee, with such powers as they shall determine; may authorize one (1) or more of their number, or any agent, to execute or deliver any instrument, or to make any payment in their behalf; and may employ legal counsel (who shall not be an employee of an Employer Company), actuaries, agents, and such clerical, accounting and other services as they may require in carrying out the provisions of the Plan. The Committee shall meet at least once during each calendar quarter. A majority of the members of the Committee at the time in office shall constitute a quorum for the transaction of business. All resolutions or other action taken by the Committee at a meeting shall be by the vote of the majority of the Committee at any meeting; or without a meeting, by instrument in writing signed by all of the members of the Committee.

SECTION 9.2. Delegation of Specific Responsibilities. The members of the Committee may agree in a writing signed by each member to allocate to any one of their number or to other persons (including corporations) any of the responsibilities with which they are charged pursuant hereto, including the appointment of an investment manager to manage the investments of the Trust Fund, provided the responsibilities and duties so delegated are definitively set forth so that the person to whom the delegation is made is clearly aware of such duties and responsibilities. If such delegation is made to a person not a member of the Committee, that person or, in the case of a corporation, its responsible officer, shall acknowledge the acceptance and understanding of such duties and responsibilities.

SECTION 9.3. Power to Establish Regulations. The Committee shall establish rules and regulations for the administration of the Plan and the Committee. Except as otherwise herein expressly provided, the Committee shall have the exclusive right to interpret the Plan and decide any matters arising in the administration and operation of the Plan, and any interpretations or decisions so made shall be conclusive and binding on all persons; provided, however, that all such interpretations and decisions shall be applied in a uniform manner to all Employees and Participants similarly situated.

SECTION 9.4. Claims Procedure.

(a) All claims for benefits hereunder shall be directed to the Committee or to a member of the Committee designated for that purpose. Within ninety (90) days following receipt of a claim for benefits (forty-five (45) days in the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003), the UPS Corporate Benefits Department manager responsible for the day-to-day operation of the Plan (the "Initial

Reviewer”) shall determine whether the claimant is entitled to benefits under the Plan, unless additional time is required for processing the claim. In this event, the Initial Reviewer shall, within the initial ninety (90)-day period (forty-five (45)-day period in the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003), notify the claimant that additional time is needed, explain the reason for the extension, and indicate when a decision on the claim will be made. In the case of claims other than for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the initial decision must be made within 180 days of the date the claim is filed. In the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the forty-five (45)-day period for the initial decision may be extended for up to thirty (30) additional days, provided the Initial Reviewer determines that the extension is necessary due to matters beyond the control of the Plan. If prior to the end of the initial thirty (30)-day extension, the Initial Reviewer determines that, due to matters beyond the control of the Plan, a decision cannot be made within the extension period, the period may be further extended for up to an additional thirty (30) days, provided that the Initial Reviewer notifies the claimant prior to the expiration of the first thirty (30)-day extension of the circumstances requiring the extension and the date as of which the Plan expects to make a decision. For a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the notice of extension for a disability retirement benefit claim must specifically explain the standards on which entitlement to a disability retirement benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues. The claimant shall have forty-five (45) days within which to provide the specified information unless the Initial Reviewer gives a longer period in the notification of the extension.

(b) A denial by the Initial Reviewer of a claim for benefits shall be stated in writing and delivered or mailed to the claimant. Such notice shall set forth the specific reasons for the denial, written in a manner calculated to be understood by the claimant. The notice shall include specific reference to the Plan provisions on which the denial is based and a description of any additional material or information necessary to perfect the claim, an explanation of why this material or information is necessary, and the steps to be taken if the claimant wishes to submit his claim for review, and effective January 1, 2002, a description of the Plan’s review procedures, and the time limits applicable to such procedures, and a statement of the claimant’s right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination upon review.

(c) In the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the notice of denial also shall include the following:

- (i) If an internal rule, guideline, protocol, or other similar criterion was relied upon in making the adverse determination, the notice of denial will include either a copy of the specific rule, guideline, protocol or other similar criterion relied upon or a statement that such rule, guideline, protocol or other similar criterion was relied upon in making the decision and that a copy of such rule, guideline, protocol or other similar criterion will be provided to the claimant free of charge upon request.
- (ii) If the denial is based on a medical necessity or experimental treatment or similar exclusion or limit, the notice of denial will include either an explanation of the

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scientific or clinical judgment for the determination, applying the terms of the Plan to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request.

(d) The Committee shall afford a reasonable opportunity to any claimant whose request for benefits has been denied for a review of the decision denying the claim. The review must be requested by written application to the Committee within sixty (60) days (one hundred eighty (180) days in the case of review of a disability retirement benefit claim made on or after January 1, 2002 and before January 1, 2003) following receipt by the claimant of written notification of denial of his claim. Pursuant to this review, the claimant or his duly authorized representative may review any documents, records and other information which are pertinent to the denied claim and submit issues and comments in writing. Effective January 1, 2002, a claimant may also submit documents, records and other information relating to his claim, without regard to whether such information was submitted in connection with his original benefit claim.

(e) In the case of a claim for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003, the Committee shall review the initial decision. In reviewing any denial based in whole or in part on a medical judgment, the Committee shall consult with a health care professional who has appropriate training and experience in the field of medicine involved in the medical judgment. The health care professional engaged for this purpose shall be an individual who is neither an individual who was consulted in connection with the adverse benefit determination that is the subject of the review, nor the subordinate of any such individual. The Plan shall provide for the identification of medical or vocational experts whose advice was obtained on behalf of the Plan in connection with the initial denial of a claimant's disability retirement benefit claim, without regard to whether the advice was relied upon in making the benefit determination.

(f) A decision on the claimant's appeal of the denial of benefits (other than for a disability retirement benefit claim made on or after January 1, 2002 and before January 1, 2003) shall ordinarily be made by the Committee at the next regularly scheduled meeting that immediately follows the receipt of the request for review, unless the request for review is received within 30 days of such meeting date. In that case, the review will occur at the second regularly scheduled meeting following the Plan's receipt of the request for review. If an extension of time is required because of special circumstances, the Committee will provide the claimant with written notice of the extension describing the special circumstances and the date as of which the benefit determination will be made, prior to the commencement of the extension. A benefit determination will be made no later than the third regularly scheduled meeting of the Committee following the Plan's receipt of the request for review.

In the case of a review of a disability retirement benefit made on or after January 1, 2002 and before January 1, 2003, a decision shall be made within forty-five (45) days of the Plan's receipt of the request for review, unless additional time is required for a decision on review, in which event the decision shall be rendered not later than ninety (90) days after receipt of the request for a ruling. Notice in writing of the extended time required shall be given to the claimant within forty-five (45) days of his request for review.

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The decision on review shall be in writing and shall include specific reasons for the decision, written in a manner calculated to be understood by the claimant, specific reference to the Plan provisions on which the decision is based, and effective January 1, 2002, a statement that the claimant or his authorized personal representative may review any documents and records relevant to the claim determination, a statement describing further voluntary appeals procedures, if any, and a statement of the claimant's right to bring civil action under ERISA Section 502(a).

(g) The foregoing special claims procedures provisions with respect to claims for a Disability Retirement Benefit made on or after January 1, 2002 and before January 1, 2003 shall have no effect with respect to claims for such a Disability Retirement Benefit made on or after January 1, 2003.

**SECTION 9.5. Forfeiture in Case of Unlocatable Participant or Beneficiary.** If the Committee is unable to pay benefits to any Participant or beneficiary who is entitled to benefits hereunder when such benefits are due because the identity or whereabouts of such person cannot be ascertained, the Committee shall proceed as follows:

(a) As soon as administratively possible after the Committee has determined that a Participant or beneficiary cannot be paid due to the circumstances stated above, the Committee shall submit the last known address, and any other information the Committee deems appropriate, to a locator service in accordance with IRS procedures.

(b) If the locator service provides the Committee with a new address for the Participant or beneficiary, the Committee shall mail the benefit payment to the new address as soon as administratively possible after such new address is known. If the locator service fails to identify a new address for the Participant or beneficiary, all amounts held for his benefit shall be forfeited as of the last day of the Plan Year in which the locator service notifies the Committee that it cannot locate the individual. Upon forfeiture, all liability for payment of the benefit shall thereupon terminate. In any such case, the funds released as a result of such forfeiture shall be dealt with as provided in Section 6.3. However, if an individual subsequently makes what the Committee determines to be a valid and proper claim to the Committee for such amounts, the account or accounts will be restored and will be distributable without interest in accordance with the terms of this Plan.

**SECTION 9.6. Liability of the Committee.** The Committee and the members thereof, to the extent of the exercise of their authority, shall discharge their duties with respect to the Plan solely in the interests of the Plan's Participants and their Beneficiaries, and for the exclusive purpose of providing benefits thereto in accordance with the terms of the Plan and to defray the reasonable administration expenses thereof. In all such actions or omissions the Committee and each member thereof shall exercise the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims; provided, however, that no member shall be responsible for the actions or omissions of a member or any other party that is a fiduciary with respect to this Plan, other than himself, which are not in conformity hereto, unless such member knowingly participates in or knowingly conceals such conduct which he knows to be in breach of this standard, his own conduct has enabled the other

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member or other fiduciary to be in breach of this standard, or he has knowledge of such breach by another member or other fiduciary and fails to make reasonable efforts under the circumstances to remedy such breach.

SECTION 9.7. Fiduciary Responsibility Insurance: Bonding. If the Employer Company has not done so, the Committee may direct the purchase of appropriate insurance on behalf of the Plan and the Plan's fiduciaries, including the members of the Committee, to cover liability or losses occurring by reason of the acts or omissions of a fiduciary; provided, however, that to the extent purchased by the Plan such insurance must permit recourse by the insurer against the fiduciary in the case of a breach of a fiduciary duty or obligation by such fiduciary. The cost of such insurance shall be borne by the Fund, unless the insurance is provided by and paid for by the Employer Company. The Trustees shall also obtain a bond covering all the Plan's fiduciaries, to be paid from the assets of the Trust Fund.

SECTION 9.8. Meetings of Committee. The Committee shall hold meetings at least once during each calendar quarter upon such notice, at such place or places, and at such time or times as it may determine from time to time. Notice of a meeting may be waived in writing.

SECTION 9.9. Compensation of Committee. The members of the Committee may receive reasonable compensation for their services as the Board of Directors may from time to time determine. Such compensation and all other expenses of the Committee, including the compensation of officers, actuaries or counsel, agents or others that the Committee may employ, shall be paid out of the Trust Fund, unless paid by the Employer Company. Notwithstanding the foregoing, any Committee member who is employed on a full-time basis by an Employer Company shall receive no compensation, but may be reimbursed for expenses incurred.

SECTION 9.10. Reliance by Committee. Board of Directors and Committee members shall be fully protected with respect to any action taken or suffered by them in good faith in reliance upon the advice or opinion of any actuary, accountant, legal counsel (other than an employee of an Employer Company), or physician, and all action so taken or suffered shall be conclusive upon all Participants and beneficiaries, and any other person claiming under the Plan.

SECTION 9.11. Books and Records. The Committee shall keep appropriate books and records.

SECTION 9.12. Disbursements. The Committee shall determine the manner in which the Trust Fund shall be disbursed under the terms of the Plan and Trust Agreement.

SECTION 9.13. Allocation of Responsibility Among Fiduciaries for Plan and Trust Administration. The fiduciaries hereunder, including the Trustee, the Employer Companies, the Board of Directors and the Committee, shall have only those specific powers, duties, responsibilities and obligations as are specifically given them under this Plan or the Trust Agreement. In general, the Employer Companies shall have the sole responsibility for making the contributions necessary to provide benefits under the Plan as specified in Article V, and the Board of Directors shall have the sole authority to appoint and remove the Trustee, members of the Committee and to amend or terminate, in whole or in part, this Plan or the Trust, except as otherwise provided. The Committee shall have the sole responsibility for the appointment and

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removal of any Investment Manager which may be provided for under the Trust and the administration of this Plan, which responsibility is specifically described in this Plan and the Trust. Subject to any direction from the Committee, the Trustee shall have the responsibility for the administration of the Trust and the management of the assets held under the Trust, all as specifically provided in the Trust. Each fiduciary warrants that any directions given, information furnished, or action taken by it shall be in accordance with the provisions of the Plan or the Trust, as the case may be, authorizing or providing for such direction, information or action. Furthermore, each fiduciary may rely upon any such direction, information or action of another fiduciary as being proper under this Plan or the Trust, and is not required under this Plan or the Trust to inquire into the propriety of any such direction, information or action. It is intended under this Plan and the Trust that each fiduciary shall be responsible for the proper exercise of its own powers, duties, responsibilities and obligations under this Plan and the Trust and shall not be responsible for any act or failure to act of another fiduciary. No fiduciary guarantees the Trust Fund in any manner against investment loss or depreciation in asset value.

**ARTICLE X  
GENERAL PROVISIONS**

SECTION 10.1. Prohibition Against Attachment (a) None of the benefits payable hereunder shall be subject to the claims of any creditor of any Participant or Beneficiary nor shall the same be subject to attachment, garnishment or other legal or equitable process by any creditor of the Participant or beneficiary, nor shall any Participant or beneficiary have any right to alienate, anticipate, commute, pledge, encumber or assign any of such benefits.

