

From the Chairman

To members of the FedEx team:

With the lift we got from a great peak season, we are on track to achieve a successful FY11. Not only did we have a record busiest day (December 13), but we had a record peak season overall. No small feat, considering the recent recession—the worst since World War II—and operational challenges caused by the brutal winter weather in western Europe and in the U.S. midwest and northeast in December. Even so, trends were above expectations. In addition, there were more than 8,000 media stories about FedEx during the holiday season, given the important indicators of economic activity our traffic levels have become.

Thanks to each of you for your remarkable performance during peak.



Frederick W. Smith
Chairman and CEO

The economy — fueled by trade

The outlook for the new year is good, but it will likely take time to achieve a full recovery. Making steady, positive progress is what's important now.

In this regard, the U.S. economy continues to improve. GDP growth is progressing about as we anticipated, with a strong rebound in the early phase, followed by a soft patch. That's consistent with historical patterns.

Inventory restocking, which began a year ago, is now moving at a steady pace. Consumer spending and business spending on equipment and software are on the upswing. Remember that continued business investment will lead to jobs, which increase consumer spending, which eventually leads to more sustainable growth.

The global picture is positive as well. World trade recovered at a rapid pace in 2010 with emerging economies outperforming developed ones. Asia is now slowing down, but it's still the growth engine of global commerce. Latin America is looking up, and Europe is doing better than many expected. Global manufacturing led the recovery, driven primarily by inventory replenishment and emerging markets. World trade is still growing but at slower, more sustainable rates than was the case in mid-2010. Generally, it looks as if global economic activity is on more solid footing. Accordingly, it's more important than ever for nations to continue to embrace open markets, because trade is now the largest single world economy.

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All this is great news for FedEx. On our last earnings call, we reported that yields and volumes increased significantly year-over-year in our transportation segments during the second FY11 quarter. And we increased our earnings-per-share guidance for the entire fiscal year, thanks to record peak volumes and greater customer demand for our services. While the recent run-up in oil prices is a concern, overall we're more bullish about the economic outlook going into 2011.

Opcos — on the move

Because of the economic upswing and our unwavering commitment to the Purple Promise, great things are percolating in our operating companies.

FedEx Express continues to augment our international network, and announced an agreement to acquire AFL Pvt. Ltd. and its affiliate, Unifreight India Pvt. Ltd. This 65-year-old company offers a comprehensive range of distribution, package, and logistics services through a well-established network serving 144 cities across India. Express also announced plans to acquire MultiPack,

a domestic express delivery and logistics company in Mexico. These acquisitions will broaden our international portfolio and give more options to customers doing business in India and Mexico.

In Europe, we opened our new solar-powered hub at the Cologne-Bonn Airport. It's one of the most modern FedEx facilities in the world, with fully automated sorting of up to 18,000 packages an hour. The roof features the largest FedEx Express solar-power installation worldwide. In addition, FedEx Trade Networks opened five new offices in Europe — Antwerp, Budapest, Madrid, Milan and Prague.

Besides expanding our international networks, we sped up the flow of goods in many global markets with our new 777s. This remarkable aircraft creates a meaningful advantage for FedEx: a steep reduction in cost and emissions per unit transported. Most recently, we've added nonstop 777 service from Hong Kong to Paris. We also use the aircraft on four nonstop trans-Pacific flights — which means shorter transit times and more flexibility in package acceptance times for customers in China. As we put more 777s into service, we will continue to capture the transit time, payload/range and operating cost advantages associated with the most advanced long-range cargo plane in the world.

The story at FedEx Ground is about speed and high-tech facilities. Ground's most recent opening was a Portland area hub featuring state-of-the-art automated sorting systems. It's the tenth new Ground hub built over the last five years. More than 500 other facilities have been expanded or relocated during that same time.

Network enhancements have resulted in accelerated transit times and record service. FedEx Ground is faster on more lanes, and FedEx Home Delivery[®] is faster to more residential locations than UPS Ground. FedEx delivers more than 60% of our ground packages in two days or less and more than 80% of packages in three days or less. Average daily package volumes have increased by more than 60%, from 2.1 million in 2003, to more than 3.5 million today. We have gained market share as a result of these investments in FedEx Ground.

FedEx Office is going after more market share as well with a number of new services. Office has rolled out free Wi-Fi in most locations to better serve mobile customers. We've introduced Print and Go, which includes the ability to print from a USB flash drive or select smart phone platforms. Office has also made a number of enhancements to Print Online, including a more intuitive site and additional print and finishing options. Holiday shipping and packing transactions hit record levels during the holiday season. Most important, FedEx Office is focusing on providing friendly, personalized and expert assistance to customers to improve their experience with FedEx.

FedEx Freight — moving to the head of its class

To address the business challenges of the LTL market (which shrank about one-third during the recent recession) and improve our value proposition, as announced last fall, we will merge FedEx Freight, FedEx National LTL and FedEx Freight System into one operating company, FedEx Freight, Jan. 31. This game-changing

growth strategy will deliver exactly what customers have asked for — one company providing service choices in all lengths of haul. FedEx Freight® Priority will offer fast deliveries with industry-leading transit times and value-added services. FedEx Freight® Economy will allow customers to balance speed with cost for shipments that require less time-sensitive delivery.



