

Economic Impact

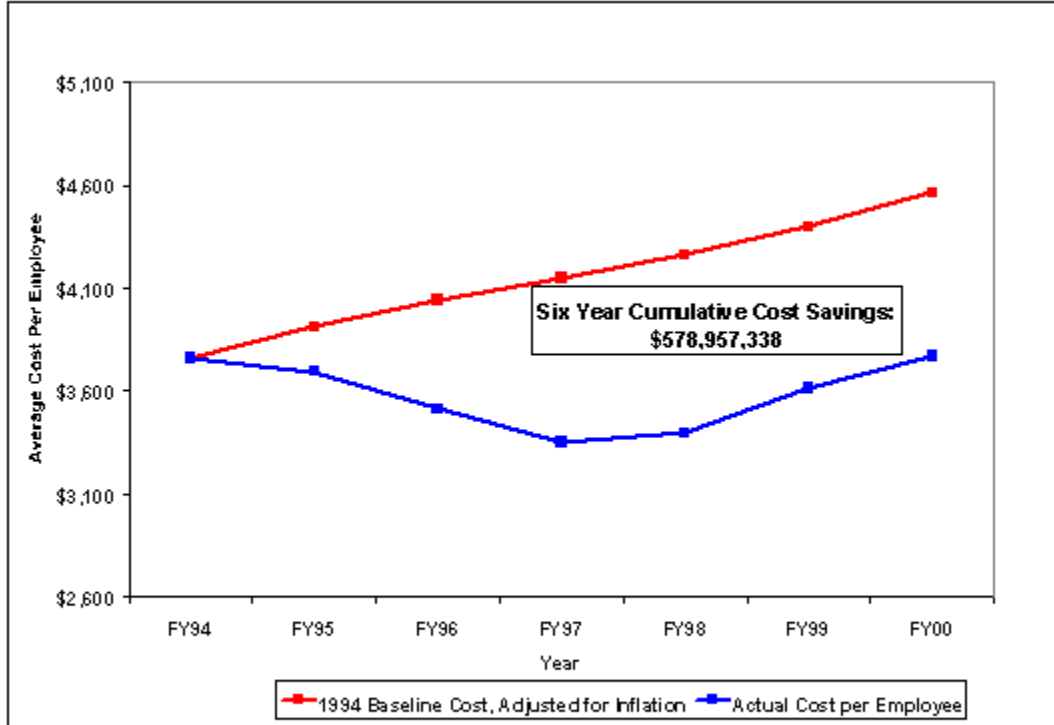
Health Benefits Cost Impact

Figures 1-2 illustrate the direct cost savings over the past six fiscal years, the productivity loss cost savings, and the impact that those savings have on the bottom line to FedEx.

The financial impact of HCMP initiatives in terms of direct benefits cost savings is graphically displayed in Figure 1, showing average health benefits cost per employee from FY94 through FY00. The red line represents those costs adjusted upward in subsequent years to reflect the erosion in the value of money due to inflation, as measured by the CPI. The blue line shows the actual annual per employee benefits cost paid by FedEx. Thus, the cost savings per-employee is represented by the area between the red and blue lines. The total five year cumulative cost savings is estimated to be \$578,957,338 — a tremendous benefit from the efforts of the HCMP initiative to turn health benefits costs into increasingly productive human capital.

It should be noted that following substantial cost savings during FY95, FY96, and FY97, the trends have now turned towards a parallel course with the expected costs from the FY94 baseline. This trend will need to be followed closely over the next fiscal year.

Figure 1: FedEx Health Benefits Cost Impact Trend Analysis

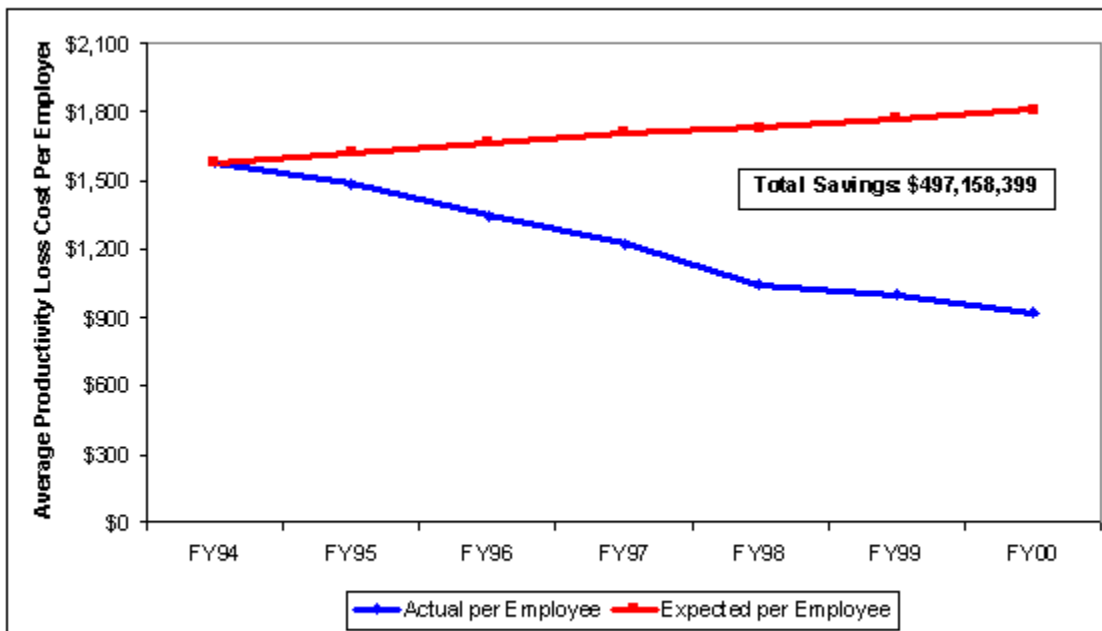


Note: This analysis includes inflation factors as determined from the CPI index. Medical expenses and wage replacement costs were adjusted separately based on the values given in the CPI index. These figures include claim costs, premiums, and administrative costs. Cost figures for benefits expenditures were obtained from FedEx Finance and evaluated against claim cost information contained in the FedEx/DCI Integrated Database and determined to be congruent.

Productivity Loss

Similar to Figure 1 above, Figure 2 illustrates the productivity savings associated with a decrease in medical-related lost time at FedEx. Figure 2 assumes that the average productivity loss cost per employee in FY94 increased over time with the cost of salary inflation as calculated from the CPI index. The blue line represents the actual average productivity loss cost per employee in each of the subsequent years. The difference between the two lines represents a productivity loss cost savings, as FedEx continued to decrease the amount of lost time the average employee has during a given year.

Figure 2: FedEx Productivity Loss Impacts



Note: This analysis includes inflation factors as determined from the CPI index. Cost figures for the impact of lost time were obtained from a previous report titled "Lost Time and Productivity". This analysis quantified the lost productivity cost of an absence within a workgroup at FedEx.