(b) If any Participant or Beneficiary under the Plan becomes bankrupt or attempts to anticipate, alienate, sell, transfer, assign, pledge, encumber or charge any benefit under the Plan, the interest of such person in such benefit shall, in the discretion of the Committee, cease and terminate, and in that event the Committee may direct the Trustee to hold or apply the same or any part thereof to or for the benefit of such Participant or Beneficiary, his Spouse, Domestic Partner, children, or other dependents, or any of them, in such manner and in such proportion as the Committee may deem proper.

(c) Exception to general prohibition against attachment for Qualified Domestic Relations Orders.

(i) General rule. The restrictions of subsection (a) and subsection (b) of this Section 10.1 will not be violated by either (A) the creation of a right to payments from this Plan by reason of a Qualified Domestic Relations Order or (B) the making of such payments.

(ii) Definition of Qualified Domestic Relations Order. For purposes of this subsection (c), the term "Qualified Domestic Relations Order" means any judgment, decree, or order (including approval of a property settlement agreement), made pursuant to a State domestic relations law (including a community property law), which relates to the provision of child support, alimony payments, or marital property rights to a Spouse, former Spouse, child, or other dependent of a Participant (an "Alternate Payee") and which:

(A) creates or recognizes the right of an Alternate Payee to, or assigns to any Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under this Plan;

(B) clearly specifies (i) the name and last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order, (ii) the amount or percentage of the Participant's benefits to be paid by the Plan to each Alternate Payee, or the manner in which such amount or percentage is to be determined, (iii) the number of payments or period to which such order applies, and (iv) that the order applies to this Plan;

(C) does not require this Plan to provide any type or form of benefit, or any option, not otherwise provided under this Plan, unless, in the case of any payment before a Participant has separated from service, the order requires

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payment of benefits to an Alternate Payee (i) on or after the date the Participant attains (or would have attained) the earliest age on which he could elect to receive retirement benefits under the Plan, (ii) as if the Participant had retired on the date such payment is to begin under such order (but taking into account only the present value of the benefits actually accrued and not taking into account the present value of any employer subsidy for early retirement), and (iii) in any form in which such benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the Alternate Payee and his subsequent Spouse);

(D) does not require this Plan to provide increased benefits (determined on the basis of actuarial equivalence); and

(E) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another order previously determined to be a Qualified Domestic Relations Order.

SECTION 10.2. Facility of Payment. If any Participant or Beneficiary shall be physically or mentally incapable of receiving or acknowledging receipt of any payment due under the terms of the Plan, the Committee may direct the Trustee to make any such payment to a legal representative or, if no legal representative shall have been appointed for him, to any person or institution maintaining such Participant or beneficiary, and the payment to such person or institution in good faith shall constitute a valid and complete discharge for such payment.

SECTION 10.3. Payment to Minor Beneficiary. If the Beneficiary of any Participant shall be a minor and no guardian shall have been appointed for him, the Committee may direct the Trustee to retain any payment due under the Plan for his benefit until he attains majority. Such amount, as authorized by the Committee, may be held in cash, deposited in bank accounts, or invested or reinvested in direct obligations of the United States, and the income thereon may be accumulated and invested, or the income and principal may be expended and applied directly for the maintenance, education and support of such minor without the intervention of any guardian and without application to any court.

SECTION 10.4. No Rights of Employment. The Plan shall not confer upon any Employee or Participant any right of employment, nor shall any provision of the Plan interfere with the right of an Employer Company to discharge any Employee.

SECTION 10.5. Payments Only From Trust Fund. Except as otherwise required by law, no liability shall attach to the Employer Companies for payment of any benefits or claims hereunder and every Participant or Beneficiary or person claiming under them shall have recourse only to the Trust Fund for payment of any benefit hereunder and the rights of such persons are hereby expressly limited accordingly.

SECTION 10.6. Applicable Law. All provisions of the Plan, including definitions, shall be construed according to the laws of the State of Georgia, except to the extent preempted by Federal law.

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SECTION 10.7. Titles. Titles of Articles and Sections are inserted for convenience only and shall not affect the meaning or construction of the Plan.

SECTION 10.8. Counterparts. This Plan may be executed by the Employer Companies in various counterparts to this document, each of which shall be deemed to be an original but all shall be deemed to be one document.

SECTION 10.9. No Access to Books and Records. Nothing herein or in the Trust Agreement contained shall give any Participant or Beneficiary or any other person the right or privilege to examine or have access to the books or records of any Company or of the Committee or the Trustee; nor shall any such person have any right, legal or equitable, against any Company or against any director, officer, employee, agent or representative thereof or against the Trustee or the Committee, except as herein expressly provided or permitted by law.

SECTION 10.10. Procedures for Qualified Domestic Relations Orders. The Committee shall develop and implement procedures (a) for determining whether an order received by the Plan is a "Qualified Domestic Relations Order" within the meaning of subsection (c) of Section 10.1, (b) for administering distributions under such orders, and (c) for holding amounts which would be payable under such orders pending the determination described in subsection (a) of this Section 10.10.

SECTION 10.11. USERRA. Notwithstanding anything in this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service shall be provided in accordance with Section 414(u) of the Code.

**ARTICLE XI**  
**TOP-HEAVY PROVISIONS**

SECTION 11.1. Effective Date of This Article. This Article shall be effective for all Plan Years beginning after December 31, 1983.

SECTION 11.2. Definitions. The following definitions apply to this Article:

(a) "Top-Heavy Plan" — The Plan is a Top-Heavy Plan in any Plan Year in which:

(i) the Plan is a member of a Top-Heavy Group, if the Plan is described in Section 11.2(c)(i) or (ii), below; or

(ii) the Plan is not a member of an Aggregation Group as described in Section 11.2(c)(i) or (ii), below, and, as of the Determination Date, the Cumulative Accrued Benefit of the Plan for Key Employees exceeds sixty percent of the Cumulative Accrued Benefit of the Plan for all Participants.

(b) "Key Employee" means an Employee or former Employee who at any time during the Plan Year or any of the four preceding Plan Years is:

(i) For Plan Years before January 1, 2002

(A) an officer of the Employer Company having an annual compensation from the Employer Company of more than \$45,000 (provided, however, that no more than the lesser of (A) 50 Employees or (B) the greater of three Employees or 10% of the Employees shall be treated as officers under this paragraph),

(B) one of the 10 Employees having an annual compensation from the Employer Company of more than \$30,000 and owning the largest interests in the Employer Company,

(C) an owner of five percent of the outstanding stock of the Employer Company or stock possessing more than five percent of the total combined voting power of all stock of the Employer Company, or

(D) an owner of one percent of the outstanding stock of the Employer Company or stock possessing more than one percent of the total combined voting power of all stock of the Employer Company, who has an annual compensation from the Employer Company of more than \$150,000.

(ii) For Plan Years beginning after December 31, 2001,

(A) an officer of the Employer Company having an annual compensation from the Employer Company of more than \$130,000, as adjusted under Section 416(i)(1) of the Code (provided, however, that no more than the lesser of (A) 50 Employees or (B) the greater of three Employees or 10% of the Employees shall be treated as officers under this paragraph),

(B) an owner of five percent of the outstanding stock of the Employer Company or stock possessing more than five percent of the total combined voting power of all stock of the Employer Company, or

(C) an owner of one percent of the outstanding stock of the Employer Company or stock possessing more than one percent of the total combined voting power of all stock of the Employer Company, who has an annual compensation from the Employer Company of more than \$150,000.

If two Employees have the same interest in the Employer Company, the Employee with the greater annual compensation shall be treated as having a larger interest. For purposes of determining ownership in the Employer Company (i) the constructive ownership rules of Section 318 of the Code, as modified by substituting "5 percent" for "50 percent" in subsection (a)(2)(C) thereof, shall apply, but (ii) the rules of subsections (b), (c), and (m) of Section 414 of the Code shall not apply. Each beneficiary of a Key Employee designated under this Plan is a Key Employee.

(c) "Aggregation Group" means a group of plans consisting of more than one plan and including:

(i) each plan of the Employer Company in which a Key Employee is a participant;

(ii) each other plan of the Employer Company which enables any plan described in (1) to meet the requirements of Section 401(a)(4) or Section 410 of the Code; and

(iii) any plan not described in (i) or (ii) which the Employer Company elects to include, provided that such inclusion does not prevent the group from meeting the requirements of Section 401(a)(4) and Section 410 of the Code.

(d) "Top-Heavy Group" is an Aggregation Group for which, as of the Determination Date, the Total Benefit for Key Employees exceeds sixty percent of the Total Benefit for all Participants.

(e) "Determination Date" is the last day of the preceding Plan Year.

(f) "Account Aggregate" is, with respect to a defined contribution plan,

(i) For Plan Years beginning after December 31, 2001, the sum of employee accounts plus the sum of all distributions made from such accounts during the one-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the account of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the account of any individual who has not received any compensation from the Employer Company (other than benefits under any Plan maintained by the Employer Company) during the one-year period ending on the

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Determination Date, shall not be taken into account. In the case of a distribution made for a reason other than a termination of employment, death or disability, this subsection shall be applied by substituting "five-year period" for "one-year period".

(ii) For Plan Years beginning before December 31, 2001, the sum of employee accounts plus the sum of all distributions made from such accounts during the five-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the account of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the account of any individual who has not received any compensation from the Employer Company (other than benefits under any Plan maintained by the Employer Company) during the five-year period ending on the Determination Date, shall not be taken into account.

A transfer from one plan of the Employer Company to any other such plan shall be considered neither a "distribution" nor a "rollover contribution" for purposes of this subsection, but a distribution from a terminated plan shall be considered a "distribution" for purposes of this subsection if such terminated plan, had it not been terminated, would have been described in Section 11.2(c)(i) or (ii).

(g) "Cumulative Accrued Benefit" is, with respect to a defined benefit plan

(i) For Plan Years beginning after December 31, 2001, the sum of the present values of all accrued benefits plus the sum of distributions made with respect to such benefits during the one-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the accrued benefit of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the accrued benefit of any individual who has not received any compensation from the Employer Company (other than benefits under any plan maintained by the Employer Company) during the five year period ending on the Determination Date, shall not be taken into account. In the case of a distribution made for a reason other than a termination of employment, death or disability, this subsection shall be applied by substituting "five-year period" for "one-year period".

(ii) For Plan Years beginning on or before December 31, 2001, the sum of the present values of all accrued benefits plus the sum of distributions made with respect to such benefits during the five-year period ending on the Determination Date, provided that (1) rollover contributions and similar transfers initiated by an Employee and made after 1983, (2) the accrued benefit of any Employee who was a Key Employee in a prior Plan Year but is no longer a Key Employee, and (3) any accrued benefits attributable to deductible employee contributions, and (4) the accrued benefit of any individual who has not received any compensation from the Employer Company (other than benefits under any plan maintained by the Employer Company) during the five year period ending on the Determination Date, shall not be taken into account.

A transfer from one plan of the Employer Company to any other such plan shall be considered neither a “distribution” nor a “rollover contribution” for purposes of this subsection, but a distribution from a terminated plan shall be considered a “distribution for purposes of this subsection if such terminated plan, had it not been terminated, would have been described in Section 11.2(e)(i) or (ii).

(h) “Total Benefit” is the sum of the Account Aggregate of all plans within an Aggregation Group which are defined contribution plans, and the Cumulative Accrued Benefit of all plans within an Aggregation Group which are defined benefit plans.

Solely for the purpose of determining if the Plan, or any other plan included in a required aggregation group of which this Plan is a part, is Top-Heavy, the accrued benefit of an Employee other than a Key Employee shall be determined under (a) the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Employer, or (b) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional accrual rate of Section 411(b)(1)(C) of the Code.

(i) “Total Compensation” is the Participant’s compensation as defined in Section 415(c)(3) of the Code, but shall not exceed the applicable dollar amount of Section 401(a)(17) of the Code.

(j) “Testing Period” means a period of consecutive Years of Service (not exceeding five) during which the Participant had the greatest aggregate compensation from the Employer Company, except that such years shall not include (1) years beginning after the close of the last year in which the Plan was a Top-Heavy Plan, and (2) years ending in a Plan Year beginning before January 1, 1984.

(k) “Employer Company” means, for purposes of this Article, the Employer Company and all Related Employers.

