

FEDEX CORP
Form 10-K
July 16, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended May 31, 2012.

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____.

Commission file number 1-15829

FEDEX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of

Incorporation or Organization)

62-1721435

(I.R.S. Employer

Identification No.)

942 South Shady Grove Road, Memphis, Tennessee

(Address of Principal Executive Offices)

38120

(ZIP Code)

Registrant's telephone number, including area code: **(901) 818-7500**

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Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value \$0.10 per share | New York Stock Exchange |
| Securities registered pursuant to Section 12(g) of the Act: None | |

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Rule 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ☐ No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing price as of the last business day of the Registrant's most recently completed second fiscal quarter, November 30, 2011, was approximately \$24.4 billion. The Registrant has no non-voting stock.

As of July 13, 2012, 316,599,754 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be delivered to stockholders in connection with the 2012 annual meeting of stockholders to be held on September 24, 2012 are incorporated by reference in response to Part III of this Report.

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PART I

ITEM 1. BUSINESS

Overview

FedEx Corporation (FedEx) provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. These companies are included in four business segments:

FedEx Express: Federal Express Corporation (FedEx Express) is the world's largest express transportation company, offering time-certain delivery within one to three business days and serving markets that comprise more than 90% of the world's gross domestic product. The FedEx Express segment also includes FedEx Trade Networks, Inc., which provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding, and FedEx SupplyChain Systems, Inc., which offers a range of supply chain solutions.

FedEx Ground: FedEx Ground Package System, Inc. (FedEx Ground) is a leading North American provider of small-package ground delivery services. FedEx Ground provides low-cost, day-certain service to every business address in the United States and Canada, as well as residential delivery to nearly 100% of U.S. residences through its FedEx Home Delivery service. The FedEx Ground segment also includes FedEx SmartPost, Inc., which specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the U.S. Postal Service (USPS) for final delivery to any residential address or PO Box in the United States.

FedEx Freight: FedEx Freight, Inc. (FedEx Freight) is a leading North American provider of less-than-truckload (LTL) freight services, offering: FedEx Freight Priority, when speed is critical to meet supply chain needs; and FedEx Freight Economy, when time can be traded for cost savings. The FedEx Freight segment also offers freight delivery service throughout Canada and Mexico and includes FedEx Custom Critical, Inc., a leading North American provider of time-specific, critical shipment services.

FedEx Services: FedEx Corporate Services, Inc. (FedEx Services) provides our other companies with sales, marketing, information technology, communications and back-office support. The FedEx Services segment also includes FedEx TechConnect, Inc., which is responsible for customer service, billings and collections for our U.S. customers and offers technical support services, and FedEx Office and Print Services, Inc. (FedEx Office), which provides an array of document and business services and retail access to FedEx Express and FedEx Ground shipping services.

For financial information concerning our reportable business segments, refer to the accompanying financial section, which includes management's discussion and analysis of results of operations and financial condition and our consolidated financial statements.

Our Web site is located at fedex.com. Detailed information about our services, e-commerce tools and solutions, and citizenship efforts can be found on our Web site. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our Web site, as soon as reasonably practicable after they are filed with or furnished to the SEC. These and other SEC filings are available through the Investor Relations page of our Web site, <http://investors.fedex.com>. The information on our Web site, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

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Except as otherwise specified, any reference to a year indicates our fiscal year ended May 31 of the year referenced.

Strategy

FedEx was incorporated in Delaware on October 2, 1997 to serve as the parent holding company and provide strategic direction to the FedEx portfolio of companies. We intend to continue leveraging and extending the FedEx brand and providing our customers with convenient, seamless access to our entire portfolio of integrated services.

We believe that sales and marketing activities, as well as the information systems that support the extensive automation of our delivery services, are functions that are best coordinated across operating companies. Through the use of advanced information systems that connect the FedEx companies, we make it convenient for customers to use the full range of FedEx services. We believe that seamless information integration is critical to obtain business synergies from multiple operating units. For example, our Web site, *fedex.com*, provides a single point of contact for our customers to access FedEx Express, FedEx Ground and FedEx Freight shipping, pick-up, shipment tracking, customer service and invoicing information, as well as FedEx Office services. Similarly, by making one call to FedEx Expedited Freight Services, our customers can quickly and easily evaluate surface and air freight shipping options available from FedEx Express, FedEx Freight and FedEx Custom Critical in order to select the service best meeting their needs. Through this one point of contact, customers can select from a broad range of freight services, based on their pickup and delivery requirements, time sensitivity and the characteristics of the products being shipped. Also, we recently integrated our LTL and parcel sales teams to enhance the effectiveness of our sales efforts and provide additional simplicity for our customers.

We manage our business as a portfolio in the long-term best interest of the enterprise, not a particular operating company. As a result, we base decisions on capital investment, expansion of delivery, information technology and retail networks, and service additions or enhancements on achieving the highest overall long-term return on capital for our business as a whole. For each FedEx company, we focus on making appropriate investments in the technology and assets necessary to optimize our long-term earnings performance and cash flow. As an example of our commitment to managing collaboratively, all our management incentive compensation programs across the enterprise are tied to the performance of FedEx as a whole.

