

UPS 2016 CORPORATE
SUSTAINABILITY REPORT

The Road Ahead





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A photograph of a two-lane asphalt road winding through a dry, hilly landscape. The road has a yellow double line in the center and white lines on the edges. In the background, there are large, rugged mountains under a clear blue sky. The foreground shows the texture of the road surface.

The Road Ahead

For more than a century, UPS has been helping people and businesses move goods by focusing on *The Road Ahead* — both literally and figuratively. Our success reflects relentless attention to emerging trends, innovative ideas and transformative technologies that enable growth, progress, and sustainable solutions. This forward-looking approach guides our work as we seek new solutions for the opportunities and challenges that lie ahead.



David Abney, Chairman and Chief Executive Officer

Committed to the Road Ahead

102-14*

2016 was a milestone year for sustainability at UPS. We continued to reduce carbon intensity throughout our network and added more than 1,250 alternative fuel and advanced technology vehicles to our fleet. We also completed the U.S. deployment of ORION, a proprietary route optimization technology helping us save 10 million gallons of fuel and reduce 100,000 metric tons of emissions each year.

We also continued our longstanding support of global humanitarian needs. With our two partners – Gavi, the Vaccine Alliance and the Silicon Valley startup Zipline – we are pioneering drone delivery of emergency medical supplies to remote locations in Rwanda.

We are especially proud of these achievements in the face of the uncertainty that clouds political, economic and business conditions worldwide. But the scale and urgency of today's sustainability demands give us little time to reflect. Looking ahead, we have reaffirmed our sustainability commitments. In doing so, we have embarked on an enhanced set of enterprise-wide goals, including a bold target to reduce our absolute greenhouse gas emissions 12 percent across our global ground-based operations by 2025.

“As we build the smart logistics network of the future, we must stay disciplined to ensure these investments are made responsibly and sustainably, so our customers and our communities grow along with us.”

It is important to note that we're setting ambitious goals at a time when our carbon footprint would be expected to increase due to the rapid growth in e-commerce volume, which is requiring us to expand our physical network around the world. Over the next few years, we'll make significant investments in technology and capacity to meet the growing needs of consumers and customers.

As we build the smart logistics network of the future, we must stay disciplined to ensure these investments are made responsibly and sustainably, so our customers and our communities grow along with us. We're mindful that innovation and creative thinking are more valuable than ever. We will continue to develop new approaches and test new solutions. We'll scale those with the potential to deliver the best returns to the planet and to our business. In the process, we will continue to learn.

To reduce absolute emissions, we will increasingly rely on renewable energy sources throughout our operations. We are accelerating our investments across our fleet and facilities, aiming for 25 percent of our total electricity to come from renewable sources by 2025. To support this goal, we recently invested \$18 million in on-site solar at eight U.S. facilities, which expands our solar capacity nearly five-fold.

We're also testing new applications for renewable energy sources. For example, we're giving vehicle batteries a second life as storage devices for solar energy in our facilities, and we're exploring ways to use renewable natural gas in fuel cell electric vehicles in the future.



We continue to invest and expand our “rolling laboratory,” which allows us to develop and test low-carbon fuels and technologies. By 2020, a quarter of our annual vehicle purchases will be alternative fuel or advanced technology vehicles. By 2025, alternative fuels will supply 40 percent of our total ground fuel needs. All of these initiatives will drive UPS toward our vision of a zero-emissions future.

But we can't get there without our most important asset: the 434,000 UPSers who load and unload trucks, deliver packages and freight, manage the business, and support our customers every day. In addition to our environmental targets, we've also established new goals to advance our industry-leading safety programs and improve employee engagement – aligning our business strategies with our vision to connect the global community through our intelligent logistics network.

The bright minds of UPSers have created a culture of ingenuity and innovation. Their warm hearts and passion to strengthen the communities where we all live and work have enriched that same culture. It's this commitment that led UPS and its employees to make more than \$116 million in charitable contributions in 2016 – and to an even bolder goal to collectively contribute \$127 million in 2020. UPSers, along with their friends and families, have also served 12.8 million hours in volunteer time since 2011, supporting our goal to contribute 20 million hours of community service by 2020.

Their certainty of purpose, even during uncertain times, convinces me that we're on the right path, traveling in the right direction on the road ahead. With our legacy of sustainable business practices and the dedication of our people, we will continue to overcome the challenges and meet the needs of our ever-changing world.

A handwritten signature in dark ink, appearing to read "David Abney".

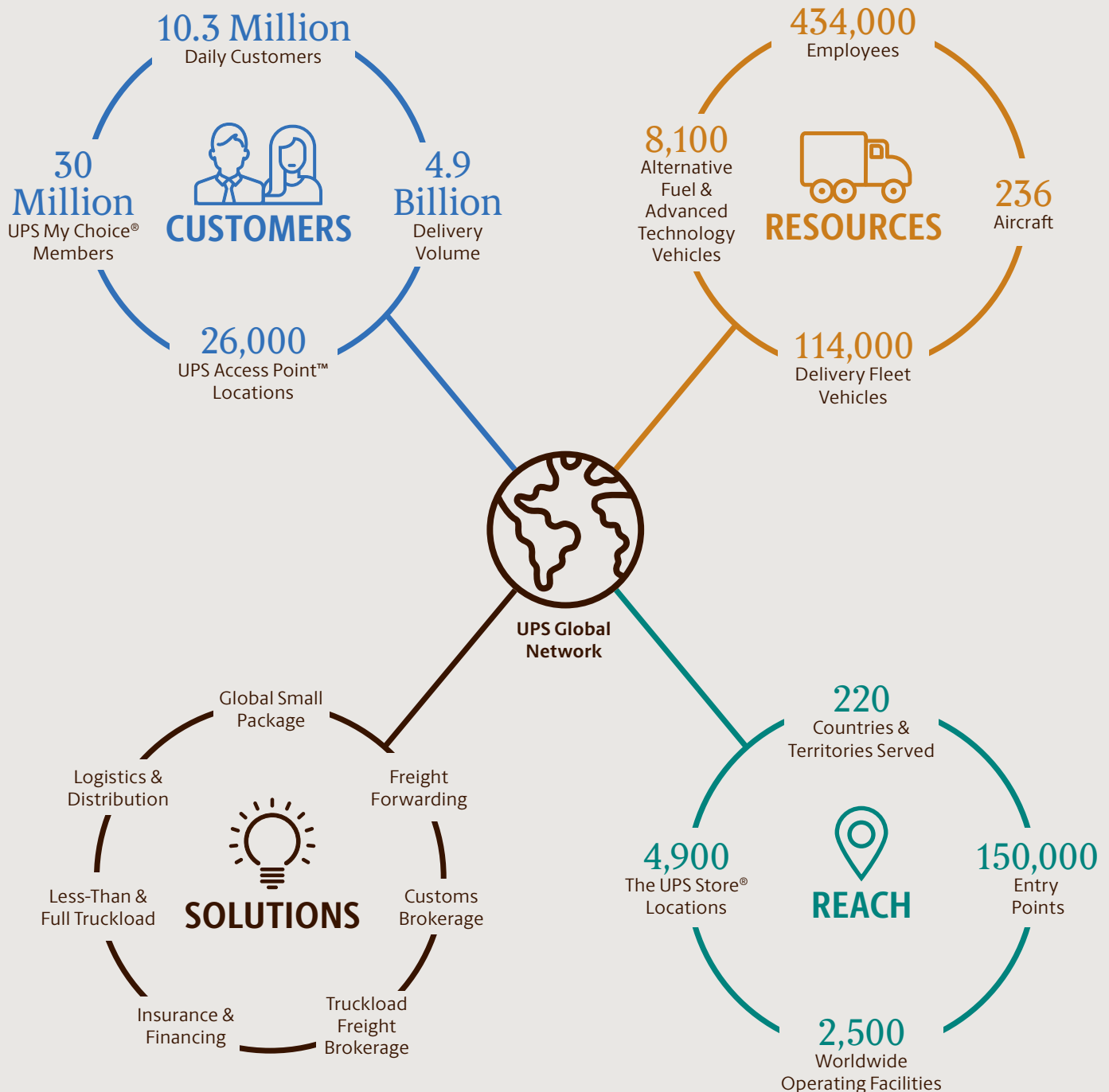
David Abney, Chairman
and Chief Executive Officer



Our Global Network

UPS is a global leader in logistics, offering a broad range of supply chain solutions, including transporting packages and freight, facilitating international trade, and deploying advanced technology to efficiently manage the world of business.

102-1 | 102-2 | 102-4 | 102-6 | 102-7



2016 Headlines & Highlights

Setting New Goals for 2020 and 2025

In 2016, we developed a new set of enterprise-wide sustainability goals, informed by the findings of our 2016 materiality assessment, our global enterprise strategy, stakeholder feedback, and sustainability frameworks such as the United Nations Sustainable Development Goals. Many of our previous goals had a target date of 2016, and we saw an opportunity to set new goals around topics most important to the environment, our workforce, and UPS communities around the world. These new goals support our sustainability vision for UPS to reinforce our commitment to create innovative solutions for global sustainability challenges. More detail on the new goals is available on page 9, and our performance toward existing Key Performance Indicators (KPIs) can be found on pages 10 and 11.

Reducing Absolute GHG Emissions

As a global transportation and logistics company, UPS recognizes greenhouse gas (GHG) emissions pose a serious challenge to the environment and ultimately to the global economy. For our part, we have established a goal to reduce absolute GHG emissions 12 percent by 2025 throughout our global ground operations. This goal builds on our ongoing efforts to achieve a 20 percent reduction in GHG intensity by 2020, which we will continue to measure and report. The use of renewable energy will be critical to reaching this absolute emissions reduction target. We engaged with leading environmental organizations and other stakeholders to establish a meaningful target using the science-based methodology most appropriate for our business. This new goal will advance our commitment to alternative fuels and technologies. This new goal currently does not include our airline fuel usage because of the economic and scalability limitations of aviation biofuel. Read more about this new goal on page 71.



1.82

lost time injuries per 200,000 hours worked, a leading safety record in the industry

1 billion

cleaner miles reached in 2016 through our fleet of alternative fuel and advanced technology vehicles

30M+

UPS My Choice® members across 15 countries

Delivering Relief through New Innovations

We have a long history of innovating humanitarian relief solutions to address needs more efficiently and effectively. In 2016, this innovation took to the air as we began testing the potential of using drones to deliver urgently needed supplies to remote areas. The UPS Foundation; Zipline, a drone technology startup; and Gavi, the Vaccine Alliance joined in a pilot project for medical supply delivery in Rwanda. The project's drones put lifesaving blood, vaccines and medications within reach of more than 6 million people — half of the country's population. Supplies can be requested by healthcare workers and arrive at their destinations in 30 minutes or less. This groundbreaking feat — a global first — highlights how public-private partnerships improve health outcomes for millions of people living in rural communities. Read more about the project on page 60.



Celebrating a Decade of Women's Leadership Development

2016 marked the 10-year anniversary of our Women's Leadership Development (WLD) Business Resource Group (BRG). Over the past decade, WLD has expanded to 65 chapters in more than 30 countries. It also paved the way for eight additional BRG constituencies, which now span 150 chapters around the world and whose members bring their unique perspectives to UPS. To celebrate this milestone, we hosted the Women's Leadership Exchange Thought Leadership Summit, which brought together representatives from more than 30 companies. Read more about WLD in the UPS workforce on page 27.

26,000+

UPS Access Point™ locations
across 18 countries

40

years of UPS® service
in Europe

\$2.4B

of economic impact generated
by our supplier diversity
investments

Refreshing Priorities on Our Most Important Sustainability Issues

We performed our global corporate materiality assessment in 2016, integrating the results of the regional assessments we conducted in 2015. Among the new and updated findings for 2016: further elevation of issues related to ethics and human rights across the globe; the important role sustainability can play in attracting talent and engaging employees; the need for regionally specific emissions-reduction solutions and engagements; and the importance of developing locally relevant sustainability strategies to address global trends. We are using the key findings from the 2016 materiality assessment to identify opportunities to further refine our global sustainability strategy. Read more about the key findings on page 12.



Leading the Way with New Standards of Reporting Leadership

Maintaining our leadership in sustainability reporting helps us be more accountable and transparent, demonstrating to our stakeholders how we manage and address the issues most important to them. Staying at the forefront of sustainability reporting best practices, UPS has become a member of the Global Reporting Initiative (GRI) Standards Pioneer program. Standards Pioneers are companies that have joined with GRI to support the transition from G4 to the GRI Standards, the latest reporting guidelines. With support and guidance from this group, we have implemented the newly introduced GRI Standards in our 2016 reporting cycle. This comes three years after UPS was one of the first U.S. companies to report to the GRI G4 Guidelines, Comprehensive option. Learn more about our sustainability reporting practices on page 89 and review our GRI context index on page 105.

2.7M

volunteer hours by UPSers, friends, and family across the world

24,000+

employee participants in the UPS Earn & Learn program

25

years of UPS® service in Mexico

100%

Human Rights Campaign Corporate Equality Index, the only company in the mail and freight delivery sector to earn a perfect score

UPS Perspective



Tamara Barker
Chief Sustainability Officer

Global commerce has changed dramatically in recent years. Just think about your own shopping habits. A decade ago, a trip to the mall was considered a fun, social experience. But today, many people are trading checkout lines and parking lots for a few simple clicks on their laptop, tablet, or phone.

With limitless product availability, easy price comparisons, and abundant shopper reviews, the rise of e-commerce has been a great boon for consumers. It can be good for the environment in certain ways, too, eliminating a substantial number of individual car trips.

For UPS, this shift presents both an opportunity and a challenge. Increased e-commerce activity raises demand for shipping services — indeed, we expect e-commerce to account for more than half of our U.S. shipping volume by 2019. But these shipments tend to be less efficient compared to B2B deliveries. E-commerce deliveries typically have fewer packages per stop and are often delivered to dispersed residential locations, so we travel more miles and use more fuel to deliver each package. Along with infrastructure and automation

investments we're undertaking to expand the capacity of our network, e-commerce volume is also driving up the energy used in our facilities, generating more emissions.

Given these headwinds, it might come as a surprise that UPS is choosing to strengthen our emissions reduction goals. We are now pledging to reduce the absolute GHG emissions of our global ground operations by 12 percent by 2025. This means that even as our delivery volume and stops increase, our overall emissions must drop.

Why set such an ambitious goal? As one of the world's largest logistics partners, our performance should be one of leadership and reflect what the world expects of us. With increased awareness of science-based targets for limiting GHG emissions, we believe it's time to set this aggressive benchmark for our company.

We arrived at this target through careful consideration and stakeholder engagement with leading environmental organizations — opting to balance a stretch goal with our business realities. That's why we've set this absolute reduction target for our global ground operations. The use of renewable energy is critical to achieving this goal, and, though our airline represents the largest percentage of our emissions, renewable aviation biofuel solutions are simply not feasible today from a scale and economic perspective, nor do we expect that to change significantly by 2025.

Even with our efforts focused on ground operations, reaching this goal won't be easy. It will require us to accelerate investments in renewable energy throughout our fleet and in our facilities. We must also continue developing innovative delivery solutions that create synthetic package density and reduce miles driven, such as the UPS Access Point™ network and route optimization technology.

I believe we're headed in the right direction. At UPS, we're always "constructively dissatisfied." We never consider our work complete, and constantly push forward to find better solutions. That mindset gives me confidence in UPS's ability to achieve our new goals over the next decade — no matter what curves are in the road ahead.



102-15

Goals for the Road Ahead

2020 Community Goals



\$127 Million
Total Charitable
Contributions



20 Million
Global Volunteerism
Hours



15 Million
Global Forestry
Initiative Tree Plantings

2020 Workforce Goals



1% Improvement
Lost Time
Injury Frequency



3% Improvement
Auto Accident
Frequency



2% Improvement
Employee
Engagement Index

Environmental Goals



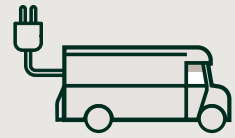
12% by 2025
Reduction in
Absolute GHG
Emissions in
Global Ground
Operations



25% by 2025
Electricity from
Renewable
Sources



40% by 2025
Alternative Fuel
as a Percentage of
Total Ground Fuel



25% by 2020
Total Vehicles
Purchased Annually
that are Alternative
Fuel & Advanced
Technology Vehicles

1.5 Goals & Progress



102-15

This 2016 Report presents our final reporting on the existing 13 key performance indicators (KPIs) identified in 2011, as we transition to a new set of goals that will guide our direction for the next several years. The new goals are presented in an infographic on page 9.

Regarding the existing KPIs, we met or exceeded goals for:

- Full-Time Employee Retention Rate;
- Total Charitable Contributions;
- Aircraft Emissions per Payload Capacity; and
- Alternative Fuel & Advanced Technology Miles Driven.

We did not achieve our goals for three KPIs: Employer of Choice Index, Lost Time Injury Frequency and Auto Accident Frequency. Worth noting, we are not reporting on 2016 results of the Employer of Choice Index, as that was no longer measured as part of changes made to the broader Employee Engagement

Survey in 2016. These changes include shortening the survey from 72 to 30 questions and adding six benchmark statements to measure ourselves against best-in-class employers. Given these changes to the survey composition, year-over-year comparisons of EES results are not instructive, but we will keep our six benchmark statements going forward as we continue to modify the survey to better fit what we need to learn about our workforce.

There are three existing KPIs with a 2020 goal year: Transportation Intensity Index, Aviation Gallons Burned per 100 Available Ton Miles and CO2 Pounds per Available Ton Mile. We will continue to publish progress toward these goals through 2020. More information about the results for our existing KPIs and a discussion of our future KPIs can be found in each chapter of this Report.

Total Charitable Contributions (in millions of USD) Global Operations

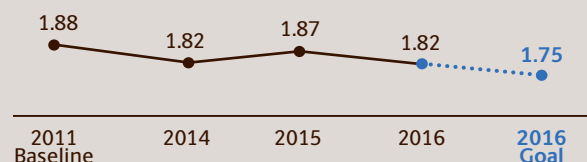
Includes all charitable contributions. See page 44 for category breakdown.



Reached a record high due to United Way employee contributions, corporate match, and increased UPS Foundation grants.

Lost Time Injury Frequency Global Operations

Injury cases involving days away from work. This number represents the number of occurrences per 200,000 hours worked.



Annual improvement reflects training investments and package handling efficiency; shy of target due to increase in new, less experienced, employees.

Full-Time Employee Retention Rate Global Operations

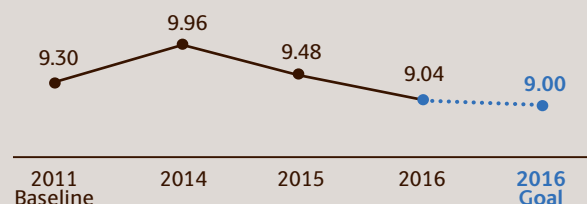
Percent of all full-time employees who stay with our company annually.



KPI concluded with performance beyond goal due to fewer retirements than expected.

Auto Accident Frequency Global Operations

Total number of vehicular accidents (regardless of severity) per 100,000 driver hours.

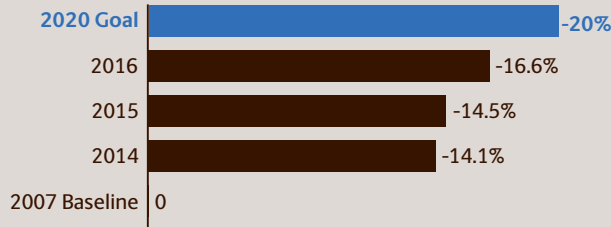


4.6% improvement over 2015 due to investments in training and accident-avoidance solutions.

Transportation Intensity Index

All U.S. Operations & Global Airlines

Sums our Scope 1 and 2 emissions from U.S. Domestic Package, U.S. Supply Chain & Freight and Global UPS Airlines.

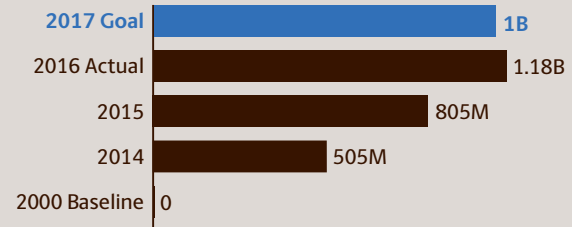


GHG reduction strategies enabled ongoing, positive progress.

Alternative Fuel & Advanced Technology Miles Driven

Global Operations

Miles driven in our Rolling Laboratory of alternative fuel and advanced technology vehicles.

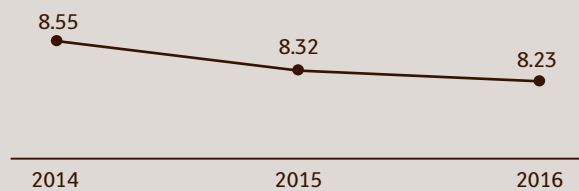


Investments allowed us to meet this goal a year earlier than expected.

Ground Packages per Gallon of Fuel

U.S. Domestic Package

Fuel consumption includes gasoline, diesel, natural gas, propane, fuel for rail transportation, and other third-party carriers. Packages are total of U.S. ground packages and air packages moved on ground.



E-commerce deliveries to homes and small businesses make this KPI a continuing challenge.

CO2 Pounds per Available Ton Mile

UPS Airlines – Global Operations

Pounds of CO2 emitted for every ton of capacity transported one nautical mile.



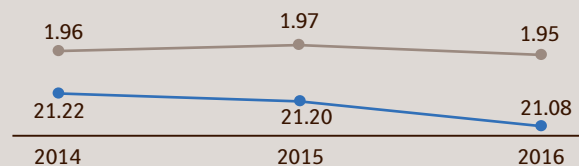
The lack of viable alternative fuels for aviation presents headwinds for this goal.

CO2e Emissions – Normalized

U.S. Domestic Package

Scope 1 and 2 CO2e emissions include stationary sources (electricity, natural gas, propane, and heating oil) and mobile sources (gasoline, diesel, Jet-A, natural gas, and propane).

- mT/1,000 Packages
- mT/US \$100,000 of Revenue



Reductions reflect ongoing network optimization.

Aircraft Emissions per Payload Capacity

UPS Airlines – Global Operations

Total HC, CO, and NOx emissions in kgs divided by sum of max. payload capacity (in thousands of kgs) weighted by annual aircraft cycles.



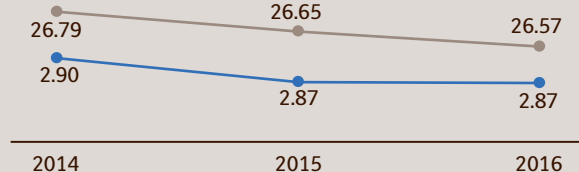
Replacing aircraft helped us meet this goal ahead of schedule.

Energy Consumption – Normalized

U.S. Domestic Package

Energy consumption includes stationary sources (electricity, natural gas, propane, and heating oil) and mobile sources (gasoline, diesel, Jet-A, natural gas, and propane).

- GJ/1,000 Packages
- GJ/US \$100,000 of Revenue



Absolute reductions remain challenging as e-commerce grows.

Aviation Gallons Burned per 100 Available Ton Miles

UPS Airlines – Global Operations

Gallons of jet fuel consumed for every 100 tons of capacity transported one nautical mile.



Increase due to higher air volume and challenges to reduce fuel intensity.

1.6

Materiality Assessment



102-46 | 102-49

Materiality is a critical input into our corporate sustainability strategy because it ensures we provide our stakeholders with the sustainability information most relevant to them and our business. To determine this, we conduct a formal materiality assessment on a regular basis. In 2015 and early 2016, we completed materiality assessments in five regions: Asia-Pacific; Canada; Europe; the Indian Subcontinent, Middle East, and Africa; and Mexico. The results of the five regional assessments were used as inputs for a refresh of the global corporate assessment in 2016. Led by BSR, a global nonprofit organization, the process also included interviews with internal and external stakeholders, as well as internal workshops, to identify the most important sustainability issues. These activities updated our previous global corporate

assessment done in 2013. A complete overview of the UPS materiality assessment regional findings and process is available at www.ups.com/sustainabilityreport.

The 2016 assessment reaffirmed many findings from earlier assessments while offering greater direction and granular insights on some issues. New issues, such as urban congestion, also emerged, while others shifted in importance. For example, safe driving, greenhouse gas policy, philanthropy and volunteering, and network efficiency have been material issues to UPS throughout multiple materiality assessments, but their degree of importance has shifted between assessments. We are using the key findings from the 2016 materiality issues, which are summarized below, to further refine our global sustainability strategy.

2016 Material Issues

Our material sustainability issues are categorized into the four pillars of our Committed to More™ strategy.



Empowered People

Material Issues:

- Recruitment & Development
- Ethical Conduct
- Workforce Diversity
- Labor Relations
- Employee Health, Safety & Wellness



Connected Community

Material Issues:

- Safe Driving
- Humanitarian Relief & Resilience



Environmental Responsibility

Material Issues:

- Emissions & Fuel Supply
- Greenhouse Gas Policy
- Congestion



Economic Enhancement

Material Issues:

- Global Trade
- Data Privacy
- Transparency & Reporting
- Management of Third-Party Representatives
- Digital & Physical Asset Security
- Package Contents Responsibility
- Emerging Markets

UPS Material Content Table 102-47

|  |  |  | |
|---|---|---|------|
| Material Issue for UPS | UN Sustainable Development Goals Alignment* | Corresponding GRI Standards Material Topic | Page |
| Workforce Diversity | 5, 8 | Diversity and Equal Opportunity, Equal Remuneration for Women and Men | 24 |
| Employee Health, Safety & Wellness | 3, 8 | Employment, Occupational Health and Safety | 28 |
| Safe Driving | 3, 8 | Occupational Health and Safety | 30 |
| Recruitment & Development | 4, 5, 8 | Training and Education | 32 |
| Labor Relations | 3, 4, 5, 8, 10, 16 | Labor/Management Relations, Freedom of Association and Collective Bargaining | 36 |
| Ethical Conduct | 12, 16 | Anti-Corruption, Anti-Competitive Behavior, Socioeconomic Compliance | 38 |
| Package Contents Responsibility | 12 | This issue arose during the materiality process but does not map directly to a GRI Standards material topic. | 39 |
| Economic Performance** | 1, 2, 3, 5, 7, 8, 9, 10, 11, 12, 13, 17 | Economic Performance, Market Presence, Indirect Economic Impact, Procurement Practices | 42 |
| Management of Third-Party Representatives | 8, 16 | Supplier Environmental Assessment, Supplier Assessment for Labor Practices, Supplier Human Rights Assessment, Freedom of Association and Collective Bargaining, Anti-Corruption | 51 |
| Data Privacy | 16 | Customer Privacy | 54 |
| Digital & Physical Asset Security | 16 | Customer Privacy | 56 |
| Humanitarian Relief & Resilience | 1, 2, 3, 5, 7, 8, 9, 10, 11, 17 | Indirect Economic Impact | 57 |
| Greenhouse Gas Policy | 3, 12, 13, 14, 15 | Energy, Emissions | 70 |
| Emissions & Fuel Supply | 3, 7, 8, 9, 11, 12, 13, 14, 15 | Energy, Emissions | 71 |
| Congestion | 11 | This issue arose during the materiality process but does not map directly to a GRI Standards material topic. | 79 |
| Transparency & Reporting | 12, 16 | This issue arose during the materiality process but does not map directly to a GRI Standards material topic. | 89 |
| Contextual Trend | | Description | Page |
| Global Trade | 1, 8, 9 | This trend arose during the materiality process. We provide additional information in the Report to explain its significance to UPS. | 46 |
| Emerging Markets | 1, 8, 9, 10 | This trend arose during the materiality process. We provide additional information in the Report to explain its significance to UPS. | 46 |

*Please visit sustainabledevelopment.un.org/sdgs to identify corresponding goals.

**Our Materiality Matrix implicitly recognizes that our economic performance is a material influence on our business success, so it does not appear in the matrix as a separate issue or aspect. We fully discuss our economic performance, in line with GRI Standards guidelines.

1.7 Stakeholder Engagement



102-42 | 102-43

We consider stakeholder engagement an essential aspect of UPS corporate governance. We are one of the world's largest private employers; we serve millions of customers in more than 220 countries and territories; and hundreds of thousands of investors include UPS stock shares in their portfolios either directly or via mutual funds.

Regular dialogue with employees, customers, investors, community leaders, universities, public officials, suppliers, and third-party providers through formal and informal channels is essential to conducting our business, as well as developing and implementing our sustainability strategies.

Because of our long history, we have been engaged with many of these stakeholders for decades. We are always looking for ways to help our customers, employees, and stakeholders do more. That is why we maintain ongoing dialogue with a broad array of stakeholders — even those who may be critical of us.

We stay in regular contact with stakeholders on emerging sustainability issues and trends, and periodically receive inquiries and requests for engagement from stakeholder groups. We are also open to initiating new stakeholder engagement activities to help inform our strategy. In 2015, we convened a cross-functional group of internal stakeholders who have responsibility for our material issues to help develop a framework to focus current engagements and identify new opportunities. We continue to refine our stakeholder engagement strategy in 2017.

The following table summarizes the highlights of our stakeholder engagement on sustainability issues during 2016. More in-depth discussions about many of these topics may be found throughout the Report.



Summary of 2016 Stakeholder Dialogue and Outcomes 102-40 | 102-44

| Stakeholder Group | Mechanisms for Engagement | Stakeholder Expectations | Actions Taken |
|------------------------------------|--|---|---|
| Customers | <ul style="list-style-type: none"> - Customer Satisfaction Survey - Quarterly Business Reviews and regular meetings - Market research - UPS.com - Social media - UPS sponsored events | <ul style="list-style-type: none"> - Reliable service and on-time delivery - Consumer convenience - Innovative supply chain solutions - Streamlined returns | <ul style="list-style-type: none"> - Completed U.S. deployment of our On-Road Integrated Optimization and Navigation (ORION) software, which helps improve on time delivery and reliability - Expanded UPS My Choice® membership and the UPS Access Point™ network services to offer customers and consumers more convenience and control - Enhanced retail solutions portfolio by investing in Optoro, a technology company that helps retailers and manufacturers manage returns and excess inventory - Hosted the UPS Sustainable Connections Summit to collaborate with customers and other stakeholders on key sustainability issues |
| Active and Retired Employees | <ul style="list-style-type: none"> - Sustainability Ambassador Program - Business Resource Groups - Daily Prewrite Communications Meeting - Health & Safety Committees - Annual Employee Engagement Survey - UPSers.com and UPSers Connect - Social media - Union representatives - Joint labor-management committees - Town Hall meetings | <ul style="list-style-type: none"> - Competitive pay and benefits - Clear communication - Work/life balance - Career and growth opportunities - Support of a diverse workforce - Effective off-boarding | <ul style="list-style-type: none"> - Revamped high-potential employee strategy, performance management tools, and new employee integration - Redeveloped rewards strategies to attract talent and retain employees in the competitive job market - Introduced new tools to improve training, performance management, and succession planning - Celebrated 10 years of the Women's Leadership Development Business Resource Group - Hosted our second TED@UPS event to celebrate diverse UPSer perspectives - Held a global sustainability month to engage employees in UPS's sustainability efforts - Enhanced Employee Engagement Survey to be more actionable - Improved communications with retirees |
| Policymakers, government officials | <ul style="list-style-type: none"> - Global advocacy and relationship building - Multifaceted thought leadership strategy - Facility visits and targeted outreach - Collaborative partnerships | <ul style="list-style-type: none"> - Facilitating cross-border commerce - Innovative solutions to congestion, noise, and air pollution - Support for infrastructure investment and maintenance - Support for a level playing field with logistics operators and postal entities | <ul style="list-style-type: none"> - Continued advocacy for cross-border trade and the development of emerging markets - Leveraged UPS's real-world expertise to position as a global thought leader on trade and alternative fuels - Collaborated with city officials to develop and expand solutions for more sustainable deliveries in urban areas |
| Investors | <ul style="list-style-type: none"> - Investor Conference earnings communications - Shareholder meeting - Annual report - Proxy statement - Ratings and rankings | <ul style="list-style-type: none"> - Return on investment - Continued investment in innovation - Transparent reporting with credible data | <ul style="list-style-type: none"> - Hosted Investor Conference in early 2017 - Added 1,250+ alternative fuel and advanced technology vehicles in 2016 (total fleet of over 8,100) - Listed on Dow Jones Sustainability World Index for the fourth consecutive year and recognized at the Leadership level of the CDP Climate Change performance review - Completed deployment of ORION in the U.S. |
| Communities | <ul style="list-style-type: none"> - The UPS Foundation - Employee Volunteer Program - Community Relations Committees - Humanitarian relief events | <ul style="list-style-type: none"> - Leveraging UPS expertise and resources to support humanitarian aid efforts - Employee volunteerism and local support - Road safety programs | <ul style="list-style-type: none"> - Delivered 468 shipments of goods to communities in urgent need - Deployed 10 loaned managers to provide logistics expertise to disaster response and resilience programs - Contributed more than 2.7 million employee volunteer hours in 2016 |
| NGOs | <ul style="list-style-type: none"> - Regular dialogue - Topic-specific conferences and events | <ul style="list-style-type: none"> - Private-sector expertise and resources - Collaboration on innovative solutions - Transparent reporting with credible data | <ul style="list-style-type: none"> - Set new goals and KPIs, including engagement with leading environmental NGOs to develop goals for our global ground operations - Pioneered new solutions, including drone delivery of medicine in Rwanda in partnership with Gavi, the Vaccine Alliance and Zipline - Updated UPS's Global Materiality Assessment in collaboration with BSR and other NGOs - Collaborated with BSR's Future of Fuels program and WBCSD's Low Carbon Freight and Zero Emissions Cities initiatives |
| Suppliers | <ul style="list-style-type: none"> - Top Supplier meetings - Supplier Diversity Program - Research and Development of alternative vehicle technologies | <ul style="list-style-type: none"> - Leadership in testing and scaling alternative fuels and vehicle technologies - Capacity-building support for local and diverse suppliers | <ul style="list-style-type: none"> - To date invested \$750 million (including \$100 million in 2016) in alternative fuel and advanced technology vehicles and fueling stations globally - Continued to support local and diverse suppliers throughout UPS |



02 Empowered People

| | |
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The Road Ahead



“True workplace diversity in an inclusive atmosphere fosters greater creativity, innovation, and effectiveness. Diversity of experience, of knowledge, and of ideas strengthens our organization. To accomplish this experience at UPS, we work tirelessly to eliminate the barriers that stand between minorities and women in their attempts to succeed and lead.

Achieving our business potential will require transformative change that goes well beyond what is required of us. We are in the midst of transforming our culture to one that values — and seeks value from — diverse stakeholders. This is transformative

change — change that results in tangible, visible, and faster progress. It’s good for our business, and good for UPSers.”

Teri P. McClure, Chief Human Resources Officer and Senior Vice President, Labor



PROUD PAST

1957, San Francisco California

Ken Jarvis became one of UPS's first African-American drivers through a contact at the National Urban League's San Francisco office. Throughout his 37-year career at UPS, Ken championed opportunities at UPS to thousands of qualified and diverse candidates. He retired in 1994 as Vice President of Human Resources.



