



# 2020 | TCFD Report



## United Parcel Service – Taskforce on Climate-Related Financial Disclosures (TCFD)

In 2017, the Financial Stability Board released [Task Force on Climate-related Financial Disclosures](#) in order to promote consistent, reliable, clear and efficient information for lenders, insurers and investors. UPS values our stakeholders and supports the TCFD’s efforts to create transparency around the risks and opportunities from climate change. In this report, UPS identifies the climate-related risks within our operations and the opportunities to create resiliency for the future.

Code	TCFD Recommended Disclosures	UPS Disclosure
<b>Governance</b>		
TCFD 1(a)	Describe the board’s oversight of climate-related risks and opportunities.	<p>Consideration of environmental, social and governance sustainability risks and opportunities are a part of our comprehensive enterprise risk management program. The board regularly reviews the effectiveness of our risk management and due diligence processes related to material sustainability topics, including climate-related risks and opportunities. In addition, the board actively considers these factors in connection with the board’s involvement in UPS’s strategic planning process. The board delegates authority for day-to-day management of sustainability and climate-related topics to management. Our chief corporate affairs, communications and sustainability officer (CSO) regularly reports to the board regarding sustainability and climate-related risk and opportunity strategies, priorities, goals and performance. In addition, the board is regularly briefed on issues of concern for all of our stakeholders. Furthermore, the board oversees efforts of management to develop our values, strategies and policies related to environmental, social and governance impacts.</p>
TCFD 1(b)	Describe management’s role in assessing and managing climate-related risks and opportunities.	<p>The CSO has responsibility for sustainability and climate change oversight within UPS. The CSO is a member of the UPS Executive Leadership Team (ELT), which consists of the Company’s most senior executive officials, and reports directly to the CEO.</p> <p>The CSO is responsible for leading the corporate sustainability team that manages UPS’s overall sustainability strategy which includes:</p> <ul style="list-style-type: none"> <li>• Assessing and managing climate-related risks and opportunities;</li> <li>• Introducing innovative and environmentally responsible products to its customers;</li> <li>• Establishing key performance indicators, goals and transparent reporting for the company; and</li> <li>• Overseeing the UPS Foundation and community relations team to encourage employee engagement in the communities where they live and work.</li> </ul> <p>At UPS, we believe our purpose is to move our world forward by delivering what matters, and contributing to a truly sustainable global society matters. The sustainability team works with cross-functional teams to implement programs that create better not bigger business value and drive progress toward UPS’s sustainability goals. The sustainability team convenes individual working groups to address specific sustainability issues and initiatives, such as urban logistics and last mile delivery, electric vehicles, renewable electricity and airline efficiency. The CSO also:</p> <ul style="list-style-type: none"> <li>• Is a member of the company’s ELT Risk Committee, which is an internal group that meets quarterly to review the company’s enterprise risk strategy; and</li> <li>• Partners with the company’s Chief Diversity, Equity &amp; Inclusion Officer to support programs aimed at supporting the company diversity goals.</li> </ul>

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<b>Strategy</b>		
TCFD 2(a)	Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.	UPS acknowledges that our operations are and will be directly affected by the physical and transitional risks created by climate change. Although climate-related risks and opportunities are integrated into our overall risk management matrix, a more thorough analysis will be completed to project monetary values and time horizons on climate change risks. This analysis will be completed in the near future.
TCFD 2(b)	Describe the impact of climate-related risks and opportunities on the organization's business, strategy and financial planning.	Severe weather conditions or other natural or manmade disasters, including storms, floods, fires and earthquakes have in the past and may in the future disrupt our business and result in decreased revenues. Customers may reduce shipments or our costs to operate our business may increase, either of which could have a material adverse effect on us. Any such event affecting one of our major facilities could result in a significant interruption in or disruption of our business. As we complete future climate-related scenarios, more defined risks and opportunities in our business strategy and financial planning may be identified.
TCFD 2(c)	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including 2 degrees Celsius or lower scenario.	To mitigate the risks from climate change, UPS is continuously monitoring and innovating our operations to perform in the most efficient and resilient way possible. As we look to the future, analysis of climate-related scenarios will be completed within the near future.