While we have increased our emphasis on competing collectively and managing collaboratively, we continue to believe that operating independent networks, each focused on its own respective markets, results in optimal service quality, reliability and profitability from each business unit. Each FedEx company focuses exclusively on the market sectors in which it has the most expertise and can be independently enhanced and managed to provide outstanding service to our customers. Each company's operations, cost structure and culture are designed to serve the unique customer demands of a particular market segment and as a result, we are able to adapt our networks in response to changing needs.

Our compete collectively, operate independently, manage collaboratively strategy also provides flexibility in sizing our various operating companies to align with varying macro-economic conditions and customer demand for the market segments in which they operate, allowing us to leverage and manage change. Volatility and uncertainty have become the norms in the global transportation market, and we are able to use our flexibility to accommodate changing conditions in the global economy. For example, in May 2012,

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we made a decision to retire from service 24 aircraft and related engines. The decision to retire these aircraft will better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes. FedEx Express is also shortening the depreciable lives of an additional 54 aircraft and related engines. This will accelerate the retirement of these aircraft to align with the delivery schedule for replacement Boeing 767-300 Freighter (B767F) and Boeing 757-200 aircraft.

In order to continue the modernization of our aircraft fleet, we have agreed to purchase a total of 46 new B767F aircraft, with the first three arriving in fiscal 2014 and continued deliveries through 2019. The B767Fs were selected as the best choice to begin replacing our MD10s, some of which are more than 40 years old, and our Airbus A310-300s with aircraft of similar capacity and without the relatively high fuel and maintenance costs, as we continue to improve the efficiency and technology of our aircraft fleet. During 2012, we delayed the delivery of 11 Boeing 777 Freighter (B777F) aircraft to better align air network capacity to demand. We have also converted four B777F aircraft deliveries two scheduled for delivery in fiscal 2016 and two scheduled for delivery in fiscal 2017 to equivalent purchase value for the B767Fs referenced above.

At the same time, we continue to expand network capacity at our growing and highly successful FedEx Ground segment. Strategic management of the FedEx Ground business resulted in higher yields and volumes boosted by e-commerce, FedEx SmartPost and residential delivery solutions in 2012.

The following four trends have driven world commerce and shaped the global marketplace, and we believe they will continue to do so over the long term:

Globalization: As the world's economy has become more fully integrated, companies are sourcing and selling globally. With customers in more than 220 countries and territories, we facilitate this supply chain through our global reach, delivery services and information capabilities.

Supply Chain Acceleration: As global trade has grown, it has also become more fast-paced, and companies of all sizes now depend on the delivery of just-in-time inventory to help them compete. We have taken advantage of the move toward faster, more efficient supply chains by helping customers obtain more visibility into their supply chains and near real-time information to manage inventory in motion, thereby reducing overhead and obsolescence and speeding time-to-market.

Increase in High-Tech and High-Value-Added Businesses: High-tech and high-value-added goods have increased as a percentage of total economic output, and our various operating companies offer a unique menu of services to fit virtually all shipping needs of high-tech and high-value-added industries.

Growth of E-Commerce: E-commerce acts as a catalyst for the other three trends and is a vital growth engine for businesses, as the Internet is increasingly being used to purchase goods and services. Through our global transportation and technology networks, we contribute to and benefit from the growth of e-commerce.

These trends have produced an unprecedented expansion of customer access to goods, services and information. Through our global transportation, information technology and retail networks, we help to make this access possible. We continue to position our companies to facilitate and capitalize on this access and move toward stronger long-term growth, productivity and profitability. To this end, we are investing in long-term strategic projects focused on expanding our global networks to accommodate future volume growth and increase customer convenience, such as investments in B777F and B767F aircraft. We also continue to broaden and more effectively bundle our portfolio of services in response to the needs and desires of our customers. For example, since the beginning of 2012, we:

Continued to reduce transit times and provide a better pickup experience within FedEx Ground's growing and highly profitable network.

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Made strategic acquisitions in Mexico, Poland, France and Brazil, which will give us more robust domestic transportation and added capabilities in these important global markets.

Continued to execute our aggressive plan to expand the global freight forwarding presence of FedEx Trade Networks by opening additional facilities (over 130 freight forwarding offices are now open), including in Johannesburg, South Africa, Bologna, Italy, and Istanbul, Ankara and Izmir, Turkey, and establishing new alliances throughout the world.

Introduced an innovative end-to-end service for the shipping of temperature-sensitive healthcare products, such as pharmaceuticals, around the world, including implementing procedures to maintain temperatures on board the B777F aircraft within a desired range during flights.

Expanded the availability of our sensor-based SenseAware service, which provides customers with near real-time tracking and increased visibility and monitoring of their shipments.

Continued to utilize FedEx Freight's expertise in technology and operational excellence under the unified LTL network to provide a powerful value proposition to customers. Moreover, the recent integration of our LTL and parcel sales teams has enhanced the effectiveness of our sales efforts.

Reputation and Responsibility

By competing collectively under the FedEx brand, our operating companies benefit from one of the world's most recognized brands. FedEx is one of the most trusted and respected companies in the world, and the FedEx brand name is a powerful sales and marketing tool. Among the many reputation awards we received during 2012, FedEx ranked 6th in *FORTUNE* magazine's World's Most Admired Companies listth the 11 consecutive year we have been ranked in the top 20 on the list. Additionally, in a recent survey of U.S. consumers conducted by the Reputation Institute and the Boston College Center for Corporate Citizenship, FedEx placed 7th on the Corporate Social Responsibility Index (CSRI) 50th a list of the most socially responsible companies in the U.S.

