4Q20 Pension Mark-to-Market Charge Overview
February 2, 2021
Forward-Looking Statements

This presentation, our Annual Report on Form 10-K for the year ended December 31, 2019 and our other filings with the Securities and Exchange Commission contain and refer to "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements other than those of current or historical fact, and all statements accompanied by terms such as "will," "believe," "project," "expect," "estimate," "assume," "intend," "anticipate," "target," "plan," and similar terms, are intended to be forward-looking statements. Forward-looking statements are made subject to the safe harbor provisions 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.

From time to time, we also include forward-looking statements in other publicly disclosed materials. Such statements may relate to our intent, belief and current expectations about our strategic direction, prospects and future results, and 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 forward-looking statements because such statements speak only as of the date when made.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience, present expectations or anticipated results. These risks and uncertainties, many of which are outside of our control, include, but are not limited to: continued uncertainties related to the impact of the COVID-19 pandemic on our business and operations, financial condition, financial results and financial position, our customers and suppliers, and on the global economy; 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; results of negotiations and ratifications of labor contracts; strikes, work stoppages or 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, interest or discount rates; uncertainty from the expected discontinuance of LIBOR and transition to any other interest rate benchmark; our ability to maintain the image of our brand; our ability to attract and retain qualified employees; breaches in data security; disruptions to the Internet or our technology infrastructure; interruptions in or impacts on our business from natural or man-made events or disasters including terrorist attacks, epidemics or pandemics; 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 realize the anticipated benefits from our transformation initiatives; cyclical and seasonal fluctuations in our operating results; our ability to manage insurance and claims expenses; 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, 2019, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and subsequently filed reports. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of information 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, except as required by law.
Agenda

• 4Q20 MTM Charge
• UPS Pension Summary

Supplementary
• Components of Pension Expense
• Mark to Market (MTM) Timeline - Example
• UPS Central States Pension Overview
• UPS U.S. Average Discount Rate Trend

Glossary
## 4Q20 MTM Charge

### Impact to Income Statement (in millions)

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unrecognized Loss Within Shareowners’ Equity as of 12/31/2019</strong></td>
<td>$5,806</td>
</tr>
<tr>
<td>Net loss due to changes in demographic data and assumptions</td>
<td>513</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>7,336</td>
</tr>
<tr>
<td>Discount rate decreased from 3.60% to 2.90%*</td>
<td></td>
</tr>
<tr>
<td>Loss due to accrual of Central States coordinating benefits</td>
<td>2,265</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>(2,416)</td>
</tr>
<tr>
<td>Asset returns in 2020 were 477 bps higher than expected</td>
<td></td>
</tr>
<tr>
<td><strong>Net Loss as of 12/31/2020</strong></td>
<td>$13,504</td>
</tr>
<tr>
<td><strong>MTM charge recognized in Q4 2020 GAAP Income Statement</strong></td>
<td>$6,484</td>
</tr>
<tr>
<td>10% corridor exceeded for US and certain International plans</td>
<td></td>
</tr>
<tr>
<td><strong>Unrecognized Loss Within Shareowners’ Equity as of 12/31/2020</strong></td>
<td>$7,020</td>
</tr>
</tbody>
</table>

### Q4 2020 MTM Pension Charge

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 MTM charge</td>
<td>$6,484</td>
</tr>
<tr>
<td>Income tax benefit</td>
<td>1,555</td>
</tr>
<tr>
<td><strong>After-tax Q4 MTM charge</strong></td>
<td>$4,929</td>
</tr>
</tbody>
</table>
UPS Pension Summary

Framework

- UPS actively manages pensions to assure sustainability for 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 continues to work with Congress, the Administration and other stakeholders to find fair and equitable funding solutions for the multiemployer plans (“MEP”) system through legislation.

UPS actions to de-risk the pension and strengthen the balance sheet:

- Other pension income (excluding the MTM entry) is expected to be relatively flat in 2021 as compared to 2020.

- Closing of UPS Freight sale will eliminate future service costs for these employees.

- UPS Retirement Plan was closed to new non-union participants in 2016. In 2017 the Plan was amended to freeze additional benefits for future service and compensation beginning January 1, 2023.

- Additional information will be provided in our Annual report on Form 10-K when available with the Securities and Exchange Commission.
Supplementary
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)
  - Earnings on plan assets
MTM Timeline – Example

Expected 2020 ROA = 7.77%
12/31/19 Discount Rate = 3.60%*

12/31/2020

Actual 2020 ROA = 12.54%
12/31/20 Discount Rate = 2.90%*

Monitor & Update

2020 monthly ongoing pension expense based on:
  - Discount rate at 12/31/2019
  - Expected 2020 ROA

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

* US Plans’ discount rate illustrated for informational purposes
UPS Central States Pension Overview

- As part of our CSPF withdrawal, UPS agreed to provide coordinating benefits ("backstop") to certain participants in the event that benefits are lawfully reduced by the CSPF.
  - No other UPS MEPs have a backstop.

- U.S. GAAP requires UPS to routinely monitor our potential backstop liability under enacted laws.

- Since 2017 UPS has recorded $4.9B in coordinating benefits, which represents our current best estimate of potential coordinating benefits as of December 31, 2020.
  - Cumulative amount recorded: 2017 = $0; 2018 = $1.6B; 2019 = $2.6B; 2020 = $4.9B

- UPS continues to work with Congress, the Administration and other stakeholders to find fair and equitable funding solutions for the MEP system through legislation.
  - If new legislation is passed, we will update our estimate.
The reduction in discount rates of 70 basis points (3.60% to 2.90%) from 2019 to 2020 lowers 2021 operating profit by $300M by increasing service costs.

UPS uses a hypothetical portfolio of AA bonds to calculate pension plan discount rates.

2020 declines in treasury yields offset slightly by increases in credit spreads for UPS plan bond portfolios.
Glossary

• **Accounting funded status** – the difference between the fair value of assets 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.