

Environment



Management and Organization

Our management approach to the environment is to make responsible business decisions based on accurate, comprehensive information about our use of natural resources and fossil fuels and the byproducts they generate. This includes detailed data regarding:

- the fuels used in our air and ground vehicles;
- the techniques we use to optimize fuel usage, such as intermodal shifting, next-generation air traffic management, telematics, and proprietary routing technology;
- CO₂e emissions related to both mobile and fixed sources;
- our use of water and mapping of water risk assessment;
- all aspects of our waste stream, including both hazardous and non-hazardous types; and
- many other types and categories of data.

We use this substantial wealth of information to manage and optimize our use of fuels, water and other resources consistent with meeting our service commitments to customers. We consider our ability to accurately measure the environmental aspects of our business as a core competency, and we believe that our ability to report on environmental matters is a differentiator in our sector—both in the greater visibility we have for running our business responsibly and the greater transparency we can offer in reporting to outside stakeholders.

With regard to transparency, we strive for leadership in all areas, with particular emphasis on comprehensiveness and accuracy of carbon reporting. For example, we already report our entire global inventory on a CO₂e basis, and have begun reporting according to the Greenhouse Gas (GHG) Protocol Corporate Value Chain (Scope 3) Accounting & Reporting Standard. We also engage respected third parties to verify our GHG corporate inventory and assure our reporting. These and other examples of reporting leadership are presented in the diagram to the right.

We have designated a number of our environmental metrics as Key Performance Indicators (KPIs) in recognition of their long-term value to UPS and our stakeholders. Most of these correspond to GRI performance indicators. These KPIs are presented in the pages that follow. In many cases we provide global enterprise data as well as breakouts for our largest reportable business segment (U.S. Domestic Package) and our largest emissions source (UPS Airlines).

We use these KPIs to help us execute our other core environmental strategies, which include:

- Decarbonization synergy for energy and emissions.
- Continuous innovation in technology, systems and processes, and workforce skills development.
- Engagement with world-class organizations for climate change and resource conservation.

Each of these strategies is discussed in detail later in this section. Additional examples, data and performance results are provided throughout this section of the Report.

| UPS Reporting Leadership | | |
|--|--|---|
| 2010 | | |
| Climate Leaders goal (Transportation Index) set and announced | Map facilities according to Global Water Tool | |
| Scope 3 reporting includes 5 of 15 WRI categories | CO ₂ e reporting for global enterprise Scopes 1, 2, and 3 | |
| Statement of GHG Emissions assured by Deloitte & Touche LLP and verified by Société Générale de Surveillance (SGS) | | |
| 2009 | | |
| Sustainability Report assured by Deloitte & Touche LLP | Carbon Disclosure Leadership Index (CDLI) | Rated No. 1 for consumer shipping on Climate Counts Scorecard |
| Sustainability Report "GRI checked" | Automotive goal set and announced | CO ₂ e reporting for Scope 1 & 2 |
| 2008 | | |
| Airline goal set and announced | KPIs expanded with new stretch goals | Global carbon inventory completed and announced |
| 2007 | | |
| Progress reported for five-year KPI goals | | |
| 2003 | | |
| Five-year KPI goals set and announced | First in sector to report to Carbon Disclosure Project (CDP) | First in sector to structure Sustainability Report according to GRI |

Policy and Responsibility. Our management approach to the environment includes an Environmental Policy Statement and a set of Environmental Guidance Statements that specify how the policy is to be implemented. These Statements are included in Appendix F on [page 99](#).

UPS has in place an extensive Environmental Management System (EMS) in the United States for monitoring environmental performance and following up on issues and opportunities that may arise from our monitoring activities. We developed our EMS to adhere to the principles of the ISO 14001 standard. To ensure that our policies are practiced, we have Region Environmental Managers and District Environmental Coordinators throughout our operations. Their role is to monitor and maintain compliance with environmental regulations, to train other operational personnel and to raise awareness in regards to all environmental aspects of our operations. Training programs to assist the environmental coordinator cover a wide range of topics, including, among others: water and air quality; automotive environmental procedures; hazardous waste management; spill response plans; and underground storage tanks.

Our training and auditing programs identify areas for improvement and outline strategies for achieving it. We use a number of metrics to manage our compliance effort; two KPIs are presented in “Compliance” beginning on [page 60](#). Our international environmental programs are guided by our Global Environmental Standards Manual, which is patterned on the ISO 14001 structure. As of the end of 2010, we have implemented the programs specified in the Manual in 30 countries where UPS directly provides services. We plan to continue implementing the standards in other countries in 2011 and beyond.

Organizational responsibility for executing our environmental policies and management approach as outlined above rests with Scott Wicker, Vice President, Corporate Plant Engineering, who was appointed Chief Sustainability Officer by the UPS Management Committee. Mr. Wicker is responsible for managing all sustainability initiatives and strategies, including performance metrics. In addition, further accountability for specific performance metrics rests with managers of the relevant business units and departments throughout UPS.

Comprehensive Measurement and Reporting Capabilities.

UPS has built one of the world’s largest databases in the commercial private sector in order to efficiently manage our operations. We apply a similar philosophy to environmental sustainability: the more we know about how our business interacts with the environment, the more efficiently and effectively we can manage the relationship. Our customers also want to know more about the environmental aspects of their supply chain logistics, and our ability to provide accurate emissions information about their shipping activity with UPS has become a competitive differentiator (see sidebar on [page 41](#)).

Our philosophies and goals for comprehensive and accurate measurement of our environmental impact include the following:

- Measure globally with an all-inclusive scope and boundary.
- Comprehensively report all 3 Scopes of the Greenhouse Gas Protocol.
- Acknowledge that thorough Scope 3 reporting will mean higher Scope 3 results in the short run—it’s the long run that matters.
- Focus on areas where good data can have the most positive impact.
- Small steps forward in data accuracy can create large opportunities for action.
- Use robust sustainability performance management software to manage the data, and manage with a long-term perspective.
- Engage third-party assurance and validation increases competence, confidence and credibility.

Global Reporting on Energy and Emissions. In this Report we include full statements regarding our emissions and energy use according to the latest standards included in the Greenhouse Gas Protocol developed by the World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD). These statements are presented as Appendices B and D, respectively, beginning on [page 83](#). A summary statement of our global enterprise CO₂e for 2010 and 2009 by business segment is provided on [page 40](#). CO₂e emissions (abbreviation for “CO₂ equivalents”) is a metric that includes all six global warming gases named in The Greenhouse Gas Protocol. Because CO₂ is by far the most prominent of the six, the other five sources are expressed in CO₂ equivalents of global warming potential in order to create a unified metric.

The chart of global enterprise emissions by source shows that UPS Airlines is responsible for more than half our emissions, and that the ratio of emissions from mobile sources to fixed sources shifted slightly from 2009 to 2010 toward a higher percentage from mobile sources. This is consistent with our international expansion, which entails more air travel. We are actively engaged in the global public policy dialog about greenhouse gases resulting from the air transportation industry, and how to minimize or mitigate adverse effects. We devote a number of Key Performance Indicators to air fleet efficiency ([page 52](#)), including our first publicly announced emission reduction goal (set in 2008 and described in detail in our 2009 Corporate Sustainability Report).



The Management Case for Breadth and Depth in Carbon Reporting

Steve Leffin, Director, Global Sustainability

Assembling a comprehensive carbon inventory takes management commitment, resources and time to achieve the necessary technical infrastructure and organize the necessary inputs. The case for doing this work has typically been based on compliance with regulation, such as cap and trade, or on the financial opportunity presented by private exchanges. There are some signs that institutional investors are beginning to pay attention to carbon reporting. And of course some companies simply want to do the right thing regardless of the cost.

The reality is that the private sector is unlikely to forge ahead with carbon inventory efforts on a large scale without a stronger management case for spending the money and time. The investment in a complete and accurate inventory has to have a payoff. UPS offers three different demonstrations of how this can work.

The first example is operational excellence. That's because UPS is a carbon-intensive business that helps the world reduce its carbon impact. This sounds like a paradox, but it's actually the basis of most of our transportation industries. Look at a transit bus. It has a larger absolute carbon footprint than an automobile, but when it's full of riders it produces less carbon than all of the individual automobiles combined. Multiply that by millions of automobiles and you can get an idea what UPS is doing by aggregating millions of shipments into one highly efficient shipping network every business day. Reducing our carbon intensity is a core competency, and we intend to be the best in our industry. So knowing our emissions impact in breadth and depth is essential to achieving the operational excellence at the core of our mission.

A second example is product development, an incredibly important competitive advantage for many companies. Product development may not be something you associate with a service business such as UPS, but when our customers ask for something, we listen. Our customers first asked us to tell them the climate impact for the

transportation logistics services we provide, and then they asked us to mitigate that impact. We were able to deliver a carbon mitigation service in half the time it usually takes us for a new service—and we didn't have to cut corners. We have a massive amount of data about the emissions associated with what our customers are shipping and where they're shipping it. To go with it, we developed a comprehensive calculation process to quantify the emissions impact of our customers' shipments and give that information back to them seamlessly. We asked two independent, credible third parties to certify and verify our methodology and our process, and then we began obtaining and retiring credible, verified offsets on behalf of our customers. A great new product was born.

The third demonstration of business advantage with regard to our carbon inventory is what we call The New Logistics. The difference compared to the old logistics is that we've added a new dimension along with improving reliability and cutting costs. We're still helping our customers with those, but now we can show large shippers a complete carbon analysis of their UPS shipping activity, broken down in actionable ways. What seemed like an impossible challenge can very quickly become a set of manageable projects. Our customers get a new appreciation for their carbon impact and how to reduce it. We get a stronger, more strategic customer relationship and the planet sees less carbon.

Carbon reduction efforts by private industry are still relatively new, and I'm sure other companies in other sectors of the economy will discover their own management case for understanding their CO₂ impact in detail. And after carbon comes water and other natural resources. On a planet with certain finite physical limits and a growing population, you can never understand too well where you stand and how to get where you want to go.

2010 Global Enterprise CO₂e Emissions by Business Segment
(‘000 metric tonnes)

| | U.S. Domestic Package | | International Package | | Supply Chain & Freight | | Totals | |
|---|-----------------------|-------|-----------------------|-------|------------------------|-------|--------|--------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Scope 1 | 6,649 | 6,566 | 4,022 | 3,720 | 1,042 | 1,151 | 11,713 | 11,437 |
| Scope 2 | 683 | 702 | 75 | 63 | 159 | 159 | 917 | 924 |
| Total Scope 1 & 2 | 7,332 | 7,268 | 4,097 | 3,783 | 1,201 | 1,310 | 12,630 | 12,361 |
| Scope 3 | 2,464 | 500 | 1,997 | 1,266 | 5,404 | 4,607 | 9,865 | 6,373 |
| Total Scope 1, 2 & 3 | 9,796 | 7,768 | 6,094 | 5,049 | 6,605 | 5,917 | 22,495 | 18,734 |
| Carbon Offsets Retired | | | | | | | 3.1 | |
| 2010 Net Global CO ₂ e Emissions | | | | | | | 22,492 | |

UPS continues to increase the breadth and depth of carbon reporting. This is particularly evident with regard to Scope 3 emissions. In 2010, UPS began reporting on 5 of 15 categories in the new WRI Scope 3 (corporate value chain) standard.

UPS Transportation Index—EPA Climate Leaders Goal

$$\text{UPS Transportation Index (TI)} = (\text{TI}_{\text{package operations}} \times 48\%) + (\text{TI}_{\text{Airline}} \times 37\%) + (\text{TI}_{\text{SCF}} \times 15\%)$$

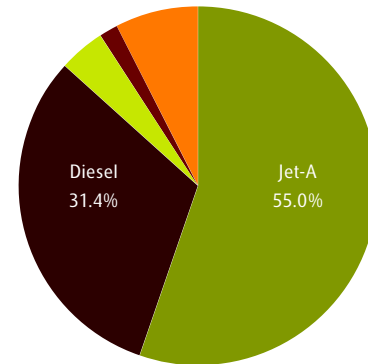
| | 2007 Baseline Year* | 2010 | 2007 Baseline Year* | 2010 |
|-----------------------------|--|--|------------------------|------|
| U.S. Domestic Package | 2.78 lbs CO ₂ e/pkg | 2.68 lbs CO ₂ e/pkg | 100 | 96.6 |
| UPS Airlines (global) | 1.54 lbs CO ₂ e/ATM | 1.41 lbs CO ₂ e/ATM | 100 | 91.1 |
| U.S. Supply Chain & Freight | 0.26 lbs CO ₂ e/lbs of freight | 0.24 lbs CO ₂ e/lbs of freight | 100 | 92.6 |
| 2010 Transportation Index | | | | 93.9 |
| Reduction Compared to 2007* | | | | 6.1% |

* Not subject to Deloitte assurance.