FedEx is well recognized as a leader, not only in the transportation industry and technological innovation, but also in global citizenship. We understand that a sustainable global business is tied to our global citizenship, and we are committed to connecting the world responsibly and resourcefully. Our latest published update to our global citizenship report is available at <http://csr.fedex.com>. These reports describe how we think about our responsibilities in the area of global citizenship and include important goals and metrics that demonstrate our commitment to fulfilling these responsibilities.

Our People

Along with a strong reputation among customers and the general public, FedEx is widely acknowledged as a great place to work. In 2012, FedEx Express was named as one of the top five global companies to work for by The Great Place to Work[®] Institute in its inaugural ranking of the World's Best Multinational Workplaces. In order to even be considered for this honor, a company must appear on at least five national Great Place to Work lists and have at least 5,000 employees worldwide. It is our people our

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greatest asset that give us our strong reputation. In addition to superior physical and information networks, FedEx has an exemplary human network, with more than 300,000 team members who are absolutely, positively focused on safety, the highest ethical and professional standards, and the needs of their customers and communities. Through our internal Purple Promise and Humanitarian Award programs, we recognize and reward employees who enhance customer service and promote human welfare. For additional information on our people-first philosophy and workplace initiatives, see <http://csr.fedex.com>.

Our Community

FedEx is committed to actively supporting the communities we serve worldwide through the strategic investment of our people, resources and network. We provide financial contributions, in-kind charitable shipping services and volunteer efforts by our team members to help a variety of non-profit organizations achieve their goals and make a measurable impact on the world. We have three core focus areas: disaster preparedness, relief and recovery (American Red Cross, Salvation Army and Direct Relief Worldwide); child pedestrian safety (Safe Kids Worldwide); and environmental sustainability (EMBARQ and National Fish & Wildlife Foundation). We support minority access to higher education by funding scholarships, are a major sponsor of the National Civil Rights Museum and also support Teach for America, Junior Achievement and St. Jude Children's Research Hospital. Additionally, we believe that the United Way of America offers one of the most effective and efficient ways of meeting community needs and have supported the annual United Way fundraising campaign since 1975. For additional information on our community involvement and disaster relief efforts, see <http://csr.fedex.com>.

The Environment

In furtherance of our commitment to protecting the environment, we recently updated one of our long-term goals to reduce aircraft emissions to reflect the significant progress we have made over the last several years. Our goal is to now reduce aircraft emissions by 30 percent by 2020 on an emissions per available-ton-mile basis. We continue with our goal to increase FedEx Express vehicle fuel efficiency by 20 percent by 2020. We will also continue to expand on-site renewable energy generation and continue the procurement of renewable energy for our facilities. To meet our future operational needs, as discussed above, we are adding more fuel-efficient aircraft to our fleet. The use of newer and more fuel-efficient aircraft is reducing our greenhouse gas emissions and airport noise and increasing our jet fuel efficiency. Our hybrid electric delivery fleet has logged more than 12 million miles of revenue service. Our solar power generation systems represent another step we are taking toward progressive environmental stewardship and resource sustainability. Several FedEx facilities, including our FedEx Express facility in Las Vegas, Nevada, our FedEx Express World Headquarters in Memphis and our enterprise data center in Colorado Springs, Colorado, have received certification by Leadership in Energy and Environmental Design (LEED®), the U.S. Green Building Council's system for rating the environmental performance of buildings. FedEx Express has made LEED certification the standard for newly built U.S. facilities.

We also continue to evaluate the environmental impacts of our packaging and copy and print services, and minimize waste generation through efforts that include recycling, pollution prevention and the use of copy paper with recycled content, among other environmentally-responsible available choices. For additional information on the ways we are minimizing our impact on the environment, see <http://csr.fedex.com>. In April 2012, we launched our FedEx Carbon-Neutral Envelope shipping program to all FedEx envelope shipping options, making FedEx Express the first global express transportation company to offer carbon-neutral envelope shipping at no extra charge to the customer. Through this program, FedEx Express will make an investment in global projects that displace or sequester greenhouse gas emissions from the atmosphere, neutralizing the impacts of the carbon emissions emitted during the shipment of all FedEx envelopes around the world.

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Governance

FedEx has an independent Board of Directors committed to the highest quality corporate governance. During the past few years, we added a number of highly qualified, independent directors to the Board, including R. Brad Martin, the former CEO of Saks Incorporated, and Joshua Cooper Ramo, Vice Chairman of Kissinger Associates, Inc. The Board has taken significant steps to enhance its accountability to stockholders in recent years. For example, in 2012, stockholders approved our proposal to amend FedEx's certificate of incorporation in order to allow holders of 20 percent or more of FedEx's common stock the right to call special meetings of stockholders. Additionally, the Board recently adopted a lead independent director corporate governance structure.

