

To FedEx Team Members:



Thanks to everyone for the outstanding results you delivered during peak season. Driven by the growth of e-commerce, it was the most successful year yet — despite some early FedEx Ground challenges with unexpected volumes in various geographies soon after Thanksgiving, and tornadoes creating a few delays for FedEx Express on Dec. 22–23.

In today's blog-driven media world these events generated a few snarky stories, but this Fast Company article (<http://www.fastcompany.com/3055005/hard-to-believe-but-fedex-actually-did-better-this-holiday-season>) correctly sums up your remarkable peak performance overall.

Building on this success, calendar year 2016 will be filled with major events such as the completion of the TNT acquisition and the substantial integration of GENCO and Bongo International.

Many team members have expressed interest in our rationale for such acquisitions and what's involved in the integration process — hence this overview of our acquisition philosophy, criteria, and processes.

A little history

FedEx has made acquisitions over the years to

- meet changing customer needs,
- strengthen our competitive capabilities, and
- fill important operational gaps.

Past acquisitions include Flying Tigers in 1989, which brought FedEx access to highly restricted aviation routes in the Pacific plus

key airport takeoff and landing slots and facilities. Caliber/RPS in 1998 fast-tracked our entry into the U.S. ground parcel market, one dominated by UPS for decades. Our purchase of American Freightways (AF) provided a perfect complement to the Viking western states less-than-truckload system that was part of our Caliber acquisition. The AF and Viking networks fit like pieces of a jigsaw puzzle with little overlap. Kinko's gave FedEx a unique retail network that was essential, given UPS' purchase of the Mail Boxes, Etc. franchise system. FedEx Office is now a key element in our customer solutions portfolio. More recent acquisitions in Mexico, Brazil, France, Poland, and southern Africa have expanded our global portfolio of solutions.

Three key criteria

Acquisitions must be approached with caution and discipline as business history is replete with examples of failed transactions — some that proved disastrous. Accordingly, we've always had three ironclad rules concerning potential purchases of other companies.

First, there must be **compelling strategic reasons for buying a company** rather than internally developing such capabilities. Through the acquisitions mentioned above and our more recent purchases of GENCO and Bongo International, we obtained needed systems skills and relationships that would have taken FedEx longer to develop at a higher cost. For example, we obtained unmatched supply chain and returns solutions with GENCO, and Bongo's global software will be integral to serving the growing cross-border e-commerce market.

The acquisition of TNT Express, if approved, will significantly strengthen our competitive solutions in the mega-European market,

especially domestic and cross-border surface networks. The combined FedEx and TNT Express system, after integration, will be highly efficient with significantly lower operational costs.

Second, **cultural and IT issues** in any potential acquisition must be manageable, and, in the end, complementary with FedEx people orientation and technology excellence. Culture, in particular, is paramount. We've walked away from deals where all the other criteria were met, but the culture of the potential acquisition did not fit.

Finally, acquisitions must truly be "2 + 2 = 5 or 6." In short, if the business combination will not **improve the financial performance** of the corporation, we will not do a deal. Financial discipline is imperative and projected future results have to be realistically assessed. This requires patience, creativity, and discipline.

The ACQUIRE process

While we've certainly had challenges and a few surprises with acquisitions, our approach has ensured that we ultimately achieve our intended goals. As FedEx has grown and our experience in buying other companies has increased, our Corporate Development and Legal teams have refined our "playbook" for such activities by developing the ACQUIRE (**A**ssimilating **C**ompanies **Q**uickly **U**tilizing **I**ntegration **R**esources **E**ffectively) process. It's a cross-functional management system used to complete the transaction, integrate the new company into FedEx, and ensure we achieve the intended financial results. ACQUIRE's QDM-based approach includes specific processes, tools, and measurements that we continuously improve with each acquisition.

Based on our experience through the years, acquisitions have become a core competency for FedEx. We have been particularly successful utilizing the great

people we get with an acquisition. We always try and take advantage of the expertise in the new enterprise. In the case of TNT Express, for example, more than 20 FedEx-TNT functional, opco, and geographical teams will work together. Such collaboration with the people in the acquired company makes the transaction smoother and more strategic for the long term.

Another ACQUIRE tenet is speed. We always seek to complete the acquisition and integration processes thoroughly but quickly.

- The faster we communicate clearly to team members in both companies, the better they'll know what to expect and what's expected of them.
- The sooner the acquisition process can be completed, the sooner all resources can be focused on existing and new customers and improving the business.
- The faster we complete an integration using ACQUIRE, the quicker we can realize the financial value from the transaction.

The ACQUIRE process is fully underway in the GENCO and Bongo International integrations. In 2016 watch for announcements of exciting developments resulting from our transition efforts with these two companies.

To the extent permitted by government regulations, we have been developing preliminary integration plans for TNT Express to be launched upon approval of the acquisition in the first half of calendar year 2016!

The three recent transactions

Bongo International

While international trade is the key to success for many businesses around the world, selling goods internationally can be a headache, particularly for small and medium

firms. Every country has its own customs clearance rules, paperwork or information requirements, and other processes that can be hard for shippers and recipients to understand and correctly manage.

