

To members of the FedEx team

We've navigated the most difficult economic contraction since the Great Depression and are now poised to take advantage of the economic recovery. We pledged at the outset of the recession to come out on the other side a stronger company. I believe we have the right elements in place to make this a reality. Through a combination of necessary expense reductions, bold investments in emerging growth markets, the acquisition of more efficient aircraft, a streamlining of our networks and continued focus on our customer experience, we now have an even stronger foundation in place. I am optimistic about our future and see positive trends on the horizon.

First, we expect 3.2% in real GDP growth in the U.S. and 3.1% for the world as a whole in FY11. That used to be considered average growth, but compared with FY10's 0.8% for the U.S. and 1.1% for the world, and FY09's -2.2% for the U.S. and -1.7% for the world, "average" looks pretty good! Furthermore, since trade and production tend to outperform the overall economy during a recovery, the new fiscal year should see improved shipping traffic.

In general, global trade continues to rebound in volume and value. Prices should firm up as excess capacity is filled. Consumer spending and tourism have increased, and capital spending has risen, led by the manufacturing, transportation and energy industries. Federal Reserve Chairman Ben Bernanke notes that the economy has made an important transition. At first, recovery was driven largely by government spending and federal support policies; now it's growing more through private forces such as exports and business investments.

We are still cautious — just look at the European debt crisis and recent stock market fluctuation — but we're committed to executing our strategy.

Thanks to our team members for their dedication and delivery of the Purple Promise. The recession proved how strong our commitment is to our customers and each other. As you know, we've already restored some pay programs, and we'll continue to monitor company performance for other opportunities.

Great companies take advantage of difficult times to improve their performance and come out stronger on the other side. That is what we've done, not only through cost savings but also through innovation in technology, services and processes. Let's take a closer look at how our opcos are doing this.

Expanded services and record service at FedEx Express

Shipments by air are growing in the near term because companies find themselves with lower inventories and are using air transportation to get product to market faster. As a result, FedEx Express continues to make huge strides in the marketplace. Our international load factors are the highest they've been since 2000, with Asian and Latin American volumes especially strong. FedEx Express has greatly expanded its international deferred services during the year and now offers them in 130 countries and territories. That's a key strategic achievement and primes us for future growth. Related to that, by adding 777s and 757s in FY10, FedEx Express has laid the groundwork for the next generation aircraft fleet, one that gives us a big competitive advantage internationally, while continuing to improve operational efficiency. These aircraft enable us to expand not only our global network but also our value proposition. Six more 777s will be delivered in FY11. More about the environmental benefits of this new aircraft later in this letter.

During FY10, FedEx Express built customer loyalty and delivered record service levels, all while working around the volcanic eruption in Iceland, major earthquakes in several countries and one of the worst winters this decade in the U.S. That's an amazing accomplishment, particularly during a recession.

This year, FedEx Express is pursuing more innovations on behalf of the customer. One of those is FedEx First Overnight® Saturday delivery, which will allow customers to receive a Saturday delivery as early as 9:30 a.m. — hours earlier than the current afternoon Saturday delivery commitment. The new service starts in early August.

Another innovative effort within FedEx Express is an overall push to gain share in the health care services market. The segment is expected to grow by \$300 billion in the next five years, reaching \$1.1 trillion in 2014. The opco will offer a portfolio of value-added services that includes re-icing, cold storage, special packaging, FedEx International Priority Alert and distribution services.

FedEx Trade Networks opened new freight forwarding offices in several key markets around the world, most recently in Europe and the Middle East. In fact, FTN has opened 25 new offices since beginning its aggressive expansion plan two years ago.

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It's important to remember that the largest economy in the world is the economy of global trade, and the fastest-growing part of that is the movement of high-tech, high-value items on a fast-cycle basis. As long as anybody can go online and sell or source a product to anyone else on the planet, FedEx, and particularly FedEx Express, will play a leading role in the international arena.

Speed and service at FedEx Ground

FedEx Ground continues to accelerate its network. In February the opco speeded up another 3,677 lanes, bringing the total to more than 7,000 lanes that were accelerated by one day or more during fiscal 2010. More than 64% of all lanes have been accelerated over the past seven years. These faster lanes provide us with a clear speed advantage over the competition — we're faster to more locations than any other ground carrier.