Our Board of Directors periodically reviews all aspects of our governance policies and practices, including our Corporate Governance Guidelines and our Code of Business Conduct and Ethics, in light of best practices and makes whatever changes are necessary to further our longstanding commitment to the highest standards of corporate governance. The Guidelines and the Code, which applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers, are available in the Corporate Governance section of the Investor Relations page of our Web site at <http://investors.fedex.com>. We will post in the corporate governance section of the Investor Relations page of our Web site information regarding any amendment to, or waiver from, the provisions of the Code to the extent such disclosure is required.

Business Segments

The following describes in more detail the operations of each of our reportable segments:

FedEx Express Segment

FedEx Express

Overview

FedEx Express invented express distribution in 1973 and remains the industry leader, providing rapid, reliable, time-definite delivery of packages and freight to more than 220 countries and territories through one integrated global network. FedEx Express offers time-definite delivery within one to three business days, serving markets that generate more than 90% of the world's gross domestic product through door-to-door, customs-cleared service, with a money-back guarantee. FedEx Express's unmatched air route authorities and extensive transportation infrastructure, combined with leading-edge information technologies, make it the world's largest express transportation company. FedEx Express employs approximately 149,000 employees and has approximately 58,400 drop-off locations (including FedEx Office centers), 660 aircraft and approximately 52,400 vehicles and trailers in its integrated global network.

Services

FedEx Express offers a wide range of shipping services for delivery of packages and freight. Overnight and deferred package services are backed by money-back guarantees and extend to nearly the entire United States population. FedEx Express offers three U.S. overnight package delivery services: FedEx First Overnight, FedEx Priority Overnight and FedEx Standard Overnight. FedEx SameDay service is available for urgent shipments up to 70 pounds to virtually any U.S. destination. FedEx Express also offers U.S. express overnight and deferred freight services backed by money-back guarantees to handle the needs of the time-definite freight market.

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International express and deferred package delivery with a money-back guarantee is available to more than 220 countries and territories, with a variety of time-definite services to meet distinct customer needs. FedEx Express also offers domestic pickup-and-delivery services within certain non-U.S. countries, including the United Kingdom, Canada, China, India and Mexico. In addition, FedEx Express offers comprehensive international express and deferred freight services, backed by a money-back guarantee, real-time tracking and advanced customs clearance.

For information regarding FedEx Express e-shipping tools and solutions, see [FedEx Services](#) [Technology](#).

International Expansion

We are focused on the long-term expansion of our international presence, especially in key markets such as China, India, Europe and Latin America. We recently made strategic moves in Europe and Latin America. Since the beginning of 2012, we acquired:

the Mexican domestic express package delivery company Servicios Nacionales Mupa, S.A. de C.V. (Multipack);

the Polish domestic express package delivery company Opek Sp. z o.o.;

the French express transportation company TATEX; and

the Brazilian transportation and logistics company Rapidão Cometa Logística e Transportes S.A.

These acquisitions will give us more robust domestic transportation networks and added capabilities in these important global markets, continue our strategic European and Latin American growth plans and are expected to provide important contributions to our long-term growth, productivity and profitability. Additionally, in 2012, we opened 38 new stations across Europe pursuant to our organic growth strategy.

We began serving mainland China in 1984, have expanded our service to cover more than 400 cities across the country and, in 2009, we began operations at our new Asia-Pacific hub at the Guangzhou Baiyun International Airport in southern China. Additionally, in May 2012, we announced our decision to establish a new North Pacific regional hub at the Kansai International Airport in Osaka, Japan, which will serve as a consolidation point for shipments from northern Asia to the United States, and will continue to operate as an international gateway for customers in western Japan. These hubs will allow us to continue to better serve our global customers doing business in the Asia-Pacific markets.

To facilitate the use of our growing international network, we offer a full range of international trade consulting services and a variety of online tools that enable customers to more easily determine and comply with international shipping requirements.

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U.S. Postal Service Agreement

Under an agreement with the USPS that runs through September 2013, FedEx Express provides domestic air transportation services to the USPS, including for its First-Class, Priority and Express Mail. The USPS has informed us that it intends to solicit proposals for the provision of these services upon the expiration of the current agreement. FedEx Express also has approximately 5,000 drop boxes at USPS locations in approximately 340 metropolitan areas, under an agreement that expired in June 2012. We are preparing for removal of those drop boxes in accordance with the terms of the agreement. FedEx Express also provides transportation and delivery for the USPS's international delivery service called Global Express Guaranteed (GXG) under a separate agreement. For more information about our relationship with the USPS, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

Pricing

FedEx Express periodically publishes list prices in its Service Guides for the majority of its services. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account. International rates are based on the type of service provided and vary with size, weight, destination and, whenever applicable, whether the customer charged the shipment to a FedEx account. FedEx Express offers its customers discounts generally based on actual or potential average daily revenue produced.

FedEx Express has an indexed fuel surcharge for U.S. domestic and U.S. outbound shipments and for shipments originating internationally, where legally and contractually possible. The surcharge percentage is subject to monthly adjustment based on a rounded average of a certain spot price for jet fuel. For example, the fuel surcharge for June 2012 was based on the average spot price for jet fuel published for April 2012. Changes to the FedEx Express fuel surcharge, when calculated according to the average spot price for jet fuel and FedEx Express trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at fedex.com approximately two weeks before the surcharge is applicable. The weighted average U.S. domestic and U.S. outbound fuel surcharge as a percentage of the base rates for the past three years was: 2012 14%; 2011 10%; and 2010 6%. These percentages include certain fuel surcharge reductions that are associated with our annual base rate increases.

