FedEx®

BALI, INDONESIA JUNE 24, 2008 5:13 PM

THESE HANDS DO MORE THAN MAKE JEWELRY.

WITH THE HELP OF FEDEX,

JOHN HARDY'S WORKSHOP IN BALI TOUCHES LIVES ALL OVER THE WORLD.

THE SKILLS OF 800 ARTISANS SUPPORT AN INTERNATIONAL NETWORK OF SUPPLIERS

AND THOUSANDS OF RETAILERS ON THREE CONTINENTS.

WHEN A SHIPMENT LEAVES HONG KONG
TO BECOME SOMEONE'S FAVORITE PIECE OF JEWELRY,

ARTISANS CAN PROVIDE A BETTER FUTURE FOR THEIR FAMILIES AND DRIVE AN ENTIRE ECONOMY.

FEDEX IS THE LINK, CONNECTING ONE TO ANOTHER AND ONE TO MANY.

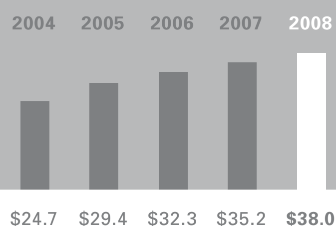
OUR NETWORKS ARE PART OF AN EXPONENTIAL CHAIN THAT GROWS BUSINESSES, CONNECTS CULTURES AND MAKES MORE POSSIBLE IN THE WORLD.

WE HELP OTHERS SEE, REACH AND THRIVE.

FINANCIAL HIGHLIGHTS

In millions, except earnings per share	**2008**[1]	2007[2]	Percent Change
Operating Results			
Revenue	**$37,953**	$35,214	8
Operating income	**2,075**	3,276	(37)
Operating margin	**5.5%**	9.3%	
Net income	**1,125**	2,016	(44)
Diluted earnings per share	**3.60**	6.48	(44)
Average common and common equivalent shares	**312**	311	0
Capital expenditures	**2,947**	2,882	2
Financial Position			
Total assets	**$25,633**	$24,000	7
Long-term debt, including current portion	**2,008**	2,646	(24)
Common stockholders' investment	**14,526**	12,656	15

REVENUE (IN BILLIONS)

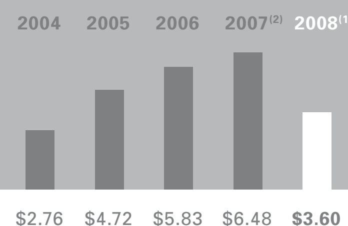


$24.7 $29.4 $32.3 $35.2 **$38.0**

OPERATING MARGIN

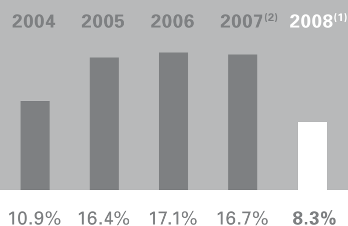
5.8% 8.4% 9.3% 9.3% **5.5%**

DILUTED EARNINGS PER SHARE



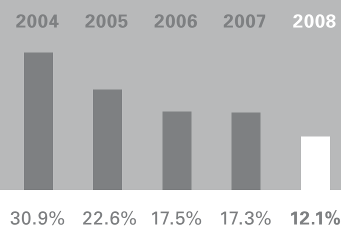
$2.76 $4.72 $5.83 $6.48 **$3.60**

RETURN ON AVERAGE EQUITY



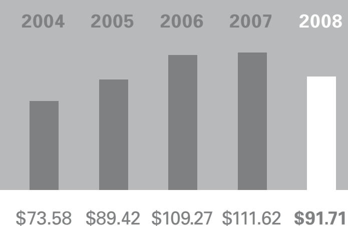
10.9% 16.4% 17.1% 16.7% **8.3%**

DEBT TO TOTAL CAPITALIZATION



30.9% 22.6% 17.5% 17.3% **12.1%**

STOCK PRICE (MAY 31 CLOSE)



$73.58 $89.42 $109.27 $111.62 **$91.71**

(1) Results for 2008 include a charge of approximately $891 million ($696 million, net of tax, or $2.23 per diluted share), predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition.
(2) Results for 2007 include a $143 million charge associated with upfront compensation and benefits under the new pilot labor contract.

TO OUR SHAREOWNERS:

At its core, FedEx is an extraordinary collection of unprecedented networks. These networks connect individuals and businesses to new ideas, customers and markets around the world. As the reach and influence of our networks expand, people's lives improve, communities grow and the global marketplace thrives.

And the more *we* connect, the better *they* do.

Simply put, FedEx networks make new opportunities possible. Let's take a closer look at our powerful FedEx networks.

FedEx Express has built, by far, the largest intercontinental air express network. It connects, door-to-door, more than 90 percent of the world's economic activity in one to three business days. It augments the highest service levels in the industry with a broad array of complementary services, including FedEx Trade Networks and new domestic express networks within the U.K., China and India. Through the FedEx Express network, we give customers around the world more choices, more flexibility and more access than ever before.

The FedEx Ground network now offers the fastest origin-to-destination lanes in the ground parcel business nationally, in both the commercial and home delivery sectors. In fact, in the last five years, FedEx Ground has reduced its transit times by at least a day in more than half of its lanes. And FedEx SmartPost is now the industry leader for low-weight packages delivered by the U.S. Postal Service.

The FedEx Freight network offers compelling value in its service levels, information capabilities, and delivery options in the regional and long-haul sectors of the less-than-truckload freight market. FedEx Custom Critical expands the freight capabilities we offer our customers through its expedited and special-handling services.

In our FedEx Services group, our advanced technology capabilities have no peer. Over the past 30 years, we have revolutionized the entire logistics industry's information capabilities. We are leading the way in tracking deliveries, pinpointing packages, and communicating key information to our customers. Likewise, our FedEx Office retail network and FedEx Global Supply Chain Services offerings complement our core transportation networks with an array of business services for everyone from the occasional package shipper to the most sophisticated global corporate customer.

With these networks, no one is better positioned to offer more services to more people locally, nationally and globally. No one.

Coming off a record fiscal 2007, we planned an aggressive fiscal 2008 despite the challenges of high fuel prices. We initiated new domestic express services in China, re-engineered the Watkins acquisition into FedEx National LTL, built new "smaller footprint" FedEx Office centers, added FedEx Ground hub capacity, and initiated additional Expressfreighter intercontinental routes.

We managed various challenges to FedEx Ground's independent contractor business model while continuing to improve service levels and the customer experience in every respect. At the same time, we converted the California owner-operator system to multiple-route contractors. We also offered new incentives throughout the United States to our FedEx Ground contractors to encourage them to expand their businesses and to reinforce the outstanding entrepreneurial spirit of these important members of our FedEx Ground team.

We did all this with the expectation of meeting our earnings growth target of 10 to 15 percent. During FY08, however, the headwinds of rapidly rising oil prices (which nearly doubled over the 12 months) and economic problems in the financial services, housing and automotive sectors put our earnings goal out of reach for FY08. Despite these multiple challenges, we ended the fiscal year with substantial cash flow, well-funded pension plans and a very strong balance sheet.

Our strategic planning has put us in a strong position moving forward. As we closed out the fiscal year,

FedEx National LTL was rapidly gaining market share; our new China domestic express service had grown by leaps and bounds; and the customer experience at our retail locations had improved greatly. Our competitive positions across the board had grown stronger.

With the decision to rebrand to FedEx Office and prudently reduce the ramp-up of new locations, given challenges in the U.S. economy, we took a noncash charge in the fourth fiscal quarter at FedEx Services for the Kinko's trade name and lower goodwill valuation.

Entering FY09, we are initiating several major cost-savings measures in light of the challenging economic environment. We are also redoubling our sales and marketing efforts to produce acceptable returns and cash flows, as we adjust for the new realities of high fuel prices and modest U.S. economic growth. Our plan is to execute on these tough measures in the current fiscal year in order to resume our earnings growth trajectory in FY10. After all, we know how to do this — we've survived three previous oil crises. The first, in 1973, almost smothered FedEx in its infancy. We went through it again in 1979 and 1990–91. In addition, we weathered other "meltdowns" in 1987, post dot-com and after 9/11.

Also in FY09, we are initiating a corporate-wide re-invigoration of the renowned FedEx quality management system. Combining the best practices of all of our operating companies' systems and state-of-the-art methodologies adopted from other high-performance organizations, our new Quality Driven Management initiative will further solidify our relationship with our customers.

Our biggest advantage is our team of FedEx people — 290,000 strong worldwide. They are completely committed to keeping our Purple Promise — "I will make every FedEx experience outstanding!" In turn, FedEx is committed to our team members. I want to express my great appreciation to our team members. You play an essential role in the success of our company.

The connection between how we treat our customers and how we treat our team members is unshakable. It's why we are consistently regarded as one of the best places to work. For example, in the past fiscal year, we've made *FORTUNE*'s "Most Admired" and "Best Places to Work" lists. We've ranked number one in customer service in our industry on the University of Michigan's customer service index. And we took first place in our industry on *Institutional Investor*'s list of "Most Shareholder-Friendly Companies." These accolades are not only a source of pride for all of us but essential to achieving our corporate mission of producing superior shareowner returns.

Furthermore, we continue to support our communities and our environment. Respect for people motivates us to continue delivering supplies to disaster-torn countries and to continue supporting programs such as Safe Kids Worldwide. Respect for the planet — our commitment to a cleaner, healthier world — drives us toward the energy-efficiency programs you'll find described later in this report.

As we have in the past, we will effectively manage through these turbulent economic times and emerge "on the other side" as a stronger company and one that is positioned to take full advantage of future opportunities.

If past is prologue, our future is limitless.

Sincerely,

Frederick W. Smith
Chairman, President and Chief Executive Officer

FedEx Express is the world's largest express transportation company, providing time-definite shipping to more than 220 countries and territories, as well as domestic express services in the United States, Canada, United Kingdom, China and India. FedEx also offers international trade services, customs brokerage and global cargo distribution through FedEx Trade Networks.

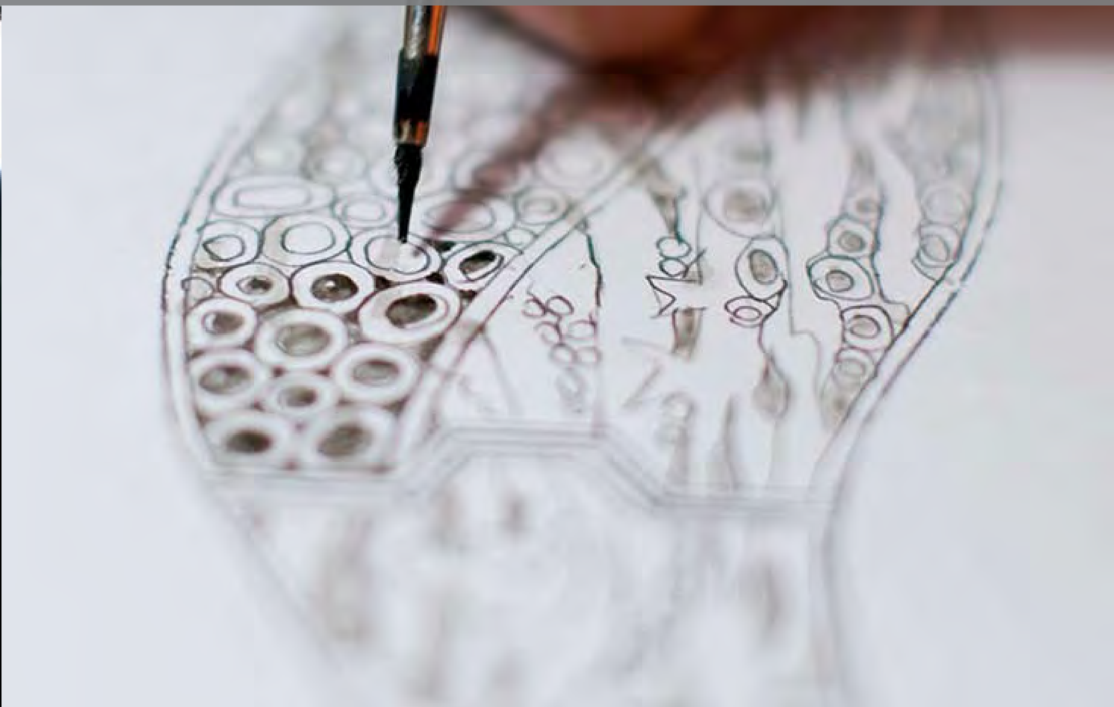
FedEx Ground provides low-cost, small-package shipping in the United States and Canada, as well as convenient residential services through FedEx Home Delivery. FedEx SmartPost gives customers the option of business-to-consumer service using the U.S. Postal Service.

FedEx Freight is the leading North American provider of regional less-than-truckload (LTL) freight services, while FedEx National LTL offers long-haul freight delivery. FedEx also offers time-specific delivery options for urgent freight and valuable items through FedEx Custom Critical.

FedEx Services provides sales, marketing, technology and customer service support for our transportation businesses. FedEx Office offers shipping and business services, as well as document solutions, at more than 1,900 retail locations worldwide. And FedEx Global Supply Chain Services provides a range of logistics solutions.

JOHN HARDY COMPANY

WHEN BALINESE ARTISANS CRAFT a John Hardy bracelet, they celebrate a culture, protect an environment and, with the support of FedEx, reach halfway around the world to create meaningful connections. From early sketches to final gem work, handcrafted pieces often take up to two years to reach consumers. Yet with the help of FedEx Express and FedEx Ground, John Hardy Company owners Damien Dernoncourt and Guy Bedarida are able to tap into the individual strengths of each country in which they operate. Artisans and designers collaborate in Bali and Bangkok. Distribution headquarters in Hong Kong align with sales and marketing in New York. And major retailers enable thousands of customers around the world to fall in love with wearable works of art. As a result, John Hardy runs a global business that incorporates Balinese culture into everyday practices and replenishes local resources with its own sustainable bamboo reforestation program. And the more than 800 people employed by John Hardy in Bali have the means to build better futures for their families and communities.



NEIMAN MARCUS

WHEN A NEIMAN MARCUS CUSTOMER RECEIVES a handcrafted necklace made halfway around the world, something greater than a transaction occurs. A global connection is made. The ability of Neiman Marcus to bring new markets right to people's homes is, in part, the result of a 20-year relationship with FedEx. By increasing speed and efficiency, FedEx customized services save Neiman Marcus significant time and cost, while also ensuring the highest level of service for its customers. As its primary freight provider, FedEx Freight has been able to cut an entire day out of Neiman Marcus' less-than-truckload supply chain. FedEx has also contributed to Neiman Marcus Direct's first entry into Canada by providing greater transparency for online and catalog customers. By revealing unexpected costs due to tariffs and customs, FedEx Trade Networks has alleviated customer concerns about international purchases and paved the way for future Neiman Marcus expansion.

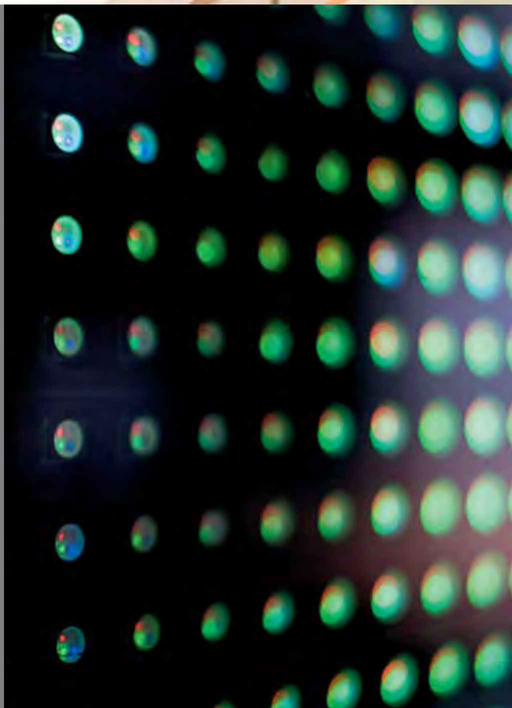
CREE

WHO KNEW FLIPPING A SWITCH could illuminate a whole new world? With the help of FedEx, Cree is leading a revolution with LED lighting technology. From the tiniest applications, like cell phone backlighting, to the 440,000 LEDs in the Beijing National Aquatics Center, Cree's technology can be found almost anywhere. With products that use less energy and produce less heat than traditional technologies — and can last an average of 20 years — Cree is working to bring energy-efficient lighting to the world. An effort this big relies on a speedy and precise delivery system that threads together multiple operations in multiple countries. From North America to Asia, FedEx team members across our operating companies collaborate to provide flexible logistics solutions. And by helping Cree bring groundbreaking technology to the world, FedEx is playing a role in implementing sustainable practices for the future.

Growing interest in energy-efficient lighting demanded that Cree efficiently connect its manufacturing and R&D headquarters in North Carolina with divisions in Asia. Working closely with Cree, FedEx was able to craft a complex, customized logistics solution across FedEx Express, FedEx Ground, FedEx Freight and FedEx Custom Critical. The result is that Cree can efficiently export its products from the United States into Asia to be processed for customers around the world.

The popularity of LED technology is visible throughout Asia, specifically in large-scale video signs. As construction of these signs increases, Cree is fielding more requests for their products than ever before. This is why they use the new FedEx domestic express service in China. With our extensive networks and experience, we are helping these video signs come to life, among many other products, and helping Cree respond to China's ever-increasing demand for LED technology.

Cree's passion for creating a more sustainable world is allowing designers and architects to break new ground. Nowhere will this be more apparent than when the Beijing National Aquatics Center flips its "on" switch during the 2008 Summer Olympics. Cree's commitment to transforming how people use LED technology also includes its work with cities and universities around North America. In places like Austin, Raleigh and Toronto, LEDs are illuminating streets, parking lots, traffic lights and sidewalks, and offering significant economic and environmental benefits.



AMO

NEW TECHNOLOGIES THAT HELP ADDRESS VISION ISSUES require a logistics provider that not only offers speed but also maintains the integrity of the technology. This is why Advanced Medical Optics (AMO) relies on the efficiency and flexibility of FedEx. Helping people at every stage of life, AMO's products, including eye care, cataract and LASIK equipment, are in greater demand every year. But with this comes a need for a more robust supply chain, and when AMO realized its logistics operation in Southern California was struggling to meet increasing demand, they relocated it to the FedEx Global Distribution Center in Memphis. This move shortened inbound logistics from manufacturing divisions in Europe and Puerto Rico and placed products significantly closer to surgical customers, enabling AMO to extend the deadline for orders by four hours.

As the largest generation since the baby boomers enters adulthood, more and more members of Gen Y are considering LASIK surgery as a solution for vision correction. This demand has made the efficient and reliable shipping of critical parts and supplies to doctors who use AMO's iLASIK™ solutions even more important. With the help of FedEx Global Supply Chain Services, as well as FedEx Express, FedEx Ground and FedEx Freight, AMO can consistently deliver its products and help patients live life without restrictions.

When physicians determine that a patient requires cataract surgery, they depend on a trusted source for necessary medical equipment. AMO understands this and has selected FedEx for the efficient and reliable fulfillment of its products, including TECNIS® intraocular lenses and Healon5® Viscoelastic — a cataract surgery solution that cannot be exposed to room temperature for more than 72 hours. Using climate-controlled storage units, FedEx takes on the critical responsibility of preserving the product before shipping it to its final destination where it will help doctors alleviate the debilitating effects of cataracts.

ENERGY EFFICIENCY

CONNECTING GOODS AND SERVICES ON A GLOBAL SCALE is an energy-intensive operation. But to improve our costs and lower our environmental impact, FedEx is constantly seeking to maximize fuel efficiency across our networks. Focused on this challenge, we embraced hybrid technology in 2004 and quickly became operators of the largest hybrid commercial vehicle fleet in North America. Recently logging more than 2 million miles of service, our fleet provides us with 42 percent better fuel economy than conventional diesel vehicles and emits 30 percent fewer greenhouse gases. We recognize that this is a continuing challenge and advocate for greater government incentives to offset the high costs of developing and adopting alternative energy technologies. We are also minimizing emissions from aircraft through the use of cost-effective operations and innovations, and upgrading our fleet with more fuel-efficient planes. And we're harnessing renewable solar and geothermal energy sources in our buildings and operations.

By replacing our Boeing 727s with larger 757s, we're reducing fuel consumption up to 36 percent while providing 20 percent more capacity. We plan to acquire Boeing 777s, which will continue to provide greater payload capacity using 18 percent less fuel than planes in our current international fleet. We're also lightening our planes with a drag reduction program and flying at higher altitudes when appropriate to increase flight efficiency. And our flight management system allows us to decrease engine thrust and fuel use. The process of upgrading our fleet and integrating new support technologies helps us best serve our customers now and in the future.

As part of the FedEx Fuel Sense program, we use efficient operations and technological advancements to significantly reduce emissions and fuel use. Last year alone, FedEx saved at least 9 million gallons of fuel by employing auxiliary power units, which reduce the amount of power our planes use in-gate for such things as heating and air conditioning. Our ground support equipment at select airports has also been converted from internal combustion engine models to electric units.

The FedEx Express regional hub in Oakland produces clean solar power equivalent to the energy used by more than 900 homes every day, generating up to 80 percent of the facility's peak energy demand. This project's success has encouraged FedEx to open two more solar facilities in California, and build another in Cologne, Germany, that will provide a substantial portion of the facilities' peak energy needs. And in Geneva, Switzerland, a FedEx station is literally tapping the power of the earth with a geothermal system that runs deep into the ground to warm the building's air in the winter and cool it in the summer.

REDOCTANE

OPEN A PACKAGE FROM REDOCTANE and what appears to be a toy guitar and software is in reality a cultural phenomenon. In just over three years, RedOctane's video game Guitar Hero has gone from a niche at-home experience to a wildly popular social outlet. From Guitar Hero nights at pubs to competitions held at international music festivals, the game is harnessing the global power of rock 'n' roll. The company took a risk in creating a game requiring special hardware, which most video game companies avoid because of the logistical complexity of aligning design and manufacturing. But by using FedEx International Priority shipping, RedOctane has been able to bridge the distances among its multiple hardware and software divisions in California and China, creating a seamless flow of ideas, designs and prototypes. The result is that RedOctane can produce a new version of Guitar Hero every year, instead of every two or three, and continue to captivate the legions of fans that camp out at midnight on the eve of global release dates.

FedEx Express shrinks the distance between RedOctane's divisions in California and China, allowing RedOctane to alter Guitar Hero prototypes almost weekly. One week RedOctane may reshape a new guitar neck in its hardware department in Southern California that must then be shipped to its manufacturing center in China. The next week RedOctane might produce better software for the guitar controller in Northern California that needs to sync up with operations in Hong Kong. No matter the innovation, FedEx enables RedOctane's creative process by eliminating global logistical challenges.

Last year, FedEx Express, FedEx Ground and FedEx Freight made it possible for retail stores around the world to open their doors at midnight and sell the newest version of Guitar Hero. In addition to ensuring that more than 60,000 retailers can guarantee pre-orders, RedOctane relies on FedEx Ground to deliver Guitar Hero direct to online customers on or before the day the game is available in stores. Consider the added logistical challenge of bundling hardware with region-specific software in Europe and Asia, and it's no surprise that meeting global release dates is crucial to RedOctane.

Guitar Hero's ability to exceed expectations and affect culture is anything but virtual. In fact, interest in the game has led people of all ages to purchase guitars and seek professional instruction. Even more surprising, RedOctane has formed significant partnerships with members of the music industry, including rock 'n' roll icons, major instrument manufacturers and music product companies. But the future of the game goes beyond these partnerships to allow customers to create their own music. Using guitar, drum and microphone simulators, players will soon be able to record and upload music to Web sites. Some day Guitar Hero players may even earn their own record contracts.

TO OUR SHAREOWNERS:

Fiscal year 2008 results clearly reflect the pressure of rapidly rising fuel prices and a weakening economy. Despite these challenges, the strength of the FedEx portfolio and our global reach allowed us to achieve solid earnings and cash flow from operations. Volume growth at FedEx Ground, together with advances in FedEx International Priority service, mitigated some of the negative economic factors and provided tangible evidence that our global strategy remains sound.