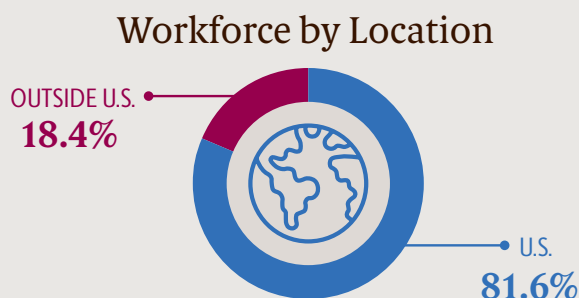
Who We Are

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A snapshot of our global workforce in 2016



Temporary Holiday
Part-Time Employees
95,000



2016 Statistical Snapshot of UPS Diversity*

| | Age Group (Global) | | | Gender (Global) | | Minority Group (U.S.) | | | | Full/Part-Time (U.S.)*** | |
|----------------------------------|--------------------|-------|-----|-----------------|--------|-----------------------|----------|----------------|---------|--------------------------|-----------|
| | <30 | 30-50 | >50 | Male | Female | African American | Hispanic | Asian American | Other** | Male | Female |
| TOTAL EMPLOYEES | 27% | 51% | 22% | 80% | 20% | 23% | 14% | 3% | 3% | — | — |
| Senior/Middle Management | 8% | 61% | 31% | 75% | 25% | 13% | 9% | 5% | 1% | 15% / 0% | 29% / 0% |
| Entry-Level Management | 39% | 46% | 15% | 65% | 35% | 23% | 14% | 3% | 3% | 2% / 14% | 9% / 23% |
| Administrative/ Technical | 23% | 55% | 22% | 41% | 59% | 23% | 13% | 4% | 2% | 2% / 1% | 26% / 7% |
| Nonmanagement | 29% | 49% | 22% | 87% | 13% | 24% | 15% | 2% | 2% | 81% / 85% | 36% / 70% |

*Data collected on 9/30 to account for year-round employees rather than seasonal peak hires. Does not include Coyote Logistics.

**Indicates two or more.

***As employment type varies from country to country and a significant part of the UPS workforce is in the U.S., we chose to focus on U.S. employment by type.

2.2 Management Approach



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UPS competes for talent around the world — within, and increasingly outside, the transportation industry. Market conditions have become more competitive. The scarcity of key talent continues to grow with an aging working population. This is the world we compete in, and it will be increasingly more difficult to attract and retain talent as time goes on.

We address this challenge through our Human Capital Strategy, which aligns with UPS's business strategy. The goal is to help us build for the future while taking the necessary steps today. UPSers are the fuel that will drive our growth strategy, and we need engaged, innovative, and passionate problem solvers to help achieve mutually beneficial outcomes — for our people and our business. Our strategy recognizes certain business realities, including:

- The growing diversity and global reach of our business, which requires an equally diverse and global workforce;
- A greater premium on our talent recruitment, retention, and engagement;
- Technological advances within our business that will require new skill sets often found beyond the transportation and logistics sector;
- Our ability to offer our people a wide range of experiences and growth opportunities, enabling some UPSers to have multiple career paths without leaving the company; and
- The significant percentage of our workforce that is part-time and seasonal, providing an exceptional level of flexibility for UPSers and the company.

Our Human Capital Strategy includes three initiatives that focus on high-value business priorities: Global Leadership & Talent, Global Total Rewards, and Employee Engagement.

Work in the Global Leadership & Talent arena defines how we will acquire and maintain the desired talent, leadership, culture, and environment to fulfill our business strategy. Given that more than 50 percent of our senior staff will be eligible to retire over the next five years, we have identified strategic positions across UPS to focus succession planning efforts. With those positions in mind, we are working diligently to create a strong pipeline so that we have the right future leaders to fulfill critical talent needs. Some of these efforts include:

- Identifying competency gaps in potential candidates that allow us to accelerate their development;
- Placing greater emphasis on exposure and experiences to help accelerate employee growth; and

- Redefining high-potential employees with new criteria and an assessment tool to help us better identify future leaders.

Global Total Rewards focuses on better aligning our overall compensation components — pay, incentives, healthcare, relocation, retirement, and more — to drive employee engagement and support business outcomes. We also are working to realign business performance and personal financial rewards as business needs and talent markets change. One example is the My Talent Center Program. We determined that some performance and career processes which were key drivers of



103-1 | 103-2 | 103-3

compensation and engagement in the past no longer supported the company's vision or drove the right business outcomes. Through My Talent Center, we developed new processes, launched an integrated technology platform, and gained employee buy-in with one of the most comprehensive internal training efforts undertaken in more than 20 years.

Delivering a compelling Employee Value Proposition (EVP) is an integral component of our Human Capital Strategy, and we are in the process of redefining it. A strong EVP helps us attract, retain, and engage our people so that they can execute on our business strategy. As with our Global Leadership & Talent initiative, there is a greater emphasis on providing better employee experiences. Our desired EVP includes:

- Values that are shared by UPS and its employees;
- Empowerment that enables our people to make smart decisions and shape the future;
- Passion that delivers excellence, makes a meaningful impact, and provides a voice that matters;

- Opportunity to unlock individual potential; and
- Connectivity and collaboration among our global team.

We believe the best way to understand how initiatives affect our people is to gather direct feedback from employees on their experiences. That led us to start using the framework of the UPSer Lifecycle, which consists of four stages: Attract & Recruit, Select & Onboard, Develop & Grow, and Transition. Each stage has employee touch points that provide opportunities to create a better employee experience. We are in the process of identifying our strengths and opportunities in each phase and implementing processes and programs to improve.

The data we report for this section was compiled by the UPS Global Workforce Planning team, as of September 30, 2016, to account for year-round employees rather than seasonal hires. We have noted where numbers are global, as opposed to limited to the United States where we have the largest portion of our workforce. Data includes only non-temporary employees.



TED@UPS Asks “What If?”

“What If?” is a simple question that is at the heart of every significant transformation. With “What If?” as its theme, the second installment of TED@UPS, held in 2016, invited participants to explore new ways of thinking, dreaming, and discovery. Fourteen speakers and performers from inside and outside UPS challenged participants to envision a new way. Among the questions posed:

What if traffic flowed through our streets as smoothly and powerfully as blood flows through our veins? Our Director of Global Strategy for Healthcare Logistics, Wanis Kabbaj, pictured seventh from left, asked participants to consider how we might look to human biology to design transportation systems of the future using concepts like suspended magnetic pods, modular buses, and flying urban taxis.

What if companies donated their data? Advanced Analytics Manager Mallory Soldner, pictured third from left, laid out a simple way that private-sector companies can make real contributions to humanitarian aid — by donating their untapped data, decision scientists, and technology.



Measuring Our Performance

To help measure the effectiveness of our Human Capital Strategy, we've linked the strategy to one of our new enterprise sustainability goals. We will continue monitoring and improving our workforce practices through an Employee Engagement Index that is driven by employee feedback, research data, and our employee experience initiative. The goal for 2020 is to realize a 2 percent improvement in the index.

The Employee Engagement Index is part of our Employee Engagement Survey (EES), which is conducted annually across all work groups, with results reported to all employees. The EES is an important measurement tool in our engagement efforts and is used to drive and adjust strategies. In 2016, we improved the EES methodology, shortening the survey from 72 to 30 questions and statements, making it less burdensome on employees. We also focused the 2016 survey on more locally oriented questions to give district leaders actionable information on which to build plans. For example, questions about enterprise matters such as compensation and benefits were removed, as they are beyond the control of local leaders. We added six benchmark statements to measure ourselves against best-in-class employers around the world, and two open-ended questions that allow employees to provide comments on what is going well and what can be improved. Given these changes to the survey composition, year-over-year comparisons of EES results are not instructive, but we will keep our six benchmark statements going forward as we continue to modify the survey to better fit what we need to learn about our workforce. These statements will allow us to construct a new year-over-year comparison. Additionally, this significant change resulted in our no longer measuring the Employer of Choice KPI that concluded in 2016.

Another important measure of success is full-time Employee Retention Rate. Results for this KPI reflect fewer retirements among our tenured workforce than expected when we initially set the goal.

Workplace Governance

Responsibility for executing our Human Capital Strategy lies with our Chief Human Resources Officer and Senior Vice President, Labor, who is a member of the UPS Management Committee. Our employee policies are detailed in the UPS Code of Business Conduct and UPS Policy Book. Within countries where we operate our own facilities, HR teams are responsible for conducting periodic audits to ensure compliance with all applicable laws, regulations, and UPS policies, as well as implementing corrective plans as needed. The UPS Corporate Compliance and Ethics Group conducts international regulatory compliance reviews in select countries to confirm that the audit and response process is working effectively.



Individual Commitment that Adds Up to Significant Impact



Pat Grace (pictured right), 2016 James Casey Community Service Award Winner

On most Saturdays, you can find Pat Grace, a 40-year UPSer, managing basketball leagues and running sports clinics at Leadership Through Athletics (LTA), the community center Pat and his two brothers co-founded 12 years ago in Lansdowne, Maryland. In a community facing widespread poverty and hardship, LTA provides children and teens with a safe place to go after school. While athletics is a cornerstone of LTA, instructors also encourage leadership values, instill the importance of education, promote health and fitness, and work to stabilize the community. The center includes 20,000 square feet of athletic, recreation, and meeting space. Pat's remarkable contributions to Lansdowne youth earned him the 2016 Jim Casey Community Service Award, which is given annually to a UPSer who demonstrates an exceptional commitment to helping others in their community.

Pat understands the personal empowerment and satisfaction that come with the opportunity to make a difference — in the life of an individual, the vitality of a community, or the preservation of the environment. UPSers around the world seize such opportunities every day by giving of their time and talents.

Those opportunities led to 2.7 million volunteer hours in 2016, driving our 2011-2016 cumulative total volunteer hours to more than 12 million. This puts us more than halfway to achieving an ambitious goal for our Decade of Service: 20 million volunteer hours by the end of 2020.

Helping others not only benefits our communities and nonprofit partners; volunteerism empowers our employees and is an important tool in cultivating workplace engagement. Many of our volunteer projects also become a connection point for workplace recruitment.

Around the world, UPS volunteers engage in a range of projects, including tree plantings, food and supply collections, packaging and distribution, participation in community fundraising events, and administrative support for organizations driving social change. UPS volunteers get involved in a variety of ways, including:

- Teaching safe driving practices to teens and novice drivers in our UPS Road Code™ program, using sophisticated multimedia and teaching techniques drawn from UPS's own driver safety methods. UPS Road Code™ training is offered at 112 sites in Canada, China, Germany, Mexico, the United Kingdom, and the United States. We launched the program in Mexico in March 2016, with employees committing to volunteer more than 2,000 hours of their time teaching best driving practices to Girl Scouts from Guías de México A.C.;
- Speaking to schools, families, and children to promote the use of helmets for young people riding scooters in Southeast Asia. These efforts are part of a multiyear program with the Asia Injury Prevention Foundation, which includes the purchase and distribution of 51,300 helmets funded by a UPS donation;
- Joining the Sustainability Ambassadors program, a global network of UPSers committed to doing more to positively impact communities and our environment. More than 5,500 UPSers around the world have joined the team to take part in challenges and activities, build their knowledge and skills, and find new ways to collaborate to achieve real results;

Continued next page



- Planting 29,000 trees in 21 countries to support the UPS Global Forestry Initiative. Each year, trees are delivered and distributed to UPS employees to celebrate Arbor Day in the U.S. and Earth Day globally. Through these initiatives, employees and their families have planted more than 101,000 trees; and
- Sponsoring the 2016 VEX Robotics World Championships in Louisville, Kentucky, where more than 125 employees from UPS Airlines volunteered in various capacities and manned an interactive display for participants to operate a drone.

The volunteer spirit within UPS peaks each year during our annual Global Volunteer Month in October. To celebrate the 10-year anniversary of the UPS Women's Leadership Development program in 2016, this year's 14th annual Global Volunteer Month was focused on supporting nonprofits and NGOs that help advance the development of women and young girls. Projects included supporting breast cancer awareness and research by participating in the Susan G. Komen Race for the Cure charity walk in the U.S.; coordinating events to empower women to support the work of the Women's Foundation in Colombia; renovating orphanages and women's shelters in Germany; mentoring adolescent girls at SOS Children's Villages in India; and hosting bake sales with proceeds supporting the YWCA Kuala Lumpur in Malaysia. During the month, approximately 31,000 volunteers contributed more than 335,000 hours.



Each year, we conclude the month of volunteerism with a US\$10,000 grant from The UPS Foundation to a nonprofit organization in each UPS region and business unit where an employee volunteered. In 2016, The UPS Foundation's charitable giving totaled US\$59.1 million to more than 4,300 nonprofit organizations.

As with our business, the scope and scale of our volunteer efforts have the potential to make a significant impact. We never lose sight, however, that our collective impact is the result of individual commitment.

2.3 Diversity & Inclusion



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In the global business arena, diversity and inclusion are no longer about workplace compliance; rather, they are core drivers of business growth and central to a company's identity. By leveraging diverse perspectives and creating inclusive environments, companies are improving organizational effectiveness, cultivating innovation, and driving growth. Diversity and inclusion also enable companies to adapt and excel in an ever-evolving global marketplace.

At UPS, diversity and inclusion benefit the economic sustainability of our business by helping us to better understand and meet customer needs, as well as strengthening our workplace environment so that employees can be more successful. We strive to be a model for how diversity and inclusion can create business and societal value.

Management Approach

Our management approach is based on the UPS diversity and inclusion mission to connect and empower our employees, customers, suppliers, and communities for success, embracing the dynamics of different backgrounds, experiences, and perspectives to propel our growth. This mission is grounded in the belief that diversity and inclusion are business imperatives. Cultivating a diverse workforce and inclusive work environment can improve engagement, foster innovation, enhance customer service, and ultimately drive better financial performance.

42%

**EMPLOYEES ARE
ETHNICALLY DIVERSE***

*As defined by U.S. Equal Employment Opportunity Commission

As a global company serving more than 220 countries and territories, we recognize that diversity is defined differently around the world. Our broad view of diversity includes visible characteristics such as race, gender, or age, as well as less obvious characteristics such as personality, ethnicity, ability, sexual orientation, education, religion, lifestyle, values, beliefs, experiences, backgrounds, preferences, family situations, or behaviors.

Today, we take an increasingly integrated approach to diversity and inclusion across stakeholder groups that include employees, customers, suppliers, and communities. UPS's Chief Diversity and Inclusion Officer leads these efforts globally, supported by

the UPS Diversity and Inclusion Steering Council. The Council, which meets twice each year, is chaired by our CEO and composed of senior leaders who set and support strategies for the organization while serving as visible champions for diversity and inclusion.

We expect our managers to be models for others. Annual performance reviews for managers include a component to evaluate how well the individual fosters an inclusive environment in which everyone is afforded opportunities to contribute and develop. We expect managers to foster diverse, inclusive working environments, and we help many diverse groups support one another, exchange information, and engage with management.

In 2016, we made progress in the areas of measuring and reporting workforce diversity. Enhanced reporting gives us the ability to potentially quantify the value of diversity and inclusion by linking changes in diversity data with overall business performance. We also launched Panorama, the company's diversity and inclusion news connection that provides a platform for continued dialogue inside and outside of UPS.

The process of building a diverse workforce begins with recruiting talented people regardless of their race, color, national origin, sex, gender identity, sexual orientation, age, disability, or religion, or any other characteristic protected by law. We then reward and promote people based on their skills, knowledge, experience, and performance. We are also broadening the level of diversity and inclusion education throughout our ranks. In 2016, for example, we continued providing unconscious bias training for UPS leadership, and expanded this effort further internationally with training sessions in Brussels, Dubai, London, and Neuss.

As a global company, we believe our culture should reflect the diversity and inclusion that thrive both inside and outside our walls. Externally, diversity and inclusion are focus areas of The UPS Foundation, with investments in opportunities for underserved and underrepresented segments of society in the areas of economic empowerment, access to higher education, inclusion, and mentorship. We partner with organizations

that are on the front lines of advancing the values of diversity, inclusion, personal dignity, and professional development, especially when these programs leverage our people and company expertise. This integrated approach offers tremendous synergy. For example, The UPS Foundation funds organizations that help develop minority participation and placement in engineering programs, which, in turn, aids UPS in its recruitment of minority engineers. In 2016, The UPS Foundation announced awards of more than US\$7.4 million in global diversity and inclusion grants to 36 different organizations that are focused on empowering and championing women and diverse people across the globe.

Workforce Diversity Metrics

Beginning in 2016, we implemented changes to how we report our workforce diversity data. In previous years, we reported workforce diversity metrics across six groups:

- Governance Bodies: Board of Directors and Management Committee
- Employee Categories: Senior Management, Middle Management, Admin/Technical, and Nonmanagement

In 2016, we undertook an effort to reorganize employee categories to better align with our Human Capital Strategy and reflect our global job categories. As such, we made several noteworthy changes to how we report workforce diversity data, as reflected in the Workforce Diversity Snapshot on page 18:

- Combined the Senior Management and Middle Management categories, which now includes Full-time Supervisors and above;
- Added an Entry-Level Management category, which includes management employees in entry-level positions, such as Part-time Supervisors and Full-time Specialists;
- Continued reporting Administrative/Technical employees; and
- Continued reporting Nonmanagement employees, comprised mostly of employees within our operations.

Data for Board of Directors and Management Committee can be found on page 1 in the Corporate Governance overview available at sustainability.ups.com/resources/corporate-governance.



Taking the Initiative in Diversity Recruitment

While many companies have English as a Second Language programs, UPS takes diversity recruitment a step further. Revenue Recovery Supervisor Larry Rosa created and heads the Global Gateways program which focuses on recruiting employees who speak limited English for UPS's Worldport™ hub, which is its largest facility. Larry uses his bilingual skills to assist with the hiring process by translating training materials into Spanish for use in specialized orientation and classes in Louisville, Kentucky. In addition, Global Gateways supports new hires through the entire hiring and training process. "This program has given opportunities to those who otherwise may not have had them due to their limited English language skills," he said. "This gives UPS an advantage over other companies that have not yet adapted to our city's growing diverse population."



Business Resource Groups

Business Resource Groups (BRGs) offer networking and learning opportunities outside of regular work teams. All BRGs have advisors and sponsors among senior management. BRG sponsors, who are members of our Management Committee, help connect BRGs with people at the highest levels of UPS, so the BRG can best align their objectives with those of the company. Executive sponsorship also ensures leaders have firsthand knowledge of the benefits that naturally come from a diverse and inclusive partnership in an organization that continues to expand its international business.

BRGs at UPS make significant contributions to growing the business and supporting the communities we serve. For example, the Veterans BRG hosted its first-ever Summit for members in the U.S. and Canada. Participants gathered at UPS's corporate office in Atlanta for a series of workshops on diversity and inclusion initiatives, the Registered Apprentice Program, Veterans Career Gateway, and UPSers Connect. Together, participants discussed and developed solutions for problems faced by veterans in the corporate world, and strategies to foster a more inclusive workplace environment for veterans.

In 2016, UPS's Corporate Hispanic/Latino BRG participated in the seventh National Employee Resource Group Summit and Corporate Challenge organized and hosted by the U.S. Hispanic Chamber of Commerce (USHCC). The competition was part of the USHCC's annual convention, which recognizes the growing importance and value of corporate business or employee resource groups. More than 100 corporations participated in the annual USHCC competition, proving that BRGs are more ready than ever to provide value and impact their companies' growth. The UPS team achieved an impressive third-place finish in this national competition. Judging was based on the BRG's ability to impact careers, community, culture, and commerce.

Business Resource Groups At-A-Glance

27%↑

2016 BRG MEMBERSHIP

Locally Chartered Entities Globally



108

**U.S. CHARTERED
BRGs**

42

**INTERNATIONAL
CHARTERED BRGs**



A Decade of Developing Women's Leadership



- Announcement made at UPS's Management Conference to develop and address this trend
- Nearly a year of research, benchmarking, focus groups, and surveys
- In 2006, Women's Leadership Development (WLD) was launched

2016 marked the 10-year anniversary of our first BRG, Women's Leadership Development (WLD). This anniversary was not only a milestone for our BRG program, but also underscored how these groups help us address strategic challenges within our business.

Though women represent 20 percent of UPS's workforce today, our industry continues to be seen as a male-dominated field. Increasing the number of UPSers who are women remains a challenge because, despite targeted outreach efforts and advertising, many front-line positions in our business, such as drivers and package handlers, have historically attracted more men than women. Coupled with our focus on promoting from within, this has created a need for us to attract, recruit, develop, and retain women for leadership roles.

Our WLD BRG continues to encourage women in management to remain with the company and develop their careers within UPS. WLD focuses on enhancing its members' personal and

professional skill sets in order to prepare them to step confidently into leadership roles at UPS. Started as a pilot program in 2006, WLD today counts 65 chapters in more than 30 countries. These groups are critical to helping us recruit, develop, and retain women at all levels of the company.

The signature event of our WLD anniversary celebration in 2016 was the Women's Leadership Exchange Thought Leadership Summit, which commemorated the milestone, recognized the achievements of all BRGs, and identified goals and pathways for the next 10 years. Held in Atlanta, speakers included our CEO David Abney and other UPS leaders, as well as leaders from Catalyst, Kimberly-Clark, Metro Atlanta Chamber of Commerce, McKinsey & Company, Morgan Stanley, Peace Corps, and The Home Depot, Inc. Representatives from more than 30 companies attended. In addition to celebrating WLD and its transformational role at UPS, the event also demonstrated internally and externally how far we have come in making UPS a fair, inclusive, and authentic workplace.

2.4 Employee Health, Safety & Wellness



103-1 | 103-2 | 103-3

UPS customers worldwide depend on us to meet important deadlines every day. Our people are problem-solvers who operate more than 114,000 vehicles, more than 2,500 facilities, and one of the world's largest air cargo fleets. Meeting our service responsibilities to customers requires a deep-seated commitment to the health, safety, and well-being of our people. We invest millions of dollars and hours every year in wellness coaching and health and safety training.

Management Approach

A commitment to employee health, safety, and well-being permeates our culture and forms the design of our products, processes, and supply chain. We take a whole-person management approach, offering a wide variety of guides, training, processes, programs, and benefits to promote employee health, safety, and wellness. These include companywide initiatives, as well as plans and programs specific to the countries in which we operate.

We use a Comprehensive Health and Safety Process (CHSP) to improve the overall health and safety environment of UPS employees. Working closely with our unions, there are more than 3,450 CHSP committees worldwide, which are co-chaired by employees and management. The committees conduct facility and equipment audits, perform work practice and behavioral analysis, conduct training, and recommend work process and equipment changes.

Training, coaching, and recognition are critical components to continuously encouraging a culture of safety. Safety professionals at UPS teach a comprehensive range of workshops, certifying frontline managers and supervisors who, in turn, instruct employees in the specifics of each course. We customize training to meet market-specific standards and continually enhance training techniques with current multimedia technology. After training, employees and management recognize employees with exceptional safety records and encourage our people to strive for the same high standards.

Global Wellness: Five Being Habits

Safety at UPS begins with the employee who actively mitigates risks at home and on the job. Taking this all-encompassing approach helps instill a healthy, safe mindset among employees, even before they begin work. We follow a global wellness guide called the Five Being Habits that focuses on five areas of wellness: fitness, sleep, nutrition, stress management, and hydration. These habits serve as actionable steps that employees and their families can take toward creating healthy lifestyles.

Wellness Champions within each CHSP Committee use the Five Being Habits to deliver messages of wellness as part of their efforts to support health and well-being among their peers. Wellness Champions help disseminate information and implement programs at their work locations on smoking cessation, healthy eating, and other areas of wellness. In 2016, we increased the use of athletic trainers in key facilities to encourage employees to warm up prior to work, which can help prepare the body for activity and reduce the risk of injuries.





Innovating for Employees by Employees

At UPS, there is no shortage of employee innovation to help solve many of our business needs, from route optimization to employee safety. In France, a team of drivers utilizes a vest for training which alerts the wearer if they are lifting something improperly. “What is good for our employees,” says Industrial Engineering Manager, Nathalie Meret, “is good for our company. I am proud of my innovative French UPS colleagues.”



Safety Training and Policies

UPS employees receive more than 10 million combined hours of safety training each year. In 2016, health and safety training comprised more than US\$194 million, or 23 percent, of the total US\$834 million spent on training. Safety training courses include UPS Safe Work Methods, which helps address the major sources of known risk to our employees, as well as annual and periodic courses on defensive driving, risk awareness, respiratory protection, hearing conservation, conveyor safety, hazardous material/emergency response, and others.

We supplement formal safety training with mentoring programs that enable employees to learn from others with more experience. For example, in the Drivers Driving Safety mentoring program in southern California, drivers who have been inducted into the UPS Circle of Honor meet regularly to review issues and encourage other drivers to make improvements. The UPS Circle of Honor recognizes individuals who have driven 25 years without a preventable accident. UPS leads the industry in safety practices, with nearly half the injury and accident rates of our peers.

During 2016, we continued our emphasis on Quality Validation Assessments (QVAs). QVAs are used to verify and measure the effectiveness of safety and wellness leadership; daily planning and execution; and communication and coaching. In 2016, an additional 3,300 management employees received QVA training, bringing the total number of employees trained in the QVA process to 8,600. Additionally, a QVA was developed for Wellness Champions to educate management on this role

and provide guidance and support for the Wellness Champion on each CHSP committee.

Vehicle crashes represent the majority of UPS employee fatalities and are the leading cause of death and injury in the workplace, according to the National Safety Council. We continue to implement on-road safety training and vehicle technology to help reduce vehicle accidents. In 2016, we updated and standardized our Master Driver Safety Training Workshop, which is now taught at the Global Leadership College UPS Integrat® training facilities in nine locations in the U.S. The workshop provides training to management and nonmanagement employees on key defensive driving topics. We equip our tractors with adaptive cruise control with braking features, along with Collision Mitigation technology. By the end of 2016, we had more than 4,500 class 8 vehicles — 25 percent of our tractors — equipped with this technology, and we intend to equip all future UPS tractors as well.

Within our U.S. Domestic Small Package Operations, we use telematics data to promote and coach safe driver behaviors. Telematics can assist with coaching driver behaviors such as seat belt use and backing up. By using telematics data, seat belt use has improved to 99 percent, and backing incidents have been reduced by 25 percent. In the U.S. we also provide education regarding the Federal Motor Carrier Safety Administration's Compliance, Safety & Accountability (CSA) program. The CSA program quantifies the on-road safety performance of carriers and drivers around seven measurements, such as driver fitness and vehicle maintenance.



UPS Circle of Honor

The Circle of Honor is the ultimate achievement that recognizes UPS drivers for safety excellence of 25 years or more without a preventable crash. Earning the right to wear the distinctive Circle of Honor patch is a source of unwavering pride among UPS drivers. Circle of Honor drivers have accumulated more than 266,500 years of safe driving in their combined careers, and have collectively driven nearly 14 billion miles.



The 2016 inductee class of 1,575 drivers expanded the ranks of Circle of Honor members to more than 9,300, or 7.6 percent of our current driver workforce, the most in company history. In 2016, a key milestone was achieved — Package Car Driver Patrick David (pictured above), from Chilly-Mazarin, France, became the first European driver outside of Germany to join the Circle of Honor ranks. Livonia, Michigan, package car driver Tom Camp is the best-of-the-best, with 54 years of safe driving. Frankfurt, Germany, tractor-trailer driver Dietmar Haupenthal has the most years of safe driving in Europe with 39 years. This year, 74 new members are from Canada, France, Germany, and Puerto Rico, and 44 new inductees are women. A total of 206 women are in the Circle of Honor, and 34 women have joined the ranks of those with more than 30 years of safe driving.

An ongoing focus is to enforce compliance with regulations as they pertain to working hours, rest hours, and leave times for people who drive and operate vehicles. These policies are tailored to the different types of work we do and how we do it, as well as to the laws and regulations in jurisdictions where we operate, and are often included in contracts with collective bargaining organizations. We regularly complete interviews, surveys, document reviews, and site inspections to evaluate the quality of our safety efforts and audit how well we conform to safety policies. These activities also inform decisions around strategic changes that are necessary to better serve our people as our business grows.

2016 Safety Performance

We are committed to maintaining industry leadership in safety performance. With our new 2020 goals, we are committed to realizing a 1 percent improvement in Lost-Time Injury Frequency and a 3 percent improvement in Auto Accident Frequency. UPS leads the industry in safety practices, with nearly half the injury and accident rates of our peers.

Although we report our KPIs on an annual basis externally, we changed our internal measure in 2016 to a rolling 12-month reporting frequency, which helps focus employees on continuous improvement and long-term investment in skill development. By not resetting at the end of each calendar year, we can help promote a year-round emphasis on injury and auto accident prevention.

In 2016, we recorded 9.04 auto accidents per 100,000 driver hours. This is a 4.6 percent improvement over 2015, and slightly above our 2016 goal of 9.00. Improvements are a result of investments in training and crash mitigation automotive solutions. We recorded 1.82 lost-time injuries (LTI) per 200,000 hours worked in 2016, a 2.6 percent improvement from 2015, due in part to training investments and efficiencies in package handling. While we are proud of our industry leadership in safety practices, we acknowledge that we missed our target to achieve a 1.75 LTI rate by 2016. We attribute this to an increase in new employees who are less experienced in the short-term, driven by the capacity demands of e-commerce growth.

To measure our safety programs and goals, we use the Safety Health Risk Management information System to track this data in Canada, Puerto Rico, and the United States. Outside of those areas, we began deployment of an International Incident Report Tool in 2016 to track injuries, auto crashes and near-misses, replacing manual processes at local levels.

We deeply regret that accidents claimed the lives of eight UPS employees in 2016. Five incidents involved auto accidents; two involved violence encountered on drivers' routes; and one driver was a pedestrian struck by another vehicle. Although the UPS employee fatality rate is far less than the overall transportation and warehouse industry sector fatality rate, we hold ourselves to the highest standard and believe that one employee fatality is too many. Our goal is to eliminate all workplace fatalities. With more than 114,000 vehicles and more than 3 billion miles driven each year, we are committed to implementing best-in-class driver training

solutions and new automotive technologies to help reduce vehicle accidents. We continue to explore ways to improve employee safety through fleet and building design, training, and technology solutions.

Health and Benefits

UPS provides health benefits for many employees, retirees, and their dependents through several plans administered to meet the health and wellness needs of various employee groups. In addition, we make contributions on behalf of UPS employees who are covered by union-administered plans. These contributions are for our employees and their eligible dependents. While there are variations in available plans, the following is an overview of UPS employee benefits:

- Medical care, including a prescription drug program
- Dental care
- Vision care
- Life insurance
- Supplemental life insurance
- Business travel accident insurance
- Short-term and long-term disability coverage
- Child/eldercare spending accounts
- Pretax healthcare spending and savings accounts
- Work-life balance programs

In many countries around the globe, we contribute to social security systems that generally provide health, unemployment, disability, and retirement benefits for employees in that country. In addition to government systems, we provide healthcare, life, disability, and/or retirement benefits for more than 25,000 employees outside the United States.

UPS benefits within the United States include education, counseling, and other programs that help employees and their families deal with a range of issues, including serious disease, substance abuse, smoking, diabetes, high blood pressure, mental health, and many others. Our health coaches program gives eligible UPS employees access to registered nurses who provide confidential assistance in understanding healthcare issues and navigating the healthcare system. In many countries outside the United States, legislation or national practice provides citizens with benefits programs as an integral part of the social system. We offer private-benefit plans to our international operations to supplement these programs.

In the United States, our Employee Assistance Program (EAP) provides practical information, referrals to trained professionals, and support for a wide range of work/life issues, from financial concerns and child care to substance abuse and bereavement. More than 639,000 current and former UPS employees and/or household members have taken advantage of this program since it began 10 years ago.

Other Benefits and Availability

We further invest in our people by offering a competitive range of other benefits in addition to those for health and wellness. In the United States, these other benefits are generally provided to non-union employees without regard to full-time or part-time status. They include:

- Retirement plans
- 401(k) plans
- Tuition assistance
- Discounted employee stock purchase plan
- Paid time off
- Employee discounts
- Relocation programs

Certain benefits are not available to all or some part-time employees. These include long-term disability coverage, business travel accident insurance, and tuition assistance; availability may vary by location and employee position. Furthermore, some of these benefits may, in practical terms, apply only to management employees, such as those taking advantage of our relocation programs. Our union employees bargain collectively for their benefits via their union representatives. Temporary employees and seasonal workers are generally ineligible for UPS benefits.

Under the U.S. Family and Medical Leave Act (FMLA), UPS employees in the U.S. are eligible for parental leave if they have worked for UPS for at least 12 months, and 1,250 hours over the previous 12 months. Additionally, any UPS employee who is not eligible according to the FMLA requirements but has worked at UPS for a minimum of 36 consecutive months and for at least 625 hours during the previous 12-month period may still be eligible for leave under the UPS leave policy. In 2016, 354,133 employees qualified for FMLA leave as well as short-term disability maternity leave. In addition, there are state laws that offer greater protections or have eligibility requirements different from the federal law.



2.5 Recruitment, Training & Development



103-1 | 103-2 | 103-3 | 202-2

Our industry, customers, and the world's transportation infrastructure are changing constantly with new ideas, technology, and environmental challenges. To compete and meet our customers' needs effectively, we must recruit a large and talented workforce and then equip them with the necessary skills and experiences to help lead change and innovation.

Management Approach

We believe UPS employees are among the most motivated, highest-performing people in the industry, and they represent a meaningful competitive advantage for our company. This gives us strong reason to recruit good people and keep them with us for the long term. Our management approach includes:

- Promoting from within;
- Offering a range of training and talent development opportunities; and
- Identifying employee potential early to accelerate career development.

When the business cycle or other forces drive changes in our staffing needs, we take steps to retain our people. These steps include promoting from within before considering a new hire, transferring employees into equivalent positions in other departments, and training them for new assignments. This approach and investment contributes to our high employee retention rate. Promoting people from within is a long-standing tradition at UPS. These practices include:

- Part-time workers moving into full-time positions;
- Nonmanagement employees moving into management positions; and
- Supervisors and managers moving into positions of greater responsibility.

More than 74,100 current full-time drivers were once part-time employees, and more than 55,000 of our management team, including most vice presidents, were once nonmanagement employees. Our part-time workforce totaled approximately 198,580 people at any given point during the year. During the year, 18,285 part-time employees advanced to full-time work. As of year end, our management ranks included 5,250 employees who were promoted into management for the first time. We encourage internal promotions by posting available positions through our employee portal in the United States on upsers.com.

We offer employees at all levels of the company a range of training and development options, and cultivate an environment that

encourages continuous learning. This strategy, which is ingrained in our culture, ensures employees have the skills and knowledge needed to perform their jobs successfully and inspires our people to achieve their greatest potential.

Recruitment

We recruit talented people, regardless of their race, color, national origin, sex, gender identity, sexual orientation, age, disability, religion, or any other characteristic protected by law. We also strive to recruit people from within the local community, both in the United States and in our international locations. Among more than 47,940 full-time management employees, 230 came from outside the country where they worked in 2016. The majority of our international senior management employees are working for UPS in their home countries.

Communicating a compelling Employee Value Proposition (EVP) is key to our ability to successfully recruit a qualified, diverse workforce in competitive markets. As we evolve our EVP to remain competitive in the labor market, we continually enhance recruitment messages in help wanted advertising, social media, recruitment events, and other communication vehicles.

