

*to stay ahead, we lead the way*



#### To Our Shareowners,

FedEx showed real grit in FY12. We committed to a strong performance, and we delivered — no small feat, given the year’s challenges. Our earnings per share increased 40 percent, and annual revenues exceeded \$42 billion, a 9 percent increase, despite political gridlock in the United States, financial turmoil in Europe, a slowing Asian economy and volatile fuel prices.

Despite these issues, we managed and improved yields across all of our transportation businesses, allowing us to continue enhancing the services and technology that make our customers more successful and more productive.

FedEx Ground had a stellar year, delivering 18.4 percent operating margins and accounting for more than half of FedEx operating profit. Online shipments spurred record volumes. More than one quarter of our FedEx Ground lanes are now faster in terms of transit times than the competition, boosting service and customer satisfaction to unprecedented levels. As a result, including FedEx SmartPost, our overall U.S. ground parcel-market share has increased to nearly 30 percent, doubling over the last decade.

The rapid transformation of FedEx Freight, which basically reinvented the LTL freight industry a little more than a year ago, is paying off with a strong return to profitability. Revenues grew 8 percent year over year. Offering both priority and economy service options and industry-leading transit times have made FedEx Freight a market share leader, and customers are delighted by our LTL value proposition.

Global uncertainty, a slowdown of Asia exports and weakness in the technology sector challenged FedEx Express in FY12. Although U.S. domestic and international priority package volumes were down, yield improvements helped FedEx Express maintain profitability. We’re taking advantage of the flexibility we’ve built into our system to match our capacity to the demand; we’ve accelerated the retirement of older, less efficient aircraft and are replacing them with more fuel-efficient planes; and we are taking other actions to increase FedEx Express margins in the future, despite the low-growth environment.

Three things that differentiate FedEx — our people, our strategy and our focused networks — will allow us to achieve this goal.

#### **STRATEGIC DISCIPLINE**

How a business responds during difficult times is a true measure of its resilience and a test of its strategy. In a volatile marketplace, dedicated FedEx team members turned in a world-class performance last fiscal year. Their dynamic, disciplined approach to some pretty stiff headwinds defines FedEx at its best.

Our long-term strategies are working, and we believe we will improve our competitive position and our financial performance over the next several years, as a result. To do so, we must take advantage of our scale to improve our efficiency. And second, we must remain nimble and responsive to our customers. We try to manage the critical balance between the two every day. In this regard, our flexibility kept FedEx profitable during the 2008-2009 recession, and we emerged stronger. In the same vein, we recognize many residual challenges are ongoing and require us to run a lean and flexible organization. All companies, including FedEx, face many rising costs they cannot directly control, be it health care or energy. This, in turn, requires relentless focus on quality, which has been embedded in our culture since our first day of operations. Utilizing our Quality Driven Management system, we are confident we can reduce costs while simultaneously improving service levels.

#### **FOCUSED NETWORKS**

Our customers’ expectations and needs evolve constantly, and so must we. The Roman statesman Marcus Aurelius summed it up best: “Nothing happens without change.” That’s why our operating companies relentlessly adjust their networks to meet traffic flows and levels. Each network is discrete so it can optimize its business without compromise. Hence our competitive advantage of speed and flexibility: FedEx Express, FedEx Ground and FedEx Freight are superior networks with industry-leading service levels. Superior networks translate into superior solutions for customers. That’s real value.

Take as an example the global rise of online buying, now growing at three to four times the rate of retail sales growth overall. For FedEx, that means more deliveries, whether a product is purchased or returned. It’s the perfect fuel for growth, internationally and in the United States.

Retailers want a range of shipping options that satisfies their customers’ various expectations for cost and service. In the U.S. we offer express service, customized ground home delivery, and FedEx SmartPost, our most inexpensive shipping option. The low cost of FedEx SmartPost allows retailers to offer free shipping as a marketing tactic. In fact, consumers

# “WE’RE KEEPING OUR EYE ON THE BALL — LOWERING COSTS AND IMPROVING OUR EFFICIENCY FOR CONTINUED SUCCESS.”



chose the free-shipping option for half of holiday ecommerce transactions last November and December, according to comScore, a firm that analyzes online commerce.

