To our shareowners,

FedEx Corporation performed exceptionally well in fiscal 2017, and we are very optimistic about our future.

In FY17, we boosted long-term value for shareowners — delivered an outstanding peak season with highest ever volumes and service levels; invested heavily in several strategic areas; and managed yields and volumes extremely well.

Three areas of focus not only contributed to a very profitable year but also promise to accelerate performance that will improve margins, cash flows, returns, and earnings per share going forward. They are:

**Investments.** We continue to take advantage of market growth and meet customers’ increasing demands for our services.

**Integration.** We’re building on our record of success as we integrate acquisitions we’ve made in recent years.

**Innovation.** We’re rapidly advancing information-technology solutions targeting efficiency and customer convenience.

### Investments boost financial performance

**Capacity and automation.** Our strategic investments have one thing in common — expected high rates of long-term returns. To meet forecasts for strong e-commerce and commercial growth, FedEx Ground is expanding its network capacity and automation to make certain we have the capacity, efficiency, and flexibility customers demand.

In the year leading up to the FY17 peak season, FedEx Ground added 10 million square feet of operating space through 185 facility projects including four new major distribution hubs and 19 new fully automated stations. These state-of-the-art facilities are much more efficient to operate and allow us to quickly adjust to fluctuations in package volume and location.

**Reduced costs and emissions.** FedEx Express continues to upgrade its aircraft fleet to improve margins and add flexibility to domestic and international operations. We invested $1.8 billion in aircraft and related equipment in FY17. The payback is impressive: the B767F carries almost as much payload as the MD10 it replaces and is about 30 percent more fuel-efficient resulting in lower emissions as well. Unit operating costs are about 20 percent lower overall including reduced maintenance costs and higher reliability that also improves service levels.

**Systems and safety improvements.** Focusing on efficiency at FedEx Freight should significantly improve margins by the end of FY20 and make FedEx the first choice for more customers in the less-than-truckload (LTL) market. Adding dimensioning technology will improve FedEx Freight yields and automating the customer experience will make LTL shipping simpler. Safety is a top priority. Today about 80 percent of our fleet is equipped with advanced safety technologies such as rollover stability control, lane-departure warning, and systems to help avoid collisions. Our goal is 100 percent deployment by the end of FY18. This adds to FedEx Freight’s competitive advantage of the fastest published transit times in the LTL industry.
Integration unlocks new customer solutions

Implications of recent acquisitions — TNT Express, FedEx Supply Chain (formerly GENCO), and FedEx Cross Border — are profound. Together they fill strategic gaps in our global network and strengthen supply chain and e-commerce capabilities. Customers are delighted with the initial results which deliver significant opportunities for efficiencies and growth.

Amplifying our global scope. We are pleased with the progress of our multi-year TNT integration plan. Sixty-four countries were fully integrated in FY17, and we’ve begun integration activities across additional countries including many of the largest operations in TNT’s global network. We’re capitalizing on the immense talent and expertise of former TNT executives who now comprise about 40 percent of FedEx Express internationally based officers and managing directors.

The results are proving to be transformative to customers and our financial outlook. In the latter regard, we’re targeting an operating income improvement at the FedEx Express group of $1.2 billion to $1.5 billion in FY20 compared with FY17, assuming moderate economic growth and current accounting and tax rules.
Simplifying e-commerce for retailers. Integrating FedEx Supply Chain capabilities with the FedEx transportation networks has broadened our portfolio of solutions. FedEx® Fulfillment, created with extensive customer input, is a new way for us to support e-commerce companies of all sizes. The service provides retailers with warehousing, inventory management, fulfillment, packaging, and reverse logistics in one bundle powered by FedEx transportation networks.

FedEx Fulfillment also works closely with FedEx Cross Border to make it easier for small-to-medium e-tailers to serve international customers.

Reducing residential delivery costs. The integration of FedEx Ground and FedEx SmartPost® operations will enable us to use FedEx Ground contracted service providers to deliver a FedEx SmartPost package going to the same or nearby location on the same day which will reduce costs.

Not only does the online platform make monitoring logistics activity as easy as using a smartphone, it also simplifies the returns process so retailers can better manage their products' entire life cycle.
Up to 8,000 Walgreens locations will make it easier to drop off and pick up packages.
Innovation reduces costs, improves service

While our residential e-commerce revenues are much smaller than our business-to-business revenues, it’s the fastest-growing market and requires constant innovation to make delivery to consumers more efficient.