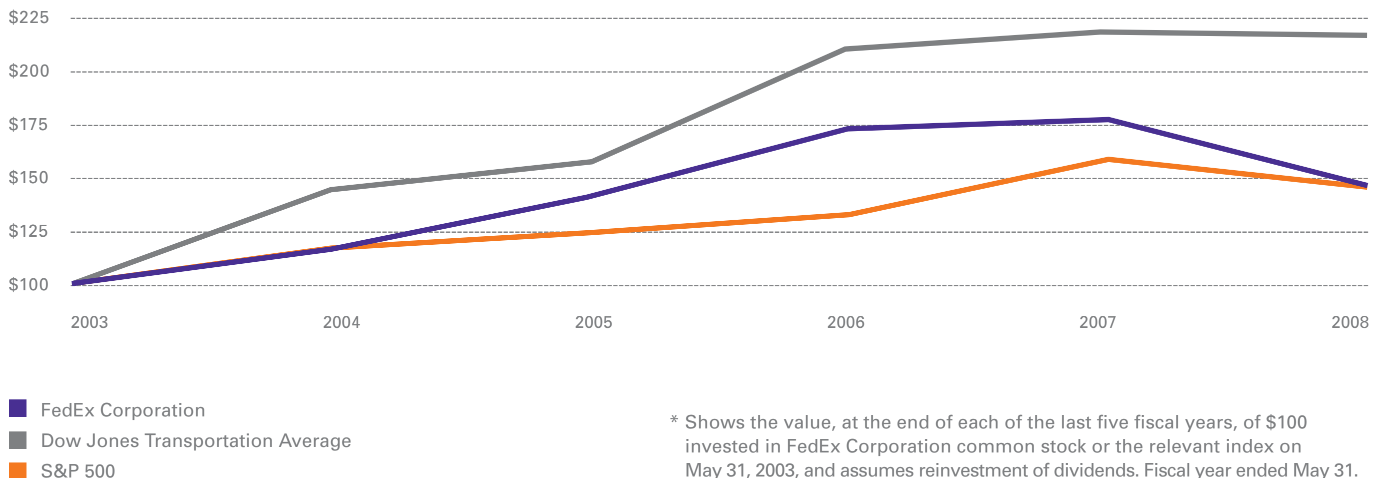
The headwinds of FY08 are continuing into FY09. Even so, FedEx has the flexibility, networks and leadership to manage through difficult business cycles. In FY08, we reduced capital expenditures as a percentage of revenue and will reduce that measure again this year. We also announced changes at FedEx Freight and FedEx Office that will streamline their structures, improve the customer experience and lower costs. Across our portfolio, we are taking measures to reduce our expenses to align with revenue and volume expectations. History bears out that proactive companies and management teams will weather difficult economic times and come out on the other side stronger and better positioned for long-term growth and profitability. At FedEx, we are committed to remaining focused and proactive.

One point that I ask you to keep in mind — even though FY09 is expected to be a most challenging year, we enter it from a position of strength. FedEx is truly a leader on the global business stage. We are, and intend to remain, cash-flow positive. Our balance sheet remains strong and our primary pension plans are well funded. I joined FedEx 28 years ago and today FedEx is stronger and better positioned than in any prior period. Our executive team shares this experience and the commitment to you that I have outlined. First and foremost, we will continue to do what is right for our customers every day, a commitment from which high oil prices or weakened economies cannot and must not sway us.

Thank you for your continued commitment as a FedEx shareowner. We remain committed to you and to achieving our long-term financial goals of earnings growth and improved margins, cash flows and returns on capital.

Alan B. Graf, Jr.
Executive Vice President and Chief Financial Officer

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN*



* Shows the value, at the end of each of the last five fiscal years, of $100 invested in FedEx Corporation common stock or the relevant index on May 31, 2003, and assumes reinvestment of dividends. Fiscal year ended May 31.

OVERVIEW OF FINANCIAL SECTION

The financial section of the FedEx Corporation ("FedEx") Annual Report consists of the following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A"), the Consolidated Financial Statements and the notes to the Consolidated Financial Statements, and Other Financial Information, all of which include information about our significant accounting policies, practices and the transactions that underlie our financial results. The following MD&A describes the principal factors affecting the results of operations, liquidity, capital resources, contractual cash obligations and the critical accounting estimates of FedEx. The discussion in the financial section should be read in conjunction with the other sections of this Annual Report and our detailed discussion of risk factors included in this MD&A.

ORGANIZATION OF INFORMATION

Our MD&A is comprised of three major sections: Results of Operations, Financial Condition and Critical Accounting Estimates. These sections include the following information:

- Results of Operations includes an overview of our consolidated 2008 results compared to 2007, and 2007 results compared to 2006. This section also includes a discussion of key actions and events that impacted our results, as well as a discussion of our outlook for 2009.
- The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2009) for each of our reportable transportation segments.
- Our financial condition is reviewed through an analysis of key elements of our liquidity, capital resources and contractual cash obligations, including a discussion of our cash flow statements and our financial commitments.
- We conclude with a discussion of the critical accounting estimates that we believe are important to understanding certain of the material judgments and assumptions incorporated in our reported financial results.

DESCRIPTION OF BUSINESS

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies include Federal Express Corporation ("FedEx Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading provider of small-package ground delivery services; and FedEx Freight Corporation, a leading U.S. provider of less-than-truckload ("LTL") freight services. Our FedEx Services segment provides customer-facing sales, marketing and information technology support, as well as retail access for customers through FedEx Office and Print Services, Inc. ("FedEx Office"), formerly FedEx Kinko's, primarily for the benefit of FedEx Express and FedEx Ground. These companies represent our major service lines and form the core of our reportable segments. See "Reportable Segments" for further discussion.

The key indicators necessary to understand our operating results include:

- the overall customer demand for our various services;
- the volumes of transportation services provided through our networks, primarily measured by our average daily volume and shipment weight;
- the mix of services purchased by our customers;
- the prices we obtain for our services, primarily measured by yield (average price per shipment or pound or average price per hundredweight for FedEx Freight LTL Group shipments);
- our ability to manage our cost structure (capital expenditures and operating expenses) to match shifting volume levels; and
- the timing and amount of fluctuations in fuel prices and our ability to recover incremental fuel costs through our fuel surcharges.

The majority of our operating expenses are directly impacted by revenue and volume levels. Accordingly, we expect these operating expenses to fluctuate on a year-over-year basis consistent with the change in revenues and volume. The following discussion of operating expenses describes the key drivers impacting expense trends beyond changes in revenues and volume.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2008 or ended May 31 of the year referenced and comparisons are to the prior year. References to our transportation segments include, collectively, our FedEx Express, FedEx Ground and FedEx Freight segments.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table compares revenues, operating income, operating margin, net income and diluted earnings per share (dollars in millions, except per share amounts) for the years ended May 31:

	2008 (1)	2007 (2)	2006 (3)	Percent Change 2008/2007	Percent Change 2007/2006
Revenues	**$37,953**	$35,214	$32,294	**8**	9
Operating income	**2,075**	3,276	3,014	**(37)**	9
Operating margin	**5.5%**	9.3%	9.3%	**(380)bp**	–bp
Net income	**$ 1,125**	$ 2,016	$ 1,806	**(44)**	12
Diluted earnings per share	**$ 3.60**	$ 6.48	$ 5.83	**(44)**	11

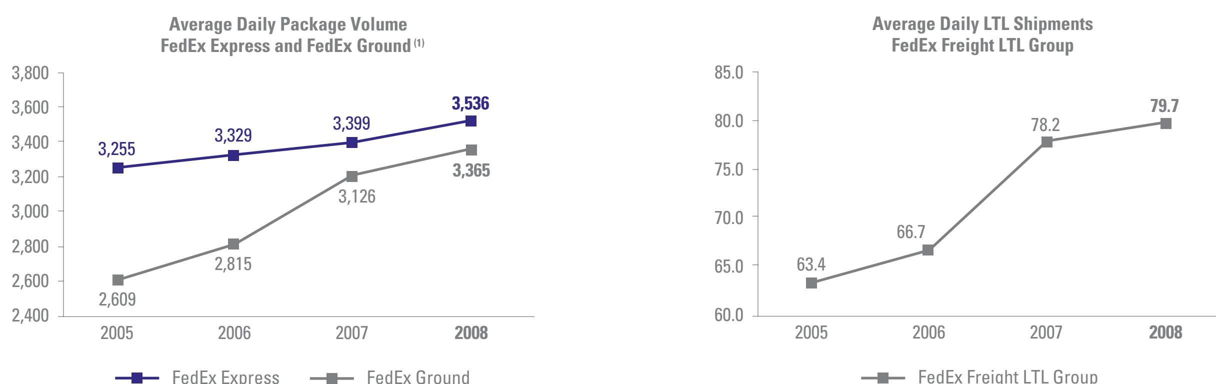
(1) Operating expenses include a charge of approximately $891 million ($696 million, net of tax, or $2.23 per diluted share), predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition (described below).
(2) Operating expenses include a $143 million charge at FedEx Express associated with upfront compensation and benefits under the new labor contract with our pilots, which was ratified in October 2006. The impact of this new contract on second quarter net income was approximately $78 million net of tax, or $0.25 per diluted share.
(3) Operating expenses include a $79 million ($49 million, net of tax, or $0.16 per diluted share) charge to adjust the accounting for certain facility leases, predominantly at FedEx Express.

The following table shows changes in revenues and operating income by reportable segment for 2008 compared to 2007, and 2007 compared to 2006 (in millions):

	Revenues				Operating Income			
	Dollar Change		Percent Change		Dollar Change		Percent Change	
	2008/2007	2007/2006	2008/2007	2007/2006	2008/2007	2007/2006	2008/2007	2007/2006
FedEx Express segment (1)	**$1,740**	$1,235	**8**	6	**$ (90)**	$178	**(5)**	10
FedEx Ground segment	**708**	737	**12**	14	**(86)**	106	**(10)**	15
FedEx Freight segment (2)	**348**	941	**8**	26	**(134)**	(22)	**(29)**	(5)
FedEx Services segment (3)	**2**	48	**–**	2	**(891)**	–	**NM**	–
Other and Eliminations	**(59)**	(41)	**NM**	NM	**–**	–	**–**	–
	$2,739	$2,920	**8**	9	**$(1,201)**	$262	**(37)**	9

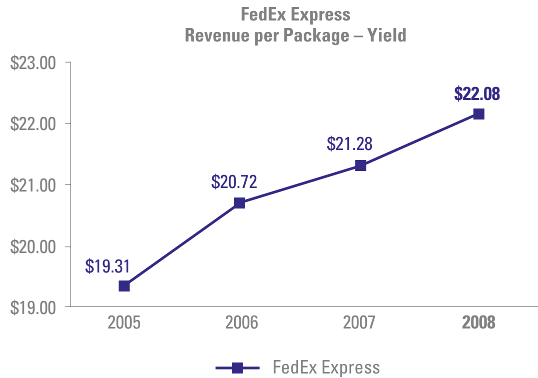
(1) FedEx Express 2007 operating expenses include a $143 million charge associated with upfront compensation and benefits under the new pilot labor contract and 2006 operating expenses include a $75 million charge to adjust the accounting for certain facility leases.
(2) FedEx Freight segment results include the results of FedEx National LTL from the date of its acquisition on September 3, 2006.
(3) FedEx Services segment operating expenses include a charge of approximately $891 million, predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition (described below).

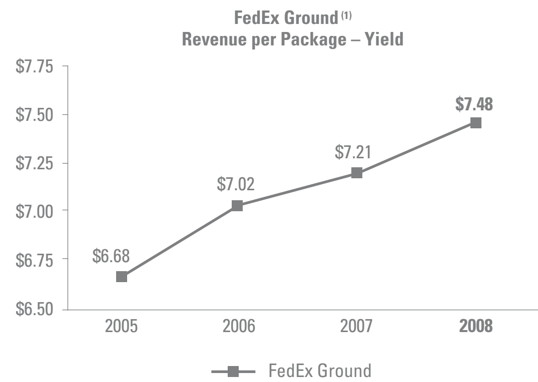
The following graphs for FedEx Express, FedEx Ground and the FedEx Freight LTL Group show selected volume statistics (in thousands) for the years ended May 31:

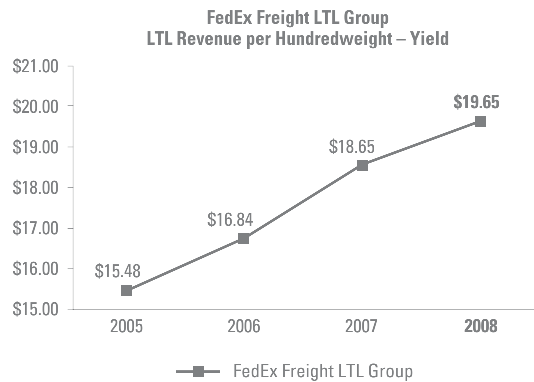


(1) Package statistics do not include the operations of FedEx SmartPost.

The following graphs for FedEx Express, FedEx Ground and the FedEx Freight LTL Group show selected yield statistics for the years ended May 31:

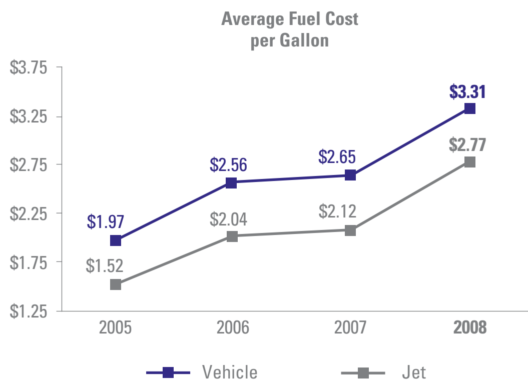


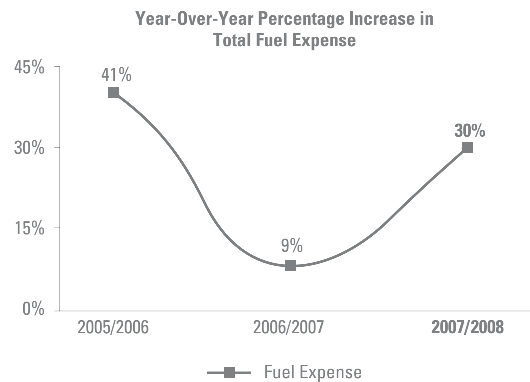




(1) Package statistics do not include the operations of FedEx SmartPost.

The following graphs for our transportation segments show our average cost of jet and vehicle fuel per gallon and the year-over-year percentage increase in total fuel expense for the years ended May 31:





Overview

Our results for 2008 reflect a difficult year, as the combination of record high fuel prices and the weak U.S. economy significantly impacted our profitability. We believe persistently higher fuel prices and the related impact on our fuel surcharges are reducing demand for our services, particularly U.S. domestic express package and LTL freight services, and are pressuring overall yield growth across our transportation segments. Also, these factors are affecting our ability to cover inflation in our overall operating costs and contributing to a customer shift to lower-yielding services. Increased net operating costs at FedEx Office associated with reduced copy and print revenue and higher expenses for store expansion and service improvement activities also contributed to the decline in operating results for 2008. Significantly lower variable incentive compensation (lower by approximately $220 million) and reduced retirement plans costs (reduced by $82 million) combined with cost containment initiatives, partially mitigated the impact of higher net fuel costs and the weak U.S. economy on our 2008 overall results.

In addition, our operating results for 2008 include a fourth quarter charge of approximately $891 million ($696 million, net of tax, or $2.23 per diluted share), predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition (described below).

Revenue

Revenue growth for 2008 was primarily attributable to continued growth in international services at FedEx Express, increases in FedEx Express U.S. domestic package yields and volume growth at FedEx Ground. Higher fuel surcharges continue to be the key driver of increased yields in our transportation segments. Additionally, FedEx Express international yields benefited from favorable currency exchange rates. Revenue growth for 2008 also improved due to a full year of operations for businesses acquired in 2007 at FedEx Express and FedEx Freight. Revenue growth during 2008 was partially offset by reduced U.S. domestic express volumes as a result of the ongoing weak U.S. economy. The impact of the weak U.S. economy became progressively worse during the year and drove U.S. domestic express shipping volumes to pre-2000 levels during the fourth quarter of 2008.

Revenue growth in 2007 was due to FedEx Ground package volume growth and growth in FedEx Express International Priority ("IP") services. Our 2007 revenues also reflected the acquisition of FedEx National LTL (formerly known as Watkins Motor Lines), which added approximately $760 million to 2007 revenue. Revenue growth in 2007 was slightly offset by declines in copy revenues at FedEx Office.

Operating Income

The following table compares operating expenses and operating income as a percent of revenue for the years ended May 31:

	Percent of Revenue		
	2008	2007	2006
Operating expenses:			
Salaries and employee benefits	**37.4%**	39.0%	38.9%
Purchased transportation	**11.7**	11.0	10.1
Rentals and landing fees	**6.4**	6.7	7.4
Depreciation and amortization	**5.1**	5.0	4.8
Fuel	**12.1**	10.0	10.1
Maintenance and repairs	**5.5**	5.5	5.5
Impairment charges	**2.3**	–	–
Other	**14.0**	13.5	13.9
Total operating expenses	**94.5**	90.7	90.7
Operating income (margin)	**5.5%**	9.3%	9.3%

Operating income and operating margin declined during 2008, as the weak U.S. economy and substantially higher fuel costs pressured volume growth at FedEx Express and FedEx Freight. The noncash impairment charges at FedEx Office also negatively affected operating margins in 2008. Fuel expenses increased approximately 30% during 2008, primarily due to an increase in the average price per gallon of fuel. Fuel surcharges were not sufficient to offset incremental fuel costs for 2008, based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared to changes in fuel surcharges. This analysis considers the estimated benefits of the reduction in fuel surcharges included in the base rates charged for FedEx Express services. However, this analysis does not consider several other factors including the sensitivity of demand to changes in price and shifts by our customers to lower-yielding services. Though fluctuations in fuel surcharge rates can be significant from period to period, fuel surcharges represent one of the many individual components of our pricing structure that impact our overall revenue and yield. Additional components include the mix of services purchased, the base price and other extra service charges we obtain for these services and the level of pricing discounts offered. In order to provide information about the impact of fuel surcharges on the trend in revenue and yield growth, we have included the comparative fuel surcharge rates in effect for 2008, 2007 and 2006 in the accompanying discussions of each of our transportation segments.

Operating income in 2008 was also negatively impacted by increased net operating costs at FedEx Office and expansion of our domestic express services in China. Higher purchased transportation expenses at FedEx Ground, primarily due to costs associated with independent contractor incentive programs and higher rates paid to our contractors (including higher fuel supplement costs), also had a negative impact on 2008 results. Other operating expenses increased during 2008 primarily due to the full-year inclusion of our 2007 business acquisitions, including the consolidation of the results of our China joint venture at FedEx Express, and higher legal, consulting and insurance costs at FedEx Ground. Lower variable incentive compensation and reduced retirement plans costs, combined with cost containment activities, partially mitigated the impact of higher net fuel costs and the weak U.S. economy on our overall results for 2008.

Operating income increased in 2007, as revenue growth at FedEx Express and FedEx Ground more than offset reduced profitability at the FedEx Freight segment and increased net operating costs at FedEx Office. Operating margin was flat in 2007 due to slower economic growth, the negative impact of higher salaries and benefits (primarily as a result of the new labor contract with our pilots) and the timing of adjustments to our fuel surcharges at FedEx Express, as well as operating losses at FedEx National LTL. Soft volumes in the LTL sector and expenses to integrate the FedEx National LTL network negatively impacted the performance of the FedEx Freight segment in 2007.

Salaries and employee benefits increased in 2007 as a result of the new labor contract for the pilots of FedEx Express and the FedEx National LTL acquisition. The impacts of expensing stock options commencing in 2007 and higher retirement plan costs were largely offset by lower incentive compensation. Purchased transportation costs increased in 2007 due to FedEx Ground volume growth, the FedEx National LTL acquisition and IP package volume growth.

Impairment Charges

Our operating results for 2008 include a charge of approximately $891 million ($696 million, net of tax, or $2.23 per diluted share) recorded during the fourth quarter, predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition.

The components of the charge include the following (in millions):

Trade name	$515
Goodwill	367
Other	9
	$891

During the fourth quarter we decided to change the name of FedEx Kinko's to FedEx Office. The impairment of the Kinko's trade name was due to the decision to minimize the use of the Kinko's trade name and rebrand our centers over the next several years. We believe the FedEx Office name better describes the wide range of services available at our retail centers and takes full advantage of the FedEx brand. The goodwill impairment charge was related to the impairment of our recorded goodwill, reflecting a decline in its current fair value in light of economic conditions, the unit's recent and forecasted financial performance and the decision to reduce the rate of store expansion. These impairment charges are included in operating expenses in the accompanying consolidated statements of income. The charges are included in the results of the FedEx Services segment and were not allocated to our transportation segments, as the charges were unrelated to the core performance of these businesses.

For additional information concerning the trade name and goodwill impairment charges, see Note 4 to the accompanying consolidated financial statements and the Critical Accounting Estimates section of this MD&A.

Other Income and Expense

Net interest expense decreased $1 million during 2008 primarily due to decreased interest expense related to lower debt balances and increased capitalized interest. The decrease in interest expense was partially offset by decreased interest income due to lower cash balances. Net interest expense decreased $51 million during 2007 primarily due to increased interest income earned on higher cash balances.

Income Taxes

Our effective tax rate was 44.2% in 2008, 37.3% in 2007 and 37.7% in 2006. Our 2008 tax rate increased primarily as a result of the goodwill impairment charge, which is not deductible for income tax purposes. Our 2007 tax rate was favorably impacted by the conclusion of various state and federal tax audits and appeals. This favorable impact was partially offset by tax charges incurred as a result of a reorganization in Asia associated with our acquisition in China (described below). For 2009, we expect our effective tax rate to be approximately 38%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income.

Business Acquisitions

During 2007, we made the following business acquisitions:

Segment	Business Acquired	Rebranded	Date Acquired	Total Purchase Price (in millions)
FedEx Freight	Watkins Motor Lines	FedEx National LTL	September 3, 2006	$787
FedEx Express	ANC Holdings Ltd.	FedEx U.K.	December 16, 2006	241
FedEx Express	Tianjin Datian W. Group Co., Ltd. ("DTW Group")	N/A	March 1, 2007	427

Our acquisition of FedEx National LTL extended our service offerings to the long-haul LTL freight sector. The acquisition of FedEx U.K. has allowed us to establish a domestic service in the United Kingdom and better serve the U.K. international market, while the DTW Group acquisition converted our joint venture with DTW Group into a wholly owned subsidiary and has increased our presence in China in the international market and established our presence in the domestic market. During 2007, we also made other immaterial acquisitions that are not presented in the table above.

We paid the purchase price for these acquisitions from available cash balances, which included the net proceeds from our $1 billion senior unsecured debt offering completed during 2007. See Note 6 of the accompanying consolidated financial statements for further discussion of this debt offering.

See Note 3 of the accompanying consolidated financial statements for further information about these acquisitions.

Employees Under Collective Bargaining Arrangements

The pilots of FedEx Express, who represent a small percentage of our total employees, are employed under a collective bargaining agreement. During the second quarter of 2007, the pilots ratified a new four-year labor contract that included signing bonuses and other upfront compensation of approximately $143 million, as well as pay increases and other benefit enhancements. These costs were partially mitigated by reductions in the variable incentive compensation of our other employees. The effect of this new agreement on second quarter 2007 net income was approximately $78 million net of tax, or $0.25 per diluted share.

Lease Accounting Charge

Our results for 2006 included a noncash charge of $79 million ($49 million net of tax, or $0.16 per diluted share) to adjust the accounting for certain facility leases, predominantly at FedEx Express. This charge, which included the impact on prior years, related primarily to rent escalations in on-airport facility leases that were not being recognized appropriately.

Outlook

Our comparisons to 2008 and expectations for 2009 below exclude the impact of the noncash impairment charges described above.

We anticipate the difficult economic environment that impacted our profitability in 2008 will continue in 2009, as we expect no significant improvement in the U.S. economy, at least for the near term. In fact, the negative consequences of record oil prices on global growth will likely amplify in coming quarters. Therefore, we expect nominal base revenue growth in 2009, as these factors will continue to pressure yields and volumes in both package and freight services, especially in our U.S. domestic services at FedEx Express. Persistently high energy costs will continue to dampen our growth potential throughout 2009 despite our continued cost containment initiatives and reductions in variable incentive compensation. These factors, combined with higher purchased transportation costs at FedEx Ground, are expected to result in reduced earnings in 2009. We will continue to have cost containment initiatives in place across all segments in 2009, including controlling discretionary spending and limiting staffing additions. If the economic downturn becomes even more pronounced, additional actions will be taken to control costs. However, we will not compromise our outstanding service levels or take actions that negatively impact the customer experience in exchange for short-term cost reductions.

In light of current economic conditions, we significantly reduced our capital expenditures for 2008 from an initial budget of $3.5 billion to $2.9 billion in actual expenditures. Our capital expenditures for 2009 are expected to approximate 2008 levels, as we balance the need to control spending with the opportunity to make investments with high returns, such as in substantially more fuel-efficient Boeing 757 and Boeing 777 aircraft. Moreover, we will continue to invest in critical long-term strategic projects focused on expanding our global networks and broadening our service offerings to position us for stronger growth in better economic times. However, we could significantly reduce 2009 capital expenditures should conditions worsen. For additional details on key 2009 capital projects, refer to the Liquidity Outlook section of this MD&A.