Operations

FedEx Express's primary sorting facility, located in Memphis, serves as the center of the company's multiple hub-and-spoke system. A second national hub facility is located in Indianapolis. In addition to these national hubs, FedEx Express operates regional hubs in Newark, Oakland, Fort Worth and Greensboro and major metropolitan sorting facilities in Los Angeles and Chicago.

Facilities in Anchorage, Paris, Guangzhou and Cologne/Bonn serve as sorting facilities for express package and freight traffic moving to and from Asia, Europe and North America. Additional major sorting and freight handling facilities are located at Narita Airport in Tokyo, Stansted Airport outside London, and Pearson Airport in Toronto. The facilities in Guangzhou, Paris and Cologne/Bonn are also designed to serve as regional hubs for their respective market areas. A facility in Miami—the Miami Gateway Hub—serves our South Florida, Latin American and Caribbean markets.

Throughout its worldwide network, FedEx Express operates city stations and employs a staff of customer service agents, cargo handlers and couriers who pick up and deliver shipments in the station's service area. In some international areas, independent agents (Global Service Participants) have been selected to complete deliveries and to pick up packages. For more information about our sorting and handling facilities, see Part I, Item 2 of this Annual Report on Form 10-K under the caption FedEx Express Segment.

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FedEx Office offers retail access to FedEx Express shipping services at all of its U.S. retail locations. FedEx Express also has alliances with certain other retailers to provide in-store drop-off sites. Our unmanned FedEx Drop Boxes provide customers the opportunity to drop off packages in office buildings, shopping centers, corporate or industrial parks and outside some U.S. Post Offices.

Fuel Supplies and Costs

During 2012, FedEx Express purchased jet fuel from various suppliers under contracts that vary in length and which provide for estimated amounts of fuel to be delivered. The fuel represented by these contracts is purchased at market prices. Because of our indexed fuel surcharge, we do not have any jet fuel hedging contracts. See *FedEx Express Pricing*.

The following table sets forth FedEx Express's costs for jet fuel and its percentage of consolidated revenues for the last five fiscal years:

| Fiscal Year | Total Jet Fuel Cost (in millions) | Percentage of Consolidated Revenues |
|--------------------|--|--|
| 2012 | \$ 3,867 | 9.1% |
| 2011 | 3,178 | 8.1 |
| 2010 | 2,342 | 6.7 |
| 2009 | 2,932 | 8.3 |
| 2008 | 3,396 | 8.9 |

Most of FedEx Express's vehicle fuel needs are satisfied by retail purchases with various discounts.

Competition

As described in Item 1A of this Annual Report on Form 10-K (*Risk Factors*), the express package and freight markets are both highly competitive and sensitive to price and service, especially in periods of little or no macro-economic growth. The ability to compete effectively depends upon price, frequency, capacity and speed of scheduled service, ability to track packages, extent of geographic coverage, reliability and innovative service offerings.

Competitors within the United States include other package delivery concerns, principally United Parcel Service, Inc. (*UPS*), passenger airlines offering express package services, regional express delivery concerns, air freight forwarders and the USPS. FedEx Express's principal international competitors are DHL, UPS, TNT, other foreign postal authorities, freight forwarders, passenger airlines and all-cargo airlines. Many of FedEx Express's international competitors are government-owned, -controlled or -subsidized carriers, which may have greater resources, lower costs, less profit sensitivity and more favorable operating conditions than FedEx Express.

Employees

David J. Bronczek is the President and Chief Executive Officer of FedEx Express, which is headquartered in Memphis, Tennessee. As of May 31, 2012, FedEx Express employed approximately 101,000 permanent full-time and 48,000 permanent part-time employees, of which approximately 15% are employed in the Memphis area. FedEx Express's international employees in the aggregate represent approximately 31% of all employees.

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The pilots of FedEx Express, who constitute a small percentage of our total employees, are represented by the Air Line Pilots Association, International (ALPA), and are employed under a collective bargaining agreement. This agreement becomes amendable in March 2013.

Attempts by other labor organizations to organize certain other groups of employees occur from time to time. Although these organizing attempts have not resulted in any certification of a U.S. domestic collective bargaining representative (other than ALPA), we cannot predict the outcome of these labor activities or their effect, if any, on FedEx Express or its employees. Certain of FedEx Express's non-U.S. employees are unionized. FedEx Express believes its employee relations are excellent.

FedEx Trade Networks

FedEx Trade Networks provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding. During 2012, FedEx Trade Networks continued to execute an aggressive plan to expand its global freight forwarding presence by opening additional facilities (over 130 freight forwarding offices are now open), including in Johannesburg, South Africa, Bologna, Italy, and Istanbul, Ankara and Izmir, Turkey, and establishing new alliances throughout the world. FedEx Trade Networks provides customs clearance services for FedEx Express at its major U.S. hub facilities. Value-added services include Global Trade Data, an information tool that allows customers to track and manage imports. FedEx Trade Networks provides international trade advisory services, including assistance with the Customs-Trade Partnership Against Terrorism (C-TPAT) program, and through its WorldTariff subsidiary, FedEx Trade Networks publishes customs duty and tax information for approximately 180 customs areas worldwide. FedEx Trade Networks has approximately 4,200 employees and 138 offices in 117 service locations throughout North America and in Asia, Europe, the Middle East and Latin America. FedEx Trade Networks maintains a network of air and ocean freight-forwarding service providers and strategic alliances to provide services in certain countries in which it does not have owned offices.