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<b>Risk Management</b>		
TCFD 3(a)	Describe the organization's processes for identifying and assessing climate-related risks.	<p>Risks, including climate change, are assessed at both a Company level and an asset level and managed through a matrix which was developed to quickly estimate risk severity on the basis of relative likelihood and operational impact.</p> <p>Risks to the network and supporting processes are evaluated and mitigated based on both asset cost and impact to the network's functionality, inclusive of facilities and equipment. Extensive risk-scenario planning is conducted within the air and ground networks to evaluate potential disruption in key operating facilities from a variety of risk sources, including climate change issues related to weather and/or natural disasters and change in governmental policies.</p> <p>UPS's Business Continuity Group ensures that alternative plans are in place for when disruptions occur. Because of UPS's unique network, risks often generate opportunities. UPS has designed its extensive network capabilities to minimize the impact of climate change disruptions affecting certain locations. This allows UPS to capitalize on its abilities in those affected locations.</p>
TCFD 3(b)	Describe the organization's processes for managing climate-related risks.	<p>UPS prioritizes risks by classifying them into one of two risk level classifications, <b>Tier 1 or Tier 2</b>.</p> <p>To determine Tier 1 and Tier 2 status, we use a risk assessment matrix and heat map. The risk assessment matrix is used to rate the likelihood and impact on a scale of 1 – 5. Within Impact, there are 3 specific elements rated on a 1-5 scale: Our Mission, Financial and Operations/Brand.</p> <p><u>Climate change is a Tier 1 risk:</u></p> <p><b>Tier 1:</b> require Board level awareness that may be material, inherently high risk to the organization, and could potentially have a substantive financial impact</p> <p>In order to manage this Tier 1 risk and integrate into our business strategy, UPS utilizes Business Risk and Compliance Committees (BRCC's) which are broad cross-functional teams within a business-unit, function or location. UPS currently has 10 active region and business unit level BRCC's globally, with additional district/country-level BRCC's as well. The BRCC identifies, evaluates and prioritizes risks, including oversight of mitigation efforts, and when necessary, escalation of risks to the Enterprise Business Risk and Compliance Committee.</p>
TCFD (3c)	Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.	<p>Currently, climate change related risks or Sustainability at UPS are assessed as Tier 1 risks. There is a designated review process for Tier 1 risks where the subject matter experts review a risk profile with Enterprise Risk Management. Enterprise Risk Management (ERM) communicates Tier 1 risks to the ELT and Board of Directors (BOD) Risk Committee through an annual risk assessment and ranking exercise.</p>