All of our businesses operate in a competitive pricing environment, exacerbated by continuing volatile fuel prices. Historically, our fuel surcharges have largely been sufficient to offset incremental fuel costs; however, volatility in fuel costs, as seen in the rapidly rising price of oil in 2008, may impact earnings because adjustments to our fuel surcharges lag changes in actual fuel prices paid. Therefore, the trailing impact of adjustments to our fuel surcharges can significantly affect our earnings in the short-term.

As described in Note 17 of the accompanying consolidated financial statements and the "Independent Contractor Matters" section of our FedEx Ground segment MD&A, we are involved in a number of litigation matters and other proceedings that challenge the status of FedEx Ground's owner-operators as independent contractors. FedEx Ground anticipates continuing changes to its relationships with its contractors. The nature, timing and amount of any changes are dependent on the outcome of numerous future events. We cannot reasonably estimate the potential impact of any such changes or a meaningful range of potential outcomes, although they could be material. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business.

See "Risk Factors" for a discussion of these and other potential risks and uncertainties that could materially affect our future performance.

Seasonality of Business

Our businesses are seasonal in nature. Seasonal fluctuations affect volumes, revenues and earnings. Historically, the U.S. express package business experiences an increase in volumes in late November and December. International business, particularly in the Asia-to-U.S. market, peaks in October and November in advance of the U.S. holiday sales season. Our first and third fiscal quarters, because they are summer vacation and post winter-holiday seasons, have historically experienced lower volumes relative to other periods. Normally, the fall is the busiest shipping period for FedEx Ground, while late December, June and July are the slowest periods. For the FedEx Freight LTL Group, the spring and fall are the busiest periods and the latter part of December, January and February are the slowest periods. For FedEx Office, the summer months are normally the slowest periods. Shipment levels, operating costs and earnings for each of our companies can also be adversely affected by inclement weather, particularly in our third fiscal quarter.

NEW ACCOUNTING PRONOUNCEMENTS

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. We believe the following new accounting pronouncements are relevant to the readers of our financial statements.

On June 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes." This interpretation establishes new standards for the financial statement recognition, measurement and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The cumulative effect of adopting

FIN 48 was immaterial. For additional information on the impact of adoption of FIN 48, refer to Note 11 to the accompanying consolidated financial statements.

On May 31, 2007, we adopted Statement of Financial Accounting Standards ("SFAS") 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS 158 requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in accumulated other comprehensive income ("AOCI") of unrecognized gains or losses and prior service costs or credits. The funded status is measured as the difference between the fair value of the plan's assets and the projected benefit obligation ("PBO") of the plan. The adoption of SFAS 158 resulted in a $982 million charge to shareholders' equity at May 31, 2007 through AOCI. At May 31, 2008, under the provisions of SFAS 158, we recorded an increase to equity of $469 million (net of tax) based on a $1 billion improvement in the funded status of our retirement plans since May 31, 2007.

Additionally, SFAS 158 requires the measurement date for plan assets and liabilities to coincide with the sponsor's year end. We currently use a February 28 (February 29 in 2008) measurement date for our plans; therefore, this standard will require us to change our measurement date to May 31 (beginning in 2009). We are required to make our transition election in the first quarter of 2009 and plan to elect the two-measurement approach as our transition method. Under the two-measurement approach, we complete two actuarial measurements, one at February 29, 2008 and the other at June 1, 2008. For the transition period from February 29, 2008 through June 1, 2008, we will record the net periodic benefit cost, net of tax, as an adjustment to beginning retained earnings and the actuarial gains and losses, net of tax, as an adjustment to AOCI in the first quarter of 2009. The impact of adopting the measurement date provision on our financial statements is not expected to be material to our financial position or results of operations, but will reduce our 2009 pension and retiree medical expense by approximately $87 million under the two-measurement approach due to an increase in the discount rate and higher plan assets.

For additional information on the adoption of SFAS 158 and these changes, see Note 12 to the accompanying consolidated financial statements and the Critical Accounting Estimates section of this MD&A.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," which provides a common definition of fair value, establishes a uniform framework for measuring fair value and requires expanded disclosures about fair value measurements. The requirements of SFAS 157 are to be applied prospectively, and we anticipate that the primary impact of the standard to us will be related to the measurement of fair value in our recurring impairment test calculations (such as measurements of our recorded goodwill). SFAS 157 is effective for us beginning on June 1, 2008; however, the FASB approved a one-year deferral of the adoption of the standard as it relates to non-financial assets and liabilities with the issuance in February 2008 of FASB Staff Position FAS 157-2, "Effective Date of FASB Statement No. 157." We do not presently hold any financial assets or liabilities that would require recognition under SFAS 157 other than investments held by our pension plans. In addition, the FASB has excluded leases from the scope of SFAS 157. We anticipate that this standard will not have a material impact on our financial condition or results of operations upon adoption.

In December 2007, the FASB issued SFAS 141R, "Business Combinations," and SFAS 160, "Accounting and Reporting Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51." These new standards significantly change the accounting for and reporting of business combination transactions and noncontrolling interests (previously referred to as minority interests) in consolidated financial statements. The key aspects of SFAS 141R and SFAS 160 include requiring the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction; establishing the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requiring the expensing of most transaction and restructuring costs. Both standards are effective for us beginning June 1, 2009 (fiscal 2010) and are applicable only to transactions occurring after the effective date.

REPORTABLE SEGMENTS

FedEx Express, FedEx Ground and FedEx Freight represent our major service lines and, along with FedEx Services, form the core of our reportable segments. Our reportable segments include the following businesses:

Segment	Businesses
FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (global trade services)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) FedEx SmartPost (small-parcel consolidator)
FedEx Freight Segment	FedEx Freight LTL Group: FedEx Freight (regional LTL freight transportation) FedEx National LTL (long-haul LTL freight transportation) FedEx Custom Critical (time-critical transportation) Caribbean Transportation Services (airfreight forwarding)
FedEx Services Segment	FedEx Services (sales, marketing and information technology functions) FedEx Office (document and business services and package acceptance) FedEx Customer Information Services ("FCIS") (customer service, billings and collections) FedEx Global Supply Chain Services (logistics services)

FEDEX SERVICES SEGMENT

The FedEx Services segment includes: FedEx Services, which provides sales, marketing and information technology support; FCIS, which is responsible for customer service, billings and collections for FedEx Express and FedEx Ground; FedEx Global Supply Chain Services, which provides a range of logistics services to our customers; and FedEx Office.

During the fourth quarter of 2008, we decided to change the name of FedEx Kinko's to FedEx Office. We believe the FedEx Office name better describes the wide range of services available at our retail centers and takes full advantage of the FedEx brand.

During the first quarter of 2008, FedEx Office was reorganized as a part of the FedEx Services segment. FedEx Office provides retail access to our customers for our package transportation businesses and an array of document and business services. FedEx Services provides access to customers through digital channels such as fedex.com. Under FedEx Services, FedEx Office benefits from the full range of resources and expertise of FedEx Services to continue to enhance the customer experience, provide greater, more convenient access to the portfolio of services at FedEx, and increase revenues through our retail network. As part of this reorganization, we are pursuing synergies in sales, marketing, information technology and administrative areas.

With this reorganization, the FedEx Services segment became a reportable segment. Prior year amounts have been revised to conform to the current year segment presentation. FedEx Office continues to be treated as a reporting unit for purposes of goodwill impairment testing.

Effective June 1, 2006, we moved FedEx Supply Chain Services, Inc., the results of which were previously reported in the FedEx Ground segment, into a new subsidiary of FedEx Services named FedEx Global Supply Chain Services, Inc. The net operating costs of this entity are allocated to FedEx Express and FedEx Ground. Prior year amounts were not reclassified to conform to the 2007 segment presentation, as financial results were materially comparable.

The costs of the sales, marketing and information technology support provided by FedEx Services and the customer service functions of FCIS, together with the normal, ongoing net operating costs of FedEx Global Supply Chain Services and FedEx Office, are allocated primarily to the FedEx Express and FedEx Ground segments based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions. The $891 million fourth quarter charge predominantly associated with the noncash impairment charges for the Kinko's trade name and goodwill was not allocated to the FedEx Express or FedEx Ground segments, as it was unrelated to the core performance of those businesses.

FedEx Services segment revenues, which reflect the operations of FedEx Office and FedEx Global Supply Chain Services, increased slightly during 2008. Revenue generated from new locations and higher package acceptance fees more than offset declines in copy revenues at FedEx Office for 2008. The allocated net operating costs of FedEx Office increased during 2008 due to declines in copy revenues, as well as higher expenses associated with store expansion, advertising and promotions, and service improvement activities. Increased capital expenditures for the FedEx Services segment are primarily associated with information technology facility expansion at FedEx Services and store expansion activities at FedEx Office. FedEx Office opened 318 new centers during 2008.

OTHER INTERSEGMENT TRANSACTIONS

Certain FedEx operating companies provide transportation and related services for other FedEx companies outside their reportable segment. Billings for such services are based on negotiated rates, which we believe approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues and expenses are eliminated in the consolidated results and are not separately identified in the following segment information, as the amounts are not material.

The operating expenses line item "Intercompany charges" on the accompanying unaudited financial summaries of our transportation segments includes the allocations from the FedEx Services segment to the respective transportation segments. The "Intercompany charges" caption also includes allocations for administrative services provided between operating companies and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. Management evaluates transportation segment financial performance based on operating income.

FEDEX EXPRESS SEGMENT

The following table compares revenues, operating expenses, operating income and operating margin (dollars in millions) for the years ended May 31:

	2008	2007	2006	Percent Change 2008/2007	Percent Change 2007/2006
Revenues:					
Package:					
U.S. overnight box	**$ 6,578**	$ 6,485	$ 6,422	**1**	1
U.S. overnight envelope	**2,012**	1,990	1,974	**1**	1
U.S. deferred	**2,995**	2,883	2,853	**4**	1
Total U.S. domestic package revenue	**11,585**	11,358	11,249	**2**	1
International Priority (IP)	**7,666**	6,722	6,139	**14**	9
International domestic [(1)]	**663**	370	199	**79**	86
Total package revenue	**19,914**	18,450	17,587	**8**	5
Freight:					
U.S.	**2,398**	2,412	2,218	**(1)**	9
International Priority Freight	**1,243**	1,045	840	**19**	24
International airfreight	**406**	394	434	**3**	(9)
Total freight revenue	**4,047**	3,851	3,492	**5**	10
Other [(2)]	**460**	380	367	**21**	4
Total revenues	**24,421**	22,681	21,446	**8**	6
Operating expenses:					
Salaries and employee benefits	**8,451**	8,234[(3)]	8,033	**3**	3
Purchased transportation	**1,208**	1,098	971	**10**	13
Rentals and landing fees	**1,673**	1,610	1,696[(4)]	**4**	(5)
Depreciation and amortization	**944**	856	805	**10**	6
Fuel	**3,785**	2,946	2,786	**28**	6
Maintenance and repairs	**1,512**	1,444	1,344	**5**	7
Intercompany charges	**2,134**	2,046	1,496	**4**	37
Other	**2,813**	2,456	2,502	**15**	(2)
Total operating expenses	**22,520**	20,690	19,633	**9**	5
Operating income	**$ 1,901**	$ 1,991	$ 1,813	**(5)**	10
Operating margin	**7.8%**	8.8%	8.5%	**(100)bp**	30bp

(1) International domestic revenues include our international domestic express operations, primarily in the United Kingdom, Canada, India and China. We reclassified the prior period international domestic revenues previously included within other revenues to conform to the current period presentation.
(2) Other revenues includes FedEx Trade Networks.
(3) Includes a $143 million charge for signing bonuses and other upfront compensation associated with the new four-year labor contract with our pilots.
(4) Includes a $75 million one-time, noncash charge to adjust the accounting for certain facility leases.

The following table compares selected statistics (in thousands, except yield amounts) for the years ended May 31:

	2008	2007	2006	Percent Change 2008/2007	Percent Change 2007/2006
Package Statistics [(1)]					
Average daily package volume (ADV):					
U.S. overnight box	**1,151**	1,174	1,203	**(2)**	(2)
U.S. overnight envelope	**677**	706	713	**(4)**	(1)
U.S. deferred	**895**	898	901	**–**	–
Total U.S. domestic ADV	**2,723**	2,778	2,817	**(2)**	(1)
IP	**517**	487	466	**6**	5
International domestic [(2)]	**296**	134	46	**121**	191
Total ADV	**3,536**	3,399	3,329	**4**	2
Revenue per package (yield):					
U.S. overnight box	**$ 22.40**	$ 21.66	$ 20.94	**3**	3
U.S. overnight envelope	**11.66**	11.06	10.86	**5**	2
U.S. deferred	**13.12**	12.59	12.42	**4**	1
U.S. domestic composite	**16.68**	16.04	15.66	**4**	2
IP	**58.11**	54.13	51.64	**7**	5
International domestic [(2)]	**8.80**	10.77	16.69	**(18)**	(35)
Composite package yield	**22.08**	21.28	20.72	**4**	3
Freight Statistics [(1)]					
Average daily freight pounds:					
U.S.	**8,648**	9,569	9,374	**(10)**	2
International Priority Freight	**2,220**	1,878	1,634	**18**	15
International airfreight	**1,817**	1,831	2,126	**(1)**	(14)
Total average daily freight pounds	**12,685**	13,278	13,134	**(4)**	1
Revenue per pound (yield):					
U.S.	**$ 1.09**	$ 0.99	$ 0.93	**10**	6
International Priority Freight	**2.20**	2.18	2.02	**1**	8
International airfreight	**0.88**	0.84	0.80	**5**	5
Composite freight yield	**1.25**	1.14	1.04	**10**	10

(1) Package and freight statistics include only the operations of FedEx Express.
(2) International domestic revenues include our international domestic express operations, primarily in the United Kingdom, Canada, India and China.

FedEx Express Segment Revenues

FedEx Express revenues increased 8% in 2008, primarily due to increases in fuel surcharges, growth in IP volume and the impact of favorable currency exchange rates. Revenue increases during 2008 were partially offset by decreased volumes in U.S. domestic package and freight services, as the weak U.S. economy and persistently higher fuel prices and the related impact on our fuel surcharges have restrained demand for these services. These factors drove U.S. domestic shipping levels to pre-2000 volumes during the fourth quarter of 2008.

The increase in composite package yield in 2008 was driven by increases in IP and U.S. domestic yields, partially offset by decreased international domestic yield. IP yield increased 7% in 2008, primarily due to favorable exchange rates, higher fuel surcharges and increases in package weights. U.S. domestic yield increased 4% in 2008 primarily due to higher fuel surcharges and general rate increases. International domestic yield decreased 18% during 2008 as a result of the inclusion of lower-yielding services from the companies acquired in 2007. Composite freight yield increased in 2008 due to the impact of changes in service mix, higher fuel surcharges and favorable exchange rates.

IP volume growth during 2008 resulted from increased demand in Asia, U.S. outbound and Europe. Increased international domestic volumes during 2008 were driven by business acquisitions in the second half of 2007. U.S. domestic package and freight volumes decreased during 2008, as the ongoing weak U.S. economy and rising fuel prices continued to negatively impact demand for these services.

Revenue growth in 2007 was driven by IP revenues as a result of yield improvements across all regions and volume growth resulting from increased demand in U.S. outbound, Asia and Europe. Also contributing to revenue growth in 2007 were increases in international domestic revenues (primarily due to our acquisition of FedEx U.K.) and increases in freight revenues due to higher U.S. and international priority freight volumes. U.S. domestic package revenues increased as a result of yield improvements, partially offset by a decrease in volumes resulting from the moderating growth rate of the U.S. economy.

IP yield increased during 2007 as a result of favorable exchange rates, higher package weights and an increase in the average rate per pound. U.S. domestic composite yield increases in 2007 were due to an increase in the average rate per pound, partially offset by changes in product mix and lower package weights. U.S. freight yield increased in 2007 due to an increase in the average rate per pound and higher fuel surcharges.

Our fuel surcharges are indexed to the spot price for jet fuel. Using this index, the U.S. domestic and outbound fuel surcharge and the international fuel surcharges ranged as follows, for the years ended May 31:

	2008	2007	2006
U.S. Domestic and Outbound Fuel Surcharge:			
Low	**13.50%**	8.50%	10.50%
High	**25.00**	17.00	20.00
Weighted-Average	**17.06**	12.91	13.69
International Fuel Surcharges:			
Low	**12.00**	8.50	10.00
High	**25.00**	17.00	20.00
Weighted-Average	**16.11**	12.98	12.73

FedEx Express Segment Operating Income

The following table compares operating expenses and operating income as a percent of revenue for the years ended May 31:

	Percent of Revenue		
	2008	2007	2006
Operating expenses:			
Salaries and employee benefits	**34.6%**	36.3% (1)	37.4%
Purchased transportation	**4.9**	4.8	4.5
Rentals and landing fees	**6.9**	7.1	7.9 (2)
Depreciation and amortization	**3.9**	3.8	3.7
Fuel	**15.5**	13.0	13.0
Maintenance and repairs	**6.2**	6.4	6.3
Intercompany charges	**8.7**	9.0	7.0
Other	**11.5**	10.8	11.7
Total operating expenses	**92.2**	91.2	91.5
Operating income (margin)	**7.8%**	8.8%	8.5%

(1) Includes a $143 million charge for signing bonuses and other upfront compensation associated with the new four-year labor contract with our pilots (0.6% of revenue).
(2) Includes a $75 million one-time, noncash charge to adjust the accounting for certain facility leases (0.4% of revenue).

Operating results for 2008 were negatively impacted by record high fuel prices, the continued weak U.S. economy and our continued investment in domestic express services in China. However, revenue growth in IP services, reduced retirement plan costs, the favorable impact of foreign currency exchange rates and lower variable incentive compensation partially offset the impact of these factors on operating income during 2008.

Fuel costs increased 28% in 2008 due to an increase in the average price per gallon of fuel. Although fuel costs increased significantly during 2008, fuel surcharges were sufficient to offset incremental fuel costs, based on a static analysis of the year-over-year changes in fuel prices compared to changes in fuel surcharges. This analysis considers the estimated benefits of the reduction in fuel surcharges included in the base rates charged for FedEx Express services. However, we believe persistently higher fuel prices and the related impact on our fuel surcharges are reducing demand for our services and pressuring overall yield growth. These factors are also affecting our ability to cover inflation in our operating costs and contributing to a customer shift to lower-yielding services.

Other operating expenses increased 15% during 2008 principally due to the inclusion of our 2007 business acquisitions, including the full consolidation of the results of our China joint venture. Also contributing to the increase in other operating expenses in 2008 was the inclusion of an operating gain in 2007 related to the Airbus contract settlement agreement described below. Purchased transportation costs increased 10% in 2008 primarily due to the inclusion of our 2007 business acquisitions, the impact of higher fuel costs and IP volume growth, which requires a higher utilization of contract pickup and delivery services. These increases in purchased transportation costs were partially offset by the elimination of payments by us for pickup and delivery services provided by our former China joint venture partner, as we acquired this business in the second half of 2007. The 10% increase in depreciation expense during 2008 was principally due to aircraft purchases and our 2007 business acquisitions. Intercompany charges increased 4% during 2008 primarily due to increased net operating costs at FedEx Office associated with declines in copy revenues, as well as higher expenses associated with store expansion, advertising and promotions, and service improvement activities. This increase was partially offset by lower allocated fees from FedEx Services due to cost containment activities.

Operating income and operating margin increased in 2007, despite slower overall revenue growth. Increases in operating income and margin in 2007 resulted from growth in IP services and were partially offset by costs associated with the ratification of a new labor contract with our pilots in October 2006. These costs included signing bonuses and other upfront compensation of $143 million, as well as pay increases and other benefit enhancements, which were mitigated by reductions in the variable incentive compensation for our other employees. Year-over-year results in 2007 were positively affected by a $75 million charge in 2006 to adjust the accounting for certain facility leases.

Fuel costs increased during 2007 due to an increase in the average price per gallon of fuel. Fuel surcharges did not offset the effect of higher fuel costs on our year-over-year operating results for 2007, due to the timing lag that exists between when we purchase fuel and when our fuel surcharges are adjusted, based on a static analysis of the year-over-year changes in fuel prices compared to changes in fuel surcharges.

Salaries and employee benefits increased in 2007 primarily as a result of the new labor contract with our pilots. Purchased transportation costs increased 13% in 2007 due to IP volume growth, which requires a higher utilization of contract pickup and delivery services and an increase in the cost of purchased transportation. Maintenance and repairs increased 7% in 2007 primarily due to higher aircraft maintenance expenses for various airframes and Airbus A300 engines. The 5% decrease in rentals and landing fees in 2007 was attributable to the one-time adjustment for leases in 2006 described above. Intercompany charges increased 37% in 2007 due to allocations as a result of moving the FCIS organization from FedEx Express to FedEx Services in 2007. The costs associated with the FCIS organization in 2006 were of a comparable amount but were reported in individual operating expense captions.

During 2007, we terminated our agreement with Airbus for the purchase of A380 aircraft and in March 2007 entered into a separate settlement agreement with Airbus that, among other things, provides us with credit memoranda applicable to the purchase of goods and services in the future. The net impact of this settlement was immaterial to our 2007 results and was recorded as an operating gain during the fourth quarter of 2007.

FedEx Express Segment Outlook

We expect limited base revenue growth at FedEx Express in 2009, as we expect no significant improvement in the U.S. economy with continued high oil prices. These factors will continue to pressure yields and volumes in both U.S. domestic package and freight services. We expect U.S. domestic shipping volumes to remain at the pre-2000 levels experienced in the fourth quarter of 2008. We expect that the majority of the revenue increase in 2009 will be led by IP services, as we continue to focus on growing our service offerings, particularly in China and Europe, and benefit from increased demand for U.S. goods due to a weaker U.S. dollar. Our international domestic revenue is projected to increase in 2009 due to the continued expansion of our China domestic service as well as increases in our Canadian domestic package services.

FedEx Express segment operating income and operating margin are expected to decline in 2009, primarily due to lower U.S. domestic package and freight volumes, as high energy costs will dampen our growth potential throughout 2009 despite our continued cost containment initiatives. Capital expenditures at FedEx Express are expected to be relatively flat in 2009, as we balance the need to control spending with the opportunity to make investments with high returns, such as substantially more fuel-efficient aircraft. Our aircraft-related capital outlays include the more fuel-efficient Boeing 757s, the first of which enter revenue service in 2009, and the new Boeing 777s, the first of which enter revenue service in 2010. These aircraft capital expenditures are necessary to achieve significant long-term operating savings and to support projected long-term international volume growth. However, we may temporarily ground certain aircraft due to excess capacity in the current economic environment. The new Asia-Pacific hub in Guangzhou, China is planned to be operational in 2009.

FEDEX GROUND SEGMENT

The following table compares revenues, operating expenses, operating income and operating margin (dollars in millions) and selected package statistics (in thousands, except yield amounts) for the years ended May 31:

	2008	2007	2006	Percent Change 2008/2007	Percent Change 2007/2006
Revenues	**$6,751**	$6,043	$5,306	**12**	14
Operating expenses:					
Salaries and employee benefits	**1,073**	1,006	929	**7**	8
Purchased transportation	**2,691**	2,326	2,019	**16**	15
Rentals	**189**	166	133	**14**	25
Depreciation and amortization	**305**	268	224	**14**	20
Fuel	**201**	117	93	**72**	26
Maintenance and repairs	**145**	134	118	**8**	14
Intercompany charges	**658**	569	515	**16**	10
Other	**753**	635	559	**19**	14
Total operating expenses	**6,015**	5,221	4,590	**15**	14
Operating income	**$ 736**	$ 822	$ 716	**(10)**	15
Operating margin	**10.9%**	13.6%	13.5%	**(270)bp**	10bp
Average daily package volume:					
FedEx Ground	**3,365**	3,126	2,815	**8**	11
FedEx SmartPost	**618**	599	377	**3**	59
Revenue per package (yield):					
FedEx Ground	**$ 7.48**	$ 7.21	$ 7.02	**4**	3
FedEx SmartPost	**$ 2.09**	$ 1.88	$ 1.55	**11**	21

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 12% during 2008 due to volume and yield growth. Volume growth at FedEx Ground resulted from market share gains and the customer appeal of our cost-effective alternative to overnight air delivery services. Average daily volumes at FedEx Ground increased 8% during 2008 due to increased commercial business and the continued growth of our FedEx Home Delivery service. Yield improvement during 2008 was primarily due to the impact of general rate increases, higher extra service revenue (primarily through our residential, additional handling and large package surcharges) and higher fuel surcharges partially offset by higher customer discounts and a lower average weight and zone per package.

