

To FedEx Team Members:



The FedEx network spans the world, and on May 25, the reach of that network got much bigger. With the TNT Express acquisition, the largest in FedEx history, we welcome 56,000 TNT team members who join us in connecting even more people and possibilities. TNT's global network, industry expertise, and enthusiastic team help all of us usher in a new era for our company.

Now we've grown from more than 340,000 team members to more than 400,000; from a company revenue of \$50 billion to \$58 billion; and we anticipate the acquisition will begin adding to earnings in FY18, about a year from now.

In my January 2016 letter, I outlined the three criteria FedEx examines for *any* acquisition: 1) compelling strategic reasons, 2) a cultural and IT fit, and 3) improved financial performance.

Let's apply those criteria to TNT and see how this acquisition will help transform FedEx into the strongest shipping and logistics company in the world.

An excellent strategic fit

The acquisition of TNT is one of the most strategically important in our company's history because it expands our portfolio in an unprecedented way.

First and foremost, it adds an outstanding, second-to-none European road network to the robust air network FedEx operates in Europe and around the world. While FedEx Express is strong in intercontinental and intra-European express businesses, TNT completes the picture with its intra-European and domestic ground capabilities. We can sell from all over the world into this broader

network, including both parcels and freight shipments. Essentially, by joining these two companies together, we've created a formidable new competitor in Europe and a stronger one around the globe.

In addition, TNT has a considerable presence and operational muscle in parts of South America, Southeast Asia, the Middle East, and other areas, so we'll build on that strength to deliver better solutions to more customers in those places.

This landmark deal will dramatically lower our costs to serve markets in Europe by increasing density of pickup-and-delivery operations. It will help us gain a firmer competitive foothold, particularly in the fast-growing e-commerce sector, which is reshaping logistics and delivery worldwide. From a network standpoint, it's a great strategic fit.

In short, the consolidation of these two industry icons will unlock more global growth opportunities for our customers, team members, and shareowners everywhere.

Culture and technology: Hand-in-glove

Culture mismatches in mergers and acquisitions have sunk many a deal. Fortunately, TNT and FedEx have remarkably similar cultures that have enabled smooth collaboration from day one. Each one is a highly respected brand. The FedEx Purple Promise and TNT's Orange Spirit reflect a steadfast commitment to serving customers. Our People-Service-Profit philosophy is complemented by TNT's People Network.

One of the great things about every acquisition FedEx has made is the inflow of talented, motivated people from the acquired companies into the worldwide enterprise. Each acquisition has given us people who turned out to be some of the most respected leaders in our company. These people are experts in their businesses, and such expertise is vital to a smooth integration and future success. The merging of this corporate and cultural know-how will make us greater than the sum of both parts.

What are the benefits to team members? Each group can learn from the other, and all team members can broaden their horizons through new opportunities or changes in their roles in a larger company with advanced technologies and a bigger global reach.

Speaking of technology, transforming our IT capabilities is a team effort. While this is our largest acquisition, it's certainly not our first, and we've prepared diligently over the years in the IT realm. The good news is that we've already been simplifying and modernizing FedEx technology for effective integration with that of TNT. We'll continue to push forward and deliver a seamless digital customer interface with speed and precision. As our CIO Rob Carter recently said, "Our IT integration team is working hard on integration, and I'm confident we have the right efforts underway to support our customers."

Good financial sense

Since the TNT acquisition is our largest ever, we expect the financial benefits to be equally significant. As noted, with TNT's road network, we'll gain lots more volume while providing outstanding service at lower costs. And it's a win for our customers because we'll give them a better bundle of FedEx and TNT solutions to meet their evolving needs.

Before the acquisition date, regulatory restrictions prevented sharing data between the two companies. Now, FY17 will be a year of transition as we obtain a full understanding of TNT businesses, develop a comprehensive business plan, and validate and refine our integration framework for TNT. We are applying our ACQUIRE process, which I discussed in January, to ensure we maximize the strengths of TNT and realize the full value of the transaction.