The UPS Transportation Index (TI) indexes normalized Scope 1 and Scope 2 emissions from three sources in the United States to a 100-point scale, using 2007 emissions as the baseline for a value of 100. The indexed values for each segment are then added (in the proportions shown above in the TI formula) to achieve an overall Transportation Index for UPS for the given year. Our goal is a 5 percent reduction in TI from the baseline in 2017.

The chart above shows normalized emissions for each segment for 2007 and 2010, and the resulting indexed values on the 100-point scale. Our 2010 emissions resulted in a Transportation Index 6.1 percent lower than the baseline. As our business grows and our absolute emissions rise, the Index will show our ability to reduce our carbon intensity.

2010 Total Scope 1 & 2 CO₂e Emissions—Global Enterprise
(‘000 metric tonnes)



| Mobile | % | ‘000 metric tonnes |
|------------------|--------------|--------------------|
| Jet-A | 55.0% | 6,948 |
| Diesel | 31.4% | 3,965 |
| Gasoline | 4.0% | 510 |
| CNG | 0.1% | 12 |
| Propane/LPG | 0.3% | 38 |
| LNG | 0.003% | 0.4 |
| HFC's (fugitive) | 0.1% | 6.6 |
| Total | 90.9% | 11,480 |
| Stationary | % | ‘000 metric tonnes |
| Natural Gas | 1.6% | 208 |
| Heating Oil | 0.1% | 12 |
| Propane | 0.1% | 13 |
| Electricity | 7.3% | 917 |
| Total | 9.1% | 1,150 |

The table of global enterprise CO₂e emissions by business segment shows our continuing success in capturing and reporting more of our Scope 3 emissions. The table also shows that total Scope 1 and 2 emissions rose in aggregate by only 2.2 percent compared to 2009. Our package volume for the year grew by 3.4 percent, which means we succeeded in reducing our Scope 1 and 2 carbon intensity year-over-year by de-coupling business volume and emissions. This achievement is particularly evident within U.S. Domestic Package (our largest business segment). We held the increase in Scope 1 and 2 emissions to well under 1 percent in aggregate while package volume for the segment was growing 1.8 percent for the year.

The higher level of Scope 3 emissions in 2010 compared to 2009 is notable because it documents our continued efforts to increase the comprehensiveness of our Scope 3 inventory and demonstrates our commitment to transparency in this regard. UPS was one of the first companies in the transportation and logistics sector to comprehensively report Scope 3 emissions. In 2011, we took another step forward by commencing to report according to the new Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting & Reporting Standard, which includes 15 emissions categories covering the entire corporate value chain. In the first year working with the new standard, we were able to include five of the 15 emissions categories defined by the standard.

In particular, we saw an additional 3 million metric tonnes of CO₂e due to the capture of three additional Scope 3 categories:

- “upstream” emissions associated with extraction, production, and transportation of fuels consumed by UPS (1.18 million metric tonnes of CO₂e emissions);
- emissions associated with employee commuting (1.65 million metric tonnes); and
- emissions resulting from electricity and natural gas use by franchisees of The UPS Store (0.05 million metric tonnes).

We plan to phase in the other Scope 3 sources included in the standard over the next few years. A list of all these Scope 3 sources, and the ones we include in our reporting, is provided on [pages 42-43](#). A complete description of all our emissions sources, in all categories for our entire global enterprise, is provided in Appendix B, “Scope and Boundary” on [page 84](#).

UPS was the first shipping company to join the Climate Leaders® program of the U.S. Environmental Protection Agency (EPA). In 2010, we set a new Climate Leaders® emissions goal for operations in the United States. We intend to maintain the goal and continue reporting on our progress even as Climate Leaders evolves from a government program toward a public-private partnership.

Why Scope 3 Matters

Many companies today want to know the carbon impact of their logistics and supply chain activities, so that they can reduce it. Most of them rely on vendors such as UPS to conduct substantial portions of their delivery activities. If delivery vendors do not capture and report their Scope 3 emissions, then companies who ship with them cannot get an accurate picture of their own emissions inventory.

This is why we have consistently increased the breadth, depth and accuracy of all our emissions reporting, particularly including Scope 3. When we show our customers an analysis of the emissions associated with their shipping activities, we make it as complete as possible.

Scope 3 Categories defined in the Corporate Value Chain (Scope 3) Accounting Standard (2nd draft) developed for the Greenhouse Gas Protocol by World Resources Institute and World Business Council for Sustainable Development

| | Category | Category Description | Emissions Included (WRI standard) | Emissions Included (UPS scope & boundary) |
|----------------------------|--|---|--|---|
| Upstream Scope 3 Emissions | 1. Purchased Goods & Services | Extraction, production, and transportation of goods & services purchased or acquired by the reporting company in the reporting year, not otherwise included in Categories 2-9 | All upstream (cradle-to-gate) emissions of purchased goods & services | Not reported by UPS this year |
| | 2. Capital Goods | Extraction, production, and transportation of capital goods purchased or acquired by the reporting company in the reporting year | All upstream (cradle-to-gate) emissions of purchased capital goods | Not reported by UPS this year |
| | 3. Fuel And Energy Related Activities Not Included In Scope 1 Or 2 | All activities related to fuel and energy consumed by the reporting company, not already accounted for in Scope 1 or 2: A. Extraction, production, and transportation of fuels consumed by the reporting company B. Extraction, production, and transportation of fuels consumed in the generation of electricity, steam, heating and cooling consumed by the reporting company C. Generation of electricity, steam, heating and cooling that is consumed (lost) in a T&D system (reported by end user) D. Generation of electricity, steam, heating, and cooling that is purchased by the reporting company and sold to end users (reported by utility company or energy retailer) | A. All upstream (cradle-to-gate) emissions from raw material extraction up to the point of (but excluding) combustion B. All upstream (cradle-to-gate) emissions from raw material extraction up to the point of (but excluding) combustion C. Emissions from the combustion of purchased energy D. Emissions from the combustion of purchased energy | The upstream (cradle-to-gate) emissions from raw material extraction up to the point of (but excluding) combustion for the following global fuel sources: Jet-A, Diesel, Gasoline, CNG and LPG |
| | 4. Transportation & Distribution (Upstream) | <ul style="list-style-type: none"> Third-party transportation & distribution of products purchased by the reporting company in the reporting year, including transportation & distribution between a company's Tier 1 suppliers and its own operations; between a company's own facilities; and between a company and its customers (paid for by the reporting company) Any transportation & distribution services purchased by the reporting company (including inbound and outbound logistics) | The Scope 1 and Scope 2 emissions that occur during use of vehicles and facilities (e.g., from energy use) Optional: the life cycle emissions associated with manufacturing vehicles, facilities, or infrastructure | Not reported by UPS this year |
| | 5. Waste Generated In Operations | Third-party disposal/treatment of waste generated in the reporting company's operations in the reporting year | The Scope 1 and Scope 2 emissions that occur during disposal or treatment | Not reported by UPS this year |
| | 6. Business Travel | Transportation of employees for business-related activities in vehicles owned or operated by third parties | The Scope 1 and Scope 2 emissions that occur during use of vehicles (e.g., from energy use) Optional: the life cycle emissions associated with manufacturing vehicles or infrastructure | Includes the Scope 1 emissions that occur from air and rail travel, rental cars and the use of personnel vehicles for business related activities for our global operations. Does not include any optional life cycle emissions |

Scope 3 Categories defined in the Corporate Value Chain (Scope 3) Accounting Standard (2nd draft) developed for the Greenhouse Gas Protocol by World Resources Institute and World Business Council for Sustainable Development, cont'd

| | Category | Category Description | Emissions Included (WRI standard) | Emissions Included (UPS scope & boundary) |
|------------------------------|--|---|--|---|
| | 7. Employee Commuting | Transportation of employees between their homes and their worksites | The Scope 1 and Scope 2 emissions that occur during use of vehicles (e.g., from energy use) Optional: emissions from employee teleworking | Includes the Scope 1 emissions that occur for the transportation of our employees between their homes and their workplace for our global operations. Does not include any optional emissions from employee teleworking |
| | 8. Leased Assets (Upstream) | Operation of assets leased by the reporting company in the reporting year and not included in Scope 1 and 2 (reported by lessee) | The Scope 1 and Scope 2 emissions that occur during operation of leased assets (e.g., from energy use) Optional: The life cycle emissions associated with manufacturing or constructing leased assets | Not reported by UPS this year |
| | 9. Investments | Operation of investments not included in Scope 1 and 2, including equity investments and debt investments | The Scope 1 and Scope 2 emissions of the investee Optional: The Scope 3 emissions of the investee | Not reported by UPS this year |
| Downstream Scope 3 Emissions | 10. Transportation & Distribution (Downstream) | Third-party transportation & distribution of sold products between the point of sale and the end consumer (not paid for by the reporting company), including retail and storage | The Scope 1 and Scope 2 emissions that occur during use of vehicles and facilities (e.g., from energy use) Optional: The life cycle emissions associated with manufacturing vehicles, facilities, or infrastructure | Includes the Scope 1 emissions from purchased transportation (air, road, rail and ocean) for the pick-up, transportation and delivery of packages and freight for our global operations. Does not include any optional life cycle emissions |
| | 11. Processing Of Sold Products | Processing of sold intermediate products by downstream value chain partners (e.g., manufacturers) | The Scope 1 and Scope 2 emissions that occur during processing (e.g., from energy use) | Not reported by UPS this year |
| | 12. Use Of Sold Products | Consumer use of goods and services sold by the reporting company in the reporting year | The direct use phase emissions of sold products (i.e., the Scope 1 and 2 emissions that occur during use—limited to products that directly consume energy (fuels or electricity) during use; fuels and feedstocks; and GHGs and products that contain GHGs that are emitted during use) Optional: The indirect use phase emissions of sold products | Not applicable |
| | 13. End-Of-Life Treatment Of Sold Products | Waste disposal/treatment of products sold by the reporting company (in the reporting year) at the end of their life | The Scope 1 and Scope 2 emissions that occur during disposal or treatment | Not reported by UPS this year |
| | 14. Leased Assets (Downstream) | Operation of assets owned by the reporting company and leased to other entities in the reporting year, not included in Scope 1 and 2 (reported by lessor) | The Scope 1 and Scope 2 emissions that occur during operation of leased assets (e.g., from energy use) Optional: The life cycle emissions associated with manufacturing or constructing leased assets | Not reported by UPS this year |
| | 15. Franchises | Operation of franchises, not included in Scope 1 and 2 (reported by franchisor) | The Scope 1 and Scope 2 emissions that occur during operation of franchises (e.g., from energy use) Optional: The life cycle emissions associated with manufacturing or constructing franchises | Includes the electricity and natural gas usage for the operation of over 4,000 “The UPS Store” franchise locations globally |

To set the goal, we first created a “Transportation Index” that sums our transportation-related Scope 1 and 2 emissions in the United States (from our U.S. Domestic Package segment and the U.S. operations of our Supply Chain & Freight segment) and in our global air operations (UPS Airlines). We chose 2007 as a baseline year, and gave the sum for that year a value of 100. We also captured the percentages contributed by the three emission sources in the baseline year. The resulting Transportation Index, which represents 97 percent of UPS global CO₂e emissions in 2010, is shown on [page 40](#). We then set a goal of reducing the Index 5 percent by 2017.

It is important to understand that the result we report each year will provide a snapshot of that year rather than a cumulative result. For example, the Index for 2010 came in 6.1 percent below the baseline. This confirms that our carbon intensity for the year was lower than in the baseline year. Nevertheless, we started fresh in 2011 to achieve the 5 percent goal yet again. This is because an expanding economy results in higher demand for our services, and meeting that demand puts upward pressure on our emissions. We counter this effect by putting downward pressure on emissions with decarbonization synergy and the many other strategies described in this Report. The Transportation Index is designed to measure our success in this ongoing effort, year by year. We seek continuous reduction of our carbon intensity regardless of our absolute emissions, because this is how we make the world’s logistics operate more efficiently for the environment.