SECTION 11.3. Top-Heavy Vesting Schedule. For each Plan Year for which the Plan is a Top-Heavy Plan, the vesting schedule provided in this Section 11.3 (the “Top-Heavy Vesting Schedule”) shall apply, and for each Plan Year thereafter for which the Plan is not a Top-Heavy Plan, the vesting schedule provided in Section 6.1 (the “Regular Vesting Schedule”) shall apply; provided, however, that any change in a vesting schedule shall, with respect to each Participant, be subject to Section 6.1. The Top-Heavy Vesting Schedule is as follows:

<u>NON-FORFEITABLE YEARS OF SERVICE</u>	<u>PERCENTAGE</u>
Less Than 2	0
2 But Less Than 3	20
3 But Less Than 4	40
4 But Less Than 5	60
5 But Less Than 6	80
6 or More	100

SECTION 11.4. Top-Heavy Minimum Benefit. For each Plan Year for which the Plan is a Top-Heavy Plan, the accrued benefit derived from Employer Company contributions for each Participant who is not a Key Employee, when expressed as a Single Life Only Annuity (with no ancillary benefits) beginning at his Normal Retirement Age, shall not be less than the product of (a) the Participant's average compensation during the Testing Period and (b) the lesser of (1) 2% multiplied by the number of the Participant's Years of Service with the Employer Company or (2) 20%. For purposes of this Section 11.4, a "Year of Service" shall not be taken into account if: (i) the Plan was not a Top-Heavy Plan for any Plan Year ending during such Year of Service, (ii) such Year of Service was completed in a Plan Year beginning before January 1, 1984, or (3) such Year of Service occurs during a Plan Year when the Plan benefits (within the meaning of Section 410(b) of the Code) no Key Employee or former Key Employee.

SECTION 11.5. Top-Heavy Limitation on Compensation. For each Plan Year for which the Plan is a Top-Heavy Plan, the compensation of each Participant which is taken into account for purposes of determining contributions and benefits under this Plan shall be limited to either (a) the first \$200,000 of such compensation, or (b) if a different amount has been fixed by the Secretary of the Treasury pursuant to Section 416(d)(2) of the Code, such amount. The limit set by this Section shall be imposed after any reduction imposed elsewhere in this Plan on the compensation of a Participant which is taken into account for purposes of determining contributions and benefits.

SECTION 11.6. Top-Heavy Adjustment to Section 415 Limitations. For each Plan Year for which the Plan is a Top-Heavy Plan prior to January 1, 2000, the limit imposed by Section 5.8(b)(2) shall be applied by substituting "1.0" for "1.25" in each place where it appears, unless the Employer Company elects to make, and does make, additional contributions sufficient to meet the requirements specified in subsection (b) hereof. Such election shall only be effective for those Plan Years in which:

(a) the Plan would not be a Top-Heavy Plan as defined in Section 11.2(a), above, if "ninety percent" were substituted for "sixty percent" in Section 11.2(a)(ii) and Section 11.2(d), and

(b) with respect to each plan described in Section 11.2(c)(i) or (ii): (1) the minimum benefit described in Section 416(c)(2) of the Code (as modified by Section 416(h)(2)(A)(ii)(II)) is provided by each such plan which is a defined contribution plan, and (2) the minimum benefit described in Section 416(c)(1) of the Code (as modified by Section 416(h)(2)(A)(ii)(I)) is provided by each such plan which is a defined benefit plan.

SECTION 11.7. Certain Benefits Disregarded. The requirements of Section 11.3 and Section 11.4, above, must be met without taking into account contributions or benefits under Chapters 2 or 21 of the Code, Title II of the Social Security Act, or any other federal or state law.

**ARTICLE XII**  
**RETIREE MEDICAL BENEFITS**

**SECTION 12.1. Creation of Separate Account.**

(a) There is created, established and maintained under this Plan a separate account known as the Medical Benefits Account. The Trustee and Administrative Committee agree to hold and administer the Medical Benefits Account, and to receive contributions hereto, for the purpose of providing for the payment of certain medical expenses pursuant to Section 401(h) of the Code, for Retired Participants, within the meaning of Section 12.2(d), and their Covered Dependents. The separate Account shall be for record keeping purposes only. Funds contributed to the Medical Benefits Account need not be invested separately and may be invested in the Committee's discretion with funds in the funding standard account without identification of which investment properties are allocable to each account. However, where the investment properties are not allocated to each account, the earnings on such properties must be allocated between each account in a reasonable manner.

(b)(i) No part of the income or corpus of the Medical Benefits Account shall be (either within the taxable year of contribution or thereafter) used for, or diverted to, any purpose other than the providing of Medical Benefits (including the provision of any retirement benefits provided under the Plan), at any time prior to the satisfaction of all liabilities under this Plan with regard to the payment of Medical Benefits in accordance with this Article. Notwithstanding the above, the payment of any necessary or appropriate expenses attributable to the administration of the Medical Benefits Account may be made from the income or corpus of such Account.

(ii) Any amounts in the Medical Benefits Account which remain in such account following the satisfaction of all liabilities for the payment of Medical Benefits arising under this Article shall be returned to the Employer Companies.

(c) Notwithstanding the foregoing, a separate Medical Benefit Account shall be maintained for any Medical Benefits payable to a Five-Percent Owner, as defined in Section 5.9(d) or his Covered Dependents. Medical Benefits for such Five-Percent Owner or his Covered Dependents shall be paid only from such account. This paragraph shall apply to all Five-Percent Owners who were such at any time during the plan year or during any preceding plan year in which contributions were made on his behalf.

**SECTION 12.2. Definitions.** Whenever used in this Article XII, and in the Medical Benefits Schedule attached to and made a part of this Article, the following words shall have the meaning set forth below unless otherwise clearly required by the context:

(a) "Covered Dependent" means a Retired Participant's Spouse or Domestic Partner at the time of retirement (as described in the definition of Retired Participant), and a child of the Retired Participant who meets the following conditions:

(i) The child is unmarried, is the child of a Retired Participant, or the Retired Participant's Spouse, and is under 19 years of age. Said child shall be covered up to the end of the calendar year in which he attains age 19.

(ii) The child is unmarried, is the child of a Retired Participant, or the Retired Participant's Spouse, is under 25 years of age, is dependent on the Retired Participant for his principal support and maintenance, and is a full-time student. Said child shall be covered up to the end of the calendar year in which he reaches age 25 or ceases to be a full-time student, whichever shall first occur.

The term child shall include an adopted child, step-child, or foster child who is dependent on the Retired Participant for his principal support and maintenance.

In no event will the term Covered Dependent include any person who is an eligible Retired Participant himself or herself nor any person who is employed full-time with an Employer Company. If both parents of any Covered Dependent child are eligible Retired Participants, then for the purposes of the coverage, the Covered Dependent child is considered as a Covered Dependent of only the Participant whose birth date is the earlier in the calendar year.

(b) "Medical Benefits" means the payment of sickness, accident, hospitalization and other Medical Expenses, within the meaning of Section 401(h) of the Code, for Retired Participants and their Covered Dependents as set forth in the insurance contract or contracts between the insurance carrier or carriers and the Plan which are summarized in the Medical Benefits Schedule attached to and made a part of this Article.

(c) "Medical Expense" means expenses for medical care as defined in Section 213(d)(1) of the Internal Revenue Code, as amended or any substitute therefore.

(d) "Retired Participant" is defined, for purposes of this Article XII, (except as otherwise provided in the following paragraph), as an individual who (i) was a Participant who was actively working as an Employee until his Early, Normal or Postponed Retirement Date, or who retires pursuant to Section 13.1, (ii) in the case of a Participant who first became an Employee on or after January 1, 1989, had at least ten (10) Years of Service (five (5) Years of Service in the case of a Participant retiring under the provisions of Section 13.1) and at least one Year of Service as a Participant in this Plan, and (iii) retired from employment as an Employee and was thereupon immediately eligible to receive an Early, Normal or Postponed Retirement Benefit hereunder (including an Early Retirement Benefit under Section 13.1). In addition, a Participant who (i) attained his Early Retirement Date (with, in the case of a Participant who first became an Employee on or after January 1, 1989, at least 10 Years of Service at least one of which was as a Participant in this Plan) and then dies while still employed as an Employee or (ii) has at least one Year of Service, one year as a Participant in this Plan, has been an employee of an Employer Company or a Related Employer for at least 30 years and then dies while still employed as such an employee shall be considered a "Retired Participant" whose Covered Dependents are eligible to receive Medical Benefits in accordance with this Article.

No Participant shall be considered to be eligible to receive retirement benefits provided under the Plan if he is still employed by an Employer Company or Related Employer. No deferred vested Participant who terminated employment with an Employer Company prior to retirement, and no individual who first became an Employee on or after January 1, 1989 and who retired with less than 10 Years of Service with an Employer Company or less than One Year of Service as a Participant in this Plan shall be eligible to receive Medical Benefits under this

Article XII. A Participant's retirement from active employment as an Employee at or after his Early or Normal Retirement Date, with the immediate right to receive a Retirement or Disability Retirement Benefit hereunder, or the death of a Participant following attainment of his Early Retirement Date while still actively employed as an Employee (with, in each case, the additional requirement that a Participant who first became an Employee on or after January 1, 1989 must have completed at least 10 Years of Service with an Employer Company, at least one of which was as a Participant in this Plan), are conditions to eligibility for Medical Benefits under this Article XII. Notwithstanding the foregoing, an individual who terminates employment as a result of ceasing to be eligible for his current job classification as the result of the application of a federal statutory or regulatory age limitation shall be eligible for Medical Benefits under this Article XII immediately upon termination of employment, provided, such individual has at least one Year of Service as a Participant in this Plan.

Notwithstanding the foregoing, 'Retired Participant', for purposes of this Article XII, shall not include any individual employed, at the time of his retirement, by an Employer Company pursuant to a collective bargaining agreement under which retirement benefits for the individual are to be provided under this Plan, but which does not specifically state that Medical Benefits are also to be provided for said individual under this Article XII. If a member of one of the locals of the A.F.L.-C.I.O., International Association of Machinists or International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America ("IBT") identified on Appendix A hereto, which may be amended by resolution of the Administrative Committee from time to time, is employed by an Employer Company at the time of his retirement and is eligible, by reason of a collective bargaining agreement, for retirement benefits under this Plan, he shall not be eligible for Medical Benefits under this Plan.

(c) "Grandfathered Retired Participant" means a Retired Participant within the meaning of Section 12.2(d) who is also a Grandfathered Participant within the meaning of Article I.

SECTION 12.3. Duration of Coverage; Election to Continue Coverage

(a) Medical Benefits shall begin to be paid with respect to claims incurred by Retired Participants, or their Covered Dependents, after the date on which coverage for medical expenses ends for such individuals under the UPS Insurance Plan (or any successor health plan covering active Employees). Thereafter, and subject to subsections (b) and (c) below, Medical Benefits shall continue to be paid with respect to claims incurred up until the end of the calendar month in which the first of the following occurs:

(i) In the case of a Retired Participant, his death or;

(ii) In the case of a Covered Dependent who is the Spouse of the Retired Participant, the first to occur of (A) the divorce or legal separation of the Retired Participant and Spouse, (B) the remarriage of the Spouse following the Retired Participant's death, (C) the date upon which, following the Retired Participant's death, the Spouse becomes eligible for coverage under any other group health plan as the result of his employment, or (D) the death of the Spouse;

(iii) In the case of a Covered Dependent who is the child of the Retired Participant, the first to occur of (A) the date on which the Covered Dependent ceases to be eligible for coverage as such, or (B) the date upon which, following the Retired Participant's death, the child becomes eligible for coverage under any other group health plan as the result of his employment, or the employment of the Retired Participant's surviving Spouse; and

(iv) the date upon which this Plan ceases to provide Medical Benefits to all or an affected class of Retired Participants and/or Covered Dependents.

(b) Notwithstanding the foregoing subsection (a), in the event that a Participant Contribution, as described in Section 12.10, is required to be paid with respect to Medical Benefits for any Retired Participant or Covered Dependent, payment of Medical Benefits shall cease to be made with respect to claims incurred by such individuals during any calendar month for which a Participant Contribution is due but is not timely paid. A Retired Participant may elect to discontinue Medical Benefits for his Covered Dependents (in favor of no or a reduced level of benefits as may be permitted from time to time by the Committee) by filing a form for this purpose with the Committee or its designee, and by providing such other information as the Committee or its designee shall require. In such event, payment of Medical Benefits shall cease to be made with respect to claims incurred by such Covered Dependents after the effective date of the discontinuance of coverage, or in the case of the election of a reduced level of benefits, when the applicable limitations with respect to such reduced benefit level have been exceeded or the Retired Participant (or Covered Dependent) ceases to pay any required Participant Contribution necessary to sustain the benefit level elected. The Committee may establish procedures for permitting Covered Dependents for whom Medical Benefits have been discontinued to later resume coverage, but only upon the provision of evidence satisfactory to the Committee of medical insurability.

(c) Notwithstanding the foregoing Section 12.2(a), in certain circumstances and for a limited period of time, commencing on and after January 1, 1987, a Covered Dependent who would otherwise be ineligible for Medical Benefits under this Article due to the death or divorce of the Retired Participant, or who is no longer a Covered Dependent as defined in paragraphs (a)(i) or (ii) of Section 12.2, shall be entitled to elect to continue to be eligible for such Medical Benefits ("Continuation Coverage") upon the occurrence of the following Qualifying Events:

(i) In the event of the death of the Retired Participant, a Covered Dependent may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the Retired Participant's death, subject to the restrictions of subparagraph (iv).

(ii) In the event of the divorce of a Retired Participant from his Spouse, such Spouse may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following the date upon which coverage would otherwise cease under the terms of the Plan, subject to the restrictions of subparagraph (iv).

(iii) Upon the attainment by a child of a Retired Participant of the date, as set forth in paragraphs (a)(i) and (ii) of Section 12.2, when he is no longer a Covered

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Dependent, such child may elect to continue to be eligible for Medical Benefits for a period not to exceed 36 months following such date, subject to the restrictions of subparagraph (iv).