We also are leveraging technology to improve the candidate experience in the recruitment process. In 2016, we updated upsjobs.com — the channel used by a majority of our applicants — making it more user-friendly, dynamic, and accessible through mobile devices. We also more than doubled the size of our social media team and continue to invest in our social mobile media strategy, which promotes upsjobs.com through Facebook, Twitter, Instagram, Snapchat, and other platforms. We are using a digital recruitment portal in 34 countries around the world and continue to explore ways of leveraging technology to improve the efficiency, consistency, and accuracy of global recruitment efforts. We also plan to expand to another 15 to 20 countries in 2017.

We are implementing innovative strategies to improve the effectiveness of our recruitment efforts. The “Blue is New” program is designed to help newly hired employees in our hub operations. Created by the UPS Chicago Area Consolidation

103-1 | 103-2 | 103-3 | 404-1 | 404-2



A Life of Service

"UPSers understand the importance and value of our veterans," explains Brian Ritchie, a UPS international account executive. This U.S. Army airborne infantry veteran joined UPS four years ago after earning his degree through the GI bill. Brian credits his military experience for successfully grooming him for a UPS career with skills such as leadership, teamwork, and an ability to operate effectively in a fast-paced environment. He spends much of his time giving back to other veterans, helping to launch and chair the Veterans BRG chapter in the Northern Plains district, as well as volunteering at numerous veterans' outreach events. "Whether it's doing the right things for our employees in the National Guard or Reserves who get deployed, or through volunteer efforts with organizations like the Paralyzed Veterans of America, UPS has gone above and beyond to support veterans and military members within our organization and in our Communities."

Hub, the program improves the employee experience for new UPSers who wear a blue vest their first 30 days on the job. During this period, they receive daily interactions and follow-ups, and even a graduation celebration for completing their 30-day training cycle.

U.S. veterans are an ongoing focus of our recruitment efforts. As part of the White House's Joining Forces program, UPS committed in 2013 to hiring 50,000 veterans by the end of 2018 and supporting veterans and Veteran Service Organizations with 50,000 employee volunteer hours. We achieved this goal during 2016, when we hired 19,187 veterans. This brings our total to 64,376 veterans since making this pledge, and we have contributed over 140,000 volunteer hours with Veteran Service Organizations primarily through our Veteran Business Resource Group. Veteran-specific recruitment and

engagement tools have driven our success among this important demographic, and we continue to expand our efforts to recruit veterans.

We offer a website and free mobile app to help U.S. veterans and transitioning service members find civilian careers. The UPS Veteran Career Gateway and the UPS Military Transition app provide a powerful set of tools and a vast library of information for the entire job search process at UPS and provides an ongoing resource. Additionally, many of the veterans we hire participate in our Veterans Business Resource Group, which offers networking and learning opportunities specifically for veterans.

Training and Development

Our approach to training and development is one of a shared responsibility among our company, individual UPSers, and their management teams. We offer a wide range of training and development opportunities that combine education, exposure, and experience for employees at every level of our organization. We connect employees with career development resources and support their decisions to take advantage of the vast opportunities at UPS.

Our development model enables UPSers to hone the skills needed to excel in their roles and achieve their long-term career goals. We are evolving toward a more self-directed development model in which UPSers and their managers collaborate to determine the most beneficial training programs and development opportunities. Training and development includes constructive feedback, coaching, and counseling from managers and co-workers. Employees receive formal and informal development delivered through live and virtual classrooms, as well as on the job and through committee participation and special assignments. Additionally, self-development opportunities are available around the clock through an extensive eLearning library in UPS University, our enterprise-wide learning management system.

2016 Training by Employee Category

| Employee Category | Average Number of Training Hours per Employee |
|----------------------------|---|
| Senior/Middle Management | 41.8 |
| Entry-Level Management | 48.2 |
| Administrative/Technical | 5.9 |
| Nonmanagement (Operations) | 29.5 |
| By Gender | |
| Female | 34.5 |
| Male | 36.2 |

Variable course durations updated in 2016 raised average training hours and investment primarily among operations employees.

103-1 | 103-2 | 103-3 | 404-2 | 404-3

Tuition Reimbursement

UPS offers one of the most generous tuition reimbursement programs in the marketplace, helping college students finance their education and attend school while working part-time or full-time at UPS. Our Earn & Learn program provides a lifetime maximum of US\$25,000 for a college education. While a great benefit for employees, Earn & Learn is also an important recruiting and retention tool for UPS. The program helps us attract college students to fill many of our part-time positions, and turnover among program participants is significantly lower than among nonparticipants. In 2016, UPS invested more than US\$26 million in the college education of more than 24,000 employees. This investment included US\$14 million in tuition support to approximately 10,800 UPS-employed students through our Earn & Learn program for part-time, non-union employees. Since the program began in 1997, UPS has invested more than US\$575 million toward the college education of more than 270,000 UPS employees.

Development and Talent Management

Our comprehensive talent management cycle encourages continuous employee development. Employees use an annual performance review, career development planning, and ongoing feedback to set measurable performance goals. This allows us to measure performance, recognize accomplishments, and identify areas for continued development.

Annual performance discussions, including leadership skills and multirater feedback reviews, prepare management teams to identify meaningful career development plans. In 2016, 91.5 percent of female management and 93 percent of male

US \$834.5M

TRAINING SPEND

management, respectively, received performance reviews. Through our career development process, management employees identify interests, aspirations, and plans for future professional growth. These discussions determine strengths and opportunities, and encourage individuals to focus on career goals.

In 2016, we introduced an Individual Development Plan (IDP) in a pilot program for full-time management within the Human Resources function. The IDP gives employees the autonomy to craft a development plan that is personalized to their individual needs and a targeted outcome. Along with their immediate manager, employees finalize the plan, which addresses development through a balanced combination of experience, exposure, and education. The IDP template is expected to be fully deployed in 2017 and serve as the model for development planning functionality within the new My Talent Center platform.

Given the strong growth in our international business, our International Management Development Program emphasizes accelerated development for critical roles with high impact on business performance. IMDP is customized by country to address the specific skills needed to succeed in each market, particularly at the country manager level.

**On-the-Job Learning**

When Quateshia Hunt was promoted to full-time supervisor at one of our Atlanta hub facilities in 2016, she was well prepared with a degree in business leadership from Ashford University. Quateshia earned that degree with the help of UPS's Earn & Learn program, which enabled her to return to college. "The Earn & Learn program gave me peace of mind to pursue and finish my degree," explains the 12-year UPSer. "By working part-time, I was able to really focus on my studies. I don't think I would have gone back to school without that support." Learn more about the Earn & Learn program at <https://www.jobs-ups.com/earn-and-learn>.

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2016 Enhancements

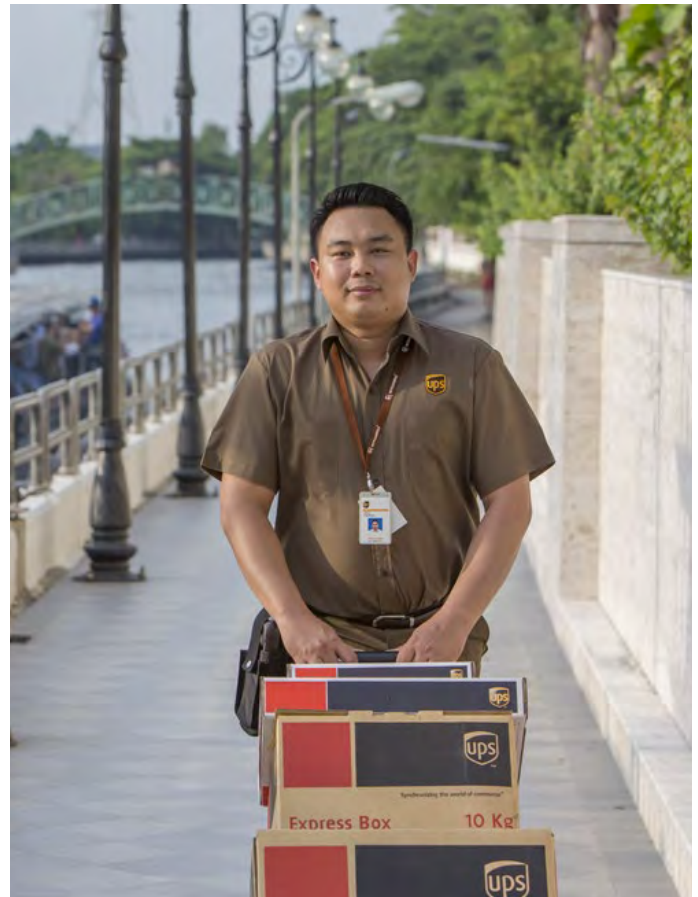
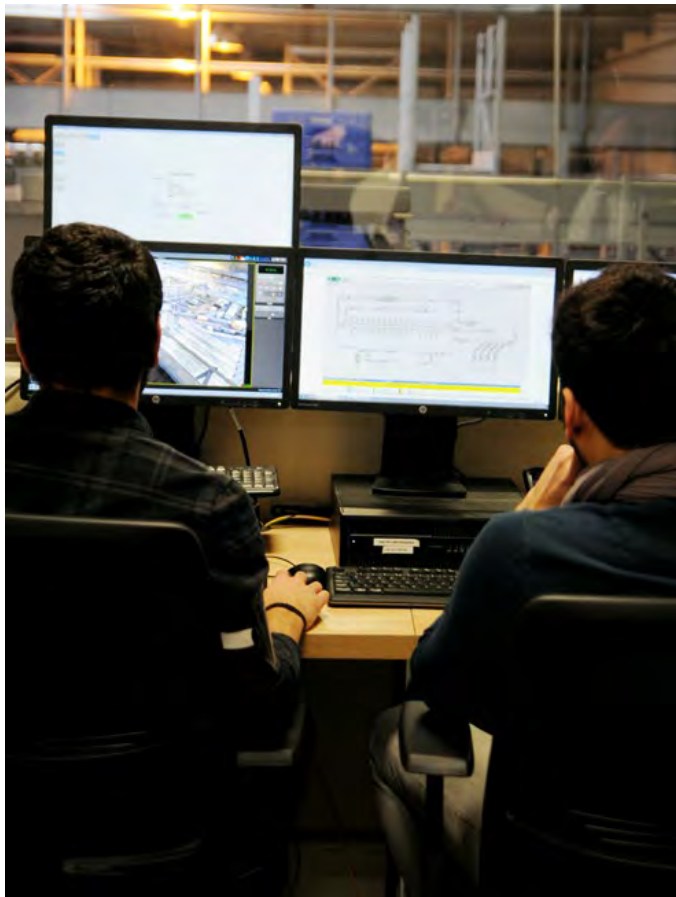
During 2016, we focused a significant amount of our training on providing employees with skills that empower and enable optimal performance. Enhancements during the year included expansion of UPS Integrat[®] training centers to West Boylston, Massachusetts, and Cologne, Germany — our first UPS Integrat[®] site outside the United States. UPS Integrat training centers provide drivers and their direct supervisors with experiential training, modeled on the philosophy of “teach me, show me, let me.” The program uses a mixture of 3-D computer simulations, webcast learning modules, and traditional classroom instruction to complement hands-on safety, delivery, and customer service training in a controlled environment. UPS Integrat[®] has raised the bar on training, delivering significant improvements in safety, customer experience, and turnover, compared to traditional training at the local level.

In 2016, all U.S. UPS Integrat[®] management teams were trained on the Master Driver Safety Training curriculum, which enables them to consistently teach this intense curriculum at Integrat sites around the country. Additionally, Freight Driver Safety Training curriculum was added as a pilot program at one UPS Integrat[®] site in 2016 and will be expanded to three sites in 2017. With the opening of our UPS Integrat[®] site in Germany, we offered training to outside service providers (OSPs) for the

first time. The training, which is delivered for a fee, helps ensure our OSPs meet our standards for safety and performance.

We plan ongoing investments in UPS Integrat[®] training facilities and curricula around the world. Near-term plans include a new center in the U.K., and up to three more centers in the U.S. Longer term, we plan to use the UPS Integrat[®] approach to capture its proven performance benefits in other areas, such as automotive technician training, tractor-trailer driving, and hub operations.

In 2016, approximately 383 employees participated in the On the Job Supervision (OJS) Methods Workshop, a practical, hands-on, five-day course that trains UPS On-Road Supervisors to conduct effective OJS rides and post-OJS ride review meetings with UPS Driver Service Providers. The comprehensive training includes pre-course activities and pre-assessment in UPS University and a five-day, instructor-led workshop. The workshop includes a full-day OJS ride with a driver, a post-ride assessment to ensure mastery of content, a three-day OJS ride with a driver from the supervisor's workgroup immediately following the course, and a post-course review meeting. After attending the workshop, participants have realized improved productivity as measured by stops per on-road hour and other measures.



2.6 Labor Relations



102-41 | 103-1 | 103-2 | 103-3 | 403-4 | 407-1

UPS is one of the largest private-sector employers in the world, with more than 434,000 employees. We also are one of the largest unionized employers in the United States, with more than 75 percent of our people in the U.S. covered by collective bargaining agreements, including almost everyone who handles or transports packages.

Management Approach

Everything we do requires trust and teamwork between labor and management. For example, few things matter to customers more than reliability. To maintain business continuity and minimize disruptions, we must maintain successful relationships with workers and their unions. All these factors make labor relations a material aspect for UPS.

We work closely with organized labor in the United States and employee representatives in all our international operations to build and maintain long-term, constructive, and mutually beneficial relationships. We communicate frequently with our people and their unions at many levels of the company to ensure that all parties are working toward positive results for UPS employees and other major stakeholders. UPS also works with organized labor on key environmental issues. For several years we have served on the Corporate Advisory Board of the Blue-Green Alliance, a group of labor and environmental organizations, to discuss emerging environmental issues and solutions.

As a result of this management approach, we believe UPS is one of the most successfully unionized large companies in the United States. We employ more members of the International Brotherhood of Teamsters than any other company in the world. Approximately 2,600 pilots who flew for UPS Airlines in 2016 also belong to a union, the Independent Pilots Association (IPA).

Good-Faith Bargaining

We bargain in good faith on all matters that involve our unions and the employees they represent. This includes dealing with union leaders at the national level and also working with local chapters of our unions throughout the United States. We train and develop our regional and national labor relations experts for years to prepare them for their responsibilities. We are not aware of any operations or suppliers in which the right to exercise freedom of association and collective bargaining may violate applicable laws or be at significant risk.

In 2014, the Teamsters voted to approve a new National Master Agreement and related local agreements, which extends

through July 31, 2018, covering package delivery operations and freight operations. On September 1, 2016, the IPA voted to approve a new collective agreement covering our pilots, which will not become amendable until September 1, 2021. The results were overwhelming, with 98 percent of pilots voting and 92 percent approving the new agreement. This is an example of industry-leading participation and approval of good faith bargaining and the benefits of strong labor relations.

Health and Safety Provisions

All of our United States collective bargaining agreements contain provisions that address the health and safety of union employees. These agreements include, but are not limited to, the following topics: health and safety committees, hazardous materials handling, vehicle and personal safety equipment, accidents, and reports.



103-1 | 103-2 | 103-3 | 402-1 | 403-1

Minimum Notice of Operational Changes

UPS's collective bargaining agreements also include minimum notice periods regarding operational changes, which vary by master agreement and also according to specific requirements for local chapters of our unions. For example, the labor agreement covering U.S. package delivery operations requires a minimum notice period of 45 days.

Formal Grievance Processes

All our collective bargaining agreements in the United States have specific provisions regarding the methods for resolving grievances. These provisions mandate periodic meetings of union and company representatives, with escalation to the next level if the parties cannot agree on a resolution. Non-union employees have an alternative process available for dispute resolution. To help us maintain and enhance successful relationships with our unions, we do not publish the number of grievances related to collective bargaining agreements filed, addressed, or resolved during current or prior reporting periods.

Benefits of Strong Labor Relations

The constructive nature of our labor relations helps us in two vital areas of success for UPS: competitive excellence and exemplary safety. With respect to the former, winning in the marketplace is what enables us to pay high wages for union workers and support them in many other ways. Because our marketplace is both dynamic and competitive, we need flexibility to adjust services, routes, and prices as conditions change. It is impossible to write all such detailed changes into union contracts, since they can run for up to seven years. The Joint Competition Committee meets to address competitive threats and takes action (between contracts) as necessary to protect our business and grow union jobs. For example, when other companies use non-union labor to offer lower rates than

we do for particular routes or services, the Competition Committee looks for solutions that enable UPS — and union workers — to compete effectively for the business. In the recent IPA collective agreement, a similar Competition Committee was formed to allow UPS — and IPA pilots — to better compete in the global market.

Safety is another area where we benefit from strong labor relations. We continually seek to increase the safety of our facilities, equipment, and operating procedures, gathering ideas for improvements and upgrades from our Comprehensive Health and Safety Process (CHSP) members. There are more than 3,450 CHSP Health and Safety Committees worldwide, all of which are employee-led and supported by management. The framework for the CHSP allows for approximately 10 percent of the workforce to participate on safety committees, which represent all employees.

Our joint UPS-IPA Safety Task Force is another example of collaboration with employees to increase safety. The task force, composed of three members each from UPS management and the Independent Pilots Association, has worked with the Federal Aviation Administration, Boeing, Airbus, safety vendors, and other industry experts to examine in-flight fire safety enhancements in airplanes.

Among the solutions UPS has implemented over the past six years are industry-first, fire-resistant package containers; quick-donning, full-face oxygen masks; enhanced customer and employee hazardous material training for aircraft shipments; deployment of Emergency Vision Assurance Systems; and continued research of fire-suppression systems for cargo containers. Together, these solutions are providing a multilayered approach to significantly enhance flight fire safety.



2.7 Ethical Conduct



102-16 | 103-1 | 103-2 | 103-3 | 205-2

For more than a century, UPS employees have been motivated by the commonly held principles and values established by our founders, and these remain critical to our success today.

The core of these values is a simple statement: UPS is a company of honesty, quality, and integrity. This legacy is fundamental to our ability to create shareowner value, support the communities in which we operate, and protect our reputation. Operating with integrity is something we strive to do every day to earn customer trust, and it is one of our most important values. We seek to demonstrate this in a number of ways, including the development of strong measures to prevent corruption and anti-competitive behavior, as well as ensuring compliance with applicable laws and regulations around the world.

Management Approach

Our management approach to ethical conduct is to adhere to our corporate governance structures, policies, and processes in the most transparent manner possible. The most senior UPS executives and governing bodies set a tone of compliance and ethical conduct from the top.

They also remain apprised of various aspects of the Business Conduct and Compliance Program. UPS executives and governing bodies receive reviews of relevant compliance programs on risk, management of third-party representatives, audits, self-audits, and other compliance areas.

The UPS Code of Business Conduct sets out the behavior we expect from our employees, the processes available to them for raising concerns about ethical conduct, and the channels we use to respond. Because we operate globally, the Code is available in 20 languages so that our employees, agents, and third-party representatives in other countries can fully understand our guiding principles. A broad base of employees also participates in training related to our Business Conduct and Compliance Program.

We provide refresher courses and job-specific courses on compliance and ethics to employees, using a risk-based approach to identifying the most appropriate audiences. Anti-corruption training is required for management, including management committee members. Of more than 37,000 eligible employees, 98 percent completed anti-corruption training as of the end of 2016.

Anti-Corruption and Anti-Competitive Behavior

UPS's policy is to comply with applicable laws, rules, and regulations in countries where we operate. The UPS Code of Business Conduct includes policies and procedures that prohibit UPS employees, and the people acting on our behalf, from engaging in anti-competitive behavior or any unlawful activities, including violations of the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and other applicable anti-bribery laws, rules, and regulations.

In conducting business in more than 220 countries and territories worldwide, we work through numerous third parties. In order to mitigate the risk of corruption from third parties, we employ a due diligence process to vet third parties and monitor their compliance with UPS ethical standards. More detail on our Management of Third-Party Representatives can be found on page 51.

Compliance

At UPS, we recognize ethical business practices can be a competitive advantage, enabling us to:

- Take strong, proven compliance practices and core values with us when we enter new markets;
- Identify suppliers that align with our approach to compliance; and
- Successfully identify, acquire, and integrate businesses that fit into our culture of integrity.

Global Compliance Process

UPS invests significant resources in its Compliance & Ethics programs, inclusive of anti-corruption, antitrust, trade restrictions, and other risk areas. We conduct due diligence before entering into new business relationships, and we regularly review the work of our third-party representatives as a further check against compliance risks.

We have implemented a multilayered process to ensure measurable compliance effectiveness in our U.S. Domestic Package, International Package, and Supply Chain & Freight business entities. Our global compliance team facilitates this process for employees around the world.

The process starts with identifying and taking ownership of risks and then documenting processes and procedures to address those risks. Our compliance team then creates training programs and works with business unit managers to implement processes, procedures, and training programs. The global compliance team continually monitors data streams and other information sources that these compliance processes and procedures generate. The focus of this monitoring is to audit and improve our compliance systems and behaviors globally.

Risk Analysis and Training

UPS managers and select nonmanagers receive training on compliance matters. We regularly review the UPS Code of Business Conduct with these employees, and we periodically conduct comprehensive training on ethics and compliance. In addition to this training, we analyze our business units for compliance risks. One of our primary tools is our Business Compliance and Ethics Questionnaire, which we use to survey our management team each year to identify events, situations, or relationships that could pose ethical or legal risks. There were 47,789 employees (100 percent of the identified audience) who completed the 2016 Business Compliance and Ethics Questionnaire.

Along with the training activities described above, we conduct systematic risk assessments, relying on multiple internal and external factors to determine which UPS sites should be audited in any given year. We then audit methodically for evidence of fraud, corruption, and other process deficiencies. As part of our audit process, we also pay particular attention to significant changes in a UPS business entity or its regulatory environment that could increase the risk of unethical practices or inadequate controls. In 2016, our corruption-specific risk assessment covered more than 220 countries and territories. We conducted 55 audits that included corruption testing, and 17 corruption-specific audits. These audits included businesses with which we have both direct and third-party relationships.

The information we generate through these activities goes to our senior management, up to and including the Management Committee, for prompt review and response. Organizational responsibility for our business conduct and compliance policies rests with our Nominating and Corporate Governance Committee of the Board of Directors and administratively with our Chief Financial Officer. Additionally, the UPS Audit Committee of the Board of Directors is responsible for overseeing the company's compliance obligations related to auditing (both financial and operational), accounting, and financial reporting. The Chief Internal Audit and Compliance & Ethics Executive reports to this Audit Committee.

The Board of Directors has created a specific Risk Committee to provide oversight for management's identification and evaluation of enterprise risks, including the company's risk management framework and the policies, procedures, and practices employed to manage risks.



Package Contents Responsibility

In our 2016 corporate materiality assessment, the issue of package contents responsibility emerged as an important topic. This issue refers to policies and protocols related to UPS shippers who tender regulated goods into our system. UPS requires that the shipper only tender packages for shipment that comply with all applicable laws and regulations. UPS prohibits shipments that are unlawful under applicable federal, state, or local law. UPS may also, in its discretion, determine that carriage of a particular commodity is not feasible.

Raising Concerns

At UPS, our employees are encouraged to raise concerns about compliance, ethics, or business conduct with their direct supervisor. Our policy is that employees will not face retaliation if they report in good faith about a violation or suspected violation of UPS's legal, ethical, or policy obligations. Employees can contact any manager or the Human Resources representative for their respective department.

Employees may also submit a report to the UPS Help Line online or by phone. Both of these channels are monitored by an independent service provider and are available 24 hours a day, 7 days a week, and reports may be anonymous. Translators are available to assist when needed.

In 2016, UPS received more than 8,000 reports of employee concerns through the UPS Help Line and other reporting avenues. We investigated these cases and took corrective or disciplinary action where appropriate. In 2016, we also enhanced our data analytics to enable managers in Human Resources to see and respond to reporting trends in their area of responsibility.

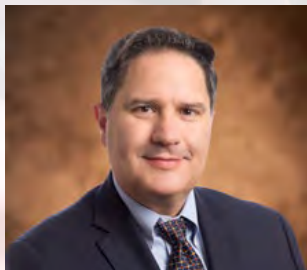


03 Economic Enhancement

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The Road Ahead



“Imagine a system in which big data and analytics combine to predict, in real time and with near certainty, the fastest way to move any package from point A to point B. The data would even tell us who should drive the delivery vehicle. We could help eliminate customers’ chronic inventory problems by ensuring supply never outpaces demand. Analytics can also revolutionize how we manage our fleet, providing insight into vehicle performance, fuel consumption, and route information — essentially the equivalent of a check-engine light on steroids. Big data is ushering in a new era

of innovation and accelerating advancements that enable us — and our customers — to operate more efficiently and more sustainably.”

Juan Perez, Chief Information and Engineering Officer



PROUD PAST

1913, Seattle, Washington

UPS began using motorcycles and a Ford Model T truck to consolidate deliveries so all packages for a specific neighborhood would be loaded onto the same vehicle, maximizing use of resources while keeping expenses low.

3.1 Economic Performance



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We underscore the importance of economic performance by using it as one of two foundational reference points by which we define all other material issues. Economic performance is defined as our most material aspect because, like most companies, our economic success ensures our long-term viability and enables the execution of our sustainability strategies.

Management Approach

Our primary role in society is to enable commerce by connecting individuals and organizations in more than 220 countries and territories. Customers utilize our broad logistics capabilities, global presence, industry-leading technologies, and solutions expertise to build competitive advantages in their respective markets.

We have a long history of producing strong financial results, maintaining a solid balance sheet and high credit rating, distributing dividends, cultivating brand and customer loyalty, and positioning our business to capitalize on growth trends. Today, these trends include increased expertise in the integrated carrier space, logistics outsourcing, expansion of global trade, emerging market growth, and e-commerce growth in the retail sector.

Our business contributes to sustainability by making logistics as resource-efficient as possible — and far more efficient than customers could accomplish on their own. To do so, we:

- Meet customer needs by utilizing a broad range of transportation modes — airplanes, trains, ships, trucks, cars, carts, bicycles, and more — to reduce our impact on the environment;
- Achieve optimal efficiency by equipping, loading, and routing every vehicle and airplane we own to maximize shipments on board and minimize the miles traveled;
- Operate a single, integrated transportation network rather than multiple, redundant networks for similar types of services;
- Help test the potential of innovative reduced-emission technologies through our rolling laboratory that encompasses a large and diverse fleet of alternative fuel and advanced technology vehicles;
- Minimize energy, water, and material use in our facilities through design, maintenance, and multiclient use;
- Reduce unnecessary visits to customer locations and the associated environmental impact through services such as UPS My Choice® program, the UPS Access Point™ network, and UPS Smart Pickup® option; and

- Help customers make their supply chains more efficient and manage their carbon footprint more successfully by offering logistics consulting services.

UPS Financial Highlights

| (in US\$) | 2016 | 2015 |
|---------------------------------------|------------------|------------------|
| Revenue | \$ 60.9 billion | \$ 58.4 billion |
| Operating Costs | \$ 55.4 billion | \$ 50.7 billion |
| Employee Compensation & Benefits | \$ 34.8 billion | \$ 31.0 billion |
| Taxes Paid* | \$ 3.6 billion | \$ 4.2 billion |
| Long-Term Debt Repaid | \$ 3.8 billion | \$ 2.7 billion |
| Dividends Paid to Shareholders** | \$ 2.8 billion | \$ 2.5 billion |
| Payments to Small & Diverse Suppliers | \$ 989.0 million | \$ 943.0 million |
| Total Charitable Contributions | \$ 116.6 million | \$ 110.0 million |
| Retained Earnings*** | \$ 4.9 billion | \$ 6.0 billion |

*Additional payments funding our employee benefit plans, which were deductible for income tax purposes, resulted in a lower tax liability in 2016 compared to 2015.

**Dividends Paid to Shareholders comprised total cash and non-cash dividends; 2015 and earlier Reports only included cash dividends.

***Retained earnings were lower than previous year due to mark-to-market of pension and post-retirement plans.

In 2016, we significantly increased the resource efficiency of our integrated network, further enhancing the sustainable value proposition we offer customers. We expanded deployment of our proprietary routing software, ORION, to 100 percent of U.S. delivery routes where it was targeted for implementation.

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This investment is expected to result in annual savings of 10 million gallons of fuel and a reduction of 100,000 metric tonnes of CO2 emissions. We continued automation of our hub operations to realize productivity improvements of up to 25 percent. We realized expected synergies in procurement, asset utilization, and cross-selling from our 2015 acquisition of Coyote Logistics. We also announced a contract to purchase 14 new Boeing 747-8 freighter jets for delivery between 2017 and 2020 to help meet our customers' future capacity needs while reducing fuel use and emissions.

We report on the structure of our organization, changes in structure, and financial performance primarily through www.investors.ups.com. In this Report, we focus on economic performance as it relates to sustainability. The organizational entities covered by this Report are those presented in our Annual Report. This report includes data from UPS subsidiary Coyote Logistics among our financial data and greenhouse gas inventories, but not included in our employee counts.

Understanding Climate Effects on Our Business

Climate change presents both opportunity and risks to the economic performance of our business. From an opportunity perspective, we reduce the emissions intensity of global supply chains by delivering goods more efficiently through our optimized network than customers would be able to do on their own. This capability will grow and become even more important as emerging markets develop, global population increases, and the flow of goods and services expands. In addition, we believe our ability to operate even more effectively will increase because of our proven capabilities for measuring, managing, and mitigating greenhouse gas (GHG) emissions, the emergence of new technology innovations, and ongoing collaboration with stakeholders.

Our main economic risk currently related to climate change is a regulatory risk: the possibility that countries or regions of the world will increase regulation of GHG emissions to include significant new taxes, fees, or other costs for transportation and logistics companies. It is impossible to quantify this risk today because different countries, regions, and states are following different paths with regard to climate change and associated regulation. Our main strategies for managing this risk include continually improving the fuel efficiency and emissions efficiency of our business, as well as educating policymakers and the public about our contributions to making commerce more carbon-efficient for millions of companies.

Direct Economic Benefits

We are one of the world's largest private employers, with a commitment to creating good jobs with competitive pay and benefits. As of year-end 2016, we employed more than 434,000 people (excluding temporary seasonal employees), of which 79,000 were located outside the U.S. In 2016, we paid US\$34.8 billion in compensation and benefits for full-time and part-time employees.

In addition, we pay taxes to local and national governments around the world that help fund schools, community infrastructure, and public services. In 2016, UPS paid US\$3.6 billion in taxes worldwide.

UPS Tax Policy

UPS's fundamental tax policy is to ensure the tax results for all our global entities are properly reported in accordance with applicable laws, rules, and regulations. We operate our business where our customers are located, so while tax management is important to the company, how and where we conduct business activities aligns with our goal of providing superior customer service and shareholder value. We consider UPS's reputation, brand, and corporate responsibility when we evaluate our tax positions. Accordingly, we enter only into structures or transactions designed to further our commercial purpose. We believe in transparency and work to develop positive relationships with tax authorities based on trust and professional interactions. Where appropriate, we proactively seek agreement with tax authorities on positions taken on our tax returns.



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Indirect Economic Benefits

Our business generates a wide range of indirect economic benefits, including charitable contributions, access to markets through our local points of presence in the form of retail outlets, procurement activity throughout our supply chain, and venture capital funding. Our support of and advocacy for free trade around the world benefits businesses, communities, and countries of all sizes. Similarly, continual investments in our global logistics network — rather than infrastructure and specific services — benefit all of our communities by facilitating commerce and providing jobs.

We also use our scale to stimulate the markets for alternative fuels and advanced fleet technologies. Our continued investments help drive supply and demand for these promising solutions. UPS is also investing in technology and network enhancements to help make healthcare more accessible and effective. At the end of 2016, we acquired Marken, a global provider of supply chain solutions to the life sciences industry. This acquisition will bolster our global network of clinical supply chain services to meet clients' increasingly complex demands. We field one of the largest dedicated networks of facilities and related services for suppliers of healthcare products, and we continue to invest in this network around the world.

Charitable Contributions

The Key Performance Indicator for indirect economic benefit is the sum of our charitable contributions by UPS; The UPS Foundation (our corporate citizenship arm); and UPS employees, retirees, and their families. In 2016, total charitable contributions were US\$116.6 million, an increase of US\$6.6 million over 2015. In addition, UPSers contributed 2.7 million volunteer hours in 2016, which had an economic value of US\$70.2 million, based on the U.S. Bureau of Labor Statistics' valuation of volunteer time, which is tracked by our Neighbor to Neighbor system.

Solely funded by UPS, The UPS Foundation provides cash contributions to organizations that promote its four focus areas: Diversity and Inclusion, Global Volunteerism, Community Safety, and Environmental Sustainability. Our in-kind donations are composed primarily of transportation services, including ground, ocean, and air shipments to and from 50 countries for humanitarian relief and resilience efforts in 2016 (see page 57). Charitable contributions also include a 15 percent match of employee pledges to United Way, a major nonprofit provider of community-based social services.

Local Points of Presence

We provide more than 150,000 local entry points around the world where customers can tender a package to us at a location or time convenient to them. These entry points include our drivers, drop boxes, UPS Access Point™ locations, and The UPS Store® locations, as well as authorized shipping outlets and commercial counters and customer centers attached to UPS facilities. Local entry points provide customers with one-stop access to our global network, which helps small and diverse businesses participate more fully in the global economy.

We also provide substantial indirect support for more than 4,900 The UPS Store® franchise locations in the United States and Canada, to help them serve the businesses around them. The UPS Store, for example, was the first nationwide retailer to offer 3D printing services in-store; today more than 60 locations provide the service.

Total Charitable Contributions

| Program Area Year ended December 31, 2016 | Allocation (US\$ in millions) |
|---|----------------------------------|
| Local Grants | \$ 9.8 |
| Corporate Grants | \$ 23.8 |
| In-Kind Services | \$ 5.8 |
| Internal Scholarship Programs | \$ 2.0 |
| United Way Corporate Contribution | \$ 8.6 |
| Charitable Contributions and Sponsorships | \$ 9.1 |
| The UPS Foundation Contribution Total | \$ 59.1 |
| United Way Employee Contribution (active and retired) | \$ 57.5 |
| Total Charitable Contributions | \$ 116.6 |

Investments that Yield Knowledge Returns

Since 1997, we have explored emerging markets and technologies through the UPS Strategic Enterprise Fund (SEF), our venture capital investment arm. We view the SEF as a window to the future that enables UPS to learn from companies directly involved in the new economy. The knowledge we gain through SEF investments helps broaden our perspectives on how to better speed the flow of goods, information, and funds. We proactively research and evaluate companies in promising markets, including fast-growth international markets and consumer groups; related emerging technologies that support mobile, social, and e-commerce; and new business models, such as those related to the sharing economy, digital communities, and smart cities.

For example, UPS is a minority stake investor through the SEF in Fast Radius, a provider of additive manufacturing services — also known as 3D printing — to aerospace, automotive, and medical industries. These services have the potential to transform manufacturing and supply chains in the same way that e-commerce has transformed retail supply chains. Companies can now begin to virtualize parts inventories,

producing small quantities closer to where they are needed, with less energy and materials, as well as reducing lead times and inventory cost.

Fast Radius operates a 3D printing factory at our Louisville air cargo hub. In the U.S., customers can have parts printed at the Fast Radius factory or at one of more than 60 The UPS Store® locations equipped with 3D printers, and then have the parts shipped to their sites. In 2016, Fast Radius opened a 3D printing factory in Singapore, extending our 3D printing network to Asia. Future plans include an additional site in Europe. Another example of an SEF investment is Optoro, a reverse logistics technology platform that helps retailers and manufacturers manage, process, and sell returned and excess inventory. Optoro's reverse logistics solutions also help support circular economy principles for retailers.