FedEx SupplyChain Systems

FedEx SupplyChain is an integrated logistics provider offering a range of supply chain solutions that leverage FedEx information technology and transportation networks around the world. The company offers services that include critical inventory logistics, transportation management and temperature-controlled transportation through a network of owned and managed resources all tightly integrated via advanced information technology systems. FedEx SupplyChain recently rolled out new and expanded visibility and control features, as well as new stocking locations to support worldwide FedEx Critical Inventory Logistics customers with high-value, critical orders.

FedEx Ground Segment

FedEx Ground

Overview

By leveraging the FedEx brand, maintaining a low cost structure and efficiently using information technology and advanced automation systems, FedEx Ground continues to enhance its competitive position as a leading provider of business and residential money-back guaranteed ground package delivery services. FedEx Ground serves customers in the North American small-package market, focusing on business and residential delivery of packages weighing up to 150 pounds. Ground service is provided to 100%

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of the continental United States population and overnight service of up to 400 miles to nearly 100% of the continental United States population. Service is also provided to nearly 100% of the Canadian population. In addition, FedEx Ground offers service to Alaska and Hawaii through a ground and air network operation coordinated with other transportation providers.

FedEx Ground continues to improve the speed, reach and service capabilities of its network, by reducing transit time for many of its lanes and introducing or expanding overnight ground service in many metropolitan areas. For example, during the most recent two-year period, FedEx Ground has reduced the transit times of 7% of its lanes. FedEx Ground's ongoing network expansion program is substantially increasing the company's daily pickup capacity through the addition of new hubs featuring the latest automated sorting technology, the expansion of existing hubs, and the expansion or relocation of other existing facilities.

The company offers our FedEx Home Delivery service, which reaches nearly 100% of U.S. residences. FedEx Home Delivery is dedicated to meeting the delivery needs of residential customers and provides routine Saturday and evening delivery and premium options such as day-specific, appointment and signature delivery. FedEx Home Delivery brings unmatched services to residential shippers and their customers and is the first residential ground package delivery service to have offered a money-back guarantee.

Pricing

FedEx Ground periodically publishes list prices for the majority of its services in its Service Guide. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account.

FedEx Ground has an indexed fuel surcharge, which is subject to a monthly adjustment. The surcharge percentage is based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel as published monthly by the U.S. Department of Energy. For example, the fuel surcharge for June 2012 was based on the average diesel fuel price published for April 2012. Changes to the FedEx Ground fuel surcharge, when calculated according to the rounded index average and FedEx Ground trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at fedex.com approximately two weeks before the surcharge is applicable.

Operations

FedEx Ground operates a multiple hub-and-spoke sorting and distribution system consisting of 525 facilities, including 33 hubs, in the U.S. and Canada. FedEx Ground conducts its operations primarily with 30,770 owner-operated vehicles and approximately 35,000 company-owned trailers. To provide FedEx Home Delivery service, FedEx Ground leverages its existing pickup operation and hub and linehaul network. FedEx Home Delivery's operations are often co-located with existing FedEx Ground facilities to achieve further cost efficiencies.

Advanced automated sorting technology is used to streamline the handling of millions of packages daily. Using overhead laser and six-sided camera-based bar code scan technology, hub conveyors electronically guide packages to their appropriate destination chute, where they are loaded for transport to their respective destination terminals for local delivery. Software systems and Internet-based applications are also deployed to offer customers new ways to connect internal package data with external delivery information. FedEx Ground provides shipment tracing and proof-of-delivery signature functionality through the FedEx Web site, fedex.com. For additional information regarding FedEx Ground e-shipping tools and solutions, see FedEx Services Technology.

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FedEx Office offers retail access to FedEx Ground shipping services at all of its U.S. retail locations. FedEx Ground is also available as a service option at many FedEx Authorized ShipCenters in the U.S.

As of May 31, 2012, FedEx Ground had approximately 50,500 employees. In addition, FedEx Ground relies on owner-operators to conduct its linehaul and pickup-and-delivery operations, as the use of independent contractors is well suited to the needs of the ground delivery business and its customers. David F. Rebholz is the President and Chief Executive Officer of FedEx Ground. FedEx Ground is headquartered in Pittsburgh, Pennsylvania, and its primary competitors are UPS and the USPS.

Evolution of Independent Contractor Model

Although FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax audits or other administrative challenges) where the classification of its independent contractors is at issue, a number of recent judicial decisions support the company's classification, and the company believes its relationship with its contractors is generally excellent. For a description of these proceedings, see Item 1A of this Annual Report on Form 10-K (*Risk Factors*) and Note 17 of the accompanying consolidated financial statements.