(iv) Notwithstanding the foregoing paragraphs (i), (ii) and (iii), Continuation Coverage for a Covered Dependent shall cease upon the first to occur of the following:

(A) The date that such Covered Dependent becomes covered (as an employee or otherwise) under any other group health plan which does not contain any exclusion or limitation with respect to any preexisting condition of such individual.

(B) The date that such Covered Dependent becomes entitled to receive Medicare benefits under Title XVIII of the Social Security Act.

(C) The date upon which this Plan ceases to provide retiree medical benefits to any Retired Participant and his Covered Dependents, and the Employer Companies do not provide such benefits through another funding vehicle or group health plan or plans.

(D) The date upon which coverage ceases as a result of the Covered Dependent failing to make timely payment of the premium required pursuant to paragraph (d) of this Section.

(d) The Committee shall require the payment of a premium by a Covered Dependent for any period of Continuation Coverage, subject to the following restrictions:

(i) The decision to require payment of a premium, and the amount of such premium, shall be applied consistently to all Covered Dependents of Retired Participants similarly situated;

(ii) The premium shall not exceed 102 percent of the "applicable premium" for such period, as that term is defined in ERISA Section 604; and

(iii) The premium may, at the election of the Covered Dependent, be made in monthly installments.

If an election by a Covered Dependent to receive Continuation Coverage is made after the occurrence of the Qualifying Event, the Covered Dependent shall be permitted to pay for Continuation Coverage during the period preceding the election, such payment to be made within 45 days of the date of the election.

(e)(i) The Committee, or its delegate, shall inform each Retired Participant and his Spouse (if any) of the rights provided under this Section 12.3, at the time of commencement of coverage under this Article or as otherwise provided by law.

(ii) The Committee, or its delegate, shall notify each Covered Dependent eligible to elect Continuation Coverage of his rights under this Section 12.3 within 14

days after the Committee, or its delegate, is notified of the occurrence of a Qualifying Event as set forth in paragraph (c). Notification to a Covered Dependent who is the Spouse of the Retired Participant shall be treated as notification to all other Covered Dependents who may be eligible to elect Continuation Coverage and who reside with such Spouse at the time such notification is made.

(f) A Covered Dependent must affirmatively elect, by a writing delivered to the Committee or its delegate, to receive Continuation Coverage. Such election must be made no later than 60 days after the later of (1) the date of the Qualifying Event or (2) the date such Covered Dependent receives notice under Section 12.3(e)(ii).

**SECTION 12.4. Funding Method and Policy.** All contributions to fund Medical Benefits provided under this Article shall be made by the Employer Companies, except those relating to (i) Continuation Coverage provided for in Section 12.3 hereof and (ii) that portion of coverage with respect to which Participant Contributions are required as provided for in Section 12.10 hereof. Subject to the restrictions of this Section 12.4 and Sections 12.5, and taking into account Participant Contributions and contributions for Continuation Coverage, the Employer Companies shall contribute to the Medical Benefits Account an annual amount which is reasonably estimated to cover the total cost of the Medical Benefits to be provided hereunder and which satisfies the general requirements applicable to deductions allowable under Section 404 of the Code (as set forth in Treasury Regulation § 1.404(a)-1). The total cost of providing Medical Benefits shall be determined in accordance with any generally accepted actuarial method which is reasonable in view of the provisions and coverage of the Plan, the funding medium, and other applicable considerations. The amount deductible by each Employer Company on account of such contributions for any taxable year shall not exceed the greater of:

(a) An amount determined by distributing the remaining unfunded costs of past and current service credits as a level amount, or as a level percentage of compensation, over the remaining future service of each Participant employed by the Employer Company.

(b) 10 percent of the cost which would be required to completely fund or purchase Medical Benefits provided hereunder for the Participants employed by the Employer Company and their Covered Dependents.

In determining the amount deductible, an Employer Company must apply either paragraph (a) for all Participants or paragraph (b) for all Participants. If contributions paid by an Employer Company in a taxable year to fund Medical Benefits hereunder exceed the limitation of this Section, but otherwise satisfy the conditions for deduction under Section 404 of the Code, then the excess contributions may be carried over in accordance with the provisions of Treasury Regulation § 1.404(a)(3)(f) and be deducted in a later year. For the purpose of applying paragraph (a), if the remaining future service of a Participant is one year or less, it shall be treated as one year.

**SECTION 12.5. Subordination to Retirement Benefits.** (a) It is intended that the Medical Benefits provided under this Article, when added to any Life Insurance Protection provided under this Plan be subordinate at all times to the retirement benefits provided under this Plan. Therefore, the aggregate of contributions (made after the effective date of this Article XII)

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for the funding of Medical Benefits pursuant to this Article XII, as well as any Life Insurance Protection, shall at no time exceed 25 percent of the aggregate contributions (made after such effective date) other than contributions to fund past service credits.

(b) For purposes of this Section, "Life Insurance Protection" means any benefit paid under the Plan on behalf of a Participant as a result of the Participant's death to the extent such payment exceeds the amount of the reserve to provide the retirement benefits for such Participant existing at his death.

SECTION 12.6. Forfeitures. In the event that a Participant's interest in the Medical Benefits Account is forfeited prior to termination of such account, an amount equal to the amount of the forfeiture must be applied as soon as possible to reduce Employer contributions to fund the Medical Benefits provided under this Article.

SECTION 12.7. Benefits Provision. The benefits payable pursuant to this Article shall be limited to the payment of Medical Benefits for Retired Participants and their Covered Dependents. No benefit shall be provided which is not described in Section 401(h) of the Internal Revenue Code or the Regulations thereunder. It is anticipated that the same level of Medical Benefits shall be provided to all eligible Retired Participants, and in any event the Medical Benefits provided under this Article and the Employer contributions to fund said Benefits shall not discriminate in favor of the officers, shareholders, supervisory employees, or highly compensated employees of the Employer Companies within the meaning of Treasury Regulation § 1.401.14. The specific Medical Benefits payable shall be as described in the Medical Benefits Schedule attached to and made a part of this Article, which may be amended from time to time by action of the Board of Directors, consistent with the terms of this Article.

SECTION 12.8. Supervision of Account. The Administrative Committee shall have general supervision of the operation of the Medical Benefits Account and shall conduct the business of said Account, including the administration of claims, in accordance with Article IX and the other provisions of this Plan, except as otherwise provided in this Article, or in accordance with applicable law.

SECTION 12.9. Coordination with Employer-Maintained Group Medical Insurance for Active Participants and their Covered Dependents. Notwithstanding any other provision of this Article, if a Retired Participant, or his Covered Dependent, is eligible for Medical Benefits under this Article and also eligible for medical benefits under another group medical insurance plan sponsored and maintained by an Employer Company for active employees and their covered dependents (for example, the UPS Insurance Plan) ("Alternate Plan"), then no Medical Benefits under this Article shall be paid. Payment of Medical Benefit under this Article shall commence on the day following the day eligibility for benefits under the Alternate Plan ceases.

SECTION 12.10. Participant Contributions.

(a) The Committee may, from time to time, require Retired Participants and Covered Dependents to pay a portion of the cost of Medical Benefits as an annual contribution (a "Participant Contribution"), and shall in such event establish objective procedures for determining the amount and payment of Participant Contributions.

(b) Effective for individuals who first become Retired Participants on or after January 1, 1993, and their Covered Dependents, an annual Participant Contribution shall be required in an amount equal to:

(i) the projected per-capita cost of providing Medical Benefits for Retired Participants and/or Covered Dependents, or specified classes thereof, for the Plan Year, as determined by the Committee in accordance with such reasonable nondiscriminatory procedures as it shall adopt from time to time; over

(ii) the Retired Participant's Defined Dollar Benefit ("DDB") balance, as described in subsection (c) or (d) below.

(c) (i) Subject to the rules of this Section 12.10(c), a Retired Participant will earn a DDB amount for each Year of Service with an Employer Company which will be applied to purchase Medical Benefits before the Retired Participant or his Covered Dependents become eligible for Medicare ("Pre-Medicare Eligible Coverage") and after the Retired Participant or his Covered Dependents become eligible for Medicare ("Medicare Eligible Coverage"). The DDB amount earned for each Year of Service with an Employer Company will be accumulated over the period that the Retired Participant is employed with an Employer Company as a DDB balance (the "Pre-Medicare Eligible Coverage DDB Balance" and "Medicare Eligible Coverage DDB Balance," collectively, the "DDB Balance").

(ii) A Retired Participant's DDB amount for any Year of Service after December 31, 2000 with an Employer Company will be equal to the DDB amount for the Employer Company for which the Retired Participant performed service during that Plan Year as set forth in Appendix F. If a Retired Participant performs service under more than one schedule in any Plan Year, the Retired Participant shall receive credit for his Year of Service, if any, completed in that Plan Year under the schedule with the highest DDB amount under which he has at least one Hour of Service. The DDB amount for each Year of Service with an Employer Company while it is an Employer Company completed prior January 1, 2001 shall be equal to \$250 for Pre-Medicare Eligible Coverage and \$42 for Medicare Eligible Coverage. However, except as provided in Appendix F, no DDB amount shall be earned for Years of Service with an Employer Company that first becomes an Employer Company on or after January 1, 2001 before that Employer Company first began to offer Medical Benefits under this Plan. Except as provided Section 12.10(d)(ii), in no event shall the Pre-Medicare Eligible Coverage DDB Balance exceed \$7500 or the Medicare Eligible Coverage DDB Balance exceed \$1260. Notwithstanding the foregoing, a Grandfathered Retired Participant's DDB amount for any Year of Service (up to a maximum of \$7,500) with an Employer Company shall never be less than \$250 for Pre-Medicare Eligible Coverage and \$42 for Medicare Eligible Coverage.

(iii) The Retired Participant and his Spouse or Domestic Partner each may apply the DDB Balance to purchase Medical Benefits. If the Retired Participant has Covered Dependents who are children, they will be treated as a unit with the younger of the Retired Participant and his Spouse. If the Retired Participant does not have a Spouse or Domestic Partner, the Covered Dependents who are children will be treated as a

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separate unit and the Retired Participant and his Covered Dependent unit each may apply the DDB Balance to purchase Pre-Medicare Eligible Coverage or Medicare Eligible Coverage. Any unused DDB Balance may not be carried forward from one Plan Year to a future Plan Year.

(iv) The Pre-Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) prior to the calendar month in which the Retired Participant or his Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The Medicare Eligible Coverage DDB Balance is applied to the Participant Contribution for each Plan Year (or portion thereof) from the first day of the calendar month in which the Retired Participant or his Spouse or Domestic Partner, as applicable, becomes eligible for Medicare. The DDB Balance of a Covered Dependent who is not a Spouse or Domestic Partner will be adjusted to the Medicare Eligible Coverage DDB Balance as of the first day of the calendar month in which the younger parent first becomes eligible for Medicare or if there is no Spouse or Domestic Partner, as of the first day of the calendar month in which the Retired Participant first becomes eligible for Medicare.

(d) The DDB Balance credited to a Retired Participant is determined as follows:

(i) For a Retired Participant who did not complete at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is the sum of the DDB amounts for each of the Retired Participant's Years of Service with an Employer Company as determined under Section 12.10(c)(ii).

(ii) For each Grandfathered Retired Participant who completed at least one Year of Service with an Employer Company prior to 1993, the DDB Balance is calculated as follows:

(A) The sum of the DDB amounts for each of his Years of Service with an Employer Company as determined under Section 12.10(c) subject to the maximum DDB balance thereunder plus

(B) Two times the DDB amount for each of his Years of Service with an Employer Company completed prior to January 1, 1993 (up to a maximum of \$15,000 for Pre-Medicare Eligible Coverage and \$2520 for Medicare Eligible Coverage).

(iii) As a minimum, each Grandfathered Retired Participant described in Section 12.10(d)(ii) shall be credited with a minimum DDB Balance in accordance with the following table:

Age at Retirement from Employment with the Employer Company	Pre-Medicare Eligible	Minimum DDB Amount Medicare Eligible Coverage
65 or older	\$ 7500	\$ 1260
64	\$ 7250	\$ 1218
63	\$ 7000	\$ 1176
62	\$ 6750	\$ 1134
61	\$ 6500	\$ 1092
60	\$ 6250	\$ 1050
59	\$ 6000	\$ 1008
58	\$ 5750	\$ 966
57	\$ 5500	\$ 924
56	\$ 5250	\$ 882
55	\$ 5000	\$ 840

(e) Notwithstanding any contrary provision of this Section 12.10,

(i) a Retired Participant hired by an Employer Company or a Related Employer on or after January 1, 2006 shall not earn a DDB amount;

(ii) A Retired Participant hired by Overnite or by Motor Cargo after December 31, 2001 shall not earn a DDB amount;

(iii) an LTD Participant or a Participant receiving a Disability Retirement Benefit shall not earn Year of Service credit or a DDB amount while he is a LTD Participant or is receiving a Disability Retirement Benefit; and

(iv) an individual shall not earn a DDB amount while he is performing services for an Employer Company or a Related Employer, as a "leased employee" or who otherwise is not classified on the payroll as an employee of an Employer Company or a Related Employer regardless of whether he is reclassified as an employee.