Decarbonization Synergy.

At UPS, we recognize our management approach for avoiding energy use and emissions as “decarbonization synergy.” This means we simultaneously pursue multiple strategies for carbon avoidance, in a way that makes each one stronger and more effective than it would be on its own. These strategies (described in detail later in this section) focus on modal shifting, network efficiencies, air and ground fleet efficiencies, integration of technological and human factors, and more.

Flexible, integrated use of all transport modes. The various transport modes used in our sector have different energy intensities (energy required per unit of volume transported), ranging from aircraft at the high end to ships at the low end. UPS has focused for decades on using the most fuel-efficient transport mode or combination of modes to meet service requirements—and on being able to fluidly shift modes in real time to reduce energy intensity whenever possible. Our expertise in this area enabled us to avoid 1.76 million metric tonnes of emissions by shifting delivery volume from air to ground, and we avoided another 0.75 million metric tonnes of emissions by shifting volume from ground to rail—all while keeping our service commitments to customers.

Optimized network. A simple yet powerful example of decarbonization synergy at UPS is our ability to handle all categories of service (express, ground, domestic, international, commercial and residential) through one integrated pickup and delivery service system. For comparison, some of our competitors employ parallel service networks in their operating regions to handle different categories of services, which means they may dispatch multiple vehicles to a customer location on the same day. The UPS network eliminates this redundancy and its associated environmental impact.

Air fleet efficiencies. Because air transport is more energy intensive than other modes, it contributes the largest portion of our carbon footprint. Measuring, managing and mitigating the environmental impact of air transport is critical to overall carbon impact—just as transparent reporting on these activities is critical to a full understanding of environmental responsibility in our industry.

Ground fleet efficiencies. We have spent decades honing our ability to optimize fuel efficiency for our vehicles and optimize the behavior of our drivers. Owning our fleet enables us to multiply these gains by tens of thousands of vehicles, every business day. Current primary strategies for ground fleet efficiency includes telematics ([page 48](#)), miles reduction ([page 52](#)) and testing and implementing advanced technology vehicles ([page 49](#)).

Full integration of technology and human factors. We believe that integration of technological factors and human factors is a critically important capability for reducing energy use and emissions, because it simultaneously empowers people and unlocks the potential of our capital investments to benefit the environment. For example, our airline emissions result from the engines on our jet planes, but winning regulatory approval for our pilots to fly the planes more efficiently helps reduce emissions from the engines.

Continuous Innovation.

UPS pursues continuous innovation in a number of technological fields that affect our environmental sustainability. The most important of these are described in detail later in this Report. They include:

- Telematics in our delivery and freight vehicles (page 48).
- Package routing technology (page 46).
- Advanced technology vehicles in our delivery and freight fleets (page 49).
- Next-generation systems for our air fleet (page 53).

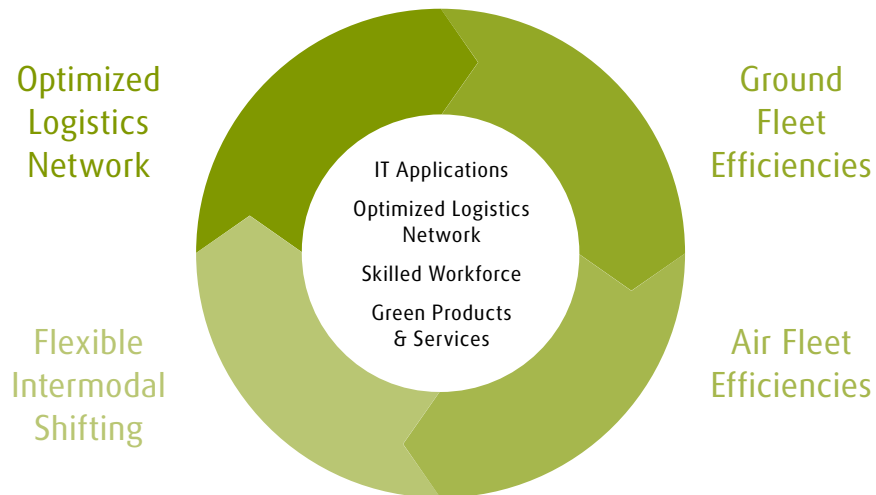
Innovation is also a hallmark of how we design and automate warehouses and air hubs to increase the fuel and emissions efficiency of these facilities and the vehicles that use them. Last but not least, we invest substantially in adapting leading-edge information technology tools to many aspects of our business.

Engagement with Other Organizations.

UPS has long had a philosophy of “constructive dissatisfaction” that drives us to keep improving our performance. To give us new ideas and benchmarks, we actively seek the perspectives of world-class organizations that address climate change, resource conservation and other environmental issues. Some of the more prominent of our engagements include the following organizations and activities:

- U.S. Environmental Protection Agency (EPA) – We participate in the EPA SmartWaySM program and serve on a number of technical committees.
- World Resources Institute (WRI) – We participate actively in the Corporate Consultative Group, in technical committees and discussions, and at formal meetings; we have also provided financial support for recent work to enhance the Greenhouse Gas Protocol with regard to Scope 3 emissions.
- World Business Council for Sustainable Development – UPS is a member company; Alan Gershenhorn, our Chief Sales and Marketing Officer, participates in annual council meetings and our Director of Global Sustainability is a Liaison Delegate.

Decarbonization Synergy at UPS: The Whole is Greater Than the Sum of the Parts



Leadership

- Sustained financial success 100+ years
- First electric cars in 1935
- Integration of rail mode in 1966
- Re-engined 727 aircraft in 1985
- Replaced 727-200 starting in 1987
- Green packaging in 1998
- Hybrid vehicles in service in 1998
- Sustainability reporting since 2003

Execution

- Global precision delivery
- Single integrated, optimized network
- Young, efficient air fleet
- Telematics in ground fleet
- Alternative fuel/advanced technology vehicles
- Ambitious fuel and emission goals
- Carbon neutral services
- Comprehensive, accurate reporting

Vision

- Next-generation wide-body aircraft
- Bio-fuels in ground and air fleets
- Advanced technology vehicles
- Telematics around the world
- Expanded green services portfolio
- Evolution to LCA standards
- Renewable energy for facilities
- Ready for potential reporting requirements

- Global Reporting Initiative – UPS is a long-standing participant in the GRI process and an organizational stakeholder; we report according to GRI-G3.1 guidelines; and our 2010 sustainability report goes through the GRI application level check.
- World Economic Forum (WEF) – We participate actively in three WEF workstreams: Consignment Carbon, Collaborative Partnership for Sustainable Aviation, and Repowering Transport.
- Business for Social Responsibility (BSR) – We are a member of the organization, we participate actively in meetings, and we consult with BSR on the development of our sustainability program.
- Sustainable Packaging Coalition (SPC) – We actively participate in member meetings and serve on working committees, such as the one that developed the transportation module for SPC's COMPASS lifecycle metrics software.

UPS is also actively engaged with a number of respected organizations that provide verification and assurance services related to sustainability. Among the most important of these relationships are the following:

- Deloitte & Touche LLP – We engaged Deloitte & Touche LLP to conduct an examination, in accordance with attestation standards established by the American Institute of Certified Public Accountants, to provide a reasonable level of assurance on our Statement of Greenhouse Gas emissions for the year ended December 31, 2010. We also engaged Deloitte & Touche LLP to conduct an examination, in accordance with attestation standards established by the American Institute of Certified Public Accountants, to provide a moderate level of assurance on our 2010 Corporate Sustainability Report.
- Société Générale de Surveillance (SGS) – provides verification for our carbon calculator and internal processes that support our carbon neutral service; SGS also provides verification of our 2010 GHG inventory in accordance with ISO 14064-3:2006 as meeting the requirements of ISO 14064-1:2006.
- The CarbonNeutral Company – has verified our carbon neutral shipment program and certified it to be CarbonNeutral®.

We are always open to learning from our customers and the non-profit organizations that we support, including humanitarian relief agencies (page 76) and those receiving philanthropic support from UPS (page 74). The UPS Foundation awarded more than US\$1.9 million in grants for environmental initiatives around the world in 2010. Major recipients of the grants included The Nature Conservancy, World Resources Institute, Earth Day Network, Keep America Beautiful, the National Arbor Day Foundation, the National Park Foundation, National Council for Science and the Environment, the Student Conservation Association, and Legambiente Liguria Onlus. More information on stakeholder engagement at UPS is provided in "Profile" (page 31).

Ground Network Efficiency

UPS has owned and operated one of the world's most extensive private ground delivery networks for decades, so we have abundant experience in identifying and executing on ways to increase our ground network efficiency, particularly regarding fuel optimization and usage. The strategies and methods behind this success include customized delivery vehicles that are optimized for how we use them; proprietary, data-driven package routing technology; and telematics (page 48). All these strategies leverage our investments and expertise in information technology and our deep commitment to driver training (page 19). We believe our long-term, continuous focus on increasing ground network efficiency is a significant competitive and environmental advantage, based in part on external recognition for our results.

One example of this recognition is our Shipper Index Factor (SIF) as calculated by the EPA SmartWay program mentioned previously. A SmartWay SIF of 1.25 is considered outstanding. Our SIF in 2009 was more than double that level, at 2.66, and our emissions performance (in grams per mile) as calculated under SmartWay was 33 percent better than the average US domestic fleet. In 2010, EPA was in the process of developing a new model for calculating SIF; we expect to resume reporting on the SIF metric in our 2011 Report.

Another way we measure our ground fleet efficiency is by average miles per gallon (MPG) for delivery vehicles in our U.S. Domestic Package segment (see chart on page 47). Our goal is an improvement of 20 percent compared to 2000, which corresponds to MPG of 10.75. During the period from 2000 to 2009, MPG improved 7.8 percent. (We previously reported a 10 percent improvement for this period, based on an incomplete analysis of available data.) As the graph shows, we anticipate moderate volatility in this metric in the near term due in part to timing issues such as purchases of new vehicles. We expect that our "rolling laboratory" approach will prevail over the medium and long term, enabling us to increase the energy efficiency of our ground fleet, reduce our emissions intensity, and help reduce the impact of our customers' shipping activity on the environment.

Key Performance Indicators.

We track our ground fleet efficiency with a Key Performance Indicator that measures fuel efficiency normalized to package volume for our largest segment, U.S. Domestic Package. This KPI, shown to the right, improved 3.3 percent in 2010 compared to 2009, even though package volume rose only 1.8 percent. Thus the improvement came from using less fuel per package—exactly the result we seek with decarbonization synergy and innovative approaches such as telematics and our proprietary routing technology. These technologies enable us to avoid driving more than 63.5 million miles in 2010, with an associated emissions avoidance of 68,000 metric tonnes.

Routing technology enabled UPS to avoid driving 183 million miles since 2001, by optimizing the processes of:

- Allocating our pick-ups and deliveries to the most efficient number of vehicles each day at each facility, thus keeping vehicles off the road wherever possible.
- Loading vehicles most efficiently for the order of delivery, so that routes and miles driven can be kept to a minimum.
- Selecting vehicles for routes on which they will deliver the best fuel efficiency.
- Routing vehicles so that they reach all required destinations in the least amount of time and miles driven.
- Selecting route options that minimize idling time spent waiting for lights and turns, thus reducing fuel use and emissions even if miles driven remain the same.
- Identifying unloading locations that enable multiple deliveries.
- Keeping drivers on route and on schedule via a handheld computer.

KEY PERFORMANCE INDICATOR

Gallons of Fuel per Ground Package—U.S. Domestic Package

Steady
Gains

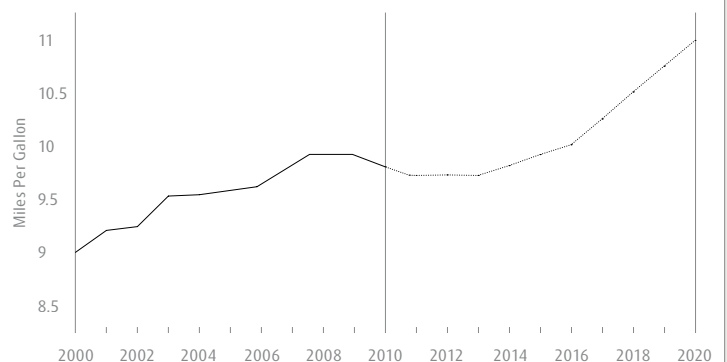
UPS delivers more packages with less fuel per package in 2010.