The SEF usually invests in early-stage, privately held companies during their venture capital phases. By working together, UPS is able to help accelerate the growth of these early-stage companies while also advancing UPS's knowledge of emerging technologies and new business models.



3.2 Global Trade & Emerging Markets



Global trade enhances economies by stimulating growth and new opportunities for employment and entrepreneurship, creating a ripple effect as businesses enter new markets and hire more workers, which in turn helps those workers support their families and communities.

Trade plays an important role in reducing poverty in many parts of the world. Trade facilitation reforms, for example, have a disproportionate benefit in developing countries, according to the Organization for Economic Cooperation and Development and World Bank. Customs modernization helps countries in Africa and Latin America better access global value chains, unlocking opportunities that create jobs, fuel middle-class growth, and create new consumers of goods and services. Small businesses, which represent the vast majority of businesses in most economies, gain access to new customers and markets, and generate higher standards of living for their owners and workers.

The long-dominant view in the United States and other advanced economies in support of globalization and trade liberalization is increasingly challenged. Trade skeptics have won elections on multiple continents. A global economy struggling

to gain momentum, automation trends that have changed skill requirements, and the greater availability of social media and other tools to express opposition are among the reasons for the stepped-up backlash against trade. Part of the response to these trends must be a renewed focus on the importance of worker retraining. The public and private sectors must play a role in ensuring that workers are prepared for the jobs of the 21st century.

As a global logistics company, connecting customers to new economic opportunities is an intrinsic outcome of our business. Given that our business moves nearly 2 percent of global GDP each day, we have a unique and broad perspective of international trading patterns and of development opportunities in emerging markets.



Forty years after UPS Germany began delivering packages, five “day one” Germany UPSers, Dieter Weiss, Rüdiger Ernst, Klaus Stolpe, Siegfried Nolte, and Manfred Rost, celebrate their continued service to UPS.

Trade Advocacy

Among the trade trends we observe are the growth in e-commerce, the greater participation of small- and medium-sized enterprises (SMEs) in trade, and companies' increasing need to compete on speed, service, and reliability, rather than just cost. Our customers thus feel increasing time pressures. Cumbersome and outdated customs procedures at borders affect companies of all sizes, but are a particular challenge for small businesses, who can ill afford missed shipment deadlines that deal a blow to their brand and reputation. For companies trading in time- and temperature-sensitive healthcare products, swift customs clearance may be even more critical.

We approach trade as an opportunity for our customers. When trade is easy, more trade happens — and that means more business for entrepreneurs and SMEs, as well as multinational corporations. UPS fields a team of policy experts to address trade barriers around the world, in collaboration with customers, business partners, and industry- and region-specific trade associations.

We often serve as the voice of our customers when there are opportunities to advocate for agreements that facilitate more open global trade. In the United Kingdom, for example, the decision to withdraw from the European Union, commonly referred to as Brexit, rattled supply chains in 2016, forcing businesses to contemplate more complex trade processes. While there is still much that is not known, it is clear that the withdrawal process will take time. As new trade and customs laws and regulations are worked out, we will help our customers deal with the complexity of importing to or exporting from the U.K., Ireland, and Europe.

In 2015, as a result of the advocacy efforts of UPS and our customers, trade negotiators from 12 countries successfully concluded the Trans-Pacific Partnership (TPP), an accord designed to establish the rules of 21st century trade, eliminate tariffs, and simplify customs procedures to allow faster clearance of shipments. Following a U.S. presidential campaign that featured significant trade skepticism in both parties, TPP did not come to a vote in 2016, and the new U.S. administration withdrew the country from the agreement. Nonetheless, we are encouraged that the administration has started to pursue trade agreements that will ensure that U.S. businesses, both big and small, have access to fast-growing markets around the world, including an increasingly integrated Asia-Pacific region. UPS will continue to advocate for high-standard trade agreements that break down barriers, and will oppose protectionist measures that raise trade costs and reduce growth prospects.

We believe the World Trade Organization (WTO) Trade Facilitation Agreement (TFA), which was completed in 2013 and entered into force in early 2017, represents a road map to improved customs practices for countries around the world. Our focus now is implementing the agreement and encouraging countries to be ambitious in meeting its terms. Countries that improve the ease of doing business by implementing modern customs procedures benefit from increased foreign investment and enhanced manufacturing and job creation opportunities. We are a member of the Global Alliance for Trade Facilitation, a public-private partnership focused on supporting countries



Global Trade Shines in TED@UPS

Global trade played a feature role in the second installment of TED@UPS, a live event with master problem solvers and world-class storytellers who addressed the question, “What If?” Romaine Seguin, international trade expert and President of UPS Americas Region, put forth the idea that “trade is humanity’s strongest weapon.” She explained how open trade borders present social and economic possibilities, and how isolationism can be dangerous. Romaine believes that global trade can fight terrorism, combat poverty and injustices, deter human trafficking, provide medicine and shelter, and lead to other positive outcomes. Using Haitian shoe manufacturer Deux Mains as an example, she illustrated that when homegrown businesses gain access to the global economy, they create jobs, enhance economic prosperity, and increase security. This, in effect, makes global trade the ultimate humanitarian aid tool.

with their implementation efforts. UPS will work to harness its own customs, risk, and IT expertise, as well as that of the broader industry, in the interest of getting WTO members up to TFA standards.

We see a strong rationale for deepening transatlantic trade, including through trade facilitation and customs modernization measures, and for liberalizing trade in services, given that e-commerce services, electronic payment and other financial services, and delivery services are critical to the modern economy. By keeping the services sector open to competition, countries can give consumers greater choice at lower cost.

Emerging Markets

Emerging market opportunities continue to expand our business. These markets are a destination for trade and investment and an engine of growth for current customers, and will also be a focus for our next generation of customers. That's why we're making long-term investments where our customers choose to grow. During the past decade, we've established a strong presence in leading emerging markets such as China, Poland, Southeast Asia, and Turkey and expect that other markets in Africa, Eastern Europe, Latin America, and the Middle East will become increasingly important for our business.

Africa, in particular, represents significant opportunity, given its large and young population, and growing markets. We see great growth potential in countries across the four corners of Africa, including Kenya, Morocco, Nigeria, and South Africa. We support the African Leadership Academy (ALA) in Johannesburg, South Africa, which seeks to develop a network of more than 6,000 leaders who will work together to address Africa's greatest challenges, improve social impact, and accelerate the continent's growth trajectory. ALA identifies individuals between the ages of 16 and 19 who have demonstrated leadership potential, an entrepreneurial spirit, and a track record of community

service. These young leaders come together for a two-year, pre-university program on entrepreneurial leadership and African studies at a boarding institution in Johannesburg. UPS supports the program financially and seeks to employ individuals as interns while they attend university.

We approach emerging markets with long-term, tailored solutions to meet the unique needs of each country in an efficient, sustainable way. We typically partner with third parties that have established capabilities and expertise at the local level. These include authorized service contractors or third-party service agents, who are trained and managed to properly represent UPS.

Inclusive Growth Partnerships

To support the sustainability of global trade, UPS recognizes the importance of engaging domestic stakeholders, small businesses, and all segments of society to support inclusive growth. This is why we have continued to engage partners throughout the world in providing expertise on import/export procedures, supply chain management, process optimization, and other advanced solutions to improve their overall efficiency.





The UPS Outside Growth Partner program is a cornerstone of our effort to engage local logistics companies to help them upgrade, connect to global networks, and service international customers. Working with qualified partners, UPS conducts training in operation, safety, security, and service while sharing our brand, market strategy, and over 100 years of operational best practices. The program combines UPS's strength in global networks and advanced logistics solutions with local knowledge and entrepreneurship to facilitate the expansion of reach to more geographical locations, better service, and collaborative growth between big and small business. Today, such partnerships support growth in many parts of Europe, China, Indonesia, Korea, Philippines, Taiwan, and Thailand.

Global Supply Chain Readiness

In Southeast Asia, we continue to work with the US-Association of Southeast Asian Nations Business Alliance for Competitive Small and Medium Enterprises on its multiyear capacity-building

program. During 2016, UPS and its Alliance partners conducted workshops in six countries for more than 600 participants, training small businesses on the basics of exporting, how to leverage logistics to maximize productivity, and how to better service lead firms in the automotive, healthcare, technology, and e-commerce sectors.

In Singapore, UPS established a partnership with Autistic Center Pathlight and its handicraft retail store to fulfill a surge in customer orders, and build a longer-term delivery and fulfillment strategy. Our partnership with Gender Responsive Economic Actions for the Transformation of Women in ASEAN supports artisans and entrepreneurs from 10 Southeast Asian countries through global branding and marketing efforts, as well as leadership in the professional network of Women in Trade that has helped to include additional segments of society — such as small business, entrepreneurs, and women — in international trade.

3.3 Supply Chain Management



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UPS has a highly distributed and diverse supply chain, with providers ranging from global multinationals to local small businesses.

Management Approach

During our assessment of potential suppliers, we survey the market and analyze supplier risks, including those related to economic, environmental, and social issues, if deemed necessary. As a service provider, the UPS supply chain is primarily dependent on goods and services that are highly regulated or commodity based, such as transportation, brokerage, and energy. As a result, UPS considers the supply chain to be resilient and at low risk against problems related to the environment, labor practices, and human rights. We do not currently disclose information related to screening or impact assessments, because we consider the information confidential. However, in 2016, we were not aware of any significant environmental, social, or labor concerns related to our suppliers.

We require suppliers with access to sensitive UPS data to execute a security agreement to ensure compliance with UPS privacy and security standards. Procurement professionals are located in our corporate, regional, and local offices to help suppliers understand and meet our requirements.

Supplier and Stakeholder Engagement

As a service company, collaboration and supplier engagement are vital components of our approach to supplier management. We work with many governmental and nongovernmental organizations, as well as with suppliers, to develop and integrate sustainability best practices in our supply chain. Examples of our supplier engagement and collaboration include programs such as the Environmental Protection Administration SmartWay program, as well as the National Labs and Clean Cities programs supported by the Department of Energy. Clean Cities is a national network of coalitions that helps transportation stakeholders evaluate options and achieve goals around alternative fuels and vehicle technologies to reduce reliance on petroleum. UPS and key suppliers participate in these programs to create more sustainable supply chains, and we strongly encourage engagement among our purchased transportation suppliers.

Supplier Diversity

In a majority of cases, our supply chain partners are locally based suppliers, due to the highly distributed nature of UPS's business. Spending with locally based vendors can create positive ripple effects throughout a community, beyond the immediate contract or relationship. A third-party study on the



Valued Partnerships

Amy Winfield's company, Suburban Seating & Safety, supplies seats and safety equipment for UPS's fleet of vehicles. They keep the fleet moving with solutions that reduce maintenance needs so the UPS trucks can stay on the road and deliver to their customers. Amy joined the UPS Supplier Diversity Program during the process of becoming a certified woman-owned business. "Our partnership has certainly been enriched through the program. UPS has sponsored me to attend executive management programs, helped me navigate the landscape of large corporations, and facilitated new business introductions." She appreciates that the relationship with UPS's supplier diversity team ensures both parties maximize the value of the partnership. "Sometimes there is a misperception that business is won based on a company's woman-owned status," explains Amy. "Rather, it is earned by demonstrating unique capabilities and never taking a business partnership for granted. It is our proven reputation in doing so that earns us our long-standing business partnerships."

economic impact of our 2016 spending with small businesses, as well as minority-, women-, veteran-owned, and other diverse suppliers, found that UPS contributed more than US\$2.4 billion to the U.S. economy (U.S. GDP) and sustained more than 15,700 jobs in the supply chain and local communities. A breakdown of that US\$2.4 billion includes US\$989 million in direct economic benefit from suppliers' operations and activities; US\$653 million in indirect impact from the economic benefit and employment supported in the suppliers' respective supply chains from procuring goods and services; and US\$806 million in community impact from the wider economic benefits that arise when the suppliers' employees and those in their supply chains spend their earnings.

Overall, for every million dollars that we spend with small and diverse suppliers, 16 jobs are created with those companies in their local communities. In 2016, UPS spent approximately US\$989 million in procurement with small and diverse businesses in the United States.

We introduced key initiatives in 2016 with the goal of significantly increasing spending with diverse suppliers:

- Coordinating our effort to identify more diverse suppliers in areas including plant engineering, automotive, air and transportation; and
- Joining WeConnect International, a global network to identify and certify women-owned businesses outside the U.S. and connect them with the global supply chain. Our director of supplier diversity serves on its board of directors.

Management of Third-Party Representatives

As our business grows, we are entering into more contractual relationships with third parties, such as agents, providers, outside service providers (OSPs), and authorized service contractors (ASCs), who may interact with government officials or outside parties on behalf of UPS. It is vital that all third-party representatives convey UPS's integrity and commitment to compliance when they represent our brand, products, and services in the marketplace.

We utilize a risk based third-party due diligence process which requires us to assess candidates' ownership, financial transparency, local licensure status, compliance record, labor practices, environmental practices, and more. This information is then recorded in our own proprietary global database to enable more effective ongoing monitoring and auditing of these third-party relationships.

The UPS Code of Business Conduct, which applies to UPS entities globally, governs our relationships with third-party representatives. We direct them to the Code as part of the Supplier's Principles Agreement provided during the proposal process, and they must certify they have read the Code and are aware that compliance with the Code is both expected and subject to audit.

To ensure the requirements of the UPS Code of Business Conduct are clear, we produce an Anti-Corruption Compliance Manual for Third-Party Representatives. This manual, available in 20 languages, further explains our expectations and requirements, including the need to report actual or suspected compliance violations.

Our Supply Chain

As a provider of logistics and transportation services, we are an important component of our customers' supply chains. But we also have our own supply chain and work with vendors that help us provide our services. This graphic shows our major supply chain categories. Our most material categories include purchased transportation from third parties, such as airlines, railroads, ocean carriers, and other trucking carriers; energy to fuel our ground and air fleet; and air and ground fleet purchases and maintenance.

Production Suppliers

Transport Process

Capacity Suppliers

Capacity Process

Support Suppliers

Back Office Process

Purchased Transportation & Energy



Vehicles, Aircraft, Facilities & Equipment



Financial, Administrative & Support Services



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Our Supply Chain

As UPS is a service provider, our supply chain partners tend to be other service providers, rather than raw material or finished goods suppliers, and can be broadly grouped into three categories:

Production Suppliers

Production suppliers, which represent the majority of our total procurement spending, provide purchased transportation services and energy to operate our global logistics network. At the regional and country levels, we regularly contract with a large pool of suppliers of transportation services, such as airlines, trucking companies, railroads, and ocean carriers, as well as suppliers of fuel for our vehicles and air fleets. A complete discussion of our approach to purchasing fuel can be found on page 70.

We also contract with third-party representatives that provide domestic delivery services in certain countries on behalf of UPS. These third-party representatives may be referred to in other UPS documents or policies as agents, providers, outside service providers, or authorized service contractors. It is vital that all third-party representatives convey UPS's trustworthiness and commitment to compliance when they represent our brand, products, and services in the marketplace. We consider effective management of such representatives as material to our sustainability.

Capacity Suppliers

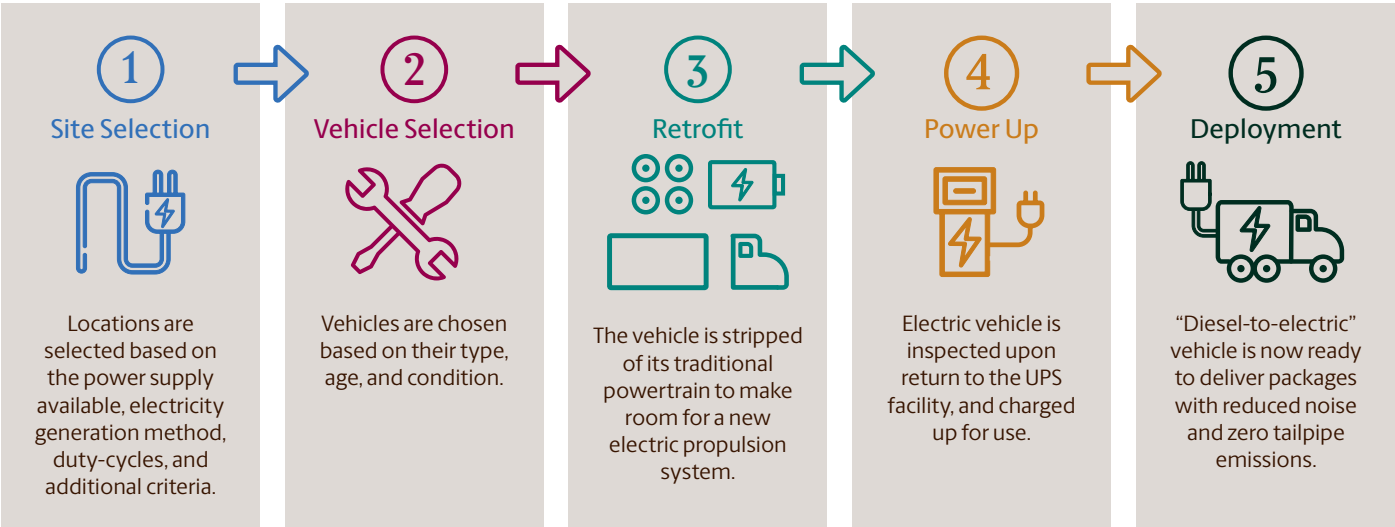
This category includes the equipment and facilities we purchase, build, and maintain. Our supply chain includes a number of suppliers of strategic, high-value assets that we purchase in limited numbers in select years, such as jet aircraft and alternative fuel or advanced technology vehicles. We work on a continual basis with original equipment manufacturers to design and develop our ground and air fleets in a way that minimizes their environmental impacts.

Support Suppliers

We purchase standardized products and services that support our business. These suppliers provide products and services in the areas of marketing, advertising, human resources, shipping materials, and other professional services.

How Diesel Goes Electric

We're expanding our fleet of alternative fuel vehicles by transforming diesel package cars into electric vehicles. The conversion not only eliminates tailpipe emissions, but also extends the life of package cars and the materials within them.



Stakeholder Perspective



Bastian Beutel
Managing Director, EFA-S

Air pollution, noise, congestion, climate change — these issues are on the minds of policymakers in cities around the world, and they are the challenges that ElektroFahrzeuge-Stuttgart GmbH (EFA-S) is tackling every day. The European Union and other government bodies have passed laws to categorize vehicles according to their emissions levels and restrict high-emissions vehicles from accessing certain urban areas. Eventually, only noiseless, zero-emissions vehicles may be permitted to drive in European city centers.

Many vehicle manufacturers have responded by developing electric vehicles to meet these new standards. But what about vehicles already on the roads? For many businesses, transportation fleets are a major investment, and replacing them is a complex affair. That's where EFA-S comes in. We can convert any diesel- or gas-powered vehicle to an electric one, which lowers vehicle emissions, reduces noise and allows businesses to meet many inner city transportation regulations.

Partnering with UPS has been a breakthrough for us. Although we are a small business, EFA-S and UPS share the same values of quality and continuous improvement, and we are able to provide a service not available elsewhere. In 2010, UPS asked for our help converting its P80 delivery van, which had been in operation in Bavaria since 1995. At the time, no electric vehicle existed in the 7.5-ton class, and all electric delivery vans that were available were compromised by significant loss of payload and loading capacity. Moreover, purchasing new package cars offered no solution for the many reliable and effective P80s UPS already had invested in. We managed to convert the vehicle without any restrictions, solving the challenges of both operational excellence and sustainability.

Six years later, in 2016, the 100th electric vehicle in UPS's European delivery fleet hit the streets of Paris, made possible by EFA-S. This model, the P45E, can carry up to 3.5 tons and has the body style that UPS package cars in Europe are known for. The vehicle relies on a combination of rechargeable batteries and kinetic energy recovery systems (KERS), which captures energy created when a vehicle brakes for later use. KERS has been used in Formula One cars and other racecars, but has not yet been widely adopted for other types of vehicles. We're proud to be making UPS a pioneer with this cutting-edge, sustainable technology.

Converting vehicles to electric not only eliminates emissions from exhaust — it reduces vehicles' life cycle emissions, most of which originate from production and disposal. Now, UPS' highly efficient, durable vehicles, which might otherwise have limited use in many European cities, can continue to travel the roads, deferring the need for investment in new vehicles.

UPS has ambitious plans to expand its alternative fuel and advanced technology fleet, and vehicles equipped with EFA-S technology are helping make that possible. The world of logistics is transitioning to more sustainable transportation models, and EFA-S is pleased to help UPS hasten that transition.

3.4 Data Privacy



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Since our founding more than 100 years ago, UPS has viewed our reputation for protecting customer data as essential to our business success.

Management Approach

Data privacy is a key consideration whenever we develop a new service, program, or strategy that involves the use of personal information, and we incorporate privacy protections into the early stages of design. As we evaluate global opportunities, compliance with data privacy laws is critically important. International data privacy laws often differ from those in the United States, but we consider these differences in building and managing our global compliance program for the regions in which we operate around the world.

We utilize a cross-functional Information Security Council (ISC) to govern our privacy practices. Formed more than 10 years ago, the ISC is composed of more than 20 senior

managers and reports to our Management Committee. An ISC steering committee of senior managers meets quarterly and focuses on policy, standards, and compliance. An ISC working committee led by our Global Privacy Officer and our Chief Information Security Officer regularly convenes representatives from our information technology, privacy, legal, and security teams, as well as business units. We also use a global network of privacy coordinators to help raise awareness, act as points of contact, identify privacy issues, and help manage compliance. These employees, who are trained on our privacy policies and practices, are located in each of our international regions. In 2016, we added five new privacy coordinators to cover China, Hong Kong, Japan, New Zealand, and the Philippines. In Europe, a heavily regulated region where privacy is a top concern, we also maintain a network of country-level coordinators.





Every year, we conduct information security and privacy audits, domestically and internationally, to gauge our employees' understanding of our data protection policies. We also conduct practice data breach drills to prepare for potential incidents.

Customer Engagement

UPS customers entrust us with their sensitive information, and we uphold this trust through our privacy and information security programs. We are constantly evaluating ways to deliver better service to customers while respecting their rights to privacy and securing information in accordance with UPS policies.

We inform stakeholders about our privacy practices in the UPS Privacy Notice, available on the home page of ups.com. The Privacy Notice describes the personal data that we collect, how we use it, and with whom we share it. We also provide consumers with a contact for questions about our privacy practices. We offer an easy-to-use Privacy Preferences Center that enables consumers to make meaningful choices about how we use their personal information. Behind the scenes, we are continually improving our IT systems, business operations, training, and monitoring to strengthen our privacy practices.

Employee Training and Engagement

As our privacy practices and policies continue to evolve, employee awareness is essential. Employees who are actively aware of privacy issues in their personal lives are more likely to be aware of privacy issues in the workplace. Training and engagement are the primary ways we build awareness.

Our signature event is "Global Privacy Awareness Week," with events, guest speakers, employee contests, and giveaways held across the globe. In 2016, our privacy coordinators hosted Lunch-and-Learns with privacy experts at our offices in Brussels, China, London, and Singapore. At multiple U.S. locations, we hosted a speaker series with law enforcement officials about online child safety. We coordinated shred trucks to visit six U.S. locations, offering employees an opportunity to bring in personal documents from home to dispose of securely. The visits resulted in 24 tons of shredded documents — four times more than in 2015. We also leverage Data Privacy Day, an international effort held annually on January 28, and National Cyber Security Awareness Month, a Department of Homeland Security initiative in October, as part of our annual awareness campaign.

Throughout the year, we deliver a steady flow of employee communications on topics such as phishing emails, password best practices, and securing paper records. While most of our training and awareness is directed to employees with access to specific UPS information systems, certain campaigns are designed for everyone, including drivers. During the 2016 holiday season, *Inside UPS*, a publication available in five languages and distributed globally to more than 335,000 UPSers, featured a privacy infographic explaining ways to protect sensitive information at home and at work. To keep UPS privacy country coordinators and data protection officers engaged and abreast of emerging issues, we also held quarterly training in each international region.

3.5 Digital & Physical Asset Security



103-1 | 103-2 | 103-3

We operate more than 114,000 vehicles and one of the world's largest air cargo fleets from more than 2,500 facilities, data centers, and office sites around the world. The safety of our employees and the security of our customers' shipments are top priorities for UPS.

Management Approach

As potential threats to digital and physical assets evolve — from cybercrime and terrorism to increased traffic congestion and aging transportation infrastructure — we constantly work to adapt and improve our ability to operate our business effectively and sustainably.

Comprehensive risk mitigation techniques are applied globally to help keep our people and customer shipments secure. These risk mitigation techniques are applied across

all business segments. We are not free to disclose specific details about the techniques employed, since confidentiality and customer relationships are critical components of our asset security program. Access to relevant, actionable, and real-time threat information is a critical component of protecting our digital and physical assets. To that end, we use threat information from authorities in both the public and private sectors to allow us to take necessary actions to protect our people, and our digital and physical assets.



3.6 Humanitarian Relief & Resilience



103-1 | 103-2 | 103-3 | 203-1 | 203-2

Every year, natural disasters and global crises create devastating human suffering that demands coordinated, swift relief efforts. Humanitarian crises can disrupt businesses, destroy infrastructure, and bring most forms of productive commerce to a halt. It's important to us that our employees and customers live in strong and safe communities that are well-prepared for and equipped to recover from disasters in a timely manner to minimize long-term social and economic impact.

Management Approach

We help communities become more resilient primarily through the work and support of The UPS Foundation, which receives its financial resources from UPS. The UPS Foundation has four focus areas: Diversity and Inclusion, Global Volunteerism, Community Safety, and Environmental Sustainability. All focus areas contribute to the overall resilience and long-term well-being of communities, and align with many of the United Nations Sustainable Development Goals (see page 59). In 2016, we provided over US\$15 million in support of community safety initiatives, including UPS's global Humanitarian Relief & Resilience program, to enhance public-private partnership engagement in disaster risk reduction and improve emergency preparedness, response, and recovery.

Relief & Resilience Strategy

UPS's global Humanitarian Relief & Resilience program is organized around building more effective public-private partnerships to catalyze innovation and enhance community disaster risk reduction and preparedness efforts, supporting urgent response and speeding post-crisis recovery. The UPS Foundation has defined four areas of concentration, or pillars, to guide its allocation of philanthropic and human capital within the Humanitarian Relief & Resilience program:

- Engage humanitarian relief organizations as strategic partners;
- Build a platform of skill-based volunteers;
- Increase disaster relief sector capacity through thought leadership and innovation; and
- Leverage UPS's global network.

This focused approach enhances the impact of our efforts and brings more direct benefit to millions affected by natural disasters and global crises each year.



103-1 | 103-2 | 103-3 | 203-1

Engage Strategic Partners

At the core of our preparedness, response, and recovery efforts are the strong relationships we have developed with the world's leading humanitarian relief organizations. These include the American Red Cross; Cooperative for Assistance and Relief Everywhere; the Salvation Army; Gavi, the Vaccine Alliance; the World Food Programme (WFP); United Nations High Commissioner for Refugees (UNHCR); the United Nations Children's Fund; and other preeminent partners. We also partner with smaller-scale organizations such as SBP (formerly St. Bernard Project) in New Orleans, which leverages the lessons learned following Hurricane Katrina to expedite the recovery process in other communities. Another partner, Toolbank Disaster Services, equips recovery volunteers with tools and personal protective equipment transported by UPS. With all partners, we leverage our corporate strengths and philanthropic resources to improve the efficiency and effectiveness of relief and recovery efforts.

Build a Platform of Skill-Based Volunteers

The breadth and depth of talent among UPS employees provides a valuable platform to help speed disaster response and recovery. UPSers work side-by-side with our strategic partners and play an integral role in our humanitarian relief program.

The UPS Humanitarian Experts on Mission Program places UPS logistics experts on long-term assignment to our partner organizations. For example, UPS managers utilize their extensive Healthcare, Engineering, and Customer Solutions experience to develop strategies for governments in Africa in partnership with Gavi and the Global Fund to Fight AIDS, Tuberculosis and Malaria. A representative from UPS's Automotive Group is helping the UNHCR analyze regional trucking operations in east Africa and determine future transportation needs and strategies. Another UPS Solutions manager is working with WFP to map multiple WFP Supply Chain Units processes to optimize service performance.

We also participate in formal programs such as the Logistics Emergency Teams (LETs), which provide expertise and response services to the Global Logistics Cluster of the United Nations led by WFP. LET companies, which are the large global logistics and transportation businesses, provide pro-bono assets and services and deploy highly trained experts to join the United Nations staff in disaster areas. Since 2007, UPS has deployed responders and provided services to the Dominican Republic, Ecuador, Haiti, Horn of Africa, Indonesia, Japan, the Middle East, Myanmar, Nepal, Nigeria, Pakistan, Philippines, Turkey, and West Africa. In the United States, we provide logistical support to the Red Cross to enhance preparedness and response. UPS provides the Red Cross funding and in-kind support that enables them to immediately deploy shelter support services when communities are impacted by disasters. UPS Logistics Action Teams (LATs) provide support to help speed vital relief supplies to communities in the aftermath of natural disasters. To date, LATs have been active in Alabama, California, Colorado, Florida, Georgia, Kentucky, Louisiana, Mississippi, New Jersey, New York, South Carolina, and Texas.



Expertise on Loan

"I go to work every day, knowing that money alone is not enough to help Masconda," explains Kevin Etter, a 30-year UPSer. Masconda and her daughter live in a remote Ugandan village, more than 10 kilometers from the nearest clinic. Though Gavi, the Vaccine Alliance, helps increase access to immunization in this region, and some of the world's poorest communities, Masconda still does not know if her daughter will get the vaccines she needs. The UPS Foundation typically supports its partner organizations through grants and in-kind logistics services, but problems like these deserve a more dynamic solution — people.

"I was my company's donation," jokes Kevin, who, along with five fellow UPSers, is a Loaned Manager working in the field for UPS humanitarian relief partner organizations. Currently, "on loan" to Gavi, Kevin is able to use his three decades of logistics experience to get vaccines to children who otherwise would not receive them. In his time with Gavi, he and his team have developed training programs for supply chain managers; used mobile phones and applications to better track and trace product usage and record data; developed maintenance programs for refrigerators and considered alternative power sources for them; and examined various delivery methods for last-mile delivery.

Now, with Kevin's help, Gavi is better equipped to reach its goal of vaccinating more than 50 percent, or 300 million, of the world's children by 2020. "Think of the difference we can make," says Kevin, "in our world and in our communities, if our companies donate just a handful of us, or if we donate ourselves."



How The UPS Foundation Made a Difference in 2016

203-1



UPS Perspective



Eduardo Martinez

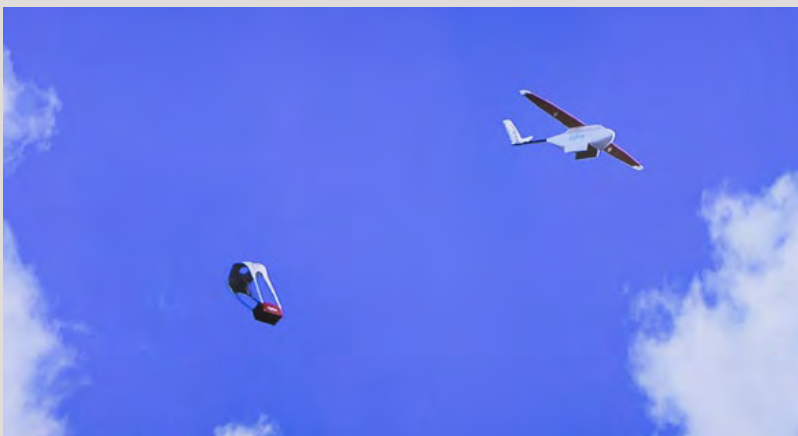
*President, The UPS Foundation
UPS Chief Diversity and Inclusion Officer*

provides a platform for the private sector to increase the scale and effectiveness of their engagement in disaster risk and response. Through a more systematic approach to engagement, we're confident businesses can have a stronger and more effective impact in building community resilience.

The world today is more complex than ever. Conflicts are displacing people across the globe in the biggest humanitarian crisis of our time. Natural disasters are increasing in frequency and severity. Cities are becoming more congested every day, with more than half of the world's population — and growing — now living in urban areas.

Looking to the future, we don't expect these challenges to change, but we do see some clear and common themes to help manage them. Around the world, innovators are developing solutions that require collaboration to scale and deliver where they are needed most. To start, we must all leverage our limited resources better to become more efficient. We believe the United Nations Sustainable Development Goals offer an effective framework to do so. The goals provide the private sector with much-needed focus to better direct our energies, ways to measure impact, and mileposts to aim for collectively.

Given the magnitude of today's challenges, collaboration among government, civil society, and the private sector is critical. As an example, in 2016 The UPS Foundation became a partner in the UN's Connecting Business initiative, which



Collaboration, by its very nature, also helps to incubate innovative ideas. That's what happened when we combined our logistics expertise with Gavi, the Vaccine Alliance's public health knowledge and Zipline's cutting-edge technology. Together, we are addressing the "last mile" delivery of healthcare supplies to remote areas. Today, a fleet of drones that delivers blood to transfusion facilities in Rwanda is providing a powerful model that is likely to lead to other innovative humanitarian applications. This would not have been possible without the inclusion of diverse perspectives and ideas that helped develop this solution.

Our logistics expertise and years of helping communities respond to crises has taught us the importance of effective supply chains; in essence, getting people what they need — whether it's in a refugee camp, the aftermath of a disaster, or even a congested city. By bringing efficiency, collaboration, and innovation to the challenge at hand, The UPS Foundation is committed to building more resilient supply chains for the future.

Increase Capacity Through Thought Leadership and Innovation

Building public and private partnerships and implementing the latest technological solutions helps ensure stronger infrastructures and greater impacts are achieved. We are helping to bring stakeholders together in broad-based collaborations to enhance disaster risk reduction efforts in at-risk communities, and build the capacity and capabilities of the disaster relief sector.

In 2016, The UPS Foundation created a public-private partnership with Gavi; Zipline, a California robotics company; and the Rwandan government to launch the first national medical drone delivery service in the world. This program addresses time-sensitive, last-mile delivery, one of the most critical humanitarian challenges. The UPS Foundation is providing more than US\$1 million in cash, in-kind, and technical support to facilitate the launch of the delivery service in remote rural communities in Rwanda. The service provides expedited deliveries of lifesaving blood, vaccines, and other medical products to hospital and treatment facilities that serve roughly half of Rwanda's population. According to WHO, Africa has the highest rate of maternal death due to postpartum hemorrhage, which makes access to blood transfusions critically important to women across the continent.

At the first-ever World Humanitarian Summit (WHS) convened by the United Nations in 2016 in Istanbul, 9,000 participants from the public and private sectors discussed emerging global humanitarian issues and solutions to address those challenges. The WHS spurred the launch of several new initiatives, including the Connecting Business initiative (CBI), to help develop coordinated and more holistic approaches to engage the private sector in disaster risk reduction, emergency preparedness, response, and recovery. As a founding member of CBI, UPS is replicating Sağlam Kobi, its Disaster Business Resilience Program, in Mexico. The program, which launched in Turkey in 2013, adapted existing disaster preparedness techniques and tools available in the U.S. for the Turkish business community, providing training and disaster awareness communications.