**ARTICLE XIII**  
**SPECIAL BENEFITS UPON VOLUNTARY TERMINATION OF EMPLOYMENT**

SECTION 13.1. Special Early Retirement. A Participant (other than an Employee subject to a collective bargaining agreement and participating in this Plan, except to the extent so provided in the applicable collective bargaining agreement), who is actively employed by an Employer Company as of June 15, 1995, and who has not otherwise attained his Early Retirement Date shall be eligible to retire under the Early Retirement Benefit provisions of Section 4.3 and receive an Early Retirement Benefit in an amount determined under subsection 5.2(b)(ii)(C)(4) and (5) (except that for this purpose, subsection 5.2(b)(ii)(C)(4) and (5) shall be modified to provide that the reduction factor shall apply with respect to each month or partial month by which the Participant's Annuity Starting Date precedes his 55th birthday), provided that each of the following conditions is satisfied:

(a) Eligibility Requirements. The Participant is assigned a salary grade below Grade 26 and has, prior to August 15, 1995, both attained age 50, and either (i) in the case of a Participant who is a "Highly Compensated Employee" (within the meaning of Code Section 414(q)), was hired by an Employer Company on or before August 15, 1975, or (ii) in the case of a Participant who is not a "Highly Compensated Employee," has completed at least five (5) Years of Service.

(b) Election Requirements. An eligible Participant described in subsection 13.1(a) above must elect to retire and execute any related forms, releases or waivers prescribed for this purpose by the Company, during the period commencing on June 15, 1995, and ending on August 15, 1995. Any Participant who makes such an election must actually retire by September 1, 1995, unless an extension for a specified number of days is requested by his Employer Company.

(c) Notwithstanding the foregoing, the following employees shall be eligible for the Special Early Retirement benefit described in this Section 13.1:

(i) employees of Roadnet Technologies, Inc. who were terminated as a result of the reduction in force occurring on March 1, 1995 and who satisfied the requirements of Section 13.1(a) as of March 1, 1995; and

(ii) employees of II Morrow, Inc. who were terminated as a result of the reduction in force occurring on February 2, 1995 and who satisfied the requirements of Section 13.1(a) as of February 2, 1995.

SECTION 13.2. Supplemental Retirement Benefit. A Participant (other than an Employee subject to a collective bargaining agreement and participating in this Plan, except to the extent so provided in the applicable collective bargaining agreement), who is actively employed by an Employer Company as of June 15, 1995, shall be eligible to receive a supplemental retirement benefit under the Plan following his retirement or termination of employment, provided that each of the following conditions is satisfied:

(a) Eligibility Requirements. The Participant is assigned a salary grade below Grade 26 and is either (i) eligible to retire under the provisions of Section 4.2, 4.3 or 13.1 of the Plan, or (ii) a full-time management Employee who is employed at any division, unit, operation or facility of an Employer Company other than Region 22, including all districts therein, (Air Operations) or Region 20 - District 29 (Information Services, New Jersey).

(b) Election Requirements. An eligible Participant described in subsection 13.2(a) above must elect to retire or voluntarily terminate employment and execute any related forms, releases or waivers prescribed for this purpose by the Company, during the period commencing on June 15, 1995, and ending on August 15, 1995. Any Participant who makes such an election must actually retire or terminate by September 1, 1995, unless an extension for a specified number of days is requested by his Employer Company.

(c) Amount of Benefit. Any eligible Participant who satisfies the election requirements of subsection 13.2(b) above, shall be entitled to receive a supplemental retirement benefit at his Normal Retirement Date, the amount of which shall be determined as follows:

(i) First, a weekly rate of basic salary or wages shall be determined based upon the rate of basic salary or the hourly wage rate in effect on the last day of the Participant's active employment. Such weekly rate of basic salary for a salaried Participant shall equal basic monthly salary divided by 4.33. Such weekly rate of basic wages for a Participant who is an hourly-paid Employee shall equal the product of the basic hourly wage rate and forty (40) hours, if the Participant is a full-time Employee, or twenty (20) hours if the Participant is a part-time Employee. For purposes of the foregoing, a part-time employee shall be defined to include those employees with an employment code of "I," "E" or "D" as of June 15, 1995.

(ii) Second, the Participant's weekly rate of basic salary or wages shall be multiplied by the number of weeks with which he is credited as follows:

(A) Base Credit. Each eligible Participant shall receive 4.33 weeks of credit, regardless of his length of service.

(B) Additional Credit. In addition, each eligible Participant shall be credited with two (2) weeks for each full year of employment by an Employer Company, measured by each twelve (12) month anniversary date from date of hire, and excluding any fractional year, up to a maximum of forty (40) weeks of such additional credit.

(iii) Third, for eligible Participants who are covered by the UPS Managers Incentive Plan, an amount equal to the product of (i) and (ii), where (i) is the product of (A) the eligible Participants weekly rate of basic salary or wages, (B) 4.33 and (C) 1.25 and (ii) is a fraction, the numerator of which is eight (8) and the denominator of which is twelve (12).

(iv) Fourth, the sum of the amounts described in subsection 13.2(c)(ii) and (iii) above shall be increased each year by the percentage rate(s) of interest described in subsection 5.7(c), from the first day of the month following the last day on which the Participant was actively employed until his Normal Retirement Date.

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(v) Fifth, the lump sum amount described in subsection 13.2(c)(iv) above shall be converted to a Single Life Only Annuity using, for conversion purposes, the 1971 Towers, Perrin, Forster and Crosby Forecast Mortality Table and the interest rate(s) described in subsection 5.7(c), provided, however, that for participants whose distributions commence on or before December 31, 1995, the interest rate will be the greater of the interest rate set forth in subsection 5.7(c) or such rate as was in effect as of January 1, 1995. Such Single Life Only Annuity (consisting of monthly payments commencing at Normal Retirement Date) shall hereafter be referred to as the "Supplemental Retirement Benefit."

(d) Form of Benefit. If an eligible Participant is not married as of his Supplemental Retirement Benefit commencement date, the normal form of payment of such benefit will be a Single Life Only Annuity, commencing on his Normal Retirement Date. If an eligible Participant is married as of his Supplemental Retirement Benefit commencement date, the Normal Form of payment of his Supplemental Retirement Benefit will be a Qualified Joint and Survivor Benefit, commencing on his Normal Retirement Date, and the amount of his monthly Supplemental Retirement Benefit will be reduced in the manner described in subsection 1.1(b).

(e) Alternate Benefit Elections. Each eligible Participant may elect, subject to the spousal consent provisions contained in Section 5.4(b), either (i) to receive his Supplemental Retirement Benefit in any of the forms permitted under Article V as soon as practicable following his termination of employment or as of an Early or Normal Retirement Date, if later, or (ii) in the form of an immediate single lump sum payment equal to the greater of (A) the actuarial equivalent present value of the monthly Supplemental Retirement Benefit, or (B) the sum of the amounts described in subsection 13.2(c)(ii) and (iii) above. (For purposes of the preceding sentence, actuarial equivalence will be determined by use of the mortality table referenced in Section 13.2(c)(v) and the rate(s) of interest described in subsection 5.7(c), provided, however, that for participants whose distributions commence on or before December 31, 1995, the interest rate will be the greater of the interest rate set forth in subsection 5.7(c) or such rate as was in effect as of January 1, 1995). Notwithstanding the foregoing, in the event that an eligible Participant's Supplemental Retirement Benefit is to be paid as an annuity, the actual form of annuity payment shall be that form which is in effect for the payment of the eligible Participant's Normal or Early Retirement Benefit, if any.

SECTION 13.3. Legal Compliance. Notwithstanding the foregoing, the eligibility of Participants who are "Highly Compensated Employees" (within the meaning of Code Section 414(q)) for the special benefits provided under this Article XIII (and/or the amount of such benefits) shall be limited to the extent required to satisfy the applicable nondiscrimination requirements of the Code.

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**THE UPS RETIREMENT PLAN**  
**APPENDIX A**

In accordance with Section 12.2(d) of the UPS Retirement Plan, the following is a list of locals of the A.F.L.-C.I.O, the International Association of Machinists and the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America ("IBT") the members of which are entitled to Benefit Service towards retirement benefits hereunder, but not Medical Benefits under Articles XII of the Plan:

- 1) Southern Ohio district:
  - (i) IBT Local 92 (center clerks)
  - (ii) IBT Local 100 (center clerks)
  - (iii) IBT Local 651 (center clerks)
  - (iv) Office and Professional Employees International, A.F.L.-C.I.O., Local 98 (full-time clerical employees hired prior to December 31, 1985)
- 2) Central Ohio district:
  - (i) IBT Local 20 (center clerks)
  - (ii) IBT Local 40 (center clerks)
  - (iii) IBT Local 413 (center clerks)
  - (iv) IBT Local 637 (center clerks)
  - (v) IBT Local 908 (center clerks)
  - (vi) IBT Local 957 (center clerks)
- 3) Northern Ohio district:
  - (i) IBT Local 92 (center clerks)
  - (ii) IBT Local 348 (center clerks)
  - (iii) IBT Local 377 (center clerks)
  - (iv) IBT Local 407 (center clerks and Delivery Information center clerks)
  - (v) IBT Local 571 (center clerks)
  - (vi) International Association of Machinists, Local 1363 (part-time)

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**THE UPS RETIREMENT PLAN**  
**APPENDIX B**

The following table sets forth factors, by year of retirement, death or disability, to be utilized pursuant to subparagraph 5.1(c)(iii)(B) of the Plan, to determine the benefit payable pursuant to paragraph 5.1(c) of the Plan.

<u>Year</u>	<u>Applicable Factor</u>
1961	2.00
1962	1.97
1963	1.93
1964	1.90
1965	1.85
1966	1.77
1967	1.70
1968	1.60
1969	1.47
1970	1.34
1971	1.25
1972	1.19
1973	1.07
1974	.88
1975	.73
1976	.65
1977	.56
1978	.46
1979	.32

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**THE UPS RETIREMENT PLAN**  
**APPENDIX C**

The following table sets forth factors, by year of retirement, death or disability, to be utilized pursuant to subparagraph 5.1(d)(iii)(B) of the Plan, to determine the benefit payable pursuant to Paragraph 5.1(d) of the Plan.

<u>Year</u>	<u>Applicable Factor</u>
1961	2.60
1962	2.56
1963	2.52
1964	2.48
1965	2.42
1966	2.34
1967	2.25
1968	2.13
1969	1.98
1970	1.83
1971	1.72
1972	1.64
1973	1.50
1974	1.28
1975	1.11
1976	1.01
1977	.90
1978	.79
1979	.63
1980	.46
1981	.35
1982	.29
1983	.26
1984	.23

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Effective January 1, 1996:

**THE UPS RETIREMENT PLAN  
APPENDIX D**

**ADDITIONAL MONTHLY RETIREMENT BENEFIT**

Pursuant to this Appendix D, the following list of Employees, identified by Social Security number, shall be entitled to receive the corresponding Additional Monthly Retirement Benefits, in accordance with the terms and conditions of Section V of the Plan.

Security  
Number

Additional Monthly  
Retirement Benefit



Criteria used to determine the group of Employees eligible for, and the amount of, the Additional Monthly Retirement Benefits shall comply with all provisions of the Code including Code §401(a)(4) and §415.

**THE UPS RETIREMENT PLAN  
APPENDIX E**

**FORMER ROLLINS EMPLOYEES**

Former Rollins Employees. Notwithstanding any contrary provision of this Plan, any Employee who was employed by Rollins Logistics, Inc. Rollins Dedicated Carriage Services, Inc. or Rollins Transportation Systems, Inc. (each, "Rollins") and is identified at the end of this Appendix E as a "transfer employee" pursuant to Section 5.7 of that certain Asset Purchase Agreement dated November 12, 1999 by and among Worldwide Dedicated Services, Inc., Rollins Truck Leasing Corp., Rollins Logistics, Inc. Rollins Dedicated Carriage Services, Inc. and Rollins Transportation Systems, Inc. shall receive credit for all service completed with Rollins or any person that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with Rollins (a "Rollins Affiliate") or any predecessor to Rollins for purposes of the following:

- (a) eligibility requirements described in Section 2.1;
- (b) eligibility for a Deferred Vested Benefit as described in Section 4.4;
- (c) eligibility for an Early Retirement Benefit as described in Article V; and
- (d) eligibility for retiree medical benefits described in Article XII.