2007—0.127 2008—0.127 2009—0.121 2010—0.117

Fuel consumption (US) includes gasoline, diesel, compressed natural gas, liquid natural gas, fuel for rail services and fuel for small package contract carriers including the USPS divided by total U.S. ground volume and air volume moved on ground.

Miles per Gallon for Delivery Vehicles—U.S. Domestic Package



We intend to increase the average in-service miles per gallon (MPG) for package cars in the U.S. Domestic Package segment by 20 percent from 2000 to 2020. Because of the numerous variables involved in meeting this long-term goal, we expect moderate volatility in MPG results in the near term.

Telematics and the Rolling Laboratory.

One of the keys to decarbonization synergy, as explained on [page 44](#), is integrating human and technological factors. A powerful example of this integration is our advanced use of telematics. We have created a proprietary system of telematics that combines a wealth of information about the behavioral and mechanical variables that affect fuel efficiency in the delivery process. This enables us to use our delivery vehicles as “rolling laboratories” in which we collect data, test ideas, and hone our performance.

We start by equipping our delivery vehicles with sensors that provide information on how the vehicle is performing mechanically: key variables include speed, direction, braking, and the performance of specific parts and components in the engine and drive train. Our maintenance teams use this information to perform customized, condition-based maintenance on each vehicle based on its actual needs rather than on a one-size-fits-all schedule. This saves time and money on parts, fluids and maintenance breaks.

Meanwhile, we are analyzing information from the vehicle in combination with GPS data, customer delivery data, and driver behavior data. The resulting insights we gather enable us to make small adjustments with big payoffs, because we can put them to use with more than 100,000 drivers around the world.

The more we know about our vehicles and routes, the more we can optimize them both. For example, we can match a route with a vehicle that gets better mileage at the speeds the route requires. We can also design routes to reduce the number of stops and starts required to deliver packages on time.

Telematics has other benefits as well. One is enabling us to isolate different sets of circumstances in which the same action is likely to lead to different results. Backing up to a commercial loading dock, for example, can add to safety and efficiency. In contrast, backing up in a residential location (full of other vehicles, fixed objects, people and pets) can detract from safety and efficiency.

To maximize the benefit of telematics, we bring our drivers into the process. We give them and their managers detailed reports on how their behaviors stack up against the results we strive for, such as accelerating and braking smoothly to conserve fuel. Having concrete data empowers them to optimize their behavior behind the wheel and make their “rolling laboratory” ever more efficient.

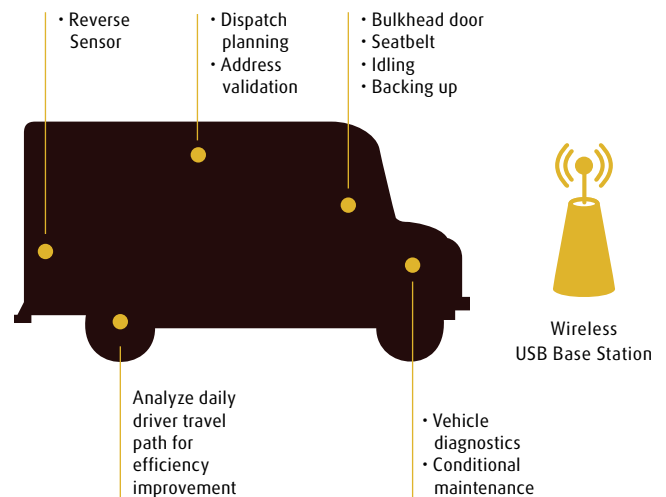
Here are some examples of our success with telematics in 2010:

- In 2010, package operations drivers in telematics-equipped vehicles eliminated more than 39.0 million minutes of idling time. This translates into fuel savings of more than 260,000 gallons (and avoidance of 2,640 metric tonnes of CO₂).
- By the end of 2010, the number of vehicles with fully functioning telematics increased to 24,984 in 144 locations in North America. (For more information about ongoing telematics deployments, see “Work in Progress,” [page 62](#).)

Telematics

UPS's advanced use of telematics integrates human and mechanical factors that drive safety and fuel efficiency.

- 1 Sensors capture information about the vehicle, its route, and its driver actions related to speed, backing up, seat belt use and more.
- 2 Data is uploaded when driver returns to building and turns ignition off.



- 3 Telematics outputs include maps of routes derived from GPS data and detailed reports on driver behavior; these and other outputs drive planning, training and maintenance activities.



Source: UPS Telematics System

Telematics combines UPS purpose-built delivery vehicles, sophisticated sensors, wireless communications, GPS tracking, an IT data warehouse, and proprietary analytic tools. Information is gathered automatically on vehicle performance and driver behavior, uploaded at the end of a run, warehoused and analyzed, and then presented to mechanics, drivers, and route planners in various forms. Mechanics plan proactive maintenance to avoid breakdowns and keep mileage high; drivers learn how and where they can help increase safety and reduce fuel usage; and route planners further refine their algorithms for designing high-efficiency pickup and delivery routes.

- Drivers in telematics-equipped vehicles achieved twice as much improvement as other drivers in stops per mile (a metric that measures our ability to deliver more packages with fewer engine restarts that consume fuel). This saved 1.8 million miles of driving from telematics in 2010, equating to more than 186,000 gallons of fuel or 1,893 metric tonnes of CO₂. Applying this same rate of improvement across the domestic package car fleet would yield savings for the year of 9.3 million miles or 966,000 gallons of fuel (9,809 metric tonnes of CO₂).

The UPS Green Fleet.

UPS's "green fleet" is composed of more than 1,900 vehicles, utilizing a variety of advanced technologies and/or alternative fuels. Our fleet is also one of the most diverse in the private delivery industry. We currently have vehicles with six different technologies in operation:

- Propane engines (in fleet since 1980)
- Compressed natural gas engines (in fleet since 1989)
- Hybrid gas/electric engines (in fleet since 1998)
- Liquefied natural gas engines (in fleet since 2000)
- Electric engines (first test in the 1930s; in fleet since 2001)
- Liquid petroleum gas engines (in fleet since 2008)

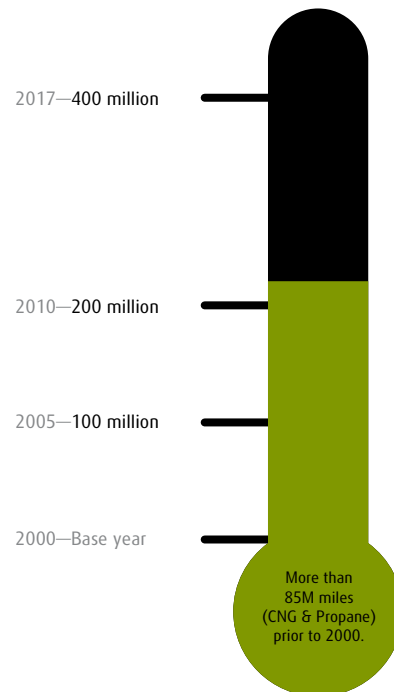
Additionally, we continue to explore hydraulic hybrid technology, which we have described in previous reporting. We invest in these alternative technologies and test them in action as part of our "rolling laboratory" concept.

Approximately a third of our alternative fuel/technology vehicles operate outside the United States in: Brazil, Canada, Netherlands, Chile, South Korea, Germany, and the UK.

Our expanding green fleet is logging miles by the millions, every year. Using 2000 as a baseline, it took more than five years to reach the 100 million mark and less than five years to reach the 200 million mark shortly after the end of 2010. We anticipate that it will take less time to travel the next 200 million miles than it did to travel the previous 200 million (see chart on the right).

Miles Logged in Alternative Fuel and Advanced Technology Vehicles

**200 million miles behind us,
next 200 million planned.**



UPS has driven many miles using alternative fuel and advanced technology vehicles prior to the year 2000, but has elected to use 2000 as the baseline year for measurement. Alternative fuel and advanced technology vehicles include: compressed natural gas (CNG), propane, liquefied natural gas (LNG), liquefied petroleum gas (LPG), diesel hybrid electric, gasoline hybrid electric, diesel hybrid hydraulic and full electric vehicles.



For more information visit
<http://pressroom.ups.com/200+Million+Miles>

Air Fleet Efficiency

UPS operates one of the youngest and most fuel-efficient air fleets in the package delivery sector, and we report transparently about our entire fleet rather than selected aircraft. We achieved this leadership due in part to investments we have made in past decades to reduce aircraft noise. We source jet engines for our aircraft from all manufacturers who can meet our specifications, in order to increase our knowledge of jet engine technology and reduce our technological risk. The noise and emissions characteristics of our fleet are disclosed in the table on the following page, along with the average age of each aircraft type. The average age of our active fleet of 216 aircraft in 2010 was just 13 years.

The “Stage III limit” in the table refers to noise limit guidelines published by the International Civil Aviation Organization of the United Nations (ICAO) for aircraft purchased after January 1, 1999. Our entire fleet met these limits more than two years before the Stage III deadline (in January 1999), and UPS is the only company in the sector to exceed compliance with ICAO Stage IV noise guidelines. In fact, UPS’s entire fleet met Stage IV limits in 2008. The emissions categories “CAEP 6 and CAEP 8” refer to the most strict guidelines for nitrogen oxide (NO_x) emissions limits published to date by ICAO’s Committee on Aviation Environmental Protection (CAEP). Within UPS Airlines, 84 percent of the fleet already meets these standards.

In addition to meeting external guidelines, we set our own goals for airline emissions because they represent more than half of our global CO₂ inventory. We apply our overall decarbonization synergy strategy to reducing air fleet emissions and fuel use, such as by taking both long-term and near-term steps that complement each other. Long-term steps include investing in younger, more fuel-efficient aircraft (see chart on opposite page), and publicly declaring our commitment to use jet engine bio-fuels when they become more readily available. Near-term steps include numerous operating initiatives that increase fuel and emissions efficiency in big and small ways, day in and day out, around the world.

Continued on Pg. 52

KEY PERFORMANCE INDICATOR
CO₂ Pounds per Available Ton Mile—
UPS Airlines—Global Operations

On
Track

UPS continues to improve aircraft emissions performance.



■ Actual Data
■ Goals

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

UPS Operates A Modern, Quiet, Fuel-Efficient, Global Airfleet

Jet aircraft owned or leased as of 12/31/2010

| Aircraft | Engine | Average Age | # of Aircraft in operation | db below Stage III Limit | db below Stage IV Limit | Meets Aircraft Emissions Standard |
|---------------|--------------|-------------|----------------------------|--------------------------|-------------------------|-----------------------------------|
| A300F4-600 | PW-4158 | 7.5 | 53 | -11.3 | -1.33 | ICAO CAEP 6 |
| B757-200 | RB211-535E4 | 14.3 | 40 | -19.8 | -9.83 | ICAO CAEP 6 |
| B757-200 | PW-2040 | 20.1 | 35 | -13.0 | -3.03 | ICAO CAEP 4 |
| B767-300 | CF6-80C2B6F | 10.3 | 39 | -14.5 | -4.51 | ICAO CAEP 8 |
| MD-11 | PW4460 | 16.67 | 27 | -12.5 | -2.53 | ICAO CAEP 6 |
| B-747-400F | CF6-80C2B1F | 5.6 | 10 | -12.3 | -2.33 | ICAO CAEP 8 |
| B-747-400SF | CF6-80C2B1F | 17.0 | 2 | -12.3 | -2.30 | ICAO CAEP 8 |
| MD-11 | CF6-80C2D1F | 17.09 | 11 | -13.4 | -3.43 | ICAO CAEP 8 |
| Totals | | 13.03 | 216 | | | 84% Meet CAEP 6, 8 |
| DC8-73 | CFM56-2C1 | RETIRED | 0 | -16.7 | -6.72 | |
| DC8-71 | CFM56-2C1 | RETIRED | 0 | -16.7 | -6.71 | |
| B727-100QF | TAY 651-54 | RETIRED | 0 | -12.4 | -2.44 | |
| B-747-200 | JT9D-7Q | RETIRED | 0 | -2.6 | 7.43 | |
| B727-200 | JT8D-15 (HK) | RETIRED | 0 | -1.0 | 8.97 | |
| B-747-100 | JT9D-7A | RETIRED | 0 | -0.9 | 9.13 | |

ICAO (International Civil Aviation Organization), CAEP (Committee on Aviation Environmental Protection), CAEP 4 mandatory for engines manufactured in 2004 to 2007, CAEP 6 mandatory for engines manufactured in 2008 to 2013, CAEP 8 mandatory for engines manufactured in 2014 and beyond.