We're changing the LTL industry.

Our dedicated Freight team members are integral to making this operating plan a reality. The realignment of our networks means we need fewer employees in some areas, and more in others. We worked hard to design a consistent process to transition affected personnel, including an extensive preferential bid process for any open positions. A cross-opco job search system was also put in place. And finally, enhanced severance packages are being offered to displaced employees. FedEx Freight management is working diligently to make this the best experience possible for our team members.

This integration will allow FedEx Freight to pursue additional market share and higher yields while using fewer resources. It is expected to return the FedEx Freight segment to profitability in FY12, which will enable us to reinvest in our LTL business, offer new opportunities for FedEx Freight team members, and enhance the FedEx portfolio.

On a related note, a new go-to-market strategy called Project SELL (Services Expansion to Leverage LTL) debuted last month. It's designed to give our customers a simpler experience interacting with FedEx by providing them one point of contact for the entire range of FedEx services. As part of SELL we have integrated the Freight sales team into the FedEx Services sales organizations and also realigned LTL Marketing, IT, and customer service functions into FedEx Services. Now it's a one-stop shopping experience for our customers and another way we can deliver on the Purple Promise.

We greatly appreciate all the people who are working very hard to make this transition a success.

FedEx TechConnectSM — new service, more revenue

In December, FedEx Customer Information Services (FCIS) became FedEx TechConnect, a name that better reflects our goal of providing unmatched, leading-edge, integrated customer-service solutions. In conjunction with the new name, FedEx TechConnect will now offer tech support and repair services for non-FedEx equipment such as computers, scanners, printers and handheld devices. This new business — based on our existing world-class internal capabilities — will broaden our portfolio and create a profitable new revenue stream.

Cargo security — constantly on alert

“Safety above all” has always been our mantra at FedEx, and we go to great lengths to ensure the safety and security of our team members, our shipments, our customers, and our assets. Given the attempt last November to ship a potentially explosive device originating in Yemen, I want to assure the entire FedEx team that we take such security threats very seriously. We have procedures in place to respond quickly and aggressively, in coordination with law enforcement officials. We are extremely grateful to our global security team and operations team members who collaborated with various government agencies — here and abroad — so effectively in this situation.

FedEx security measures meet and often exceed regulatory requirements, and we comply with numerous country-specific aviation security and anti-terrorist regulations. Of course, we cannot disclose specific details, but our programs entail several layers of complementary processes. We continually evaluate those processes and enhance them when possible. In addition, we've invested in the most modern equipment to strengthen our security and package-screening systems. Simultaneously, governments and industry around the world have a cadre of security and technology experts working these issues every day. Expect to see more dogs, more X-ray systems and other detectors, and increased random searches of shipments.

We cannot tolerate the use of our worldwide networks for illegal purposes. Our reputation depends on the trust of our team members and customers, and we are always working to deserve that trust. While it's impossible to eliminate all risk in modern society, it is possible to dramatically minimize it. That's what FedEx will do, and we will work diligently with industry, government and customer organizations to enhance protections against various threats. Trade is the fastest-growing segment of the global economy, and the world cannot afford to let hostile forces take global commerce hostage.

Please remember that each of us plays a role enhancing security. Let's continue to be aware of our surroundings and notify managers or security officers of any unusual or suspicious activities. Also, please don't discuss our internal security and screening processes outside the company. Yes, some of our processes are visible to customers, but we don't disclose specific details to make it harder on those who try to use our system for harmful purposes.

Quality Driven Management (QDM) — pushing the boundaries

Two years ago, I asked the Customer Experience Steering Committee what it would take to reduce the number of loss and damage claims by 50% by the end of FY10. The result was a big push called “The 50 x 10 Challenge” that involved team members from all FedEx operating companies. These team members used the principles and tools of QDM to make tremendous headway in reducing the number of damaged and lost packages at Express, Ground, Freight and Office.

By improving processes, sharing best practices, and by innovating and collaborating, we achieved excellent results. Missing package scans have shown a whopping 57% improvement! Damage claims are down by about 25%; loss claims by 34%. While these are terrific results, two of the statistics didn't hit the 50% mark. So now we've put the 55 x 11 Corporate Challenge out there — our goal is to reduce claims by 55% from the original baseline by the end of FY11.

Continued focus on improving the customer experience will help ensure customer loyalty and corporate profitability in the future, and I urge everyone to use QDM to continually reduce claims.

I'm an optimist by nature, but one firmly grounded in reality. FedEx has come through a very tough economic period, but due to our unmatched commitment to customers and hard work, we have come out of the recession, as planned, a stronger company. I still enjoy coming to work every day, and I hope you do too. Our goal now is to meet the challenges ahead with the enthusiasm of a young company and the wisdom and tenacity of a mature one. Achieving our goals won't be easy, but we also know from experience that, working together, we can accomplish almost anything. Let's finish FY11 strong and set the stage for a record fiscal year that begins June 1, restoring the trajectory of growth and profitability we had established before the recession.

Frederick W. Smith
Chairman and CEO

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Get the global perspective from Rajesh Subramaniam, senior vice president of Global Marketing and Customer Experience.

