



Materiality Assessment Process

Materiality is a critical input of our corporate sustainability strategy because it ensures that we provide our stakeholders with the sustainability information most relevant to them. To determine this, we conduct a global materiality assessment on a regular basis. This process occurred most recently in 2016. We worked with BSR (formerly Business for Social Responsibility) on internal and external outreach that:

- Evaluated approximately 30 international sustainability frameworks and standards, ratings and rankings assessments, and other information, either developed by or representing the interests of important stakeholder groups.
- Conducted structured interviews with representatives from five stakeholder groups in Brazil, China, Europe, and the United States, with specific expertise in high-priority or emerging sustainability issues for UPS.
- Reviewed the outcomes of stakeholder engagement efforts around the world on sustainability issues. Relevant results

from these engagements were shared with BSR during the formal materiality process.

- Interviewed six members of our Management Committee, which has direct responsibility for executing all company strategy. We also interviewed senior UPS managers around the world to better understand their points of view on issues relevant to their respective regions.
- Gathered feedback from dozens of regulators and other government agencies; communities; nongovernmental organizations (NGOs), including social and environmental activists; academics; and engaged investors.

Ultimately, we examined more than 50 issues, including areas of significant organizational impact, as well as broader sustainability trends that affect UPS. These issues fell into broad categories, such as greenhouse gas emissions and climate change, energy and fuels, privacy and security, labor/management relations, employees, ethics, governance, and other major areas of corporate sustainability.

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

BSR ranked each issue's relative importance based on an assessment of the aggregate feedback from stakeholders and UPS executives and supported us in making final adjustments to the ranking before we presented it to members of our Sustainability Leadership Council. This Council then submitted the results of the materiality process for approval to our Sustainability Steering Committee, which includes members of the Management Committee and other senior leaders of UPS.

This work built on the 2015 materiality assessments we conducted in four areas of the world where we have significant and growing operations: Asia-Pacific; Canada; Europe; and the Indian Subcontinent, Middle East, and Africa. A fifth assessment was completed during 2016 in Mexico. These assessments involved desktop research, as well as interviews with internal and external stakeholders in each region. Our goal was to identify, analyze, and prioritize local issues in order to inform our sustainability strategy and reporting at both global and regional levels. The findings of the regional assessments, which are summarized below, have informed our global materiality assessment in 2016 and can be found on pages 4-6.