- The cumulative productivity cost savings over the past six fiscal years was almost \$500 million dollars.
- This figure, coupled with the direct cost savings, represents slightly over \$1 billion in cost savings.

Financial

Figure 3 shows the impact that HCMP initiatives had on the FY2000 financial figures at FedEx Express. The figures in the column labeled 'Actual' represent the financial operating results for only FedEx Express. The column labeled 'Expected FY2000' is adjusted to represent trends in benefits cost and lost time from the FY94 baseline.

- HCMP interventions that began in FY94 had significant financial impact on FedEx Express FY00 financial results. In fact, operating income was 44 percent higher in FY00 than it would have been had trends from FY94 continued.

Figure 3: HCMP Initiatives Total Economic Impact

In thousands (1,000s)	Actual FY 2000	Expected FY 2000	Difference (In Percentages)
OPERATING RESULTS			
Revenues	\$ 15,068,945	\$ 14,923,967	1.0%
COGS	\$ 14,168,871	\$ 14,299,138	-0.9%
Operating income	\$ 900,074	\$ 624,829	44.1%
Operating margin	6.0%	4.2%	1.8%
Expenses	\$ 392,690	392,690	0.0%
Net income	\$ 507,384	\$ 232,139	118.6%

Note: This analysis illustrates the difference between what actually happened at FedEx Express during FY00 compared to what would have been expected to happen at FedEx Express given lost time trends at the end of FY94.

Safety

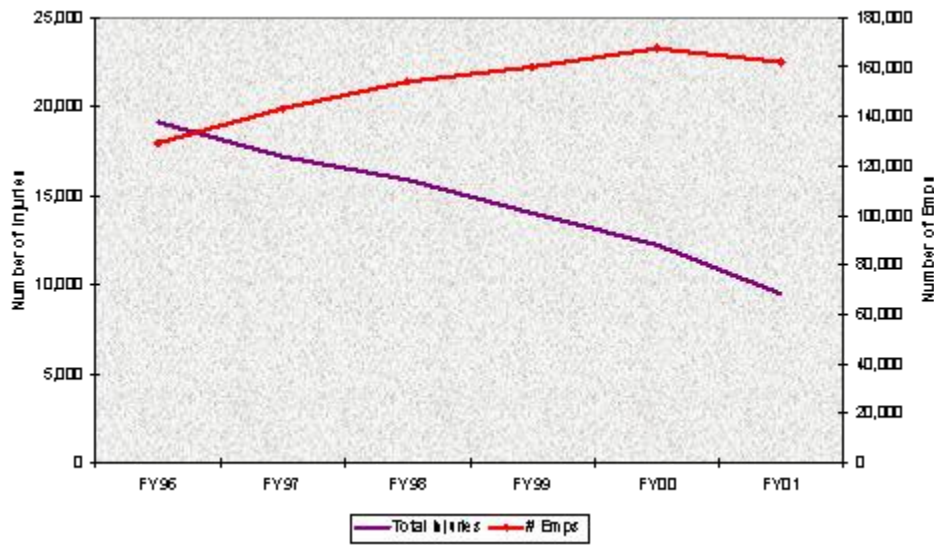
The FedEx Safety Above All Initiative is effective in preventing injuries. This Initiative is a cornerstone at FedEx Express that provides for safety to be included in corporate strategies and business planning as well as incorporated into management's bonus pay and performance reviews.

These initiatives include:

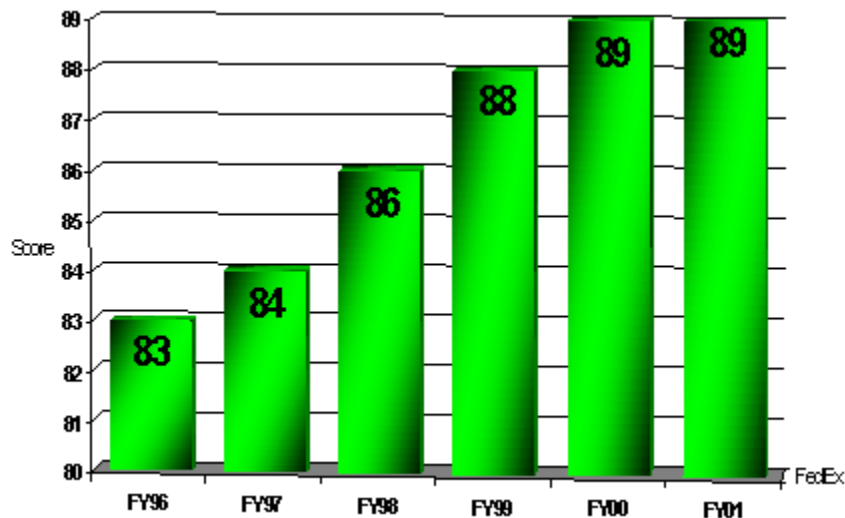
1. **Safety metrics for measurement of injuries:** Where all injuries are recorded and measured using the OSHA formula. Injury rates are reported to management for use in prevention strategies.
2. **Safety goal setting at the corporate level:** Where all management has safety goals set for them at the beginning of the fiscal year by the corporation. These goals are shared with all employees and are used as part of business planning throughout the year.
3. **Bonus pay tie in:** Management Bonus pay has a safety objective at all levels. Safety Goals must be met in order to receive that portion of their bonus.
4. **Recognition:** Numerous recognition awards for safety are used as incentive. The Corporate CEO Award being the largest, where work groups are rewarded for the best safety rate and most improved at the end of the fiscal year. Like groups compete against each other!
5. **Performance reviews of all employees contain safety as a rating factor:** This ensures that every employee, management, professional and hourly are all accountable for safety. Performance review scores then determine merit pay.
6. **Safety Continuous Improvement Teams (SCIT) at local levels:** Employees form teams, chaired by the employees, to review safety in their work areas, provide solutions to safety issues and support new hires and others in their workgroup in understanding safe work practices.
7. **Required management and employee safety training:** All employees receive safety training upon hiring with the company, both classroom and hands-on. Management receives additional training on specifics regarding injury prevention, metrics, reporting, accident investigation, communicating safety, SCIT formation and motivation, OSHA laws and hands-on training skills.

8. **Chargeback system to local budgets for injuries:** If injuries do occur, the local budget is charged back the cost of that injury. This allows them to manage injuries in their budgets as they would other business expenses.

These Safety Above All initiatives have resulted in a dramatic reduction in injury performance. Since the 1996 implementation date until now, a 47% improvement in injury rates has been achieved while at the same time the number of employees has increased significantly as demonstrated in the following graph.