Service at FedEx Ground and FedEx Home Delivery continues to achieve record levels. On-time service for both companies exceeded 99% for FY10. On-time service at FedEx SmartPost is also setting new records, rising above 98% in the most recent quarter.

Innovation in technology has long been a driving force in the success of FedEx Ground. Project Vision utilizes technology to improve the quality and efficiency of FedEx Ground operations and enhance the customer experience. This includes automating the sorting of packages to the proper routes to improve vehicle load accuracy and improve dispatch time and service. Vision also adds scans to increase customer information and decrease loss. The technology also provides contractors additional information concerning delivery requirements and recipient information.

FedEx SmartPost continues to grow volume rapidly. Business-to-Consumer customers are increasingly recognizing the value that FedEx SmartPost provides for lower-weight, less-time-sensitive packages.

The FedEx Ground team, using QDM tools, has made significant reductions in loss and damage numbers. Loss claims decreased by 19% during fiscal 2010 and damage claims decreased by 12% during the same period. The reduction is even more impressive when you consider that FedEx Ground volume increased more than 3% during that same period.

Balancing growth and yield at FedEx Freight

Reduced freight yields in the past year challenged our profitability at FedEx Freight. Essentially, overcapacity in the less-than-truckload industry led to very competitive pricing among all competitors, which put downward pressure on prices and resulted in lower

profits. Our focus now is on balancing growth and yield, and FedEx Freight is working collaboratively with FedEx Sales on pricing and marketing to address this issue.

In addition, we've reduced costs and reorganized for more efficiency. For instance, we are working to gain productivity in our pickup and delivery, dock, clerical and line-haul operations. We will continue to monitor and fine-tune FedEx Freight for maximum service and efficiency.

In this new fiscal year, in keeping with our P-S-P philosophy, we are rolling out some positive pay actions, including a 2% top-step increase for team members in step-progression programs. And we continue to support team member participation in the National Truck Driving Championships and other competitions.

Though we face challenges, our long-term goals for FedEx Freight are to be the:

- Premier LTL provider,
- Market leader, and
- Most profitable carrier.

I am confident we have the strategy, leadership and resources in place to achieve our goals.

Seizing opportunities at FedEx Services

Our FedEx Services team is gaining share, winning new customers, and delivering innovative tools and services.

The sales force had big goals for small business, and they have delivered. We've gained in small-business package volume (the highest in three years), market share and customer loyalty. Inside and Field Sales have collaborated to get the right salesperson in front of the right customer while improving the call cycle and customer support. In addition, Marketing has worked to make FedEx the clear choice for small-business owners. Our Alliances strategy has given us access to more than 20 million prospects from world-class brands such as Delta Airlines and American Express, including our participation in the American Express OPEN Forum website for small business. Further, our customer e-mail platform coordinates interactive marketing across the globe, sending more than 244 million e-mails across all regions and saving money through the use of a single global platform. Despite a challenging economy, our sales force was able to give customers more economical options with the additional international deferred solutions I mentioned earlier. Such additional services add value to our already formidable portfolio. Also, we integrated FedEx Freight Sales into the broader sales force. This move helped us streamline

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our approach to customers, identify new business and strengthen our value proposition, especially in the LTL marketplace.

We leveraged our cross-network capabilities to develop more customer-driven solutions. For example, we introduced FedEx® Electronic Trade Documents (ETD) to give customers a better FedEx experience. ETD automates the flow of international documents so customers can upload their trade documentation and eliminate the need for manual paperwork. ETD targets international customers who ship nondocument commodity shipments that require customs documentation. This solution appeals to all customers — small, medium and large — because there are no volume requirements or associated charges. It's just an easier transaction.

Within FedEx Services, FedEx Office has rolled out an alliance with HP and Canon that opens doors for new customer-facing solutions such as smart phone printing and creative publishing solutions such as Snapfish by HP. The alliance also means new state-of-the-art printing and production machines in all 1,800 U.S. FedEx Office centers over the next few years.

FedEx Office is testing different store prototypes and solutions within each prototype to identify the best model for the future. The end goal? To make it easier for customers to access what they want and to improve the selling environment for our team members.