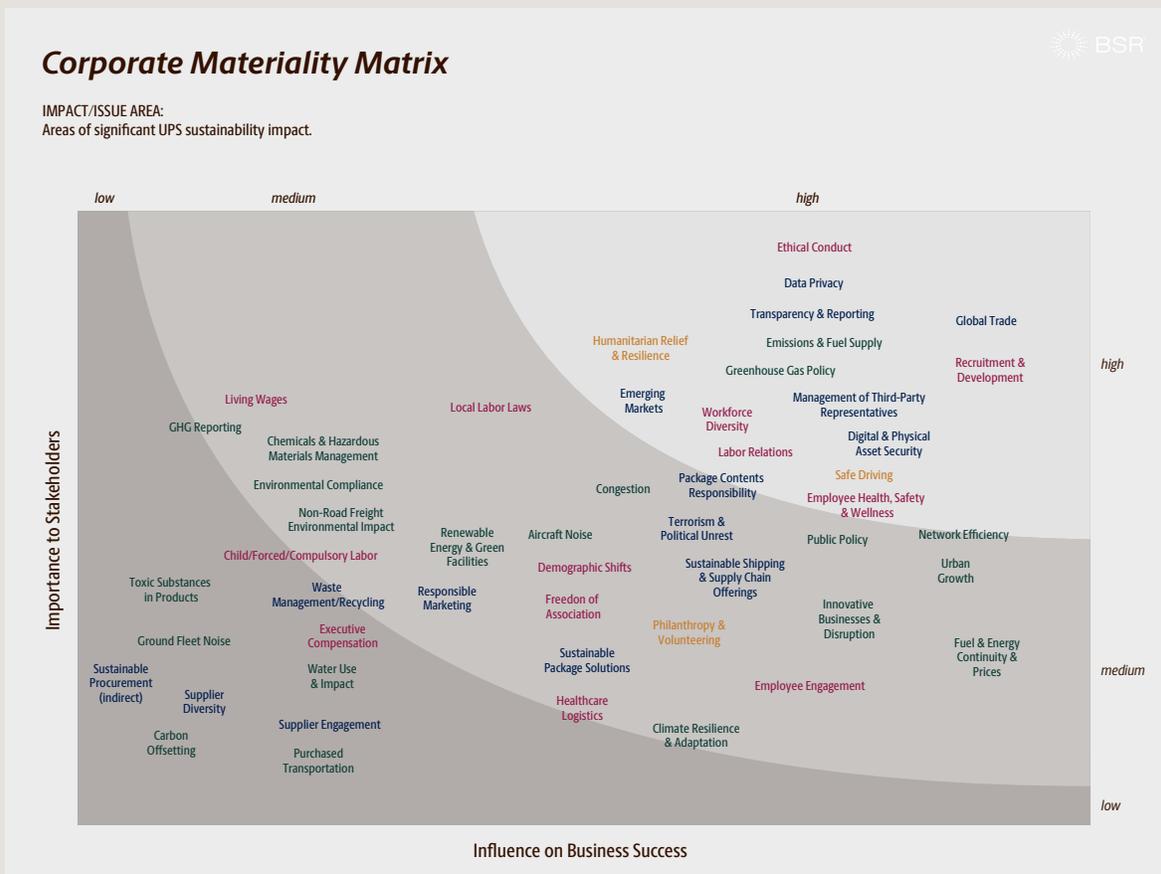
Material Issues

The primary result of our materiality assessment process was a set of “material issues” of sustainability for UPS. We have mapped these material issues on a “materiality matrix.” The

vertical axis of the matrix is “Importance to Stakeholders,” and the horizontal axis is “Influence on Business Success.” These are the same axis definitions we used for our original materiality matrix in 2011.

The GRI Standards recommend that reporters define the vertical axis as “Influence on Stakeholder Assessments and Decisions.” We believe this represents little or no change in meaning from “Importance to Stakeholders.” GRI also recommends that reporters define the horizontal axis as “Significance of Economic, Environmental, and Social Impacts.” After careful consideration, we chose to retain our definition of the horizontal axis (Influence on Business Success) in order to focus the materiality matrix on the overall sustainability strategy of our organization. Our approach also maintains consistency with our original materiality assessment and ensures UPS-specific material issues stand out clearly for our management and stakeholders. The relevant scope and issue boundaries are consistent with previous reporting periods as well.

Note “Influence on Business Success” implicitly takes into account the material issue of economic performance. In the body of this Report, we fully discuss our economic performance, in line with GRI Standards. We also clearly state how our material issues (those that appear in the upper right portion) correspond to the material topic disclosures recommended by GRI.



UPS Material Content Table

 Material Issue for UPS	 UN Sustainable Development Goals Alignment*	 Corresponding GRI Standards Material Topic
Workforce Diversity	5, 8	Diversity and Equal Opportunity, Equal Remuneration for Women and Men
Employee Health, Safety & Wellness	3, 8	Employment, Occupational Health and Safety
Safe Driving	3, 8	Occupational Health and Safety
Recruitment & Development	4, 5, 8	Training and Education
Labor Relations	3, 4, 5, 8, 10, 16	Labor/Management Relations, Freedom of Association and Collective Bargaining
Ethical Conduct	12, 16	Anti-Corruption, Anti-Competitive Behavior, Socioeconomic Compliance
Package Contents Responsibility	12	This issue arose during the materiality process but does not map directly to a GRI Standards material topic.
Economic Performance**	1, 2, 3, 5, 7, 8, 9, 10, 11, 12, 13, 17	Economic Performance, Market Presence, Indirect Economic Impact, Procurement Practices
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
Data Privacy	16	Customer Privacy
Digital & Physical Asset Security	16	Customer Privacy
Humanitarian Relief & Resilience	1, 2, 3, 5, 7, 8, 9, 10, 11, 17	Indirect Economic Impact
Greenhouse Gas Policy	3, 12, 13, 14, 15	Energy, Emissions
Emissions & Fuel Supply	3, 7, 8, 9, 11, 12, 13, 14, 15	Energy, Emissions
Congestion	11	This issue arose during the materiality process but does not map directly to a GRI Standards material topic.
Transparency & Reporting	12, 16	This issue arose during the materiality process but does not map directly to a GRI Standards material topic.
Contextual Trend		Description
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.
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.

*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.



Our Priorities Around the World

We have advanced our commitment to sustainability reporting by conducting materiality assessments in five areas around the world where we have significant and growing operations. These assessments involved desktop research, as well as interviews with internal and external

stakeholders in each region. Our goal was to identify, analyze, and prioritize issues in each region to inform our sustainability strategy and reporting at both regional and global levels. The findings of these assessments informed our global assessment in 2016.

Indian Subcontinent, Middle East, and Africa (ISMEA)

Our newest business district was established in 2013 and encompasses 74 countries, many of which have high growth potential.

Key Findings

- The need to safeguard the security and safety of employees, communities, and assets due to operations in difficult markets affected by terrorism and political unrest.
- Compliance is critical to maintain operational integrity and prevent bribery, corruption, and human rights violations.
- The ability to hire, retain, and engage employees is key to UPS business success.
- Issues related to congestion, urban growth, air pollution, and mobile carbon emissions are emerging and provide opportunities for UPS to lead.
- UPS has the opportunity to act as a positive economic driver in a growing region in need of business capacity building and international market access.