UPS has been actively engaged with the WFP, WHO, and other private-sector organizations since the outset of the Ebola crisis in West Africa to help build an upstream supply chain to better respond to future pandemics. For example, data on every flight segment going in or out of a country, and warehouse storage capacities by country are being gathered and analyzed to develop more robust response solutions. This work builds on the lessons learned in providing support to communities in West Africa that were impacted by the Ebola epidemic in 2014.

We have been very engaged in the global refugee crisis for several years, working with the UNHCR as its Emergency Standby Partner to improve emergency logistics since 2010. In 2016, in addition to improving UNHCR global fleet management solutions via our Humanitarian Experts on Mission program, we provided a grant to UNHCR to support the expansion of the UPS Relief Link program in Greece to ensure the equitable



distribution of critical supplies to thousands of refugees arriving on the island of Lesbos. UPSers also provided volunteer support for refugees across 16 countries in Europe.

UPS leaders attended the UN Private Sector Forum 2016, which focused on the role of business in advancing sustainable development to prevent global instability, and committed an additional US\$1 million of support. That support includes the delivery of vital supplies addressing basic life-sustaining need for food, water, and shelter to displaced populations in Iraq, Nigeria, and South Sudan. We also participated in the White House initiative Partnership for Refugees, which provides guidance to private-sector organizations that wish to take action to ensure their pledges are sustainable and responsive to refugees' needs.

Leverage Our Global Network

As a global leader in logistics, we are ready to leverage our extensive global assets and logistics expertise to speed relief and recovery to those in need when a natural or man-made disaster strikes. In addition, we often have people on the ground who are ready to help. UPSers based all over the world are empowered to volunteer and provide relief assistance to their local communities during sudden-onset disasters. During 2016, The UPS Foundation provided 468 ground, ocean, and air shipments to and from 53 countries for humanitarian relief and resilience efforts. UPS played a major role in response efforts following a devastating earthquake in Ecuador, in the aftermath of Hurricane Matthew in Haiti, in communities affected by flooding in the southeastern United States, such as West Virginia, and in communities impacted by the water crises in Michigan. UPS also provided urgent relief shipments for refugees in Africa, Europe, and the Middle East.

3.7

Sustainable Shipping & Supply Chain Offerings



Tech-savvy shoppers continue to transform retail as e-commerce continues to transform the dynamics of our business.

Our fifth annual UPS Pulse of the Online Shopper™ study, conducted in 2016 by comScore, revealed that:

- Consumers are shopping more with their smartphones and demanding a more seamless experience between virtual and physical stores;
- More than 50 percent of all purchases made by respondents were made online — the first time in the study's five-year history — and respondents anticipate even more use of digital;
- Free shipping continues to be the most important factor driving customer satisfaction when checking out online, although consumers are willing to pay a premium for faster delivery;
- More than half of shoppers are interested in an alternate delivery location with extended hours and lower fees; and
- Online shoppers are using their smartphones to gain greater control, from accessing store inventory information to managing when and where their packages arrive.

Helping retailers deliver the experience that online shoppers desire creates opportunities for our integrated logistics network as we connect more retailers with more residential addresses. We expect e-commerce to comprise more than 50 percent of our U.S. shipping volume by 2019. This opportunity also comes with a challenge for the transportation and logistics industry to make e-commerce shipping more sustainable. The increasing percentage of residential deliveries means that fewer packages per stop are being delivered, in comparison with commercial deliveries, and that can mean more fuel and emissions per package delivered. We continue to seek innovative solutions throughout our operations and customer solutions so that we can continue to drive sustainability in this evolving environment.

Delivery Solutions for the Future

To address the changing landscape of increased business-to-consumer shipping, we have pioneered new solutions that drive efficiencies within our operations, while also giving customers the control they want. UPS My Choice® service enables customers to use a mobile device to choose a convenient time and place of delivery. The UPS Access Point™ network provides a consolidated delivery point — such as a nearby The UPS Store® location, service station, or convenience store — for multiple customers in the same area. Both solutions create a win-win: more flexibility and convenience for consumers and fewer miles and associated emissions for UPS. Using



proprietary UPS routing software, we are able to integrate the two services, providing even stronger value for our customers. In 2016, UPS received the Digital Edge 25 award for bringing these two innovative consumer package delivery services together.

Even as increasing numbers of consumers signed up for these services in 2016, we continued to enhance both of them through new features. UPS My Choice customers, who now top 30 million, are enjoying a service enhancement that enables them to monitor the progress of their UPS® Air and UPS Worldwide Express® packages on a real-time map, providing unprecedented visibility and convenience. During the year, we grew the UPS Access Point network to 18 countries and more than 26,000 locations worldwide. The service expanded our UPS Access Point locker program, which provides another location for UPS My Choice members to have their packages delivered, typically accessible 24 hours a day. By scanning an ID or in-app barcode, or by entering a PIN at the touchscreen terminal, customers can open the locker and retrieve their packages. We are working with 7-Eleven and independently owned and operated retailers to offer the locker program in select areas across the United States.



A More Sustainable Shipping Journey



Our customers want to ship more but with less impact. We offer sustainable solutions to help minimize the environmental impacts associated with their supply chains.

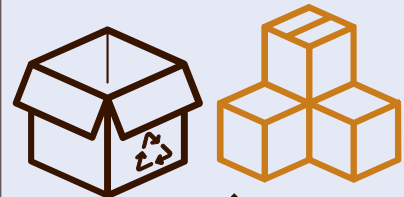


Analyzing

Our **Carbon Impact Analysis** helps customers understand the climate impact of UPS shipments. We use the findings to offer optimization techniques that improve efficiency and reduce impact.

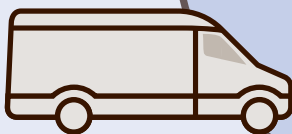
Packaging

Our **Eco Responsible Packaging Program** recognizes shippers who are committed to sustainable packaging. Shippers who meet criteria for damage prevention, appropriate sizing, and packaging material can participate. We also offer a packaging solution that enables customers to create a right-sized box for any item.



Shipping

UPS carbon neutral shipping is an easy, cost-effective way to offset GHG emissions from shipments of any size. With **UPS Smart Pickup®** service, customers can schedule a pickup only when needed, avoiding unnecessary trips and emissions.



Returning

We simplify returns with turnkey packaging, preprinted labels and more than 150,000 convenient drop-off and pickup locations. UPS's reverse logistics solutions also help customers reclaim and refurbish products to be used again.

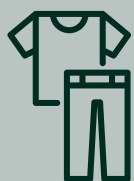
Receiving

UPS My Choice® service enables customers to adjust delivery times or locations, while **UPS Access Point™** locations enable package retrieval from a convenient, centralized location. These solutions increase customer convenience and help avoid unnecessary trips, miles, and emissions.



How Logistics Enable a Circular Economy

Logistics play a key role in helping customers develop and align with the 4Rs of the Circular Economy — Reduce, Reuse, Recycle, and Recover. We enable collection and speedy return of goods that are unused, damaged, or have reached their end of life. Here are some examples.



Retail

Pre-paid shipping labels and right-sized packaging reduce waste and help consumers make efficient and hassle-free returns. UPS Access Point™ locations help to limit trips, reducing fuel use and emissions.



Technology

Faster obsolescence for consumer electronics translates into increasing amounts of eWaste. UPS Returns™ Exchange enables simultaneous delivery of new electronics while picking up old ones, which can either be reused or disposed of responsibly.



Healthcare

Growing in-home patient care is driving shipments of equipment and medications. By simultaneously delivering and picking up returnable devices, reusable cartridges, and empty packaging for reuse, our UPS Returns Exchange services help divert spoiled products and packaging materials from landfills.



Manufacturing

Manufacturers provide return process for reusable cores and refurbishable components, as well as "recycling kits", for items such as used ink cartridges and single-serve coffee pods. Consumers and businesses can return kits to UPS Access Point locations to ship returns.

In the U.S., we are also reducing miles through services like UPS SurePost® and the UPS Synchronized Delivery™ service. UPS SurePost® service combines the consistency and reliability of the UPS® Ground network with UPS data and algorithms to match packages for delivery to planned UPS deliveries. UPS SurePost packages that match planned deliveries are delivered by UPS drivers, while unmatched packages are transferred to the U.S. Postal Service for "final mile" delivery by USPS mail carriers. The UPS Synchronized Delivery service is designed to consolidate deliveries going to the same address while still delivering the packages within our customers' committed timeframes to their consumers. Finally, UPS Smart Pickup® service uses innovative technology to automatically arrange a pickup only when a business has packages to ship.

Smarter Packaging Solutions

Growth in e-commerce is also resulting in a decrease in the density of packages, which compares a package's weight to its physical dimensions. As package density decreases, so does the effective utilization of cargo space, which can translate into more vehicles, more trips, more fuel, and more GHG emissions than necessary. Oversized packages and the extra packaging materials they require create unnecessary waste and are among many consumers' top shipping-related complaints.

In 2016, UPS and Sealed Air Corporation announced a strategic partnership to help retailers, e-tailers, and businesses around the world maximize the efficiency of their packaging operations, minimize packaging waste, and reduce shipping costs. This builds on past collaborations with Sealed Air to enable efficient on-time delivery and returns, provide maximum protection against damage, reduce waste, and lower shipping costs.

We continue to collaborate with Packsize to offer a solution that enables companies to produce a right-sized box for any item or order, onsite at their facility. This reduces waste from excess packaging while allowing UPS to use cargo space more efficiently in transport. We also continue to encourage packaging efficiency through dimensional weight pricing, in which the price to ship a package is based on the amount of space a package occupies in relation to its actual weight.

We also offer sustainable solutions at more than 4,900 The UPS Store® locations. This includes carbon neutral shipping, some recycled packaging, and recycling programs for packaging. At some locations, The UPS Store offers onsite air cushion packaging, which better protects shipments while using less material and saving money.

Stakeholder Perspective



Tom Szaky
Founder and CEO, TerraCycle

In nature, there's no such thing as "garbage." Waste generated by one organism becomes input for the next, in a never-ending cycle. But with the creation of synthetic materials, this process has broken down, leading to ballooning volumes of waste, most of which ends up in landfills.

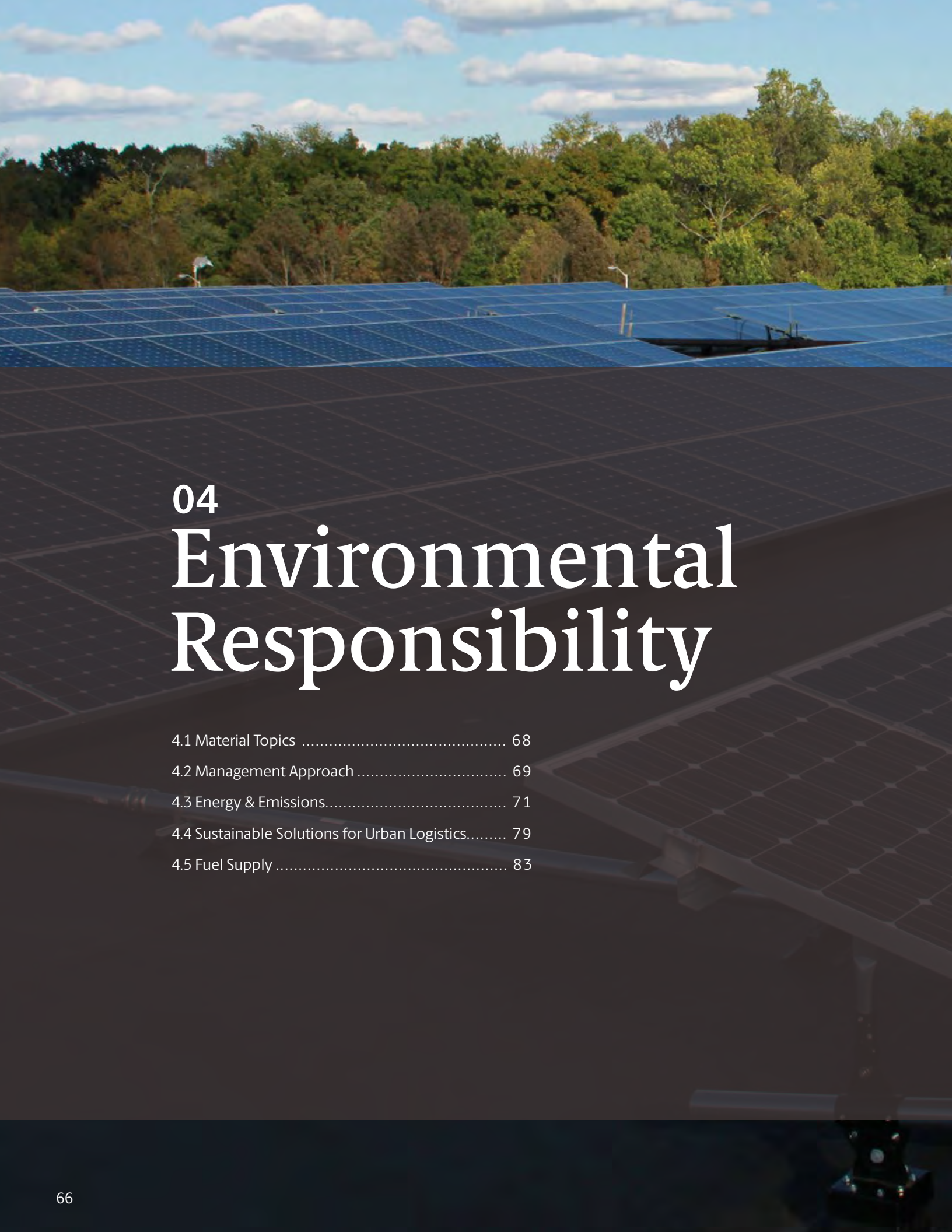
More than 15 years ago, TerraCycle began to rethink this process. Today, we're eliminating the idea of waste by recycling materials that others consider nonrecyclable, from coffee capsules to nitrile gloves. We do this through initiatives like free recycling programs for homes, offices, and schools; cigarette butt recycling programs for major cities in North America and overseas; and industrial waste solutions for manufacturing facilities. Participants in our free recycling programs can earn "TerraCycle points" that are redeemable for rewards and charitable donations — through which we've donated more than \$15 million to nonprofits since our founding.

Depot. As our demands grew, we looked to UPS as a logistics partner in transporting the tens of thousands of parcels we receive every day.

Consumers ship their materials to us for recycling, so transportation logistics are central to our business model. UPS has been there to help solve our biggest logistics challenges — most importantly by making recycling an effortless activity through shipping services that are convenient and readily available. The UPS Access Point™ network gives consumers a variety of shipping options for their recycled materials. And thanks to UPS's app software integration and support, we now offer prepaid shipping labels that our users can access to send us their collected waste. In addition, UPS's global presence has enabled us to replicate our work in markets around the world. To date, 60 million people across 20 countries have participated in TerraCycle's programs, recycling a total of 3.5 billion units of waste.



TerraCycle's work transforms waste from a linear system to a circular one, allowing materials to keep cycling in our economy much as they do in natural systems. When it comes to choosing business partners, we love working with companies who understand what we do and are making similar commitments to more sustainable ways of doing business themselves. UPS is one of those companies. Like TerraCycle, UPS takes responsibility for its activities and its impacts. They just "get it," and that's why we're proud to call them a partner.



04 Environmental Responsibility

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The Road Ahead



“Every business day, UPS drives 1 million miles in our fleet of alternative fuel and advanced technology vehicles. But for all the progress we’ve made, we know there is so much more to do. We remain committed to testing new fuels and technologies, building infrastructure to support them, scaling what works, and learning from what doesn’t. And we’ll continue collaborating with policymakers, customers, manufacturers, and alternative-energy advocates to develop more sustainable solutions for our industry. In the process, we will also create a cleaner, healthier world. I see this as

an incredible opportunity — and an incredible responsibility. One that our industry must embrace with ingenuity, creativity, and a sense of urgency.”

Mark Wallace, Senior Vice President, Global Engineering and Sustainability



PROUD PAST

1930s, Los Angeles, California & New York, New York

The first UPS electric vehicles were plugged in during 1930 and traveled at 20 miles per hour, fast enough for the crowded Manhattan streets. In 1936, electric-powered package cars began delivering packages throughout Los Angeles.

4.1 Material Topics



103-1 | 103-2 | 103-3

At UPS, we address major issues by combining global strategies with everyday actions that collectively add up to make a big difference. We recognize the environmental challenges facing society and are committed to working throughout our value chain to help solve them. Our commitment extends to engaging and leading others toward greater awareness and actions. To do so, we focus on three environmental issues most material to UPS and our stakeholders: energy, emissions, and fuel supply.

Energy

We help the world grow more prosperous by providing transportation and logistics solutions that facilitate trade. This role requires the use of substantial amounts of energy, primarily in the form of fuel for our vehicles and planes. We also need energy for our distribution facilities, warehouses, and data centers.

Emissions

Today, the vast majority of the energy we consume comes from fossil fuels, which generate greenhouse gas (GHG) emissions. Like many other organizations around the world, we acknowledge that GHG emissions affect the climate and pose a serious challenge to the environment and, ultimately, the global economy. We believe everyone shares responsibility to improve energy efficiency and to reduce GHG emissions

in the atmosphere. UPS supports global efforts to mitigate the impact of climate change. Our full statement on climate change can be found on our website at www.sustainability.ups.com/resources/policies-and-procedures.

Fuel Supply

Our business depends on fuel to meet customers' logistics needs efficiently and effectively. This requires stable, consistent, and affordable access to quality fuels and refueling infrastructure on a large scale. This access can differ significantly in various locations around the world and can change, often rapidly, based on factors such as weather or geopolitical events. Responsible fuel sourcing requires constant monitoring of both current and emerging market conditions around the world and involvement with technology innovations that allow access to new low-carbon fuel types.



4.2 Management Approach



103-1 | 103-2 | 103-3

The UPS management approach to Energy, Emissions, and Fuel Supply focuses on a comprehensive plan of five principles that span each of these areas.

Network Optimization

The efficiency of our global logistics network drives both our business success and environmental impact. We have the expertise and infrastructure to handle all categories of service — express, air, ground, domestic, international, commercial, and residential — through one integrated and optimized network. This strategy increases our efficiency and reduces environmental impacts associated with our network, such as GHG emissions.

Our network is also the primary way in which we preserve natural capital. We benefit society by providing more efficient logistics from a financial and natural capital perspective than customers could on their own. Our network optimization strategies include:

- Research, development, and implementation of innovative routing and fleet performance technologies like ORION, which stands for On-Road Integrated Optimization and Navigation, to enable us to improve fuel efficiency; and
- Solutions such as UPS My Choice® service and the UPS Access Point™ network, which allow us to deliver more effectively for customers while reducing the amount of fuel we use to make those deliveries.

A reduction in our carbon intensity translates into an absolute GHG reduction for our aggregated customer base and the planet. This is why we strive to serve customers more efficiently, slowing the growth of fuel use and GHG emissions, even as business volume grows. Our optimized global logistics network, combined with our global GHG strategy, helps improve our efficiency and reduce our carbon intensity.

Comprehensive Data Measurement and Management

We have established global, state-of-the-art IT systems that gather package-level detail on our shipping activity. This wealth of operational data is analyzed in conjunction with the GHG emissions data gathered for our fleets and facilities. The results help us optimize our network, pinpoint our investments and capital expenditures, and accurately report externally on our GHG emissions and other environmental KPIs.



Our analytical data capabilities are considerable and enable us to:

- Advise customers on how to reduce environmental impacts associated with shipping;
- Drive operational efficiencies that benefit the environment;
- Identify global network opportunities for future R&D and capital expenditures; and
- Obtain assurance on our environmental performance with a high degree of transparency to drive confidence and trust among stakeholders.

The use of data analytics is also a good example of how we deploy intellectual capital in a more integrated approach to environmental performance.

103-1 | 103-2 | 103-3

Global GHG Reduction Strategy

We take a comprehensive, global approach to reducing energy use and GHG emissions, including all our ground, air, and facility operations, as well as major portions of our value chain, including customers and suppliers. Our strategy includes:

- Reducing the miles we travel in our global transportation network and, accordingly, the fuel we use, to accomplish any given level of shipping;
- Expanding our fleet of alternative fuel and advanced technology vehicles, known as our rolling laboratory, in order to reduce the proportion of conventional fuels we use;
- Reducing conventional energy use and increasing the renewable energy use in our fleet and facilities;
- Providing shippers with services that help them reduce their environmental impact; and
- Helping increase supplier awareness about GHG emissions and how to reduce them.

Fuel Supply Management

Responsible management of our fuel supply, which represented 3.8 percent of our total operating expense in 2016, is another critical part of our shared approach to energy and emissions. Maintaining the integrity of our fuel supply is critical to ensuring we can deliver for customers. Our strategy encompasses:

- Large-volume data-gathering on all our air and ground fleets — including those in our rolling laboratory — to understand our fuel requirements in great detail;
- Direct purchases from vetted counterparties, including producers and brokers, to help ensure supply integrity for meeting customer commitments, controlling costs, and ensuring quality; and
- Diversification of our supplier base to minimize risks of outages.

In addition to our overall fuel supply management strategy, we also leverage our scale and expertise to actively promote the development of lower-emission alternative fuels. This includes:

- Employing a rolling laboratory approach in which we use our fleet size and diversity to help test the viability of alternative fuels in real-world operating conditions;
- Investing in a fast-growing fleet of vehicles that uses alternative fuels, which helps to create market incentives to expand supplies of those fuels;
- Collaborating with government and nongovernmental organizations (NGOs) in select alternative fuel initiatives such as the U.S. Environmental Protection Agency SmartWay® Program that promotes the use of alternative fuels;
- Participating in the World Business Council for Sustainable Development's Low Carbon Freight initiative to explore the potential for fuel and emissions reductions through optimization and collaboration between companies on road freight transport, and its below50 initiative to grow a global corporate market for best-in-class sustainable low-carbon transport fuels; and

- Funding of, participation in, and championing of the Future of Fuels program at BSR, a leading sustainability NGO, to study the impacts of all fuel sources and help guide business in the development of relevant policies and practices.

A complete discussion of Fuel Supply Management can be found on page 83.

External Engagement and Public Policy

As part of our overall management approach, we also contribute actively to public discussions about environmental sustainability. This includes collaborating with leading NGOs, regulators, and industry consortiums to propel the cause of environmental sustainability forward. We also participate in public policy forums, where we advocate for prudent innovation and investment in new technologies and infrastructure development. Read our Climate Change Statement on our website at <https://sustainability.ups.com/resources/policies-and-procedures/>.



4.3 Energy & Emissions



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During 2016, UPS established a new set of enterprise sustainability goals to reach by 2025. Continuing a commitment to address our environmental impacts, we set a goal to reduce absolute GHG emissions for our global ground operations 12 percent by 2025 against a 2015 baseline.

Carbon Reduction Goals

The decision to establish a science-based target for our ground operations recognizes the degree to which GHG emissions affect climate and, ultimately, the global economy. We engaged with leading environmental NGOs and used a methodology aligned with the Science-Based Target initiative to set this goal.

The use of renewable energy is critical to achieving this ambitious goal. To do so, we intend to have 25 percent of our total electricity come from renewable sources by 2025. We have also committed to increase the use of alternative fuels to 40 percent of our total ground fuel use by 2025. These commitments will result in cleaner emissions and help to commercialize the market for alternative fuels, such as renewable diesel and renewable natural gas. This pathway,

however, is not without challenges. Large-scale production of renewable fuels will require significant supplier investments and, in the case of organic sources for renewable diesel, could potentially disrupt other markets.

At this time, we have elected not to set absolute reduction targets for our airline, where the use of renewable fuel is more challenging. Though jet fuel represents 58 percent of our total GHG emissions, large-scale refining of next-generation renewable fuels and aviation biofuel solutions is not economically feasible without significant government incentives and subsidies. Aviation biofuels also have commercial scale challenges. A complete discussion of our GHG reduction efforts at UPS Airlines is found on page 75, and our use of alternative fuels on page 83.



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2016 Performance

In 2016, we continued to improve the efficiency of our operations by delivering more packages for our customers while emitting fewer greenhouse gas (GHG) emissions per package. Our small package volume increased 4.2 percent over 2015, outpacing our scope 1 and scope 2 GHG emissions, which we held to a 1.9 percent increase over the same period. The increase in GHG emissions is largely attributed to next day air volume growth.

In our global ground operations, which includes vehicle fuel, facility heat, and facility electricity, we achieved an absolute GHG reduction of 1.7 percent over 2015. This absolute reduction is the result of successfully implementing our GHG reduction strategy, which includes many initiatives, such as fully implementing ORION in our U.S. Small Package operations, expanding our fleet of alternative fuel and advanced technology vehicles, providing shippers and customers with services like the UPS Access Point™ network and the UPS My Choice® program, and leading the transportation industry with the use of low-carbon fuels like renewable diesel and renewable natural gas.

Scope 3 emissions — those emitted by others on behalf of UPS activities — increased 3.3 percent from 2015 to 2016. We report on all relevant Scope 3 categories, nine out of 15, as defined by the GHG Protocol. The two categories most significant to our business are lifecycle emissions related to the production of fuels and energy we use (category 3), and emissions from purchased transportation (category 4). See pages 96 and 98 for more explanation on Scope 3 categories.

Emissions related to the production of fuels and energy increased 2.7 percent in 2016, due primarily to increased use of jet fuel in our operations. We continue to work with supply chain partners to test and use fuels that lessen our environmental impact and create fewer emissions. Emissions from purchased transportation increased slightly by 0.7 percent in 2016. We continue to work with our transportation service partners to provide reliable service in the most efficient manner possible.

Transportation Intensity Index

In addition to our new absolute GHG reduction goal, we continue to report on the progress of our GHG intensity goal, the Transportation Intensity Index, introduced in 2010.

Transportation Intensity Index

These figures represent the three different carbon intensity metrics we combine to generate the complete Index and illustrate for stakeholders how specific components of our business are reducing their carbon intensity.

U.S. SMALL PACKAGE OPERATION CO₂e/PACKAGE



↓ 17.9%

2007 Baseline: 2.78 LBS
2016 Actual: 2.28 LBS

GLOBAL AIRLINE FUEL CO₂e/ATM



↓ 9.1%

2007 Baseline: 1.54 LBS
2016 Actual: 1.40 LBS

U.S. SUPPLY CHAIN & FREIGHT OPERATION CO₂e/LB OF FREIGHT



↓ 30.9%

2007 Baseline: 0.26 LBS
2016 Actual: 0.18 LBS

CARBON INTENSITY REDUCTION OVERALL

↓ 16.6%

Compared to 2007

GHG Emissions by Source (CO₂e metric tonnes)

| Source | GHG Scope | 2016 | 2015 | 2014 | 2013 |
|----------------------|-----------|-------------------|-------------------|-------------------|-------------------|
| Airline Fuel | Scope 1 | 7,720,000 | 7,375,000 | 7,195,000 | 7,160,000 |
| Vehicle Fuel | Scope 1 | 4,496,000 | 4,587,000 | 4,549,000 | 4,387,000 |
| Facility Fuel | Scope 1 | 216,000 | 235,000 | 256,000 | 223,000 |
| Facility Electricity | Scope 2 | 831,000 | 814,000 | 870,000 | 828,000 |
| Total | | 13,263,000 | 13,011,000 | 12,870,000 | 12,598,000 |

See page 95 for further breakdown for years 2015 and 2016

This Index captures the overall efficiency of our global network by measuring GHG emissions associated with transporting packages and freight for our customers in a given year. Separate carbon intensity metrics measuring the Scope 1 and Scope 2 CO₂e emissions for each of our three business segments are included in the Index. All three business segments have seen a decrease in their carbon intensity, reflecting greater efficiencies in our ability to move more packages and freight while emitting less carbon. As a result, UPS has realized an overall carbon intensity reduction of 16.6 percent versus a 2007 baseline by successfully executing GHG reduction strategies in our ground and air fleets, both of which are discussed later in this chapter.

Ground Fleet Efficiencies

Optimization of our ground fleet drives both financial performance and environmental impact. Reducing the number of miles driven and time spent delivering a shipment can translate into lower costs as well as energy savings and lower emissions.

Delivery Network Efficiencies

We have a long track record of successfully applying cutting-edge technologies and analytics to improve our fleet efficiency. For more than a decade, we have been leveraging data through telematics, package routing technology, service offerings, and other strategies to optimize network efficiencies and minimize the miles we drive. Some of these tactics include:

- Allocating pickups and deliveries to the most efficient number of vehicles each day at each facility, thus keeping vehicles off the road wherever possible;
- Developing and implementing innovative routing and fleet performance technologies like ORION to enable us to meet customer service commitments and reduce miles driven; and
- Offering innovative solutions, such as UPS My Choice® service, the UPS Access Point™ network, and UPS Smart Pickup® requests to reduce wasted miles and associated emissions due to unsuccessful delivery and pickup attempts.

In addition to reducing the number of miles driven, we combine numerous techniques and technologies to reduce fuel use per mile and apply them across more than 55,000 daily routes, such as:

- Selecting route options that minimize idling time, thus reducing fuel use and emissions;
- Matching vehicle types with routes where they will deliver the best fuel efficiency; and
- Conducting proactive, just-in-time maintenance on our vehicles to keep their miles-per-gallon performance as high as possible.

One method of measuring the effectiveness of these initiatives is by analyzing stops per mile. In our package business, we strive to increase stops per mile and avoid driving unnecessary miles. Our drivers make approximately 2 billion stops per year,



The UPS Foundation Global Forestry Initiative

Environmental initiatives extend beyond our business to include The UPS Foundation, which, in 2016, awarded more than \$2.6 million in grants to support environmental sustainability initiatives, advance environmental research and thought leadership, strengthen education and awareness, and promote energy and resource conservation. Through the UPS Global Forestry Initiative, we have planted more than 7 million trees since 2012, as we work toward our goal of 15 million trees by 2020. The UPS Foundation has also funded the development of many GHG Protocol standards and tools, including the Science-Based Targets initiative, as well as educational efforts such as The Nature Conservancy's support of the Europe China Dialogues, which promotes international conversations on responsible forestry practices.

which means a slight improvement in the number of stops per mile translates into significant reductions in fuel consumption and emissions. Such was the case in 2016 when total stops in our U.S. domestic package segment increased by 4.4 percent due to higher volume. Through route optimization and other efficiencies, we held delivery miles driven to a 0.6 percent increase. As a result, stops per mile improved from 1.51 in 2015 to 1.56 in 2016. This small improvement enabled us to avoid driving more than 47 million miles, thereby eliminating 5.3 million gallons of fuel use and 50,000 metric tonnes of CO₂.

The continued deployment of telematics is also helping us to reduce fuel use and CO₂ emissions. Our proprietary system gathers data on more than 200 vehicle-related elements, which are then analyzed to identify opportunities to enhance safety and boost efficiency. We use telematics throughout our domestic small package and UPS Freight fleets, and continue to expand deployment outside the U.S.

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The deployment of telematics outside the U.S. is a priority, but not without challenges. Significant changes in the telematics software must be made to comply with local laws. To date, we have completed full deployment of telematics in 11 countries: Australia, Canada, the Czech Republic, Denmark, Germany, Ireland, Mexico, the Netherlands, Singapore, Switzerland, and United Kingdom. There are 191 UPS locations and approximately 8,000 vehicles outside the U.S. — 88 percent of our overall owned ground operations outside the U.S. — currently using telematics. We plan to expand telematics to additional countries in 2017.

Our groundbreaking route optimization software, ORION, continues to deliver significant financial and environmental benefits. In 2013, after 10 years of development, we began implementation of ORION, which stands for On-Road Integrated Optimization and Navigation. Arguably the world's largest operations research project, ORION is proprietary routing software that uses package-level detail, customized online map data, fleet telematics, and advanced algorithms to take route optimization to a new level. ORION enhances customer service and reduces miles driven by determining the most efficient delivery route each day. We have learned that successful implementation is a combination of ORION's optimizing technology combined with our drivers' using their best judgment and knowledge of optimal route solutions.

In 2016, we completed deployment of ORION to 100 percent of U.S. routes targeted for implementation. Since beginning deployment in 2013, we have reduced the distance driven by our drivers by 210 million miles, achieving a 210,000 metric tonne cumulative reduction in CO2 emissions and realized annual cost savings of US\$400 million. Now that ORION is fully deployed to these routes, we expect to see annual reductions of 100 million miles and 100,000 metric tonnes in CO2 emissions. The next generation of a dynamic real-time version of ORION will be deployed by 2019 to further reduce miles driven, fuel use, and CO2 emissions.

Feeder Network Efficiencies

Our feeder or, as it is more commonly known, tractor-trailer network accounts for more than half of our fuel consumption in our change to U.S. Ground Domestic Package business segment. The acquisition of Coyote Logistics in 2015 has generated significant opportunities to improve our feeder network operation by reducing empty backhaul miles and associated emissions.

We continually evaluate new fuel-saving equipment and technologies in our feeder network, such as aerodynamic side fairings on tractors, low rolling resistant tires, engine downspeeding, and aerodynamic skirts on trailers. In 2016, we validated the fuel-saving potential of the T-Dolly, a converter dolly for double- and triple-trailer combinations. We are now adding this equipment to our feeder network fleet. The dolly automatically retracts to close the trailer-to-trailer gap at highway speeds, which reduces aerodynamic drag and improves fuel economy 2.5 to 3.5 percent. At speeds below 40 miles per hour, the dolly automatically extends to allow for sharp turns. Based on its potential to reduce fleet fuel consumption, we purchased 200 T-Dollies in 2016 and have plans to purchase more going forward.



Delivering the Next Innovation

Today, data is typically used for descriptive analytics, which describes what has happened, or predictive analytics, which explains what might happen next. Looking to the future, the use of prescriptive analytics will help businesses understand what *should* happen, providing a chance to solve problems before they even arise. For example, a company like UPS will be able to predict traffic gridlock and automatically re-route drivers to avoid delays. Or use real-time data to determine which nodes of our network — down to the individual driver — will best get a package to its destination on time.

It sounds like science fiction, but UPS is laying the groundwork for these analytics innovations today. Our ORION software is already shortening delivery routes by millions of miles. The next step in our evolution includes our new Network Planning Tools (NPT). Think of NPT like a larger-scale version of ORION, with routes optimized down to the package level. NPT rolls route and hub optimization into one tool, allowing us to re-route packages in transit in response to weather delays or other bottlenecks. The tools will be fully deployed by 2020 — and will surely open doors to further breakthroughs using data in years beyond.

We fully leverage the capabilities of our global network, which combines air, rail, ocean, and ground transportation, to offer customers environmentally friendly alternatives. Rail options, for example, consume less energy and produce lower carbon emissions than air or road freight. The efficient freight practices that we have adopted across our ground fleet operations also can be an important factor that customers consider when making a logistics sourcing decision.

Air Fleet Efficiencies

UPS Airlines is a critical component of our logistics network, helping us to quickly connect our customers around the world. As a result, we help to reduce the absolute GHG emissions associated with the shipping activities of our customers. To further reduce that carbon footprint, we work aggressively to minimize the carbon intensity of UPS Airlines, which accounts for 58 percent of our total GHG emissions.

As we increase the efficiency of our network, we have the opportunity to decrease the carbon intensity of our airline by reducing the number of miles flown and gallons of fuel consumed to meet customer needs. The primary way we measure this progress is through CO₂ Pounds per Available Ton Mile, also stated as pounds of CO₂ emitted for every ton of capacity transported one nautical mile.