FedEx Office has also revamped its approach to marketing. It is trying new ways to reach customers, including fully integrated marketing campaigns, e-mail campaigns, social media blogs, more-focused sales collateral and a new ad campaign. In fact, its "Presentation Guy" TV spot was honored in the 2010 Association of Independent Commercial Producers Show.

Overall, FedEx Services remains on a trajectory for even greater success. In the coming fiscal year, the FedEx Services leadership team, along with all our operating companies, will continue to pursue our Project Renewal efforts to modernize, simplify and integrate our processes and IT systems. Doing so will ultimately save FedEx and our customers time and money. We launched Renewal in FY09 and progress has been slower than we'd hoped since we are dealing with complex legacy systems. However, we are putting the necessary resources behind Renewal to make it a reality as quickly as possible. Our Renewal teams now have a much tighter focus on near-term deliverables and are placing a high priority on those things that make it easier for our customers to do business with us. We will also continue to lay the technological foundation for more-efficient IT operations in the future.

Sustainability and community at FedEx

Companies earn trust by holding themselves accountable, and at FedEx we hold ourselves accountable for our impact on the environment and our communities every day. Here are some of the ways we're doing that.

We've organized our sustainability efforts around our three-part EarthSmart initiative. It's based on innovation — finding new and different ways to improve both our business and our planet.

EarthSmart Solutions covers our services and our physical assets, including planes, trucks and facilities. We were the first U.S.-based company in our industry to add the Boeing 777F to its aircraft fleet. Not only does this airplane help us move more goods to more international markets, but it also reduces emissions by 18%. We're also replacing our 727s with 757s, which will cut greenhouse emissions and reduce fuel consumption by 47% per unit carried.

On the vehicle front, we've been adding hybrid vehicles to our fleet since 2000. We not only buy new hybrids, but we are also turning conventional delivery trucks into hybrid electrics. We're also participating in the development of zero-emission, hydrogen-fuel-cell electric vehicles and hydraulic hybrids. We have put 15 all-electric vans in Europe and introduced four in the Los Angeles market this summer.

These aircraft and vehicle programs are helping us reach our goal of reducing aircraft emissions and increasing FedEx Express vehicle efficiency 20% by the year 2020. So far, our aviation emissions are down by more than 8% and our FedEx Express vehicle efficiency is up more than 14% as measured against a 2005 baseline.

One aspect of EarthSmart that will roll out this year is EarthSmart @ Work. It will give all our team members a way to contribute to the company's environmental efforts. I hope, in the future, you can point out to your friends an innovation FedEx has implemented and say, "I thought of that!" Watch for more information soon.

EarthSmart Outreach covers our philanthropic and volunteer efforts that help us reach our sustainability business goals. This spring, team members in San Francisco; Los Angeles; New York; Pittsburgh; Washington, D.C.; and Memphis cleaned river banks, planted trees and completed other activities to make environmental improvements in urban spaces. Beyond the U.S., we're investing in reforestation in China and transportation improvements in Mexico.

Of course our volunteers' efforts go well beyond environment-centered projects. FedEx team members did a magnificent job delivering relief to Haiti, Chile, Indonesia, the Philippines, and

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other countries. We donated space for 4 million lbs. of charitable shipping or 69 planes worth of donated aid. No one outperforms our volunteers as they help those in need. We often do this in conjunction with organizations we support nationally, such as the Red Cross, Salvation Army and United Way. This September, FedEx Cares Week will kick off our United Way campaign in the U.S., and I'm proud to say we will be doing projects in at least 30 U.S. markets. But FedEx Cares has grown well beyond the U.S. For the first time we will have participation from all our regions — we'll see team members in Canada, EMEA, LAC and APAC wearing purple FedEx Cares T-shirts and performing projects that touch communities in those regions.

Staying focused at FedEx

While the recovery is slower than everyone would like, the economy didn't contract in a day, and it won't spring back overnight. So far, growth in some sectors — like technology — is steady, and recovery in other areas such as new jobs and housing will follow

gradually. We do face some headwinds in FY11 — fuel prices and higher health care costs, for example, but we believe we've done the right things during the downturn to exploit the upturn. We've streamlined processes; we've cut costs; we've innovated. We must continue to do so, and the entire FedEx team must keep thinking and acting Purple in everything we do! It's up to all of us to make every FedEx experience outstanding so we can ensure a thriving future for our company and each other.



Frederick W. Smith
Chairman and CEO