Top Priorities

- Bribery and Corruption
- Terrorism & Political Unrest (*monitoring*)
- Living Wages (*monitoring*)
- Philanthropy, Volunteerism & Disaster Response
- Recruitment, Training & Development

Stakeholder Perspective

“There is an opportunity for UPS to innovate in India and bring sustainable solutions to scale here, as the infrastructure still needs to be developed.”

Sachin Joshi
Confederation of
Indian Industry



Canada

Canada is a growth market relative to other countries and regions, but with a smaller footprint than our U.S. business.

Key Findings

- UPS corporate priorities and Canada's strategic priorities are closely aligned.
- Climate change is playing an increasingly important role in the country's political direction.
- Diversity is a political priority and increasingly on the minds of regulators and customers.
- Customers are becoming more interested in sustainable supply chains and shipping solutions.
- There is an opportunity to leverage sustainability to drive employee engagement.

Top Priorities

- GHG Emissions & Responsible Fuel Supply
- Ethical Conduct
- Labor/Management Relations
- Congestion
- Trade Barriers & Market Intervention

Stakeholder Perspective

“UPS Canada can help shape national discussions around climate change, efficiency standards, and transparency.”

Tara Redmond
VP UPS Canada,
Plant Engineering;
Canada Sustainability Chair



Europe

This is our largest business region outside the U.S. and includes both developed markets, such as Germany and the United Kingdom, and developing markets, such as Turkey.

Key Findings

- Concerns about air pollution and congestion locally, and climate change globally, make emissions a strategic priority.
- Issues relating to noise and ergonomics in and around facilities and airports create business challenges.
- Sustainable shipping solutions are an opportunity for differentiation.
- Employee engagement in newer markets is critical, while globally-minded leadership that can manage a diverse workforce is a priority in others.
- Supplier engagement, especially in markets where outside service providers constitute a large portion of UPS operations, is key to managing service quality and brand reputation.

Top Priorities

- Transparency, Accountability & Reporting
- Congestion & Air Pollution
- Air Fleet Noise (*monitoring*)
- Management of Agents and Outside Service Providers
- Security & Safety

Stakeholder Perspective

“E-commerce is rising, which has an impact on commerce traffic in cities and congestion. Logistics companies need to engage with retailers, cities, and city planners on jointly finding solutions for mitigating these impacts.”

Thomas Wagner
The Collaborating Centre on
Sustainable Consumption
and Production (CSCP)



Asia-Pacific

This region serves more than 40 countries and territories. China is the largest player, with Vietnam, Philippines, and Myanmar as emerging opportunities.

Key Findings

- Skilled labor is in high demand, and employees are seen as critical to business success.
- High emphasis is placed on employee recruitment, training and development, fair treatment, and health and wellness.
- Non-emissions-related environmental impacts are important, such as compliance, green facility design, and waste management.
- In this dynamic and quickly changing region, business agility and innovation are critical to keeping pace with new technologies and changing consumer behavior.
- Sustainable shipping, packaging, and supply chain offerings are important.

Top Priorities

- Recruitment, Training & Development
- Sustainable Shipping & Supply Chain Offerings
- Employee Health, Safety & Wellness
- Labor Relations
- Ethical Conduct

Stakeholder Perspective

“UPS must be nimble and innovate to keep up with dynamic changes happening in the region — from new technologies to changing employee expectations.”

Shiumei Lin
VP UPS Asia-Pacific, Public Affairs,
Asia-Pacific Sustainability Chair



Mexico

Mexico's economy, the second largest in Latin America, continues to expand and is tied strongly to the U.S. economy.

Key Findings

- UPS corporate priorities and Mexico's strategic priorities are closely aligned.
- Environmental regulation is becoming increasingly important to the Mexican government.
- Development of workplace fundamentals, such as safety, training, and good wages, are critical to building a strong workforce and labor base.
- Ethical conduct is challenged due to pervasive corruption throughout the country; however, this presents a strategic advantage due to UPS's strong compliance policies.
- Though Mexico has not prioritized issues such as philanthropy, employee engagement and management of third parties to the level of other Latin American countries, there is an opportunity to adapt these practices to generate value.

Top Priorities

- Public Policy and Engagement
- Trade Barriers & Market Intervention
- Transparency, Accountability & Reporting
- Recruitment, Training & Development
- Ethical Conduct

Stakeholder Perspective

“There is considerable opportunity for UPS Mexico to provide our expertise in designing operating, reliable, transparent cross border solutions. Our customers prefer UPS because our solutions create a competitive advantage for them that local specialized providers simply can't provide.”

Augie Picado
UPS Mexico President