Stay tuned for additional financial updates in future earnings releases.

Integration so far

The key to a smooth integration begins with the people of TNT and FedEx. They will always be our linchpin in building long-term success, and their continued collaboration will build a larger, more powerful corporation.

The first thing to keep in mind is that successful integrations take time and patience. We'd all like for integration to happen right away, but making sure we approach the process according to a well-conceived plan and precise methodology is critical. Such a measured approach keeps our service levels and customer relationships at the forefront.



We have developed a multi-year plan and have spent the last year building a framework on how that plan will roll out. Now that we've acquired TNT and the two companies can share information, we're overlaying the framework onto real-life data to make sure our assumptions have been correct. Once that's completed, we'll begin by integrating several pilot countries selected regionally and globally. We'll review results, adjust plans based on new learnings, and proceed with an orderly rollout across the globe.

Keep in mind that throughout the integration, we'll be fine-tuning all plans as we go. That means things will change. While we have the ACQUIRE template in place, we're constantly adjusting it based on input from operations, management, and team members throughout both organizations. In fact, even *after* integration, we'll be in a continuous state of improvement so we can drive further profit opportunities and synergies on a business-as-usual basis.

I realize most team members are asking, "How does the acquisition affect me?" As you've heard from your company leadership, we don't have the answers to that question at this stage because we're still going through the validation process. While there have been changes for our senior leadership already, other changes will take time to filter through the organization.

For the time being, for most team members in TNT and FedEx Express, your job, pay, benefits, and work location will stay the same. Both TNT and FedEx will operate as usual while we analyze the relevant data to design the best operational integration scenarios for every market. Your leadership will keep you up to date by sharing a roadmap of what's ahead for your team, region, country, or function as integration progresses. What stands out for me is the level of engagement we're *already*

experiencing between the two companies—for example, in many areas the Sales teams are already meeting to discuss shared opportunities. Such collaboration leads to commitment, innovation, and ultimately a healthier bottom line.

For more comments on the integration process, see David Binks' interview in the online edition.

The goal of integration is to turn two great companies into one exceptional company known for its unique customer solutions, its great service, and its commitment to People-Service-Profit. We have a proven track record—more than 35 acquisitions between the two companies—of integrating and delivering enhanced reach, value, and returns. We understand the challenges faced by those joining an organization and those already in it, so we're committed to ongoing transparent communications to keep everyone informed.

In the meantime, please stay focused on all our customers to the best of your ability. There's nothing more important to our success than committed, enthusiastic team members turning satisfied customers into loyal ones.

This new fiscal year is full of possibilities—let's work hard to convert them into higher profits, and richer rewards for our customers and for you. This is an exciting journey for our company, and I truly believe the best years are ahead!



Frederick W. Smith
Chairman and CEO

APAC (Asia Pacific)

As Asia moves from being the world's factory to one of the biggest global consumer markets, innovation is powering growth.

Two key elements drive the Asia Pacific innovation strategy:

- capitalizing on growth trends such as e-commerce or healthcare, and
- making FedEx more flexible in our air and ground business models.

Both elements contribute to profitable growth.

Many country teams are pursuing exciting innovations. For example, in China, we're attracting many small businesses with social media apps that support internet payment and enable customers to pay cash for shipments. We're testing solutions from Asia to Europe that make cross-border e-commerce easier and more affordable. Also, in cooperation with Chinese Customs, we have established improved processes for customs clearance of B2C imports through Guangzhou, China.

At the same time, operational innovation is thriving in APAC. A new trial mobile station (a modified truck) concept is being tested to improve service in China's traffic-congested cities and get closer to the customer. It also reduces capital investment and operating expenses. Japan is deploying new pick-up and delivery processes for more flexible customer experience and better productivity. FedEx-APAC is also making the move to low-cost countries—for instance, Japan now sources a part of customs clearance services from the Philippines.

