



## FORWARD THINKING



### To our shareowners,

In FY13, we took aggressive action to boost future profitability and better align our global networks with customer demand in a sluggish world economy. I am pleased to say the profit improvement programs we announced in October 2012 are on track and ahead of schedule in many areas.

Thanks to a boost from e-commerce, FedEx Ground posted another stellar year with industry-leading margins. Revenue share has now increased for 54 consecutive quarters — an outstanding performance driven by superior service that's faster to more locations than any other ground service. The FedEx Ground outlook is excellent as revenues are expected to continue to increase in FY14, led by volume growth across all our major services. We will continue to expand our capacity to keep up with the demand for our ground services and the growing popularity of online shopping.

FedEx Freight made solid progress in FY13 following its return to profit in FY12. Revenues increased due to higher yield and average daily shipments.

At FedEx Express, acquisitions in Brazil, France, Poland, Mexico, and India are on course to deliver solid returns in these key markets. We also signed a new seven-year contract with the United States Postal Service, a testament to the quality of service and the strong relationship we've built during the past decade.

Once again, we were honored by FORTUNE magazine as one of the world's 10 most admired companies.

These positive accomplishments, however, did not offset the effect of lower-than-expected international export yields resulting from increasing customer use of slower, less costly international shipping services. FedEx is tackling these challenges head-on, and we are confident our plans will position us for profitable long-term growth.

“FedEx Ground clearly has an outstanding business model, as evidenced by its growth and industry-leading margins.”

### **Our goals are set**

All indicators suggest that a low-growth global economy will persist, given high fuel costs, and policy decisions by major world governments that impede global trade. Even so, our profit improvement programs announced in FY13 are targeting annual profitability improvement of \$1.6 billion at FedEx Express by the end of FY16 from the full-year FY13 adjusted operating income level. Collectively, these initiatives are expected to increase margins, improve cash flows, and increase our competitiveness. In this regard, we expect to begin realizing a portion of the benefits from the profit improvement programs gradually in FY14. However, the majority of the benefits, including those from our voluntary buyout program, will not be fully realized until FY15 and FY16.

### **Our way forward is clear**

FedEx is becoming a more efficient business, and we’re more competitive than ever as we expand solutions for customers. Our balance sheet is strong and, most importantly, our 300,000 team members are dedicated to implementing our plans with the can-do attitude you’d expect from our Purple Promise: “I will make every FedEx experience outstanding.”

Here’s a snapshot of the profit improvement programs we began during FY13 and the progress we’ve made:

#### **FedEx Express: Five pillars to increasing profitability**

##### **1 Make staff functions and processes more efficient**

Multiple initiatives across FedEx Express and FedEx Services are permanently reducing our overall cost structure. We have completed a voluntary program offering cash buyouts to eligible U.S.-based employees in certain staff functions, and approximately 3,600 employees have voluntarily left or will be leaving the company by the end of FY14. We are also capitalizing on strategic sourcing opportunities, streamlining support functions, and eliminating redundant systems and processes. Increased use of information-technology service providers and cloud-computing resources will significantly reduce costs.

##### **2 Modernize our air fleet**

Replacing older, less efficient aircraft is lowering operating costs globally. In FY13, we decided to permanently retire or accelerate retirement of nearly 90 aircraft as we continue to modernize our aircraft fleet. In June, FedEx Express completed the final retirement of the B727 fleet. The B757 is significantly more fuel efficient per pound of payload and has 20-percent additional payload capacity than the B727 it replaces. Our new Boeing 767s will provide similar capacity as the MD10s we are retiring, with improved reliability, and about a 30-percent increase in fuel efficiency.

##### **3 Transform our U.S. domestic network**

We’re closing and realigning regional and district facilities and streamlining pickup and delivery operations while maintaining outstanding service levels. For example, we merged five stations in Houston into two and eliminated a regional package sort in Atlanta, thus consolidating more than 100 weekly surface routes. We’re also improving flight scheduling, on-road efficiency, refining aircraft maintenance processes, and improving fuel efficiency in our vehicle fleets.

##### **4 Improve international profits**

Our international profit improvement programs are focused on expanding our European footprint to build scale efficiency to lower unit costs, expand our portfolio through new offerings, reduce overhead expenses and grow the capabilities of FedEx Trade Networks. Maintaining leadership in the Priority market space and matching our network cost-to-serve with Economy shipping yields are top priorities as customers continue to trade speed for price in a low-growth global economy. Accordingly, we are optimizing our networks by using other lift alternatives to move Economy traffic and making better use of capacity within the FedEx Express international network for our Priority services.