Since 2005, we have realized a 10 percent improvement in this KPI. Total air volume has increased 36 percent while we have held emissions to a 21 percent increase over this time period. We expect that our continued progress toward our 2020 goal of a 20 percent carbon intensity improvement will be challenging. When this goal was originally set, we anticipated greater availability and assumed widespread use of alternative fuels in our air fleet.

Alternative fuels present a significant challenge to aviation, since the fuel must meet stringent operating and airworthiness certification requirements. Aviation alternative fuel pathways have received certification, and select projects are underway. Globally, five refiners produce “drop-in” renewable fuels (which can be used in existing conventional engine technology and refueling infrastructure) at a meaningful scale, and a handful of these facilities have the ability to produce renewable jet-blend stocks. However, yields and economics significantly favor the production of other products, including renewable diesel. UPS is the largest global user of “drop-in” renewable diesel used in ground transportation and has established relationships with four of the five current producers.

Long term, we believe that meaningful incorporation of renewable content into the jet fuel stream will result from co-processing rather than the development of high-cost, small-scale boutique facilities. Co-processing utilizes the existing crude oil refining infrastructure to process synthetic crude oils that are bio-based. In the future, low-carbon fuel



A New Way to Think About the “Last Mile”

At the 2016 installment of TED@UPS, a new way forward was proposed for “last mile” delivery. Mario Paluzzi, a logistics and technology specialist with Coyote Logistics, asked, “What if a person’s exact geographical location could be used for package deliveries rather than a traditional street address?” His inspiration came from the developing world where many people lack a traditional street address such as 123 Main Street, but 90 percent of the population have mobile phones that could give a person’s exact location. Letting people put themselves on the map, as Mario put it, could revolutionize the last mile and disrupt an industry with new ways of doing business.

policies could incent petroleum refiners to incorporate renewable content directly into their crude oil feedstocks, utilizing existing infrastructure. This would result in renewable content being dispersed across a wide variety of refined products, including gasoline, diesel, and jet fuel, and would ultimately lower the well-to-wheels carbon intensity of all products.

Particulate Emissions Reduction

U.S. Domestic Package & U.S. Freight Operations

| | 2016 | 2015 | 2014 | 2012 Baseline | 2020 Goal |
|--|------------------------|------|------|---------------|---|
| PM _{2.5} Emissions per Ground Vehicle (kg PM _{2.5} /vehicle) | 9 (50% reduction) | 10 | 14 | 18 | 75% reduction from 2012 baseline |
| NO _x Emissions per Ground Vehicle (kg NO _x /vehicle) | 251 (50% reduction) | 280 | 372 | 503 | 60% reduction from 2012 baseline |

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Absent low-carbon fuel policies and with the price of crude oil at record lows, the financial incentive for fuel companies to advance lower carbon alternative fuels has waned. We continue to participate in the Commercial Alternative Aviation Fuels Initiative, which provides us with a forum to monitor and engage in developments in alternative fuels and technologies for the airline.

UPS always strives to achieve the most optimal and efficient air network and will continue to do so with initiatives focused around three strategic areas: aircraft fleet, aircraft weight, and aviation procedures. Examples of our progress in aircraft fleet and weight are shown on page 77.

In 2016, we ordered 14 new Boeing 747-8 freighter jets to meet increased demand, with an option to purchase 14 additional jets in the future. The jumbo freighters will help meet our customers' future capacity needs while also reducing fuel use and carbon emissions. The 747-8's new wing and engine design reduces fuel consumption and carbon emissions by 16 percent over the 747-400F. The aircraft operates 52 percent below the International Civil Aviation Organization's (ICAO) nitrous oxide limits and is 30 percent quieter than other jumbo cargo jets. We will take delivery of the aircraft between 2017 and 2020.

In 2016, the ICAO took significant action in its 39th Assembly to address CO2 emissions generated by international aviation activities. The ICAO Assembly established a Global Market Based Measure to offset CO2 emissions and contribute to carbon neutral growth of international aviation from 2021 onwards, and brought CO2 emissions into the formal certification process for new aircraft. We monitor and will continue to comply with ICAO and all other rulemaking affecting our aircraft operations.

We also implemented a fuel management software solution in 2016 that provides enhanced analytics and visibility of fuel consumption. The solution allows tracking and reporting of fuel usage metrics and helps target areas for fuel and emissions reduction, including factors in flight planning and flight operations. We anticipate this software will help us to efficiently lower fuel use and reduce CO2 emissions from our aircraft.

UPS Airlines completed a multiyear project implementing a new takeoff and landing performance system on all UPS aircraft in 2016. The new on-board system automates takeoff and landing performance calculations for the entire aircraft fleet. The new software provides the most current, automated, and optimized



aircraft performance data for all situations and runway conditions. This real-time takeoff and landing data helps make the best and safest decisions during takeoffs and landings. The software also captures all dispatch and crew performance results, enabling greater oversight and performance validation. There are also efficiency gains from reduction in takeoff flap settings and optimized thrust required for takeoff. These gains also mean significant sustainability benefits as well: better takeoff climb performance, noise reduction, and saved upwards of 1 million gallons (over 10,000 metric tonnes of CO2e) of fuel annually, while also eliminating approximately 3 million printed pages of paper each year.

Our path forward to realize additional air fleet efficiencies extends to 2020 and beyond as the Federal Aviation Administration (FAA) continues to expand its next-generation ("NextGen") air traffic control and surface traffic management systems. We have realized measurable improvements from the 2013 introduction of RECAT — the recategorization of wake turbulence separation standards — at our global air hub in Louisville, Kentucky. By reducing the separation standard between both inbound and outbound aircraft, we have decreased average taxi time by 9 percent and improved average arrival and departure rates by 10 percent. Our Flight Operations team continues to work closely with the FAA to improve arrival and departure efficiencies at key airports. In addition, we continue to implement digital technology to replace pilot-controller voice communications. Through the DataComm program, UPS now receives controller instructions such as clearances via digital technology, which improves efficiency, reduces radio congestion, and enhances our ability to save fuel during taxiing. We are working with the FAA to pioneer this program for the industry.

CO2 Pounds per Available Ton Mile

UPS Airlines — Global Operations

| | 2016 | 2015 | 2014 | 2005 Baseline | 2020 Goal |
|---------------------------------|-------------------------|------|------|---------------|-------------------------|
| lbs CO2/ATM (Nautical Miles) | 1.39 (10% reduction) | 1.39 | 1.37 | 1.54 | 1.24 (20% reduction) |
| lbs CO2/ATM (Statute Miles) | 1.21 (10% reduction) | 1.20 | 1.19 | 1.34 | 1.08 (20% reduction) |



A Lower Carbon Footprint in the Air

Since 2005, UPS Airlines has reduced its carbon intensity by 10 percent, thanks to strategies focused on our aircraft fleet, aircraft weight, and aviation procedures. Here's how we avoided greenhouse gas emissions "in the air" during 2016.



Discretionary Fuel Reductions

Historical flight plan data enables more accurate fuel requirements

GHG REDUCED

17,100
metric tonnes

Jet Engine Washing

Removes particulate matter accumulated during engine operation

GHG REDUCED

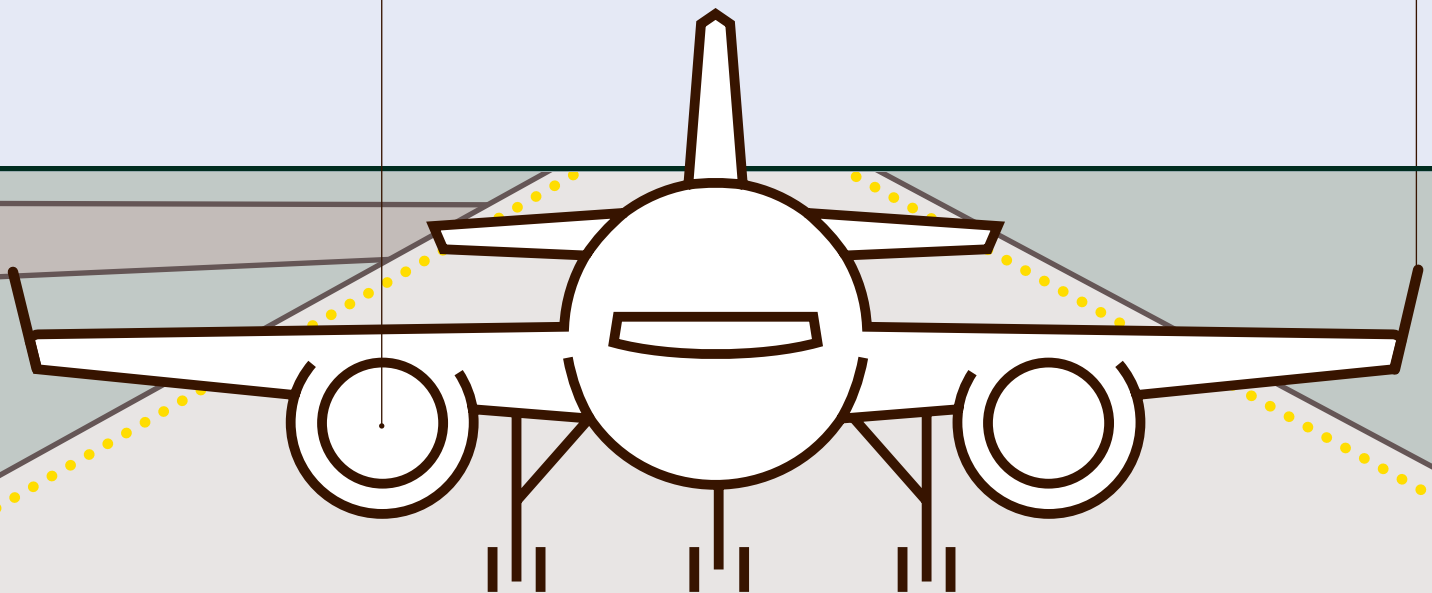
25,500
metric tonnes

"Winglet" Modifications

Reduce drag and increase fuel efficiency by approximately 3.6 percent per flight

GHG REDUCED

81,300
metric tonnes



Flight Crew Tablets

70 pounds lighter than a flight bag.

GHG REDUCED

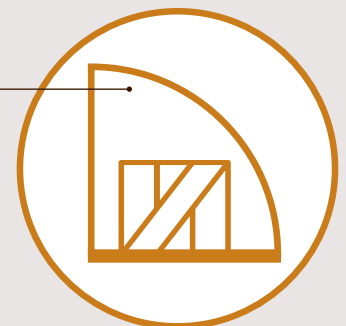
1,300
metric tonnes

Fire-Resistant Containers (FRCs)

Enhance safety and weigh less than traditional containers.

GHG REDUCED

6,300
metric tonnes



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Facility Energy Efficiency

Beyond our transportation network, the operation of more than 2,500 UPS facilities around the world offers opportunities to reduce energy consumption and GHG emissions. UPS is making sustainable business decisions, including using best management practices when considering the construction of new facilities and infrastructure to support daily operations. UPS is evaluating all new construction projects for green-building rating system implementation. The Building Research Establishment Environmental Assessment Methodology (BREEAM), the Leadership in Energy and Environmental Design (LEED), and Green Globes are rating systems widely in use today worldwide.

UPS currently has five facilities that have received LEED certification from the U.S. Green Building Council:

- Platinum Certification for UPS Supply Chain Solutions headquarters in Alpharetta, Georgia;
- Gold Certification for Corporate headquarters in Atlanta, Georgia;
- Silver Certification for a UPS Supply Chain Solutions healthcare facility in Louisville, Kentucky;
- Silver Certification for a supply chain warehouse in Londonderry, New Hampshire; and
- Certification for a small package facility in Queens, New York.

We also have a facility in Southampton, U.K. that has been BREEAM-certified Excellent. In addition, UPS currently has five facilities that have received Energy Star® certification from the U.S. Environmental Protection Agency. These include our Corporate headquarters and Global Business Services facility in Atlanta, Georgia; our Supply Chain Solutions headquarters in Alpharetta, Georgia; and our Global Operations center and Air Group building in Louisville, Kentucky.

Renewable Energy

Our energy vision of the future includes a growing commitment to renewable energy sources. To underscore this commitment, we have included a renewable facility energy goal as one of our global sustainability KPIs established during 2016. We set a goal to have 25 percent of our total electricity purchased in 2025 to come from renewable sources. In 2017, we plan to invest US\$18 million in on-site solar at eight U.S. facilities, which will expand our solar generating capacity by almost 10 megawatts — a nearly five-fold increase in the amount of solar power generated at UPS facilities.

Currently, renewable energy sources account for less than 1 percent of our electric energy use. These renewable sources are found in four U.S. facilities with photovoltaic solar systems. These are located in Palm Springs, California, and three locations in New Jersey: Lawnside, Parsippany, and Secaucus. These wholly owned renewable energy systems have an aggregate capacity of 2.6 megawatts and are capable of producing more than 3.5 million kilowatt-hours a year.



4.4 Sustainable Solutions for Urban Logistics



The global population is expected to grow from 7.3 billion today to 9.7 billion by 2050, when two-thirds of all people will make cities their home. This expanding population is expected to fuel an increase in middle-class consumers and global commerce, which will add volume to trade lanes and increase the number of vehicles on already congested roads. To meet these logistical challenges and ensure a desirable quality of life in increasingly crowded urban areas, we need more intelligent transportation solutions that are both economically feasible and environmentally sustainable.

Many city centers are already facing the challenges of vehicle gridlock and congestion, which negatively impact both air quality and economic competitiveness. Urban planners agree that the key to creating livable and walkable “smart cities” lies in reducing reliance on personal vehicles; however, this solution will require investment in better mass transit, ride sharing, bike lanes, and walkable streets.

UPS would add another component: reliable and convenient e-commerce delivery, which is critical to making alternative transportation modes, such as walking, mass transit, and cycling, a viable choice.

Though delivery vehicles are typically seen as contributing to traffic, the reality in a modern, e-commerce-driven urban marketplace is far different. Effective supply chains actually consolidate deliveries and serve as “shared mobility” for packages and freight, reducing the number of trips needed and reducing the environmental impact for each individual package.

Partnering with Cities

UPS and our city partners have a shared interest in reducing congestion, promoting sustainability, and enhancing quality of life for those we serve. We engage with city officials and business leaders, offer thought leadership and industry expertise, and work toward collaborative and innovative logistics solutions that minimize congestion, noise, and pollution.

In London, city officials are planning to expand and accelerate the Ultra Low Emissions Zone to further reduce emissions of NO₂ and particulate matter in the city center. Working with the Freight Electric Vehicles in Urban Europe (FREVIEW) project, we continue to convert select model delivery trucks from diesel to electric power, which eliminates tailpipe emissions and circumvents the limited availability of brand-new electric delivery vehicles. In 2016, we ramped up efforts and continued deploying these vehicles in London, Paris, and various cities in Germany. At year end, we were operating



52 electric vehicles in central London — approximately 30 percent of our fleet in the city center — 40 of which were diesel-to-electric conversion vehicles.

In 2016, we concluded a successful test of a range-extended electric vehicle, which carries a small generator that recharges the batteries and automatically turns on or off when entering or leaving the city center. This allows us to serve long-range routes while still operating as a fully electric vehicle in the city. We plan to deploy up to 15 range-extended electric vehicles in the U.K. in 2017.

Looking ahead, we have commissioned a prototype next-generation and autonomous-capable delivery vehicle which, if successful, will transform our fleet beyond converting diesel vehicles. We are exploring a smart grid project for central London, which would leverage the existing grid to power an electric fleet without requiring additional infrastructure upgrades. Additionally, we are participating in a consortium with the U.K. government to develop and deploy electric trailers that can be towed behind electrically assisted bicycles (eBike) or used by service providers on foot, increasing the package capacity of these vehicles.

Similar initiatives are also underway in other parts of Europe. In Paris, we plan to introduce 15 biomethane vehicles alongside diesel-to-electric conversion vehicles, creating the opportunity to compare performance of the two alternative vehicles.

In Germany's city center of Hamburg, we use electric tricycles to pick up and deliver packages from a stationary trailer, significantly reducing our vehicle presence. This "Cargo Cruiser" model is also being used in Offenbach and Oldenburg, with a similar first eBike test pilot in motion in Portland, Oregon. Toulouse is also using a lighter model of the electrically-assisted tricycle. Other cities are being considered for future projects, generating new ideas among UPS engineering teams, academic and professional researchers, city leaders, and other urban mobility experts around the world.

Innovative "Final Mile" Solutions

Cities are also exploring ways to reduce the number of vehicles on the road by consolidating "final mile" deliveries to a single location. Creative solutions like the UPS Access Point™ network provide a consolidated delivery point — such as a local business — for safe and convenient pickups by many customers in the same area. UPS My Choice® service allows customers to choose a more convenient delivery time or location from their mobile device. These solutions help avoid unsuccessful deliveries, provide more flexibility for consumers, and reduce miles driven and associated emissions.

Collaborating on a Path Forward

Reducing urban congestion, noise, and pollution is as much about partnership as it is about innovation. Sharing best practices and harmonizing regulations and standards among cities is critical if delivery companies are to innovate in the most efficient manner possible.

UPS is actively engaged in developing collaborative solutions through the World Business Council for Sustainable Development's Zero Emission Cities Initiative, the University of Washington's Urban Freight Lab, and other organizations.

As cities grow more crowded every day, UPS remains committed to addressing the challenges that lie ahead. By stimulating demand for alternative fuels and technologies, creating more sustainable solutions for our customers, and innovating our fleet, we will continue to meet the ever-evolving demands of urban logistics.





Sustainable Urban Access Solutions

Cities are becoming more crowded every day, and it is expected that 66 percent of the world's population will live in urban areas by 2050. As cities grow, so do the issues of congestion, noise, air quality, and emissions. Here are a few examples of how UPS is innovating solutions to ensure that we continue to meet our customers' needs in efficient and sustainable ways.

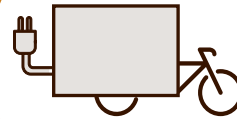
UPS Access Point™ Locations

UPS Access Point locations provide centralized sites for package pick up and drop off to increase customer convenience and reduce wasted miles and associated emissions.



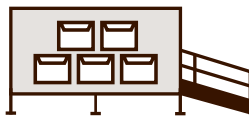
eBike

New alternatives, such as e-bikes, enable UPS drivers to make deliveries throughout the city center for trips less than 20 miles.



Central Container Distribution

City deliveries are distributed from a centrally located storage container driven daily into the city to cut down on trips in and out of city centers.



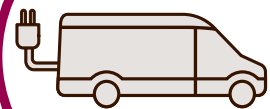
Deliveries by Foot

On-foot UPSers make deliveries throughout the city center in pedestrian-only zones.



Electric Vehicles

Less dense surrounding areas utilize electric and extended range vehicles to provide zero and low emissions solutions.



Stakeholder Perspective



Asher Bennett
CEO, Tevva Motors

Personal electric vehicles are growing in use around the world. But when it comes to commercial vehicles like urban delivery trucks, the perception remains that electric options aren't yet available. That's a misconception — and Tevva Motors is at the forefront of changing it.

We offer a zero-emissions-capable freight truck with 7 to 18 tons of gross vehicle weight and a fully electric range of 150 kilometers, or about 93 miles. This truck can travel far outside its electric capacity, however, using a range extender — a small, highly efficient internal combustion engine that acts as a generator to recharge the batteries if they become depleted while the vehicle is on the road. Embedded Predictive Range Extender Management System (PREMS) software helps the two systems work in tandem. By calculating the vehicle's daily energy needs, PREMS ensures that the range extender operates only when necessary and only in optimal environments. For example, it could run the vehicle on electric power while moving through a congested city, then automatically switch to range extender when the truck enters the motorway to return to its base.

The most obvious advantage of this technology is that the truck never runs out of range, which significantly broadens the scope of activities it can fulfill. Less

immediately obvious is that the range extender maximizes the total distance that the vehicle can travel with zero emissions, and the PREMS system proactively manages any emissions to occur outside sensitive areas. Rather than keeping a margin of safety to avoid being stranded with no battery charge, the range-extended vehicle uses batteries to their fullest potential.

The successful rollout of our vehicles wouldn't have been possible without UPS. Any new and groundbreaking technology requires a lead customer, and Tevva is no different. We began working with UPS on a prototype in 2014, which we officially launched in 2015 for a 12-month test period.

Partnering with UPS has enabled us to test and develop the core concept vehicle and, critically, to prove its capability in a real-world environment. Understanding the customer and their real-world challenges is hugely important for any company's success. UPS was very open about their needs, and that allowed us to shape our vision and develop our technology into something that would bring value to UPS — and, in turn, benefit other truck operators who use this technology. The credibility that comes from such a proving ground is invaluable to our efforts to reach the wider market.



At the same time, Tevva's commitment to service and ongoing technical development has met UPS's need for a zero-emissions vehicle that can operate from depots well outside city centers. This places UPS well ahead of its competitors in terms of vehicle efficiency.

With this proof of what's possible, Tevva and UPS have become a united voice at forums such as the Low Carbon Vehicle Partnership. Together, we can lead the way to work with policymakers regarding the use of delivery vehicles in urban environment while simultaneously raising the profile and acceptance of electric vehicles.

4.5 Fuel Supply



We outline the key strategies that govern our fuel supply management approach on page 70, while other sections of this chapter discuss how we are improving the fuel efficiency of our air and ground fleets through technology, advanced routing, and service offerings to our customers. Here, we focus primarily on our use of alternative fuels, as well as insights gained and challenges experienced from operating one of the largest private fleets of alternative fuel and advanced technology vehicles in the U.S.

Rolling Laboratory

Our ground fleet has considerably more alternative fuel options than the air fleet, and we have been exploring their use for the past three decades in our rolling laboratory. This is an opportunity to determine how alternative fuels and advanced technologies perform in diverse, real-world operating conditions.

Our business is dependent upon fuel to power both our air and ground fleets. This dependence presents two business challenges. First, we must ensure we have access to reliable, readily available, cost-effective, petroleum-based fuel. Second, we must manage the environmental impacts inherent in our business, as well as the growing regulations to mitigate emissions around the world. Alternative fuels and advanced technologies offer ways to help address these challenges. The ability to economically produce and access these alternative fuels at a sustainable commercial scale remains a key challenge.

We take a broad approach to alternative fuel and advanced technology vehicles, evaluating all technologies on a global basis and attempting to deploy solutions in regions where they are economically viable. For example, compressed natural gas (CNG) and propane are lower-emission, petroleum-based alternatives that are readily available and work well in North America, whereas the emphasis in much of Europe is on zero tailpipe solutions, such as electric vehicles. The diversity of our rolling laboratory helps us address these regional disparities.

The breadth of our engagement in alternative fuel and technology development is measured through the Alternative Fuel & Advanced Technology Miles Driven KPI (see page 11).

The continued growth of our engagement reflects a long-term view and commitment to meet our customers' needs for clean, low-carbon transportation options. It takes years, often decades, to develop alternative fuels and advanced technologies, which requires a commitment to stay the course, even in difficult business environments. This was the case in 2016 when the price of crude oil averaged under US\$50 a barrel, about half the average price in the previous five-year period.

Our Commitment to Alternative Fuels

UPS will remain the industry leader in seeking alternative fuel opportunities for our worldwide fleet. These acts of leadership demonstrate our efforts and continually underscore our commitment as we work to:

- Protect the global environment;
- Deliver packages and freight globally with the most environmentally friendly equipment possible; and
- Pave the way for other transportation fleets to do more by continuing to be a leader in alternative fuel and advanced technology vehicles.



In August 2016, one year earlier than planned, we achieved our goal of driving 1 billion miles in alternative fuel and advanced technology vehicles. Approximately 19.6 percent of the conventional diesel and gasoline fuel previously used by UPS's ground fleet is now being replaced by alternative fuels, including renewable natural gas and renewable diesel. Since 2009, UPS has invested more than US\$750 million in alternative fuel and advanced technology vehicles and fueling stations globally. Consistent investment, combined with supportive government policies and collaborative partnerships, has helped expand development and utilization of alternative fuels, vehicles, and infrastructure around the world.

Today, our rolling laboratory includes more than 8,100 vehicles worldwide, spanning a wide range of technologies that include hybrid electric, electric, propane, biomethane, lightweight fuel-saving composite body diesel, CNG, liquefied natural gas (LNG), ethanol, and hydraulic hybrid. Our commitment to diversifying our fleet is also represented by a new KPI. We have committed that, by 2020, 25 percent of our annual vehicle purchases will be alternative fuel or advanced technology vehicles. In 2016, 16 percent of our new vehicles purchased — more than 1,250 vehicles — were either alternative fuel or advanced technology. This included 489 natural gas tractor trailers and a variety of delivery vehicles, consisting of 78 hybrid electric with extended range, 221 CNG, 360 propane, 50 hydraulic hybrid, and 69 electric.

We are continuing this record of innovation in 2017 with the planned deployment of a fuel cell electric vehicle in a pilot project in California. A combined project with the Department of Energy, California Air Resources Board, California Energy Commission, and South Coast Air Quality Management District, the medium-duty Class 6 (typical UPS package car) fuel cell delivery vehicle will have zero tailpipe emissions, meeting proposed regulatory requirements for 2020 in many delivery areas in California, and will be capable of refueling at existing CNG stations in the state.

Long term, we believe the focus on electrification of transportation will increase. Continued advances in vehicle range and cost will drive adoption of electric vehicles, reducing the need for subsidies. Advances in battery technology and solar energy will help address infrastructure challenges. UPS will lead the charge on medium-duty vehicles in electrification over the next five years. Next-generation Class 8 (tractor-trailer) vehicles present a more difficult challenge and are probably on a 10- to 15-year time horizon.

Alternative Fuels

Our search for alternative fuels involves many considerations — including performance, cost, availability, and refueling infrastructure — and has resulted in one of the most diversified fleets in private industry today. As we have assembled this fleet, we've used it to test alternative fuels and advanced vehicle technologies in our rolling laboratory. This laboratory is key to our success and is enabled by our scope and scale. The rolling



Exploring What's Possible with the U.S. DOE

A pair of grants by U.S. Department of Energy (DOE) are fueling the future of what's possible when it comes to reducing emissions from trucks. The first grant brings together a world-class team of engineers from UPS, Oak Ridge DOE National Lab, Workhorse, CALSTART, and Cisco. This team is attempting to develop a charger for electric trucks that is embedded in the ground — flush with a UPS facility floor, for example. Electric trucks could recharge simply by positioning over the charger with no metal-to-metal contact. Importantly, power could also flow in the reverse direction from charged batteries in the vehicles to the electric grid for the facility, allowing the remaining energy in the batteries to help power the facility.

The second grant is funding research by UPS and Atlanta-based NG-1 to develop an exhaust system that could simplify and reduce the cost of cleaning up diesel emissions in Class 7 and Class 8 heavy-duty trucks. The proposed research could improve torque and horsepower, reduce costs, improve fuel efficiency, and reduce noise levels.

laboratory provides us with the opportunity to determine how alternative fuels and technologies perform in diverse, real-world operating conditions. Most important, the laboratory allows us to quickly deploy viable alternative fuel equipment at scale, based on market and operating conditions.

UPS Perspective



Mike Britt

Director of Maintenance and Engineering
-International Operations

When our fleet of alternative fuel and advanced technology vehicles logged its one billionth mile in 2016, we wondered, “At what point will the alternative fleet become the norm?” The answer: sooner than you might think. We are bringing that answer closer with our new goal of committing 25 percent of our total new vehicle purchases to this fleet by 2020.

Today, UPS has more than 8,100 vehicles on the road powered by some form of low-carbon fuel or technology such as electricity, natural gas, or synthetic fuel. We’ve set a new goal for these specialized vehicles to account for 25 percent of our new vehicle purchases by 2020. At that rate, our alternative fleet begins to build critical mass, and the potential for a significantly lower-carbon transportation footprint is within reach.

Continuing technology gains are a must. We’re especially excited about the potential of renewable fuel-cell electric vehicle technology, which has zero tailpipe emissions. This summer, we expect a pilot project in California will enable us to put a renewable fuel-cell electric package car (Class 6 delivery vehicle) on the road.



The matter of class — as in vehicle size — remains a challenge. While we have a portfolio of alternative technologies for Class 6 and smaller delivery vehicles, low-carbon propulsion systems to power a class 8 truck tractor are limited, since these tractors pull trailers weighing up to 80,000 pounds. Renewable compressed and liquefied natural gas are the best option today, but lack adequate commercial scale and infrastructure for the immediate future.

Electrification will play a major role in the future of transportation. In many areas of the world, electrical grids must keep pace with electric vehicle technology. Today, that’s a challenge in Europe, where older infrastructure is costly to update, and in Asia, where adequate infrastructure has yet to be built.

The greatest obstacle to low-carbon transportation, however, may simply be one of economics. In prolonged periods of low petroleum prices, incentives for research and investment in alternative fuels and technologies decline, and the business case for gasoline substitutes becomes much harder to make.

The good news: none of these challenges are insurmountable. When our rolling lab took to the road more than a decade ago, the prospect of driving a billion miles or substituting as much as 20 percent of conventional ground fuel appeared to be a very steep climb. Today, both of those aspirations are reality. If we continue to employ the same level of commitment and ingenuity that helped us reach 1 billion miles, we’re confident that a lower-carbon horizon will grow steadily closer.

The insights we gain are used to plan investments and develop future strategies. We also share these insights with vehicle manufacturers and energy suppliers to enhance their understanding of how products can help make transportation more sustainable. When a particular fuel or technology demonstrates sustainable benefits in the laboratory, we take it to commercial scale through large purchases or infrastructure development if required. We demonstrate this approach through actual use of renewable fuels, as well as a commitment to help commercialize them.

We have committed that, by 2025, 40 percent of our total ground-fleet fuel purchases will be from alternative fuels. The use of alternative fuels is a key strategy to achieving our absolute GHG reduction goal of 12 percent by 2025. Alternative fuels are defined as fuels that produce lower lifecycle CO₂ emissions than conventional diesel and gasoline. The fuels UPS is currently using that meet the definition of alternative fuels are CNG, LNG, propane, renewable diesel, renewable natural gas (RNG), biodiesel, and ethanol. In 2016, we used over 97 million gallons of alternative fuels to fuel our ground fleet, which represents 19.6 percent of our total ground-fleet fuel purchased.

RNG is produced in landfills and other places where organic matter decomposes and releases methane, which can be captured to provide a viable source of renewable transportation fuel. Because methane is 28 times more powerful a GHG than CO₂, the use of RNG provides a compelling, two-for-one GHG solution by replacing diesel and other petroleum-based truck fuels and avoiding the release of methane into the atmosphere. Our RNG purchases are not only helping to commercialize this fuel, but also demonstrate how our scale plays a role in that commercialization process. We can often generate enough demand volume from a landfill so that they can streamline their selling process to one purchaser rather than multiple parties.

Also known as synthetic diesel, renewable diesel is an emerging alternative fuel that offers numerous benefits over first-generation alternative fuels such as biodiesel and ethanol. This fuel is chemically identical to conventional diesel fuel and can be produced at commercial scale from a variety of organic sources. In addition to renewable inputs, the most significant advantage to this alternative fuel is its ability to serve as a “drop-in” replacement for traditional petroleum-based diesel without blending or infrastructure constraints. This means that renewable diesel could be used in both existing conventional engine technology, as well as refueling infrastructure. The development of this fuel, however, presents challenges that include cost and, depending on the organic source used, potential disruption to other markets.

Natural Gas

Natural gas remains one of the foundational fuels of our alternative fleet, thanks to its ability to meet our diverse needs — especially the demands of the heavy-duty, over-the-road trucks that connect our regional hubs. These big rigs travel an average of 400 to 600 miles per day and require strong pulling power. CNG and LNG have proven to be the best alternatives

to diesel for these trucks, meeting their required range and performance criteria while burning cleaner than diesel or gasoline. CNG also performs well in our package cars on local routes averaging more than 100 miles daily.

Natural gas works, in large part, because of its environmental benefits and cost efficiency. Higher-priced alternative fuel vehicles and investment in alternative fueling infrastructure require an environment that supports fuel savings. The payback on these investments typically requires deployment in areas served by high-mileage shipments and availability of lower-cost alternative fuels. The enormous expansion in U.S. natural gas production and natural gas reserves engenders confidence that natural gas prices will remain attractive, compared with diesel prices, for the foreseeable future.

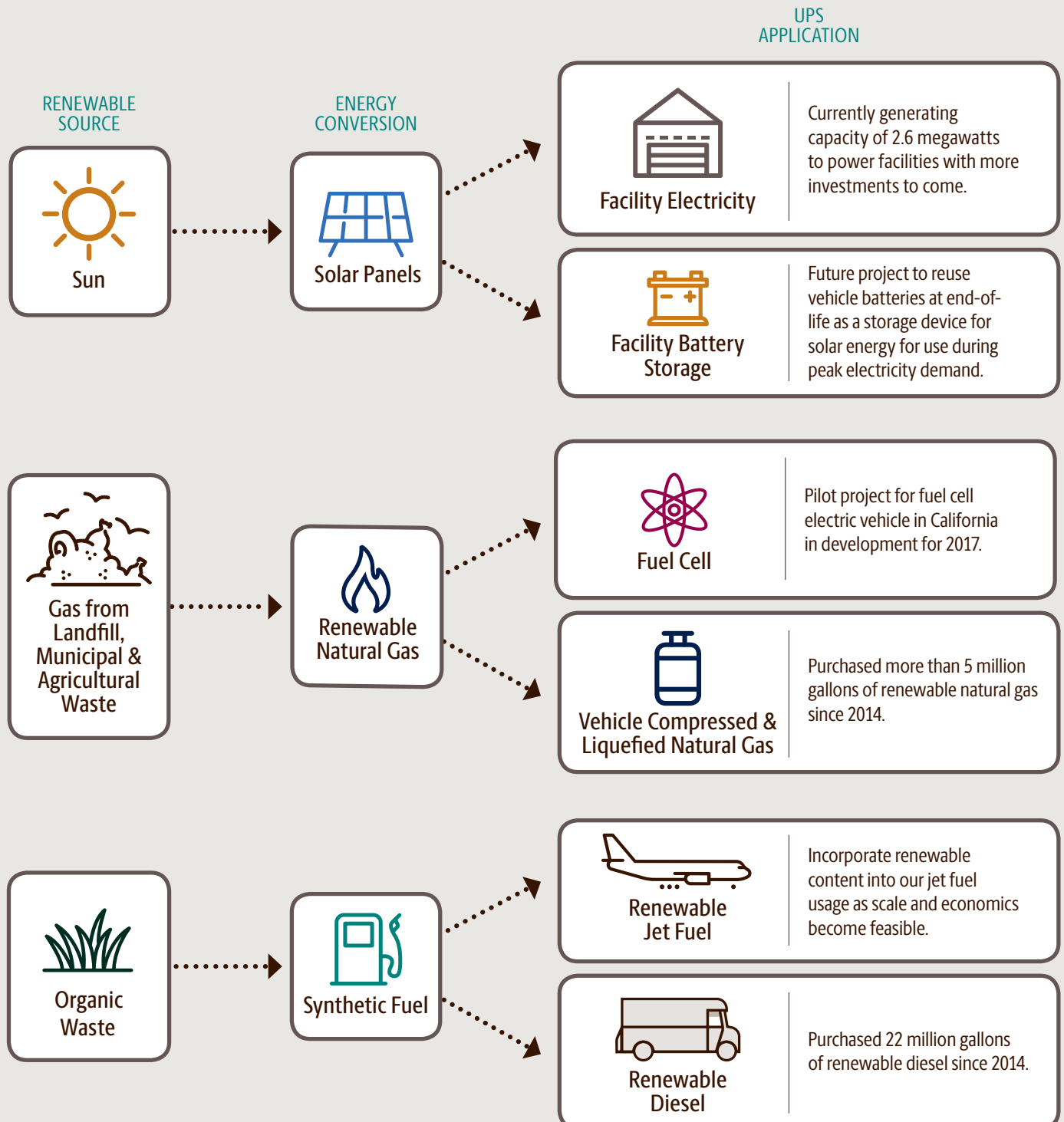
To support our expanding natural gas fleet, we continue to invest in refueling infrastructure. We build our own infrastructure to ensure our fleet has access to fuel, and we have full transparency of all costs involved. In 2016, we opened 11 more CNG fueling stations in cities throughout the United States. We now have 44 CNG and LNG stations in 21 states. We will further expand our refueling infrastructure with an additional eight CNG stations in 2017. UPS has invested more than US\$750 million in alternative fuel and advanced technology vehicles and fueling stations globally since 2009. This infrastructure positions UPS to implement the use of RNG. As a result, UPS is now the largest user of RNG in the shipping business.





