

Decisive actions. Superior returns.



To our shareowners,
In FY14 we acted decisively to boost shareowner value, and we are proud of our accomplishments during the year.

- Returns to investors outperformed the S&P 500 and the Dow Jones Transportation Average, and our market capitalization increased significantly.
- The historic stock buyback we announced in October reaffirmed our confidence in the company's strategy and long-term growth potential. It also

demonstrated our ongoing commitment to deliver value to our shareowners.

- We are aggressively managing costs, and our balance sheet remains strong, giving us the flexibility to carry out the stock repurchase program while continuing to execute our strategic initiatives.

These initiatives are designed to ensure the near- and long-term success of FedEx, including superior financial returns for shareowners. As a result, we believe FedEx is well positioned for stronger growth in earnings and cash flow despite a sluggish global economy and dramatic changes in supply chains.

The strength of our people powers the strength of our results. That is embodied in our People-Service-Profit culture and our Purple Promise: "I will make every FedEx experience outstanding." For proof, look no further than our team members' extraordinary efforts this past winter and holiday season. Despite the toughest winter FedEx has ever experienced, team members delivered record volumes, and service metrics were among our best ever for a peak season. In fact, many team members volunteered to work on Christmas Day. It's no coincidence that FedEx was once again recognized by *Fortune* magazine as one of the world's 10 most admired companies and No. 1 in the delivery industry.



CUSTOMERS DEFINE US

As persistently high fuel prices continue to add costs to long-range supply chains, customers are seeking innovative and flexible solutions to stay competitive. We've seen this coming for a long time, which is why we enhanced and diversified our suite of services over the last several years.

FedEx Ground played a leading role in our success during FY14. We again led the industry in revenue-share growth, which has now increased for more than 14 consecutive years. The company's strategic investments in both the network and technology began 16 years ago and continue today. They've led us to gain a significant share of the market growth that's fueled in part by e-commerce. In FY14, FedEx invested nearly \$1 billion in FedEx Ground — 90 percent to support growth initiatives by expanding the network's capacity.

FedEx Express continues to align international operations to ensure we exactly match customer needs in terms of service and price. Our global door-to-door priority express network is without peer and was further enhanced in FY14 with hub openings in Osaka and Mexico City. At the same time, expanded FedEx Trade Networks global ocean and air freight forwarding systems are providing customers with more flexibility for their shipping needs. The Express European growth strategy reached a

milestone when we opened our 100th new station in fewer than three years. FedEx One RateSM — in less than a year after it was launched — is performing impressively, giving U.S. customers simple, predictable flat rate shipping options for their Express packages.

FedEx Freight, the industry leader in market share and volume, is growing by making less-than-truckload (LTL) shipping easier than ever. In an industry where many LTL transactions are manual and pricing is complicated, our newly improved FedEx online shipping tools help customers process more shipments in less time. We're also the only LTL carrier to offer two options — Priority and Economy — and about 87 percent of customers use both. Our increasing use of rail for many FedEx Freight[®] Economy shipments also lowers our costs while maintaining our service reliability to customers.

FedEx Services excels at building robust technology and solutions that can uniquely meet customers' global transportation and supply chain challenges. The FedEx[®] portfolio creates significant value, generating about 96 percent of U.S. revenue from customers who use two or more FedEx operating companies. For shippers needing an extra hand packing, we're rolling out Pack Plus services at FedEx Office locations across the United States. Features include a larger selection of boxes, as well as custom packaging.

INNOVATION DRIVES US

As baseball Hall of Famer Yogi Berra put it: "The future ain't what it used to be." Just look at how online shopping has exploded around the world. Forrester Research predicts that worldwide B2C online sales will reach \$1.33 trillion in 2017, up from \$656 billion in 2012. U.S. e-commerce sales in the 2013 five-day period from Thanksgiving through Cyber Monday jumped 26 percent year over year — truly astounding.