Emissions and Fuel Efficiency.

Our airline emissions and fuel efficiency both improved in 2010 compared to 2009. As with other improvements discussed earlier in this Report, these positive results flow from our decarbonization synergy strategy of combining long-term planning, day-to-day operating efficiency, and the use of advanced or unconventional techniques and technologies such as:

- lower flight speeds,
- computer-optimized flight plans,
- computer-managed aircraft gate departures and arrivals and taxi times,
- single-engine used to taxi,
- fuel-efficient towing tugs,
- bio-diesel in ground support equipment,
- environmentally friendly paint that reduces drag, and
- cleaner engines.

Our primary Key Performance Indicator for airline emissions efficiency tracks our progress toward a long-term goal of reducing emissions from UPS Airlines 20 percent from our 2005 baseline. (This represents 42 percent reduction from 1990, a year that is widely used as the baseline for calculating changes in greenhouse gas reduction.) The metric for this KPI is CO₂ pounds emitted per available ton mile (CO₂lbs/ATM), using nautical miles. Our 2010 result of 1.39 CO₂lbs/ATM represents a 35 percent improvement compared to 1990 and a 10 percent increase in efficiency compared to 2005. It is also an improvement compared to 2009, and moves us closer toward our goal for 2020. According to published figures, our current performance against this metric exceeds both the current result and long-term target reported by our nearest competitor.

We believe this is the most appropriate metric for measuring the carbon associated with global airline payload capacity and routing optimization. We believe our industry would be well served to adopt a standardized metric, with common denominators (nautical miles), to give outside stakeholders a way to understand and compare air fleet performance in our sector.

Two additional air fleet KPIs are presented in Appendix A ([page 81](#)). The first of these tracks gallons of aviation fuel burned per 100 available ton miles. At present, this KPI is closely correlated with our KPI for reducing airline emissions, because emissions are generated from fuel consumption. In the long term, we believe that lower-emission bio-fuels will reduce the correlation between the two KPIs. The second additional air fleet KPI (aircraft emissions per payload capacity) tracks emissions efficiency during taxiing, take-offs, and landings below 3,000 feet of elevation—periods of relatively high fuel consumption. We are close to achieving our goals for these KPIs for 2012 and 2011, respectively.

Innovation in Air Fleet Operations.

UPS Airlines has consistently been a pioneer in testing, adopting and helping develop next-generation techniques and technologies for increasing the fuel efficiency and reducing the noise associated with air transport. In some cases, we advocate new practices that we have tested independently and found useful. One example is continuous descent approach, in which pilots take a continuous glide path toward their arrival airport rather than “stepping down” in levels of altitude. Eliminating the steps reduces fuel consumption and noise levels. In other cases, we are early adopters of new technological approaches to air traffic control, such as those associated with the “NextGen” program of the Federal Aviation Administration (FAA) in the United States.

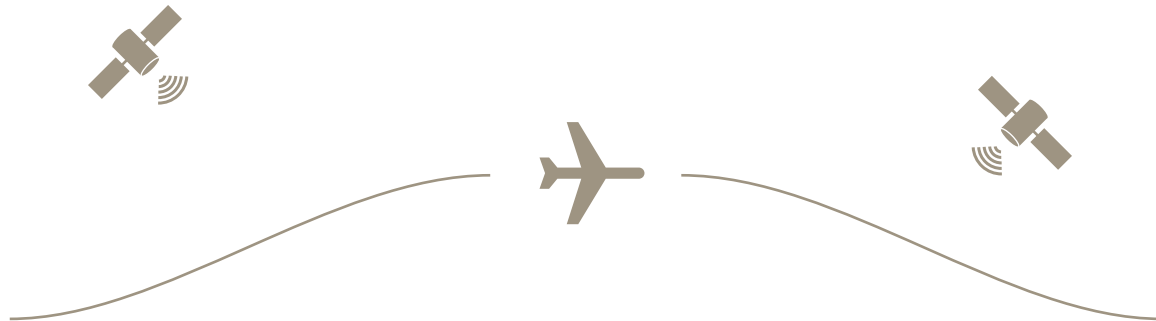
We have worked closely with the FAA for years to bring NextGen to fruition in these fundamental areas:

- Surveillance – Using GPS technology permits air traffic controllers to monitor the true positions of aircraft in the sky more accurately and gives pilots greater situational awareness, because it delivers real-time positioning information much faster than older ground-based radar surveillance systems. This in turn allows planes to safely fly closer to each other.
- Navigation – Spaced-based navigation allows virtual points in the sky to be used for navigation. This helps pilots and air traffic controllers create “roadways in the sky” that are more efficient and direct, particularly in high-traffic areas. To the extent that aircraft are equipped with the necessary navigation equipment, they can use these “roadways.”
- Communication – The combination of GPS and digital communications, known as Controller To Pilot Data Link (CPDLC), allows pilots and controllers to exchange information more quickly and more accurately than voice communications; texts can be quicker to send and read than voice communications, particularly near busy airports, so controllers don’t have to resort to delaying tactics simply to buy time for radio voice communications with many pilots in turn.

These advances are all beneficial to UPS, which is why we were early to adopt such fundamental technologies as automatic dependent surveillance—broadcast (ADS-B). We were the first airline to equip all our aircraft with ADS-B transmissions and the first to provide the pilot with the ability to electronically “see” other aircraft equipped with ADS-B. We are also the only airline to equip our entire fleet with ADS-B transmissions. Closer spacing of aircraft near airports is particularly applicable to our Worldport hub in Louisville, Kentucky because during certain hours of operation we are essentially the only airline flying into and out of the airport. Tighter spacing of planes in the air and on the ground means we can bring planes in and get them back out more efficiently. UPS has been a leader in the development of Continuous Descent Approaches, not just in Louisville, but also in other domestic and European airports. The FAA asked UPS to be the first airline to demonstrate the effectiveness of ADS-B surveillance and Continuous Descent Approaches, because of our track record of working with the agency and operating efficiently and safely.

NextGen - Phases of Flight

UPS Airlines leads in implementing and benefiting from “NextGen” technologies.



| Push Back/Taxi | Takeoff | Domestic/Oceanic Cruise | Descent | Final Approach/Landing |
|---|---|---|--|---|
| Systemwide Information Management (SWIM) enables collaboration between UPS air and traffic controllers. | Departures can be queued more closely, saving time. | Required Navigation Performance (RNP) enables shorter, more efficient routes that save time and fuel. | “Continuous Descent Approach” saves fuel, reduces noise. | Pilots have same awareness of other planes as air traffic controllers. |
| UPS is one of only three airlines to use the Surface Decision Support System (SDSS) to sequence aircraft. Key benefit is safer, more efficient movement of planes at gates and on taxiways. | Takeoffs are paced more evenly, saving fuel and reducing noise. | Young, efficient airfleet is 100% compliant with noise guidelines. | Enabled by Automatic Dependent Surveillance—Broadcast (ADS-B) Out. | Pilots can communicate using “texting” with Air Traffic Control. |
| UPS is the first airline in US to successfully connect with SWIM. | | | UPS is the first airline 100% equipped with ADS-B Out. | Aircraft can fly closer together. |
| | | | | UPS benefits from tighter spacing and even pacing of aircraft arrivals. |

UPS Airlines is an early adopter of satellite-based communications technology that makes airline operations safer, quieter and more fuel-efficient. By shifting from slower, ground-based to space-based communication, navigation and surveillance, UPS Airlines enables its pilots to communicate more effectively with air traffic controllers, fly more efficient routes, and take advantage of tighter, more even spacing for departures and arrivals. In all these areas, UPS Airlines is helping the U.S. Federal Aviation Administration realize its vision of next-generation (“NextGen”) air traffic control and surface traffic management.

Facilities and Energy Conservation

Stationary assets (excluding the vehicles, planes, trains and ships used in our transport network) declined to 9 percent of our global carbon inventory in 2010 from 10 percent in 2009. We continue to develop, sustain or expand initiatives to reduce energy use in all our facilities.

Lighting.

Lighting is one of our major stationary sources of energy use and emissions, in part because our distribution centers are large facilities that remain in operation overnight. In 2010, our multiyear lighting upgrade program replaced or upgraded 16,368 fixtures with more energy-efficient lamps. The total since 2007 is more than 85,000 fixtures upgraded, with an estimated annual energy savings of 30 million kilowatt hours.

Renewable Energy.

Our solar-powered facility in Palm Springs, Calif. produced 70 percent of its own electricity from solar technology, eliminating 500 metric tonnes of CO₂ emissions—the equivalent of taking 95 automobiles off the road for the year. Based on our experience with this system, we believe that the return on investment (ROI) from solar power can be achieved more rapidly if we take full control of the purchasing and contracting processes involved in constructing new solar systems. In 2010, we began testing this ROI model with the engineering of a new solar installation in Lakewood, New Jersey. We expect that this new system will give us further understanding of how to manage ROI for solar power, which will in turn enable us to develop and operate additional renewable energy systems in the future.

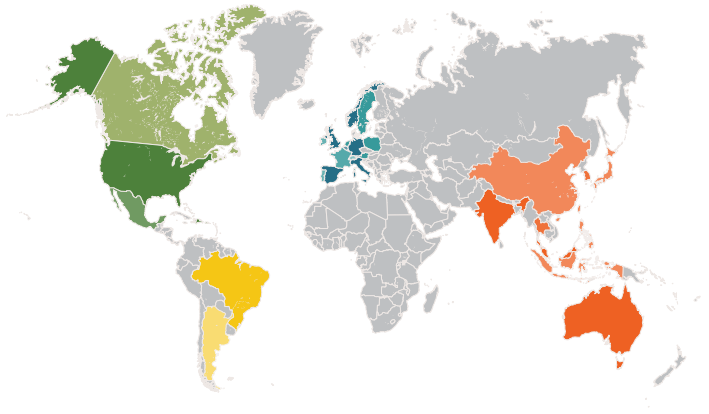
Back-Office Energy Conservation.

Our attention to energy efficiency within our office and operating facilities continued in 2010. One new area of focus was capturing more data regarding resource consumption. We developed a low-cost universal remote dashboard for monitoring electricity use and installed it in two test locations in 2010. We intend to continue this effort in 2011 by capturing additional data such as water usage, natural gas consumption, and fuel island monitoring. We believe that by capturing facility resource consumption data at the source, we will discover a range of opportunities for increasing the energy and resource efficiency of our facilities.

Information technology systems have come under increasing scrutiny in recent years, because densely spaced, high-speed data process units must be kept cool. At our Windward Data Center, where we monitor all packages moving through our logistics network, we employ high-efficiency heat-exchange and other temperature-control techniques to minimize the use of electricity for cooling. In 2010, the facility saved an estimated 4 million kilowatt hours of electricity, avoiding more than 2,700 metric tonnes of CO₂. Our Mahwah Data Center saved an estimated 1.4 million kilowatt hours, avoiding more than 430 metric tonnes of CO₂. Approximately 92,000 computer monitors in UPS facilities are set to an energy-saving mode.

As we build new facilities or upgrade existing facilities, we incorporate energy-efficient technologies and environmentally preferable building practices technologies into their design and construction. A waste heat recovery system in our Singapore healthcare distribution facility, for example, saved 1.6 million kilowatt hours by recovering waste heat and using it to reduce humidity. Building automation systems in Shenzhen and Pudong in China together saved nearly 1.9 million kilowatt hours.

