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.

“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.”

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 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.

David Abney, Chairman and Chief Executive Officer
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.

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.

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.

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

26,000+ UPS Access Point™ locations across 18 countries
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 and territories. 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.

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.

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.

$2.4B of economic impact generated by our supplier diversity investments

2.7M volunteer hours by UPSers, friends, and family across the world

24,000+ employee participants in the UPS Earn & Learn program

100% Human Rights Campaign Corporate Equality Index, the only company in the mail and freight delivery sector to earn a perfect score
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
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.
Empowered People

2016 Progress

• Worked to realign business performance and individual contributions to drive employee engagement and support business outcomes. Through the My Talent Center Program, 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;

• Began using the framework of the UPSer Lifecycle — Attract & Recruit, Select & Onboard, Develop & Grow, and Transition — to provide opportunities that improve the employee experience;

• Increased Business Resource Group (BRG) membership 27 percent, with 150 chartered entities globally to support a diverse and inclusive workforce;

• Continued to build on industry-leading safety performance by investing more than US$194 million in safety training, increasing our total number of class 8 vehicles with Collision Mitigation technology to 4,500, and utilizing telematics data to improve seat belt usage to 99 percent and reduce backing incidents by 25 percent; and

• Leveraged technology to improve the efficiency, consistency, and accuracy of global recruitment efforts; invested more than US$26 million in the college education of more than 24,000 employees; and opened our first UPS Integrad® training center outside the U.S. in Cologne, Germany.

The Road Ahead

“ Achieving our business potential will require transformative change that goes well beyond what is required of us. We are in the midst of shifting 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
Individual Commitment that Adds Up to Significant Impact

Around the world, UPS volunteers engage in a range of projects, including tree plantings, food and supply connections, 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;

- 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 — more than 5,500 — committed to doing more to positively impact communities and our environment and finding new ways to collaborate to achieve real results;

- 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. 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.
The Road Ahead

“Analytics can revolutionize how we manage our operations and fleet, providing insight into facility and 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

2016 Progress

- **Conducted six workshops** for more than 600 participants to train small businesses on supply chain readiness as part of our partnership with the US-Association of Southeast Asian Nations Business Alliance for Competitive Small and Medium Enterprises;

- **Continued to engage employees** around the importance of data privacy through “Global Privacy Awareness Week” and increased our network of country-level privacy coordinators;

- **Played a major role in response efforts** to an earthquake in Ecuador, Hurricane Matthew in Haiti, flooding in the southeastern U.S., in communities impacted by the water crisis in Michigan, as well as refugee sites in Africa, Europe, and the Middle East;

- **Enhanced UPS My Choice™ service**, which now tops 30 million customers, to enable monitoring of the progress of UPS® Air and UPS Worldwide Express™ packages in real time, providing unprecedented visibility and convenience;

- **Grew the UPS Access Point™ network** to 18 countries and more than 26,000 locations worldwide, and expanded our UPS Access Point locker program; and

- **Expanded the UPS Humanitarian Experts on Mission** program to utilize UPSers' experience in Healthcare, Engineering, and Customer Service solutions to develop strategies for NGOs and governments in the developing world.
How The UPS Foundation Made a Difference in 2016

$14.9 Million in support of economic development, education & leadership development for underserved or underrepresented populations

$57 Million+ employee contribution in support of United Way

$6.3 Million+ in funding to build volunteer capacity & effectiveness of nonprofit organizations

2.7 Million volunteer hours by UPSers, friends & family members

$14.9 Million

$2.5 Million to support tree planting initiatives, environmental education, conservation efforts & research

$3.4 Million toward over 700 scholarships to benefit underserved & underrepresented students

1.9 Million trees planted

$15 Million+ in funding, in-kind & technical support for disaster response recovery, emergency preparedness and road safety initiatives

$2.5 Million

468 humanitarian relief shipments across 53 countries

8,600+ new drivers graduated from the UPS Road Code™ safe driving program

Global Volunteerism

Environmental Sustainability

Sustainable Development Goals

Climate Action

Life Below Water

Industry, Innovation & Infrastructure

Sustainable Cities & Communities

Affordable & Clean Energy

Decent Work & Economic Growth

Clean Water & Sanitation

Peace, Justice, Strong Institutions

Reduced Inequalities

Quality Education

Life on Land

No Poverty

Good Health & Well-Being

Gender Equality

Life on Land

Reduced Inequalities

Quality Education

Gender Equality

“...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. By bringing efficiency, collaboration, and innovation to the challenge at hand, we are committed to building more resilient supply chains for the future.”

Eduardo Martinez, President, The UPS Foundation
UPS Chief Diversity and Inclusion Officer
The Road Ahead

“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

2016 Progress

- **Achieved an absolute GHG reduction** of 1.7 percent in our global ground operations, which includes vehicle fuel, facility heat, and facility electricity;

- **Purchased more than 1,250** alternative fuel or advanced technology vehicles, which represented 16 percent of new vehicle purchases, and used over 92 million gallons of alternative fuels, or 19.6 percent of our total ground-fleet fuel purchased, in this specialized fleet;

- **Completed deployment** of our groundbreaking route optimization software, ORION, to 100 percent of U.S. routes targeted for implementation, reducing the distance driven by 210 million miles and reducing CO2 emissions by 210,000 metric tonnes cumulatively since 2013;

- **Concluded a successful test** of a range-extended electric vehicle in London, which will allow us to serve long-range routes while still operating as a fully electric vehicle in the city — one of several sustainable solutions to address urban logistics; and

- **Ordered 14 new Boeing 747-8** freighter jets and implemented a fuel management software solution that provides enhanced analytics and visibility of fuel consumption, both of which will help reduce CO2 emissions from UPS Airlines.
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.

**RENEWABLE SOURCE**
- Sun
- Gas from Landfill, Municipal & Agricultural Waste
- Organic Waste

**ENERGY CONVERSION**
- Solar Panels
- Renewable Natural Gas
- Synthetic Fuel

**FACILITY APPLICATION**
- Facility Electricity: Currently generating capacity of 2.6 megawatts to power facilities with more investments to come.
- Facility Battery Storage: Future project to reuse vehicle batteries at end-of-life as a storage device for solar energy for use during peak electricity demand.
- Fuel Cell: Pilot project for fuel cell electric vehicle in California in development for 2017.
- Vehicle Compressed & Liquefied Natural Gas: Purchased more than 5 million gallons of renewable natural gas since 2014.
- Renewable Jet Fuel: Incorporate renewable content into our jet fuel usage as scale and economics become feasible.
- Renewable Diesel: Purchased 22 million gallons of renewable diesel since 2014.
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.

1 Site Selection
Locations are selected based on the power supply available, electricity generation method, duty-cycles, and additional criteria.

2 Vehicle Selection
Vehicles are chosen based on their type, age, and condition.

3 Retrofit
The vehicle is stripped of its traditional powertrain to make room for a new electric propulsion system.

4 Power Up
Electric vehicle is inspected upon return to the UPS facility, and charged up for use.

5 Deployment
“Diesel-to-electric” vehicle is now ready to deliver packages with reduced noise and zero tailpipe emissions.

Stakeholder Perspective

“We can convert any diesel- or gas-powered vehicle to an electric version, 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.”

Bastian Beutel
Managing Director, EFA-S
Stakeholder Perspective

“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.”

Tom Szaky
Founder and CEO, TerraCycle

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.