Without question, such volume numbers point to strong opportunities. But as the past peak shipping season showed, residential delivery also poses many challenges. Carriers and retailers alike must agree on new ways of thinking or risk disappointing customers. Residential package recipients have high expectations for service, but FedEx must also carefully manage delivery costs to ensure profitability.


We created our E-commerce Center of Excellence with that in mind. The center orchestrates efforts across FedEx to grow our e-commerce business by giving customers more tools and delivery options. FedEx Delivery ManagerSM is an example of innovation that allows customers to personalize their delivery experience. FedEx Ship&Get[®] is a new shipping and delivery option we're piloting at select retail locations. Customers can use these stand-alone kiosks and lockers to ship or pick up packages at their convenience.

Today, e-commerce is a bright spot and an important driver of the global economy. For e-commerce to realize its full potential, however, international trade rules must be modernized. For this internet-based economy to grow on a global basis, customs procedures and clearance must be simplified and red tape eliminated.

FLEXIBILITY DIFFERENTIATES US

Despite many political challenges, the world is becoming more connected. Markets, technologies and social trends often shift with little warning. Businesses must navigate rapid change or risk becoming obsolete. At FedEx, flexibility is a core strategic advantage, and we move quickly in response to new





Our independent networks and multiple hubs give FedEx the flexibility we need to serve customers under changing conditions.

customer needs in a dynamic marketplace. We constantly strive to help our customers become more efficient with new FedEx solutions.

The FedEx strategy of Compete Collectively, Operate Independently and Manage Collaboratively is based on maintaining separate FedEx Express, FedEx Ground and FedEx Freight networks. Our Express system, which has multiple hubs, proved to be an especially important advantage for our customers during the severe weather that hit during the peak shipping season. This flexible network allowed us to quickly shift volume to adjust to changing circumstances.

Our strategy above is at the heart of the speed advantage FedEx Ground has over other ground carriers on thousands of U.S. routes. We are continually fine-tuning the Ground network to deliver faster transit times. In the same vein, FedEx Freight® Priority service boasts the fastest published times of any nationwide LTL carrier. Our ability to quickly adjust international capacity to demand has been key to the FedEx Express profit improvement program. We're successfully transitioning lower-yielding FedEx International Economy® shipments to low-cost passenger aircraft underbellies. We're also building out our freight forwarding capabilities for bulk shipments through FedEx Trade Networks® air and ocean services.

OUR PURPOSE INSPIRES US

At FedEx, we believe that when we connect people and possibilities, innovation soars, businesses create jobs that improve lives, and people thrive in communities rich with opportunity and hope for a better future.

We aspire to connect the world in more environmentally friendly and resourceful ways. This in turn has made us a stronger and more efficient company. We also recognize that being a more responsible corporate citizen is increasingly important to many customers who decide to do business with FedEx based on our sustainability goals and progress. Our efforts are well ahead of plan. For example, we recently revised both our FedEx Express vehicle fuel efficiency and aircraft carbon emissions improvement goals from 20 percent to 30 percent by 2020 from 2005 baselines. Modernizing our aircraft fleet has significantly improved efficiency and reduced emissions while saving millions of dollars annually in fuel and maintenance costs.

FedEx has many competitive advantages, but none more important than the quality and integrity of our team members. I can think of no better examples than two FedEx Express executives who will be retiring in FY15 — 40-year veteran Mike Ducker, Chief Operating Officer and President of FedEx International,

and Cathy Ross, Executive Vice President and Chief Financial Officer, who has been with the company 30 years. We thank them for their leadership and countless contributions to FedEx and wish them well in the future.

We also welcome two new Board members — Marvin Ellison, who has extensive operations and logistics experience, and Kimberly Jabal, with a background in information technology, social media, finance and operations.

Each FedEx team member is committed to building value for shareowners, connecting customers to global opportunities, and championing policies that create prosperity.

Based on our progress last year, FY15 should be exciting on all these fronts.



Frederick W. Smith
Chairman, President and CEO