Fourth Quarter 2016

Pension Mark-to-Market Charge

January 31, 2017

Safe Harbor

- Cautionary Statement About Forward-Looking Statements

This presentation contains forward-looking statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. Statements in the future tense, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and variations thereof and similar terms are intended to be forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts.

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Information included in this presentation, including comparisons to prior periods, may reflect adjusted results. See appendix for reconciliations of adjusted results and other non-GAAP financial measures.

Agenda

- Review of Mark-to-Market (MTM) Methodology
- Key Drivers of 4Q16 MTM Charge
- Corridor Matrix
- Glossary

Review of MTM Methodology

- Benefits of adopting MTM methodology in 2011
  - 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

Service Cost	Cost of benefits earned
Interest Cost	Growth in liability due to passage of time
Return on Assets	Expected earnings on plan assets

MTM Timeline – Example

Expected 2016 ROA = 8.75%
Discount Rate = 4.80%*

Fair Value of Pension Assets
Projected Benefit Obligation

12/31/2015

Monitor & Update

2016 monthly ongoing pension expense based on:
- **Discount rate at 12/31/2015**
- **Expected ROA for 2016**

Actual 2016 ROA = 5.90%
Discount Rate = 4.37%*

Fair Value of Pension Assets
Projected Benefit Obligation

12/31/2016

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

** Retirement Plan discount rate illustrated for informational purposes*

4Q16 MTM Charge

Impact to Income Statement (in millions)

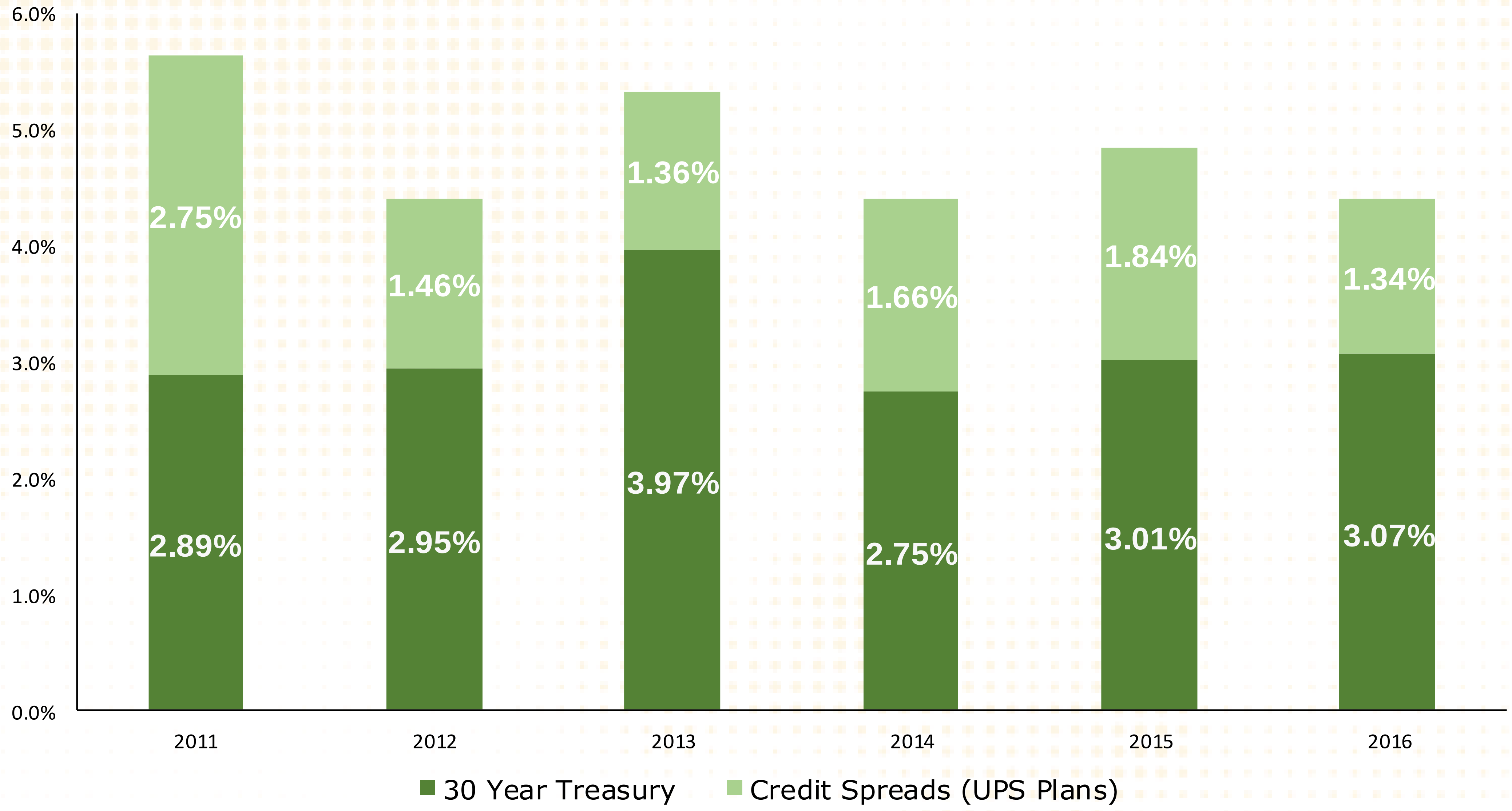
Q4 2016 MTM charge is driven by overall declines in discount rates and lower than expected asset returns.

Unrecognized Loss as of 12/31/2015	**$3,334**
Loss due to discount rate change *Discount rate decreased from 4.80% to 4.37%**	3,167
Loss due to asset performance *Asset returns in 2016 were 285 bps lower than expected*	737
Gain due to demographics and other assumption changes	(250)
Net Loss as of 12/31/2016	$6,988
MTM charge recognized in Q4 2016 *10% corridor exceeded for US and international plans*	$2,651
Unrecognized Loss as of 12/31/2016	**$4,337**

** Retirement Plan discount rate illustrated for informational purposes*

Drivers of UPS Average Discount Rate Change

30-year Treasury and Credit Spreads



- UPS uses a hypothetical portfolio of AA bonds to calculate pension plan discount rates
- Yields on treasuries improved slightly, but credit spreads for UPS plan bond portfolios declined

Mark-to-Market Corridor Matrix

(Jan 2017)

Discount Rate as of 12/31/2017*	2017 Rate of Return: 1.25%	3.75%	6.25%	8.75%	11.25%	13.75%	16.25%
5.37%	-	-	-	-	(130)	(277)	(872)
5.12%	-	-	-	-	-	-	(77)
4.87%	-	-	-	-	-	-	-
4.62%	629	-	-	-	-	-	-
4.37%	2,141	1,359	576	-	-	-	-
4.12%	3,874	3,091	2,309	1,526	744	63	27
3.87%	5,684	4,902	4,119	3,337	2,554	1,771	988
3.62%	7,576	6,793	6,011	5,228	4,445	3,662	2,880
3.37%	9,552	8,769	7,987	7,204	6,421	5,638	4,856

Volatility Driven by Discount Rate and Returns

** Retirement Plan discount rate illustrated for informational purposes; totals may be off due to rounding*

Summary

- Mark-to-Market method simplifies pension accounting and provides greater transparency
- Q4 2016 Mark-to-Market charge driven by discount rate declines and underperformance of pension assets
- No impact to funding requirements, cash flow or benefits to plan participants

Glossary

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

  Interest cost – represents the growth in PBO due to interest, and equals the product of the PBO and the discount rate
- **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