FedEx Express as part of its *People-Service-Profit* culture yearly conducts employee surveys, in regards to their manager's performance as well as the Company's performance. One of the questions on the survey asks: "In my environment we use safe work practices." The following graph indicates FedEx Express employee safety satisfaction. (scale is out of a possible 100).



FedEx Express Employee Benefits

Medical management includes demand management, utilization management, disease state management and catastrophic case management. All of these functions are available to employees eligible through the FedEx Express benefits and are described in the following paragraphs.

Demand Management

The term demand management encompasses a broad range of services designed to minimize the utilization of inappropriate and unnecessary medical services by empowering employees to make medical decisions based on a consideration of benefits and risks. For purposes of providing information for the RFI, demand management refers to the toll free 24-hour telephone counseling services provided by CIGNA and United Health Care for employees and their family members. The goals of these programs are basically the following:

- To teach employees how to handle common illnesses at home and to determine when to consult a physician.
- To teach efficient use of time spent with health care providers.
- To help control costs by eliminating inappropriate visits to the emergency room or a physician's office.
- To improve employee satisfaction with employer health care benefits.
- To reduce absenteeism.

Utilization Management

Utilization management programs are included in all the employee medical options. FedEx HealthCare Review is available for the Memphis PPO health plan participants. CIGNA provides utilization management for the majority of employees who are participants in the POS and HMO options. Preauthorization is required for all inpatient care, any outpatient surgical procedure performed outside of a physician's office, treatment of nerve blocks and foot surgeries regardless of setting, chemotherapy treatments, organ transplants and certain outpatient diagnostic tests. Continued stay review and discharge planning are an essential function of both vendors' utilization management in order to maximize an optimal clinical outcome for each case and to identify cases requiring catastrophic or disease management services.

Catastrophic Case Management

United Health Care and CIGNA provide case management programs that deal with specific, severe illnesses in order to facilitate continuity of care, provide patient education in order to enhance the consumer knowledge and give support when needed most. The identifying criteria of a catastrophic case can be based upon a dollar amount or diagnosis. A dollar threshold might be an expenditure of \$10,000 or more within a year. Example diagnoses are cancer, AIDS, high risk-pregnancy, head and spine injury. In 1999, catastrophic payments for Memphis and the Basic Health option as a total of inpatient payments declined

from 17% to 10% and 100% of the catastrophic cases in that population were managed through case management.

Disease State Management

Disease state management is a systematic, proactive case management model that uses an organized approach to provide early intervention along the health care continuum. Disease state management seeks to have patients actively participate in managing their disease and maintaining their optimum state of health. Disease state management emerged from case management about five years ago and was led by the pharmaceutical industry. The nurses in the Health and Wellness workgroup of the Employee Benefits department have performed various types of case management since 1987. All disease state management programs are provided through contracts with CIGNA and Caremark. In addition to CIGNA and Caremark programs summarized below, the Health and Wellness team actively participates in on-site Health Fairs, preventive care lunch and learns, and clinical screening programs. A major initiative for the nurses is coordinating the integration of the disease state management programs with the on-site wellness centers in Memphis, Colorado Springs and Dallas.

CIGNA Well Aware

These disease management programs identify participants through claims data, self-referrals and via the CIGNA PCP (primary care physician). Contact is maintained primarily via telephone and written correspondence. The protocol provides program introduction via mail, access to educators via phone, educational newsletters, reminders on key tests and exams, annual health status reports, quality of life assessments, metabolic management assessment and contact with physicians. Also available is the CIGNA Healthcare Healthy Rewards program that provides discounted products and services that are traditionally not covered under medical benefit plans. The strength of the CIGNA Program is the ability to integrate data with the balance of the patients' healthcare profile, thereby creating a more comprehensive healthcare system.

The CIGNA Well Aware Programs are available for the following diseases:

- Asthma
- Cardiac Care
- Diabetes
- Low Back Pain

CAREMARK Care Patterns

These disease management programs are based on education of the patient, self-care promotion, and physician compliance. The program tracks and reports on utilization, quality of life and program satisfaction. The strength of the CarePatterns program is its integration with the overall prescription drug management program, Caremark. The largest benefit of this integration is Caremark's ability to monitor physician-prescribing habits and intervene accordingly.

The Care Patterns Program includes:

- Asthma
- Arthritis
- Diabetes
- Peptic ulcer disease
- Chronic Cardiac disease

Maternity Education Programs

Maternity education programs are available to all eligible participants of the FedEx Express self-funded health benefit programs, currently administered by CIGNA and United Health Care.

Benefit Fairs

The FedEx Employee Benefits Department conducted over twenty on-site benefit fairs that included clinical screenings during the year 2000. In Anchorage, Alaska, three out of four lab components revealed a 5 to 6% improvement in the percentage of abnormal values over 1999 results of cholesterol screens. The first targeted Health fair was conducted for the retirees of FedEx in the fall of 2000.

Smoking Cessation Program

FedEx Express Employee Benefits provide a free "Smokeless self-help" kit to employees, and retirees and their spouses. The kit contains audiotapes and written material to assist individuals in their efforts to quit smoking. Reimbursement is provided for the costs of smoking cessation products and/or programs within certain guidelines. A free T-shirt with the slogan "Expressly Smoke Free" is given to participants that have been "smoke-free" for at least two months. Participation rates of the program have remained constant at 33% of the smoking employee population. The program is integrated with cardiac disease awareness efforts of the Health and Wellness team and with the cardiac disease state management programs available to employees. The following report prepared by OCI compares demographics and benefit cost of program participants.

Figure 1 shows the differences in the demographic variables of the FedEx Smoking Cessation Program participant group and the Non-Smoking Cessation group. For the Smoking Cessation group, age and tenure

were determined by the enrollment date. For the Non-Smoking Cessation group, the date March 14, 2000 was chosen as it represents the average enrollment date for Smoking Cessation members. Because many of the members of the Smoking Cessation group were enrolled very recently, the data did not allow for a good annual comparison to their counterpart in the Non-Cessation group.

Figure 1: FedEx Smoking Cessation Program Demographics

	Smoking Cessation Group (N = 126)	Non-Cessation Group (N = 61,500)
Age (in years)	40.50	39.76
Tenure (in years)	10.10	8.91
Gender (Female)	39.7%	30.7%
Married	62.7%	58.2%
Exempt Status	24.6%	20.7%
Full Time Status	81.7%	71.3%

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In general, the smoking cessation group is more predominately full time, exempt, and female.