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<b>Targets &amp; Metrics</b>		
TCFD 4(a)	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	<p>In alignment with our strategy and risk management process, UPS reports three primary metrics to assess the climate-related risks and opportunities:</p> <ul style="list-style-type: none"> <li>• Package Carbon Intensity (Metric Tonnes of CO<sub>2</sub>/Package Volume)</li> <li>• Percentage Alternative Fuels (RNG, LNG or EV)</li> <li>• Absolute Emissions (Metric Tonnes of CO<sub>2</sub>)</li> </ul> <p>UPS discloses our progress on these three metrics in our Global Reporting Initiative (GRI) Index, see the environmental section indicators 302 and 305 for more details.</p>
TCFD 4(b)	Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions, and the related risks.	<p>UPS discloses our Scope 1, Scope 2 and Scope 3 greenhouse gas (GHG) emissions, along with an extensive breakdown of our GHG reporting policies in indicator 305 of our GRI Index.</p> <p>In 2020 (in '000 Metric Tonnes):</p> <ul style="list-style-type: none"> <li>• Scope 1 CO<sub>2</sub>e emissions were 15,751</li> <li>• Scope 2 CO<sub>2</sub>e emissions were 749</li> <li>• Scope 3 CO<sub>2</sub>e emissions were 21,437</li> </ul> <p>Regulation of GHG emissions exposes our transportation and logistics businesses to potentially significant new taxes, fees and other operational costs. Compliance with such regulation, and any increased or additional regulation or associated costs is further complicated by the fact that various countries and regions are following different approaches to the regulation of climate change.</p> <p>In the U.S., Congress in the past several years has considered various bills that would regulate GHG emissions, but these bills so far have not received sufficient Congressional support for enactment. Nevertheless, some form of federal climate change legislation is possible in the future. Even in the absence of such legislation, the Environmental Protection Agency could move to regulate GHG emissions, especially aircraft or diesel engine emissions, and this could impose substantial costs on us.</p> <p>In addition, the impact that the recent re-entry into the Paris climate accord may have on future U.S. policy regarding GHG emissions, on CORSIA and on other GHG regulation is uncertain. The extent to which other countries implement that accord could also have an adverse direct or indirect effect on us.</p> <p>Potential costs to us of increased regulation regarding GHG emissions globally, especially aircraft or diesel engine emissions, include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our aircraft or vehicles prematurely. We cannot predict the impact any future regulation would have on our cost structure or our operating results. It is possible that such regulation could significantly increase our operating costs and that we may not be willing or able to pass such costs along to our customers. Moreover, even without such regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the airline and transportation industries could harm our reputation and reduce customer demand for our services, especially our air services.</p>

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TCFD 4(c)	Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	<p>Each year we publish a corporate sustainability report showcasing the achievements, challenges and aspirations of our commitment to the environmental, social and governance (ESG) aspects of our business.</p> <p>In 2020, UPS broadened its ESG vision and built a road map on three generations of sustainability goals. Recently announced, the two primary sustainability goals include a social sustainability goal – positively impacting 1 billion lives by 2040 – and an environmental sustainability goal – achieving carbon neutrality by 2050. The road map to carbon neutrality by 2050 includes the following targets:</p> <ul style="list-style-type: none"> <li>• By 2025               <ul style="list-style-type: none"> <li>○ 25% renewable electricity for facilities (existing goal).</li> <li>○ 40% alternative fuel purchases as a percent of total ground fuel (existing goal).</li> </ul> </li> <li>• By 2035               <ul style="list-style-type: none"> <li>○ 30% sustainable aviation fuel.</li> <li>○ 100% renewable electricity for facilities.</li> <li>○ 50% reduction in CO<sub>2</sub>e per package delivered for global small package (2010 baseline).</li> </ul> </li> </ul> <p><u>Current milestones on our journey to zero</u></p> <p><b>Increase Electricity From Renewable Sources to 25 Percent by 2025</b>            In 2020, total electricity being generated from renewable sources reached 7.8 percent. This includes several rooftop solar arrays on UPS facilities and procurement of almost 88% renewable electricity within our European operations.</p> <p><b>Increase Use of Alternative Fuel to 40 Percent of Total Ground Fuel by 2025</b>            In 2020, we continued investing in alternative fuels for our ground fleet, purchasing 142 million gallons of alternative fuels, which represented 22 percent of our total ground fuel usage.</p> <p><b>Increase Use of Sustainable Aviation Fuel to 30 percent by 2035</b>            Today, the only decarbonization path for the aviation sector is sustainable aviation fuel (SAF). Over the next several years, UPS will work with the industry to accelerate the shift to SAF.</p> <p><b>Increase Electricity From Renewable Sources to 100 Percent by 2035</b>            Renewable electricity for our facility load and electric fleet will be acquired over the next decade.</p> <p><b>Reduce the CO<sub>2</sub>e per package delivered 50% for global small package by 2035</b>            We have seen a 14% reduction in CO<sub>2</sub>e per package from 2010 to 2020. Starting from a base year of 2020, we will reduce the CO<sub>2</sub>e per package delivered by 50% by 2035. This will be achieved by the milestones described above, along with fleet electrification.</p> <p>For more information on UPS’s management approach for energy and emissions, see our 2020 GRI Content Index, indicator 302.</p>