## WORLD-CLASS SOLUTIONS

Growth in the U.S. and Europe is moderate, but there are positive signs worldwide because of the strength of emerging markets. Countries such as China, India, Mexico and Brazil are quickly becoming consumers as well as producers, driving increased demand. The long-term future for global trade remains solid, and we are committed to providing solutions for businesses — large and small — to effectively compete in this important market.

Air express will continue to grow long term as the integration of the world’s economies generate more small shipments moving directly from the point of production to the end user. That’s why the unique capabilities of our Boeing 777Fs are a distinct advantage for us. Their long range and nonstop capabilities provide shippers more time to process shipments each day.

Concurrently, air freight shipping is becoming more episodic. High-value technology products make up a large portion of this market these days, and more of these goods are being shipped as part of large new product launches. As a consequence, it often takes a large fleet of wide-body aircraft like ours to quickly flex capacity up and down. If a customer asks us to add extra flights, FedEx can do it better than our competitors because we have the largest all-cargo fleet in the world.

These trends are reinforced by improved production scheduling, reliability, and logistics information systems. Better visibility into supply chains allows greater use of ocean transportation to ship customers’ commodity freight, a distinct advantage given higher fuel prices. As a result, we’ve been expanding our FedEx Trade Networks capabilities. Since 2008, we’ve opened 47 freight-forwarding offices worldwide to help businesses reach their markets via ocean or air. It’s a key part of our strategy to provide customers with the world-class solutions they need to compete.

Despite the slowdown in Europe last year, our business there continues to grow. To better serve customers, FedEx Express is opening stations across Europe. We’ve also recently completed acquisitions of transportation companies in Poland, France, and Brazil to provide customers in those markets with better domestic service and improved access to global markets.

## INNOVATION AT WORK

As we grow, we know we must continue to connect the world responsibly. It starts with the Purple Promise, which FedEx team members deliver millions of times a day worldwide: “I will make every FedEx experience outstanding.” If the Purple Promise is our heart, Quality Driven Management (QDM) represents our hands — it’s how we do things at FedEx.

As noted earlier, our QDM philosophy and methods are built on the proven premise that higher quality lowers costs, improves service levels, and enhances the customer experience. It’s a three-legged stool that supports our long-term growth strategies.

We apply QDM principles to our sustainability decisions, just as we do to our business decisions, because it’s good business and good for the planet. The FedEx Express vehicle fleet is ahead of plan to be 20 percent more fuel efficient by 2020 than it was in 2005. To support our air fleet modernization program, we have recently agreed to purchase additional Boeing 767 aircraft that are substantially more fuel efficient than the aircraft they will replace. In FY12, we invested about \$4 billion in capital expenditures, about half related to modernizing our air fleet.

We think such initiatives are an integral part of this year’s No. 6 ranking on *FORTUNE*’s World’s Most Admired Companies list and No. 7 on the Reputation Institute’s list of the most socially responsible companies in the United States.

FedEx provides the efficient access that businesses of all sizes need to succeed, build prosperous communities and raise living standards worldwide. Just ask a British mother who redesigned a simple handbag. In just three years this FedEx customer turned her product into a \$3.3 million global business called Cambridge Satchel Company. Or talk to the founder of OtterBox, a company that makes protective cases for mobile devices. Thanks to the mastery of global supply chains, he grew his business from \$5 million to almost \$169 million in just three years, while creating more than 500 jobs in his hometown of Fort Collins, Colo.

We believe we can continue to improve FedEx’s financial performance in fiscal year 2013 and beyond based on the strategy and initiatives discussed above.

But we understand our achievements rely on the trust of our customers, shareowners, and team members and we will continue to earn their confidence by conducting our business with integrity, dependability, and commitment every day, every transaction.

That’s our Purple Promise.

Sincerely,

Frederick W. Smith  
Chairman, President and CEO