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Figure 2: FedEx Smoking Cessation Program Health Benefits Cost Comparison

Benefit Type	Smoking Cessation Group		Non-Smoking Cessation Group¹	
	Average Annual Cost Pre-Enrollment	Average Annual Cost Post-Enrollment	Average Annual Cost Pre-Enrollment	Average Annual Cost Post-Enrollment
MAP	\$ 416.77	\$ 508.26	\$ 341.38	\$ 367.29
STD	\$ 141.14	\$ 119.23	\$ 135.53	\$ 117.46
LTD	\$ -	\$ 99.15	\$ 49.83	\$ 21.29
WC	\$ 581.16	\$ 730.47	\$ 481.41	\$ 421.54
Medical	\$ 924.26	\$ 1,349.88	\$ 865.10	\$ 940.48
Total	\$ 2,063.33	\$ 2,806.99	\$ 1,873.25	\$ 1,868.06

Note: The enrollment date used for the non-cessation group was March 14, 2000. This was determined by calculating the average enrollment date for the smoking cessation group. All costs are incurred and have not been adjusted.

Employees enrolled in the smoking cessation program seem to be more costly than the non-smoking cessation group. Employees enrolled in the smoking cessation program appear to have additional cost for health benefits in the year immediately following their enrollment. This is commonly seen in studies and may reflect the need for additional medical support during the initial efforts to quit; or may be related to emerging medical problems that precipitated the desire to quit. The real financial impact of actually quitting

smoking is usually not manifest until several years following the change in behavior. Continued evaluation is expected to reveal a downward trend in healthcare use and cost for those employees who are successful in their smoking cessation efforts.

Quest for Quality - Vendor Recognition Program

As an organization, FedEx is deeply committed to providing quality service to all of our customers, both external and internal. Internally, we recognize and reward employees who exhibit excellent performance through the Bravo Zulu Award to express gratitude for their willingness to go above and beyond the call of duty.

Since 1998, the FedEx Human Resources Administration Department has applied the Bravo Zulu concept to recognition of our benefit vendors who exhibit exemplary performance through our Quest for Quality Spotlight awards program. We also recognize our vendors with awards for Account Management, Customer Service and Process improvement at an annual meeting hosted by FedEx each September and attended by FedEx executives. More than 150 vendors are represented.

The goal of the program is to optimize the value of benefits available to employees and their family members. We can only be successful through the partnerships and relationships we have with our vendors.

Lifeworks

The FedEx Lifeworks Program strives to improve employee health and quality of life through reduction of stress, work/life support, shift work education, resource and referral for childcare, elder care, self-care, and employee education and counseling.

When an employee is on a medical leave of absence, Lifeworks has a model for staying connected with work during a leave and for returning to work following a leave of absence. Consultants are available by phone 24 hours a day, 7 days a week via a designated toll-free phone number.

Lifeworks an employee the opportunity to request online a phone call from a consultant, order educational materials, download tip sheets or listen to audio tips. In late 1999, a Hispanic Service Center was added to serve FedEx employees and family members who are more comfortable speaking to a Hispanic-speaking consultant.

Lifeworks facilitates the employee's ability to focus on work and reduce stress associated with personal issues. The program is available for all FedEx employees, their dependents and retirees.

Top education materials requested in 1999 were:

- Managing Stress with Humor

- Achieving Balance
- Making Your Relationship Work when you Both Work

Top consultation categories in 1999 were:

- Parenting and Child Care
- Older Adults
- Caring for Self
- Education
- Financial

Health and Wellness Centers

There are several studies that have demonstrated the benefits of regular exercise and the harmful effects of a sedentary lifestyle. The Surgeon General's report, *Physical Activity and Health*, stresses that regular, moderate levels of activity can help prevent a variety of health problems, including cardiovascular disease, obesity, high cholesterol, high blood pressure, and adult-onset osteoporosis. Other studies demonstrate the effect of physical activity on lost work time and disability time. Some examples include:

- A study by American Sports Data found that, on average, frequent exercisers were absent from work only 2.11 days per year, compared to 3.06 days for inactive individuals.
- A recent study published in the *Journal of Occupational and Environmental Medicine* reported that persons at risk for high body mass index (BMI) had other health risks and twice as many sick days as those who were not at risk.
- An article in the *American Journal of Health Promotion* reported that physically active workers are \$391 less expensive than inactive workers.

There are numerous other published reports showing the impact of corporate wellness programs in areas of employee productivity, employee morale, reduced absenteeism and disability time, and reduction in health care costs.

To address these issues, FedEx currently has the following Wellness facilities and programs in place:

- There are three Wellness Centers located in Memphis, TN. The initial facility has been open since 1994. To meet the growing demand, two additional facilities have been opened in Memphis in the past two years. Each Memphis based facility has seen a steady increase in membership and utilization.
- A Fitness Room was opened at the new Dallas ITD facility in 9/00.
- A Fitness Center is planned for the Colorado ITD facility with a targeted opening date of 8/01.
- Discussions are in process with the Indianapolis Hub and the Anchorage Hub for possible on-site Wellness Centers.

For employees who do not have access to an on-site Wellness Center, FedEx offers those employees and their families access to the FedEx Fitness Network via the International Fitness Club Network (IFCN).

Through IFCN, FedEx employees have access to over 2,000 health and fitness clubs in over 40 countries.

Some of the IFCN Network benefits include:

- Lowest membership rates for type of membership selected.
- Free fitness certificates, which allow employees to try a club for one week at no charge.
- Preferred pricing on home fitness equipment.
- Guided self-help kits that address a variety of health-related issues.
- Access to information about a fitness walking program.
- Family health resources.

Employees can locate a club in IFCN by using the IFCN Website or by calling the toll-free customer service line. There are also links to the IFCN Website from the FedEx Benefits Page on the FedEx Intranet Website.

Fitness Enrollment

Figure 1 shows the differences in the demographic variables of the FedEx Fitness Program participant group and the Non-Fitness group. For the Fitness group, age and tenure were determined by the enrollment date. For the Non-Fitness group, the date June 3, 1999 was chosen as it represents the average enrollment date for Fitness members.

Figure 1: FedEx Fitness Program Demographics

	Fitness Group (N = 562)	Non-Fitness Group (N = 58,682)
Age (in years)	36.08	39.36
Tenure (in years)	7.68	8.63
Gender (Female)	35.1%	31.0%
Married	52.0%	59.2%
Exempt Status	56.4%	20.4%
Full Time Status	71.5%	72.1%

- The Fitness Group consists of 562 employees who have one full year of benefits data prior to enrollment and one full year of benefits data following their fitness program enrollment date.
- The Fitness Group is generally younger, less tenured, predominately female, and more often have exempt status when compared to the Non-Fitness Group.

Figure 2 illustrates the mean values of benefits cost when comparing the Fitness Group to the Non-Fitness Group. This comparison represents the same populations that were examined in Figure 1. Costs in this analysis are determined from claims costs that have already been incurred. In terms of means, the Fitness Group appears to be less costly than the Non-fitness group in almost all of the different health benefits.

Costs associated with workers' compensation appear to be the most different. There also appears to be an almost \$200 per year decrease in cost for fitness enrollees post enrollment. Caution should be used in comparisons, as there has been no adjustment for demographics or other impacting variables in this analysis.