Bongo International, a company of less than 100 people, has some of the best software for enabling cross-border e-commerce. Bongo systems convert currencies, translate into local languages, calculate duties and taxes for specific goods, and offer international payment options and fraud protections.

We acquired Bongo to be a more effective, sophisticated player in the international e-commerce arena. The acquisition builds upon the FedEx tradition of technology excellence. Bongo services will be integrated with FedEx Trade Networks capabilities and provide unique cross-border solutions for millions of FedEx customers.

International e-commerce is growing three to four times faster than global trade in general. The overall e-commerce market exceeded \$1 trillion in 2014 and that is projected to double by 2018. The capabilities Bongo brings to our portfolio will help FedEx save costs and enhance our presence in more markets around the world. These solutions will help merchants get *their* customers to convert more online shopping cart items into final sales.

GENCO

With the significant growth in e-commerce, GENCO brings to FedEx exceptional capabilities to support a product's full lifecycle. GENCO's services include inbound product inspection, packaging and re-packaging, product distribution and fulfillment, and returns processing. For example, GENCO can take a returned phone, analyze what's needed to fix it, and repackage it to a saleable state. Essentially, it's "recommerce." If the product isn't

salvageable, GENCO can also manage the recycling process. Like Bongo, GENCO brings additive skills that fortify the entire FedEx e-commerce suite of services for customers.

Transition teams of GENCO and FedEx Ground executives are collaborating to ensure that some 11,000 GENCO team members are quickly integrated into FedEx. The cultures of both companies are similar and complementary, and we are already achieving cross-selling successes due to complementary FedEx and GENCO services.

TNT Express

The acquisition of TNT Express will enable FedEx to take a giant step forward in Europe. DHL and UPS have been market leaders there, but the combination of FedEx and TNT Express will create a strong third competitor. The TNT surface transport networks in Europe are unmatched and complement perfectly the unparalleled FedEx international express system. Other smaller TNT operations around the world will also integrate well within the FedEx Express regions.

TNT Express is the largest, most complex acquisition we've ever done. It is a \$4.8 billion transaction and brings over 50,000 new team members to our ranks. It's truly a landmark deal that will help FedEx grow and improve our global competitive situation. Adding TNT will lower our costs to serve markets in Europe by increasing density in our ground pickup and delivery operations. I believe it will be transformational. In this regard, the acquisition is particularly important for our European e-commerce capabilities.

Because we anticipate significant growth from this transaction, we expect team members of FedEx and TNT Express to

experience more opportunities than either company could have provided separately. FedEx-TNT is a great cultural fit, with both organizations sharing a passion for serving customers, supporting communities, and strong social responsibility commitments. The FedEx Purple Promise and the TNT Orange Spirit illustrate similar attitudes toward customers and teammates.

Watch for more information on the TNT Express acquisition in the near future.

Highest ethical standards

In all our activities, whether we're acquiring a company, operating our networks or reporting financial results, we seek to be honest, transparent, and legal. Our Corporate Mission Statement plainly states, **"Corporate activities will be conducted to the highest ethical and professional standards."** Integrity is key to our culture, our brand, and our reputation, and it's integral to delivering our Purple Promise to make every FedEx experience outstanding.

That means everyone at FedEx must always scrupulously comply with all laws and regulations that govern FedEx operations. We will always err on the side of doing what's right, exhibiting the values of honesty, fairness, reliability, respect, and trustworthiness. Integrity and compliance are the responsibility of each team member and are key elements in all managerial duties.

Our new Corporate Vice President of Integrity and Compliance, Rob Molinet, leads a team whose mission is to guide and empower all FedEx team members to consistently focus on these all-important issues. Our Compliance unit oversees worldwide efforts to prevent, detect, and respond to potential violations of law and other misconduct. It also focuses on ensuring all new teammates within acquired companies understand our total commitment

to the highest standards of compliance and ethics. Only through constant vigilance in these matters can we ensure the FedEx reputation stays strong. Check out Rob's interview at **fromthechairman.com** and learn how you can uphold our high standard of business and personal ethics.

As our current size, scope, and success demonstrate, key acquisitions have helped FedEx become one of the most important companies in the world, providing vital services to millions. A big part of this success resulted from the many outstanding people that came to FedEx through acquisitions. Several occupy senior management positions today, and thousands more have provided skills and expertise that have mightily improved our competitive capabilities and financial results.

We expend significant time, effort, and talent on such transactions. Thanks, particularly to all those involved in this core FedEx activity.

While FedEx has major challenges ahead in 2016, we also have some of the biggest opportunities in the history of the company. Working together, the FedEx team will, I'm sure, create a brighter future for us all.



Frederick W. Smith
Chairman and CEO

P.S. The international regions of FedEx are crucial to the success of our company. In this international issue, check out what our regions are doing to grow business and satisfy customers.

APAC (Asia Pacific) — Capturing Growth Through Innovation

Asia remains one of the world's growth markets, but China's slowdown is affecting everyone. That's why APAC's *Solving with Innovation* strategy is a key success factor.

