



To FedEx Team Members

Your car skids on ice, and you respond by braking carefully and turning your steering wheel. Your child cries in the middle of the night, and you jump out of bed to see what's wrong. An unhappy customer calls to complain, and you

immediately shift into solution mode. Responsiveness is a big part of responsibility whether you're talking road safety, parenting, or customer service.

In striving to be a responsible company, FedEx has implemented some big changes and initiatives; at the same time we're always fine-tuning our programs and processes to be more responsive to our stakeholders.

In this issue, I'd like to update you on our responsiveness to:

- Customers through Quality Driven Management (QDM);
- The marketplace through e-commerce;
- Our planet through sustainability; and
- Our employees' well-being through our U.S. health-care plan.

Driving quality improvements

One of the ways we keep our Purple Promise — to make every FedEx experience outstanding — is through QDM. It keeps our eye on the ball as we work to continuously improve customer satisfaction. A key QDM component is the Service Quality Index (SQI), a goal-setting and measurement system. It gauges our operational performance based on our customers' definition of quality. SQI measures such things as Wrong Date Lates, Loss and Damage Claims, scans posting, and IT outages affecting customers.

Every year, as part of the business planning process, each operating company sets goals to reduce SQI failure rates based on customer needs. Such planning goes hand-in-hand with the budgeting process to ensure that projects are launched and resources are committed to achieve the goals. For example, FedEx TechConnect might improve the timeliness of resolving customers' damage claims by increasing resources — or better yet, by changing how they investigate and review claims. The funding for those initiatives becomes an important part of, in this case, TechConnect's overall budget. By considering the impact

of operational changes in SQI goal-setting and budgeting, we set better, more scientific, and fully funded goals.

Look at these impressive examples of SQI progress our opcos have achieved:

- FedEx Express reduced clearance-related late deliveries by 14% compared with FY12.
- FedEx Ground reduced by a third the number of packages more than two days late, compared with FY12.
- FedEx Freight brought down the number of missed pickups by 27% over FY13.
- FedEx TechConnect improved its timeliness of resolving damage claims by almost 20% over FY13.

Another challenge we've been working on is the speed of problem resolution. We instituted a new policy to make sure we responded to customer problems as quickly as possible. FedEx Ground, for example, changed its call-back window from 24 hours to two. In a pilot test, FedEx TechConnect told shippers or recipients the likely delivery time on their packages in transit, based on historical delivery data for their area. The result? Average call handle time was lowered by 7%. These types of resolution improvements satisfy customers and cultivate their loyalty.

Since the day packages first hit our belts, FedEx has understood that information about the shipment is as important as the shipment itself. Over the last seven years, our TITAN initiative has focused on continually improving critical scans related to pick up, delivery, and in-transit movement. After all, scanning improvements aid delivery service, recoveries, online tracking, and customer service. All opcos have made big improvements: Through FY14, 15 of the 38 measured scan elements reduced failures by more than 40% compared with the FY11 baseline. Eleven metrics improved between 20 and 40%. That's tremendous progress! By the way, TITAN reaches beyond scanning information. Our opcos have started using GPS location data and mapping for better planning and delivery. That really came in handy during last peak season. In FY15, we'll continue to focus on scanning and GPS improvements to enhance shipment visibility for customers.

One final note on QDM: Congratulations to the first class of 45 QDM Experts, as certified by FedEx Corporation and the

American Society for Quality. These team members worked hard to achieve certification, and their efforts reflect the reach and depth of our QDM practice. To find out how you can apply for the program, search keyword "QDM Expert" on your opco home page or send an email to QDM@fedex.com.