FedEx SmartPost picks up shipments from customers and delivers them to various points within the United States Postal Service ("USPS") network for final delivery. FedEx SmartPost revenue and yield represent the amount charged to customers net of postage paid to the USPS.

Revenues increased during 2007 due to strong volume growth. Average daily volumes at FedEx Ground rose 11% because of increased commercial business and the continued growth of our FedEx Home Delivery service. Yield improvement during 2007 was primarily due to the impact of general rate increases and higher extra service revenues, primarily on our residential services. This yield increase was partially offset by higher customer discounts and a lower average weight and zone per package. Additionally, revenue at FedEx SmartPost increased significantly in 2007 due to increased market share, as a major competitor exited this market in 2006, enabling significant growth in the customer base and related volumes.

The FedEx Ground fuel surcharge is based on a rounded average of the national U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. Our fuel surcharge ranged as follows for the years ended May 31:

	2008	2007	2006
Low	**4.50%**	3.50%	2.50%
High	**7.75**	5.25	5.25
Weighted-Average	**5.47**	4.18	3.54

FedEx Ground Segment Operating Income

The following table compares operating expenses and operating income as a percent of revenue for the years ended May 31:

	Percent of Revenue 2008	2007	2006
Operating expenses:			
Salaries and employee benefits	**15.9%**	16.7%	17.5%
Purchased transportation	**39.9**	38.5	38.1
Rentals	**2.8**	2.8	2.5
Depreciation and amortization	**4.5**	4.4	4.2
Fuel	**3.0**	1.9	1.8
Maintenance and repairs	**2.1**	2.2	2.2
Intercompany charges	**9.7**	9.4	9.7
Other	**11.2**	10.5	10.5
Total operating expenses	**89.1**	86.4	86.5
Operating income (margin)	**10.9%**	13.6%	13.5%

FedEx Ground segment operating income decreased 10% during 2008, as revenue growth was more than offset by higher independent contractor-related costs, the net impact of increased fuel costs, costs associated with our multi-year capacity expansion plan, higher intercompany charges and higher legal costs (including fees paid to external counsel, settlement costs and loss accruals). However, lower variable incentive compensation partially offset the net impact of these factors on operating income during 2008.

Fuel costs increased 72% during 2008 primarily due to a significant increase in the average price per gallon of fuel. Fuel surcharges were not sufficient to offset the effect of fuel costs on our year-over-year operating results for 2008, due to the timing lag that exists between when we purchase fuel and when our indexed fuel surcharges automatically adjust. Purchased transportation costs increased 16% in 2008 as a result of higher rates paid to our independent contractors, increased fuel expenses and costs associated with our independent contractor programs (described below).

Intercompany charges increased 16% during 2008 primarily due to increased net operating costs at FedEx Office associated with declines in copy revenues, as well as higher expenses associated with store expansion, advertising and promotions, and service improvement activities. In addition, higher allocated sales and marketing and customer service costs from FedEx Services

contributed to the increase in intercompany charges for 2008. Other operating expenses increased 19% during 2008, primarily due to higher legal, consulting and insurance costs. Depreciation expense and rent expense increased 14% in 2008 primarily due to higher spending on material handling equipment and facilities associated with our multi-year capacity expansion plan.

The increase in FedEx Ground segment operating income during 2007 was principally due to revenue growth and improved results at FedEx SmartPost. Operating margin increased only slightly in 2007, as revenue growth was partially offset by increased purchased transportation costs, increased legal costs and higher depreciation and rent expense associated with network expansion.

Purchased transportation increased in 2007 primarily due to volume growth and higher rates paid to our independent contractors, including fuel supplements. Our fuel surcharge was sufficient to offset the effect of higher fuel costs on our 2007 operating results, based on a static analysis of the year-over-year changes in fuel prices compared to changes in the fuel surcharge. Other operating expenses increased in 2007 primarily due to increased legal costs. Depreciation expense increased 20% and rent expense increased 25% principally due to higher spending on material handling and scanning equipment and facilities associated with our multi-year network expansion.

Independent Contractor Matters

FedEx Ground faces increased regulatory and legal uncertainty with respect to its independent contractors. As part of its operations, 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 our contractors. During the second quarter of 2008, FedEx Ground announced a nationwide program, which provides greater incentives to certain of its contractors who choose to grow their businesses by adding routes. In addition, FedEx Ground offered special incentives to encourage California-based single-route contractors to transform their operations into multiple-route businesses or sell their routes to others. Virtually all California-based single-route contractors accepted the incentives and completed the required actions by May 31, 2008. Furthermore, as of May 31, 2008 nearly 60% of all service areas nationwide are supported by multiple-route contractors.

FedEx Ground is involved in numerous purported or certified class-action lawsuits, state tax and other administrative proceedings and Internal Revenue Service audits that claim the company's owner-operators should be treated as employees, rather than independent contractors. For a description of these proceedings, see Note 17 of the accompanying consolidated financial statements.

FedEx Ground Segment Outlook

We expect the FedEx Ground segment to have continued revenue growth in 2009, led by increased commercial business and the continued growth of our FedEx Home Delivery service. FedEx SmartPost volumes are also expected to grow, due to market share gains and improved service levels. Yields for all services at FedEx Ground are expected to improve in 2009 as a result of increases in list prices and fuel surcharges.

FedEx Ground segment operating margin in 2009 is expected to decrease slightly due to rising fuel prices and increased purchased transportation costs, despite continued cost containment initiatives. Purchased transportation costs are expected to increase in 2009 due to ongoing enhancements to our independent contractor model, and higher incentives and rates paid to our independent contractors. Capital spending is expected to remain relatively flat in 2009, with the majority of our spending resulting from our continued comprehensive network expansion and productivity-enhancing technologies. We are committed to investing in the FedEx Ground network because of the long-term benefits we will experience from these investments.

We will continue to vigorously defend various attacks against our independent contractor model and incur ongoing legal costs as a part of this process. While we believe that FedEx Ground's owner operators are properly classified as independent contractors, it is reasonably possible that we could incur a material loss in connection with one or more of these matters or be required to make additional changes to our contractor model. However, we do not believe that any such charges will impair our ability to operate and profitably grow our FedEx Ground business.

FEDEX FREIGHT SEGMENT

The following table shows revenues, operating expenses, operating income and operating margin (dollars in millions) and selected statistics for the years ended May 31:

				Percent Change	
	2008	2007 (1)	2006	**2008/ 2007**	2007/ 2006
Revenues	**$4,934**	$4,586	$3,645	**8**	26
Operating expenses:					
Salaries and employee benefits	**2,381**	2,250	1,801	**6**	25
Purchased transportation	**582**	465	298	**25**	56
Rentals and landing fees	**119**	112	94	**6**	19
Depreciation and amortization	**227**	195	120	**16**	63
Fuel	**608**	468	377	**30**	24
Maintenance and repairs	**175**	165	120	**6**	38
Intercompany charges	**81**	61	37	**33**	65
Other	**432**	407	313	**6**	30
Total operating expenses	**4,605**	4,123	3,160	**12**	30
Operating income	**$ 329**	$ 463	$ 485	**(29)**	(5)
Operating margin	**6.7%**	10.1%	13.3%	**(340)bp**	(320)bp
Average daily LTL shipments (in thousands)	**79.7**	78.2	66.7	**2**	17
Weight per LTL shipment (lbs)	**1,136**	1,130	1,143	**1**	(1)
LTL yield (revenue per hundredweight)	**$19.65**	$18.65	$16.84	**5**	11

(1) Includes the results of FedEx National LTL from the date of its acquisition on September 3, 2006.

FedEx Freight Segment Revenues

FedEx Freight segment revenues increased 8% during 2008 primarily due to the full-year inclusion of the FedEx National LTL acquisition. LTL yield increased 5% during 2008, reflecting higher yields from longer-haul FedEx National LTL shipments, higher fuel surcharges (despite the rate reduction described below) and the impact of the January 2008 general rate increase. Average daily LTL shipments grew 2% in 2008, reflecting the full-year inclusion of FedEx National LTL. During the second half of 2008, average daily LTL shipments improved sequentially despite the weak U.S. economy and rising fuel costs that limited demand throughout the entire LTL industry.

FedEx Freight segment revenues increased in 2007 primarily as a result of the acquisition of FedEx National LTL. Average daily LTL shipments (excluding FedEx National LTL) grew slightly in 2007 due to increased demand for our regional and interregional services. This growth rate moderated throughout the year, however, with year-over-year declines in the second half of 2007. LTL yield growth was due to higher yields from longer-haul FedEx National LTL shipments, higher rates and favorable contract renewals.

During the first quarter of 2008, FedEx Freight reduced its standard regional LTL fuel surcharge by 25% and FedEx National LTL reduced its standard LTL fuel surcharge to levels commensurate with FedEx Freight. The indexed LTL fuel surcharge is based on the average of the national U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. The indexed LTL fuel surcharge ranged as follows for the years ended May 31:

	2008	2007	2006
Low	**14.5%**	14.0%	12.5%
High	**23.7**	21.2	20.1
Weighted-Average	**17.7**	17.8	16.3

FedEx Freight Segment Operating Income

The following table compares operating expenses and operating income as a percent of revenue for the years ended May 31:

	Percent of Revenue		
	2008	2007	2006
Operating expenses:			
Salaries and employee benefits	**48.3%**	49.1%	49.4%
Purchased transportation	**11.8**	10.1	8.2
Rentals and landing fees	**2.4**	2.4	2.6
Depreciation and amortization	**4.6**	4.3	3.3
Fuel	**12.3**	10.2	10.3
Maintenance and repairs	**3.5**	3.6	3.3
Intercompany charges	**1.6**	1.3	1.0
Other	**8.8**	8.9	8.6
Total operating expenses	**93.3**	89.9	86.7
Operating income (margin)	**6.7%**	10.1%	13.3%

FedEx Freight segment operating income and operating margin decreased substantially in 2008 primarily due to the net impact of higher fuel costs and the fuel surcharge rate reduction described above, along with higher purchased transportation costs due to increased utilization of and rates paid to third-party transportation providers. Lower variable incentive compensation partially offset the net impact of these factors on operating income during 2008.

The full-year inclusion of FedEx National LTL in our results impacted the 2008 comparability of all our operating expenses. Fuel costs increased 30% during 2008 due to an increase in the average price per gallon of diesel fuel, which also increased rates paid to our third-party transportation providers. Fuel surcharges were not sufficient to offset incremental fuel costs for 2008, based on a static analysis of the year-over-year changes in fuel prices compared to changes in fuel surcharges. Purchased transportation costs increased 25% in 2008 primarily due to the inclusion of FedEx National LTL, which uses a higher proportion of these services, and higher rates paid to our third-party transportation providers. Including incremental costs from FedEx National LTL, depreciation expense increased 16% during 2008 due to investments in information technology and equipment purchased to support ongoing replacement requirements and long-term volume growth. Intercompany charges increased 33% during 2008 primarily due to higher allocated marketing and information technology costs from FedEx Services.

FedEx Freight segment operating income decreased during 2007 due to operating losses at FedEx National LTL, which resulted from softening volumes and ongoing expenses to integrate its network. Along with incremental costs from FedEx National LTL (including amortization of acquired intangible assets), depreciation expense increased due to prior-year purchases of vehicles and other operating equipment to support volume growth. Purchased transportation increased due to higher rates paid to our third-party transportation providers and the utilization of third-party providers at FedEx National LTL. While fuel costs increased in 2007, our fuel surcharge was more than sufficient to offset the effect of higher fuel costs, based on a static analysis of the year-over-year changes in fuel prices compared to changes in the fuel surcharge.

FedEx Freight Segment Outlook

We expect the FedEx Freight segment to have revenue growth resulting from market share gains in 2009, despite the continued contraction of the LTL industry resulting from the weak U.S. economy and high oil prices. Our revenue growth in 2009 is expected to approximate revenue growth levels in 2008. We expect operating income and operating margin growth to be constrained in 2009 due to the continued weak U.S. economy and the increasingly competitive LTL pricing environment. We plan to continue to integrate our LTL businesses in 2009, which will lead to improved synergies and cost savings. As part of that process, we plan to close the San Jose, California, office in calendar 2009, after which the administrative office for FedEx Freight's regional LTL freight operations will be located in Harrison, Arkansas. No material costs are anticipated in connection with this action. Capital spending is expected to remain relatively flat in 2009, with the majority of our spending resulting from investments in revenue equipment and our continued investment in technology to improve productivity and to meet our customers' needs.

FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $1.539 billion at May 31, 2008, compared to $1.569 billion at May 31, 2007 and $1.937 billion at May 31, 2006. The following table provides a summary of our cash flows for the years ended May 31 (in millions):

	2008	2007	2006
Operating activities:			
Net income	**$1,125**	$ 2,016	$1,806
Noncash charges and credits	**3,187**	1,988	2,006
Changes in operating assets and liabilities	**(828)**	(441)	(136)
Cash provided by operating activities	**3,484**	3,563	3,676
Investing activities:			
Business acquisitions, net of cash acquired	**(4)**	(1,310)	–
Capital expenditures and other investing activities	**(2,893)**	(2,814)	(2,454)
Cash used in investing activities	**(2,897)**	(4,124)	(2,454)
Financing activities:			
Proceeds from debt issuances	**–**	1,054	–
Principal payments on debt	**(639)**	(906)	(369)
Dividends paid	**(124)**	(110)	(97)
Other financing activities	**146**	155	142
Cash (used in) provided by financing activities	**(617)**	193	(324)
Net (decrease) increase in cash and cash equivalents	**$ (30)**	$ (368)	$ 898

Cash Provided by Operating Activities. Cash flows from operating activities decreased $79 million in 2008 primarily due to higher operating costs, particularly fuel and purchased transportation, partially offset by year-over-year reductions in income tax payments. Noncash charges and credits increased in 2008 due to the impairment charges discussed above. Cash flows from operating activities decreased $113 million in 2007 primarily due to an increase in income tax payments of $184 million, partially offset by increased earnings. During 2008, we made tax-deductible voluntary contributions to our principal U.S. domestic pension plans of $479 million, compared to $482 million during 2007 and $456 million during 2006.

Cash Used in Investing Activities. Capital expenditures during 2008 were 2% higher largely due to planned expenditures for facility expansion at FedEx Express and FedEx Ground. During 2007, $1.3 billion of cash was used for the FedEx National LTL, FedEx U.K., DTW Group and other immaterial acquisitions. See Note 3 of the accompanying consolidated financial statements for further discussion of these acquisitions. See "Capital Resources" for a discussion of capital expenditures during 2008 and 2007.

Debt Financing Activities. We have a shelf registration statement filed with the Securities and Exchange Commission ("SEC") that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock. In August 2006, we issued $1 billion of senior unsecured debt under our shelf registration statement, comprised of floating-rate notes totaling $500 million and fixed-rate notes totaling $500 million. The $500 million in floating-rate notes were repaid in August 2007. The fixed-rate notes bear interest at an annual rate of 5.5%, payable semi-annually, and are due in August 2009. The net proceeds were used for working capital and general corporate purposes, including the funding of several business acquisitions during 2007.

A $1 billion revolving credit agreement is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. Our revolving credit agreement contains a financial covenant, which requires us to maintain a leverage ratio of adjusted debt (long-term debt, including the current portion of such debt, plus six times rentals and landing fees) to capital (adjusted debt plus total common stockholders' investment) that does not exceed 0.7 to 1.0. Our leverage ratio of adjusted debt to capital was 0.5 at May 31, 2008. We are in compliance with this and all other restrictive covenants of our revolving credit agreement and do not expect the covenants to affect our operations. As of May 31, 2008, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.

Dividends. Dividends paid were $124 million in 2008, $110 million in 2007 and $97 million in 2006. On June 2, 2008, our Board of Directors declared a dividend of $0.11 per share of common stock, an increase of $0.01 per share. The dividend was paid on July 1, 2008 to stockholders of record as of the close of business on June 13, 2008. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

CAPITAL RESOURCES

Our operations are capital intensive, characterized by significant investments in aircraft, vehicles, technology, facilities, package handling and sort equipment. The amount and timing of capital additions depend on various factors, including pre-existing contractual commitments, anticipated volume growth, domestic and international economic conditions, new or enhanced services, geographical expansion of services, availability of satisfactory financing and actions of regulatory authorities.

The following table compares capital expenditures by asset category and reportable segment for the years ended May 31 (in millions):

	2008	2007	2006	Percent Change 2008/2007	2007/2006
Aircraft and related equipment	**$ 998**	$1,107	$1,033	**(10)**	7
Facilities and sort equipment	**900**	674	507	**34**	33
Vehicles	**404**	445	413	**(9)**	8
Information and technology investments	**366**	431	394	**(15)**	9
Other equipment	**279**	225	171	**24**	32
Total capital expenditures	**$2,947**	$2,882	$2,518	**2**	14
FedEx Express segment	**$1,716**	$1,672	$1,408	**3**	19
FedEx Ground segment	**509**	489	487	**4**	–
FedEx Freight segment	**266**	287	274	**(7)**	5
FedEx Services segment	**455**	432	345	**5**	25
Other	**1**	2	4	**NM**	NM
Total capital expenditures	**$2,947**	$2,882	$2,518	**2**	14

Capital expenditures during 2008 were slightly higher than the prior year primarily due to increased spending for facility expansions. FedEx Express capital expenditures increased in 2008 primarily as a result of increased spending on air operations and sorting facilities, including the construction of our new regional hub in Greensboro, North Carolina, and the expansion of our primary sorting facility in Memphis. FedEx Services capital expenditures increased in 2008 primarily due to increased spending associated with information technology facility expansions and the addition of new FedEx Office locations. Capital spending at FedEx Ground increased in 2008 due to increased spending on facilities and sort equipment associated with its comprehensive network expansion plan. Other equipment capital expenditures increased at FedEx Express during 2008, primarily due to expenditures for ground support equipment replacement, as well as sort equipment at our new Asia-Pacific hub in Guangzhou, China. Capital expenditures increased during 2007 primarily due to increased spending at FedEx Express for facility expansion and aircraft and related equipment, and expenditures at FedEx Office associated with its expansion program.

LIQUIDITY OUTLOOK

We believe that our existing cash and cash equivalents, cash flow from operations, our commercial paper program, revolving bank credit facility and shelf registration statement with the SEC are adequate to meet our current and foreseeable future working capital and capital expenditure needs. In addition, other forms of secured financing may be used to obtain capital assets if we determine that they best suit our needs for the foreseeable future. We have been successful in obtaining investment capital, both domestic and international, although the marketplace for such capital can become restricted depending on a variety of economic factors. We believe the capital resources available to us provide flexibility to access the most efficient markets for financing capital acquisitions, including aircraft, and are adequate for our future capital needs.

In February 2008, the Economic Stimulus Act of 2008 ("Act") was signed into law. Among other things, this Act provides a 50% bonus tax depreciation deduction for qualified property acquired or constructed and placed in service in 2008. We anticipate that the Act will provide us with a federal income tax deferral in 2009, reversing in later years. We estimate this deferral will reduce our 2009 federal income tax payments by $50 million to $100 million; however, the actual amount is subject to the nature and timing of our capital expenditures in 2009, which may be impacted by ongoing weak economic conditions.

Our capital expenditures are expected to be less than $3 billion in 2009 and will include spending for aircraft and related equipment at FedEx Express, facility expansion at FedEx Ground and revenue equipment at FedEx Freight. We also continue to invest in productivity-enhancing technologies. Aircraft-related capital outlays include the Boeing 757s, the first of which enter revenue service in 2009 and are 40% more fuel efficient per unit than the aircraft type they will replace, and the new Boeing 777s, the first of which enter revenue service in 2010. These aircraft capital expenditures are necessary to achieve significant long-term operating savings and to support projected long-term international volume growth. However, we may temporarily ground certain aircraft due to excess capacity in the current economic environment.

Due to the weak U.S. economy, during 2008 management took actions to reduce future capital commitments by slowing the rate of expansion for new FedEx Office locations in 2009. We expect to open approximately 60 new FedEx Office locations in 2009. This will allow FedEx Office management to continue to focus on improving core services and the overall customer experience at existing stores.

We are closely managing our capital spending based on current and anticipated volume levels and will defer or limit capital additions where economically feasible, while continuing to invest strategically in growing service lines. We currently expect to fund our 2009 capital requirements with cash from operations.

We have not repurchased any shares in recent years. However, we currently have the liquidity to repurchase shares and may do so in the future. A total of 5.75 million shares remain under existing share repurchase authorizations.

We have a senior unsecured debt credit rating from Standard & Poor's of BBB and a commercial paper rating of A-2. Moody's Investors Service has assigned us a senior unsecured debt credit rating of Baa2 and a commercial paper rating of P-2. Moody's and Standard & Poor's characterize our ratings outlook as "stable." If our credit ratings drop, our interest expense may increase. If our commercial paper ratings drop below current levels, we may have difficulty utilizing the commercial paper market. If our senior unsecured debt ratings drop below investment grade, our access to financing may become limited.

In 2009, scheduled debt payments include $502 million of principal payments on unsecured notes and capitalized leases.

CONTRACTUAL CASH OBLIGATIONS

The following table sets forth a summary of our contractual cash obligations as of May 31, 2008. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States. Except for the current portion of long-term debt and capital lease obligations, this table does not include amounts already recorded in our balance sheet as current liabilities at May 31, 2008. Accordingly, this table is not meant to represent a forecast of our total cash expenditures for any of the periods presented.

	Payments Due by Fiscal Year						
(in millions)	2009	2010	2011	2012	2013	Thereafter	Total
Operating activities:							
Operating leases	$1,803	$1,647	$1,482	$1,332	$1,208	$ 8,338	$15,810
Non-capital purchase obligations and other [(1)]	342	127	61	56	33	134	753
Interest on long-term debt	110	79	65	47	20	1,534	1,855
Investing activities:							
Aircraft and aircraft-related capital commitments [(1)]	1,143	1,051	674	31	–	–	2,899
Other capital purchase obligations [(1)]	219	–	–	–	–	–	219
Financing activities:							
Debt	500	499	250	–	300	239	1,788
Capital lease obligations [(2)]	13	97	8	8	119	18	263
Total	$4,130	$3,500	$2,540	$1,474	$1,680	$10,263	$23,587

(1) See Note 16 to the accompanying consolidated financial statements.
(2) Capital lease obligations represent principal and interest payments.

We have certain contingent liabilities that are not accrued in our balance sheet in accordance with accounting principles generally accepted in the United States. These contingent liabilities are not included in the table above. In addition, we have historically made voluntary tax-deductible contributions to our principal U.S. domestic pension plans; however, such amounts have not been legally required and therefore are not reflected in the table above.

We have other long-term liabilities reflected in our balance sheet, including deferred income taxes, qualified and nonqualified pension and postretirement healthcare liabilities and other self-insurance accruals. The payment obligations associated with these liabilities are not reflected in the table above due to the absence of scheduled maturities. Therefore, the timing of these payments cannot be determined, except for amounts estimated to be payable within twelve months that are included in current liabilities.

Operating Activities

In accordance with accounting principles generally accepted in the United States, our operating leases are not recorded in our balance sheet. Credit rating agencies routinely use information concerning minimum lease payments required for our operating leases to calculate our debt capacity. The amounts reflected in the table above for operating leases represent future minimum lease payments under noncancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 2008. In the past, we financed a significant portion of our aircraft needs (and certain other equipment needs) using operating leases (a type of "off-balance sheet financing"). At the time the decision to lease was made, we determined that these operating leases would provide economic benefits favorable to ownership with respect to market values, liquidity or after-tax cash flows.

The amounts reflected in the table above for purchase obligations represent noncancelable agreements to purchase goods or services that are not capital related. Such contracts include those for printing and advertising and promotions contracts. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above. Such purchase orders often represent authorizations to purchase rather than binding agreements.

Included in the preceding table within the caption entitled "Non-capital purchase obligations and other" is our estimate of the current portion of the liability for uncertain tax positions under FIN 48. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the liability ($80 million) is excluded from the preceding table. See Note 11 of the accompanying consolidated financial statements for further information.

The amounts reflected in the table above for interest on long-term debt represent future interest payments due on our long-term debt, all of which are fixed rate.

Investing Activities

The amounts reflected in the table above for capital purchase obligations represent noncancelable agreements to purchase capital-related equipment. Such contracts include those for certain purchases of aircraft, aircraft modifications, vehicles, facilities, computers and other equipment contracts. In addition, we have committed to modify our DC10 aircraft for two-man cockpit configuration, which is reflected in the table above. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for

cargo transport unless we have entered into a noncancelable commitment. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above. Such purchase orders often represent authorizations to purchase rather than binding agreements.