Under no circumstances will service with Rollins, a Rollins Affiliate or a predecessor of Rollins be counted as Benefit Service or for purposes of determining the amount of the Participant Contribution for or the amount of retiree medical benefits under Article XII

<u>Name</u>	<u>Rollins DOE</u>	<u>WDS DOE</u>	<u>Termination Date</u>	<u>Vested as of 8/02</u>
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**THE UPS RETIREMENT PLAN  
APPENDIX F-1**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-1 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-1 are as follows:

<b>United Parcel Service Name of Employer Company</b>	<b>Date of Participation</b>	<b>Date Participation Ceased</b>
Trailer Conditioners, Inc.	January 1, 2001	
United Parcel Service Co.	January 1, 2001	
United Parcel Service General Services Co.	January 1, 2001	
UPS Fuel Services, Inc. (UPS Aviation Services, Inc. prior to January 1, 2003)	January 1, 2001	
UPS International General Services Co.	January 1, 2001	
UPS Procurement Services Corporation	January 1, 2001	
UPS Worldwide Forwarding, Inc.	January 1, 2001	
United Parcel Service, Inc. (Ohio)	January 1, 2001	
BT Realty Holdings, Inc.	January 1, 2001	
United Parcel Service, Inc. (NY)	January 1, 2001	
BT Realty Holdings II, Inc.	January 1, 2001	
UPS Latin America, Inc.	January 1, 2001	
United Parcel Service of America, Inc.	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	20 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	5 per year of Benefit Service
<b>Integrated Points:</b>	12 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

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	Annual DDB Amount per Year of Service*
<b>Pre-Medicare Eligible Coverage</b>	\$ 250 per Year
<b>Medicare Eligible Coverage</b>	\$ 42 per Year

\* Year of Service means a Year of Service with an Appendix F-1 Employer Company while it was an Appendix F-1 Employer Company.

**THE UPS RETIREMENT PLAN  
APPENDIX F-2**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-2 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-2 are as follows:

<u>Name of Employer Company</u>	<u>Effective Date of RPA Schedule</u>	<u>Date Participation Ceased</u>
UPS Capital Corporation	January 1, 2001	
UPS Capital Insurance Agency, Inc. (Glenlake Insurance Agency, Inc. prior to August 12, 2002)	January 1, 2001	
UPS Capital Insurance Agency, Inc. of California (Glenlake Insurance Agency, Inc. of California prior to August 13, 2002)	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	12 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	4 per year of Benefit Service
<b>Integrated Points:</b>	4 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

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	Annual DDB Amount per Year of Service*
Pre-Medicare Eligible Coverage	\$ 0
Medicare Eligible Coverage	\$ 0

\* Year of Service means a Year of Service with an Appendix F-2 Employer Company while it was an Appendix F-2 Employer Company.

**THE UPS RETIREMENT PLAN  
APPENDIX F-3**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-3 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-3 are as follows:

<u>Name of Employer Company</u>	<u>Effective Date of RPA Schedule</u>	<u>Date Participation Ceased</u>
Pax Logistics International, Ltd.	January 1, 2001	
UPS Logistics Technologies, Inc. (f/k/a Roadnet Technologies, Inc.)	January 1, 2001	
UPS Supply Chain Management, Inc. (f/k/a UPS Worldwide Logistics)	January 1, 2001	
Diversified Trimodal, Inc. (d/b/a Martrac)	January 1, 2001	
Worldwide Dedicated Services, Inc.	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	5 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	4 per year of Benefit Service
<b>Integrated Points:</b>	4 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

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	Annual DDB Amount per Year of Service*
<b>Pre-Medicare Eligible Coverage</b>	\$ 0
<b>Medicare Eligible Coverage</b>	\$ 0

\* Year of Service means a Year of Service with an Appendix F-3 Employer Company while it was an Appendix F-3 Employer Company.

**THE UPS RETIREMENT PLAN  
APPENDIX F-4**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-4 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-4 are as follows:

<u>Name of Employer Company</u>	<u>Effective Date of RPA Schedule</u>	<u>Date Participation Ceased</u>
UPS Aviation Technologies, Inc. (f/k/a II Morrow)	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	5 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	4 per year of Benefit Service
<b>Integrated Points:</b>	4 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

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	Annual DDB Amount per Year of Service*
<b>Pre-Medicare Eligible Coverage</b>	\$ 0
<b>Medicare Eligible Coverage</b>	\$ 0

\* Year of Service means a Year of Service with an Appendix F-4 Employer Company while it was an Appendix F-4 Employer Company.

**THE UPS RETIREMENT PLAN  
APPENDIX F-5**

**RPA POINTS AND DDB AMOUNTS**

This Appendix F-5 shall apply to each Participant and each Retired Participant (as defined in Article XII) who is employed by one or more of the Employer Companies listed below as provided in the Plan.

**Employer Companies**

The Employer Companies subject to this Appendix F-5 are as follows:

Name of Employer Company	Effective Date of RPA Schedule	Date Participation Ceased
UPS Customhouse Brokerage	January 1, 2001	

**RPA Points**

<b>Alternative Points:</b>	5 per year of Benefit Service
<b>Alternative-PLUS Points:</b>	4 per year of Benefit Service
<b>Integrated Points:</b>	4 per year of Benefit Service
<b>Integrated-PLUS Points:</b>	4 per year of Benefit Service

	Annual DDB Amount per Year of Service*
<b>Pre-Medicare Eligible Coverage</b>	\$ 0
<b>Medicare Eligible Coverage</b>	\$ 0

\* Year of Service means a Year of Service with an Appendix F-5 Employer Company while it was an Appendix F-5 Employer Company.

**THE UPS RETIREMENT PLAN**

**APPENDIX F-6**

**DDB AMOUNTS**

This Appendix F-6 shall apply to each Participant who is employed by one or more of the Employer Companies listed below whose initial date of hire by such Employer Company was prior to January 1, 2002 and who retires after July 1, 2006.

**Employer Companies**

The Employer Companies subject to this Appendix F-6 are as follows:

<u>Name of Employer Company</u>	<u>Effective Date of Participation</u>	<u>Date Participation Ceased</u>
UPS Ground Freight, Inc.	May 1, 2006	
Overnite Transportation Company (for periods before May 1, 2006)	January 1, 2006	April 30, 2006
Overnite Corporation (for periods before May 1, 2006)	January 1, 2006	April 30, 2006
Motor Cargo	January 1, 2006	April 30, 2006

	<u>Annual DDB Amount per Year of Service<sup>1</sup></u>
<b>Pre-Medicare Eligible Coverage</b>	\$135 (Effective for all Years of Service with the Employer Companies subject to this Appendix F-6, except Years of Service with Motor Cargo prior to January 1, 2006 shall not be included)
<b>Medicare Eligible Coverage</b>	\$0

<sup>1</sup> Year of Service means each year of service for vesting purposes completed with an Appendix F-6 Employer Company, without regard to whether it was an Employer Company when such service was completed.

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**THE UPS RETIREMENT PLAN  
APPENDIX G**

**LIST OF EMPLOYER COMPANIES WITH UPS FREIGHT FORMULA**

<u>Employer Company</u>	<u>Date of Participation</u>	<u>Date Participation Ceased</u>
Overnite Corporation	January 1, 2006	May 1, 2006, as a result of merger into UPS Ground Freight, Inc.
Overnite Transportation Company	January 1, 2006	May 1, 2006, as a result of merger into UPS Ground Freight, Inc.
Motor Cargo	January 1, 2006	May 1, 2006, as a result of merger into UPS Ground Freight, Inc.
UPS Ground Freight, Inc.	May 1, 2006	

**THE UPS RETIREMENT PLAN  
APPENDIX H EMPLOYER COMPANIES  
EFFECTIVE JULY 1, 2006**

<u>Company Name</u>	<u>Effective Date of Participation</u>	<u>Effective Date of Participation Cessation</u>
BT Realty Holdings II, Inc.	May 18, 1999	
BT Realty Holdings, Inc.	May 12, 1999	
Diversified Trimodal, Inc. (b/d/a Martrac)	January 1, 1980	December 31, 2002 (Merged into UPS Supply Chain Management, Inc. December 31, 2002)
Pax Logistics International, Ltd.	May 18, 1998	Dissolved December 31, 2002
Trailer Conditioners, Inc.	March 22, 1982	
UPS Capital Insurance Agency, Inc. (Glenlake Insurance Agency, Inc. prior to August 12, 2002)	July 29, 1998	
UPS Capital Insurance Agency, Inc. of California (Glenlake Insurance Agency, Inc. of California prior to August 13, 2002)	August 10, 1999	
United Parcel Service Co.	September 1, 1961	
United Parcel Service General Services Co.	September 1, 1961	
United Parcel Service of America, Inc.	September 1, 1961	
United Parcel Service, Inc. (NY)	September 1, 1961	
United Parcel Service, Inc. (Ohio)	September 1, 1961	
UPS Aviation Technologies, Inc (f/k/a II Morrow)	December 29, 1986	Sold to Garmin International, Inc. August 22, 2003
UPS Capital Corporation	May 28, 1998	
UPS Customhouse Brokerage	April 1, 1985	
UPS Fuel Services, Inc. (UPS Aviation Services, Inc. prior to January 1, 2003)	February 7, 1989	
UPS Ground Freight, Inc.	May 1, 2006	
UPS International General Services Co.	August 12, 1998	
UPS Latin America, Inc.	November 12, 1993	
UPS Logistics Technologies, Inc. (f/k/a Roadnet Technologies, Inc.)	May 12, 1986	
UPS Procurement Services Corporation	September 9, 1997	

<u>Company Name</u>	<u>Effective Date of Participation</u>	<u>Effective Date of Participation Cessation</u>
UPS Supply Chain Management, Inc. (f/k/a UPS Worldwide Logistics)	December 18, 1992	Merged into UPS Logistics Group, Inc. December 31, 2002
UPS Truck Leasing, Inc.	September 11, 1981	Sold to Rollins Leasing Corp. January 1, 2000.
UPS Worldwide Forwarding, Inc.	August 12, 1988	
Worldwide Dedicated Services, Inc.	June 9, 1995	
Motor Cargo	January 1, 2006	May 1, 2006 (merged with UPS Ground Freight, Inc. May 1, 2006)
Overnite Transportation Company	January 1, 2006	May 1, 2006 (merged with UPS Ground Freight, Inc. May 1, 2006)
Overnite Corporation	January 1, 2006	May 1, 2006 (merged with UPS Ground Freight, Inc. May 1, 2006)
UPS Ground Freight, Inc.	May 1, 2006	
UPS Logistics Group, Inc.	December 31, 2002	

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**THE UPS RETIREMENT PLAN**  
**APPENDIX I**  
**SPECIAL OPL RETIREMENT BENEFIT**

SECTION 1 Special OPL Retirement Benefit. Notwithstanding any other provision in this Plan, the provisions in this Appendix I shall apply to the terms of the participation of any Grandfathered OPL Participant to the extent that such provisions are different from or supplement the provisions otherwise set forth in the Plan.

SECTION 2 Definitions.

(a) “Compensation” generally has the same meaning set forth Article I of the Plan; however, for a Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to this Section, Compensation shall also include remuneration actually paid by OPL to such Grandfathered OPL Participant for the applicable year to the extent such remuneration was included as “compensation” under the OPL Plan.

(b) “Employer Company” generally has the same meaning set forth in Article I of the Plan; however, solely with respect to a Grandfathered OPL Participant, OPL also shall be considered an Employer Company.

(c) “Grandfathered OPL Participant” means a former participant in the OPL Plan who is listed below:

(d) “Hour of Service” generally has the same meaning set forth Article I of the Plan; however, for a Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to this Section, an Hour of Service shall also include an hour of service with OPL and any employer that would be considered a single employer with OPL under Section 414(b), (c), (m) and (o) of the Code to the extent such hour of service was included as an “hour of service” under the OPL Plan.

a Solely for purposes of entitlement to retiree medical benefits under Article XII of the Plan, including the determination of whether such Grandfathered OPL Participant is

Grandfathered Retired Participant, each Grandfathered OPL Participant shall be deemed to have an Hour of Service for each "hour of service" he was credited with under the OPL Plan.

(e) "OPL" means the Overseas Partners Ltd, Overseas Partners Capital Corporation and any other employer that participated in the OPL Plan on March 1, 2002.

(f) "OPL Minimum Benefit" means the protected minimum benefit described in Section 4 of this Appendix.

(g) "OPL Plan" means the Overseas Partners Ltd. and Subsidiaries Retirement Plan, as amended and restated effective as of January 1, 2000, and as further amended through April 15, 2001.

SECTION 3 OPL RPA Point Service Assumption A Grandfathered OPL Participant who completes an Hour of Service as an Employee on or after March 1, 2002 determined without regard to Section 2 of this Appendix shall be subject to Appendix F-1 with respect to his RPA Point accrual until the later of January 1, 2001 or his actual reemployment commencement date with an Employer Company without regard to Section 2(b) of this Appendix. Beginning on the later of January 1, 2001 or his actual reemployment commencement date without regard to Section 2(b) of this Appendix, a Grandfathered OPL Participant will accrue RPA Points under the applicable Appendix covering the Employer Company with which he is employed.

SECTION 4 Grandfathered OPL Benefit.