Recent acquisitions in Brazil, France, Poland, Mexico, and India helped drive significant increases in international domestic revenues in FY13, and we expect the profitability of these acquisitions to improve as their integrations near completion. We also opened dozens of European facilities to better serve customers, improve the density of our European network, and lower costs.

FedEx Trade Networks, our fast-growing air and ocean freight forwarding arm, will also add to our profitability as it continues to grow. We recently opened new offices in Latin America, Europe and Asia; expanded our alliances with regional service providers; and launched new freight forwarding service options.

##### **5 Expand service offerings**

Capitalizing on the reliability of our U.S. domestic air network, we expanded our FedEx Express First Overnight package and freight offerings and now serve more than 3,000 additional ZIP codes earlier in the morning. Improved service offerings targeting small and medium shippers and consignees as well as value added services for vertical industries, such as healthcare and aerospace, will further align the unique capabilities of FedEx Express with specific customer needs.

### **Our focus is on customers**

Discrete customer needs are at the heart of our strategy to operate focused systems (FedEx Express, FedEx Ground, FedEx Freight) that operate independently, compete



collectively, and are managed collaboratively. Our unique model enables us to fine-tune our networks without compromising service to our customers. Not only are our solutions superior, but we can respond to marketplace changes quickly and efficiently.

**FedEx Ground** clearly has an outstanding business model, as evidenced by its growth and industry-leading margins even in a time of slow economic growth. Our speed advantage gives customers greater flexibility in their supply chain and makes inventory management more efficient. Since 2003, we have increased the speed of more than 87,000 lanes by at least a full day. And we're not done yet. Thousands more lanes will be accelerated in FY14. FedEx Ground also continues to benefit from dramatic double-digit e-commerce growth, which led to a 22-percent increase in FedEx SmartPost shipments during FY13.

**FedEx Express and FedEx Ground** residential customers are enjoying more convenience than ever with the ability to customize deliveries to their home with FedEx Delivery Manager, introduced this spring. Now customers can request delivery dates, locations, and times, according to their needs. They can also request that their packages be held for pickup at more than 1,800 FedEx Office locations.

**FedEx Freight** customers are embracing the way we've simplified less-than-truckload (LTL) shipping. About 80 percent of FedEx Freight customers use both our Priority and Economy services through a single unique pickup-and-delivery network. Our strategy was validated by a recent survey in Logistics Management magazine, which ranked FedEx Freight as best-in-class in both the multiregional and national LTL sectors. To improve performance, automated systems help FedEx Freight determine the most efficient routing for shipments. Today, about 15 percent of our line-haul miles have moved to rail, a decision that's lowered our costs without sacrificing reliability.

### **Our future is bright**

Executing our profit improvement programs and our other long-term strategies will require the same focus and discipline that has made FedEx an industry leader for four decades. We're proud of our success and are optimistic about the future. Good things happen when FedEx provides greater access to markets and new opportunities. The record is clear. Businesses grow; jobs increase; and people's lives improve.

Farmers and villagers in northern India know firsthand what this means. When Krishan Gupta, CEO of Organic India, rejuvenated a once-struggling brand by relaunching it in the global marketplace, he was able to pay higher wages to farmers who grew tea and herbs to supply his operations. Today, the Organic India Foundation provides free healthcare to thousands of local villagers.

Our success would not be possible without the personal dedication of our 300,000 team members worldwide. They earn the trust of customers like Organic India every day by delivering on our Purple Promise. Few have done a better job at that than Dave Rebholz, who retired this year as CEO of FedEx Ground after 37 years of service to FedEx. He leaves with our gratitude and respect for his outstanding achievements. Dave is succeeded by Henry Maier, whose more than 30 years of experience in the transportation industry, including more than 25 years at FedEx companies, will provide steady leadership for continued growth at FedEx Ground.

You can count on FedEx, based on 40 years of operations as of April, to continue doing what's right for our shareowners, customers, team members and the communities we serve. We are dedicated to continuing to make a better and more prosperous world as a result.

A handwritten signature in black ink, reading 'Frederick W. Smith'.

Frederick W. Smith  
Chairman, President and CEO