Canada

In Canada, we're reaping the benefits of a culture-driven strategy. As renowned

management consultant Peter Drucker said, "Culture eats strategy for breakfast," meaning that, without a strong culture, even the best strategy is weakened.

With this premise in mind, we're in full swing with the rollout of *Living PSP*, an evolving initiative to help us better align and renew our commitment to People-Service-Profit. At its core this initiative is about the way we conduct ourselves at work. It is defined by four operating principles:

- I contribute to a positive FedEx spirit
- I act accountably to support our PSP culture
- I am a vital link in the chain of success
- I am committed to personal growth

All of our 6,000 team members share and uphold these principles. By creating and using common language and behaviors, we're beginning to connect and collaborate in more meaningful ways.

This is a valuable and timely program, particularly given the increasingly competitive marketplace, rapidly evolving customer needs, and emerging market segments. Our ability to respond quickly to the changing landscape depends on everyone working toward a common vision and living a culture that supports that path. As *Living PSP* rolls out, we're excited for the future. It is providing a strong framework for working together better, innovating, and driving improved results across the board.

Europe

The European division ended FY16 with great results in terms of revenue growth and cost management.

We achieved significant yield improvements on our International Priority and International

Economy services, following the disciplined execution of our business strategy regarding minimum rates and yield management for heavyweight shipments. This execution was complemented by efforts to maximize space on our aircraft, resulting in more space and efficiency for our transatlantic line haul.

In the past fiscal year, our cross-functional local Profit Boards worked on programs to improve service and profitability in their respective countries. Furthermore, we've been driving use of QDM to positively impact our business—with 39 Quality Action Teams working on 433 projects.

We worked toward improving the customer experience with 30 coordinated programs across Europe. We also focused on service reliability and excellence and beat our service quality goals for FY16.

Participation in our employee feedback survey increased to 80% in FY16, and overall we improved our scores on 19 items with 11 items remaining stable.

LAC (Latin America, Caribbean)

Bringing FedEx and TNT together will allow us to build upon the strengths of both companies, leading to a brighter future that connects even more people and possibilities around the world, including within LAC.

The acquisition supports the pillars of LAC's ACTION (Access, Customer Experience, Transformation, Integration, Network) strategic framework, a blueprint for enhancing the way we manage our business and stay ahead of customers' needs. It will help the region achieve its vision "to become the undisputed leader in transportation and logistics solutions to enable our customers' success."

FY17 will be another year of evolution for LAC division, as they concentrate on

operational excellence, customer intimacy and innovation to help increase profitability. At the same time, LAC will address short- and long-term strategies such as strengthening their portfolio and carefully completing integration plans. In doing so, LAC will be in a position to execute on our priorities and take advantage of the opportunities ahead.

MEISA (Middle East, Indian Subcontinent and Africa)

The MEISA team is focused on engaging team members, enhancing customer experience, strengthening the value proposition, and accelerating profitable growth. To do so, the MEISA region has introduced its strategic vision for 2020 called "Pushing Our Boundaries." It concentrates on three things:

- Developing an empowered, customer-focused and high-performing team.
- Offering the right customer solutions and experiences that support profitable growth.
- Optimizing our processes, systems and resources to achieve our vision.

In support of these goals, many efforts are underway.

In the healthcare industry the Middle East launched new solutions for temperature-controlled packaging, while India introduced a new solution for highly sensitive and critical shipments. Currently, the UAE is running a pilot for a new application to make the customer experience more relevant and authentic. It's called "Resolve my problem now."

The entire team is focused on growing the retail segment across the region. During FY16 the retail footprint expanded by 65 stores to 303 stores across India. In southern

Africa, MEISA completed the integration of the Supaswift acquisition across all our markets. To build awareness and position FedEx as the preferred logistics provider, the team executed both global and the regional advertising campaigns across India.

MEISA continued to achieve the highest SFA scores globally, and FedEx Express was ranked 10th in the Great Place to Work® survey in the UAE. The region was also recognized by customers as the “Express Logistics Provider of the Year” at the Supply Chain and Transportation Awards this year.