That’s one reason we are expanding our FedEx OnSite network of convenient pickup and drop-off locations. FedEx OnSite locations reduce costs because we can deliver multiple packages to one location for customer collection instead of delivering single packages to individual residences. A major new alliance with Walgreens will add nearly 8,000 locations to the FedEx OnSite network prior to the FY18 peak season.

Consumers can take advantage of these secure delivery locations by using FedEx Delivery Manager®. All it takes is a mobile phone or tablet to track, schedule delivery, reroute packages, sign for packages remotely, and receive delivery confirmations.

Deploying new technology is part of our ongoing strategy to reduce our carbon footprint. In FY17, FedEx Freight purchased more than 100 compressed natural gas (CNG) tractors and installed a CNG fueling station at our Oklahoma City Service Center.

FedEx Express is also introducing new vehicle technologies and making more efficient use of conventional vehicles. We met our target of increasing vehicle fuel efficiency by 30 percent from a 2005 baseline five years ahead of schedule. We’ve therefore now set a new goal: by 2025 we will increase FedEx Express vehicle fuel efficiency by 50 percent from the 2005 baseline.

SOLUTIONS MAKE E-COMMERCE EASIER, MORE PROFITABLE

E-commerce continues to reshape retail, with retailers moving rapidly to meet shifting consumer behavior and expectations. As the big picture evolves, our role is clear: facilitate profitable e-commerce growth.

Over time, economics will require more innovative ways to deliver goods ordered online, instead of only delivering individual items to residences, which is expensive.

To make that happen, FedEx must continue combining our physical assets and digital capabilities to create more effective, efficient, and secure delivery alternatives. We must also ensure we are properly compensated for the outstanding services we provide.

& Small and medium-sized online retailers are now fulfilling U.S. domestic and export orders through FedEx® Fulfillment — a new turnkey e-commerce solution that helps businesses fulfill orders from different sources, including e-commerce websites and online marketplaces.

& Cross-border shopping is growing and is expected to total 20 percent of e-commerce by 2022, with sales of $627 billion.* New FedEx Cross Border services provide both shoppers and merchants with a much faster, easier way to conduct international e-commerce.

& More than 6 million registered users — about 50 percent more than last year — are now taking advantage of FedEx Delivery Manager® to schedule package deliveries where and when it’s convenient for them. We also expanded the service to 36 countries, with plans to add dozens more in FY18.

& Nearly 8,000 Walgreens locations will add punch to the FedEx OnSite network offering consumers more convenient and secure drop-off and pickup options.

Precise execution drives value

FedEx has never been better positioned for significant long-term growth that delivers increased value to shareowners and a more promising future for our team members. To those ends, we must continue to execute with precision. In addition, we must remain decisive and agile, especially when it comes to creating and delivering technology solutions that make us more productive and customers’ lives easier.

Our team members’ outstanding dedication and performance were once again recognized by FORTUNE magazine which named FedEx one of the world’s most admired companies. No member of the FedEx team did more to make FedEx what we are today than Mike Glenn who retired during FY17 as Executive Vice President, Market Development and Corporate Communications, after more than 35 years of service. Mike leaves with our gratitude, affection, and best wishes.

To manage our growth and ensure a faster and more responsive FedEx, we promoted Dave Bronczek, formerly President and CEO of FedEx Express, to President and Chief Operating Officer. The CEOs of our core operating companies and our EVPs of Marketing and Sales now report to Dave. The new organization structure will facilitate future growth for our broad portfolio of customer solutions.

We will ensure FedEx remains indispensable to global commerce and a responsible corporate citizen. Integrity is key to our culture, our brand, and our reputation. In the public policy arena, we continue to vigorously support corporate tax reform and open trade. These policies are essential to sparking investment and innovation; boosting U.S. and global economies; and improving standards of living everywhere.

FedEx has never been stronger; our team has never been more committed; and our confidence has never been greater that we will deliver outstanding value and opportunities for shareowners, customers, and team members in coming years.

If you have a moment, go to fedex.com/dream and you’ll see why we are so confident about our future prospects.

Frederick W. Smith
Chairman and CEO

“FedEx has never been stronger; our team has never been more committed; and our confidence has never been greater.”