Our Vision of a Zero-Emissions Energy Future

UPS's carbon footprint is expected to increase as our business grows, due to increasing package volume. We have the opportunity and obligation to offset that carbon increase by using more renewable sources to power our buildings and fleet. Here's our vision for how we can reach a zero-emissions future, with many of these applications already in testing.



Appendix

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About This Report

102-50 | 102-51 | 102-52

Reporting Period

The report presents data as of December 31, 2016. We issue our Corporate Sustainability Report on an annual basis, including our previous Report focused on 2015.

For Key Performance Indicators (KPIs), we present figures for up to four years (see pages 10, 11).

102-54 | 102-55

GRI Content

GRI Standards

The Report is organized and presented in accordance with the GRI Standards published in 2016, established by the Global Reporting Initiative (GRI).

The GRI Standards include two options for reporting in accordance: “Core” and “Comprehensive.” This Report has been prepared in accordance with the GRI Standards: Comprehensive option. We also present significant amounts of additional information not specified by GRI, such as statements contributed by outside stakeholders and graphics that illustrate various aspects of our business. UPS has voluntarily followed GRI reporting guidelines since 2003.

GRI Standards Content Index Service

Content Index service for the GRI Standards emphasizes the importance of the accuracy and usability of GRI Content Index. The Content Index Service confirms that all disclosures required for a Comprehensive GRI Standards based sustainability report, are accurately included in the Content Index, as required by disclosures GRI 102-54 and 102-55. This Report has completed the Context Index Service successfully.

GRI Standards Index

We provide a complete GRI Standards content index in Appendix E, beginning on page 105.

GRI Indicators

Disclosures on GRI indicators are noted near the titles of chapters and their subsections. These support transparent and comparable disclosures about sustainability within and across industries.

102-56

External Assurance Report, Statements, or Opinions

We believe external assurance is vital to the credibility and transparency of sustainability reporting and performance for all companies, because it promotes the broader cause of sustainability. We therefore engage with experienced and respected third parties to assure and verify our sustainability reporting. Authorization for these engagements, and approval of the providers we select, comes from the Audit Committee of our Board of Directors, which is our highest governance body. The assurance providers we engage with are independent organizations that offer objective analysis and conclusions, free from outside influence.

GRI recommends the use of external assurance, but it is not a requirement to be in accordance with the Standards. We maintain a strong assurance program that includes the following external assurance reports:

- Deloitte & Touche LLP provides a review report on this Corporate Sustainability Report. Their external assurance statement is on page 90.
- Deloitte & Touche LLP provides an examination report on our global Statement of Greenhouse Gas Emissions. Their external assurance statement is included in Appendix B, on page 101.

For this Report, we engaged Deloitte & Touche LLP to conduct a review, in accordance with attestation standards established by the American Institute of Certified Public Accountants, which includes AT Section 101, Attest Engagements, to provide a limited level of assurance on our 2016 Corporate Sustainability Report.

We also engaged Deloitte & Touche LLP to conduct an examination, in accordance with attestation standards established by the American Institute of Certified Public Accountants, which includes AT Section 101, Attest Engagements, to provide a reasonable level of assurance on our Statement of Greenhouse Gas Emissions for the year ended December 31, 2016.

102-53

Contact Us

Please send comments or questions about this Report to sustainability@ups.com, or in writing to:

UPS

Attention: Sustainability Report Editor
55 Glenlake Parkway N.E.
Atlanta, Georgia 30328

Independent Accountants' Review Report

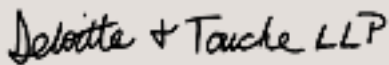
Board of Directors
United Parcel Service, Inc.
Atlanta, Georgia

We have reviewed the accompanying 2016 Corporate Sustainability Report of United Parcel Service, Inc. (the "Company") for the year ended December 31, 2016. The Company's management is responsible for preparing and presenting the Corporate Sustainability Report in accordance with the Global Reporting Initiative Sustainability Reporting Standards under its Comprehensive option. Our responsibility is to express a conclusion on the Corporate Sustainability Report based on our review.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the review to obtain limited assurance about whether any material modifications should be made to the Corporate Sustainability Report in order for it to be presented in accordance with the criteria. A review is substantially less in scope than an examination, the objective of which is to obtain reasonable assurance about whether the Corporate Sustainability Report is presented in accordance with the criteria, in all material respects, in order to express an opinion. Accordingly, we do not express such an opinion. We believe that our review provides a reasonable basis for our conclusion.

The preparation of the Corporate Sustainability Report requires management to interpret the criteria, make determinations as to the relevancy of information to be included, and make estimates and assumptions that affect reported information. Measurement of certain amounts and metrics, some of which may be referred to as estimates, is subject to substantial inherent measurement uncertainty. Obtaining sufficient, appropriate review evidence to support our conclusion does not reduce the inherent uncertainty in the amounts and metrics. The selection by management of different but acceptable measurement methods, input data, or model assumptions, or a different point value within the range of reasonable values produced by the model, may have resulted in materially different amounts or metrics being reported.

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2016 Corporate Sustainability Report of the Company for the year ended December 31, 2016, in order for it to be presented in accordance with the Global Reporting Initiative Sustainability Reporting Standards under its Comprehensive option.



Stamford, CT
June 2, 2017

Statement of Greenhouse Gas (GHG) Emissions

for the years ended December 31, 2016 and 2015 305-1 | 305-2 | 305-3

GHG Performance

| Global CO ₂ e Emissions ('000 tonnes) | 2016 | 2015 ⁽²⁾ | % Change 15/16 | Base Year ⁽¹⁾ |
|--|---------------|---------------------|----------------|--------------------------|
| Scope 1 | 12,432 | 12,197 | 1.9% | 12,197 |
| Scope 2 (location-based) | 831 | 814 | 2.1% | 814 |
| Gross Scope 1 & 2 | 13,263 | 13,011 | 1.9% | 13,011 |
| Scope 3 | 17,430 | 16,877 | 3.3% | 16,877 |
| Gross Scope 1, 2 & 3 | 30,693 | 29,888 | 2.7% | 29,888 |
| Voluntary carbon offsets for Scope 1 carbon neutral service (<i>retired</i>) | (95.7) | (44.9) | | (44.9) |
| Voluntary carbon offsets for Scope 2 carbon neutral service (<i>retired</i>) | (6.0) | (3.2) | | (3.2) |
| Voluntary carbon offsets for Scope 3 carbon neutral service (<i>retired</i>) | (9.0) | (4.8) | | (4.8) |
| Net Global CO₂e Emissions | 30,582 | 29,835 | 2.5% | 29,835 |

| Biomass CO ₂ Emissions (‘000 tonnes, not included in above totals) | 2016 | 2015 | % Change 15/16 | Base Year ⁽¹⁾ |
|--|------------|------------|----------------|--------------------------|
| Mobile Combustion — Biomass CO ₂ (e.g. ethanol, bio-diesel) | 216 | 108 | 100% | 108 |
| Stationary Combustion — Biomass CO ₂ | 0 | 0 | 0% | 0 |
| Total Biomass CO₂ (reported separately as per GHG Protocol) | 216 | 108 | 100% | 108 |

| Scope 2 CO ₂ e Emissions ('000 tonnes) ⁽³⁾ | 2016 | 2015 | % Change 15/16 | Base Year ⁽¹⁾ |
|--|------|------|----------------|--------------------------|
| Scope 2 (location-based method) | 831 | 814 | 2.1% | 814 |
| Scope 2 (market-based method) | 831 | 814 | 2.1% | 814 |

(1) Base Year has been changed to 2015, to align with new GHG reduction goal.

(2) Recalculated 2015 using updated GWP factors and added emissions for Coyote Logistics. See Note 1, Methodology for additional details.

(3) Location-based and market-based Scope 2 emissions are being reported as per the new GHG Protocol Scope 2 Guidance. UPS does not have any existing contractual instruments in place for specific emission factors from purchased electricity, therefore the average energy generation emission factors based on location are used for both Scope 2 methods.

Note 1 — GHG Reporting Policies

The statement of greenhouse gas (GHG) emissions was prepared based on a calendar reporting year that is the same as the United Parcel Service, Inc. (UPS or the Company) financial reporting period. Organizational responsibility for our GHG emissions reporting rests with our Chief Sustainability Officer.

Scope 1 and 2 GHG emissions information was prepared in accordance with the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, Revised Edition.

Scope 3 GHG emissions information was prepared in accordance with the World Resources Institute/World Business Council for Sustainable Development Greenhouse Gas Protocol: Corporate Value Chain (Scope 3), Accounting and Reporting Standard. Scope 3 emissions include all relevant Scope 3 categories, nine of the 15 categories as defined by the GHG Protocol.

Collectively, the Corporate Accounting and Reporting Standard, Revised Edition and the Corporate Value Chain (Scope 3), Accounting and Reporting Standard are referred to as the “GHG Protocol” in this document.

Notes 2-7 below include information on the GHG emissions by

business unit, emission source, and gas type, as well as intensity disclosures.

Base Year GHG Emissions

The GHG base year is set out below and has been prepared in accordance with the GHG Protocol.

The base year GHG emissions for Scope 1, 2, and 3 were changed to align with our new GHG reduction goal.

Greenhouse Gases

All GHG emissions figures are reported in metric tonnes of carbon dioxide equivalents (CO₂e) and include four of the seven GHGs covered by the GHG Protocol — carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), and hydrofluorocarbons (HFCs). Perfluorocarbons (PFCs), sulphur hexafluoride (SF₆), and nitrogen trifluoride (NF₃) emissions were omitted from our reporting, as they are not a material source of GHGs for the Company.

The GHG Protocol defines global warming potential (GWP) as “a factor describing the radiative forcing impact (degree of harm to the atmosphere) of one unit of a given GHG relative to one unit of CO₂.” By using GWPs, GHG emissions from multiple gases can

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

be standardized to a carbon dioxide equivalent (CO₂e). The global warming potentials used are

| Gas | Global Warming Potential (GWP) | Reference |
|-----------------------------------|--------------------------------|--|
| Carbon Dioxide (CO ₂) | 1 | Fifth Assessment Report (SAR) published by Intergovernmental Panel on Climate Change |
| Methane (CH ₄) | 28 | |
| Nitrous Oxide (N ₂ O) | 265 | |
| HFC-134a | 1300 | |

GHG Reporting Scope and Boundary

The Statement of Greenhouse Gas Emissions includes Scope 1 (direct), Scope 2 (indirect), and Scope 3 (indirect) emissions that were reported for operations within the organizational boundary described below. GHG emissions have been reported from the entities where the Company has operational control as defined by the GHG Protocol. See Notes 8 and 9 for a detailed description of the operational boundaries.

UPS is a global company operating in over 220 countries and territories. Our three reportable business segments are U.S. Domestic Package, International Package, and Global Supply Chain and Freight.

1. The U.S. Domestic Package business consists of air and ground delivery of small packages — up to 150 pounds in weight — and letters to and from all 50 states.
2. The International Package reporting segment includes the small package operations in Europe; Asia; Canada; Latin America; and the Indian Subcontinent, Middle East, and Africa. Europe is our

largest region outside the United States — accounting for approximately half of our international revenue.

3. The Global Supply Chain & Freight segment consists of our forwarding and logistics services, truckload freight brokerage, UPS Freight and our financial offerings through UPS Capital. Supply chain complexity creates demand for a global service offering that incorporates transportation, distribution, and international trade and brokerage services, with complementary financial and information services.

Uncertainty

As calculations of GHG emissions contain uncertainty for a variety of reasons, we conducted an uncertainty analysis to quantify estimates of the likely or perceived difference between the reported GHG emissions and a qualitative description of the likely causes of the difference such as uncertainty in data inputs and calculation methodologies; uncertainty associated with mathematical equations used to characterize the relationship between various parameters and emission processes; and uncertainty associated with quantifying the parameters used as inputs to estimation models. UPS continues to improve internal processes for primary data collection to reduce uncertainty in its GHG inventory reporting for Scopes 1 and 2. UPS continues to work with the third parties responsible for providing the data necessary to calculate Scope 3 emissions and will continue to work on improving the data management and the methodologies used to estimate these emissions to reduce the uncertainty in our GHG inventory reporting. Using the GHG Protocol “Measurement and Estimation Uncertainty of GHG Emissions” guidance and analyzing the collected data through Monte Carlo simulations by using the @Risk statistical analysis software at 95 percent confidence interval, we are able to estimate the uncertainty for our 2016 GHG inventory as follows:

| Scope | Uncertainty | Main Source of Uncertainty | Comments |
|---------|-------------|----------------------------|--|
| Scope 1 | +/- 1% | International Operations | North America Operations (Small Package, Supply Chain & Freight) and UPS Airlines are our largest source of Scope 1 emissions and represent 98% of the total Scope 1 emissions. Well-established processes are in place to capture the primary data for these sources. International Operations represent 2% of the total Scope 1 emissions. |
| Scope 2 | +/- 2% | International Operations | North America Operations (Small Package, Supply Chain & Freight) are our largest source of Scope 2 emissions representing 89% of the total Scope 2 emissions. Well-established processes are in place to capture the primary data for these sources. International Operations represent 11% of the total Scope 2 emissions. |
| Scope 3 | +/- 8% | Use of secondary data | UPS reports on all relevant Scope 3 categories described in the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting & Reporting Standard. Calculations for Scope 3 use various sources of secondary data since primary data is unavailable. Examples of the type of secondary data used vary from estimated miles driven, number of packages picked-up/delivered to estimated shipment information (weight and distance per shipment). |

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

GHG Emission Factors

The carbon dioxide equivalent emissions associated with the activities described in Notes 8 and 9 were determined on the basis of measured or estimated energy and fuel use, multiplied by relevant carbon emission factors.

Published emission factors were used to calculate emissions from operations.

| Emissions Source | Emission Factor Employed |
|------------------|--|
| Scope 1 — Global | GHG Protocol Emission Factors from Cross-Sector Tools, April 2014 |
| Scope 2 — U.S. | US Environmental Protection Agency eGRID_2012 |
| Scope 2 — Canada | Environment Canada, National Inventory Report, 1990-2012 |
| Scope 2 — Other | CO2 Emissions from Fuel Combustion Highlights (2014 Edition © OECD/IEA) |
| Scope 3 — Global | Category 1 & 2: GHG Protocol Scope 3 Evaluator Category 3: Argonne National Laboratory GREET_1 2014 Model Category 3: US Environmental Protection Agency eGRID_2012 Category 4: EPA SmartWay Carrier Rankings and Emission Rates (railroad only) Category 6: EPA Emission Factors for GHG Inventories, Nov 2015 Category 4, 7, 14: GHG Protocol Emission Factors from Cross-Sector Tools, April 2014 Category 5 & 12: 2012 Guidelines to DEFRA/DECC's GHG Conversion Factors for Company Reporting |

Methodology

For Scopes 1 and 2, primary usage data is used to calculate GHG Emissions. The primary data is collected through various internal processes and data systems which are inputted into our sustainability performance management software that quantifies associated emissions through the application of the GHG emission factors described above.

GHG emission calculations for Scope 3 use various sources of secondary data since primary data is unavailable. The secondary data used varies from estimated miles driven, number of packages picked-up/delivered to estimated shipment information (weight and distance per shipment). The appropriate GHG activity factor is applied to estimate the emissions reported.

UPS recalculated 2015 Scope 1, 2, and 3 GHG emissions using updated global warming potential (GWP) factors to align with the Fifth Assessment Report (SAR) published by the Intergovernmental Panel on Climate Change. Previous inventory years used the GWP factors published in the second assessment. In addition, the 2015 Scope 3, category 4 GHG emissions were recalculated to include the acquisition of Coyote Logistics Midco, Inc.

Note 2 — Carbon Offset Purchases from UPS carbon neutral product

A carbon offset is a certified financial instrument aimed at a reduction in GHG emissions. The offsets we purchase meet the key standard of additionality, which means that the carbon reduction project in question (such as reforestation) produced a reduction in CO₂e generation or sequestration of CO₂e in addition to what would have been achieved by activities already planned or underway.

| Project Name | Project Location | Offset Standard | Project Type | 2016 Metric Tonnes Retired | 2015 Metric Tonnes Retired |
|--|-------------------|-----------------|--------------------------------|----------------------------|----------------------------|
| The Conservation Fund — Garcia River Forest | U.S. (California) | CAR | Reforestation | 52,557 | 39,514 |
| The Conservation Fund — Big River and Salmon Creek Forests | U.S. (California) | CAR | Reforestation | 25,000 | 0 |
| Wolf Creek Landfill | U.S. (Georgia) | CAR | Landfill Gas | 10,000 | 0 |
| Chol Charoen Group Wastewater Treatment with Biogas System 1 | Thailand | VCS | Wastewater Methane Destruction | 13,257 | 13,420 |
| Bangkok Kamphaeng Saen East: Landfill Gas to Electricity Project | Thailand | VCS | Landfill Gas | 10,000 | 0 |
| Total Carbon Offsets | | | | 110,814 | 52,934 |

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

Note 3 — Emissions by Business Unit

| Global CO2e Emissions ('000 tonnes) | U.S. Domestic Package | | | International Package | | | Global Supply Chain & Freight | | | Totals | | |
|-------------------------------------|-----------------------|---------------------|--------------------------|-----------------------|---------------------|--------------------------|-------------------------------|---------------------|--------------------------|---------------|---------------------|--------------------------|
| | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ |
| Scope 1 | 7,446 | 7,186 | 7,186 | 4,254 | 4,150 | 4,150 | 732 | 861 | 861 | 12,432 | 12,197 | 12,197 |
| Scope 2 | 627 | 602 | 602 | 63 | 71 | 71 | 141 | 141 | 141 | 831 | 814 | 814 |
| Total Scope 1 & 2 | 8,073 | 7,789 | 7,789 | 4,317 | 4,221 | 4,221 | 873 | 1,001 | 1,001 | 13,263 | 13,011 | 13,011 |
| Scope 3 | 8,811 | 8,287 | 8,287 | 2,692 | 2,552 | 2,552 | 5,926 | 6,038 | 6,038 | 17,430 | 16,877 | 16,877 |
| Total Scope 1, 2 & 3 | 16,884 | 16,076 | 16,076 | 7,009 | 6,772 | 6,772 | 6,799 | 7,040 | 7,040 | 30,693 | 29,888 | 29,888 |

(1) Base Year is 2015.

(2) Recalculated 2015 using updated GWP factors and added emissions for Coyote Logistics. See Note 1, Methodology for additional details.

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Note 4 — CO2e Intensity by Business Unit

| Global CO2e ('000 tonnes/\$M Revenue) | U.S. Domestic Package | | | International Package | | | Global Supply Chain & Freight | | | Totals | | |
|---------------------------------------|-----------------------|---------------------|--------------------------|-----------------------|---------------------|--------------------------|-------------------------------|---------------------|--------------------------|--------------|---------------------|--------------------------|
| | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ |
| Revenue in millions | \$38,301 | \$36,747 | \$36,747 | \$12,350 | \$12,149 | \$12,149 | \$10,255 | \$9,467 | \$9,467 | \$60,906 | \$58,363 | \$58,363 |
| Scope 1 | 0.194 | 0.196 | 0.196 | 0.344 | 0.341 | 0.341 | 0.071 | 0.091 | 0.091 | 0.204 | 0.209 | 0.209 |
| Scope 2 | 0.017 | 0.016 | 0.016 | 0.005 | 0.006 | 0.006 | 0.014 | 0.015 | 0.015 | 0.014 | 0.014 | 0.014 |
| Total Scope 1 & 2 | 0.211 | 0.212 | 0.212 | 0.350 | 0.347 | 0.347 | 0.085 | 0.106 | 0.106 | 0.218 | 0.223 | 0.223 |
| Scope 3 | 0.230 | 0.225 | 0.225 | 0.218 | 0.210 | 0.210 | 0.578 | 0.638 | 0.638 | 0.286 | 0.289 | 0.289 |
| Total Scope 1, 2 & 3 | 0.441 | 0.437 | 0.437 | 0.568 | 0.557 | 0.557 | 0.663 | 0.744 | 0.744 | 0.504 | 0.512 | 0.512 |

(1)) Base Year is 2015.

(2) Recalculated 2015 using updated GWP factors and added emissions for Coyote Logistics. See Note 1, Methodology for additional details.

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

Note 5 — Scope 1 and Scope 2 Emissions by Source

| Global CO ₂ e Emissions ('000 tonnes) | 2016 | 2016 Percent to Total | 2015 ⁽²⁾ | Base Year ⁽¹⁾ |
|--|---------------|-----------------------|---------------------|--------------------------|
| Airline Fuel | 7,720 | 58.2% | 7,375 | 7,375 |
| Ground Vehicle Fuel | 4,496 | 33.9% | 4,587 | 4,587 |
| Diesel | 3,050 | 23.0% | 3,345 | 3,345 |
| Gasoline | 905 | 6.8% | 823 | 823 |
| CNG | 197 | 1.5% | 43 | 43 |
| Propane/LPG | 75 | 0.6% | 70 | 70 |
| LNG | 262 | 2.0% | 299 | 299 |
| HFCs (fugitive) | 7 | 0.1% | 7 | 7 |
| Facility Fuel | 216 | 1.6% | 235 | 235 |
| Natural Gas | 202 | 1.5% | 221 | 221 |
| Heating Oil | 4 | 0.0% | 5 | 5 |
| Propane | 10 | 0.1% | 9 | 9 |
| Facility Electricity | 831 | 6.3% | 814 | 814 |
| Grand Total | 13,263 | | 13,011 | 13,011 |

(1) Base Year is 2015.

(2) Recalculated 2015 using updated GWP factors and added emissions for Coyote Logistics. See Note 1, Methodology for additional details.

Note 6 — Emissions by Greenhouse Gas Scope and Type

| Global Emissions ('000 tonnes) | | Scope 1 | | | Scope 2 | | | Scope 3 | | | Totals | | |
|--------------------------------|---------------------|---------|---------------------|--------------------------|---------|---------------------|--------------------------|---------|---------------------|--------------------------|--------|---------------------|--------------------------|
| | | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ |
| Carbon Dioxide | (CO ₂) | 12,294 | 12,072 | 12,072 | 827 | 810 | 810 | 17,354 | 16,796 | 16,796 | 30,476 | 29,678 | 29,678 |
| Methane | (CO ₂ e) | 33 | 29 | 29 | 0.5 | 0.5 | 0.5 | 10 | 10 | 10 | 44 | 39 | 39 |
| | (CH ₄) | 1.18 | 1.02 | 1.02 | 0.02 | 0.02 | 0.02 | 0.35 | 0.37 | 0.37 | 1.55 | 1.41 | 1.41 |
| Nitrous Oxide | (CO ₂ e) | 97 | 90 | 90 | 3 | 3 | 3 | 66 | 71 | 71 | 166 | 164 | 164 |
| | (N ₂ O) | 0.37 | 0.34 | 0.34 | 0.01 | 0.01 | 0.01 | 0.25 | 0.27 | 0.27 | 0.63 | 0.62 | 0.62 |
| HFCs | (CO ₂ e) | 7.1 | 6.8 | 6.8 | 0 | 0 | 0 | 0 | 0 | 0 | 7.1 | 6.8 | 6.8 |
| | (HFCs) | 0.005 | 0.005 | 0.005 | 0 | 0 | 0 | 0 | 0 | 0 | 0.005 | 0.005 | 0.005 |

(1) Base Year is 2015.

(2) Recalculated 2015 using updated GWP factors and added emissions for Coyote Logistics. See Note 1, Methodology for additional details.

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

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Note 7 — Scope 3 Emissions by Category

| Global CO ₂ e Emissions ('000 tonnes) | | 2016 | 2015 ⁽²⁾ | Base Year ⁽¹⁾ |
|--|--|---------------------|---------------------|--------------------------|
| Total Scope 3 Emissions | | 17,430 | 16,877 | 16,877 |
| UPSTREAM | | | | |
| 1 | Purchased Goods & Services | 2,478 | 2,533 | 2,533 |
| 2 | Capital Goods | 2,175 | 1,746 | 1,746 |
| 3 | Fuel & Energy Related (not incl. Scope 1 & 2) | 3,312 | 3,226 | 3,226 |
| | Jet A (well to pump) | 2,016 | 1,926 | 1,926 |
| | Diesel (well to pump) | 693 | 760 | 760 |
| | Gasoline (well to pump) | 298 | 271 | 271 |
| | CNG (well to pump) | 52 | 12 | 12 |
| | Propane/LPG (well to pump) | 10 | 9 | 9 |
| | LNG (well to pump) | 63 | 72 | 72 |
| | Biomass (well to pump) | 70 | 63 | 63 |
| | Natural Gas, Heating Oil, Propane (stationary) | 50 | 55 | 55 |
| | Electricity (T&D losses/generation of) | 60 | 59 | 59 |
| 4 | Transportation & Distribution | 7,468 | 7,417 | 7,417 |
| | Subcontracted Air | 3,436 | 3,805 | 3,805 |
| | Subcontracted Ground | 3,216 | 2,784 | 2,784 |
| | Subcontracted Rail | 369 | 368 | 368 |
| | Subcontracted Ocean | 446 | 461 | 461 |
| 5 | Waste Generated in Operations | 22 | 19 | 19 |
| | Landfilled, Incinerated, Recovery, Recycled | 22 | 19 | 19 |
| 6 | Business Travel | 92 | 78 | 78 |
| | Business Travel — Air/Rail/Car | 92 | 78 | 78 |
| 7 | Employee Commuting | 1,822 | 1,798 | 1,798 |
| | U.S. Domestic Package | 1,372 | 1,341 | 1,341 |
| | International Package | 330 | 332 | 332 |
| | Global Supply Chain & Freight | 120 | 125 | 125 |
| 8 | Leased Assets | Not Relevant | Not Relevant | Not Relevant |
| DOWNSTREAM | | | | |
| 9 | Transportation & Distribution | Not Relevant | Not Relevant | Not Relevant |
| 10 | Processing of Sold Products | Not Relevant | Not Relevant | Not Relevant |
| 11 | Use of Sold Products | Not Relevant | Not Relevant | Not Relevant |
| 12 | End-of-Life Treatment of Sold Products | 9 | 9 | 9 |
| | Landfilled/Recycled | 9 | 9 | 9 |
| 13 | Leased Assets | Not Relevant | Not Relevant | Not Relevant |
| 14 | Franchises | 51 | 51 | 51 |
| | The UPS Store® — Electricity/Natural Gas | 51 | 51 | 51 |
| 15 | Investments | Not Relevant | Not Relevant | Not Relevant |

(1) Base Year is 2015.

(2) Recalculated 2015 using updated GWP factors and added emissions for Coyote Logistics. See Note 1, Methodology for additional details.

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

Note 8 — Operational Boundary — Detailed Description Scope 1 & 2⁽¹⁾

| Source | Scope | U.S. Package Operations | International Package Operations | Global Supply Chain & Freight |
|--|-------|---|---|--|
| Jet-A (mobile) | 1 | All jet fuel used for UPS-owned aircraft (U.S. flights) | All jet fuel used for UPS-owned aircraft (International flights) | N/A — All Supply Chain & Freight moved on UPS-owned aircraft is captured in package operations (U.S. and International) |
| Diesel & Gasoline (mobile) | 1 | All diesel and gasoline used in UPS-owned/leased vehicles to transport, pick up, and deliver small packages | <ul style="list-style-type: none"> • Diesel and gasoline used in UPS-owned/leased vehicles to transport, pick up, and deliver small packages • Gasoline used for company-leased cars used by employees in Europe and Asia | <ul style="list-style-type: none"> • Diesel and gasoline used in UPS-owned/leased vehicles to transport, pick up, and deliver freight or packages • Gasoline for company-leased cars used by employees in U.S., Canada, Europe, and Asia |
| CNG (mobile) | 1 | All compressed natural gas used in UPS-owned vehicles to transport, pick up, and deliver small packages | All compressed natural gas used in UPS-owned vehicles to transport, pick up, and deliver small packages | N/A — Fuel type is not a source of emissions from this business unit |
| Propane/LPG (mobile) | 1 | All propane fuel used in UPS-owned vehicles to transport, pick up, and deliver small packages | All propane fuel used in UPS-owned vehicles to transport, pick up, and deliver small packages | N/A — Fuel type is not a source of emissions from this business unit |
| LNG (mobile) | 1 | All liquefied natural gas used in UPS-owned vehicles to transport, pick up, and deliver small packages | N/A — Fuel type is not a source of emissions from this business unit | N/A — Fuel type is not a source of emissions from this business unit |
| Natural Gas, Heating Oil, Propane (stationary) | 1 | Natural gas, propane, and heating oil for facilities we own or lease | Natural gas, propane, and heating oil for facilities we own or lease | Natural gas, propane, and heating oil for facilities we own or lease |
| HFCs | 1 | Fugitive emissions from vehicle A/C systems | Fugitive emissions from vehicle A/C systems | Fugitive emissions from vehicle A/C systems |
| Electricity (stationary) | 2 | Electricity usage for facilities we own or lease | Electricity usage for facilities we own or lease | Electricity usage for facilities we own or lease |

(1) No Scope 1 or 2 activities have been excluded from this Report.

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

Note 9 — Operational Boundary — Detailed Description Scope 3

| Scope and Category | Emissions Included/Excluded (UPS Scope & Boundary) | Description of Methodology | % Emissions Calculated Using Data Obtained from Value Chain Partners |
|---|---|---|---|
| Upstream Scope 3 Emissions | | | |
| 1 Purchased Goods & Services | <p>The upstream extraction, production, and transportation of goods and services purchased by all UPS operations, not otherwise included in Categories 2-8.</p> <p>Exclusions: None</p> | Economic input-output life cycle assessment (EIO-LCA) model | 0% |
| 2 Capital Goods | <p>The upstream extraction, production, and transportation of capital expenditures purchased by all UPS operations, including buildings, aircraft, vehicles, and information technology.</p> <p>Exclusions: None</p> | Economic input-output life cycle assessment (EIO-LCA) model | 0% |
| 3 Fuel & Energy-Related Activities Not Included in Scope 1 or 2 | <p>Includes the upstream (well-to-pump) emissions from raw material extraction up to the point of (but excluding) combustion for the following global fuel sources: Jet-A, Diesel, Gasoline, CNG, LPG, LNG, natural gas, heating oil, and propane.</p> <p>Includes the upstream emissions for the transmission and distribution losses of purchased electricity.</p> <p>Exclusions: None</p> | The same primary data that is used to calculate the Scope 1 and 2 emissions for all energy usage is used to calculate the upstream emissions; the actual quantity of energy consumed is multiplied by the appropriate life cycle emission factor. | 100% |
| 4 Transportation & Distribution (Upstream) | <p>The emissions from purchased transportation (air, ground, rail, and ocean) for the pickup, transportation, and delivery of packages/freight for our global operations includes emissions associated with:</p> <p><u>U.S. Package Operations</u></p> <ul style="list-style-type: none"> • Packages moved by third parties via aircraft, rail, and tractor-trailer • Last-mile delivery of packages by the U.S. Postal Service <p><u>International Package Operations</u></p> <ul style="list-style-type: none"> • Packages moved by third parties via aircraft and tractor-trailers • Last-mile delivery of packages by the use of Agents and Outside Service Providers (OSPs) • Packages transported across the U.K. Channel by third parties via railroad or ferry • Packages transported by rail in Canada <p><u>Global Supply Chain & Freight</u></p> <ul style="list-style-type: none"> • UPS Supply Chain Solutions® services: transportation, pickup, and delivery for freight/packages by other third parties via aircraft, rail, tractor-trailers, and ocean • UPS Freight® operations: transportation, pickup, and delivery for freight in the U.S. and Canada via various modes of transport which include tractor-trailers, railroads, and ocean transport of freight, typically to Hawaii, Puerto Rico, Guam, and Alaska <p>Exclusions: Does not include Scope 2 emissions from third-party transportation companies. Does not include any optional life cycle assessment (LCA) emissions. Source has been excluded due to lack of means to measure emission source.</p> | <p>The primary method used to calculate the upstream emissions from purchased transportation is to multiply the actual weight and distance traveled for each shipment by the appropriate emission factor from the GHG Protocol.</p> | 35% |

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

| Scope and Category | Emissions Included/Excluded (UPS Scope & Boundary) | Description of Methodology | % Emissions Calculated Using Data Obtained from Value Chain Partners |
|---|--|---|---|
| 5 Waste Generated In Operations | Includes the emissions that occur for landfilled, incinerated, recovery, and recycled waste streams in the U.S. Exclusions: Emissions associated with wastes generated in operations outside of the U.S. Does not include any optional LCA emissions. Source has been excluded due to lack of means to measure emission source. | Methodology used is actual waste disposed by waste stream multiplied by the appropriate LCA Emission factor. | 100% |
| 6 Business Travel | Includes the emissions that occur from air and rail travel, rental cars, and the use of personal vehicles for business-related activities for our global operations. Exclusions: Does not include any optional life cycle emissions from hotel stays. Source has been excluded due to lack of means to measure emission source. | Travel agent provides a detailed breakdown of GHG emissions based upon actual travel activity. | 100% |
| 7 Employee Commuting | Includes the emissions that occur for the transportation of our employees between their homes and their workplace for our global operations. Exclusions: Does not include any optional emissions from employee teleworking. Source has been excluded due to lack of means to measure emission source. | Actual number of employees multiplied by average gallons used per employee (UPS calculated this factor) multiplied by the emission factor for gasoline (8.81 kg CO ₂ per gallon). The UPS factor for estimated gallons per employee was created by combining a host of information from the U.S. Census data, Department of Transportation, the Federal Highway Administration, and other sources. | 0% |
| 8 Upstream Leased Assets | Not Relevant — We do not report on this category since the category as described by the WRI Guidelines is not applicable to our business because upstream leased assets are included in our Scope 1 and 2 emissions. | Not Relevant | Not Relevant |
| Downstream Scope 3 Emissions | | | |
| 9 Transportation & Distribution | Not Relevant — We do not report on this category since the category as described by the WRI Guidelines is not applicable to our business because UPS does not offer a sold product. For our sold service, emissions from non-UPS vehicles are reported in category 4 because they are purchased directly by UPS. | Not Relevant | Not Relevant |
| 10 Processing of Sold Products | Not Relevant — We do not report on this category since the category as described by the WRI Guidelines is not applicable to our business because UPS does not offer an intermediate sold product. | Not Relevant | Not Relevant |
| 11 Use of Sold Products | Not Relevant — We do not report on this category since the category as described by the WRI Guidelines is not applicable to our business because UPS does not offer an intermediate sold product. | Not Relevant | Not Relevant |
| 12 End-of-Life Treatment of Sold Products | Includes the global emissions that occur for landfilled and recycled waste from UPS-branded packaging materials sold to customers. Exclusions: None | Number of pounds of purchased UPS-branded packaging multiplied by the appropriate LCA Emission factor. | 100% |

Statement of GHG Emissions

for the years ended December 31, 2016 and 2015

| Scope and Category | Emissions Included/Excluded (UPS Scope & Boundary) | Description of Methodology | % Emissions Calculated Using Data Obtained from Value Chain Partners |
|--------------------------------|--|---|---|
| 13 Downstream Leased Assets | Not Relevant — We do not report on this category since the category as described by the WRI Guidelines is not relevant because UPS does not have any significant downstream leased assets. | Not Relevant | Not Relevant |
| 14 Franchises | Estimated electricity and natural gas usage for over 4,900 The UPS Store® locations serving the U.S. and Canada. Exclusions: Does not include any optional LCA emissions. Source has been excluded due to lack of means to measure emission source. | Using square footage of The UPS Store® franchises multiplied by an average energy emission factor established by the EPA Energy Star Program. | 0% |
| 15 Investments | Not Relevant — We do not report on this category since the category as described by the WRI Guidelines is not relevant because UPS does not have any significant investments that fit this category. | Not Relevant | Not Relevant |

Independent Accountants' Examination Report

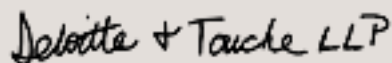
Board of Directors
United Parcel Service, Inc.
Atlanta, Georgia

We have examined the accompanying Statement of Greenhouse Gas Emissions ("Statement of GHG Emissions") of United Parcel Service, Inc. (the "Company") for the year ended December 31, 2016 for Scope 1, Scope 2, and Scope 3 greenhouse gas (GHG) emissions. The Company's management is responsible for preparing and presenting the Statement of GHG Emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard, and the Greenhouse Gas Protocol: A Corporate Value Chain (Scope 3) Accounting and Reporting Standard, published by the World Business Council for Sustainable Development and the World Resources Institute (together the "Greenhouse Gas Protocol"). Our responsibility is to express an opinion on the Statement of GHG Emissions based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Statement of GHG Emissions is presented in accordance with the above criteria, in all material respects. An examination involves performing procedures to obtain evidence about the Statement of GHG Emissions. The nature, timing and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Statement of GHG Emissions, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

As described in Note 1, environmental and energy use data are subject to measurement uncertainties resulting from limitations inherent in the nature and the methods used for determining such data. The selection by management of different, but acceptable measurement methods, input data or model assumptions, or a different point value within the range of reasonable values produced by the model, could have resulted in materially different amounts or metrics being reported.