Growing e-commerce

E-commerce is surging, and we're pouncing on that growth with exceptional service offerings. Just how much growth? In 2013, total U.S. online sales hit \$263 billion, and sales grew an additional 12% in the first three months of this year. Overall, online sales are growing at roughly three times the rate of offline sales. The drivers of this growth, as I pointed out in the last From the Chairman, include the ever-increasing assortment of products available online along with increased consumer preference for the channel's convenience, value, and technology. Furthermore, online retail growth has a long runway. Forrester forecasts that 2014 U.S. total online sales will reach \$294 billion; that number is projected to reach \$414 billion in 2018.

While the growth in e-commerce is an exciting opportunity for FedEx, it can be challenging. The dynamics of residential delivery contrast significantly with those of commercial delivery. There are differences in the recipient's expectations (a consumer vs. a receiving dock), package weight, number of pieces per delivery, and distance between delivery stops.

To account for those differences, FedEx had the forethought to first acquire a ground network, then a postal consolidation network. Together with FedEx Express, both FedEx Ground and FedEx SmartPost allow our company to handle the expectations of retail shippers who contend with a more demanding consumer base. We're also able to manage the expectations of increasingly mobile recipients who often aren't home during traditional delivery times. FedEx SmartPost, for instance, is an ideal delivery service for retailers that want to offer free shipping, because it takes advantage of low-cost shipping to every residence in the U.S., using the United States Postal Service for final delivery. FedEx Home Delivery also has many customer-focused features that are unmatched by any competitor.

Built on the strength of our "compete collectively, operate independently" transportation networks, FedEx now offers a portfolio of retailer and consumer services that position us to grow e-commerce market share in the U.S.

Did you know that about 44% of online shoppers abandon their "shopping cart" because they have to wait too long for delivery? Retailers have found that offering FedEx Express and FedEx Home Delivery makes a difference in purchase completion. To meet the needs of ever more savvy online shoppers, in April 2013 we launched FedEx Delivery Manager, establishing a direct relationship with recipient customers, to provide them shipment status notifications and tools to help manage deliveries on their schedule. This strong relationship is important as increases in online shopping drive growth in returns; and e-commerce returns run 30-40% higher than for traditional in-store purchases. FedEx print and email return labels make it a snap for consumers to complete a return shipment by FedEx Express, Ground or SmartPost; the labels also make it easy for online retailers to manage merchandise returns. We're now better able to take a bigger slice of the returns market.

To make sure both retailers and consumers can maximize delivery on the first attempt (which saves us money as well), we offer Hold at FedEx Location, which can be selected at the point of label creation. We also offer Redirect to Hold, which can be selected during package transit via FedEx Delivery Manager. In addition, the expansion of FedEx Ship&Get lockers ramps up in Q2 in the Dallas, Texas, area. The lockers enable our customers to access our shipping and hold options at convenient places such as FedEx Office locations and third-party retailers such as Walgreens.

We're enthusiastic about the potential of e-commerce for our company and will continue to roll out innovative services convenient for customers and profitable for FedEx.

Leading the energy charge

Even as we expand our global networks, we work hard to shrink our environmental footprint. Planet Earth sustains us all, and we are seriously committed to returning the favor. We take great pride in what we've accomplished across our companies to save fuel and money and to create sustainable solutions.

FedEx Express Fuel Sense focuses on our biggest consumer of fuel — aircraft. The initiative consists of more than 40 programs to improve efficiency from take-off to routing to landing. All told, since 2005, Fuel Sense and other efforts have saved 247 million gallons of fuel and reduced aviation emission intensity by 22.3%. Furthermore, last fiscal year, FedEx Express improved cumulative vehicle fuel efficiency by 27% since 2005 through efforts such as fuel-saving, light-weight composite-body vans,

advanced-technology diesel vehicles, and trucks powered by alternative energy.

Through its GREEN Building program, FedEx Freight is conserving energy, reducing waste, and curbing the impact of its internal supply chain. For example, since 2007, FedEx Freight has upgraded 223 locations to energy-efficient lighting, for a savings of almost \$5 million.

