

To members of the FedEx team

Many signs point to the next 12 months being a definite improvement over 2009, economically speaking. Coming off the worst financial downturn in 60 years, the good news is the recovery seems to be slowly picking up steam. For example:

- Global trade and the flow of capital are coming back. This is due to a rebalancing of the financial industry in developed markets such as the U.S. and to increasing consumer participation in emerging markets such as China, India and Brazil.
- Compared to the same time last year, the U.S. economy is percolating. We're producing more and consuming more. New and existing home sales are up slightly. Retail is improving, though American consumers remain cautious.
- GDP grew 2.8 percent in the third calendar quarter. Given a positive momentum in monthly sales and output, an expected upturn in the inventory cycle, and a rise in consumer and business confidence, recovery should continue in 2010.

Our financial performance is improving too. Based on our latest earnings report:

- Both international and domestic volumes in FedEx Express are growing, 6 percent and 4 percent respectively.
- FedEx Ground volumes, revenue, operating income and operating margins are also up.
- FedEx Office is seeing signs of improvement in copying, print online and pack-and-ship.
- The exception is FedEx Freight, where average daily shipments increased but at significantly lower yields given the excess capacity in the industry versus LTL (less-than-truckload) demand. We are working hard on plans to turn this around.

On behalf of our entire leadership team, thank you — you delivered on the Purple Promise in very turbulent times. Even under pressure, you never lost sight of serving our customers and supporting each other. You have proved that hard work and teamwork equal success. Congratulations on a superb performance — particularly during the past peak season.

Now that things are hopefully headed in the right direction, it's more important than ever we remember the values that have kept FedEx strong and made our company great. We cannot afford to stumble — not when we're primed for further progress because of your hard work during the recession. It's time to step back and recommit to those basic values that will keep us on track: safety, P-S-P, competing collectively, quality improvement and the Purple Promise.

These five focus areas are the pillars of FedEx success over the years.

1. Safety above all

As a company that travels the skyways and roadways of the world, safety has always been the watchword at FedEx. And we didn't slack off during the downturn. In the last six months, at FedEx Express, we have introduced the industry's first onboard automatic fire-suppression system to boost safety on international, over-water flights. We are also adding "heads-up" technology that will make take-off, landing and taxiing safer. At FedEx Freight, our trucks have advanced collision and lane-departure warning devices as well as equipment that manages braking and accelerations to prevent rollover. FedEx Ground is installing new airbrake-pressure-monitoring systems in our trailers to reduce operator or mechanical errors and the potential for brake fires. And at FedEx Express, tractor-trailers now have mobile data terminals that allow dispatchers to talk directly to drivers about road conditions and other matters in real time rather than the old method in which drivers pulled over to read and type messages.

Also, from a safety perspective, across the company, we have successfully met the challenge of the first two waves of the H1N1 virus. We are more prepared than ever for natural disasters, and are helping prepare our team members and their families as well. We've taken steps to provide greater safety from workplace violence and continue to share best safety practices throughout the company. In addition, we continue to support major safety initiatives such as Safe Kids Worldwide.

Keep in mind that while our technology is improving, safety is also about the decisions individuals make — on the job, every day. In all things, "Think safety, act safely, be safe." One reason I'm so proud of our National Truck Driving Championship winners is that they're among the safest drivers in the industry as well as the most skilled. In the end, no shipment is as important as the safety of our team members and the public. That's why we start all discussions of bedrock values at FedEx with the admonition, Safety Above All!

2. People-Service-Profit

These three words are the philosophical foundation of FedEx. In a nutshell, satisfied team members will deliver the impeccable service demanded by our customers, who in turn will reward us with the profitability that secures our future. The P-S-P philosophy is an unbroken chain, each link enmeshed with the others.

From the Chairman

JANUARY/FEBRUARY 2010

The People part of the philosophy means we try to create and maintain an environment that brings out the best in everyone. We treat each other with respect and dignity and encourage professional growth. We focus our creativity and energy on serving customers. We encourage feedback through formal programs so that we can continue to deliver better and broader opportunities to our people.

The Service part of the philosophy recognizes that if we don't have satisfied customers, we don't exist. So we work hard to deliver top-notch, reliable service. The goal of 100 percent customer satisfaction is one of the things that make us who we are — no matter what our job is, where we are in the world or what the second color is on our uniform. When we deliver service excellence, we stand out from the competition.

The Profit part of the equation recognizes that profit is our lifeblood and that our customers pay our salaries. We can't raise pay, increase benefits or provide other financial rewards unless we have consistent, superior profit performance. One example of how this works are the pay actions we took in the last year. As the economy worsened and our financial results suffered, to remain viable, we reduced some financial benefits for our FedEx team. Then, toward the end of last calendar year, we were delighted to announce some pay restorations associated with merit increases and 401(k) matches. We'll continue to monitor our financial progress and will restore other financial rewards if our business improves. And we'll continue to cut costs and improve efficiency to maximize our profit momentum.