Financing Activities
We have certain financial instruments representing potential commitments, not reflected in the table above, that were incurred in the normal course of business to support our operations, including surety bonds and standby letters of credit. These instruments are generally required under certain U.S. self-insurance programs and are also used in the normal course of international operations. The underlying liabilities insured by these instruments are reflected in our balance sheets, where applicable. Therefore, no additional liability is reflected for the surety bonds and letters of credit themselves.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a complex, global corporation. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The estimates discussed below include the financial statement elements that are either the most judgmental or involve the selection or application of alternative accounting policies and are material to our financial statements. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm.

RETIREMENT PLANS

Overview. We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and retiree healthcare plans. The accounting for pension and healthcare plans includes numerous assumptions, such as: discount rates; expected long-term investment returns on plan assets; future salary increases; employee turnover; mortality; and retirement ages. These assumptions most significantly impact our U.S. domestic pension plans.

A summary of our retirement plans costs over the past three years is as follows (in millions):

	2008	2007	2006
U.S. domestic and international pension plans	**$323**	$467	$425
U.S. domestic and international defined contribution plans	**216**	176	167
Postretirement healthcare plans	**77**	55	73
	$616	$698	$665

The determination of our annual retirement plans cost is highly sensitive to changes in the assumptions discussed above because we have a large active workforce, a significant amount of assets in the pension plans, and the payout of benefits will occur over an extended period in the future. Total retirement plans cost decreased $82 million in 2008, and increased $33 million in 2007 and $83 million in 2006, primarily due to plan changes in 2008 and changes to these assumptions in 2007 and 2006.

In 2007, we announced changes to significantly redesign certain of our retirement programs. Effective January 1, 2008, we increased the annual company matching contribution under the largest of our 401(k) plans covering most employees from $500 to a maximum of 3.5% of eligible compensation. Employees not participating in the 401(k) plan as of January 1, 2008 were automatically enrolled at 3% of eligible pay with a company match of 2% of eligible pay effective March 1, 2008. The full cost of this benefit improvement will accelerate over the next few years. Effective May 31, 2008, benefits previously accrued under our primary pension plans using a traditional pension benefit formula were capped for most employees, and those benefits will be payable beginning at retirement. Beginning June 1, 2008, future pension benefits for most employees will be accrued under a cash balance formula we call the Portable Pension Account. These changes will not affect the benefits of current retirees and terminated vested participants. In addition, these pension plans were modified to accelerate vesting from five years to three years effective June 1, 2008 for most participants.

Under the Portable Pension Account, the retirement benefit is expressed as a dollar amount in a notional account that grows with annual credits based on pay, age and years of credited service, and interest on the notional account balance. An employee's pay credits are determined each year under a graded formula that combines age with years of service for points. The plan interest credit rate will vary from year to year based on the selected U.S. Treasury index, with a minimum rate of 4% or the one-year Treasury Constant Maturities rate plus 1% and a maximum rate based on the average 30-year Treasury rate.

Retirement plans cost in 2009 is expected to be approximately $567 million, a decrease from 2008. We anticipate that the full-year impact of the enhanced 401(k) match described above will be offset by a decline in pension and retiree medical expense due to a significantly higher discount rate. We continue to expect the long-term costs of our retirement plans to approximate those prior to the recent plan changes. However, we expect that the costs of our retirement plans will become more predictable as we reduce highly volatile pension costs in favor of more predictable 401(k)

costs associated with our matching contributions. Retirement plans cost is included in the "Salaries and Employee Benefits" caption in our consolidated income statements.

Pension Cost. Of all of our retirement plans, our largest qualified U.S. domestic pension plan is the most significant and subjective. The components of pension cost for all pension plans are as follows (in millions):

	2008	2007	2006
Service cost	**$ 518**	$ 540	$ 473
Interest cost	**720**	707	642
Expected return on plan assets	**(985)**	(930)	(811)
Recognized actuarial losses and other	**70**	150	121
Net periodic benefit cost	**$ 323**	$ 467	$ 425

Following is a discussion of the key estimates we consider in determining our pension costs:

Discount Rate. This is the interest rate used to discount the estimated future benefit payments that have been accrued to date (the projected benefit obligation, or PBO) to their net present value and to determine the succeeding year's pension expense. The discount rate is determined each year at the plan measurement date. For 2008, our measurement date for determination of our PBO was February 29, 2008, and our assumptions incorporated a discount rate of 6.96%. As described previously in this MD&A, due to our measurement date transition under SFAS 158, our measurement date for 2009 expense was June 1, 2008, and our assumptions incorporated a discount rate of 7.15%. An increase in the discount rate decreases pension expense. This assumption is highly sensitive, as the following table illustrates with our largest qualified U.S. domestic pension plan:

	Discount Rate [1]	Sensitivity (in millions) [2]	
		Expense	PBO
2009 (expense)	7.15%	$ 1.7	n/a
2008	6.96%	2.1	$ 16
2007	6.01%	2.5	19
2006	5.91%	2.1	21

(1) The discount rate in effect at the end of a given fiscal year affects the current year's PBO and the succeeding year's pension expense, except for 2009 which was affected by our measurement date transition. The 2009 expense sensitivity is driven by the 7.15% discount rate determined at the June 1, 2008 measurement date.

(2) Sensitivities show the impact on expense and the PBO of a one-basis-point change in the discount rate.

We determine the discount rate (which is required to be the rate at which the projected benefit obligation could be effectively settled as of the measurement date) with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that generally match our expected benefit payments in future years. This bond modeling technique allows for the use of non-callable and make-whole bonds that meet certain screening criteria to ensure that the selected bonds with a call feature have a low probability of being called. To the extent scheduled bond proceeds exceed the estimated benefit payments in a given period, the yield calculation assumes those excess proceeds are reinvested at the one-year forward rates implied by the Citigroup Pension Discount Curve. Pension costs for our primary domestic pension plan were favorably affected in 2008 by approximately $27 million due to the slight increase in the discount rate. The previous trend of declines in the discount rate negatively affected our primary domestic pension plan expense by $89 million in 2007 and $101 million in 2006. Pension costs will be favorably affected in 2009 by approximately $225 million due to the increase in the discount rate driven by higher interest rates in the bond market year over year.

Plan Assets. Pension plan assets are invested primarily in listed securities. Our pension plans hold only a minimal investment in FedEx common stock that is entirely at the discretion of third-party pension fund investment managers. The estimated average rate of return on plan assets is a long-term, forward-looking assumption that also materially affects our pension cost. It is required to be the expected future long-term rate of earnings on plan assets. At February 29, 2008, with approximately $11.7 billion of plan assets in our domestic plans, a one-basis-point change in this assumption for our domestic pension plans affects pension cost by approximately $1.2 million. We have assumed an 8.5% compound geometric long-term rate of return on our principal U.S. domestic pension plan assets for 2009, unchanged from 2008 as discussed above.

Establishing the expected future rate of investment return on our pension assets is a judgmental matter. Management considers the following factors in determining this assumption:

- the duration of our pension plan liabilities, which drives the investment strategy we can employ with our pension plan assets;
- the types of investment classes in which we invest our pension plan assets and the expected compound geometric return we can reasonably expect those investment classes to earn over the next 10- to 15-year time period (or such other time period that may be appropriate); and
- the investment returns we can reasonably expect our active investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

We review the expected long-term rate of return on an annual basis and revise it as appropriate. As part of our strategy to manage future pension costs and net funded status volatility, we are also in the process of reevaluating our pension investment strategy. We are currently evaluating the mix of investments between equities and fixed income securities, the cash flows of which will more closely align with the cash flows of our pension obligations.

To support our conclusions, we periodically commission asset/liability studies performed by third-party professional investment advisors and actuaries to assist us in our reviews. These studies project our estimated future pension payments and evaluate the efficiency of the allocation of our pension plan assets into various investment categories. These studies also generate probability-adjusted expected future returns on those assets. The following table summarizes our current asset allocation strategy (dollars in millions):

	Plan Assets at Measurement Date					
	2008			2007		
Asset Class	Actual	Actual	Target	Actual	Actual	Target
Domestic equities	**$ 5,694**	**49%**	**53%**	$ 5,897	52%	53%
International equities	**2,481**	**21**	**17**	2,413	21	17
Private equities	**406**	**4**	**5**	314	3	5
Total equities	**8,581**	**74**	**75**	8,624	76	75
Long duration fixed income securities	**1,778**	**15**	**15**	1,627	15	15
Other fixed income securities	**1,302**	**11**	**10**	1,049	9	10
	$11,661	**100%**	**100%**	$11,300	100%	100%

The actual historical return on our U.S. pension plan assets, calculated on a compound geometric basis, was 9.4%, net of investment manager fees, for the 15-year period ended February 29, 2008.

Pension expense is also affected by the accounting policy used to determine the value of plan assets at the measurement date. We use a calculated-value method to determine the value of plan assets, which helps mitigate short-term volatility in market performance (both increases and decreases). Another method used in practice applies the market value of plan assets at the measurement date. The application of the calculated-value method equaled the result from applying the market-value method for 2006 through 2008.

Salary Increases. The assumed future increase in salaries and wages is also a key estimate in determining pension cost. Generally, we correlate changes in estimated future salary increases to changes in the discount rate (since that is an indicator of general inflation and cost of living adjustments) and general estimated levels of profitability (since most incentive compensation is a component of pensionable wages). Our average future salary increases based on age and years of service were 4.47% for 2008, 3.46% for 2007 and 3.15% for 2006. Future salary increases are estimated to be 4.49% for our 2009 pension costs. In the future, a one-basis-point across-the-board change in the rate of estimated future salary increases will have an immaterial impact on our pension costs.

Following is information concerning the funded status of our pension plans as of May 31 (in millions):

	2008	2007
Funded Status of Plans:		
Projected benefit obligation (PBO)	**$11,617**	$12,209
Fair value of plan assets	**11,879**	11,506
Funded status of the plans	**262**	(703)
Employer contributions after measurement date	**15**	22
Net amount recognized	**$ 277**	$ (681)
Components of Amounts Included in Balance Sheets:		
Noncurrent pension assets	**$ 827**	$ 1
Current pension and other benefit obligations	**(32)**	(24)
Noncurrent pension and other benefit obligations	**(518)**	(658)
Net amount recognized	**$ 277**	$ (681)
Cash Amounts:		
Cash contributions during the year	**$ 548**	$ 524
Benefit payments during the year	**$ 318**	$ 261

The funded status of the plans reflects a snapshot of the state of our long-term pension liabilities at the plan measurement date. Our plans remain adequately funded to provide benefits to our employees as they come due and current benefit payments are nominal compared to our total plan assets (benefit payments for 2008 were approximately 2.7% of plan assets). As described previously in this MD&A, the adoption of SFAS 158 in 2007 resulted in a $982 million charge to shareholders' equity in accumulated other comprehensive income to recognize the funded status of the PBO. SFAS 158 also requires immediate recognition of actuarial gains and losses in accumulated other comprehensive income even though such items continue to be deferred for the determination of pension expense. The funded status of our plans improved substantially in 2008 due primarily to an increase in the discount rate used to measure plan liabilities and to voluntary funding of those plans.

We made tax-deductible voluntary contributions of $479 million in 2008 and $482 million in 2007 to our qualified U.S. domestic pension plans. We currently expect to make tax-deductible voluntary contributions to our qualified plans in 2009 at levels approximating those in 2008.

Cumulative unrecognized actuarial losses for pension plans expense determination were approximately $2.5 billion through February 29, 2008, compared to $3.3 billion at February 28, 2007. These unrecognized losses primarily reflect the declining discount rate from 2002 through 2006 and other changes in assumptions. A portion is also attributable to the differences between expected and actual asset returns, which are being amortized over future periods. These unrecognized losses may be recovered in future periods through actuarial gains. However, unless they are below a corridor amount, these unrecognized actuarial losses are required to be amortized and recognized in future periods. For example, projected U.S. domestic plan pension expense for 2009 includes $44 million of amortization of these actuarial losses versus $162 million in 2008, $136 million in 2007 and $107 million in 2006.

SELF-INSURANCE ACCRUALS

We are self-insured up to certain limits for costs associated with workers' compensation claims, vehicle accidents and general business liabilities, and benefits paid under employee healthcare and long-term disability programs. At May 31, 2008, there were approximately $1.4 billion of self-insurance accruals reflected in our balance sheet ($1.3 billion at May 31, 2007). Approximately 41% of these accruals were classified as current liabilities in both 2008 and 2007.

The measurement of these costs requires the consideration of historical cost experience, judgments about the present and expected levels of cost per claim and retention levels. We account for these costs primarily through actuarial methods, which develop estimates of the undiscounted liability for claims incurred, including those claims incurred but not reported, on a quarterly basis for material accruals. These methods provide estimates of future ultimate claim costs based on claims incurred as of the balance sheet date. These estimates include consideration of factors such as severity of claim, frequency of claims, and costs associated with claims, such as projecting future healthcare costs. We self-insure up to certain limits that vary by operating company and type of risk. Periodically, we evaluate the level of insurance coverage and adjust insurance levels based on risk tolerance and premium expense. Historically, it has been infrequent that incurred claims exceeded our self-insured limits. Other acceptable methods of accounting for these accruals include measurement of claims outstanding and projected payments based on historical development factors.

We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals. However, the use of any estimation technique in this area is inherently sensitive given the magnitude of claims involved and the length of time until the ultimate cost is known. We believe our recorded obligations for these expenses are consistently measured on a conservative basis. Nevertheless, changes in healthcare costs, accident frequency and severity, insurance retention levels and other factors can materially affect the estimates for these liabilities.

LONG-LIVED ASSETS

Property and Equipment. Our key businesses are capital intensive, with approximately 53% of our total assets invested in our transportation and information systems infrastructures. We capitalize only those costs that meet the definition of capital assets under accounting standards. Accordingly, repair and maintenance costs that do not extend the useful life of an asset or are not part of the cost of acquiring the asset are expensed as incurred. However, consistent with industry practice, we capitalize certain aircraft-related major maintenance costs on one of our aircraft fleet types and amortize these costs over their estimated service lives.

The depreciation or amortization of our capital assets over their estimated useful lives, and the determination of any salvage values, requires management to make judgments about future events. Because we utilize many of our capital assets over relatively long periods (the majority of aircraft costs are depreciated over 15 to 18 years), we periodically evaluate whether adjustments to our estimated service lives or salvage values are necessary to ensure these estimates properly match the economic use of the asset. This evaluation may result in changes in the estimated lives and residual values used to depreciate our aircraft and other equipment. These estimates affect the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on the disposal of the asset. Changes in the estimated lives of assets will result in an increase or decrease in the amount of depreciation recognized in future periods and could have a material impact on our results of operations. Historically, gains and losses on operating equipment have not been material (typically less than $15 million annually). However, such amounts may differ materially in the future due to changes in business levels, technological obsolescence, accident frequency, regulatory changes and other factors beyond our control.

Because of the lengthy lead times for aircraft manufacture and modifications, we must anticipate volume levels and plan our fleet requirements years in advance, and make commitments for aircraft based on those projections. Furthermore, the timing and availability of certain used aircraft types (particularly those with better fuel efficiency) may create limited opportunities to acquire these aircraft at favorable prices in advance of our capacity needs. These activities create risks that asset capacity may exceed demand and that an impairment of our assets may occur. In addition, the soft U.S. economy will result in our temporarily grounding certain aircraft in 2009, although we intend to continue to use these aircraft in our network. Aircraft purchases (primarily aircraft in passenger configuration) that have not been placed in service totaled approximately $150 million at May 31, 2008 and $71 million at May 31, 2007. We plan to modify these assets in the future to place them into operation.

The accounting test for whether an asset held for use is impaired involves first comparing the carrying value of the asset with its estimated future undiscounted cash flows. If the cash flows do not exceed the carrying value, the asset must be adjusted to its current fair value. Because the cash flows of our transportation networks cannot be identified to individual assets, and based on the ongoing profitability of our operations, we have not experienced any significant impairment of assets to be held and used. However, from time to time we make decisions to remove certain long-lived assets from service based on projections of reduced capacity needs or lower operating costs of newer aircraft types, and those decisions may result in an impairment charge. Assets held for disposal must be adjusted to their estimated fair values when the decision is made to dispose of the asset and certain other criteria are met. The fair value determinations for such aircraft may require management estimates, as there may not be active markets for some of these aircraft. Such estimates are subject to changes from period to period. There were no material property and equipment impairment charges recognized in 2008, 2007 or 2006.

Leases. We utilize operating leases to finance certain of our aircraft, facilities and equipment. Such arrangements typically shift the risk of loss on the residual value of the assets at the end of the lease period to the lessor. As disclosed in "Contractual Cash Obligations" and Note 7 to the accompanying consolidated financial statements, at May 31, 2008 we had approximately $16 billion (on an undiscounted basis) of future commitments for payments under operating leases. The weighted-average remaining lease term of all operating leases outstanding at May 31, 2008 was approximately seven years.

The future commitments for operating leases are not reflected as a liability in our balance sheet because these leases do not meet the accounting definition of capital leases. The determination of whether a lease is accounted for as a capital lease

or an operating lease requires management to make estimates primarily about the fair value of the asset and its estimated economic useful life. In addition, our evaluation includes ensuring we properly account for build-to-suit lease arrangements and making judgments about whether various forms of lessee involvement during the construction period make the lessee an agent for the owner-lessor or, in substance, the owner of the asset during the construction period. We believe we have well-defined and controlled processes for making these evaluations, including obtaining third-party appraisals for material transactions to assist us in making these evaluations.

Goodwill. We have approximately $3.2 billion of goodwill in our balance sheet from our acquisitions, representing the excess of cost over the fair value of the net assets we have acquired. Several factors give rise to goodwill in our acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired entity.

FedEx Office Goodwill. During 2008, we made several strategic decisions regarding FedEx Office. During the first quarter of 2008, FedEx Office was reorganized as a part of the FedEx Services segment. FedEx Office provides retail access to our customers for our package transportation businesses and an array of document and business services. FedEx Services provides access to customers through digital channels such as fedex.com. Under FedEx Services, FedEx Office benefits from the full range of resources and expertise of FedEx Services to continue to enhance the customer experience, provide greater, more convenient access to the portfolio of services at FedEx, and increase revenues through our retail network. This reorganization resulted in our ceasing to treat FedEx Office as a core operating company; however, FedEx Office remains a reporting unit for goodwill impairment testing purposes.

During the fourth quarter of 2008, several developments and strategic decisions occurred at FedEx Office, including:

- reorganizing senior management at FedEx Office with several positions terminated and numerous reporting realignments, including naming a new president and CEO;
- determining that we would minimize the use of the Kinko's trade name over the next several years;
- implementing revenue growth and cost management plans to improve financial performance; and
- pursuing a more disciplined approach to the long-term expansion of the retail network, reducing the overall level of expansion.

We performed our annual impairment testing in the fourth quarter for the Kinko's trade name and the recorded goodwill for the FedEx Office reporting unit. In accordance with the accounting rules, the trade name impairment test was performed before the goodwill impairment test.

In accordance with SFAS 142, "Goodwill and Other Intangible Assets," a two-step impairment test is performed on goodwill. In the first step, we compared the estimated fair value of the reporting unit to its carrying value. The valuation methodology to estimate the fair value of the FedEx Office reporting unit was based primarily on an income approach that considered market participant assumptions to estimate fair value. Key assumptions considered were the revenue and operating income forecast, the assessed growth rate in the periods beyond the detailed forecast period, and the discount rate.

In performing our impairment test, the most significant assumption used to estimate the fair value of the FedEx Office reporting unit was the discount rate. We used a discount rate of 12.5%, representing the estimated weighted-average cost of capital (WACC) of the FedEx Office reporting unit. The development of the WACC used in our estimate of fair value considered the following key factors:

- benchmark capital structures for guideline companies with characteristics similar to the FedEx Office reporting unit;
- current market conditions for the risk-free interest rate;
- the size and industry of the FedEx Office reporting unit; and
- risks related to the forecast of future revenues and profitability of the FedEx Office reporting unit.

The WACC used in the estimate of fair value in future periods may be impacted by changes in market conditions (including those of market participants), as well as the specific future performance of the FedEx Office reporting unit and are subject to change, based on changes in specific facts and circumstances.

In the second step of the impairment test, we estimated the current fair values of all assets and liabilities to determine the amount of implied goodwill and consequently the amount of the goodwill impairment. Upon completion of the second step of the impairment test, we concluded that the recorded goodwill was impaired and recorded an impairment charge of $367 million during the fourth quarter of 2008. Significant judgments included in the second step of the impairment test included fair value estimates of assets and liabilities, the aggregate effect of which increased the impairment charge to goodwill by approximately $90 million. The goodwill impairment charge is included in operating expenses in the accompanying consolidated statements of income. This charge is included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of these businesses.

Other Reporting Units Goodwill. Our annual evaluation of goodwill impairment requires the use of estimates and assumptions to determine the fair value of our reporting units using an income approach incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Estimates used by management can significantly affect the outcome of the impairment test. Each year, independent of our goodwill impairment test, we update our WACC calculation and perform a long-range planning analysis to project expected results of operations. Using this data, we complete a separate fair value analysis for each of our reporting units. Changes in forecasted operations and other assumptions could materially affect these estimates. We compare the fair value of our reporting units to the carrying value, including goodwill, of each of

those units. We performed our annual impairment tests in the fourth quarter of 2008. Because the fair value of each of our other reporting units exceeded its carrying value, including goodwill, no additional testing or impairment charge was necessary.

Intangible Asset with an Indefinite Life. We have an intangible asset associated with the Kinko's trade name. Prior to 2008, this intangible asset was not amortized because it had an indefinite remaining useful life. Prior to the fourth quarter of 2008, our intent was to continue to use the Kinko's trade name indefinitely. During the fourth quarter, we made the decision to change the name of FedEx Kinko's to FedEx Office and rebrand our retail locations over the next several years. We believe the FedEx Office name better describes the wide range of services available at our retail centers and takes full advantage of the FedEx brand. This change converted this asset to a finite life asset and resulted in an impairment charge of $515 million. We estimated the fair value of this intangible asset based on an income approach using the relief-from-royalty method. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain.

The $515 million impairment charge resulted in a remaining trade name balance of $52 million, which we began amortizing in the fourth quarter on an accelerated basis over the next four years. The trade name impairment charge is included in operating expenses in the accompanying consolidated statements of income. The charge is included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of these businesses.

CONTINGENCIES

We are subject to various loss contingencies, including tax proceedings and litigation, in connection with our operations. Contingent liabilities are difficult to measure, as their measurement is subject to multiple factors that are not easily predicted or projected. Further, additional complexity in measuring these liabilities arises due to the various jurisdictions in which these matters occur, which makes our ability to predict their outcome highly uncertain. Moreover, different accounting rules must be employed to account for these items based on the nature of the contingency. Accordingly, significant management judgment is required to assess these matters and to make determinations about the measurement of a liability, if any. Our material pending loss contingencies are described in Note 17 to our consolidated financial statements. In the opinion of management, the aggregate liability, if any, of individual matters or groups of matters not specifically described in Note 17 is not expected to be material to our financial position, results of operations or cash flows. The following describes our method and associated processes for evaluating these matters.

Tax Contingencies

We are subject to income and operating tax rules of the United States, and its states and municipalities, and of the foreign jurisdictions in which we operate. Significant judgment is required in determining income tax provisions, as well as deferred tax asset and liability balances, due to the complexity of these rules and their interaction with one another. We account for income taxes under SFAS 109, "Accounting for Income Taxes," by recording both current taxes payable and deferred tax assets and liabilities. Our provision for income taxes is based on domestic and international statutory income tax rates in the jurisdictions in which we operate, applied to taxable income, reduced by applicable tax credits.

We account for operating taxes based on multi-state and local taxing jurisdiction rules in those areas in which we operate. Provisions for operating taxes are estimated based upon these rules, asset acquisitions and disposals, historical spend and other variables. These provisions are consistently evaluated for reasonableness against compliance and risk factors.

Tax contingencies arise from uncertainty in the application of tax rules throughout the many jurisdictions in which we operate. These tax contingencies are impacted by several factors, including tax audits, appeals, litigation, changes in tax laws and other rules and their interpretations, and changes in our business, among other things, in the various federal, state, local and foreign tax jurisdictions in which we operate. We regularly assess the potential impact of these factors for the current and prior years to determine the adequacy of our tax provisions. We continually evaluate the likelihood and amount of potential adjustments and adjust our tax positions, including the current and deferred tax liabilities, in the period in which the facts that give rise to a revision become known. In addition, management considers the advice of third parties in making conclusions regarding tax consequences.

Effective June 1, 2007, we began to measure and record income tax contingency accruals in accordance with FIN 48. The cumulative effect of adopting FIN 48 was immaterial.