FedEx Ground is scaling the sustainability ladder as well. Through improved technology, the company reduced delivery miles by 14.6 million in FY13. Its recycling programs generated more than 9,000 tons of materials in FY13.

On top of all this, FedEx Express, Freight and Ground are testing alternative fuels, particularly compressed natural gas and biodiesel.

FedEx Office sustainability programs center on energy, paper, and waste. Thanks to its network of digitally connected locations, Office customers can print jobs closer to their end destinations, saving time and money and reducing emissions. FedEx Office also offers customers "tree-free" options such as paper made from sugar cane, cotton, and other fibers. Use of tree-free papers has more than doubled. And FedEx Office has built its own independent, secure paper-shredding and recycling program at all FedEx Office locations.

The great thing about all these efforts is that they save us energy costs big time and put FedEx at the forefront of sustainable commerce. Well done, team members, for your hard work and great ideas!

Targeting employee health and wellness

FedEx is committed to providing good health care despite national health care changes and continued cost increases. Our health care costs are projected to exceed \$1.5 billion in calendar year 2014 for employees and their covered, eligible dependents. That number will continue to rise. For example, in CY14 FedEx will pay fees per covered life — mandated by the Patient Protection and Affordable Care Act (PPACA) — that total \$26 million. By 2018, all so-called "Cadillac" health care plans will be subject to a 40% excise tax over the value of a basic plan as defined by PPACA provisions. Had we not made significant changes to our health care plans, we would have been hit with this extraordinary tax in 2018.

As a result, this year, we introduced the FedEx Consumer Medical Plan to better manage costs by helping our employees

understand how the plan works and providing resources to help them get the right care at the right price. According to research from Towers Watson and the National Business Group on Health, nearly three-fourths of large companies now offer consumer plans, and 82% plan to offer one next year. Based on the tax mandates of the PPACA, virtually all private health care plans will move towards this model by 2018 at the latest.

The new FedEx plan, of course, represented a cultural shift by asking employees to be more accountable for their health choices to help manage costs. To educate nearly 200,000 eligible employees, we held more than 2,100 meetings and distributed information through multiple channels. Based on the results to date, it's clear you stepped up — reviewing materials, attending meetings, and asking great questions to understand health care industry changes and the shift to consumerism in employer-based health care plans. In this regard...

- Eighty-seven percent of employees surveyed said they understood why FedEx was making changes.
- More than 70% of respondents said they more carefully evaluated their options, and over 17% changed plan options based on their research.
- The priority this quarter is to help employees understand the cost of unnecessary emergency room visits and how to make better choices in non-emergency medical situations. With the average cost of an ER visit reaching close to \$800, one visit to the ER could use an employee's entire Health Reimbursement Account (HRA) balance.
 - You can often get treatment at alternative locations for less than 10% of the cost of emergency room services.
 - Early data shows health care visits this year, particularly use of expensive care such as emergency room visits, are down in the first quarter. Our health plan education about primary care is hopefully taking hold.

With the FedEx Consumer Medical Plan in place, we're beginning to focus on the "wellness" aspect of health care. In FY15, we'll launch a program with a well-being assessment, well-being coaches, healthy weight control and tobacco cessation programs, and other resources. Employees enrolled in a FedEx Consumer Medical Plan who take the well-being

JULY 2014

assessment will be given a \$100 credit in their HRA for 2015. And don't forget that the company covers 100% of preventive costs. Watch for additional communications coming soon.

As we begin a new fiscal year, I want to thank each of you for the responsiveness you've shown our customers and each other. Last quarter's earnings and the recent all-time stock-price high are certainly a reflection of that.

We know that you tackle the hard stuff with enthusiasm...that you serve our customers with friendliness and efficiency...that you work as a team with respect for all. The Purple Promise effort you put forth every day is what makes FedEx a great company. We must never take that for granted — it's the secret of our success. On that basis, let's make FY15 a year of outstanding achievement.



Frederick W. Smith
Chairman and CEO