3. Compete collectively

The FedEx brand has great equity in the marketplace. In fact, research shows it is one of the most respected names in business. People know FedEx team members will absolutely, positively come through. We'll get the medicine, the wedding gown, the artwork, the auto parts or the print job there on time. That's why it's so important to compete collectively under the great FedEx name. In short, our ability to satisfy customers using the service of *one* operating company affects our ability to attract and retain customers at *all* FedEx companies. Our sales professionals tap all the resources available throughout our entire portfolio to give customers the solutions they need. For example, even during the recession, when some customers "traded down" from more expensive shipping, we were able to retain their business by providing them with other great service options in our FedEx portfolio. That's competing collectively. In working collaboratively for our customers, we become more valuable to them. Our overall strategy — "Compete collectively, operate independently and manage collaboratively" — has proved to be a powerful approach to

the marketplace, providing just the right service at the right price for various customer needs.

We will continue to do those things that enhance our ability to compete collectively. For example, now that the Freight Sales team has moved to FedEx Services, we have made great progress selling LTL as part of the bundle. Another example is Project Renewal, the major companywide initiative to modernize, integrate and simplify our processes and information technology systems. This multiyear, cross-opco program will help us deliver a more consistent, improved FedEx customer experience and give team members the tools that make it easier to serve our customers better.

4. Quality Driven Management (QDM)

Speaking of tools, one of our best is Quality Driven Management or QDM. Quality means meeting the specifications of the customer and getting rid of whatever impedes our ability to do so. Many people think quality results in higher expenses, but business experiences show that as quality improves, costs go down. Why? Because quality tools and processes remove unnecessary work and re-work and reduce the cost of replacing dissatisfied customers with new ones.

Now that everyone has been trained in QDM, our various quality teams are moving full speed ahead. For example, 50x10 is a cross-opco initiative to reduce loss and damage claims by 50 percent by the end of FY10. A FedEx Express station in Toronto has improved scanning accuracy and re-engineered its sort to eliminate an hour and a half of processing time. FedEx Freight awarded the first Purple Promise Quality Award to a team that was challenged to improve FedEx Freight invoice accuracy and ended up achieving the best invoicing accuracy rate ever within the operating company. A FedEx Ground QDM team speeded up the time it took to get and install computer equipment, from four to eight weeks down to within two weeks.

These QDM examples represent great progress toward making customers happier than ever with us. Continual improvement in the customer experience by reductions in every type of service problem is the goal of QDM. And we carefully measure our progress through the Service Quality Index (SQI) each month and through qualitative research about customer satisfaction and loyalty.

I encourage everyone to frequently review our QDM tools and processes and continue to put them to use in making FedEx an even better customer-pleasing machine.

From the Chairman

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5. The Purple Promise

The thread that binds all our values together is our Purple Promise: "I will make every FedEx experience outstanding." It's our guiding principle, our rallying cry, our pledge to our customers and to each other.

In the coming months we'll make it easier for you to deliver on that promise — with better training, improved tools and simplified processes. We must ensure that all our decisions are "purple" ones when it comes to the customer. And we must show the same purple behavior to each other. Providing great service to our internal, team-member customers is just as important. Mutual respect and cooperation are essential for the success of the entire FedEx team. We intend to do more listening this year to everyone's thoughts, suggestions and creative ideas. Communication is a two-way dialogue, and you are the experts at your jobs. Tell us how we can strengthen our commitment and team spirit and make working at FedEx a more satisfying experience.

Despite the rough times we've been through, it appears things are looking up a bit. According to Rob Pickels, a senior analyst quoted in a Barron's article last November, "FedEx is leaner and will have more market share and more earnings power in the next upcycle."

In this regard, no one can be sure we are on the path for sustained economic growth. In any case, our strategic focus is on improved efficiency and better service for our customers. The months ahead are critical for us. What we do now to clear the hurdles of a still-challenging economy will determine the rewards we enjoy in the future. Let's stay focused on our customers and that future will be bright indeed for many years to come. After reviewing the five pillars of success for FedEx, I close with our corporate mission statement:

"FedEx will produce superior financial returns for shareowners by providing high value-added supply chain, transportation, business and related information services through focused operating companies. Customer requirements will be met in the highest quality manner appropriate to each market segment served. FedEx will strive to develop mutually rewarding relationships with its employees, partners and suppliers. Safety will be the first consideration in all operations. Corporate activities will be conducted to the highest ethical and professional standards."

Adhering to the values above, we will undoubtedly deliver on our goals.



Frederick W. Smith
Chairman and CEO