Cautionary Statement About Forward-Looking Statements

This presentation, our Annual Report on Form 10-K for the year ended December 31, 2018 and our other filings from time to time with the Securities and Exchange Commission contain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. From time to time, we also provide forward-looking statements in other materials we release as well as oral forward-looking statements. Statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and variations thereof and similar terms are intended to be forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Forward-looking statements are made subject to safe harbor protections of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or anticipated results. These risks and uncertainties include, but are not limited to: changes in general economic conditions, in the U.S. or internationally; significant competition on a local, regional, national, and international basis; changes in our relationships with our significant customers; changes in the complex and stringent regulation in the U.S. and internationally (including tax laws and regulations); increased physical or data security requirements that may increase our costs of operations and reduce operating efficiencies; legal, regulatory or market responses to global climate change; strikes, work stoppages and slowdowns by our employees; the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities; changes in exchange rates or interest rates; uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate or benchmark; our ability to maintain the image of our brand; breaches in data security; disruptions to the Internet or our technology infrastructure; interruption of our business from severe weather or other natural or man-made disasters including terrorism; our ability to accurately forecast our future capital investment needs; exposure to changing economic, political and social developments in international and emerging markets; changes in business strategy, government regulations, or economic or market conditions that may result in substantial impairment of our assets; increases in our expenses or funding obligations relating to employee health, retiree health and/or pension benefits; potential additional tax liabilities in the U.S. or internationally; the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters; our ability to realize the anticipated benefits from acquisitions, joint ventures or strategic alliances; our ability to manage insurance and claims expenses; our ability to realize the anticipated benefits from our transformation initiatives; cyclical and seasonal fluctuations in our operating results; and other risks discussed in our filings with the Securities and Exchange Commission from time to time, including our Annual Report on Form 10-K for the year ended December 31, 2018 and our quarterly report on Form 10-Q for the quarter ended June 30, 2019, or described from time to time in our future reports filed with the Securities and Exchange Commission. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements.
Agenda

• Review of Mark-to-Market (MTM) Methodology
  – Components of Pension Expense
  – MTM Timeline - Example

• 4Q19 MTM Charge

• UPS withdrawal from Central States Pension Fund

• Drivers of UPS Average Discount Rate

• Mark-to-Market Corridor Matrix (Jan 2020)

• Pension De-Risking Continues...

• Glossary
Review of MTM Methodology

• Benefits of MTM methodology
  • Simplifies pension accounting
  • Aligns with U.S. GAAP fair value accounting concepts
  • Reflects current market returns
  • Provides greater transparency
• No impact to funding requirements or cash flow
• No change to benefits paid to plan participants
Components of Pension Expense

Operating Expense

- Service Cost
- Cost of benefits earned and PBGC premiums

Other Income and Expense

- Interest Cost
  - Growth in liability due to passage of time
- Return on Assets (ROA)
  - Expected earnings on plan assets
**Expected 2019 ROA = 7.75%**
12/31/18 Discount Rate = 4.50%*

**Actual 2019 ROA = 17.57%**
12/31/19 Discount Rate = 3.60%*

2019 monthly ongoing pension expense based on:
- Discount rate at 12/31/2018
- Expected 2019 ROA

Pension MTM for cumulative actuarial losses (including assumption changes) in excess of the 10% corridor

*US Plans' discount rate illustrated for informational purposes*
# 4Q19 MTM Charge

*Impact to Income Statement (in millions)*

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrecognized Loss as of 12/31/2018</strong></td>
<td>$4,098</td>
</tr>
<tr>
<td>Net loss due to changes in demographic data and assumptions</td>
<td>$(44)</td>
</tr>
<tr>
<td>Including turnover, salaries, medical claims costs, other</td>
<td></td>
</tr>
<tr>
<td>Loss due to discount rate change</td>
<td>7,477</td>
</tr>
<tr>
<td>Discount rate decreased from 4.50% to 3.60%*</td>
<td></td>
</tr>
<tr>
<td>Loss due to accrual of coordinating benefits</td>
<td>603</td>
</tr>
<tr>
<td>Based on current estimate of possible offsets in the UPS/IBT plan</td>
<td></td>
</tr>
<tr>
<td>Gain due to asset performance</td>
<td>$(3,941)</td>
</tr>
<tr>
<td>Asset returns in 2019 were 982 bps higher than expected</td>
<td></td>
</tr>
<tr>
<td>Net Loss as of 12/31/2019</td>
<td>$8,193</td>
</tr>
<tr>
<td>MTM charge recognized in Q4 2019</td>
<td>$2,387</td>
</tr>
<tr>
<td>10% corridor exceeded for certain US and international plans</td>
<td></td>
</tr>
<tr>
<td><strong>Unrecognized Loss as of 12/31/2019</strong></td>
<td>$5,806</td>
</tr>
</tbody>
</table>