Origination Countries for UPS Carbon Neutral Shipping



Delivery destinations can be anywhere in the world.

| | | |
|--------------------|-------------|---------------|
| Canada | Norway | Korea (South) |
| United States | Sweden | Japan |
| Mexico | Finland | Taiwan |
| Dominican Republic | Germany | Hong Kong |
| Puerto Rico | Poland | Macau |
| Brazil | Portugal | Philippines |
| Argentina | Spain | Thailand |
| Ireland | France | Malaysia |
| Great Britain | Switzerland | Indonesia |
| Belgium | Italy | Singapore |
| Netherlands | Austria | Australia |
| Denmark | China | India |

Products and Services

Carbon Neutral Shipping.

UPS's carbon neutral option is the first of its kind in the United States, enabling customers to mitigate the climate impact of their shipping. In 2010, we expanded it internationally to customers in 36 countries of origination (destinations can be anywhere). We also worked hard in 2010 to bring carbon neutral to all our shipping systems, including our Worldship technology for large customers with substantial shipping volumes.

The essence of the service is that we use customer fees from carbon neutral shipping to purchase high-quality, verified carbon offsets. A carbon offset is a certified financial instrument aimed at a reduction in greenhouse gas 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 CO₂ generation or sequestration of CO₂ in addition to what would have been achieved by activities already planned or underway. It is additionality that makes such projects able to offset emissions from other activities. We retire all offsets in direct proportion to the actual shipments for which customers purchased our carbon neutral service.

Our carbon neutral process is verified by Société Générale de Surveillance (SGS), an independent inspection, testing and verification company. Additionally, The CarbonNeutral Company has certified UPS's carbon neutral process in accordance with The CarbonNeutral Protocol. In purchasing carbon offsets, we target Voluntary Carbon Standard (VCS) and Climate Action Reserve (CAR) certified offsets. These organizations support a variety of high-quality, geographically-appropriate CO₂ offset projects. UPS has purchased offsets in the following carbon-reduction projects:

- La Pradera landfill in Colombia, which is preventing methane gas from being released into the atmosphere.
- Fujian landfill in China, which is capturing methane gas and using it to generate electricity.
- The Garcia River Forest project in California, which is restoring the carbon sequestration capabilities of a 24,000-acre (970-hectare) forest.
- The Cholburi tapioca factory in Thailand, which is using anaerobic reactor technology to capture biogas from wastewater.

The credibility of our carbon neutral service is based on our ability to perform a number of complex processes at a high level of precision and repeatability. These include:

- capturing our comprehensive global carbon inventory, including Scope 1, 2 and 3 emissions;
- accurately determining emissions data for a given shipment including the form(s) of transport used;
- "truing up" our carbon inventory to the year in which the customer used the service, thus ensuring that the offset is calculated using current-year emissions performance data;

- identifying high-quality carbon offsets that meet our stringent acquisition standards;
- offering two different offset offerings—for transactional shippers and high-volume shippers;
- making the service available to a critical mass of customers, including individuals and small businesses, and
- achieving certification and verification of our service and carbon neutral process, respectively, by two independent third-party organizations.

To encourage customers to use carbon neutral shipping, we pledged to match US\$1 million in offsets purchased by customers in 2010 and 2011. This matching program effectively doubled the mitigation benefit of the service for these two years. In 2012, we intend to offset hospitality activities we conduct as an Official Supporter of the London 2012 Olympic Games.

Eco Responsible Packaging.

Along with operating a responsible supply chain, we share related expertise with customers. One example is our UPS Package Design and Test Lab, which has extensive experience with packaging for all types of shipping. In 2010, we created a new service to make the Lab's expertise available to customers, so that they can demonstrate their concern for the environment in how they package their shipments for transportation.

Customers first receive an expert assessment of their packaging processes in three areas: damage prevention, right-sizing, and materials content. We use rigorous proprietary methods and calculations for completing this assessment and giving the customer specific recommendations for meeting pre-set standards in each area. Once their packaging meets the standards, customers may put an "Eco Responsible Packaging" logo on their boxes, shipping notifications, catalogs, and websites (see [page 35](#)).

The Eco Responsible Packaging Program has been verified by Société Générale de Surveillance (SGS), the same inspection, testing, and verification company that verifies the carbon offset projects we use for carbon neutral shipping.

Effluents and Waste

Because UPS is not involved in manufacturing, our management and mitigation of effluents and waste is limited primarily to solid waste from supplier packaging and pallets, office paper, e-waste, and batteries.

Solid Waste Management.

At UPS, solid waste mainly takes the form of corrugated containers and wood pallets. The complete breakdown of solid waste by type across 1,511 facilities in the U.S. is shown in the table on [page 57](#). In 2010, these facilities cut their solid waste disposal by nearly 5 percent compared to 2009, despite growth in U.S. Domestic Package and the United States operations of our Supply Chain & Freight segment.

Beginning in 2010, we gave many of our facilities more flexibility to invest in recycling programs and activities. Partly as a result, UPS recycled solid waste in the United States rose 9 percent, to more than 38,000 tons, and we saved more than US\$1 million in disposal costs. EPA has developed a Waste Reduction Model (WARM) to translate waste prevention and recycling data into equivalent greenhouse gas reductions. Using WARM, EPA calculated that UPS recycling efforts yielded a reduction of 128,329 metric tonnes of CO₂e in 2010. This amount is equivalent to removing 23,503 passenger vehicles from the road for a year.

We continued to expand our e-waste recycling program in 2010. Since 2000, the program has recycled 29.7 million pounds of e-waste. E-waste includes desktop computers, laptops, servers, hard drives, cables, keyboards, telephones, cell phones, routers, switches, printers, and media such as CDs. We recycled approximately 38,700 pounds of batteries in 2010, a 35 percent increase over 2009.

In 2010, we increased the number of reusable sorting bags in our global operations by 1.3 million. To date, we have used more than 8 million reusable bags in the United States, Europe and Asia to bundle and sort small packages within our system. Each reusable bag eliminates the need for more than 600 plastic bags. Since the program's beginning in 1995, our reusable bags have prevented more than 62,120 tons of plastic from entering landfills.

Hazardous and Non-Hazardous Waste Management.

Wastes are generated from aircraft, vehicle and facility operations. These wastes typically include spent antifreeze, used oil, spent solvents, spill residues, paint wastes, used filters and leaking packages. Approximately 95 percent of these wastes are managed as non-hazardous wastes, and recycled or disposed of locally through numerous vendors in the United States. The remainder of these wastes are classified as hazardous wastes according to federal or state regulations, and are managed through approved national vendors.

We only utilize national vendors that have a track record of compliance with recognized industry disposal practices. These vendors are generally well established, observe industry standard safety procedures, and are regularly audited by UPS and or an outside auditor to ensure compliance with laws and regulations. Our contracts with national and local vendors specify that we receive a "cradle to grave" certification letter that indicates waste management and disposal methods.

In 2010, UPS operating facilities in the United States generated 1,515 tons of hazardous waste. This represents an increase compared to 2009, due primarily to more complete data collection. More importantly, we were able to use national vendors for 100 percent of our hazardous waste. Another notable improvement was an increase in the amount of hazardous waste that was recycled, which rose to 25 percent compared to 6 percent in 2009.

2010 Solid Waste Disposal & Recycling—U.S. Domestic Package, Supply Chain & Freight

In U.S. Tons

| | Incinerated | Recycled | Landfilled | Total |
|---|-------------|----------|------------|---------|
| Solid Waste Disposal Total | | | 99,009 | 99,009 |
| Solid Waste Recycling Total | | 38,024 | | 38,024 |
| Corrugated Containers | | 20,862 | | |
| Pallets & Wood Waste | | 7,173 | | |
| Metals | | 5,406 | | |
| Mixed Recycling | | 3,542 | | |
| Office Paper | | 875 | | |
| Plastics | | 166 | | |
| Hazardous Waste Total¹ | 1,100 | 381 | 34 | 1,515 |
| <i>National Vendors² Subtotal</i> | 1,100 | 381 | 34 | 1,515 |
| <i>Local Vendors Subtotal</i> | | | | |
| Non-hazardous Waste Total³ | 7,380 | 53,061 | 4,153 | 64,594 |
| <i>National Vendors Subtotal</i> | 4,589 | 2,269 | 44 | 6,903 |
| Auto, aircraft, facility maintenance, damaged packages, etc. | 4,589 | 943 | 44 | 5,576 |
| Electronic Waste | | 1,307 | | 1,307 |
| Batteries ⁴ | | 19 | | 19 |
| <i>Local Vendors⁵ Subtotal</i> | 2,790 | 50,792 | 4,109 | 57,691 |
| Total Waste by Disposal Method | 8,479 | 91,467 | 103,196 | 203,142 |

1. Automotive & aircraft fluids, parts, washer solvents, damaged packages, identified as hazardous.

2. Approved national vendor. Approval process consists of vendor site visits, audits and other internal controls.

3. Automotive & aircraft fluids, parts, washer solvents, damaged packages, identified as non-hazardous.

4. Rechargeable and non-rechargeable batteries excluding automotive batteries.

5. Locally approved vendor.

Water

We made significant strides in improving our collection and analysis of water data in 2010, particularly outside the United States. For the first time, our metrics for water consumption give us a global view, including all three segments of our business. And for the first time we have mapped our facilities to the Global Water Tool of the World Business Council for Sustainable Development (WBCSD).

Consumption and Conservation.

Our water conservation practices succeeded in holding our water consumption down as our business grew in 2010. Normalized water use (consumption per 1,000 packages) in our largest segment, U.S. Domestic Package, was within 1 percent of the 2009 level. That prior-year level offered a challenging basis of comparison, because we had previously reduced normalized consumption in the segment 23 percent over the preceding two years (see KPI chart on the right). Absolute water consumption in the segment came in 2 percent above the prior-year level, which was also a low basis of comparison after the segment reduced water consumption 28 percent in the preceding two years (see table on the bottom right). The United States operations of our Supply Chain & Freight segment reduced their 2010 water use 8 percent in absolute terms compared to 2009, and as a result absolute water consumption in the United States for 2010 came within 1 percent of the prior-year level.

As in prior years, we minimized water use in many ways throughout our operations. We wash our vehicles only as needed to maintain appearance; we dry-wash our airplanes; and we use an environmentally friendly enzyme wash agent that reduces the need for rinse water. In addition, we continue to upgrade our facilities with low-flow water fixtures and design them into our new facilities.

Mapping Our Global Facilities by Water Risk.

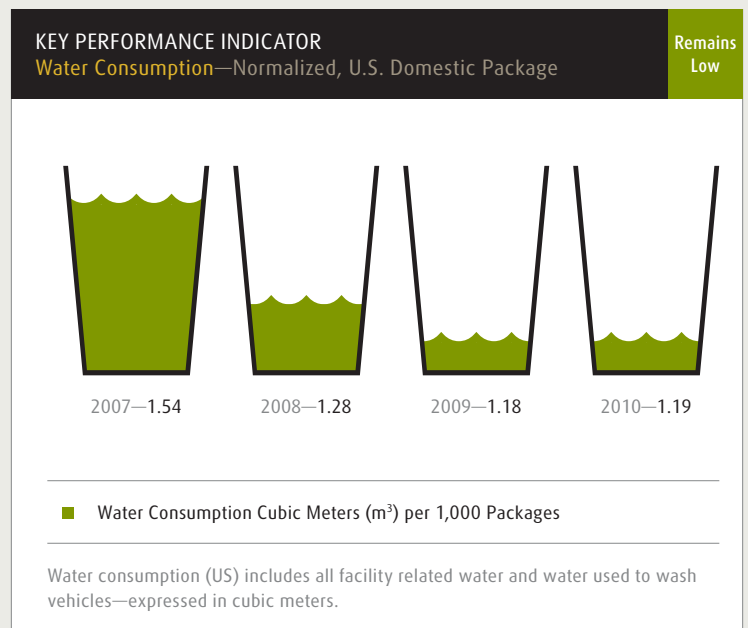
In 2010, we applied the Global Water Tool created by WBCSD to an assessment of the water risk for our operations around the world. The tool:

- defines five categories of water risk, ranging from abundance to extreme scarcity of water for human use;
- applies these categories to the world’s watersheds using water runoff and population data;
- enables organizations to determine the categories for their own facilities based on facility longitude and latitude; and
- enables categorical water risk projections for 2025 and 2050 based on estimates of population growth and long-term climate and precipitation trends.