FedEx Ground has made changes to its relationships with contractors that, among other things, provide incentives for improved service and enhanced regulatory and other compliance by the contractors. For example, FedEx Ground has implemented or is implementing its Independent Service Provider (*ISP*) model in a number of states. The ISP model requires pickup-and-delivery contractors based in those states to, among other things: (i) assume responsibility for the pickup-and-delivery operations of an entire geographic service area that includes multiple routes, and (ii) negotiate independent agreements with FedEx Ground, rather than agree to a standard contract. To date, FedEx Ground has transitioned to the ISP model in 17 states. Based upon the success of this model, FedEx Ground may transition to it in other states as well.

In addition, because of state-specific legal and regulatory issues, FedEx Ground only contracts with contractors that (i) are organized as corporations registered and in good standing under applicable state law, and (ii) ensure that their personnel who provide services under an operating agreement with FedEx Ground are treated as their employees. FedEx Ground also has an ongoing nationwide program to incentivize contractors who choose to grow their businesses by adding routes. During May 2012, approximately 85% of FedEx Ground's package volume was delivered by multiple route owner-operators or independent service providers.

FedEx SmartPost

FedEx SmartPost (a subsidiary of FedEx Ground) is a leading national small-parcel consolidator, which specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages, using the USPS for final delivery to residences. The company picks up shipments from customers (including e-tailers and catalog companies), provides sorting and linehaul services and then delivers the packages to a USPS facility for final delivery by a postal carrier. Through its network of 25 distribution hubs and approximately 6,600 employees, FedEx SmartPost provides delivery to all residential addresses in the U.S., including PO Boxes and military destinations. For more information about our relationship with the USPS, see Item 1A of this Annual Report on Form 10-K (*Risk Factors*).

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FedEx Freight Segment

FedEx Freight

FedEx Freight is a leading North American provider of LTL freight services, offering choice, simplicity and reliability to meet the needs of LTL shippers. FedEx Freight Priority, when speed is critical to meet supply chain needs, and FedEx Freight Economy, when time can be traded for cost savings. Through one comprehensive network of service centers and advanced information systems, FedEx Freight provides service to virtually every U.S. ZIP code (including Alaska and Hawaii) with industry-leading transit times. FedEx Freight Priority offers a no-fee money-back guarantee on eligible shipments. Internationally, FedEx Freight Canada offers FedEx Freight Priority throughout Canada and between Canada and the U.S. To extend choice and simplicity to Canada, FedEx Freight Economy offers an economical option for LTL customers shipping from Canada to the U.S. In addition, FedEx Freight serves Mexico, Puerto Rico and the U.S. Virgin Islands via alliances and purchased transportation.

Through its many service offerings, FedEx Freight can match customers' time-critical needs with reduced transit times or after-hours pickup or delivery. With the expansion of FedEx electronic solutions, LTL shippers have the convenience of a single shipping solution for FedEx Freight, FedEx Express and FedEx Ground. FedEx Freight offers a fully integrated Web site and other electronic tools, including a bill of lading generator and e-mail delivery notification, which make freight shipping easier and bring customers closer to their own account information. The FedEx Freight Advance Notice feature available on FedEx Freight Priority shipments uses the company's innovative technology systems to proactively notify FedEx Freight customers via the Internet, e-mail or fax when a shipment may be delayed beyond its estimated delivery date, providing customers with greater visibility and control of their LTL freight shipments. Additionally, FedEx Freight A.M. offers freight delivery by 10:30 a.m. to select points in the U.S. and Canada, backed by a money-back guarantee. FedEx Freight has an indexed fuel surcharge, which is subject to weekly adjustment based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel.

As of May 31, 2012, FedEx Freight was operating approximately 58,000 vehicles and trailers from a network of 366 service centers, and the FedEx Freight segment had approximately 33,900 employees. William J. Logue is the President and Chief Executive Officer of FedEx Freight, which is based in Memphis, Tennessee. FedEx Freight's primary competitors are YRC Worldwide Inc. (which includes YRC Regional Transportation and YRC Freight), Con-way Freight (a subsidiary of Con-way Inc.), UPS Freight, Old Dominion Freight Line, Inc. and ABF Freight System, Inc.

FedEx Custom Critical

FedEx Custom Critical provides a range of expedited, time-specific freight-shipping services throughout the United States, Canada and Mexico. Among its services are Surface Expedite, for exclusive-use and network-based transport of critical shipments and expedited shipments; Air Expedite, which offers an array of air solutions to meet customers' critical delivery times; and White Glove Services, for shipments that require extra care in handling, temperature control or specialized security. In addition, its subsidiary FedEx Truckload Brokerage provides freight brokerage solutions within the United States and into and out of Canada and Mexico. Service is available 24 hours a day, 365 days a year. FedEx Custom Critical continuously monitors shipments through an integrated proprietary shipment-control system, including two-way satellite communications on exclusive-use shipments. Through the company's Shipping Toolkit, customers can quote, ship, track and map shipments; view and print out copies of a shipment's bill of lading, proof of delivery and invoice; and manage their online accounts. FedEx Custom Critical utilizes approximately 1,450 vehicles, operated by independent contractors and their drivers, which are dispatched out of approximately 150 geographically-based staging areas.