*US Plans discount rate illustrated for informational purposes*
UPS withdrawal from Central States Pension Fund

- Withdrawal from CSPF was the right financial decision.
- 2014 legislation created potential liability as disclosed.
- UPS continues to work with Congress, the Administration and other stakeholders to find fair and equitable funding solutions for the multiemployer plan system through legislation.
  - 1 million participants & over 5k employers in 100 MEPs in critical & declining status.
  - Industries include Transport, Automotive, Hospitality, Aerospace & Retail
  - UPS <2% of participants
- As part of our withdrawal agreement, a potential backstop was put in place
- U.S. GAAP requires UPS to evaluate our potential backstop liability only under enacted laws.
  - No other UPS multiemployer plans have a backstop.
- A second CSPF MPRA filing is possible and would likely result in UPS participants’ benefit reductions.
- It is reasonably possible that a potential liability to pay coordinating benefits would be $4.8B. We have recorded $2.6B.
- UPS will remain actively engaged & continue to use all options to protect our interests and those of our employees and retirees.
- If new legislation is passed, we will update our estimate.
Drivers of UPS Average Discount Rate

- UPS uses a hypothetical portfolio of AA bonds to calculate pension plan discount rates.
- Yields on treasuries and credit spreads for UPS plan bond portfolios decreased during 2019.
## Mark-to-Market Corridor Matrix (Jan 2020)

<table>
<thead>
<tr>
<th>Discount Rate as of 12/31/2020(1)</th>
<th>2020 Rate of Return</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.25%</td>
</tr>
<tr>
<td>4.60%</td>
<td>-</td>
</tr>
<tr>
<td>4.35%</td>
<td>81</td>
</tr>
<tr>
<td>4.10%</td>
<td>1,396</td>
</tr>
<tr>
<td>3.85%</td>
<td>3,240</td>
</tr>
<tr>
<td>3.60%</td>
<td>5,363</td>
</tr>
<tr>
<td>3.35%</td>
<td>7,577</td>
</tr>
<tr>
<td>3.10%</td>
<td>9,890</td>
</tr>
<tr>
<td>2.85%</td>
<td>12,301</td>
</tr>
</tbody>
</table>

(1) UPS Retirement Plan discount rate illustrated for informational purposes

### Volatility Driven by Discount Rate and Returns
Pension De-Risking Continues...

- UPS actively manages pensions to assure sustainability plan participants, improve predictability, balance operating expense, cash and balance sheet objectives, and minimize risk.
- UPS continues to look for opportunistic ways to lower long-term risk.
- UPS monitors the pension environment by evaluating options to control cost & minimize volatility.
- UPS continues to work with Congress, the Administration and other stakeholders to find fair and equitable funding solutions for the multiemployer plan system through legislation.
- UPS will remain actively engaged & continue to use all options to protect our interests and those of our employees and retirees.
Glossary

- **Accounting Funded status** – the difference between plan assets at fair value and the PBO.
- **Actuarial assumption** – an estimate of an uncertain variable made for the purposes of calculating the expected present value of pension benefits. Possible variables include discount rates, return on assets, life expectancy of participants, compensation and retirement age, among others.
- **Actuarial gains or losses** – result from (1) changes in the discount rate used to measure the PBO, (2) differences between the expected and the actual return on plan assets, (3) changes in demographic assumptions including mortality, (4) participant experience different from demographic assumptions, and (5) changes in coordinating benefits with plans not sponsored by UPS.
- **Corridor** – the greater of 10% of plan assets or PBO.
- **Fair value of assets** – the market value of plan assets as of the measurement date.
Glossary (cont.)

- **Mark-to-Market (MTM) accounting** – recognition in the fourth quarter each year of any gains or losses outside the corridor. Such gains and losses arise from experience (including asset returns different from what had been assumed), and changes in actuarial assumptions (including discount rates).

- **Pension Expense** – recorded quarterly and comprised of:
  - **Service cost** – represents the increase in the PBO due to the value of benefits earned for employee service in the current year; pension expense also includes amortization of prior service costs due to past plan changes
  - **Expected return on plan assets (EROA)** – product of the expected rate of return and the value of the plan assets, adjusted for benefit payments, and contributions
  - **Interest cost** – represents the growth in PBO due to interest, and equals the product of the PBO and the discount rate, adjusted for benefit payments

- **Projected Benefit Obligation** – PBO represents the present value of all benefits attributed by the pension benefit formula to employee service rendered prior to that date.
Thank You