(a) OPL Benefits in Pay Status on March 1, 2002 With respect to any Grandfathered OPL Participant whose retirement benefit under the OPL Plan was in pay status on March 1, 2002, payment of such benefit shall continue under this Appendix for payments due on or after April 1, 2002 in the same amount and benefit form as set forth below, which is the benefit being paid from the OPL Plan on February 28, 2002:

OPL Benefits in Pay Status on March 1, 2002

<u>Participant</u>	<u>Monthly Benefit</u>	<u>Form</u>
<hr/>		

OPL Minimum Accrued Benefit

<u>Participants</u>	<u>Total Monthly Benefit Accrued Benefit</u>
<hr/>	

(b) OPL Minimum Benefit. The accrued benefit of a Grandfathered OPL Participant shall never be less than the Grandfathered OPL Participant's OPL Minimum Benefit, which is the OPL Minimum Accrued Benefit in Section 4(b)(i) adjusted by the applicable Grandfathered Actuarial Factors in Section 4(b)(ii) and, if applicable, the applicable early retirement reduction factors set forth in Section 5.2(b)(ii)(C)(4) of the Plan or the early commencement reduction factor set forth in Section 5.2(c)(ii)(A)(6)(b) of the Plan, each determined without regard to whether such Grandfathered OPL Participant has an Hour of Service as an Employee on or after January 1, 1992 and based upon such Grandfathered OPL Participant's years of "benefit service" under the OPL Plan on February 28, 2002.

(i) OPL Minimum Accrued Benefit. The OPL Minimum Accrued Benefit of a Grandfathered OPL Participant is set forth in Section 4(a) above, which is the Grandfathered OPL Participant's monthly benefit under the OPL Plan payable at Normal Retirement Age in the Normal Form determined as if such Grandfathered OPL Participant had terminated employment with UPS and OPL on the earlier of February 28, 2002 or the date he last actually terminated employment with UPS and OPL.

Termination of employment with UPS and OPL for the purpose of Section 4(b) of this Appendix means the termination of employment with all Employer Companies and Related Employers as well as OPL and all employers that would be considered a single employer with OPL under Section 414(b), (c), (m) and (o) of the Code.

(ii) Grandfathered Actuarial Factors

(A) Actuarial Equivalent. For purposes of determining a Grandfathered OPL Participant's OPL Minimum Benefit, the Actuarial Equivalent factors are as follows:

- (1) For the annuity benefit set forth in Section 4(b)(iii)(A), an interest rate of 7.5 percent and the 1983 GAM mortality table (blended 50 percent male, blended 50 percent female).
- (2) For the annuity benefit set forth in Section 4(b)(i),
  - a. with respect to the Qualified Joint and Survivor Benefit, 90 percent of the Participant's monthly benefit payable in the Normal Form determined under Section 5.2(a), Section 5.2(b) or Section 5.2(c) increased (or decreased) by 0.5 percent for each year the Spouse's or beneficiary's age is greater (or less) than the Participant's age, with no minimum but to a maximum of 99 percent.
  - b. with respect to the Single Life Annuity with 120-Month Guarantee, 95 percent of the Participant's monthly benefit payable in the Normal Form.

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(iii) Special Optional Forms of Benefit Limited to OPL Minimum Benefit.

(A) UPS Retirement Plan Termination. Subject to the rules set forth in Section 5.3 of the Plan, a Grandfathered OPL Participant, upon the termination of the UPS Retirement Plan, shall have the option to receive the Present Value of the Grandfathered OPL Participant's accrued benefit in the OPL Plan defined in Section 4(b)(i) determined as if such Grandfathered OPL Participant had terminated employment with UPS and OPL on the earlier of February 28, 2002 or the date he last actually terminated employment with UPS and OPL in a single cash lump sum payment or an immediate annuity which shall be the Actuarial Equivalent value of the benefit defined in Section 4(b)(i) determined as described above.

(B) Present Value. For purposes of this Section, Present Value means the value of the Normal Form of benefit payment based the mortality table the Secretary of the Treasury prescribes, based on the prevailing commissioners' standard table (described in Section 807(d)(5)(A) of the Code) used to determine reserves for group annuity contracts issued on the date as of which present value is being determined (without regard to any other subparagraph of Section 807(d)(5) of the Code) and, for benefits paid on or before March 31, 2003, the annual rate of interest on 30 year Treasury securities for the month before the date of distribution or the Applicable Interest Rate, whichever rate produces the greater amount, and, for benefits paid on and after April 1, 2003, the Applicable Interest Rate.

**UPS RETIREMENT PLAN**  
**APPENDIX J**  
**UPS FREIGHT/OVERNITE SUPPLEMENTAL BENEFIT SCHEDULE**  
**EFFECTIVE JANUARY 1, 2006**

The provisions of this Appendix J will apply only to Grandfathered Overnite Participants and certain UPS Freight/Overnite Participants. References to Articles and Sections are to Articles and Sections of this Appendix J unless otherwise expressly indicated.

**DEFINITIONS**

Wherever used herein or in the main text of the Plan with respect to an Overnite Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix J or in the main text of the Plan, is not defined herein it will have the same meaning assigned to such term in the main text of the Plan.

“Active Participant” means as of any point in time, an Overnite Participant who at that point is or was eligible to accrue a benefit under either the Overnite Plan or this Plan, as applicable.

“Benefit Service” as defined in the main text of the Plan shall include

(a) each full year of “credited service completed on or before December 31, 2005; other than service that is disregarded under Section 9.02 of the Overnite Plan; and

(b) for each Overnite Participant who completed at least one “hour of service” during his “computation period” for “credited service” that began in 2005, one year of Benefit Service.

The terms “credited service,” “computation period,” and “hour of service” have the meaning assigned to such terms in the Overnite Plan.

“Compensation” means for purposes of determining Final Average Compensation for benefits the Annuity Starting Date for which is on or after January 1, 2006 with respect to Plan Years beginning prior to January 1, 2006 included in such average, “Compensation” as defined in Treasury Regulation Section 1.415-2(d)(2) paid by Overnite or an “affiliated company” (as defined in Section 2.03 of the Overnite Plan) to an Overnite Employee, including, any elective deferral (as defined in Section 402(g)(3) of the Code) and any elective contribution or elective deferral that is excluded from gross income under Sections 125, 132(f)(4), 414(v)(2) or 457 of the Code. Notwithstanding the foregoing, Compensation shall exclude amounts described in (1)-(6) below:

(1) Contributions made by Overnite or an “affiliated company” to a plan of deferred compensation to the extent that, before the application of Code section 415 limitations to that

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plan, the contributions are not includable in the gross income of the Overnite Employee for the taxable year in which contributed, as described in Treasury 1.415-2(d)(3)(i).

(2) Amounts realized from the exercise of a nonqualified stock option, as described in Treasury Regulation Section 1.415-2(d)(3)(ii).

(3) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option, as described in Treasury Regulation Section 1.415-2(d)(3)(iii).

(4) Other amounts which receive special tax benefits, as described in Treasury Regulation Section 1.415-2(d)(3)(iv).

(5) Effective January 1, 2000, amounts paid from any plan of deferred compensation, including but not limited to the Executive Incentive Premium Exchange Program of Union Pacific Corporation and its Subsidiaries.

(6) Amounts paid from the Union Pacific Corporation 2001 Long-Term Incentive Plan, amounts attributable to any forgiveness of a loan under the Union Pacific Corporation Executive Stock Purchase Incentive Plan and any other amount payable for services performed or performance achieved for a period longer than one Plan Year.

“Disability Retirement Date” means for purposes of this Appendix, the first date prior to the earlier of Overnite Participant’s Normal Retirement Date or July 1, 2006 on which he has suffered a Total Disability and he has had a termination of employment due to such Total Disability; provided, however, that an Overnite Participant shall not have a Disability Retirement Date for purposes of this Appendix unless, at the time his Total Disability occurs, he is an Active Participant and has completed 10 or more Years of Vesting Service.

“Disabled Participant” means a UPS Freight/Overnite Participant who has a Total Disability.

“Overnite Employee” means (a) when used with reference to any Plan Year before 2006, a “covered employee” as defined in Section 2.16 of the Overnite Plan and (b) when used with reference to any Plan Year beginning on or after January 1, 2006, an Employee (as defined in the main text of the Plan, without regard to the second paragraph of such definition) employed by Overnite or UPS Ground Freight, Inc. (“UPS Freight”) who has an Hour of Service with Overnite or UPS Freight on or after January 1, 2006 and who is not a participant in or covered under any other qualified defined benefit plan to which Overnite currently makes contributions on his behalf.

“Overnite Participant” means depending on the context, an Overnite Employee who was a participant in the Overnite Plan or has satisfied the participation requirements of Article II of the main text of the Plan.

“Total Disability” or “Totally Disabled” means a disability due to bodily injury or physical or mental disease which renders an UPS Freight /Overnite Participant eligible for disability benefits under the federal Social Security Act.

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“Year of Vesting Service” means the sum of:

- (a) each full year of “vesting service” completed on or before December 31, 2005, other than service that is disregarded under Section 9.02 of the Overnite Plan; and
- (b) for each Overnite Participant who completed at least one “hour of service” during his “computation period” for “vesting service” beginning in 2005, one year of service unless such service would be disregarded under Section 6.2 of the main text of the Plan.

#### **AMOUNT AND PAYMENT OF BENEFITS**

Minimum Accrued Benefit. Notwithstanding any provision in this Appendix or the main text of Plan to the contrary, but taking into account the break in service rules in Article IX of the Overnite Plan:

- (a) the Accrued Benefit of a Grandfathered Overnite Participant who was an Active Participant on December 31, 1988 shall not be less than his accrued benefit, determined as of December 31, 1988 under the terms of the Overnite Plan as in effect through December 31, 1988;
- (b) the Accrued Benefit of a Grandfathered Overnite Participant who was an Active Participant on December 31, 1993 shall not be less than his accrued benefit, determined as of December 31, 1993 under the terms of the Overnite Plan as in effect through December 31, 1993; and
- (c) the Accrued Benefit of a Grandfathered Overnite Participant shall not be less than his “accrued benefit” determined as of December 31, 2005 under the terms of the Overnite Plan as if he had had a termination of employment on such date.

Benefit Offset The Overnite Plan required the benefit payable from such plan be offset by any benefit payable from another qualified defined benefit plan if the same service performed by the Participant is recognized as “benefit service” in both plans. If such benefit offset has been communicated to an affected Participant prior to the merger of the Overnite Plan into this Plan, the amount of the offset shall remain as calculated under the Overnite Plan. If the benefit offset amount has not been communicated to the Participant, the offset shall be calculated as determined in the Overnite Plan.

Optional Lump Sum Form of Benefit Payment If a Grandfathered Overnite Participant had a Termination of employment with Overnite on or after March 28, 2005 but prior to January 1, 2006, such Grandfathered Overnite Participant may elect to receive his Accrued Benefit payable under Section 5.4(e) in a cash lump sum as soon as practicable after his termination of employment if the Present Value of such benefit is at least \$1,000 but does not exceed \$5,000.

Repayment of Lump Sum Distribution. An individual who received a lump sum distribution of his entire accrued benefit from the Overnite Plan prior to January 1, 2006 and is re-employed by

an Employer Company on or after January 1, 2006 has the right to repay the Trustee the lump sum distribution he received, in accordance with Section 5.4(f) of the main text of the Plan provided his repayment right has not expired.

Disability Retirement Benefit. The Disability Retirement Benefit described in this Appendix shall apply only to an Overnite Participant who is determined to be Totally Disabled (as defined in this Appendix) as of any date prior to July 1, 2006. The Disability Retirement Benefit described in Section 5.5 of the main text of the Plan shall apply to any Overnite Participant who is determined to be Totally Disabled (as defined in Article I of the main text of the Plan) as of any date on or after July 1, 2006.

(1) Each Overnite Participant who has a Disability Retirement Date shall be entitled to an immediate disability benefit commencing on the first day of the month coincident with or next following his Disability Retirement Date and ending on the date he ceases to be a Disabled Participant. Except to the extent the Disabled Participant is eligible for and elects to receive an Early Retirement Benefit in the interim, no Disability Retirement Benefit shall be paid to a Disabled Participant under this Appendix pending determination of the Total Disability by the Social Security Administration; provided, however, that the first payment made to a Disabled Participant under this Appendix following such determination of Total Disability shall include all amounts due the Disabled Participant for the period between the Disability Retirement Date and the date of the first payment.

(2) A Disabled Participant shall cease to be such if and when:

- (i) he reaches Normal Retirement Date;
- (ii) he ceases to suffer from Total Disability; or
- (iii) he dies.

When a Disabled Participant ceases to be such his current Disability Retirement Benefit (including any survivor benefit attributable to the elected form of payment) shall end, and (i) if he ceases to be a Disabled Participant because he ceases to suffer from a Total Disability prior to his Normal Retirement Date, he shall be entitled to a benefit under the provisions of the main text of the Plan or this Appendix, applied on the basis of his termination of employment due to his Total Disability and determined using his Final Average Compensation and actual years of Benefit Service as of such separation date, (ii) if he ceases to be a Disabled Participant on his Normal Retirement Date, he shall be entitled to the benefit described in Section (4) below, or (iii) if he ceases to be a Disabled Participant due to his death, death benefits shall be payable to his surviving Spouse or Domestic Partner, the monthly periodic payments under which shall equal the amount which would be payable under the survivor benefit portion of the qualified joint and survivor annuity (as defined in the Overnite Plan), if the Overnite Participant had:

- (i) a termination of employment on the date of his death (and did not thereafter return to service) or on the date of his actual termination of employment, if earlier;

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- (ii) survived and retired with an immediate qualified joint and survivor annuity on the Annuity Starting Date elected by the Spouse, and
  - (iii) died the following day.