Under FIN 48, we recognize liabilities for uncertain income tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we must determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis or when new information becomes available to management. These reevaluations are based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, successfully settled issues under audit and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an increase to the related provision.

We classify interest related to income tax liabilities as interest expense, and if applicable, penalties are recognized as a component of income tax expense. The income tax liabilities and accrued interest and penalties that are due within one year of the balance sheet date are presented as current liabilities. The remaining portion of our income tax liabilities and accrued interest and penalties are presented as noncurrent liabilities. These noncurrent income tax liabilities are recorded in the caption "Other liabilities" in our consolidated balance sheets.

We measure and record operating tax contingency accruals in accordance with SFAS 5, "Accounting for Contingencies." As discussed below, SFAS 5 requires an accrual of estimated loss from a contingency, such as a tax or other legal proceeding or claim, when it is probable that a loss will be incurred and the amount of the loss can be reasonably estimated.

Other Contingencies

Because of the complex environment in which we operate, we are subject to other legal proceedings and claims, including those relating to general commercial matters, employment-related claims and FedEx Ground's owner-operators. We account for these contingencies in accordance with SFAS 5. SFAS 5 requires an accrual of estimated loss from a contingency, such as a tax or other legal proceeding or claim, when it is probable (i.e., the future event or events are likely to occur) that a loss will be incurred and the amount of the loss can be reasonably estimated. SFAS 5 requires disclosure of a loss contingency matter when, in management's judgment, a material loss is reasonably possible or probable of occurring.

Our legal department maintains thorough processes to identify, evaluate and monitor the status of litigation and other loss contingencies as they arise and develop. Management has regular litigation and contingency reviews, including updates from internal and external counsel, to assess the need for accounting recognition of a loss or disclosure of these contingencies. In determining whether a loss should be accrued or a loss contingency disclosed, we evaluate, among other factors, the degree of probability of an unfavorable outcome or settlement and the ability to make a reasonable estimate of the amount of loss. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs materially from our previously estimated liability.

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS

INTEREST RATES

While we currently have market risk sensitive instruments related to interest rates, we have no significant exposure to changing interest rates on our long-term debt because the interest rates are fixed on all of our long-term debt. As disclosed in Note 6 to the accompanying consolidated financial statements, we had outstanding fixed-rate, long-term debt (exclusive of capital leases) with an estimated fair value of $1.9 billion at May 31, 2008 and $2.4 billion at May 31, 2007. Market risk for fixed-rate, long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 10% increase in interest rates and amounts to approximately $27 million as of May 31, 2008 and $36 million as of May 31, 2007. The underlying fair values of our long-term debt were estimated based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

FOREIGN CURRENCY

While we are a global provider of transportation, e-commerce and business services, the substantial majority of our transactions are denominated in U.S. dollars. The distribution of our foreign currency denominated transactions is such that foreign currency declines in some areas of the world are often offset by currency gains in other areas of the world. The principal foreign currency exchange rate risks to which we are exposed are in the Chinese yuan, euro, Canadian dollar, Hong Kong dollar, British pound and Japanese yen. Our exposure to foreign currency fluctuations is more significant with respect to our revenues than our expenses, as a significant portion of our expenses are denominated in U.S. dollars, such as aircraft and fuel expenses. During 2008 and 2007, operating income was positively impacted due to foreign currency fluctuations. However, favorable foreign currency fluctuations also may have had an offsetting impact on the price we obtained or the demand for our services, which is not quantifiable. At May 31, 2008, the result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which our transactions are denominated would result in a decrease in operating income of approximately $74 million for 2009 (the comparable amount in the prior year was approximately $41 million). This theoretical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.

In practice, our experience has been that exchange rates in the principal foreign markets where we have foreign currency denominated transactions tend to have offsetting fluctuations. Therefore, the calculation above is not indicative of our actual experience in foreign currency transactions. In addition to the direct effects of changes in exchange rates, fluctuations in exchange rates also affect the volume of sales or the foreign currency sales price as competitors' services become more or less attractive. The sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

COMMODITY

While we have market risk for changes in the price of jet and vehicle fuel, this risk is largely mitigated by our fuel surcharges because our fuel surcharges are closely linked to market prices for fuel. Therefore, a hypothetical 10% change in the price of fuel would not be expected to materially affect our earnings. However, our fuel surcharges have a timing lag (approximately six to eight weeks for FedEx Express and FedEx Ground) before they are adjusted for changes in fuel prices. Our fuel surcharge index also allows fuel prices to fluctuate approximately 2% for FedEx Express and approximately 4% for FedEx Ground before an adjustment to the fuel surcharge occurs. Accordingly, our operating income may be affected should the spot price of fuel suddenly change by a significant amount or change by amounts that do not result in a change in our fuel surcharges.

OTHER

We do not purchase or hold any derivative financial instruments for trading purposes.

RISK FACTORS

Our financial and operating results are subject to many risks and uncertainties, as described below.

Our businesses depend on our strong reputation and the value of the FedEx brand. The FedEx brand name symbolizes high-quality service, reliability and speed. FedEx is one of the most widely recognized, trusted and respected brands in the world, and the FedEx brand is one of our most important and valuable assets. In addition, we have a strong reputation among customers and the general public for high standards of social and environmental responsibility and corporate governance and ethics. The FedEx brand name and our corporate reputation are powerful sales and marketing tools, and we devote significant resources to promoting and protecting them. Adverse publicity (whether or not justified) relating to activities by our employees, contractors or agents could tarnish our reputation and reduce the value of our brand. Damage to our reputation and loss of brand equity could reduce demand for our services and thus have an adverse effect on our financial condition, liquidity and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand.

We rely heavily on technology to operate our transportation and business networks, and any disruption to our technology infrastructure or the Internet could harm our operations and our reputation among customers. Our ability to attract and retain customers and to compete effectively depends in part upon the sophistication and reliability of our technology network, including our ability to provide features of service that are important to our customers. Any disruption to the Internet or our technology infrastructure, including those impacting our computer systems and Web site, could adversely impact our customer service and our volumes and revenues and result in increased costs. While we have invested and continue to invest in technology security initiatives and disaster recovery plans, these measures cannot fully insulate us from technology disruptions and the resulting adverse effect on our operations and financial results.

Our transportation businesses may be impacted by the price and availability of fuel. We must purchase large quantities of fuel to operate our aircraft and vehicles, and the price and availability of fuel can be unpredictable and beyond our control. To date, we have been mostly successful in mitigating the expense impact of higher fuel costs through our indexed fuel surcharges, as the amount of the surcharges is closely linked to the market prices for fuel. If we are unable to maintain or increase our fuel surcharges because of competitive pricing pressures or some other reason, fuel costs could adversely impact our operating results. Even if we are able to offset the cost of fuel with our surcharges, high fuel surcharges could move our customers, especially in the U.S. domestic market, away from our higher-yielding express services to our lower-yielding ground services or even reduce customer demand for our services altogether. These effects were evident in the second half of 2008, as fuel prices reached all-time highs. In addition, disruptions in the supply of fuel could have a negative impact on our ability to operate our transportation networks.

Our businesses are capital intensive, and we must make capital expenditures based upon projected volume levels. We make significant investments in aircraft, vehicles, technology, package handling facilities, sort equipment, copy equipment and other capital to support our transportation and business networks. We also make significant investments to rebrand, integrate and grow the companies that we acquire. The amount and timing of capital investments depend on various factors, including our anticipated volume growth. For example, we must make commitments to purchase or modify aircraft years before the aircraft are actually needed. We must predict volume levels and fleet requirements and make commitments for aircraft based on those projections. Missing our projections could result in too much or too little capacity relative to our shipping volumes. Overcapacity could lead to asset dispositions or write-downs, and undercapacity could negatively impact service levels.

We face intense competition. The transportation and business services markets are both highly competitive and sensitive to price and service. Some of our competitors have more financial resources than we do, or they are controlled or subsidized by foreign governments, which enables them to raise capital more easily. We believe we compete effectively with these companies — for example, by providing more reliable service at compensatory prices. However, our competitors determine the charges for their services. If the pricing environment becomes irrational, it could limit our ability to maintain or increase our prices (including our fuel surcharges in response to rising fuel costs) or to maintain or grow our market share. In addition, maintaining a broad portfolio of services is important to keeping and attracting customers. While we believe we compete effectively through our current service offerings, if our competitors offer a broader range of services or more effectively bundle their services, it could impede our ability to maintain or grow our market share.

If we do not effectively operate, integrate, leverage and grow acquired businesses, our financial results and reputation may suffer. Our strategy for long-term growth, productivity and profitability depends in part on our ability to make prudent strategic acquisitions and to realize the benefits we expect when we make those acquisitions. In furtherance of this strategy, during 2007 we acquired the LTL freight operations of Watkins Motor Lines (renamed FedEx National LTL) and made strategic acquisitions in China, the United Kingdom and India. During 2004, we acquired Kinko's, Inc. (now known as FedEx Office). While we expect these acquisitions to enhance our value proposition to customers and improve our long-term profitability, there can be no assurance that we will realize our expectations within the time frame we have established, if at all, or that we can continue to support the value we allocate to these acquired businesses, including their goodwill or other intangible assets. During the fourth quarter of 2008, we recorded a charge of approximately $891 million, predominantly for impairment of the value of the Kinko's trade name and a portion of the goodwill recorded as a result of the Kinko's acquisition. The charge was necessary, among other reasons, because we revised our long-term growth plans for that company and its financial performance did not meet our original expectations.

FedEx Ground relies on owner-operators to conduct its operations, and the status of these owner-operators as independent contractors, rather than employees, is being challenged. FedEx Ground's use of independent contractors is well suited to the needs of the ground delivery business and its customers, as evidenced by the strong growth of this business segment. We are involved in numerous class-action lawsuits (including many that have been certified as class actions), several individual lawsuits and numerous tax and other administrative proceedings (including a tentative assessment in an IRS audit) that claim that the company's owner-operators or their drivers should be treated as our employees, rather than independent contractors. We expect to incur certain costs, including legal fees, in defending the status of FedEx Ground's owner-operators as independent contractors. We believe that FedEx Ground's owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company's independent contractors. However, adverse determinations in these matters could, among other things, entitle certain of our contractors and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for FedEx Ground, and could result in changes to the independent contractor status of FedEx Ground's owner-operators. If FedEx Ground is compelled to convert its independent contractors to employees, our operating costs could increase materially and we could incur significant capital outlays.

Increased security requirements could impose substantial costs on us, especially at FedEx Express. As a result of concerns about global terrorism and homeland security, governments around the world are adopting or are considering adopting stricter security requirements that will increase operating costs for businesses, including those in the transportation industry. For example, in May 2006, the U.S. Transportation Security Administration ("TSA") adopted new rules enhancing many of the security requirements for air cargo on both passenger and all-cargo aircraft, and in May 2007, the TSA issued a revised model all-cargo aircraft security program for implementing the new rules. Together with other all-cargo aircraft operators, we filed comments with the TSA requesting clarification regarding several provisions in the revised model program. Until the requirements for our security program under the new rules are finalized, we cannot determine the effect that these new rules will have on our cost structure or our operating results. It is reasonably possible, however, that these rules or other future security requirements for air cargo carriers could impose material costs on us.

The regulatory environment for global aviation rights may impact our air operations. Our extensive air network is critical to our success. Our right to serve foreign points is subject to the approval of the Department of Transportation and generally requires a bilateral agreement between the United States and foreign governments. In addition, we must obtain the permission of foreign governments to provide specific flights and services. Regulatory actions affecting global aviation rights or a failure to obtain or maintain aviation rights in important international markets could impair our ability to operate our air network.

We may be affected by global climate change or by legal, regulatory or market responses to such change. Concern over climate change, including the impact of global warming, has led to significant U.S. and international legislative and regulatory efforts to limit greenhouse gas (GHG) emissions. For example, in the past several years, the U.S. Congress has considered various bills that would regulate GHG emissions. While these bills have not yet received sufficient Congressional support, some form of federal climate change legislation is possible in the relatively near future. Increased regulation regarding GHG emissions, especially aircraft or diesel engine emissions, could impose substantial costs on us, especially at FedEx Express. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our aircraft or trucks prematurely. Until the timing, scope and extent of any future regulation becomes known, we cannot predict its effect on our cost structure or our operating results. It is reasonably possible, however, that it could impose material costs on us. Moreover, even without such regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the airline and transportation industries could harm our reputation and reduce customer demand for our services, especially our air express services.

We are also subject to risks and uncertainties that affect many other businesses, including:

- the impact of any international conflicts or terrorist activities on the United States and global economies in general, the transportation industry or us in particular, and what effects these events will have on our costs or the demand for our services;
- any impacts on our businesses resulting from new domestic or international government laws and regulation, including tax, accounting, trade, labor, environmental or postal rules;

- our ability to manage our cost structure for capital expenditures and operating expenses, and match it to shifting and future customer volume levels;
- changes in foreign currency exchange rates, especially in the euro, Chinese yuan, Canadian dollar, British pound and Japanese yen, which can affect our sales levels and foreign currency sales prices;
- our ability to maintain good relationships with our employees and prevent attempts by labor organizations to organize groups of our employees, which could significantly increase our operating costs and reduce our operational flexibility;
- a shortage of qualified labor and our ability to mitigate this shortage through recruiting and retention efforts and productivity gains;
- increasing costs, the volatility of costs and legal mandates for employee benefits, especially pension and healthcare benefits;
- significant changes in the volumes of shipments transported through our networks, customer demand for our various services or the prices we obtain for our services;
- market acceptance of our new service and growth initiatives;
- any liability resulting from and the costs of defending against class-action litigation, such as wage-and-hour and discrimination and retaliation claims, patent litigation and any other legal proceedings;
- the impact of technology developments on our operations and on demand for our services;
- adverse weather conditions or natural disasters, such as earthquakes and hurricanes, which can damage our property, disrupt our operations, increase fuel costs and adversely affect shipment levels;
- widespread outbreak of an illness or any other communicable disease, or any other public health crisis; and
- availability of financing on terms acceptable to us and our ability to maintain our current credit ratings, especially given the capital intensity of our operations, and the current volatility of credit markets.

We are directly affected by the state of the economy. While the global, or macro-economic, risks listed above apply to most companies, we are particularly vulnerable. The transportation industry is highly cyclical and especially susceptible to trends in economic activity. Our primary business is to transport goods, so our business levels are directly tied to the purchase and production of goods — key macro-economic measurements. When individuals and companies purchase and produce fewer goods, we transport fewer goods. In addition, we have a relatively high fixed-cost structure, which is difficult to adjust to match shifting volume levels. Moreover, as we grow our international business, we are increasingly affected by the health of the global economy.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in "Outlook (including segment outlooks)," "Liquidity," "Capital Resources," "Contractual Cash Obligations" and "Critical Accounting Estimates," and the "Retirement Plans" note to the consolidated financial statements, are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations, cash flows, plans, objectives, future performance and business. Forward-looking statements include those preceded by, followed by or that include the words "may," "could," "would," "should," "believes," "expects," "anticipates," "plans," "estimates," "targets," "projects," "intends" or similar expressions. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements, because of, among other things, the risk factors identified above and the other risks and uncertainties you can find in our press releases and SEC filings.

As a result of these and other factors, no assurance can be given as to our future results and achievements. Accordingly, a forward-looking statement is neither a prediction nor a guarantee of future events or circumstances and those future events or circumstances may not occur. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. We are under no obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control over financial reporting includes, among other things, defined policies and procedures for conducting and governing our business, sophisticated information systems for processing transactions and a properly staffed, professional internal audit department. Mechanisms are in place to monitor the effectiveness of our internal control over financial reporting and actions are taken to correct deficiencies identified. Our procedures for financial reporting include the active involvement of senior management, our Audit Committee and our staff of highly qualified financial and legal professionals.

Management, with the participation of our principal executive and financial officers, assessed our internal control over financial reporting as of May 31, 2008, the end of our fiscal year. Management based its assessment on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of May 31, 2008.

The effectiveness of our internal control over financial reporting as of May 31, 2008, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements included in this Annual Report. Ernst & Young LLP's report on the Company's internal control over financial reporting is included in this Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited FedEx Corporation's internal control over financial reporting as of May 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). FedEx Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FedEx Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FedEx Corporation as of May 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' investment and comprehensive income, and cash flows for each of the three years in the period ended May 31, 2008 of FedEx Corporation and our report dated July 10, 2008 expressed an unqualified opinion thereon.

Memphis, Tennessee
July 10, 2008

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)	Years ended May 31, 2008	2007	2006
REVENUES	**$37,953**	$35,214	$32,294
OPERATING EXPENSES:			
Salaries and employee benefits	**14,202**	13,740	12,571
Purchased transportation	**4,447**	3,873	3,251
Rentals and landing fees	**2,441**	2,343	2,390
Depreciation and amortization	**1,946**	1,742	1,550
Fuel	**4,596**	3,533	3,256
Maintenance and repairs	**2,068**	1,952	1,777
Impairment charges	**882**	–	–
Other	**5,296**	4,755	4,485
	35,878	31,938	29,280
OPERATING INCOME	**2,075**	3,276	3,014
OTHER INCOME (EXPENSE):			
Interest expense	**(98)**	(136)	(142)
Interest income	**44**	83	38
Other, net	**(5)**	(8)	(11)
	(59)	(61)	(115)
INCOME BEFORE INCOME TAXES	**2,016**	3,215	2,899
PROVISION FOR INCOME TAXES	**891**	1,199	1,093
NET INCOME	**$ 1,125**	$ 2,016	$ 1,806
BASIC EARNINGS PER COMMON SHARE	**$ 3.64**	$ 6.57	$ 5.94
DILUTED EARNINGS PER COMMON SHARE	**$ 3.60**	$ 6.48	$ 5.83

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

(In millions, except share data)	May 31, 2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 1,539**	$ 1,569
Receivables, less allowances of $158 and $136	**4,359**	3,942
Spare parts, supplies and fuel, less allowances of $163 and $156	**435**	338
Deferred income taxes	**544**	536
Prepaid expenses and other	**367**	244
Total current assets	**7,244**	6,629
Property and Equipment, at Cost		
Aircraft and related equipment	**10,165**	9,593
Package handling and ground support equipment	**4,817**	3,889
Computer and electronic equipment	**5,040**	4,685
Vehicles	**2,754**	2,561
Facilities and other	**6,529**	6,362
	29,305	27,090
Less accumulated depreciation and amortization	**15,827**	14,454
Net property and equipment	**13,478**	12,636
Other Long-Term Assets		
Goodwill	**3,165**	3,497
Pension assets	**827**	–
Intangible and other assets	**919**	1,238
Total other long-term assets	**4,911**	4,735
	$25,633	$ 24,000
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current Liabilities		
Current portion of long-term debt	**$ 502**	$ 639
Accrued salaries and employee benefits	**1,118**	1,354
Accounts payable	**2,195**	2,016
Accrued expenses	**1,553**	1,419
Total current liabilities	**5,368**	5,428
Long-Term Debt, Less Current Portion	**1,506**	2,007
Other Long-Term Liabilities		
Deferred income taxes	**1,264**	897
Pension, postretirement healthcare and other benefit obligations	**989**	1,164
Self-insurance accruals	**804**	759
Deferred lease obligations	**671**	655
Deferred gains, principally related to aircraft transactions	**315**	343
Other liabilities	**190**	91
Total other long-term liabilities	**4,233**	3,909
Commitments and Contingencies		
Common Stockholders' Investment		
Common stock, $0.10 par value; 800 million shares authorized; 311 million shares issued for 2008 and 308 million shares issued for 2007	**31**	31
Additional paid-in capital	**1,922**	1,689
Retained earnings	**13,002**	11,970
Accumulated other comprehensive loss	**(425)**	(1,030)
Treasury stock	**(4)**	(4)
Total common stockholders' investment	**14,526**	12,656
	$25,633	$ 24,000

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)	Years ended May 31, 2008	2007	2006
OPERATING ACTIVITIES			
Net income	**$ 1,125**	$ 2,016	$ 1,806
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**1,946**	1,742	1,548
Provision for uncollectible accounts	**134**	106	121
Deferred income taxes and other noncash items	**124**	37	159
Lease accounting charge	**–**	–	79
Impairment charges	**882**	–	–
Excess tax benefits on the exercise of stock options	**–**	–	62
Stock-based compensation	**101**	103	37
Changes in operating assets and liabilities, net of the effects of businesses acquired:			
Receivables	**(447)**	(323)	(319)
Other assets	**(237)**	(85)	(38)
Pension assets and liabilities, net	**(273)**	(69)	(71)
Accounts payable and other liabilities	**190**	66	346
Other, net	**(61)**	(30)	(54)
Cash provided by operating activities	**3,484**	3,563	3,676
INVESTING ACTIVITIES			
Capital expenditures	**(2,947)**	(2,882)	(2,518)
Business acquisitions, net of cash acquired	**(4)**	(1,310)	–
Proceeds from asset dispositions and other	**54**	68	64
Cash used in investing activities	**(2,897)**	(4,124)	(2,454)
FINANCING ACTIVITIES			
Principal payments on debt	**(639)**	(906)	(369)
Proceeds from debt issuances	**–**	1,054	–
Proceeds from stock issuances	**108**	115	144
Excess tax benefits on the exercise of stock options	**38**	45	–
Dividends paid	**(124)**	(110)	(97)
Other, net	**–**	(5)	(2)
Cash (used in) provided by financing activities	**(617)**	193	(324)
CASH AND CASH EQUIVALENTS			
Net (decrease) increase in cash and cash equivalents	**(30)**	(368)	898
Cash and cash equivalents at beginning of period	**1,569**	1,937	1,039
Cash and cash equivalents at end of period	**$ 1,539**	$ 1,569	$ 1,937

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' INVESTMENT AND COMPREHENSIVE INCOME

(In millions, except share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
BALANCE AT MAY 31, 2005	$ 30	$ 1,213	$ 8,363	$ (17)	$ (1)	$ 9,588
Net income	–	–	1,806	–	–	1,806
Foreign currency translation adjustment, net of deferred taxes of $3	–	–	–	29	–	29
Minimum pension liability adjustment, net of deferred taxes of $24	–	–	–	(36)	–	(36)
Total comprehensive income						1,799
Cash dividends declared ($0.33 per share)	–	–	(101)	–	–	(101)
Employee incentive plans and other (3,579,766 shares issued)	1	225	–	–	(1)	225
BALANCE AT MAY 31, 2006	31	1,438	10,068	(24)	(2)	11,511
Net income	–	–	2,016	–	–	2,016
Foreign currency translation adjustment, net of deferred taxes of $8	–	–	–	26	–	26
Minimum pension liability adjustment, net of deferred taxes of $24	–	–	–	(50)	–	(50)
Total comprehensive income						1,992
Retirement plans adjustment in connection with the adoption of SFAS 158, net of deferred taxes of $582	–	–	–	(982)	–	(982)
Cash dividends declared ($0.37 per share)	–	–	(114)	–	–	(114)
Employee incentive plans and other (2,508,850 shares issued)	–	251	–	–	(2)	249
BALANCE AT MAY 31, 2007	31	1,689	11,970	(1,030)	(4)	12,656
Net income	–	–	1,125	–	–	1,125
Foreign currency translation adjustment, net of deferred taxes of $15	–	–	–	99	–	99
Retirement plans adjustments, net of deferred taxes of $296	–	–	–	506	–	506
Total comprehensive income						1,730
Cash dividends declared ($0.30 per share)	–	–	(93)	–	–	(93)
Employee incentive plans and other (2,556,318 shares issued)	–	233	–	–	–	233
BALANCE AT MAY 31, 2008	**$ 31**	**$ 1,922**	**$13,002**	**$ (425)**	**$ (4)**	**$ 14,526**

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

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. Our primary operating companies include Federal Express Corporation ("FedEx Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading provider of small-package ground delivery services; and FedEx Freight Corporation, a leading U.S. provider of less-than-truckload ("LTL") freight services. Our FedEx Services segment provides customer-facing sales, marketing and information technology support, as well as retail access for customers through FedEx Office and Print Services, Inc. ("FedEx Office"), formerly FedEx Kinko's, primarily for the benefit of FedEx Express and FedEx Ground. These companies represent our major service lines and form the core of our reportable segments.

FISCAL YEARS

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2008 or ended May 31 of the year referenced.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of FedEx and its subsidiaries, substantially all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

RECLASSIFICATIONS

Certain reclassifications have been made to prior year financial statements to conform to the current year presentation.

