FedEx Corporation

From the Chairman

JANUARY 2013

To FedEx Team Members

We “peaked” during the 2012 holiday season with a record 19.8 million shipments worldwide December 17th. There were extraordinary demands placed on our operations due to the remarkable growth of e-commerce. A big thank you to all our team members! Those of you on the frontline get the most credit for that success and for positioning us to have a solid new year. Your **commitment** and our **strong FedEx culture** won the day.

Our “purple” culture is vitally important, and our brand, reputation, People-Service-Profit philosophy and Purple Promise fit together to give FedEx an unmatched advantage in the market. Simply put, our culture is a shared understanding about:

- Who we are, as defined by our brand and reputation;
- How we think and work, as expressed in our P-S-P philosophy; and
- What we do, as stated in our Purple Promise—“I will make every FedEx experience outstanding.”

To those building blocks of our cultural DNA, we’ve now added a **purpose statement** that expresses why we matter: “We connect people and possibilities around the world.” Through its millions of daily customer interactions across the globe, FedEx brings new possibilities and opportunities to life. The result? More jobs, stronger economies, and thriving communities. You also see our purpose play out in the good things we do as a company, from disaster relief to sustainable business practices. I hope you appreciate how much our everyday actions take on greater meaning when viewed against the backdrop of creating more opportunities for people everywhere. Watch for information about our culture and purpose in the months to come.

The year ahead

Our culture, along with our focus on great service and excellent quality, will help gird us for what promises to be a year of political and economic uncertainty.

Global growth is stabilizing but at a low level—in the neighborhood of 2.3%−2.5%, compared to a pre-recession level of 3.1%. Even emerging markets, with the highest growth rates, still remain below what they were before the global recession. Lower growth appears to be the new normal.

Let’s take a closer look at what’s happening in the largest economies—Europe, China and the United States.

The Eurozone is back in recession. Its GDP has been steadily declining, and its trade with the rest of the world has contracted. Low consumer and business confidence in Europe will likely continue through this calendar year.

China’s growth is improving from the slump seen in mid-2012—we project 8.2% this year compared to 7.7% last year. While these numbers look good set against the lower global growth rates, they’re still well below China’s annual double-digit GDP increases pre-recession. In the near term, it’s unlikely China will ease restrictions on foreign businesses or liberalize its financial markets. Such factors, along with low growth in the U.S. and recession in Europe, mean it’s unlikely that China will return to double-digit growth rates any time soon.

The United States ended up with 2.3% growth in GDP in 2012. Gene Huang, our chief economist, forecasts 2.0% growth in 2013. Much of the near-term outlook will depend on how political issues are resolved, but plenty of hurdles remain:

- The U.S. has experienced weakness in the industrial sector due to uncertainty over political wrangling, and that worry is carrying over into the new year. Investment continues to lag, particularly in equipment and software, while industrial production declined in the second half of last year. This sector will likely show slow growth through the first half of calendar year 2013. Keep in mind that the rate of business investment tracks closely with job creation.
- The effects of recently enacted higher taxes may further dampen growth, and there may be a fight in Washington over the debt ceiling. Congress will certainly need to address budget issues and the government deficit.
- Speaking of taxes, the United States, among large countries, has the highest business tax rate in the world. High rates correlate to higher rates of unemployment. The U.S. corporate tax rate is about 39% and unemployment is almost 8%. In contrast, Singapore’s tax rate is 17%, with an unemployment rate of 2.8%. That’s why we have urged the U.S. Congress to lower corporate tax rates so businesses will have more money for investment, which leads to more jobs, as noted earlier.
- Another big concern: Oil prices will likely be somewhat lower in the first part of 2013, but potential conflict in the Middle East could kick up prices in the second half of the year and into 2014.

- International air freight has shown further weakness, as mode shift from air to ocean continues. Door-to-door express continues to take share from traditional air cargo services.

- There is positive news, however: The U.S. housing market is recovering and residential construction is growing again. E-commerce sales are on the rise and are expected to keep climbing as more people shop through their smart phones and tablets. Finally, U.S. oil output is expanding. This puts a dent in U.S. dependence on foreign oil, though we believe the transport industries must also aggressively pursue the development of alternative fuels and electric power. FedEx must become more fuel-efficient given continued increases in demand for petroleum projected in the years ahead.

High priorities in a low-growth environment

These economic factors and uncertainties contribute to a low-growth environment—and that means we must make cost reductions a high priority. Also, the changes we see in customer preferences and expectations for more economical shipping require us to adapt to meet these market needs.

As you know, we've implemented many changes to make us stronger and leaner in the years to come, no matter what the economy. In this regard, we announced at our Investors and Lenders Meeting last fall that we're targeting $1.7 billion in profit improvements company-wide by the end of fiscal year 2016.