In our opinion, the Statement of GHG Emissions of the Company for the year ended December 31, 2016 for Scope 1, Scope 2, and Scope 3 GHG emissions is presented in accordance with the Greenhouse Gas Protocol, in all material respects.



Stamford, CT
June 2, 2017

Initiatives to Reduce Greenhouse Gas Emissions

305-5

2016 Carbon Intensity Emissions Reductions Since Base Year (2015)

| Emissions Reduction Description: The following three metrics are the components of the UPS Transportation Intensity Index | Absolute CO2e Emissions Avoided Since 2015 (metric tonnes) | 2016 CO2e Intensity | 2015 CO2e Intensity | Comments |
|---|--|---------------------|---------------------|--|
| U.S. Domestic Package: Absolute CO2e Avoided (Ground operations only) See "Ground Fleet Efficiencies," page 73 for more details on contributing factors and initiatives. | 147,000 ⁽¹⁾ | 2.28 | 2.36 | 1) CO2e Intensity factor expressed in lbs. CO2e per Package 2) Scope is U.S. Domestic Package ground movements 3) Avoided Absolute CO2e = (2015 CO2e Intensity x 2016 # of packages) - (2016 CO2e Intensity x 2016 # of packages) |
| Global UPS Airlines: Absolute CO2e Avoided See "Air Fleet Efficiencies," page 75 for more details on contributing factors and initiatives. | (15,000) ⁽¹⁾ | 1.40 | 1.40 | 1) CO2e Intensity factor expressed in lbs CO2e per Package 2) Scope is UPS Airlines — Global Operations 3) Avoided Absolute CO2e = (2015 CO2e Intensity x 2016 ATM) - (2016 CO2e Intensity x 2016 ATM) |
| U.S. Supply Chain & Freight: Absolute CO2e Avoided See "Ground Fleet Efficiencies," page 73 for more details on contributing factors and initiatives. | 66,000 ⁽¹⁾ | 0.18 | 0.19 | 1) CO2e Intensity factor expressed in lbs CO2e per lb. of freight 2) Scope is UPS Freight® LTL ground movements 3) Avoided Absolute CO2e = (2015 CO2e Intensity x 2016 lbs. of freight) - (2016 CO2e Intensity x 2016 lbs. of freight) |
| Total | 198,000 | | | |

(1) Cumulative CO2e emissions avoided since 2015 are estimated from the Transportation Intensity Index improvements from 2015 to 2016.

2016 Intermodal Shift Emissions Avoidance

| 2016 Intermodal Shift Emissions Avoidance | | |
|---|---|--|
| Emissions Reduction Description | Absolute CO2e Emissions Avoided in 2016 (metric tonnes) | Total Absolute CO2e Emissions Avoided Since 2015 (metric tonnes) |
| Air to Ground Mode Shift (U.S. Package Operations) | 2,450,000 ⁽²⁾ | 2,450,000 |
| Ground to Rail Mode Shift (U.S. Package Operations) | 935,000 ⁽²⁾ | 935,000 |
| Total | 3,385,000 | 3,385,000 |

(2) Absolute CO2e emissions avoided in 2016, due to intermodal shifts that occur in U.S. Domestic Package.

Energy Performance

302-1 | 302-3

Energy Consumption Within the Organization

| Global Energy ('000 GJs) | 2016 | 2015 | % Change 16/15 | Base Year (2015) |
|--------------------------|----------------|----------------|----------------|------------------|
| Direct Energy | 178,904 | 173,665 | 3.0% | 173,665 |
| Indirect Energy | 5,913 | 5,861 | 0.9% | 5,861 |
| Total Energy | 184,817 | 179,526 | 2.9% | 179,526 |

Energy Consumption Within the Organization by Source

| Global Energy ('000 GJs) | 2016 | Percent to Total Energy 2016 | 2015 | Base Year (2015) |
|---------------------------------|----------------|------------------------------|----------------|------------------|
| Direct Energy | | | | |
| Airline Fuel | 109,154 | 59.1% | 104,279 | 104,279 |
| Ground Vehicle Fuel | 65,552 | 35.4% | 64,804 | 64,804 |
| Diesel | 42,165 | 22.8% | 46,240 | 46,240 |
| Gasoline | 13,299 | 7.2% | 12,096 | 12,096 |
| CNG | 3,410 | 1.8% | 751 | 751 |
| Propane/LPG | 1,194 | 0.6% | 1,101 | 1,101 |
| LNG | 2,725 | 1.5% | 3,109 | 3,109 |
| Renewable Fuel (Biomass) | 2,759 | 1.5% | 1,507 | 1,507 |
| Facility Fuel | 4,198 | 2.3% | 4,582 | 4,582 |
| Natural Gas | 3,994 | 2.2% | 4,365 | 4,365 |
| Heating Oil | 53 | 0.0% | 72 | 72 |
| Propane | 151 | 0.1% | 145 | 145 |
| Direct Energy Subtotal | 178,904 | 96.8% | 173,665 | 173,665 |
| Indirect Energy | | | | |
| Electricity | 5,904 | 3.2% | 5,850 | 5,850 |
| Renewable Electricity | 9 | 0.0% | 11 | 11 |
| Indirect Energy Subtotal | 5,913 | 3.2% | 5,861 | 5,861 |
| Total Energy | 184,817 | 100% | 179,526 | 179,526 |

Energy Consumption Within the Organization by Business Unit

| U.S. Domestic Package | | | | International Package | | | Global Supply Chain & Freight | | | Totals | | |
|--------------------------|----------------|----------------|------------------|-----------------------|---------------|------------------|-------------------------------|---------------|------------------|----------------|----------------|------------------|
| Global Energy ('000 GJs) | 2016 | 2015 | Base Year (2015) | 2016 | 2015 | Base Year (2015) | 2016 | 2015 | Base Year (2015) | 2016 | 2015 | Base Year (2015) |
| Direct Energy | 108,452 | 102,865 | 102,865 | 60,214 | 58,757 | 58,757 | 10,238 | 12,043 | 12,043 | 178,904 | 173,665 | 173,665 |
| Indirect Energy | 4,359 | 4,231 | 4,231 | 506 | 549 | 549 | 1,048 | 1,081 | 1,081 | 5,913 | 5,861 | 5,861 |
| Total Energy | 112,811 | 107,096 | 107,096 | 60,720 | 59,306 | 59,306 | 11,286 | 13,124 | 13,124 | 184,817 | 179,526 | 179,526 |

Energy Intensity¹ Within the Organization by Business Unit

| U.S. Domestic Package | | | | International Package | | | Global Supply Chain & Freight | | | Totals | | |
|--------------------------------------|--------------|--------------|------------------|-----------------------|--------------|------------------|-------------------------------|--------------|------------------|--------------|--------------|------------------|
| Global Energy ('000 GJs/\$M Revenue) | 2016 | 2015 | Base Year (2015) | 2016 | 2015 | Base Year (2015) | 2016 | 2015 | Base Year (2015) | 2016 | 2015 | Base Year (2015) |
| Revenue in Millions | \$38,301 | \$36,747 | \$36,747 | \$12,350 | \$12,149 | \$12,149 | \$10,255 | \$9,467 | \$9,467 | \$60,906 | \$58,363 | \$58,363 |
| Direct Energy | 2.832 | 2.799 | 2.799 | 4.876 | 4.837 | 4.837 | 0.998 | 1.272 | 1.272 | 2.937 | 2.976 | 2.976 |
| Indirect Energy | 0.114 | 0.115 | 0.115 | 0.041 | 0.045 | 0.045 | 0.102 | 0.114 | 0.114 | 0.097 | 0.100 | 0.100 |
| Total Energy | 2.946 | 2.914 | 2.914 | 4.917 | 4.882 | 4.882 | 1.100 | 1.386 | 1.386 | 3.034 | 3.076 | 3.076 |

(1) Includes all types of energy defined in Energy Consumption Within the Organization by source.

Energy Performance

302-2 | 302-4 | 302-5

Energy Consumption Outside the Organization

| Global Energy ('000 GJs) | 2016 | 2015 | % Change 16/15 | Base Year (2015) |
|--|----------------|----------------|----------------|------------------|
| UPSTREAM | | | | |
| 1. Purchased Goods and Services | Not Reported | Not Reported | | Not Reported |
| 2. Capital Goods | Not Reported | Not Reported | | Not Reported |
| 3. Fuel & Energy-Related (not incl. Scope 1&2) | Not Reported | Not Reported | | Not Reported |
| 4. Transportation & Distribution | 104,813 | 104,276 | 0.5% | 104,276 |
| 5. Waste Generated in Operations | Not Relevant | Not Relevant | | Not Relevant |
| 6. Business Travel | 1,309 | 1,144 | 14.4% | 1,144 |
| 7. Employee Commuting | 26,927 | 26,558 | 1.3% | 26,558 |
| 8. Leased Assets | Not Relevant | Not Relevant | | Not Relevant |
| DOWNSTREAM | | | | |
| 9. Transportation & Distribution | Not Relevant | Not Relevant | | Not Relevant |
| 10. Processing of Sold Products | Not Relevant | Not Relevant | | Not Relevant |
| 11. Use of Sold Products | Not Relevant | Not Relevant | | Not Relevant |
| 12. End-of-life Treatment of Sold Products | Not Relevant | Not Relevant | | Not Relevant |
| 13. Leased Assets | Not Relevant | Not Relevant | | Not Relevant |
| 14. Franchises | 359 | 356 | 1.0% | 356 |
| 15. Investments | Not Relevant | Not Relevant | | Not Relevant |
| Total Energy Consumption Outside the Organization | 133,409 | 132,364 | 0.8% | 132,364 |

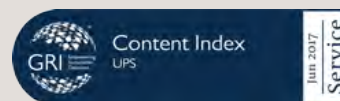
Reduction of Energy Consumption

| Energy Saved Due to Conservation and Efficiency Improvements | Absolute Energy Avoided 2016 vs 2015 (gigajoules) ⁽¹⁾ | 2016 Energy Intensity | 2015 Energy Intensity | Comments |
|---|--|-----------------------|-----------------------|--|
| U.S. Domestic Package: Absolute Energy Avoided Contributing Factors/Initiatives: Implementation of telematics, improved vehicle routing, conducting proactive maintenance on our vehicles, shifting travel to low-emission vehicles. See "Ground Fleet Efficiencies," page 73 for more details. | (834,000) ⁽¹⁾ | 27.23 | 27.03 | 1) Energy Intensity factor expressed in gigajoules per 1,000 Packages 2) Scope is U.S. Domestic Package Operations 3) Includes all direct and indirect energy usage for this specific business segment 4) Avoided Absolute Energy = (2015 Energy Intensity x 2016 # of packages) - (2016 Energy Intensity x 2016 # of packages) |
| International Package: Absolute Energy Avoided Contributing Factors/Initiatives: Miscellaneous initiatives in our airline, including lower flight speeds, computer-optimized flight plans, single-engine taxi. See "Air Fleet Efficiencies," page 75 for more details. | 1,419,000 ⁽¹⁾ | 83.70 | 85.65 | 1) Energy Intensity factor expressed in gigajoules per 1,000 packages 2) Scope is International Package Operations 3) Includes all direct and indirect energy usage for this specific business segment 4) Avoided Absolute Energy = (2015 Energy Intensity x 2016 # of packages) - (2016 Energy Intensity x 2016 # of packages) |
| Global Supply Chain & Freight: Absolute Energy Avoided Contributing Factors/Initiatives: Implementation of telematics, improved dispatching of drivers, consolidation of shipments, loading efficiency in ways that keep miles driven to a minimum. | 1,060,000 ⁽¹⁾ | 1.11 | 1.21 | 1) Energy Intensity factor expressed in gigajoules per 1,000 lbs. of freight hauled 2) Scope is Global Supply Chain & Freight Operations 3) Includes all direct and indirect energy usage for this specific business segment 4) Avoided Absolute Energy = (2015 Energy Intensity x 2016 lbs. of freight) - (2016 Energy Intensity x 2016 lbs. of freight) |
| Total | 1,645,000 | | | |

(1) Absolute energy avoided in 2016 was estimated from the energy intensity factor improvements from 2015 (baseline year) to 2016.

Notes: • Base year of 2015 was selected to align with GHG reduction goal • Methodology: actual energy used by volume multiplied by appropriate energy conversion factor • Conversion factor source: GREET 2016, version 1.

GRI Content Index



| General Disclosures | | | |
|--|---|--|---------------------|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 102: General Disclosures 2016 | | | |
| Organizational Profile | | | |
| 102-1 | Report the name of the organization. | Page 4 | |
| 102-2 | Report the primary brands, products, and services | Page 4; No UPS brands, products, or services are banned in markets we operate in. | |
| 102-3 | Report the location of the organization's headquarters. | Atlanta, GA | |
| 102-4 | Report the number of countries where the organization operates. | Page 4 | |
| 102-5 | Report the nature of ownership and legal form. | Publicly traded company | |
| 102-6 | Report the markets served (including geographic breakdown, sectors served, and types of customers and beneficiaries). | Page 4; UPS operates in 220 countries in the operating regions of USA, Americas (Canada, Latin America, and the Caribbean), Europe, ISMEA (Indian Subcontinent, the Middle East, and Asia), and Asia-Pacific. | |
| 102-7 | Report the scale of the organization. | Pages 4, 42 | |
| 102-8 | Breakdown of employee type. | Page 18 | |
| 102-9 | Describe the organization's supply chain. | Page 51-52 | |
| 102-10 | Report any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain. | Page 42-43 | |
| 102-11 | Report whether and how the precautionary approach or principle is addressed by the organization. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-12 | List externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or which it endorses. | <p>Examples of major external initiatives we engage in — other than those aforementioned in this Report — include the following:</p> <ul style="list-style-type: none"> • The World Resources Institute's Greenhouse Gas Protocol • CDP's climate change program • The President's Export Council, a nonpartisan body that serves as the United States' advisory committee on international trade • The Business Roundtable, an association of CEOs promoting public policy in support of a thriving economy | |
| 102-13 | List memberships of associations (such as industry associations) and national or international advocacy organizations. | <ul style="list-style-type: none"> • Green Freight Asia, a transportation association addressing the climate impact of shipping • The North American Council for Freight Efficiency, an association committed to doubling the efficiency of North American goods movement • The Interstate Clean Transportation Corridor program, a public-private partnership to establish natural gas infrastructure for transportation • The National Clean Fleets Partnership, as part of the U.S. Department of Energy's Clean Cities program, which works with large private fleets to reduce the use of petroleum-based fuels • The International Air Transport Association's Air Cargo Carbon Footprint initiative • The Conference Board, which provides corporations with information to better serve society • Corporate Eco-Forum, which provides a forum for leaders to strategize and exchange best-practice insights | |

GRI Content Index

| General Disclosures | | | |
|-----------------------------|---|---|---------------------|
| Disclosure Number | Description | Response | Reason for Omission |
| Strategy | | | |
| 102-14 | Provide a statement from the most senior decision-maker of the organization. | Page 2-3 | |
| 102-15 | Provide a description of key impacts, risks, and opportunities. | Pages 9-10, 42-43; 2016 Annual Report — Form 10-K, Item 1A Risk Factors, pages 14-18, http://www.investors.ups.com/phoenix.zhtml?c=62900&p=irol-sec ; An overview of our materiality assessment process is available at https://sustainability.ups.com/media/UPS_Corporate_Materiality.pdf | |
| Ethics and integrity | | | |
| 102-16 | Describe the organization's values, principles, standards, and norms of behavior such as codes of conduct and codes of ethics. | Page 38 | |
| 102-17 | Report the internal and external mechanisms for seeking advice on ethical and lawful behavior, and matters related to organizational integrity, such as helplines or advice lines. | Page 39 | |
| Governance | | | |
| 102-18 | Report the governance structure of the organization, including committees of the highest governance body. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-19 | Report the process for delegating authority for economic, environmental, and social topics from the highest governance body to senior executives and other employees. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-20 | Report whether the organization has appointed an executive-level position or positions with responsibility for economic, environmental, and social topics, and whether post holders report directly to the highest governance body. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-21 | Report processes for consultation between stakeholders and the highest governance body on economic, environmental, and social topics. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-22 | Report the composition of the highest governance body and its committees. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-23 | Report whether the Chair of the highest governance body is also an executive officer. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-24 | Report the nomination and selection processes for the highest governance body and its committees, and the criteria used for nominating and selecting highest governance body members. | https://sustainability.ups.com/resources/corporate-governance | |

GRI Content Index

| General Disclosures | | | |
|---------------------|--|---|---------------------|
| Disclosure Number | Description | Response | Reason for Omission |
| 102-25 | Report processes for the highest governance body to ensure conflicts of interest are avoided and managed. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-26 | Report the highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental, and social impacts. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-27 | Report the measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental, and social topics. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-28 | Report the processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental, and social topics. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-29 | Report the highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-30 | Report the highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental, and social topics. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-31 | Report the frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-32 | Report the highest committee or position that formally reviews and approves the organization's sustainability report. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-33 | Report the process for communicating critical concerns to the highest governance body. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-34 | Report the nature and total number of critical concerns that were communicated to the highest governance body and the mechanism(s) used to address and resolve them. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-35 | Report the remuneration policies for the highest governance body and senior executives. | https://sustainability.ups.com/resources/corporate-governance ; page 31; and page 33 in 2017 Proxy Statement at https://www.upsannualmeeting.com/uploads/ups-2017-proxy-final.pdf | |
| 102-36 | Report the process for determining remuneration. | https://sustainability.ups.com/resources/corporate-governance | |
| 102-37 | Report how stakeholders' views are sought and taken into account regarding remuneration. | https://sustainability.ups.com/resources/corporate-governance | |

GRI Content Index

| General Disclosures | | | |
|------------------------|---|----------|--|
| Disclosure Number | Description | Response | Reason for Omission |
| 102-38 | Report the ratio of the annual total compensation for the organization's highest paid individual in each country of significant operations to the median annual total compensation for all employees. | | Confidentiality constraints — UPS does not report ratios based on individual compensation or make pay decisions based on these ratios. We consider this data confidential. However, The Securities and Exchange Commission (SEC) in the United States adopted a rule to require disclosure of the ratio of Chief Executive Officer (CEO) pay to median employee pay. This disclosure will be required starting in 2018, and UPS will re-evaluate disclosure of this information in accordance with the rule. |
| 102-39 | Report the ratio of percentage increase in annual total compensation for the organization's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country. | | Confidentiality constraints — UPS does not report ratios based on individual compensation or make pay decisions based on these ratios. We consider this data confidential. However, The Securities and Exchange Commission (SEC) in the United States adopted a rule to require disclosure of the ratio of Chief Executive Officer (CEO) pay to median employee pay. This disclosure will be required starting in 2018, and UPS will re-evaluate disclosure of this information in accordance with the rule. |
| Stakeholder engagement | | | |
| 102-40 | List of stakeholder groups | Page 15 | |
| 102-41 | Report the percentage of total employees covered by collective bargaining agreements. | Page 36 | |
| 102-42 | Report the basis for identification and selection of stakeholders with whom to engage. | Page 14 | |
| 102-43 | Report the organization's approach to stakeholder engagement. | Page 14 | |
| 102-44 | Report key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns. | Page 15 | |

GRI Content Index

| General Disclosures | | | |
|---------------------------|--|--|---------------------|
| Disclosure Number | Description | Response | Reason for Omission |
| Reporting practice | | | |
| 102-45 | List all entities included in the organization's consolidated financial statements or equivalent documents. | 2016 Annual Report — Form 10-K, Reporting Segments and Products & Services, pages 5-8, http://www.investors.ups.com/phoenix.zhtml?c=62900&p=irol-sec | |
| 102-46 | Explain the process for defining the report content and the Topic Boundaries. | Page 12; An overview of our materiality assessment process is available at https://sustainability.ups.com/media/UPS_Corporate_Materiality.pdf | |
| 102-47 | List all the material Topics identified in the process for defining report content. | Page 13; An overview of our materiality assessment process is available at https://sustainability.ups.com/media/UPS_Corporate_Materiality.pdf | |
| 102-48 | Report the effect of any restatements of information provided in previous reports, and the reasons for such restatements. | We have made no material restatements of information provided in previous Reports. | |
| 102-49 | Report significant changes from previous reporting periods in the list of Material Topics and Topic Boundaries. | Page 12 | |
| 102-50 | Reporting period for information provided. | Page 89 | |
| 102-51 | Date of most recent previous report. | Page 89 | |
| 102-52 | Reporting cycle. | Page 89 | |
| 102-53 | Provide the contact point for questions regarding the report or its contents. | Page 89 | |
| 102-54 | Report the 'in accordance' option the organization has chosen. | Page 89 | |
| 102-55 | Report the GRI content index, which specifies each of the GRI Standards used and lists all disclosures included in the report. | Page 89 | |
| 102-56 | Describe the organization's policy and current practice with regard to seeking external assurance for the report. | Page 89 | |

GRI Content Index

| Topic-Specific Standards | | | |
|---|---|---|---------------------|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 201: Economic Performance 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 42-44, 50-52, 57-58, 61 | |
| 103-2 | Explain how the organization manages the topic. | Pages 42-44, 50-52, 57-58, 61 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 42-44, 50-52, 57-58, 61 | |
| 201-1 | Direct economic value generated and distributed. | Pages 42-43 | |
| 201-2 | Financial implications and other risks and opportunities due to climate change. | Page 43; UPS 2016 Annual Report — Form 10-K, Item 1A Risk Factors, page 15, http://www.investors.ups.com/phoenix.zhtml?c=62900&p=irol-sec | |
| 201-3 | Defined benefit plan obligations and other retirement plans. | We provide detailed disclosures and discussions about our pension and postretirement plan obligations in our Annual Report, primarily in Notes 4 and 5 to the Consolidated Financial Statements beginning on page 80 of the UPS 2016 Annual Report Form 10-K. | |
| 201-4 | Financial assistance received from government. | UPS does not receive significant financial assistance from the government. We do participate in public-private partnerships that may involve tax incentives, such as the Interstate Clean Transportation Corridor (ICTC) in the United States, or certain incentives related to our purchase of alternative fuel vehicles, but financial assistance is not the main reason we participate. Primarily, we seek to advance our own knowledge and capabilities in ways that help society develop important new transportation options and infrastructure. Achieving these two goals enables us to deliver greater benefits to our customers, investors, employees, and other stakeholders. | |

GRI Content Index

| Topic-Specific Standards | | | |
|---|---|--|---------------------|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 202: Market Presence 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 42-44 | |
| 103-2 | Explain how the organization manages the topic. | Pages 42-44 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 42-44 | |
| 202-1 | Ratios of standard entry-level wage by gender compared to local minimum wage. | The ratio of our standard entry-level hourly wage to local minimum wage varies from location to location around the world. This variation is necessary to comply with local conditions and with national wage minimums in countries that set them. In the United States, which represents 77.5 percent of our employee base, we comply with local minimum-wage laws in each state and pay no less than the local minimum wage or the federal minimum wage. We do not vary entry-level compensation by gender. We do not have a significant proportion of other workers (excluding employees) performing the organization's activities that are compensated based on minimum wage rules. | |
| 202-2 | Proportion of senior management hired from the local community. | Page 32; Because UPS serves more than 220 countries and territories around the world, it is extremely difficult to define "local" and "significant" operations. We hire nearly all senior managers within their home country. More than 99 percent of full-time management employees worked in their home country in 2016. | |
| GRI 203: Indirect Economic Impacts 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 42-44, 57-58, 61 | |
| 103-2 | Explain how the organization manages the topic. | Pages 42-44, 57-58, 61 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 42-44, 57-58, 61 | |
| 203-1 | Infrastructure investments and services supported. | Pages 44, 57-61 | |
| 203-2 | Significant indirect economic impacts. | Pages 44, 57 | |
| GRI 204: Procurement Practices 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 50-52 | |
| 103-2 | Explain how the organization manages the topic. | Pages 50-52 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 50-52 | |
| 204-1 | Proportion of spending on local suppliers. | Pages 50-51 | |

GRI Content Index

| Topic-Specific Standards | | | |
|--|--|---|---|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 205: Anti-corruption 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 38-39, 51 | |
| 103-2 | Explain how the organization manages the topic. | Pages 38, 51 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 38, 51 | |
| 205-1 | Operations assessed for risks related to corruption. | Page 39 | Unavailable — UPS provides number of corruption-related audits but does not report on percentage or significant risks due to confidentiality. |
| 205-2 | Communication and training about anti-corruption policies and procedures. | Pages 38, 51; As part of our Director Orientation Program, new Board members are provided with the UPS Code of Business Conduct, which includes a section on our Anti-Corruption Program and sets forth standards applicable to all representatives of UPS. | |
| 205-3 | Confirmed incidents of corruption and actions taken. | We are not aware of any confirmed incidents of corruption in 2016. | |
| GRI 206: Anti-competitive Behavior 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Page 38 | |
| 103-2 | Explain how the organization manages the topic. | Page 38 | |
| 103-3 | Explain how the organization evaluates the management approach. | Page 38 | |
| 206-1 | Legal actions for anti-competitive behavior, anti-trust, and monopoly practices. | All material litigation and enforcement matters related to competition law are timely disclosed to the SEC and publicly available at www.investors.ups.com . | |
| GRI 302: Energy 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 68-76, 78 | |
| 103-2 | Explain how the organization manages the topic. | Pages 68-76, 78 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 68-76, 78 | |
| 302-1 | Energy consumption within the organization. | Page 103 | |
| 302-2 | Energy consumption outside of the organization. | Page 104 | |
| 302-3 | Energy intensity. | Page 103 | |
| 302-4 | Reduction of energy consumption. | Page 104 | |
| 302-5 | Reductions in energy requirements of products and services. | Page 104 | |

GRI Content Index

| Topic-Specific Standards | | | |
|--|--|---|--|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 305: Emissions 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 68-78 | |
| 103-2 | Explain how the organization manages the topic. | Pages 68-78 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 68-78 | |
| 305-1 | Direct (Scope 1) GHG emissions. | Page 91 | |
| 305-2 | Energy indirect (Scope 2) GHG emissions. | Page 91 | |
| 305-3 | Other indirect (Scope 3) GHG emissions. | Pages 91, 96 | |
| 305-4 | GHG emissions intensity. | Page 94 | |
| 305-5 | Reduction of GHG emissions. | Page 102 | |
| 305-6 | Emissions of ozone-depleting substances (ODS). | — | Not applicable — UPS does not produce, import, or export ODS. |
| 305-7 | Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions. | Page 75; EPA Motor Vehicle Emission Simulator (MOVES) model is used to calculate ground vehicle emissions | |
| GRI 308: Supplier Environmental Assessment 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 50-51 | |
| 103-2 | Explain how the organization manages the topic. | Pages 50-51 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 50-51 | |
| 308-1 | New suppliers that were screened using environmental criteria. | Page 50 | Confidentiality constraints — UPS does not report specific numbers or percentages related to screening or impact assessments, as this information is subject to confidentiality constraints of our supplier contracts. |
| 308-2 | Negative environmental impacts in the supply chain and actions taken. | Page 50 | Confidentiality constraints — UPS does not report specific numbers or percentages related to screening or impact assessments, as this information is subject to confidentiality constraints of our supplier contracts. |

GRI Content Index

| Topic-Specific Standards | | | |
|---|---|---|---|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 401: Employment 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 19-21 | |
| 103-2 | Explain how the organization manages the topic. | Pages 19-21 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 19-21 | |
| 401-1 | New employee hires and employee turnover. | We hired 108,844 new permanent employees globally through September 2016. Our permanent employees in our primary market, the United States, were 97,938 - of that, the gender breakdown was 19.4 percent female and 80.6 percent male. The age breakdown was 73.3 percent under 30 years old, 23.4 percent age 30-50, and 3.3 percent over 50 years old. These figures do not include more than 107,000 people that we hired to work with us through the fourth-quarter peak holiday shipping season. The full-time employee retention rate for our global operations was 89.6 percent. | |
| 401-2 | Benefits provided to full-time employees that are not provided to temporary or part-time employees. | Page 31; in 2016, UPS administered benefit plans for more than 245,000 employees, retirees, and their dependents, and contributed to union-administered plans for 108,000 additional employees in the United States. | |
| 401-3 | Parental leave. | Page 31 | Information Unavailable — Due to changes in collective bargaining agreements and HR information tracking systems, UPS does not have visibility into the leave, return or retention rates for union employees. There is currently no plan to begin collecting this data. |
| GRI 402: Labor/Management Relations 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 36-37 | |
| 103-2 | Explain how the organization manages the topic. | Pages 36-37 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 36-37 | |
| 402-1 | Minimum notice periods regarding operational changes. | Page 37 | |

GRI Content Index

| Topic-Specific Standards | | | |
|---|--|---|--|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 403: Occupational Health and Safety 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 28-31, 36-37 | |
| 103-2 | Explain how the organization manages the topic. | Pages 28-31, 36-37 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 28-31, 36-37 | |
| 403-1 | Workers representation in formal joint management-worker health and safety committees. | Page 37 | |
| 403-2 | Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities. | Page 30; 79.4 percent of injuries in Canada, Puerto Rico, and the United States involved men; the remaining 20.6 percent involved women. Additionally, all eight fatalities were men: seven in the United States and one in Africa. | Confidentiality constraints — UPS does not currently track or report this data for contractors, as this information is subject to confidentiality constraints of our contracts. We track through lost time, which includes injury, disease, absenteeism, and other factors. We do not track these numbers by gender and region. |
| 403-3 | Workers with high incidence or high risk of diseases related to their occupation. | We are not aware of any occupational diseases among UPS employees, or of any incidence or high risk of disease related to occupations at UPS. | |
| 403-4 | Health and safety topics covered in formal agreements with trade unions. | Page 36 | |
| GRI 404: Training and Education 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 32-35 | |
| 103-2 | Explain how the organization manages the topic. | Pages 32-35 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 32-35 | |
| 404-1 | Average hours of training per year per employee. | Page 33 | |
| 404-2 | Programs for upgrading employee skills and transition assistance programs. | Pages 33-35 | |
| 404-3 | Percentage of employees receiving regular performance and career development reviews. | Page 34 | Information Unavailable — Currently, formal performance reviews are provided for management employees and above, and not required for nonmanagement employees. UPS is introducing a new system to track performance and career reviews, and we will provide more comprehensive data on performance reviews by job category in our 2017 Report. |

GRI Content Index

| Topic-Specific Standards | | | |
|---|---|--|--|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 405: Diversity and Equal Opportunity 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 24-25 | |
| 103-2 | Explain how the organization manages the topic. | Pages 24-25 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 24-25 | |
| 405-1 | Diversity of governance bodies and employees. | UPS Corporate Governance website https://sustainability.ups.com/resources/corporate-governance | |
| 405-2 | Ratio of basic salary and remuneration of women to men. | UPS provides for equal remuneration policies globally with regard to women and men and has policies and procedures in place to support our compliance with applicable laws and regulations. We believe this is the right thing to do, so we have made it part of our business policies, our compensation policies, and contractual agreements with unions. | |
| GRI 406: Freedom of Association and Collective Bargaining 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 36-37 | |
| 103-2 | Explain how the organization manages the topic. | Pages 36-37 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 36-37 | |
| 407-1 | Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk. | Page 36 | |
| GRI 414: Supplier Social Assessment 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 50-51 | |
| 103-2 | Explain how the organization manages the topic. | Pages 50-51 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 50-51 | |
| 414-1 | New suppliers that were screened using social criteria. | Page 50 | Confidentiality constraints — UPS does not report specific numbers or percentages related to screening or impact assessments, as this information is subject to confidentiality constraints of our supplier contracts. |
| 414-2 | Negative social impacts in the supply chain and actions taken. | Page 50 | Confidentiality constraints — UPS does not currently report findings of these assessments, as this information is subject to confidentiality constraints of our supplier contracts. |

GRI Content Index

| Topic-Specific Standards | | | |
|---|---|---|---------------------|
| Disclosure Number | Description | Response | Reason for Omission |
| GRI 418: Customer Privacy 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 54-56 | |
| 103-2 | Explain how the organization manages the topic. | Pages 54-56 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 54-56 | |
| 418-1 | Substantiated complaints concerning breaches of customer privacy and losses of customer data. | There were no breaches of customer privacy or losses of customer data in 2016. | |
| GRI 419: Socioeconomic Compliance 2016 | | | |
| GRI 103: Management Approach 2016 | | | |
| 103-1 | Explain why the topic is material and provide its Boundary. | Pages 38-39 | |
| 103-2 | Explain how the organization manages the topic. | Pages 38-39 | |
| 103-3 | Explain how the organization evaluates the management approach. | Pages 38-39 | |
| 419-1 | Noncompliance with laws and regulations in the social and economic area. | No significant fines were paid for noncompliance with laws and regulations in 2016. | |