Completing this mapping for UPS required significant effort because of the large number of our facilities around the world and because many of our United States facilities are clustered in metropolitan areas. We met the latter challenge by creating a representative set of 527 facility locations in the United States from our database of 1,348 actual facilities. We then mapped our domestic and international facilities as shown on [page 59](#). The color key provided with these charts shows the levels of water scarcity as they are defined by the Food and Agriculture Organization of the United

Nations (FAO) and the World Resources Institute (WRI), according to total renewable water resources per person (m³/person/year).

The picture that emerges from our use of the Global Water Tool is that while the great majority of UPS facilities are in areas with sufficient or abundant water today, there will be a significant rise in the number of facilities located in areas of water scarcity and water stress. We are now considering the implications of this development in our long-term business planning processes and sustainability strategies.



UPS Discloses Global Water Consumption for First Time in 2010

| | 2007 (million m ³) | 2008 (million m ³) | 2009 (million m ³) | 2010 (million m ³) | % Change 09/10 |
|-------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------------|
| U.S. Domestic Package | 5.39 | 4.36 | 3.90 | 3.99 | 2% |
| International Package | — | — | — | 0.53 | — |
| Supply Chain & Freight | 0.73* | 0.68* | 0.62* | 2.02 | — |
| Total Water Consumption | 6.12 | 5.04 | 4.52 | 6.54 | N/A |

*Previous years consumption included U.S. Supply Chain & Freight only.

Mapping of UPS Facilities Using the Global Water Tool of WBCSD

International



Source: Global Water Tool, World Business Council for Sustainable Development

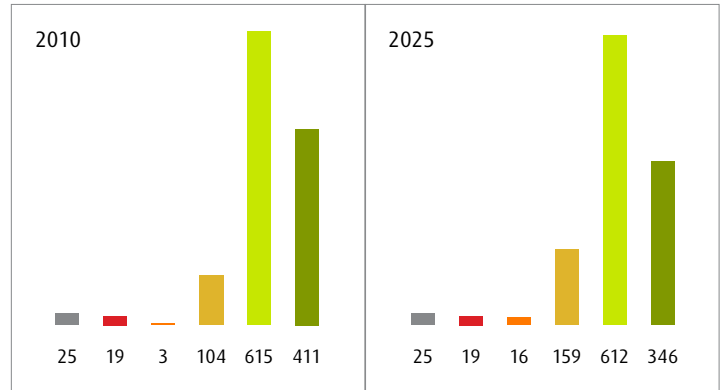
United States



Source: Global Water Tool, World Business Council for Sustainable Development

Maps depict comprehensiveness of mapping activity, not actual UPS facilities. For example, 527 data points shown for United States facilities represent actual total of 1,348 facilities, many of which are clustered near each other in metropolitan areas that share the same water availability.

International



Total Renewable Water Resources (TRWR) per person (m³/person/year) for 1,177 UPS international facilities: 2010 and 2025 (projected).

- Abundant >4000
- Sufficient 1701-4000
- Stressed 1001-1700
- Scarcity 500-1000
- Extreme Scarcity <500
- No Data

The Global Water Tool assigns geographic regions with a water stress level ranging from abundant (>4000 m³ of water per person per year) to extreme scarcity (<500 m³/person/year). Levels for all categories are shown in the color key above. TRWR is calculated for individual river basins (basin water runoff divided by basin population). Projections for 2025 are based on a water model driven by climate variables (e.g., temperature and precipitation) and mid-range population estimates developed by the United Nations Population Division.

Compliance

As stated previously in “Policy and Responsibility,” our policy is to comply with all applicable laws and regulations of all countries in which we operate, and in accordance with our company’s high standards of business conduct. This is the policy stated in our Code of Business Conduct, which governs all employees and representatives of UPS. Important additional information, particularly regarding our strong internal audit capability, is provided in “Profile” (page 38).

With regard to the environment, our commitment goes beyond compliance—we actively advance our own programs to reduce our impact on the environment. Everyone who is part of the UPS organization is expected to support our effort to maintain a leadership role in protecting the environment.

Through our Corporate Environmental Affairs Department, we have established site-specific and activity-specific programs for environmental compliance and pollution prevention. We continually evaluate improved technology and seek opportunities to improve environmental performance. Our environmental responsibilities include:

- Properly storing, handling, and disposing of hazardous and other waste.
- Managing wastewater and storm water in compliance with applicable regulations.
- Monitoring and maintaining the integrity of underground storage tanks.
- Complying with laws regarding clean air.
- Protecting against and appropriately responding to spills and releases.
- Seeking ways to minimize waste and prevent pollution.

Agency Environmental Inspections

In 2010, federal and state environmental agencies conducted 962 environmental inspections at UPS facilities in the United States, a 2 percent decrease compared to 2009. Within the total, inspections in our U.S. Domestic Package segment remained nearly unchanged compared to the prior year, while our Supply Chain & Freight segment saw a 9 percent drop in inspections. The notices of violation that resulted from inspections declined 24 percent year-over-year. Total penalties for the year came in significantly higher at US\$84,380. This was due primarily to a substantial penalty we paid in 2010 for a 2007 violation arising from a misclassification related to a hazardous waste generator status.

Incidental Spills

Reportable spills in the U.S. decreased in 2010, to 108 incidents from 113 in 2009. Within the total, spill incidents declined in our U.S. Domestic Package segment and increased in the Supply Chain & Freight segment. The total spill volume from reportable spills rose compared to 2009, due primarily to a single incident in freight operations involving 800 gallons of fuel. Spills due to accidents involving UPS vehicles in all segments increased to 44 from 36 a year ago. Spills related to human error fell to five from 12 in 2009. Outside the U.S., we conduct spill management programs as part of implementing our Global Environmental Standards Manual, which is modeled on the ISO 14001 environmental standard.

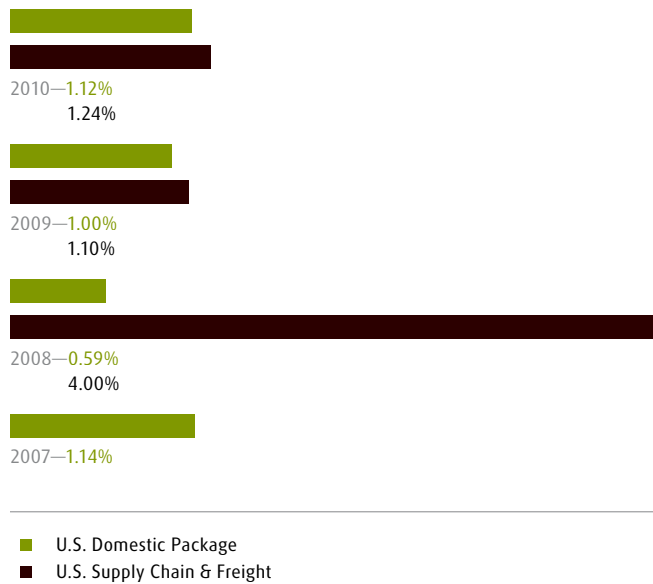
Biodiversity

In general, biodiversity is not an issue of high materiality for UPS. Our management approach to biodiversity primarily concerns the location and management of our facilities and preventing transportation of invasive species. We set the criteria for our site selection, land purchases, and related facilities decisions to prevent negative impacts on biodiversity, and we cooperate with governmental authorities in efforts to prevent inadvertent transportation of invasive species.

In 2010, UPS cooperated fully with the Animal and Plant Health Inspection Service (APHIS) of the United States Department of Agriculture to prevent the inadvertent spread of the Japanese beetle to the western United States via air transport. The beetle is a highly destructive plant pest that attacks more than 300 different ornamental and agricultural plants including foliage, flowers and fruits. It is already established in the eastern United States and now represents a significant threat to nine large western states. We ensure access for authorized inspectors to our air hubs, aircraft and related facilities, and are following the guidelines provided by APHIS to U.S. domestic air transport operators.

KEY PERFORMANCE INDICATOR
Penalties as a percent of Total Environmental Inspections
 U.S. Domestic Package, Supply Chain & Freight

Environmental penalties remain low.



Environment related fines paid (US) as a percent of total environment related agency inspections.

KEY PERFORMANCE INDICATOR
Number of Reportable Spill Incidents U.S. Federal or State Environmental Agency

Total spills declined in the U.S.

| | 2007 | 2008 | 2009 | 2010 |
|-----------------------------|------|------|------|------|
| U.S. Domestic Package | 49 | 82 | 75 | 67 |
| U.S. Supply Chain & Freight | 26 | 17 | 38 | 41 |

Spills that meet criteria of being federal or state reportable.

2010 Spill Incident Cause Analysis

| | Aircraft | | Ground Support Equipment (GSE) | | Package/Freight | | | UPS Vehicle | | | | | Underground/Above-ground Storage Tank or Piping | | | Total |
|-----------------------------|----------------|-------------|--------------------------------|-----------------------|-----------------|-------------------------|----------------|-------------|----------------|-------------|-------------|------------------|---|-------------|-----------------------|------------|
| | Equip. Failure | Human Error | Equip. Failure | Storage Tank Overfill | Accident | Damaged Package/Freight | Improper Pack. | Accident | Equip. Failure | Human Error | Road Debris | Vehicle Overfill | Equip. Failure | Human Error | Storage Tank Overfill | |
| U.S. Domestic Package | 3 | 1 | 2 | 1 | 0 | 16 | 3 | 21 | 12 | 1 | 3 | 2 | 1 | 0 | 1 | 67 |
| U.S. Supply Chain & Freight | 0 | 0 | 0 | 0 | 1 | 2 | 0 | 23 | 3 | 2 | 8 | 0 | 1 | 1 | 0 | 41 |
| Total | 3 | 1 | 2 | 1 | 1 | 18 | 3 | 44 | 15 | 3 | 11 | 2 | 2 | 1 | 1 | 108 |

Spills that meet criteria of being federal or state reportable.

Additional Contextual Information

As we prepared this Report, we noted a number of subsequent developments and works in progress that we expect to discuss in our 2011 Report.

Subsequent Events.

National Clean Fleets Partnership. On April 1, 2011 UPS became a charter member of the National Clean Fleets Partnership, a group of companies in the United States pledging to reduce use of diesel fuel and gasoline in their companies' cars and trucks by using electric vehicles and alternative fuels. We joined in the formation of the group to support President Barack Obama's goal of reducing U.S. imports of foreign oil by one-third by 2025. President Obama highlighted the unveiling of the National Clean Fleets Partnership by visiting a UPS facility in Maryland. UPS Chief Sustainability Officer Scott Wicker guided President Obama, Energy Secretary Steven Chu and Transportation Secretary Ray LaHood on a tour of UPS alternative technology vehicles, including plug-in all-electric and compressed natural gas trucks.

Work in Progress.

Expanding Scope 3 Reporting. As we describe on [page 16](#), UPS in 2010 began expanded reporting of Scope 3 emissions according to the Greenhouse Gas Protocol Corporate Value Chain (Scope 3) Accounting & Reporting Standard. We expect to continue adding new categories from the standard to our Scope 3 emissions reporting in 2011.

Expanding Telematics. Our deployment of telematics is ongoing in 2011. By the end of the year, we expect to have 46,538 vehicles with fully functional telematics in 410 locations including San Juan, Puerto Rico and two sites in Canada. We expect to complete the United States telematics deployment in 2012, with a total of 65,323 vehicles in 1,055 locations. Telematics will also be expanded in our Supply Chain & Freight segment in 2011. Plans include the deployment of 1,572 freight vehicles in 38 locations.

New Solar Power Project. As we describe on [page 54](#), we began testing a new model for return on investment in solar power generation with the construction of a new solar installation in Lakewood, New Jersey. We expect to complete construction on this new system in 2011, at which time we will begin assessing its payback and potential to serve as a model for additional renewable energy systems in the future.

Risk and Opportunities.

Enterprise Risk Management Program. UPS integrates climate change risks and opportunities into its multi-disciplinary, companywide risk management process. We utilize a mature ERM (Enterprise Risk Management) program in combination with close linkages to Corporate Strategy, Risk Management (insurance programs and/or hedging programs), and the Business Continuity Group. Each plays an important role in the overall management of risks in relationship to meeting business objectives. Our ERM program provides detection and governance processes while Corporate Strategy reviews many of the opportunities as well as long term mitigation initiatives. Traditional risk management helps to limit exposure where necessary, ensuring fiscal requirements are met for recovery. Business Continuity provides resiliency for the organization through well developed response plans coupled with practice drills of the most likely business disruption scenarios.