Figure 2: FedEx Fitness Program Health Benefits Cost Comparison

Benefit Type	Fitness Group		Non-Fitness Group ¹	
	Average Annual Cost Pre-Enrollment	Average Annual Cost Post-Enrollment	Average Annual Cost Pre-Enrollment	Average Annual Cost Post-Enrollment
MAP	\$ 263.22	\$ 271.72	\$ 337.27	\$ 360.24
STD	\$ 76.28	\$ 24.62	\$ 148.85	\$ 151.94
LTD	\$ -	\$ -	\$ 66.40	\$ 60.16
WC	\$ 176.76	\$ 27.39	\$ 572.34	\$ 600.88
Medical	\$ 693.83	\$ 697.39	\$ 978.66	\$ 773.29
Total	\$ 1,210.09	\$ 1,021.12	\$ 2,103.52	\$ 1,946.52

- The average total health benefits claims cost for fitness enrollees in the year after enrollment in \$1,021. The comparative figure for those not enrolled in the fitness program is \$1,947.
- Costs for STD and WC (workers' compensation) have decreased among fitness members in the year following enrollment in the fitness program. This is important as lost productivity is most significantly associated with these two health benefits.

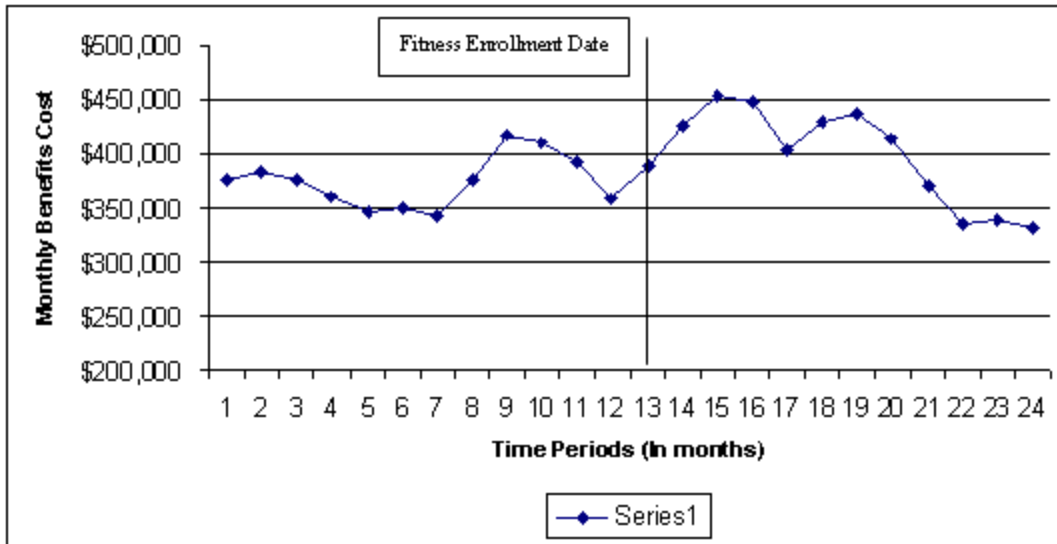
Fitness Enrollment Trends

Figure 3 represents a trend analysis for those 562 members who were enrolled in the fitness program and had a full year of complete data prior to and after enrollment. The data is represented in a 3-month moving average as the original line had tremendous variance from month to month.

This trend line shows a significant change in the cost utilization patterns following enrollment in the fitness program. The trend prior to enrollment is increasing whereas the trend following enrollment is decreasing.

This is further explored in Figures 4 & 5.

Figure 3 Figure 3: FedEx Fitness Enrollment Trends

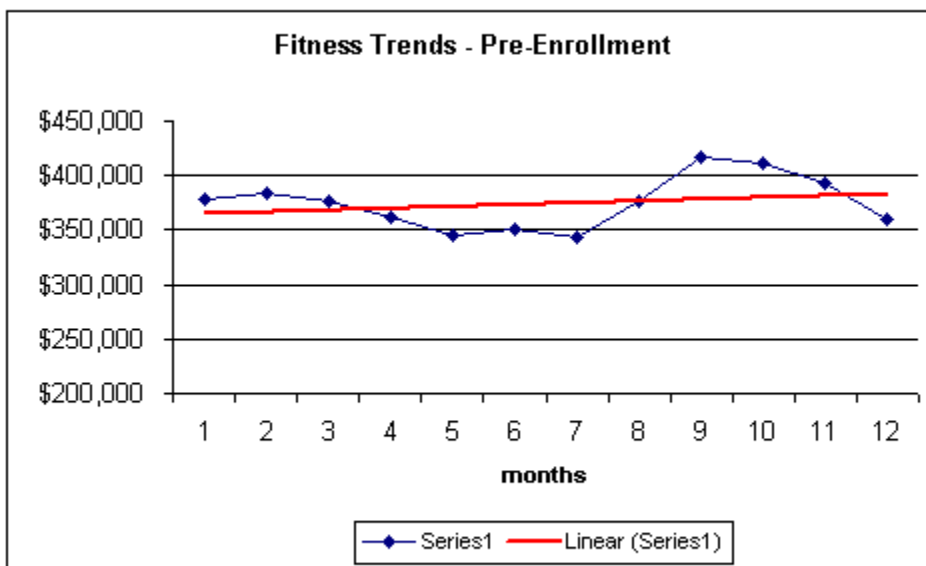


Note: This analysis illustrates the monthly benefits costs for 562 fitness members who were eligible for FedEx benefits use for one full year prior to enrollment and one full year post enrollment. Each point on the graph represents a 3-month moving average and indicates a significant reduction in monthly cost post enrollment date.

Monthly health benefits claims costs are decreasing for fitness group members following enrollment.

Figure 4 is the pre-enrollment period and shows the first 12 months of data from Figure 3. This figure also shows the linear rate at which the monthly health benefits costs are increasing prior to enrollment.