REVENUE RECOGNITION

We recognize revenue upon delivery of shipments for our transportation businesses and upon completion of services for our business services, logistics and trade services businesses. Certain of our transportation services are provided with the use of independent contractors. FedEx is the principal to the transaction in most instances and in those cases revenue from these transactions is recognized on a gross basis. Costs associated with independent contractor settlements are recognized as incurred and included in the caption "Purchased transportation" in the accompanying consolidated statements of income. For shipments in transit, revenue is recorded based on the percentage of service completed at the balance sheet date. Estimates for future billing adjustments to revenue and accounts receivable are recognized at the time of shipment for money-back service guarantees and billing corrections. Delivery costs are accrued as incurred.

Our contract logistics, global trade services and certain transportation businesses engage in some transactions wherein they act as agents. Revenue from these transactions is recorded on a net basis. Net revenue includes billings to customers less third-party charges, including transportation or handling costs, fees, commissions, and taxes and duties. These amounts are not material.

Certain of our revenue-producing transactions are subject to taxes assessed by governmental authorities, such as sales tax. We present these revenues net of tax.

CREDIT RISK

We routinely grant credit to many of our customers for transportation and business services without collateral. The risk of credit loss in our trade receivables is substantially mitigated by our credit evaluation process, short collection terms and sales to a large number of customers, as well as the low revenue per transaction for most of our services. Allowances for potential credit losses are determined based on historical experience and current evaluation of the composition of accounts receivable. Historically, credit losses have been within management's expectations.

ADVERTISING

Advertising and promotion costs are expensed as incurred and are classified in other operating expenses. Advertising and promotion expenses were $445 million in 2008, $406 million in 2007 and $376 million in 2006.

CASH EQUIVALENTS

Cash in excess of current operating requirements is invested in short-term, interest-bearing instruments with maturities of three months or less at the date of purchase and is stated at cost, which approximates market value.

SPARE PARTS, SUPPLIES AND FUEL

Spare parts (principally aircraft related) are reported at weighted-average cost. Supplies and fuel are reported at standard cost, which approximates actual cost on a first-in, first-out basis. Allowances for obsolescence are provided for spare parts expected to be on hand at the date the aircraft are retired from service. These allowances are provided over the estimated useful life of the related aircraft and engines. Additionally, allowances for obsolescence are provided for spare parts currently identified as excess or obsolete. These allowances are based on management estimates, which are subject to change.

PROPERTY AND EQUIPMENT

Expenditures for major additions, improvements, flight equipment modifications and certain equipment overhaul costs are capitalized when such costs are determined to extend the useful life of the asset or are part of the cost of acquiring the asset. Maintenance and repairs are charged to expense as incurred, except for certain aircraft-related major maintenance costs on one of our aircraft fleet types, which are capitalized as incurred and amortized over their estimated service lives. We capitalize certain direct internal and external costs associated with the development of internal use software. Gains and losses on sales of property used in operations are classified within operating expenses.

For financial reporting purposes, we record depreciation and amortization of property and equipment on a straight-line basis over the asset's service life or related lease term. For income tax purposes, depreciation is computed using accelerated methods when applicable. The depreciable lives and net book value of our property and equipment are as follows (dollars in millions):

		Net Book Value at May 31,	
	Range	**2008**	2007
Wide-body aircraft and related equipment	15 to 25 years	**$5,550**	$5,391
Narrow-body and feeder aircraft and related equipment	5 to 15 years	**452**	352
Package handling and ground support equipment	2 to 30 years	**1,897**	1,420
Computer and electronic equipment	2 to 10 years	**943**	1,021
Vehicles	3 to 15 years	**1,007**	957
Facilities and other	2 to 40 years	**3,629**	3,495

Substantially all property and equipment have no material residual values. The majority of aircraft costs are depreciated on a straight-line basis over 15 to 18 years. We periodically evaluate the estimated service lives and residual values used to depreciate our property and equipment. This evaluation may result in changes in the estimated lives and residual values. Such changes did not materially affect depreciation expense in any period presented. Depreciation expense, excluding gains and losses on sales of property and equipment used in operations, was $1.8 billion in 2008, $1.7 billion in 2007 and $1.5 billion in 2006. Depreciation and amortization expense includes amortization of assets under capital lease.

CAPITALIZED INTEREST

Interest on funds used to finance the acquisition and modification of aircraft, construction of certain facilities and development of certain software up to the date the asset is ready for its intended use is capitalized and included in the cost of the asset if the asset is actively under construction. Capitalized interest was $50 million in 2008, $34 million in 2007 and $33 million in 2006.

IMPAIRMENT OF LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. We operate integrated transportation networks, and accordingly, cash flows for most of our operating assets are assessed at a network level, not at an individual asset level for our analysis of impairment.

GOODWILL

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. Several factors give rise to goodwill in our acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired entity. Goodwill is reviewed at least annually for impairment by comparing the fair value of each reporting unit with its carrying value (including attributable goodwill). Fair value for our reporting units is determined using an income approach incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter.

INTANGIBLE ASSETS

Intangible assets include customer relationships, trade names, technology assets and contract-based intangibles acquired in business combinations. Intangible assets are amortized over periods ranging from 2 to 15 years, either on a straight-line basis or an accelerated basis depending upon the pattern in which the economic benefits are realized. Non-amortizing intangibles are reviewed at least annually for impairment by comparing the carrying amount to fair value. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter.

PENSION AND POSTRETIREMENT HEALTHCARE PLANS

On May 31, 2007, we adopted Statement of Financial Accounting Standards ("SFAS") 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans." SFAS 158 requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in accumulated other comprehensive income ("AOCI") of unrecognized gains or losses and prior service costs or credits. The adoption of SFAS 158 resulted in a $982 million charge to shareholders' equity at May 31, 2007 through AOCI.

Additionally, SFAS 158 requires the measurement date for plan assets and liabilities to coincide with the sponsor's year end. We currently use a February 28 (February 29 in 2008) measurement date for our plans; therefore, this standard will require us to change our measurement date to May 31 (beginning in 2009). We are required to make our transition election in the first quarter of 2009 and plan to elect the two-measurement approach as our transition method. Under the two-measurement approach, we complete two actuarial measurements, one at February 29, 2008 and the other at June 1, 2008. For the transition period from February 29, 2008 through June 1, 2008, we will record the net periodic benefit cost, net of tax, as an adjustment to beginning retained earnings and the actuarial gains and losses, net of tax, as an adjustment to AOCI in the first quarter of 2009. The impact of adopting the measurement date provision on our financial statements is not expected to be material to our financial position or results of operations, but will reduce our 2009 pension and retiree medical expense by approximately $87 million under the two-measurement approach due to an increase in the discount rate and higher plan assets.

In 2007, we announced changes to significantly redesign certain of our retirement programs. Effective May 31, 2008, all benefits previously accrued under our primary pension plans using a traditional pension benefit formula were capped for most employees, and those benefits will be payable beginning at retirement. Beginning June 1, 2008, future pension benefits for most employees will be accrued under a cash balance formula we call the Portable Pension Account (as described in Note 12). These changes will not affect the benefits of current retirees and terminated vested participants.

Currently, our defined benefit plans are measured using actuarial techniques that reflect management's assumptions for discount rate, expected long-term investment returns on plan assets, salary increases, expected retirement, mortality, employee turnover and future increases in healthcare costs. We determine the discount rate (which is required to be the rate at which the projected benefit obligation could be effectively settled as of the measurement date) with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that generally match our expected benefit payments. A calculated-value method is employed for purposes of determining the expected return on the plan asset component of net periodic pension cost for our qualified U.S. pension plans. We do not fund defined benefit plans when such funding provides no current tax deduction or when such funding would be deemed current compensation to plan participants.

INCOME TAXES

Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The liability method is used to account for income taxes, which requires deferred taxes to be recorded at the statutory rate expected to be in effect when the taxes are paid.

On June 1, 2007, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. ("FIN") 48, "Accounting for Uncertainty in Income Taxes." This interpretation establishes new standards for the financial statement recognition, measurement and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The cumulative effect of adopting FIN 48 was immaterial. See Note 11 for more information concerning our adoption of FIN 48.

We recognize liabilities for uncertain income tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we must determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis or when new information becomes available to management. These reevaluations are based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, successfully settled issues under audit, and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an increase to the tax accrual.

We classify interest related to income tax liabilities as interest expense, and if applicable, penalties are recognized as a component of income tax expense. The income tax liabilities and accrued interest and penalties that are due within one year of the balance sheet date are presented as current liabilities. The remaining portion of our income tax liabilities and accrued interest and penalties are presented as noncurrent liabilities because payment of cash is not anticipated within one year of the balance sheet date. These noncurrent income tax liabilities are recorded in the caption "Other liabilities" in our consolidated balance sheets.

SELF-INSURANCE ACCRUALS

We are primarily self-insured for workers' compensation claims, vehicle accidents and general liabilities, benefits paid under employee healthcare programs and long-term disability benefits. Accruals are primarily based on the actuarially estimated, undiscounted cost of claims, which includes incurred-but-not-reported claims. Current workers' compensation claims, vehicle and general liability, employee healthcare claims and long-term disability are included in accrued expenses. We self-insure up to certain limits that vary by operating company and type of risk. Periodically, we evaluate the level of insurance coverage and adjust insurance levels based on risk tolerance and premium expense.

LEASES

We lease certain aircraft, facilities, equipment and vehicles under capital and operating leases. The commencement date of all leases is the earlier of the date we become legally obligated to make rent payments or the date we may exercise control over the use of the property. In addition to minimum rental payments, certain leases provide for contingent rentals based on equipment usage principally related to aircraft leases at FedEx Express and copier usage at FedEx Office. Rent expense associated with contingent rentals is recorded as incurred. Certain of our leases contain fluctuating or escalating payments and rent holiday periods. The related rent expense is recorded on a straight-line basis over the lease term. The cumulative excess of rent payments over rent expense is accounted for as a deferred lease asset and recorded in "Intangible and other assets" in the accompanying consolidated balance sheets. The cumulative excess of rent expense over rent payments is accounted for as a deferred lease obligation. Leasehold improvements associated with assets utilized under capital or operating leases are amortized over the shorter of the asset's useful life or the lease term.

DEFERRED GAINS

Gains on the sale and leaseback of aircraft and other property and equipment are deferred and amortized ratably over the life of the lease as a reduction of rent expense. Substantially all of these deferred gains are related to aircraft transactions.

FOREIGN CURRENCY TRANSLATION

Translation gains and losses of foreign operations that use local currencies as the functional currency are accumulated and reported, net of applicable deferred income taxes, as a component of accumulated other comprehensive loss within common stockholders' investment. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local currency are included in the caption "Other, net" in the accompanying consolidated statements of income and were immaterial for each period presented. Cumulative net foreign currency translation gains in accumulated other comprehensive loss were $167 million at May 31, 2008, $69 million at May 31, 2007 and $43 million at May 31, 2006.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS

The pilots of FedEx Express, who represent a small percentage of our total employees, are employed under a collective bargaining agreement. During the second quarter of 2007, the pilots ratified a new four-year labor contract that included signing bonuses and other upfront compensation of approximately $143 million, as well as pay increases and other benefit enhancements. These costs were partially mitigated by reductions in the variable incentive compensation of our other employees. The effect of this new agreement on second quarter 2007 net income was approximately $78 million net of tax, or $0.25 per diluted share.

STOCK-BASED COMPENSATION

In 2007, we adopted the provisions of SFAS 123R, "Share-Based Payment," which requires recognition of compensation expense for stock-based awards using a fair value method. SFAS 123R is a revision of SFAS 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion No. ("APB") 25, "Accounting for Stock Issued to Employees." Prior to the adoption of SFAS 123R, we applied APB 25 and its related interpretations to measure compensation expense for stock-based compensation plans. As a result, no compensation expense was recorded for stock options, as the exercise price was equal to the market price of our common stock at the date of grant.

We adopted SFAS 123R using the modified prospective method, which resulted in prospective recognition of compensation expense for all outstanding unvested share-based payments based on the fair value on the original grant date. Under this method of adoption, our financial statement amounts for the prior period presented have not been restated.

The impact of adopting SFAS 123R for the year ended May 31, 2007 was approximately $71 million ($52 million, net of tax), or $0.17 per basic and diluted share.

Stock option compensation expense, pro forma net income and basic and diluted earnings per common share, if determined under SFAS 123 at fair value using the Black-Scholes method, would have been as follows (in millions, except for per share amounts) for the year ended May 31:

	2006
Net income, as reported	$1,806
Add: Stock option compensation included in reported net income, net of tax	5
Deduct: Total stock option employee compensation expense determined under fair value based method for all awards, net of tax benefit	46
Pro forma net income	$1,765
Earnings per common share:	
Basic – as reported	$ 5.94
Basic – pro forma	$ 5.81
Diluted – as reported	$ 5.83
Diluted – pro forma	$ 5.70

DIVIDENDS DECLARED PER COMMON SHARE

On June 2, 2008, our Board of Directors declared a dividend of $0.11 per share of common stock. The dividend was paid on July 1, 2008 to stockholders of record as of the close of business on June 13, 2008. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

USE OF ESTIMATES

The preparation of our consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingent liabilities. Management makes its best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: self-insurance accruals; retirement plan obligations; long-term incentive accruals; tax liabilities; obsolescence of spare parts; contingent liabilities; loss contingencies, such as litigation and other claims; and impairment assessments on long-lived assets (including goodwill).

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. We believe the following new accounting pronouncements, in addition to FIN 48 and SFAS 158, are relevant to the readers of our financial statements.

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements," which provides a common definition of fair value, establishes a uniform framework for measuring fair value and requires expanded disclosures about fair value measurements. The requirements of SFAS 157 are to be applied prospectively, and we anticipate that the primary impact of the standard to us will be related to the measurement of fair value in our recurring impairment test calculations (such as measurements of our recorded goodwill). SFAS 157 is effective for us beginning on June 1, 2008; however, the FASB approved a one-year deferral of the adoption of the standard as it relates to non-financial assets and liabilities with the issuance in February 2008 of FASB Staff Position FAS 157-2, "Effective Date of FASB Statement No. 157." We do not presently hold any financial assets or liabilities that would require recognition under SFAS 157 other than investments held by our pension plans. In addition, the FASB has excluded leases from the scope of SFAS 157. We anticipate that this standard will not have a material impact on our financial condition or results of operations upon adoption.

In December 2007, the FASB issued SFAS 141R, "Business Combinations," and SFAS 160, "Accounting and Reporting Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51." These new standards significantly change the accounting for and reporting of business combination transactions and noncontrolling interests (previously referred to as minority interests) in consolidated financial statements. The key aspects of SFAS 141R and SFAS 160 include requiring the acquiring entity in a business combination to recognize the full fair value of assets acquired and liabilities assumed in the transaction; establishing the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requiring the expensing of most transaction and restructuring costs. Both standards are effective for us beginning June 1, 2009 (fiscal 2010) and are applicable only to transactions occurring after the effective date.

NOTE 3: BUSINESS COMBINATIONS

During 2007, we made the following acquisitions:

Segment	Business Acquired	Rebranded	Date Acquired	Total Purchase Price (in millions)
FedEx Freight	Watkins Motor Lines	FedEx National LTL	September 3, 2006	$787
FedEx Express	ANC Holdings Ltd.	FedEx U.K.	December 16, 2006	241
FedEx Express	Tianjin Datian W. Group Co., Ltd. ("DTW Group")	N/A	March 1, 2007	427

The acquisition of the assets and assumption of certain obligations of FedEx National LTL, a leading provider of long-haul LTL services, extended our service offerings to the long-haul LTL freight sector. The acquisition of all of the outstanding capital stock of FedEx U.K. has allowed us to establish a domestic service in the United Kingdom and better serve the U.K. international market, which we previously served primarily through independent agents. The FedEx Express acquisition of DTW Group's 50% share of the FedEx-DTW International Priority express joint venture and assets relating to DTW Group's domestic express network in China converted our joint venture with DTW Group into a wholly owned subsidiary and has increased our presence in China in the international market and established our presence in the domestic market. During 2007, we also made other immaterial acquisitions that are not presented in the table above.

These acquisitions were not material to our results of operations or financial condition. The portion of the purchase price allocated to goodwill and other identified intangible assets for the FedEx National LTL, FedEx U.K. and DTW Group acquisitions will be deductible for U.S. tax purposes over 15 years.

Pro forma results of these acquisitions, individually or in the aggregate, would not differ materially from reported results in any of the periods presented. The purchase prices were allocated as follows (in millions):

	FedEx National LTL	FedEx U.K.	DTW Group
Current assets	$121	$ 68	$ 54
Property and equipment	525	20	16
Intangible assets	77	49	17
Goodwill	121	168	348
Other assets	3	2	10
Current liabilities	(60)	(56)	(18)
Long-term liabilities	–	(10)	–
Total purchase price	$787	$241	$427

The intangible assets acquired in the FedEx National LTL and FedEx U.K. acquisitions consist primarily of customer-related intangible assets, which will be amortized on an accelerated basis over their average estimated useful lives of seven years for FedEx National LTL and up to 12 years for FedEx U.K., with the majority of the amortization recognized during the first four years. The intangible assets acquired in the DTW Group acquisition relate to the reacquired rights for the use of certain FedEx technology and service marks. These intangible assets will be amortized over their estimated useful lives of approximately two years.

We paid the purchase price for these acquisitions from available cash balances, which included the net proceeds from our $1 billion senior unsecured debt offering completed during 2007. See Note 6 for further discussion of this debt offering.

NOTE 4: GOODWILL AND INTANGIBLES

The carrying amount of goodwill attributable to each reportable operating segment and changes therein follows (in millions):

	May 31, 2006	Goodwill Acquired	Purchase Adjustments and Other	May 31, 2007	Impairment Charge	Purchase Adjustments and Other [3]	**May 31, 2008**
FedEx Express segment	$ 530	$549 [1]	$ 9	$1,088	$ –	$ 35	**$ 1,123**
FedEx Ground segment	90	–	–	90	–	–	**90**
FedEx Freight segment	656	121 [2]	–	777	–	–	**777**
FedEx Services segment	1,549	–	(7)	1,542	(367)	–	**1,175**
	$2,825	$670	$ 2	$3,497	$(367)	$ 35	**$ 3,165**

(1) Primarily FedEx U.K. and DTW Group acquisitions.
(2) FedEx National LTL acquisition.
(3) Primarily currency translation adjustments.

During 2008, we made several strategic decisions regarding FedEx Office. During the first quarter of 2008, FedEx Office was reorganized as a part of the FedEx Services segment. FedEx Office provides retail access to our customers for our package transportation businesses and an array of document and business services. FedEx Services provides access to customers through digital channels such as fedex.com. Under FedEx Services, FedEx Office benefits from the full range of resources and expertise of FedEx Services to continue to enhance the customer experience, provide greater, more convenient access to the portfolio of services at FedEx, and increase revenues through our retail network. This reorganization resulted in our ceasing to treat FedEx Office as a core operating company; however, FedEx Office remains a reporting unit for goodwill impairment testing purposes.

During the fourth quarter of 2008, several developments and strategic decisions occurred at FedEx Office, including:

- reorganizing senior management at FedEx Office with several positions terminated and numerous reporting realignments, including naming a new president and CEO;
- determining that we would minimize the use of the Kinko's trade name over the next several years;
- implementing revenue growth and cost management plans to improve financial performance; and
- pursuing a more disciplined approach to the long-term expansion of the retail network, reducing the overall level of expansion.

We performed our annual impairment testing in the fourth quarter for the Kinko's trade name and the recorded goodwill for the FedEx Office reporting unit. In accordance with the accounting rules, the trade name impairment test was performed before the goodwill impairment test.

In accordance with SFAS 142, "Goodwill and Other Intangible Assets," a two-step impairment test is performed on goodwill. In the first step, we compared the estimated fair value of the reporting unit to its carrying value. The valuation methodology to estimate the fair value of the FedEx Office reporting unit was based primarily on an income approach that considered market participant assumptions to estimate fair value. Key assumptions considered were the revenue and operating income forecast, the assessed growth rate in the periods beyond the detailed forecast period, and the discount rate.

In performing our impairment test, the most significant assumption used to estimate the fair value of the FedEx Office reporting unit was the discount rate. We used a discount rate of 12.5%, representing the estimated weighted-average cost of capital ("WACC") of the FedEx Office reporting unit. The development of the WACC used in our estimate of fair value considered the following key factors:

- benchmark capital structures for guideline companies with characteristics similar to the FedEx Office reporting unit;
- current market conditions for the risk-free interest rate;
- the size and industry of the FedEx Office reporting unit; and
- risks related to the forecast of future revenues and profitability of the FedEx Office reporting unit.

The WACC used in the estimate of fair value in future periods may be impacted by changes in market conditions (including those of market participants), as well as the specific future performance of the FedEx Office reporting unit and are subject to change, based on changes in specific facts and circumstances.

In the second step of the impairment test, we estimated the current fair values of all assets and liabilities to determine the amount of implied goodwill and consequently the amount of the goodwill impairment. Upon completion of the second step of the impairment test, we concluded that the recorded goodwill was impaired and recorded an impairment charge of $367 million during the fourth quarter of 2008. Significant judgments included in the second step of the impairment test included fair value estimates of assets and liabilities, the aggregate effect of which increased the impairment charge to goodwill by approximately $90 million. The goodwill impairment charge is included in operating expenses in the accompanying consolidated statements of income. This charge is included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of these businesses.

The components of our intangible assets were as follows (in millions):

	May 31, 2008			May 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	**$205**	**$ (95)**	**$110**	$206	$ (58)	$148
Contract related	**79**	**(67)**	**12**	79	(62)	17
Technology related and other	**74**	**(51)**	**23**	74	(39)	35
Kinko's trade name	**52**	**(8)**	**44**	567	–	567
Total	**$410**	**$(221)**	**$189**	$926	$(159)	$767

We have an intangible asset associated with the Kinko's trade name. Prior to 2008, this intangible asset was not amortized because it had an indefinite remaining useful life. Prior to the fourth quarter of 2008, our intent was to continue to use the Kinko's trade name indefinitely. During the fourth quarter, we made the decision to change the name of FedEx Kinko's to FedEx Office and rebrand our retail locations over the next several years. We believe the FedEx Office name better describes the wide range of services available at our retail centers and takes full advantage of the FedEx brand. This change converted this asset to a finite life asset and resulted in an impairment charge of $515 million. We estimated the fair value of this intangible asset based on an income approach using the relief-from-royalty method. This approach is dependent on a number of factors, including estimates of future growth and trends, royalty rates in the category of intellectual property, discount rates and other variables. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain.

The $515 million impairment charge resulted in a remaining trade name balance of $52 million, which we began amortizing in the fourth quarter on an accelerated basis over the next four years. The trade name impairment charge is included in operating expenses in the accompanying consolidated statements of income. The charge is included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of these businesses.

Amortization expense for intangible assets was $60 million in 2008, $42 million in 2007 and $25 million in 2006. Estimated amortization expense for the next five years is as follows (in millions):

2009	$73
2010	50
2011	26
2012	11
2013	9

NOTE 5: SELECTED CURRENT LIABILITIES

The components of selected current liability captions were as follows (in millions):

	May 31,	
	2008	2007
Accrued Salaries and Employee Benefits		
Salaries	**$ 193**	$ 283
Employee benefits	**404**	599
Compensated absences	**521**	472
	$1,118	$1,354
Accrued Expenses		
Self-insurance accruals	**$ 577**	$ 548
Taxes other than income taxes	**339**	310
Other	**637**	561
	$1,553	$1,419

NOTE 6: LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

The components of long-term debt (net of discounts) were as follows (in millions):

	May 31,	
	2008	2007
Senior unsecured debt		
Interest rate of three-month LIBOR plus 0.08% (5.44% at May 31, 2007) due in 2008	**$ –**	$ 500
Interest rate of 3.50%, due in 2009	**500**	500
Interest rate of 5.50%, due in 2010	**499**	499
Interest rate of 7.25%, due in 2011	**250**	249
Interest rate of 9.65%, due in 2013	**300**	300
Interest rate of 7.60%, due in 2098	**239**	239
	1,788	2,287
Capital lease obligations	**220**	308
Other debt, interest rate of six-month LIBOR less 1.50%	**–**	51
	2,008	2,646
Less current portion	**502**	639
	$1,506	$2,007

Scheduled annual principal maturities of debt, exclusive of capital leases, for the five years subsequent to May 31, 2008, are as follows (in millions):

2009	$500
2010	499
2011	250
2012	–
2013	300

Interest on our fixed-rate notes is paid semi-annually. We have a shelf registration statement filed with the Securities and Exchange Commission ("SEC") that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock. In August 2006, we issued $1 billion of senior unsecured debt under our shelf registration statement, comprised of floating-rate notes totaling $500 million and fixed-rate notes totaling $500 million. The $500 million in floating-rate notes were repaid in August 2007. The fixed-rate notes bear interest at an annual rate of 5.5%, payable semi-annually, and are due in August 2009. The net proceeds were used for working capital and general corporate purposes, including the funding of several business acquisitions during 2007.