(3) The immediate Disability Retirement Benefit payable to a Disabled Participant under this Appendix shall be an annual benefit, payable monthly in a Single Life Only Annuity equal to the Participant's Accrued Benefit determined using his Final Average Compensation as of his Disability Retirement Date and the number of years of Benefit Service (to a maximum of 30 years) the Participant would have had had he remained an Employee of an Employer Company until his Normal Retirement Date, without reduction for early commencement. Alternatively, a Disabled Participant may elect in accordance with the procedures in Section 5.4(b) to have his Disability Retirement Benefit paid in a Qualified Joint and Survivor Annuity or in a Joint and 50% Survivor Annuity that is the Actuarial Equivalent of the Single Life Only Annuity.

(4) A Disabled Participant who ceases to be such solely because he has reached his Normal Retirement Date shall be entitled to receive his Accrued Benefit determined using his Final Average Compensation as of his Disability Retirement Date and the number of years of Benefit Service (to a maximum of 30 years) the Participant would have had had he remained an Employee of an Employer Company until his Normal Retirement Date.

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**UPS RETIREMENT PLAN  
APPENDIX K  
MOTOR CARGO SUPPLEMENTAL BENEFIT SCHEDULE  
EFFECTIVE JANUARY 1, 2006**

The provisions of this Appendix will apply only to Grandfathered Motor Cargo Participants and certain UPS Freight/Motor Cargo Participants. References to Articles and Sections are to Articles and Sections of this Appendix unless otherwise expressly indicated.

**DEFINITIONS**

Wherever used herein or in the main text of the Plan with respect to a Motor Cargo Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix or in the main text of the Plan, is not defined herein it will have the same meaning assigned to such term in the main text of the Plan.

**DEFINITIONS**

Wherever used herein or in the main text of the Plan with respect to a Motor Cargo Employee, the following capitalized terms shall have the meaning set forth below unless otherwise clearly required by the context. If a capitalized term used in this Appendix or in the main text of the Plan is not defined herein, it will have the same meaning assigned to such term in the main text of the Plan.

“Disabled Participant” means a UPS Freight/Motor Cargo Participant who terminated employment with all Employer Companies and Related Employers due to Total Disability.

“Benefit Service” as defined in the main text of the Plan shall include each “year of service” for benefit accrual purposes completed under the Motor Cargo Plan as of December 31, 2005.

“Hour of Service” means for Plan Years beginning before 2006, an “hour of service” as described in Section 1.27 of the Motor Cargo Plan.

“Motor Cargo Plan” means the Pension Plan for Employees of Motor Cargo as in effect on December 31, 2005.

“Total Disability” or “Totally Disabled” means a disability due to bodily injury or physical or mental disease which renders a Motor Cargo Participant eligible for disability benefits under the federal Social Security Act.

“Year of Vesting Service” includes each full “year of service” (as defined in § 8.06 of the Motor Cargo Plan) completed on or before December 31, 2005, other than service that is disregarded under Section 8.08 of the Motor Cargo Plan.

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**AMOUNT AND PAYMENT OF BENEFITS**

**Commencement at Normal Retirement Age.** A Grandfathered Motor Cargo Participant who has attained Normal Retirement Age may elect to commence payment of his Accrued Benefit even if he has not terminated employment with all Employer Companies and Related Employers. If a Grandfathered Motor Cargo Participant continues to work past the date benefits commence under this Section, the benefit shall be adjusted annually on or before April 1 following the date benefit commenced to reflect the additional benefits, if any, accrued in the immediately preceding Plan Year.

**Optional Lump Sum Payment.** A Motor Cargo Participant who terminated employment with Motor Cargo on or after March 28, 2005 but prior to January 1, 2006 may elect to receive his Accrued Benefit in a cash lump sum as soon as practicable after his or termination of employment if the Present Value of such benefit is at least \$1,000 but does not exceed \$5,000. If a Motor Cargo Participant's (other than a Grandfathered Motor Cargo Participant's) benefit is cashed out pursuant to this Section 5.4(e) or Section 6.1, service associated with such cash-out shall be disregarded for purposes of the Plan; provided, however, that such service shall be counted in determining the Employee's Year of Vesting Service and years of Benefit Service if, upon reemployment, the distribution is repaid by the Motor Cargo Employee to the Trustees in accordance with Section 5.4(f) of the main text of the Plan.

**Disability Retirement Benefit.** The Disability Retirement Benefit described in this Appendix shall apply only to a UPS Freight/Motor Cargo Participant who is determined to be Totally Disabled (as defined in this Appendix) as of any date prior to July 1, 2006. The Disability Retirement Benefit described in Section 5.5 of the main text of the Plan shall apply to any Motor Cargo Participant who is determined to be Totally Disabled (as defined in Article I of the main text of the Plan) as of any date on or after July 1, 2006.

Each Motor Cargo Participant who has completed at least 5 Years of Service and has a Total Disability before age 55 shall be entitled to an immediate Disability Retirement Benefit equal to 55% of the UPS Freight/Motor Cargo Participant's vested Accrued Benefit commencing on the first day of the month coincident with or next following his Total Disability and ending on the date he ceases to be a Disabled Participant. The Disability Retirement Benefit shall be paid in a Single Life Only.

A Disabled Participant shall cease to be such if and when:

- (i) he reaches Normal Retirement Age;
- (ii) he ceases to suffer from Total Disability; or
- (iii) he dies.

The Trustee may require a Motor Cargo Participant to submit evidence of his continued eligibility for a Disability Retirement Benefit on a semi-annual basis. In the event a Disabled

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Participant refuses or fails to submit such evidence of continued disability, the Trustees will discontinue the disability benefit payments until the UPS Freight/Motor Cargo Participant does submit satisfactory evidence of his continued disability. No Disability Retirement Benefit shall be paid under this Appendix pending a determination of Total Disability by the Social Security Administration.

Minimum Benefit. Notwithstanding any other provision in this Appendix or the main text of the Plan, the Accrued Benefit of a Grandfathered Motor Cargo Participant who completed at least one "hour of service" (as defined in § 1.27 of the Motor Cargo Plan) on or after January 1, 1994 and prior to January 1, 2006, but who terminates employment before he is vested in accordance with Article VI, will be \$25. If a Motor Cargo Participant is eligible for a minimum benefit under this Appendix, such benefit shall be paid from the Plan as soon as administratively possible.

If the minimum benefit is not claimed within 6 months after the Grandfathered Motor Cargo Participant is notified of the minimum benefit by either certified or registered mail at his last known address, the minimum benefit will be forfeited.

#### **VESTING**

Each Grandfathered Motor Cargo Participant shall be fully vested in his Accrued Benefit upon:

- (a) attainment of his Normal Retirement Age;
- (b) completion of 5 Years of Service; or
- (c) his termination of employment due to death.

**UPS RETIREMENT PLAN  
APPENDIX L**

**SPECIAL ENHANCED BENEFIT FOR AVIATION TECHNOLOGIES PARTICIPANTS**

General. Notwithstanding any other provision in this Plan, the provisions in this Appendix shall apply to the terms of the participation of any Aviation Technologies Participants to the extent that such provisions are different from or supplement the provisions otherwise set forth in this Plan.

Definitions.

“Aviation Technologies Participants” means each Participant who at the close of business on the Aviation Technologies’ Closing Date was an employee of UPS Aviation Technologies, Inc., (including those who are on leave, disability or other absence from active employment), was at least age 50 and had completed at least 15 Years of Service.

“Aviation Technologies’ Closing Date” means August 22, 2003 which was the Closing Date as defined in Section 2.3 of that certain Stock Purchase Agreement by and between United Parcel Service of America and Garmin International, Inc., dated as of July 24, 2003.

Special Early Commencement Factor for Aviation Technologies Participants The early commencement reduction factor applicable to Aviation Technologies Participants under Section 5.2(b) shall be determined by substituting “one-quarter of one percent (0.25%)” wherever “one-half of one percent” (0.5%) appears in the text.

Enhanced Retiree Medical for Aviation Technologies Participants For purposes of construing Article XII:

Retired Participant. The term “Retired Participant” shall include each Aviation Technologies Participant with at least one Year of Service as a Participant in this Plan (regardless of whether such Participant retired as an Employee and was thereupon immediately eligible to receive an Early or Normal Retirement Benefit hereunder).

Commencement of Benefits. Medical Benefits shall begin to be paid with respect to claims incurred by Retired Participants who are Aviation Technologies Participants, or their Covered Dependents, when such Retired Participants are no longer eligible for coverage under the UPS Insurance Plan (or a successor plan) or another group medical plan sponsored and maintained by an employer for active employees and their covered dependants. Notwithstanding any other provision of this Article, if a Retired Participant, or his Covered Dependent, is eligible for Medical Benefits under this Article and also eligible for medical benefits under another group medical insurance plan sponsored and maintained by an Employer Company for active employees and their covered dependents (for example, the UPS Insurance Plan) (“Alternate Plan”), then no Medical Benefits under this Article shall be paid. Payment of Medical Benefits under this Article shall commence on the day following the day eligibility for benefits under the Alternate Plan ceases.

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UPS Aviation Technologies, Inc. Employees. Notwithstanding any contrary Plan provision, a Participant who is employed by UPS Aviation Technologies, Inc. on December 31, 2000 and who was a participant in the UPS Pension Plan on that date shall receive a benefit from this Plan for his years of Benefit Service with UPS Aviation Technologies equal to the greater of the benefit described in Section 5.2 or the benefit such Participant would have earned under the UPS Pension Plan based upon the formula in effect under the Pension Plan immediately before such Participant became covered under this Plan.

**United Parcel Service, Inc. and Subsidiaries**  
**Ratio of Earnings to Fixed Charges**

	Year Ended December 31,				
	2006	2005	2004	2003	2002
<b>Earnings:</b>					
Earnings before income taxes and accounting changes	\$ 6,510	\$ 6,075	\$ 4,922	\$ 4,370	\$ 5,009
Add: Interest expense	211	172	149	121	173
Add: Interest factor in rental expense	304	281	253	244	257
<b>Total earnings</b>	<u>\$ 7,025</u>	<u>\$ 6,528</u>	<u>\$ 5,324</u>	<u>\$ 4,735</u>	<u>\$ 5,439</u>
<b>Fixed charges:</b>					
Interest expense	\$ 211	\$ 172	\$ 149	\$ 121	\$ 173
Interest capitalized	48	32	25	25	25
Interest factor in rental expense	304	281	253	244	257
<b>Total fixed charges</b>	<u>\$ 563</u>	<u>\$ 485</u>	<u>\$ 427</u>	<u>\$ 390</u>	<u>\$ 455</u>
<b>Ratio of earnings to fixed charges</b>	<u>12.5</u>	<u>13.5</u>	<u>12.5</u>	<u>12.1</u>	<u>12.0</u>

SUBSIDIARIES OF UNITED PARCEL SERVICE, INC.  
AS OF MARCH 1, 2007

NAME OF SUBSIDIARY OF ORGANIZATION	JURISDICTION
United Parcel Service of America, Inc.	Delaware
United Parcel Service General Services Co.	Delaware
United Parcel Service Co.	Delaware
UPS Worldwide Forwarding, Inc.	Delaware
United Parcel Service, Inc.	Ohio
United Parcel Service, Inc.	New York
UPICO Corporation	Delaware
UPS Supply Chain Solutions, Inc.	Delaware
UPS International, Inc.	Delaware
United Parcel Service Deutschland Inc.	Delaware
Overnite Corporation	Virginia
UPS Capital Corporation	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 Statements No. 333-08369-01, 333-108272, and 333-112329 of United Parcel Service, Inc. on Form S-3 and in Registration Statements No. 33-90792, 333-93213, 333-34054, 333-61112, 333-65096, 333-65606, and 333-70708 of United Parcel Service, Inc. on Form S-8 and in Registration Statements No. 333-72127, 333-24805, 333-23969, and 333-23971 of United Parcel Service of America, Inc. on Form S-8 of our reports dated March 1, 2007, relating to the consolidated financial statements of United Parcel Service, Inc. (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the Company's change in accounting for share-based payments to conform with Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", and pensions and postretirement benefits to conform with Statement of Financial Accounting Standards No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans ( an amendment of FASB Statements No. 87, 88, 106, and 132 (R)"), and management's report on the effectiveness of 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, 2006.

*/s/ DELOITTE & TOUCHE LLP*

Atlanta, Georgia  
March 1, 2007

## CERTIFICATE OF CHIEF EXECUTIVE OFFICER

I, Michael L. Eskew, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL L. ESKEW

Michael L. Eskew  
Chairman and Chief Executive Officer

March 1, 2007

## CERTIFICATE OF CHIEF FINANCIAL OFFICER

I, D. Scott Davis, certify that:

1. I have reviewed this annual report on Form 10-K of United Parcel Service, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ D. SCOTT DAVIS

**D. Scott Davis**  
Vice Chairman and Chief Financial Officer

March 1, 2007

**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, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chairman of the Board 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/ MICHAEL L. ESKEW

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Michael L. Eskew  
Chairman and Chief Executive Officer

March 1, 2007

**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, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Chief Financial 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/ D. SCOTT DAVIS

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D. Scott Davis

Vice Chairman and Chief Financial Officer

March 1, 2007