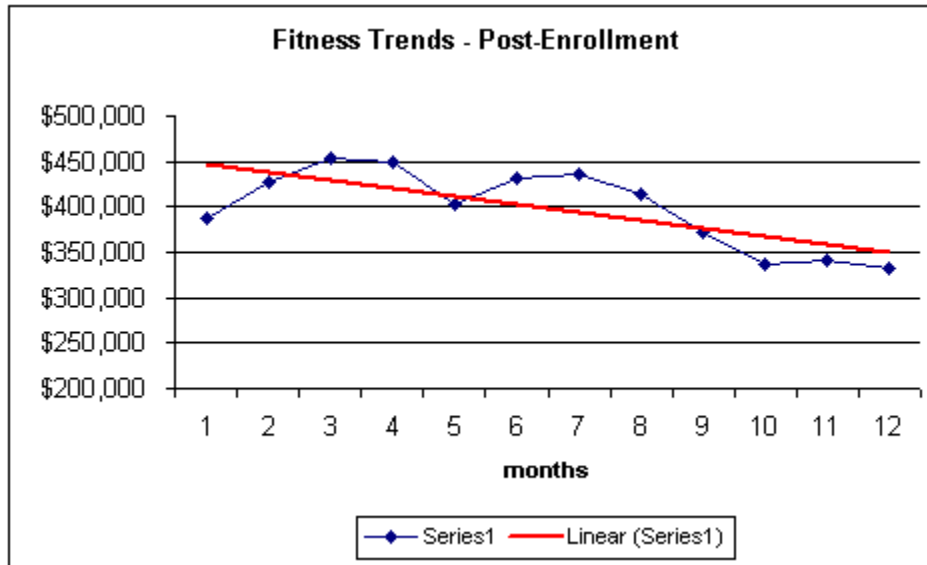
Figure 4: FedEx Fitness Enrollment Trends (Pre-Enrollment)



Note: This analysis includes costs that were defined in Figure 2. The costs are claims costs associated with STD, LTD, WC, MAP, and medical insurance.

Figure 5 is the post-enrollment period and shows the last 12 months of data from Figure 3. This figure also shows the linear rate at which the monthly health benefits costs are decreasing following enrollment.

Figure 5: FedEx Fitness Enrollment Trends (Post-Enrollment)



Note: This analysis includes costs that were defined in Figure 2. The costs are claims costs associated with STD, LTD, WC, MAP, and medical insurance.

- Fitness participants had a decreasing cost trend in the year following enrollment. The linear decrease in cost was \$8,984 per month, or \$3.15 per employee per month.

Employee Assistance Program

The FedEx People Help Program provides an employee assistance program (EAP) that allows prepaid short term counseling services to employees, dependents and household members experiencing quality of life problems. People Help's EAP was combined with the mental health benefits of the self insured group health plan to allow continuity of care when longer term counseling or mental health services were needed. The program is available 24 hours a day, 7 days a week via a designated toll-free phone number.

To receive care, employees, dependents or household members simply call People Help and a case manager will:

- Briefly review concerns and refer the caller to a provider suited to the specific needs communicated
- Assist in making the appointment , if necessary
- Discuss the needs and treatment plan with the provider at the beginning of care and regularly throughout the entire course of treatment

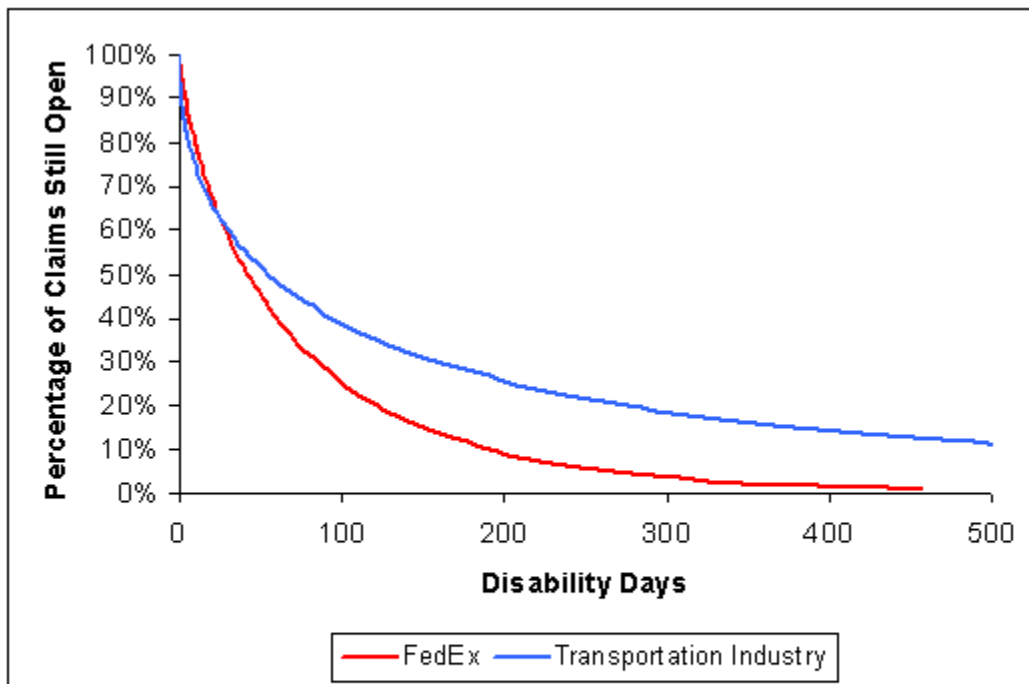
- Authorize appropriate services for coverage by the health option if longer term mental health services are required; and
- Be available for discussion of treatment progress or any treatment problems encountered.

Historical Data

Disability

Figure 1 illustrates that FedEx has experienced tremendous success in keeping disability claim duration lower than the transportation industry average. The transportation industry group contains 4 different workgroups with over 26,000 covered lives and are in the SIC code between 4000 and 4799. Parametric duration models were used to compare FedEx disability claims to transportation industry claims within the OCI R2Db. Results indicated that the expected average duration for a FedEx disability claim is 61 days, compared to 107 days for the transportation industry.

Figure 1: FedEx Disability Duration Comparison Analysis



Note: This analysis includes disability claims that began between January 1, 1999 and February 1, 2001. Disability days include STD days and LTD days if the claim progressed to LTD. The curves shown above are survival curves, showing the percent of claims open after a given number of days. They are generated from parametric duration models that evaluate duration at a given point in time. This methodology is designed to account for claim maturity and both open and closed claims. The transportation industry group contains 4 different workgroups with over 26,000 covered lives and are in the SIC code between 4000 and 4799.

- Disability duration at FedEx was nearly 75 percent below the average disability duration of other transportation industry employers.
- The analytic model took into account claimant demographics, policy parameters, and medical diagnosis on each claim and found that most of the differences are attributable to factors not included in the