The key to the success of our ERM program is a rigorous risk identification process that includes risks and opportunities related to regulation, customer behavior, brand reputation and weather. This process utilizes internal surveys of key senior management as well as information and perspectives obtained through outside consulting relationships, benchmarks against other organizations' risk profiles, and active participation in roundtable risk committee sessions. Below we discuss the major risk categories related to the environment that we assess in the ERM program. For more complete information regarding the program and risk factors affecting UPS, you can:

- visit the UPS investor relations website to view our filings with the United States Securities and Exchange Commission (SEC), and
- visit the Carbon Disclosure Project (CDP) [cdproject.net] and view our submission to CDP.

Climate-Related Regulatory Risk. Through the ERM process described above, we review multiple potential climate change regulatory risks—including, but not limited to, carbon taxes, cap and trade schemes, fuel/energy taxes and regulations, environmental concerns and customers' demand to reduce their carbon footprint. Based on this risk process, the risk analysis time frame, the financial impact within the timeframe, and the global perspective of providing services in more than 220 countries and territories regarding regulatory developments, no regulatory risks relating to climate change have been identified as having the potential to generate substantive change in our business operations, revenue or expenditures.

The largest potential risk category is aviation cap and trade. Within the category, the most significant potential risk is related to the EU Emissions Trading Scheme (EU ETS). Even so, the estimated cost of the impact of EU ETS is, in the short term, small compared to risks that arise as substantive through our internal Enterprise Risk Management process.

Without modifying the aforementioned risk analysis, it should be noted that UPS as a company is deeply engaged in carbon-related risk mitigation initiatives. We describe our management approach for avoiding energy use and emissions as “decarbonization synergy,” which means that UPS simultaneously pursues multiple strategies for carbon avoidance in a way that makes each one stronger and more effective than it would be on its own. These strategies (described in detail earlier in this section of the Report) focus on modal shifting, network efficiencies, air and ground fleet efficiencies, integration of technological and human factors, and more.

As a global company with operations in more than 220 countries and territories, UPS is continually evaluating current and potential future regulations around the world for applicability. Because of UPS’s global footprint, the Company is able to absorb the impact of carbon taxes, cap and trade schemes, and fuel/energy taxes and regulatory changes that may occur in one country/region and offset the effect across its global network. Over time, expenditures relating to regulatory changes in one country/region will be fully incorporated by the specific country/region.

EU Emissions Trading Scheme (EU ETS). At present, UPS’s planning horizon for the regulatory impact of EU ETS is short-term (1 to 5 years ahead) due to a number of factors that add considerable uncertainty to any long-term perspective.

We have met our 2011 compliance obligations with respect to EU ETS and information about the allocation of allowances is expected in the fall of 2011. The percentage distribution of those allowances will be influenced by the number of other companies that have also met their compliance reporting obligations. UPS has determined that EU ETS, in its current form, does not present a short-term substantive regulatory risk.

Recent events demonstrate the possible proliferation of other national EU ETS-like schemes. Notwithstanding legal challenges, it is anticipated that uncertainties posed by these potentially overlapping schemes add complexities and confusion to global aviation regulations and may slow the certainty of the EU ETS regulatory timeline. In the event that other national schemes do succeed under the premise of claiming exemption from EU ETS as an equivalent program, the financial implications could vary. The expected occurrence of such a scenario is outside UPS’s planning timeframe of 1 to 5 years.

The financial impact of EU ETS will be distributed across the entire aviation industry, of which UPS is a typical member. This therefore mitigates the risk of competitive disadvantage to any one company. We expect to learn of our company-specific impact in the fall of 2011.

Climate-Related Physical Risk. Through the ERM process described previously, UPS reviews potential climate change-related physical risks including, but not limited to, changes in precipitation, snow, ice and tropical cyclones. When looking at physical risks, we evaluate both day-to-day weather-related changes and catastrophic events. Based on this risk process, the risk analysis time frame, the financial impact within the timeframe, the global perspective of providing services in more than 220 countries and territories regarding physical risks, and the highly flexible and adaptable nature of the UPS integrated network, no physical risks relating to climate change have been identified as having the potential to generate substantive change in UPS’s business operations, revenue or expenditures over the foreseeable future. Being a global company with facilities located all over the world, UPS is accustomed to addressing a wide variance of climate conditions; therefore, UPS does not expect a slow change in climate conditions to affect its service in the near term.

Risks related to natural disasters (such as hurricanes, tornados, floods, etc.) represent the largest potential risk category to UPS. However, the estimated cost impact of these types of risks in the short term is small compared to risks that arise as substantive through the ERM process. We maintain and test operational contingency plans to address episodic disruptions in locations where severe climate conditions are more likely to impact our network. For example, risks are evaluated with assurance of alternative plans in the event of a severe storm. These contingency plans are reviewed quarterly at the corporate level and presented annually to our Board of Directors.

The sheer size of the integrated UPS network (3000+ facilities) allows for rapid operational changes in how we utilize the network and provides us with the flexibility necessary to recover promptly from catastrophic events. For example, we can route packages and choose modes of transport as required, to lessen the loss of volume we can carry and associated delays in delivery. Our planning horizon for this type of short-term risk is current, meaning that we have no way of forecasting when or where these events will occur in the future.

The impact of Hurricane Katrina on New Orleans in 2005 is an appropriate example of how our flexible response to this physical and financial risk plays out at UPS. We restored our operations in New Orleans promptly after the storm, but much of the region’s industrial base was destroyed or damaged. We put in place contingency plans to bypass affected areas of the region as necessary, minimizing any impact to our network operations as a whole. It is also illustrative to note that because of the robustness and reliability of our network, UPS is regularly in position to provide disaster recovery and humanitarian aid services, either as an in-kind provider of logistics and transportation services or as a philanthropic partner. We played this role in New Orleans in 2005, in Haiti in 2010, and in other locations around the world over more than a decade.

Other Climate-Related Risks. Through the ERM process described previously, we review potential climate-related risks including, but not limited to, changes in reputation, changing consumer behavior, and uncertainty. Based on this risk management process, the risk analysis time frame, the financial impact within the timeframe, and the global perspective of providing services in more than 220 countries and territories regarding other risks, no other climate related risks have been identified as having the potential to generate substantive change in UPS's business operations, revenue or expenditures over the short term (1 to 5 years ahead).

We view risks related to our reputation as the largest potential risk in this category. We have built a strong brand over the course of our 104-year history and this reputation underlies customer trust in our services, products and behavior. Interbrand, an organization that assesses the value of corporate brands, ranked our brand value in position 31 among the Best 100 Global Brands for 2010, and valued the UPS brand at US\$11.8 billion dollars. While we recognize that negative response to a company's reputation could lead to substantive financial implications, UPS continues to be a leader in brand reputation and we see no reason why this will change in the future. UPS considers the estimated cost of the impact of this type of risk, in the short term, as small compared to risks that arise as substantive through the ERM process.

UPS has been, and will continue to be, a leader in taking action and reporting transparently regarding the sustainability of our business. We believe this is the best way to maintain our reputation, and that this Report provides an appropriate example. At the corporate level, UPS maintains a dedicated sustainability working committee that is comprised of cross-functional members, to ensure that all functions are working together toward improving our company's sustainability. Representatives from UPS's Public Relations group are part of this committee, and utilize relevant information to formulate press releases relating to actions promoting sustainability at UPS.

UPS remains at the forefront for implementing initiatives to manage fuel efficiency and mitigate emissions. This is accomplished by rolling out new technology, enhancing operational and management processes, and providing industry leadership. This continued effort enhances UPS's reputation and further reduces its risk. We discuss many examples of these activities in this Report, including:

- Use of routing technology which reduces road miles and fuel.
- Continued deployment of telematics in the UPS ground fleet, which reduces fuel through idle time, mileage reduction and optimizing engine operating parameters.
- Deployment of a "rolling laboratory" of over 1,900 alternative fuel and advanced technology vehicles.
- Using intermodal shifting to reduce emissions; shifting air volume to ground and ground volume to rail where UPS can maintain time-in-transit service commitments.
- Operating a young and energy-efficient air fleet, to minimize the largest source of UPS emissions.
- Offering customers industry-leading services, such as UPS carbon neutral and Eco Responsible Packaging.

Climate-Related Regulatory Opportunities. Our ERM process employs a Risk and Control Framework for managing risks and opportunities, which includes consideration of opportunities driven by regulatory changes related to climate change. Through this process, we review multiple potential climate-change regulatory risks and opportunities including, but not limited to, carbon taxes, cap and trade schemes, fuel/energy taxes and regulations, environmental concerns, and changing customers' demands to reduce their carbon footprint. Based on this risk process, the risk/opportunity analysis time frame, the financial impact within the timeframe, and the global perspective of providing services in more than 220 countries and territories regarding regulatory developments, no regulatory opportunities relating to climate change have been identified as having the potential to generate substantive change in UPS's business operations, revenue or expenditures in the short term (1 to 5 years ahead).

As a global company with operations in more than 220 countries and territories, UPS is continually evaluating the applicability of current and potential future regulations around the world. As a company that often generates revenue of more than US\$50 billion in a year, UPS regards perceived opportunities to have a minimal effect on its revenue stream, based upon an evaluation of current regulatory opportunities. Estimation of what would represent a substantive change is relative, and depends upon a number of factors, making it difficult to pinpoint with precision in this respect. Upon careful consideration, however, we believe that no current opportunities relating to climate change regulatory issues would generate revenues in an amount that could be considered substantive.

Additionally, any costs imposed as part of climate-related taxes or cap and trade schemes would affect the industry as a whole. We believe that these costs, as with fuel surcharges, would be passed on to customers and therefore should not be viewed as an opportunity.

In consideration of increased demand by customers for transportation efficiency and lower-carbon-footprint services that could be driven by the imposition of climate-related regulations, such as UPS carbon neutral services, no substantive opportunity for revenue impacts is available in the short term (1 to 5 years). More specifically, the UPS carbon neutral service, introduced in 2009, was not designed or priced to generate independent revenue. It is priced to enable UPS's customers to participate in the mitigation of carbon emissions of their supply chains. Consequently, our investment in this service is a commitment to corporate responsibility and to our customers that seek to do business with like-minded companies. In 2010 through 2011, UPS's commitment to a US\$1 million dollar match of offsets purchased by customers further reduced any potential for substantive impact on revenue by this product. In the long term, the expectation of this investment is the retention and attraction of UPS customers that value corporate responsibility in their supply chains.

Climate-Related Physical Opportunities. Through the ERM process described previously, we review potential climate-related physical risks, as well as potential opportunities that a risk may bring. These opportunities include, but are not limited to, substantive competitive advantages that could arise as a consequence of changes in temperature, precipitation, snow, ice and tropical cyclones. UPS evaluates physical risks and opportunities caused by both day-to-day changes related to weather and catastrophic weather events. Based on this risk and opportunity process, the risk and opportunity analysis time frame, the financial impact within the timeframe, and the global perspective of providing services in more than 220 countries and territories regarding physical risks and opportunities, no physical opportunities relating to climate change have been identified as having the potential to generate substantive change in UPS's business operations, revenue or expenditures in the short term.

As a global company that has facilities located all over the world, UPS is accustomed to dealing with a wide variance of climate conditions. While we are able to act quickly and implement in-place contingency plans to deal with episodic disruptions, which may represent a competitive advantage, we do not view this as a substantive opportunity over our competitors. Physical impacts of climate change create disruptions to commerce and ultimately reduce the flow of goods in supply chains. UPS's planning horizon for this type of short term opportunity is current, meaning UPS has no way of forecasting when and where these events will occur in the future.

Other Climate-Related Opportunities. Through the ERM process described previously, we review potential climate-related opportunities including, but not limited to, changes in reputation, changing consumer behavior, and uncertainty. Based on this process, the analysis time frame, the financial impact within the time frame, and the global perspective of providing services in more than 220 countries and territories, we have not identified other opportunities related to climate that have the potential to generate substantive change in UPS's business operations, revenue or expenditures over the short term (1 to 5 years ahead).