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FedEx Services Segment

FedEx Services

FedEx Services provides our other companies with sales, marketing, information technology, communications, customer service and certain other back-office support. Through FedEx Services and its subsidiary FedEx TechConnect, we provide a convenient single point of access for many customer support functions, enabling us to more effectively sell the entire portfolio of transportation services and to help ensure a consistent and outstanding experience for our customers.

T. Michael Glenn is the President and Chief Executive Officer of FedEx Services, which is based in Memphis, Tennessee. As of May 31, 2012, the FedEx Services segment had approximately 34,400 employees (including approximately 16,500 at FedEx Office).

Technology

FedEx is a world leader in technology, and FedEx founder Frederick W. Smith's vision that the information about a package is as important as the delivery of the package itself remains at the core of our comprehensive technology strategy.

Our technology strategy is driven by our desire for customer satisfaction. We strive to build technology solutions that will solve our customers business problems with simplicity, convenience, speed and reliability. The focal point of our strategy is our award-winning Web site, together with our customer integrated solutions.

The *fedex.com* Web site was launched over fifteen years ago, and during that time, customers have shipped and tracked billions of packages at *fedex.com*. The *fedex.com* Web site is widely recognized for its speed, ease of use and customer-focused features. At *fedex.com*, our customers ship packages, determine international documentation requirements, track package status, pay invoices and access FedEx Office services. The advanced tracking capability within My FedEx provides customers with a consolidated view of inbound and outbound shipments. FedEx Desktop provides customers the benefit of working offline and having real-time shipment updates sent directly to their computer desktop.

FedEx Mobile is a suite of services available on most Web-enabled mobile devices, such as the BlackBerry® and Android smartphones, and includes enhanced support for Apple products, such as the iPhone®, iPod touch® and iPad® mobile digital devices. FedEx Mobile allows customers to track the status of packages, create shipping labels, get account-specific rate quotes and access drop-off location data for FedEx shipments and utilize FedEx Office Print & Go, a smartphone solution that allows customers to send documents directly for printing on digital copy machines at FedEx Office locations across the United States. FedEx also uses wireless data collection devices to scan bar codes on shipments, thereby enhancing and accelerating the package information available to our customers. The FedEx Mobile website has expanded to 206 countries and 25 languages.

We design our e-commerce tools and solutions to be easily integrated into our customers' applications, as well as into third-party software being developed by leading e-procurement, systems integration and enterprise resource planning companies. Our FedEx Ship Manager suite of solutions offers a wide range of options to help our customers manage their shipping and associated processes, and FedEx Freight was recently integrated into this platform.

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Marketing

The FedEx brand name is a symbol for high-quality service, reliability and speed. FedEx is one of the most widely recognized brands in the world. Special emphasis is placed on promoting and protecting the FedEx brand, one of our most important assets. In addition to traditional print and broadcast advertising, we promote the FedEx brand through corporate sponsorships and special events. For example, FedEx sponsors:

The National Football League (NFL), as its Official Delivery Service Sponsor

FedExField, home of the NFL's Washington Redskins

The #11 Joe Gibbs Racing Toyota Camry driven by Denny Hamlin in the NASCAR Sprint Cup Series

PGA TOUR and the Champions Tour golf organizations, as the Official Shipping Company, and FedExCup, a season-long points competition for PGA TOUR players, which we recently extended through 2017

The FedEx St. Jude Classic, a PGA TOUR event that raises millions of dollars for St. Jude Children's Research Hospital

FedExForum, home of the NBA's Memphis Grizzlies

ATP World Tour men's professional tennis circuit and French Open tennis tournament

Information Security

FedEx Services has a team of highly qualified professionals dedicated to securing information about our customers' shipments and protecting our customers' privacy, and we strive to provide a safe, secure online environment for our customers. We are committed to compliance with applicable information security laws, regulations and industry standards including, for example, the Payment Card Industry Data Security Standard, a set of comprehensive requirements for enhancing payment account data security developed by the Payment Card Industry Security Standards Council. For a description of risks related to information security, see Item 1A of this Annual Report on Form 10-K ("Risk Factors").

Global ISO 9001 Certification

FedEx Services provides our customers with a high level of service quality, as evidenced by our ISO 9001 certification for our global express and ground operations. ISO 9001 registration is required by thousands of customers around the world. FedEx's global certification, encompassing the processes of FedEx Express, FedEx Ground and FedEx Services, enhances our single-point-of-access strategy and solidifies our reputation as the quality leader in the transportation industry. ISO 9001 is currently the most rigorous international standard for Quality Management and Assurance. ISO standards were developed by the International Organization for Standardization in Geneva, Switzerland to promote and facilitate international trade. More than 150 countries, including European Union members, the United States and Japan, recognize ISO standards.

FedEx Office

FedEx Office's network of digitally-connected locations offers access to copying and digital printing through retail and Web-based platforms, signs and graphics, professional finishing, computer rentals, and the full range of FedEx day-definite ground shipping and time-definite global express shipping services. FedEx Office's network of locations provides convenient access points to FedEx Express and FedEx Ground services for higher margin retail customers.

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In addition, FedEx Office offers packing services, and packing supplies and boxes are included in its retail product assortment. By allowing customers to have unpackaged items professionally packed by specially trained FedEx Office team members and then shipped using any of the full range of FedEx day-definite ground shipping and time-definite global express shipping services, FedEx Office provides a complete pack-and-ship solution.