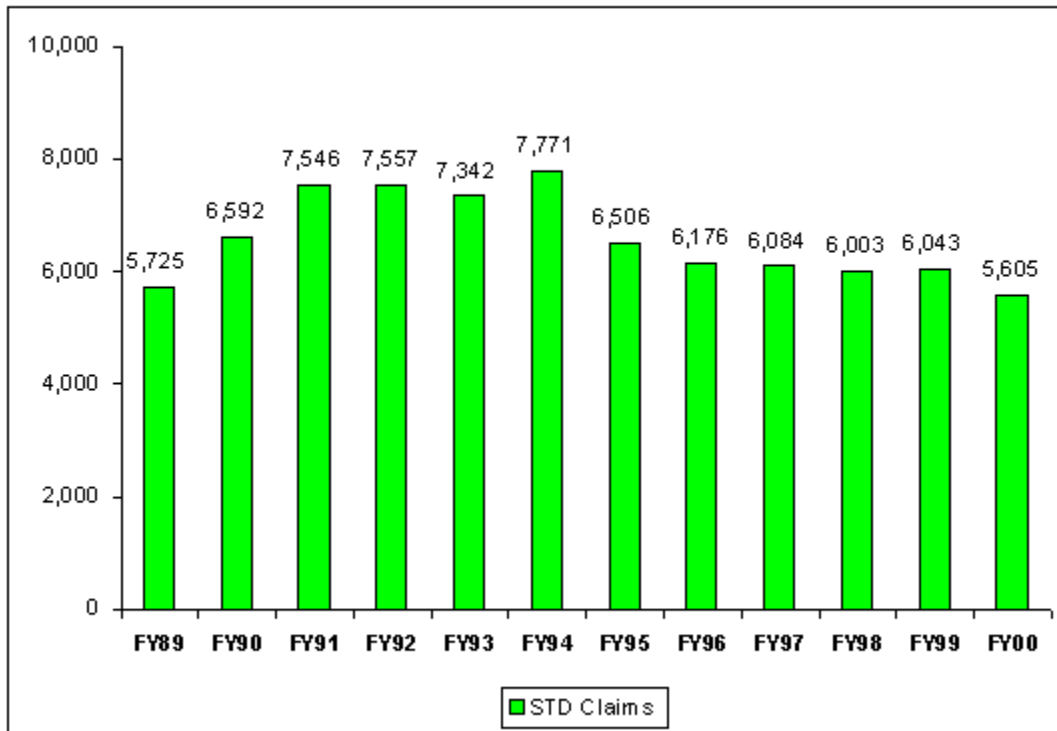
model. Factors including HCMP initiatives and the policy parameter of a maximum LTD leave of two years may be part of this enhanced performance.

- During CY1999, the annual rate in which disability claims were filed in the transportation industry was 68 claims per 1,000 covered lives. Over the same time period, the annual filing rate at FedEx was 69 claims per 1,000 covered lives.

Frequency

Figure 2 illustrates the disability claim frequency trend over the past 12 fiscal years. Generally, the utilization trend has been decreasing since FY94. While this graph represents the aggregate claim totals, the frequency rate in terms of claims per covered life shows an even greater decrease in utilization.

Figure2: FedEx Disability Claims Trend (FY89 – FY00)



Note: This analysis includes all STD claims that were incurred during the specified fiscal year.

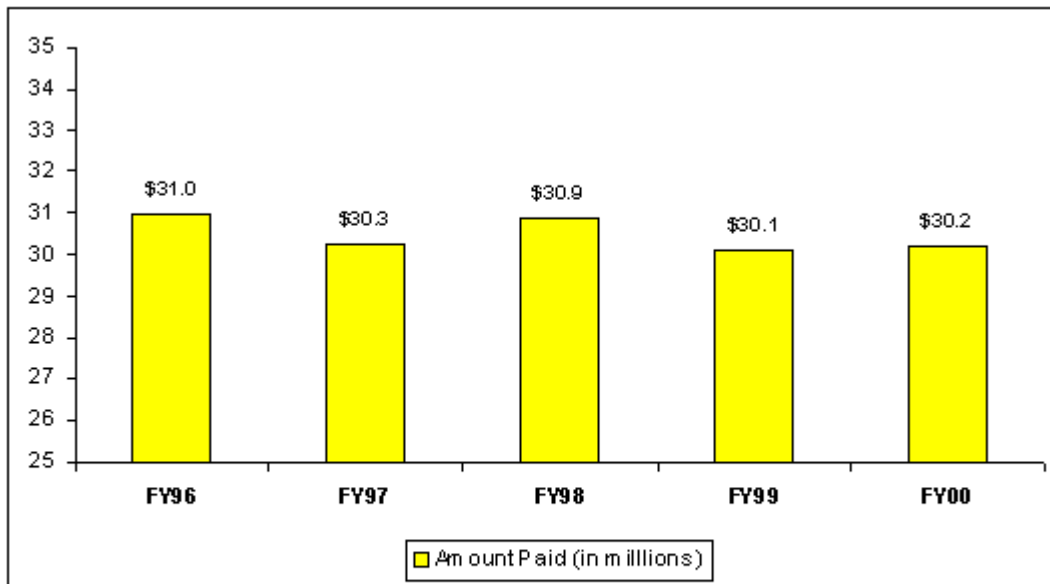
- Total disability claims have decreased 28 percent since FY94.
- From FY99 to FY00, disability claims have declined 7.2 percent.
- After adjusting for increases in covered lives, the decrease in disability utilization from FY99 to FY00 is almost 13 percent.

Cost

Figure 3 shows a positive performance result for FedEx. The annual disability claims cost has been an almost flat trend for the past five years. During this period, inflation as well as increases in the number of disability

benefits-eligible employees would be expected to push disability benefits cost in an upward

Figure 3: FedEx Disability Claim Cost Trend



Note: This analysis includes costs that were extracted from FedEx benefits management and were congruent with figures compiled in the FedEx/OCI Integrated Database.

trend.

- Disability claims costs have decreased by 2.5 percent in the five fiscal years from FY96 to FY00, and at the same time, employment has increased by 20,000.
- While claim costs have been decreasing, medical services inflation and the number of disability benefit-eligible employees at FedEx has been increasing.
- In fact, disability costs per covered life have decreased 25 percent from FY96 to FY00 and 6 percent from FY99 to FY00.