How are we doing this? Through a myriad of actions across the operating companies.

For example, we're upgrading our aircraft fleet to more fuel-efficient planes with fewer emissions. That lowers operating costs long-term and puts us closer to our goal of 30% lower aircraft emissions by 2020. At the same time, we're supporting research of plant-based jet fuels, with a goal of increasing our use of alternative jet fuel over the next few years.

We're taking the same approach to our vehicles. In fiscal year 2012, we increased our global electric vehicle and hybrid-electric vehicle fleet to 482, an increase of 18%. That fleet has logged almost 12.1 million miles, saving approximately 345,000 gallons of fuel. Our fleet will continue to become more fuel-efficient as we replace older vehicles.

We're using technology to shorten processes, consolidate software systems and improve service to customers. The cloud computing technology revolution will help stoke some big productivity improvements for us which will mean more savings.

Due largely to these more efficient IT systems, we will be able to reorganize many staff and support functions. As a result, we are offering voluntary buyouts to eligible U.S.-based team members. We've tried to develop a generous program that recognizes the contributions of our team members but also meets the changing business realities we face.

We're not only focused on saving money; we're also investing in our networks to ensure future success and to keep us ahead of the competition. For instance, we added nonstop SuperExpressFreighter flights from Taiwan and Milan in the fall to give our customers in those markets unprecedented service options to the U.S. We are growing the FedEx Express domestic networks organically in Europe and China. We made three acquisitions in France, Poland and Brazil to strengthen our overseas networks. We have significantly expanded FedEx Trade Networks to take advantage of the shift of some commodity air freight to sea transport. We reconfigured FedEx Freight to offer customers two price options; we made freight shipping easier; and we now provide the fastest transit times in priority LTL shipping.

To support these big initiatives across FedEx, each of us must bring a new mindset to work every day. Let's ask ourselves: Do my efforts build business? How can I extract costs from the tasks before me? How can I streamline or shorten processes to serve the customer better? If all team members apply our Quality Driven Management techniques to every job, as we do by using QDM on a broader scale, then we can achieve high performance in a low-growth environment.

Changes in health care

Just as we must manage more efficiently in changed circumstances, we must also adjust to the new realities of the health care landscape in the U.S. Reforms mandated by the Patient Protection and Affordable Care Act (PPACA) will reshape how Americans receive health care. Some requirements of the law are already in place while more are set to take effect January 2014. Many large companies have been moving toward consumer health plans that so far have delivered good results for both these companies and their employees.

Since health care coverage is a cornerstone of the FedEx U.S. benefits package, we're committed to keeping you informed about the changes we'll need to make in light of new requirements dictated by PPACA.

Of major importance is the fact that FedEx U.S. health care costs have been rising an average of 6% annually in recent years and are expected to continue that trend in the future. FedEx is self-insured, which means we pay all claims, not an insurance company. As a result, we must continue to take steps to manage our costs which currently exceed $1 billion annually in the U.S.

One important step to both meet our requirements under the new law and to control costs is to improve the tools and resources available to you and your families in making educated health care decisions and maintaining good health. We provide health coaching and educational resources such as smoking cessation and preventive care checkups at no cost to workers enrolled in our U.S. medical plans. We will add more resources as appropriate to support our team members' efforts to follow a healthy lifestyle and become better health care consumers. Of course, the best and simplest way we can all do this is to make wellness a priority by eating right, exercising, lowering stress, and managing health risks such as high cholesterol levels.

Our health care objectives are simple: to help you stay well and develop healthy habits; to offer health care programs at a reasonable cost to you and FedEx; and appropriately adapt benefit plans as federal health care legislation continues to reshape the medical markets. You'll get plenty of information this year about ways we can achieve all these objectives.

In the meantime, several inspiring stories of our team members' commitment to improving their health have been featured in I am FedEx videos and more are planned. I encourage you to view them at **IamFedEx.com** and to learn more about our wellness programs; we hope you will find your own inspiration to make healthier choices.

To sum up, we see challenges ahead:

- Slow economic growth,
- Political uncertainty, and
- Changes in health care.

But going into our 40th anniversary of beginning operations, we have a strong common culture that makes us an uncommon company, ready to meet any challenge. I am confident that as long as we remain true to our FedEx values, we'll be successful. Let's approach the next 40 years with the same young-and-lean spirit of four decades ago, but tempered by the expertise, wisdom and accomplishments that have made FedEx one of the most admired companies in the world. Working together as a team we can achieve even greater things in the years to come.

Frederick W. Smith
Chairman and CEO