It focuses on two areas: accelerating new sources of growth and making FedEx more flexible in the air, on the ground, and within the business.

For example, APAC is targeting growth in aerospace, healthcare, and e-commerce by creating new solutions that deliver more value for customers and seize market share.

In aerospace the region has won customers such as Asia-based HAECO, which repairs and overhauls aircraft. It's a great example of how FedEx is empowering local markets to deliver more flexible services under *Express+*, a new innovation platform that provides a start-up-like environment for team members to imagine, incubate, and test new ideas.

Innovation in e-commerce is also rapidly progressing. My FedEx Delivery, which gives people the ability to customize home deliveries, is launching in Australia with plans to expand into Singapore. APAC is also collaborating with organizations such as Japan Post, Australia Post and 7-Eleven, as well as testing the mobile payment technology Alipay in China to benefit more small business shippers. The region is also delivering a more seamless customer experience through a new live chat service called FedEx WeChat.

APAC is doing more to get the right product in the right network — whether that's increasing commercial line haul for intra-Asia; adding more motorcycles and electric tricycles to our vehicle line-up; or introducing new Boeing 757 and 767s.

In short, it's all about smart growth through new ways of thinking.

Canada

FedEx Express Canada continues to drive success against its retail growth strategy to respond to the needs of the e-commerce market and to penetrate the consumer shipping market. In 2015, 70 retail access points were added with two retail alliance partners — Home Hardware, a Canadian hardware retailer and Super C, a Quebec-based supermarket chain.

To increase consumer awareness and retail shipping volume, we launched our largest peak promotional campaign ever. It included television and digital advertising, a comprehensive social and traditional media campaign, and in-store promotions. Our success is a direct result of incredible cross-functional collaboration and requires participation from employees coast to coast. In 2016, the retail team will continue to focus on expanding our network, investing in new retail technology, and implementing a drop-box refresh strategy.

Europe

Since launching the Aspire Higher strategy last spring, Europe has made tremendous progress on core efforts across the region.

Its recruitment strategy is building a talent pool for the future by finding and hiring the best possible people for the business.

It has established a customer experience design team, a cross-functional network that will bring more agility and innovative thinking to create a truly differentiated customer experience.

The region is working on a new B2C solution in which FedEx manages the overall parcel

journey while collaborating with local transportation companies for “last mile” delivery.

Europe is also focused on improving its operational service performance by adopting Quality Driven Management (QDM) principles and training across the region.

With its Heavyweight strategy, the region is optimizing its network by putting the right shipments on the right flights and managing costs as efficiently as possible. Yields on International Priority and International Economy are ahead of plan. In addition, Europe has established profit boards across several markets to review local profit and service performance. The result is improved team-collaboration and more locally focused initiatives.

Entering the second half of FY16, Europe continues to perform well against its business plan through steady growth and wise cost management.

LAC (Latin America, Caribbean)

In 2015, FedEx Express LAC celebrated its 25th anniversary in Mexico. To commemorate this important milestone, the FedEx Mexico team launched the “25 years, 25 solutions” social responsibility campaign to give back to Mexican communities for their trust in FedEx over the years.

Together with philanthropic associations and foundations across the country, FedEx Mexico delivered 25 extraordinary shipments to those in need. These deliveries included transporting an ophthalmologist clinic to a rural community with a history of eyesight issues; giving water filters to a community so its people could have drinkable water; delivering tailor-made wheelchairs, educational supplies and equipment to classrooms, and much more.

More than 450 FedEx Mexico team members volunteered to fulfill each of these extraordinary deliveries, which helped more than 5,600 individuals in 26 communities. The stories of these deliveries were told through online videos, local events, and social media posts, achieving millions of views and impressions throughout the year. The award-winning campaign positioned FedEx as a brand committed to developing its people and reinforced the corporation’s social responsibility pillars of health and education.

MEISA (Middle East, Indian Subcontinent and Africa)

The MEISA region represents over 30 percent of the 220 countries and territories that FedEx serves and consists of several very competitive, high-growth economies. The region continues to focus on enhancing its PSP culture while accelerating profitable growth.

FedEx regained the No. 1 position in overall customer satisfaction and loyalty in the Middle East and India according to a global reputation study completed by Nielsen and Harris Interactive. The study also ranked FedEx ahead of all other global logistics players in MEISA.

Consistent with the FedEx philosophy to assist people in need, the MEISA team supported outreach efforts during the Nepal earthquake as well as the migrant and refugee humanitarian crisis in several MEISA countries. The recently concluded FedEx Cares month saw over 2,000 enthusiastic team members contribute more than 6,200 volunteer hours.

In terms of growth, MEISA continues to focus on developing customized solutions for segments such as healthcare and e-commerce. MEISA has also launched the Intra-India Securitized Solution for highly

sensitive and critical documents such as credit cards, debit cards, and passports.

During FY16 the region will successfully complete the integration of our businesses in Southern Africa, expanding our international services in the region.