Economic Impact

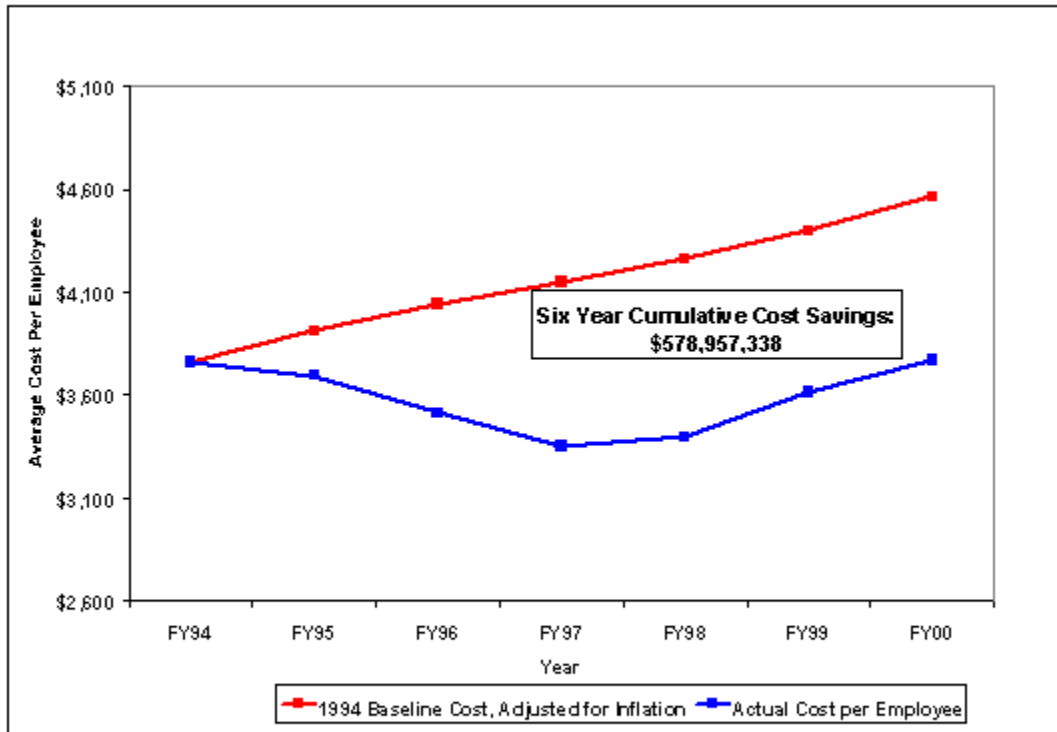
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It should be noted that following substantial cost savings during FY95, FY96, and FY97, the trends have now turned towards a parallel course with the expected costs from the FY94 baseline. This trend will need to be followed closely over the next fiscal year.

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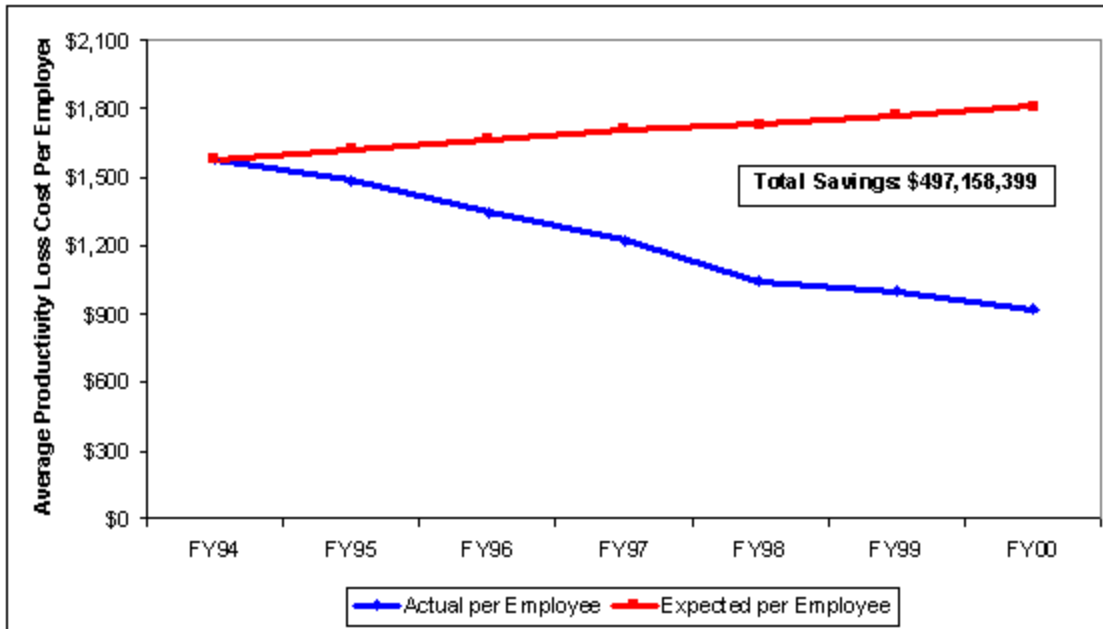


Note: This analysis includes inflation factors as determined from the CPI index. Medical expenses and wage replacement costs were adjusted separately based on the values given in the CPI index. These figures include claim costs, premiums, and administrative costs. Cost figures for benefits expenditures were obtained from FedEx Finance and evaluated against claim cost information contained in the FedEx/OCI Integrated Database and determined to be congruent.

Productivity Loss

Similar to Figure 1 above, Figure 2 illustrates the productivity savings associated with a decrease in medical-related lost time at FedEx. Figure 3 assumes that the average productivity loss cost per employee in FY94 increased over time with the cost of salary inflation as calculated from the CPI index. The blue line represents the actual average productivity loss cost per employee in each of the subsequent years. The difference between the two lines represents a productivity loss cost savings, as FedEx continued to decrease the amount of lost time the average employee has during a given year.

Figure 2: FedEx Productivity Loss Impacts



Note: This analysis includes inflation factors as determined from the CPI index. Cost figures for the impact of lost time were obtained from a previous report titled "Lost Time and Productivity". This analysis quantified the lost productivity cost of an absence within a workgroup at FedEx.

- The cumulative productivity cost savings over the past six fiscal years was almost \$500 million dollars.
- This figure, coupled with the direct cost savings, represents slightly over \$1 billion in cost savings.

Financial

As is shown in the financial section of this report and previous status reports, the FedEx Express HCMP continued to be successful in establishing goal-congruent, interdepartmental efforts that have resulted in reduced benefits costs, reduced lost time, and improved productivity, while maintaining a healthy workforce.

Figure 3 shows the impact that HCMP initiatives had on the FY2000 financial figures at FedEx Express. The figures in the column labeled 'Actual FY2000' were obtained on the FedEx web site and represent the financial operating results for only FedEx Express. The column labeled 'Expected FY2000' is adjusted to represent trends in benefits cost and lost time from the FY94 baseline.

Revenues were adjusted to represent the decrease in productivity that was quantified in Figure 23. The Cost of Goods Sold (COGS) was adjusted to represent the increased cost burden of benefits, had benefits cost per employee progressed as documented in Figure 1. For FY00, this would amount to an estimated \$130 million

in additional benefits cost included in the COGS figure.

Figure 3: HCMP Initiatives Total Economic Impact

In thousands (1,000s)	Actual FY 2000	Expected FY 2000	Difference (In Percentages)
OPERATING RESULTS			
Revenues	\$ 15,068,945	\$ 14,923,967	1.0%
COGS	\$ 14,168,871	\$ 14,299,138	-0.9%
Operating income	\$ 900,074	\$ 624,829	44.1%
Operating margin	6.0%	4.2%	1.8%
Expenses	\$ 392,690	392,690	0.0%
Net income	\$ 507,384	\$ 232,139	118.6%

Note: This analysis illustrates the difference between what actually happened at FedEx Express during FY00 compared to what would have been expected to happen at FedEx Express given lost time trends at the end of FY94.

HCMP interventions that began in FY94 had significant financial impact on FedEx Express FY00 financial results. In fact, operating income was 44 percent higher in FY00 than it would have been had trends from FY94 continued.