From time to time, we finance certain operating and investing activities, including acquisitions, through borrowings under our $1.0 billion revolving credit facility or the issuance of commercial paper. The revolving credit agreement contains certain covenants and restrictions, none of which are expected to significantly affect our operations or ability to pay dividends. Our commercial paper program is backed by unused commitments under the revolving credit facility and borrowings under the program reduce the amount available under the credit facility. At May 31, 2008, no commercial paper borrowings were outstanding and the entire amount under the credit facility was available.

Long-term debt, exclusive of capital leases, had carrying values of $1.8 billion compared with an estimated fair value of approximately $1.9 billion at May 31, 2008, and $2.3 billion compared with an estimated fair value of $2.4 billion at May 31, 2007. The estimated fair values were determined based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

We issue other financial instruments in the normal course of business to support our operations. Letters of credit at May 31, 2008 were $735 million. The amount unused under our letter of credit facility totaled approximately $29 million at May 31, 2008. This facility expires in July 2010. These instruments are required under certain U.S. self-insurance programs and are used in the normal course of international operations. The underlying liabilities insured by these instruments are reflected in the balance sheets, where applicable. Therefore, no additional liability is reflected for the letters of credit.

Our capital lease obligations include leases for aircraft and facilities. Our facility leases include leases that guarantee the repayment of certain special facility revenue bonds that have been issued by municipalities primarily to finance the acquisition and construction of various airport facilities and equipment. These bonds require interest payments at least annually, with principal payments due at the end of the related lease agreement.

NOTE 7: LEASES

We utilize certain aircraft, land, facilities, retail locations and equipment under capital and operating leases that expire at various dates through 2040. We leased approximately 14% of our total aircraft fleet under capital or operating leases as of May 31, 2008. In addition, supplemental aircraft are leased by us under agreements that provide for cancellation upon 30 days' notice. Our leased facilities include national, regional and metropolitan sorting facilities, retail facilities and administrative buildings.

The components of property and equipment recorded under capital leases were as follows (in millions):

	May 31,	
	2008	2007
Aircraft	**$ –**	$ 115
Package handling and ground support equipment	**165**	165
Vehicles	**20**	20
Other, principally facilities	**150**	151
	335	451
Less accumulated amortization	**290**	306
	$ 45	$ 145

Rent expense under operating leases was as follows (in millions):

	For years ended May 31,		
	2008	2007	2006
Minimum rentals	**$1,990**	$1,916	$1,919
Contingent rentals [1]	**228**	241	245
	$2,218	$2,157	$2,164

(1) Contingent rentals are based on equipment usage.

A summary of future minimum lease payments under capital leases and noncancelable operating leases with an initial or remaining term in excess of one year at May 31, 2008 is as follows (in millions):

		Operating Leases		
	Capital Leases	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2009	$ 13	$ 555	$ 1,248	$ 1,803
2010	97	544	1,103	1,647
2011	8	526	956	1,482
2012	8	504	828	1,332
2013	119	499	709	1,208
Thereafter	18	2,931	5,407	8,338
Total	263	$ 5,559	$10,251	$15,810
Less amount representing interest	43			
Present value of net minimum lease payments	$220			

The weighted-average remaining lease term of all operating leases outstanding at May 31, 2008 was approximately seven years. While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of insurance, none of our lease agreements include material financial covenants or limitations.

FedEx Express makes payments under certain leveraged operating leases that are sufficient to pay principal and interest on certain pass-through certificates. The pass-through certificates are not direct obligations of, or guaranteed by, FedEx or FedEx Express.

Our results for 2006 included a noncash charge of $79 million ($49 million net of tax or $0.16 per diluted share) to adjust the accounting for certain facility leases, predominantly at FedEx Express. This charge, which included the impact on prior years, related primarily to rent escalations in on-airport facility leases that were not being recognized appropriately.

NOTE 8: PREFERRED STOCK

Our Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 4,000,000 shares of preferred stock. The stock is issuable in series, which may vary as to certain rights and preferences, and has no par value. As of May 31, 2008, none of these shares had been issued.

NOTE 9: STOCK-BASED COMPENSATION

Our total stock-based compensation expense for the years ended May 31 was as follows (in millions):

	2008	2007	2006
Stock-based compensation expense	**$101**	$103	$37

We have two types of equity-based compensation: stock options and restricted stock.

STOCK OPTIONS

Under the provisions of our incentive stock plans, key employees and non-employee directors may be granted options to purchase shares of our common stock at a price not less than its fair market value on the date of grant. Options granted have a maximum term of 10 years. Vesting requirements are determined at the discretion of the Compensation Committee of our Board of Directors. Option-vesting periods range from one to four years, with approximately 84% of options granted vesting ratably over four years.

RESTRICTED STOCK

Under the terms of our incentive stock plans, restricted shares of our common stock are awarded to key employees. All restrictions on the shares expire ratably over a four-year period. Shares are valued at the market price on the date of award. Compensation related to these awards is recognized as expense over the explicit service period.

For unvested stock options granted prior to June 1, 2006 and all restricted stock awards, the terms of these awards provide for continued vesting subsequent to the employee's retirement. Compensation expense associated with these awards is recognized on a straight-line basis over the shorter of the remaining service or vesting period. This postretirement vesting provision was removed from all stock option awards granted subsequent to May 31, 2006.

VALUATION AND ASSUMPTIONS

We use the Black-Scholes option pricing model to calculate the fair value of stock options. The value of restricted stock awards is based on the stock price of the award on the grant date. We recognize stock-based compensation expense on a straight-line basis over the requisite service period of the award in the "Salaries and employee benefits" caption in the accompanying consolidated statements of income.

The key assumptions for the Black-Scholes valuation method include the expected life of the option, stock price volatility, a risk-free interest rate, and dividend yield. Many of these assumptions are judgmental and highly sensitive. Following is a table of the weighted-average Black-Scholes value of our stock option grants, the intrinsic value of options exercised (in millions), and the key weighted-average assumptions used in the valuation calculations for the options granted during the years ended May 31, and then a discussion of our methodology for developing each of the assumptions used in the valuation model:

	2008	2007	2006
Weighted-average Black-Scholes value	**$29.88**	$31.60	$25.78
Intrinsic value of options exercised	**$ 126**	$ 145	$ 191
Black-Scholes Assumptions:			
Expected lives	**5 years**	5 years	5 years
Expected volatility	**19%**	22%	25%
Risk-free interest rate	**4.763%**	4.879%	3.794%
Dividend yield	**0.337%**	0.302%	0.323%

Expected Lives. This is the period of time over which the options granted are expected to remain outstanding. Generally, options granted have a maximum term of 10 years. We examine actual stock option exercises to determine the expected life of the options. An increase in the expected term will increase compensation expense.

Expected Volatility. Actual changes in the market value of our stock are used to calculate the volatility assumption. We calculate daily market value changes from the date of grant over a past period equal to the expected life of the options to determine volatility. An increase in the expected volatility will increase compensation expense.

Risk-Free Interest Rate. This is the U.S. Treasury Strip rate posted at the date of grant having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Dividend Yield. This is the annual rate of dividends per share over the exercise price of the option. An increase in the dividend yield will decrease compensation expense.

The following table summarizes information about stock option activity for the year ended May 31, 2008:

	Stock Options			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at June 1, 2007	16,590,401	$ 68.22		
Granted	2,821,758	111.51		
Exercised	(2,381,900)	45.50		
Forfeited	(352,453)	102.30		
Outstanding at May 31, 2008	**16,677,806**	**$ 78.09**	**5.9 years**	**$326**
Exercisable	**10,666,189**	**$ 64.05**	**4.7 years**	**$312**
Expected to vest	**5,530,688**	**$102.99**	**9.2 years**	**$ 13**
Available for future grants	**3,684,999**			

The options granted during the year ended May 31, 2008 are primarily related to our principal annual stock option grant in July 2007.

The following table summarizes information about vested and unvested restricted stock for the year ended May 31, 2008:

	Restricted Stock	
	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 1, 2007	481,347	$ 92.37
Granted	174,418	114.40
Vested	(212,113)	86.16
Forfeited	(18,667)	104.60
Unvested at May 31, 2008	**424,985**	**$103.97**

During the year ended May 31, 2007, there were 175,005 shares of restricted stock granted with a weighted-average fair value of $109.90. During the year ended May 31, 2006, there were 233,939 shares of restricted stock granted with a weighted-average fair value of $90.12.

The following table summarizes information about stock option vesting during the years ended May 31:

	Stock Options	
	Vested During the Year	Fair Value (in millions)
2006	3,366,273	$59
2007	3,147,642	65
2008	**2,694,602**	**64**

As of May 31, 2008, there was $136 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share-based compensation arrangements. This compensation expense is expected to be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately two years.

Total shares outstanding or available for grant related to equity compensation at May 31, 2008 represented 6.5% of the total outstanding common and equity compensation shares and equity compensation shares available for grant.

NOTE 10: COMPUTATION OF EARNINGS PER SHARE

The calculation of basic and diluted earnings per common share for the years ended May 31 was as follows (in millions, except per share amounts):

	2008	2007	2006
Net income	**$1,125**	$2,016	$1,806
Weighted-average shares of common stock outstanding	**309**	307	304
Common equivalent shares:			
Assumed exercise of outstanding dilutive options	**14**	18	19
Less shares repurchased from proceeds of assumed exercise of options	**(11)**	(14)	(13)
Weighted-average common and common equivalent shares outstanding	**312**	311	310
Basic earnings per common share	**$ 3.64**	$ 6.57	$ 5.94
Diluted earnings per common share	**$ 3.60**	$ 6.48	$ 5.83
Antidilutive options excluded from diluted earnings per common share	**4.8**	0.4	–

NOTE 11: INCOME TAXES

The components of the provision for income taxes for the years ended May 31 were as follows (in millions):

	2008	2007	2006
Current provision			
Domestic:			
Federal	**$ 514**	$ 829	$ 719
State and local	**74**	72	79
Foreign	**242**	174	132
	830	1,075	930
Deferred provision (benefit)			
Domestic:			
Federal	**31**	62	129
State and local	**(2)**	27	13
Foreign	**32**	35	21
	61	124	163
	$ 891	$1,199	$1,093

Pretax earnings of foreign operations for 2008, 2007 and 2006 were approximately $803 million, $648 million and $606 million, respectively, which represents only a portion of total results associated with international shipments.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended May 31 was as follows:

	2008	2007	2006
Statutory U.S. income tax rate	**35.0%**	35.0%	35.0%
Increase resulting from:			
Goodwill impairment	**6.8**	–	–
State and local income taxes, net of federal benefit	**2.1**	2.0	2.1
Other, net	**0.3**	0.3	0.6
Effective tax rate	**44.2%**	37.3%	37.7%

Our 2008 tax rate increased primarily as a result of the goodwill impairment charge described in Note 4, which is not deductible for income tax purposes. Our 2007 tax rate of 37.3% was favorably impacted by the conclusion of various state and federal tax audits and appeals. The 2007 rate reduction was partially offset by tax charges incurred as a result of a reorganization in Asia associated with our acquisition in China, as described in Note 3.

The significant components of deferred tax assets and liabilities as of May 31 were as follows (in millions):

	2008		2007	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment, leases and intangibles	**$ 321**	**$ 1,650**	$ 328	$1,655
Employee benefits	**401**	**398**	406	53
Self-insurance accruals	**359**	–	350	–
Other	**426**	**190**	346	139
Net operating loss/credit carryforwards	**135**	–	172	–
Valuation allowances	**(124)**	–	(116)	–
	$1,518	**$ 2,238**	$1,486	$1,847

The net deferred tax liabilities as of May 31 have been classified in the balance sheets as follows (in millions):

	2008	2007
Current deferred tax asset	**$ 544**	$ 536
Noncurrent deferred tax liability	**(1,264)**	(897)
	$ (720)	$ (361)

We have $404 million of net operating loss carryovers in various foreign jurisdictions and $255 million of state operating loss carryovers. The valuation allowance primarily represents amounts reserved for operating loss and tax credit carryforwards, which expire over varying periods starting in 2009. As a result of this and other factors, we believe that a substantial portion of these deferred tax assets may not be realized.

Unremitted earnings of our foreign subsidiaries amounted to $147 million in 2008 and $43 million in 2007. We have not recognized deferred taxes for U.S. federal income tax purposes on the unremitted earnings of our foreign subsidiaries that are deemed to be permanently reinvested. Upon distribution, in the form of dividends or otherwise, these unremitted earnings would be subject to U.S. federal income tax. Unrecognized foreign tax credits would be available to reduce a portion, if not all, of the U.S. tax liability. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable.

On June 1, 2007, we adopted FIN 48. The cumulative effect of adopting FIN 48 was immaterial to our retained earnings. Our liability for income taxes under FIN 48 was $72 million at June 1, 2007, and $88 million at May 31, 2008. The balance of accrued interest and penalties was $26 million on June 1, 2007, and $25 million on May 31, 2008. Total interest and penalties included in our statement of operations is immaterial. The liability recorded includes $57 million at June 1, 2007, and $68 million at May 31, 2008, associated with positions that if favorably resolved would provide a benefit to our effective tax rate.

We file income tax returns in the U.S. and various foreign jurisdictions. The U.S. Internal Revenue Service is currently examining our returns for the 2004 through 2006 tax years. We are no longer subject to U.S. federal income tax examination for years through 2003 except for specific U.S. federal income tax positions that are in various stages of appeal. No resolution date can be reasonably estimated at this time for these audits and appeals. We are also subject to ongoing audits in state, local and foreign tax jurisdictions throughout the world.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

Balance at June 1, 2007	$ 72
Increases for tax positions taken in the current year	16
Increases for tax positions taken in prior years	9
Settlements	(9)
Balance at May 31, 2008	**$ 88**

Included in the May 31, 2008 balance are $8 million of tax positions for which the ultimate deductibility or income inclusion is certain but for which there may be uncertainty about the timing of such deductibility or income inclusion. It is difficult to predict the ultimate outcome or the timing of resolution for tax positions under FIN 48. Changes may result from the conclusion of ongoing audits or appeals in state, local, federal and foreign tax jurisdictions, or from the resolution of various proceedings between the U.S. and foreign tax authorities. Our liability for tax positions under FIN 48 includes no matters that are individually material to us. It is reasonably possible that the amount of the benefit with respect to certain of our unrecognized tax positions will increase or decrease within the next 12 months, but an estimate of the range of the reasonably possible changes cannot be made. However, we do not expect that the resolution of any of our tax positions under FIN 48 will be material.

NOTE 12: RETIREMENT PLANS

We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and retiree healthcare plans. The accounting for pension and postretirement healthcare plans includes numerous assumptions, such as: discount rates; expected long-term investment returns on plan assets; future salary increases; employee turnover; mortality; and retirement ages. These assumptions most significantly impact our U.S. domestic pension plans.

In 2007, we announced changes to significantly redesign certain of our retirement programs. Effective January 1, 2008, we increased the annual company matching contribution under the largest of our 401(k) plans covering most employees from $500 to a maximum of 3.5% of eligible compensation. Employees not participating in the 401(k) plan as of January 1, 2008 were automatically enrolled at 3% of eligible pay with a company match of 2% of eligible pay effective March 1, 2008. The full cost of this benefit improvement will accelerate over the next few years. Effective May 31, 2008, benefits previously accrued under our primary pension plans using a traditional pension benefit formula were capped for most employees, and those benefits will be payable beginning at retirement. Beginning June 1, 2008, future pension benefits for most employees will be accrued under a cash balance formula we call the Portable Pension Account. These changes will not affect the benefits of current retirees and terminated vested participants. In addition, these pension plans were modified to accelerate vesting from five years to three years effective June 1, 2008 for most participants.

A summary of our retirement plans costs over the past three years is as follows (in millions):

	2008	2007	2006
U.S. domestic and international pension plans	**$ 323**	$ 467	$ 425
U.S. domestic and international defined contribution plans	**216**	176	167
Postretirement healthcare plans	**77**	55	73
	$ 616	$ 698	$ 665

PENSION PLANS

Our largest pension plan covers certain U.S. employees age 21 and over, with at least one year of service. Eligible employees as of May 31, 2003 were given the opportunity to make a one-time election to accrue future pension benefits under either the Portable Pension Account or a traditional pension benefit formula. Benefits provided under the traditional formula are based on average earnings and years of service. Under the Portable Pension Account, the retirement benefit is expressed as a dollar amount in a notional account that grows with annual credits based on pay, age and years of credited service, and interest on the notional account balance. Eligible employees hired after May 31, 2003 accrue benefits exclusively under the Portable Pension Account. We also sponsor or participate in nonqualified benefit plans covering certain of our U.S. employee groups and other pension plans covering certain of our international employees. The international defined benefit pension plans provide benefits primarily based on final earnings and years of service and are funded in accordance with local practice. Where plans are funded, they are funded in compliance with local laws.

POSTRETIREMENT HEALTHCARE PLANS

Certain of our subsidiaries offer medical, dental and vision coverage to eligible U.S. retirees and their eligible dependents. U.S. employees covered by the principal plan become eligible for these benefits at age 55 and older, if they have permanent, continuous service of at least 10 years after attainment of age 45 if hired prior to January 1, 1988, or at least 20 years after attainment of age 35 if hired on or after January 1, 1988. Postretirement healthcare benefits are capped at 150% of the 1993 per capita projected employer cost, which has been reached and, therefore, these benefits are not subject to additional future inflation.

NEW ACCOUNTING PRONOUNCEMENT

As discussed in Note 1, we adopted the recognition and disclosure provisions of SFAS 158 on May 31, 2007. The adoption of SFAS 158 required recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in AOCI of unrecognized gains or losses and prior service costs or credits. The funded status is measured as the difference between the fair value of the plan's assets and the projected benefit obligation ("PBO") of the plan. The adoption of SFAS 158 resulted in a $982 million charge to shareholders' equity at May 31, 2007 through AOCI. At May 31, 2008, under the provisions of SFAS 158, we recorded an increase to equity of $469 million (net of tax) based on a $1 billion improvement in the funded status of our retirement plans since May 31, 2007.

Additionally, SFAS 158 requires the measurement date for plan assets and liabilities to coincide with the sponsor's year end. We currently use a February 28 (February 29 in 2008) measurement date for our plans; therefore, this standard will require us to change our measurement date to May 31 (beginning in 2009). We are required to make our transition election in the first quarter of 2009 and plan to elect the two-measurement approach as our transition method. Under the two-measurement approach, we complete two actuarial measurements, one at February 29, 2008 and the other at June 1, 2008. For the transition period from February 29, 2008

through June 1, 2008, we will record the net periodic benefit cost, net of tax, as an adjustment to beginning retained earnings and the actuarial gains and losses, net of tax, as an adjustment to accumulated other comprehensive income in the first quarter of 2009. The impact of adopting the measurement date provision on our financial statements is not expected to be material to our financial position or results of operations, but will reduce our 2009 pension and retiree medical expense by approximately $87 million under the two-measurement approach due to an increase in the discount rate and higher plan assets.

PENSION PLAN ASSUMPTIONS

Our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations and the expected long-term rate of return on plan assets.

We currently use a measurement date of February 28 (February 29 in 2008) for our pension and postretirement healthcare plans. Management reviews the assumptions used to measure pension costs on an annual basis. Economic and market conditions at the measurement date impact these assumptions from year to year and it is reasonably possible that material changes in pension cost may be experienced in the future. Additional information about our pension plans can be found in the Critical Accounting Estimates section of Management's Discussion and Analysis.

Actuarial gains or losses are generated for changes in assumptions and to the extent that actual results differ from those assumed. These actuarial gains and losses are amortized over the remaining average service lives of our active employees if they exceed a corridor amount in the aggregate.

Predominantly all of our plan assets are actively managed. The investment strategy for pension plan assets is to utilize a diversified mix of global public and private equity portfolios, together with public and private fixed income portfolios, to earn a long-term investment return that meets our pension plan obligations. Active management strategies are utilized within the plan in an effort to realize investment returns in excess of market indices.

The weighted-average asset allocations for our domestic pension plans at the measurement date were as follows (dollars in millions):

	Plan Assets at Measurement Date					
	2008			2007		
Asset Class	Actual	Actual	Target	Actual	Actual	Target
Domestic equities	**$ 5,694**	**49%**	**53%**	$ 5,897	52%	53%
International equities	**2,481**	**21**	**17**	2,413	21	17
Private equities	**406**	**4**	**5**	314	3	5
Total equities	**8,581**	**74**	**75**	8,624	76	75
Long duration fixed income securities	**1,778**	**15**	**15**	1,627	15	15
Other fixed income securities	**1,302**	**11**	**10**	1,049	9	10
	$11,661	**100%**	**100%**	$11,300	100%	100%

Establishing the expected future rate of investment return on our pension assets is a judgmental matter. Management considers the following factors in determining this assumption:

- the duration of our pension plan liabilities, which drives the investment strategy we can employ with our pension plan assets;
- the types of investment classes in which we invest our pension plan assets and the expected compound geometric return we can reasonably expect those investment classes to earn over the next 10- to 15-year time period (or such other time period that may be appropriate); and
- the investment returns we can reasonably expect our active investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

We review the expected long-term rate of return on an annual basis and revise it as appropriate. As part of our strategy to manage future pension costs and net funded status volatility, we are also in the process of reevaluating our pension investment strategy. We are currently evaluating the mix of investments between equities and fixed income securities, the cash flows of which will more closely align with the cash flows of our pension obligations.

To support our conclusions, we periodically commission asset/liability studies performed by third-party professional investment advisors and actuaries to assist us in our reviews. These studies project our estimated future pension payments and evaluate the efficiency of the allocation of our pension plan assets into various investment categories. These studies also generate probability-adjusted expected future returns on those assets. The studies performed or updated supported the reasonableness of our expected rate of return of 8.5% for 2008 and 9.1% for 2007 and 2006. Our estimated long-term rate of return on plan assets remains at 8.5% for 2009. Our actual returns exceeded this assumption for the 15-year period ended February 29, 2008.

The following table provides a reconciliation of the changes in the pension and postretirement healthcare plans' benefit obligations and fair value of assets over the two-year period ended May 31, 2008 and a statement of the funded status as of May 31, 2008 and 2007 (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	2008	2007	**2008**	2007
Accumulated Benefit Obligation ("ABO")	**$11,212**	$11,559		
Changes in Projected Benefit Obligation ("PBO") and Accumulated Postretirement Benefit Obligation ("APBO")				
PBO/APBO at the beginning of year	**$12,209**	$12,153	**$ 525**	$ 475
Service cost	**518**	540	**35**	31
Interest cost	**720**	707	**31**	28
Actuarial (gain) loss	**(1,531)**	590	**(56)**	9
Benefits paid	**(318)**	(261)	**(40)**	(40)
Amendments	**1**	(1,551)	**–**	5
Other	**18**	31	**(3)**	17
PBO/APBO at the end of year	**$11,617**	$12,209	**$ 492**	$ 525
Change in Plan Assets				
Fair value of plan assets at beginning of year	**$11,506**	$10,130	**$ –**	$ –
Actual return on plan assets	**141**	1,086	**–**	–
Company contributions	**548**	524	**64**	23
Benefits paid	**(318)**	(261)	**(40)**	(40)
Other	**2**	27	**(24)**	17
Fair value of plan assets at end of year	**$11,879**	$11,506	**$ –**	$ –
Funded Status of the Plans	**$ 262**	$ (703)	**$ (492)**	$ (525)
Employer contributions after measurement date	**15**	22	**5**	4
Net amount recognized	**$ 277**	$ (681)	**$ (487)**	$ (521)
Amount Recognized in the Balance Sheet at May 31:				
Noncurrent pension assets	**$ 827**	$ 1	**$ –**	$ –
Current pension, postretirement healthcare and other benefit obligations	**(32)**	(24)	**(30)**	(30)
Noncurrent pension, postretirement healthcare and other benefit obligations	**(518)**	(658)	**(457)**	(491)
Net amount recognized	**$ 277**	$ (681)	**$ (487)**	$ (521)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost:				
Net actuarial loss (gain)	**$ 2,455**	$ 3,324	**$ (144)**	$ (97)
Prior service (credit) cost and other	**(1,362)**	(1,477)	**2**	2
Total	**$ 1,093**	$ 1,847	**$ (142)**	$ (95)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost expected to be amortized in next year's Net Periodic Benefit Cost:				
Net actuarial loss (gain)	**$ 51**		**$ (7)**	
Prior service credit and other	**(114)**		**–**	
Total	**$ (63)**		**$ (7)**	

Our pension plans included the following components at May 31, 2008 and 2007 (in millions):

	ABO	PBO	Fair Value of Plan Assets	Funded Status	Other [(1)]	Net Amount Recognized
2008						
Qualified	**$ 10,530**	**$ 10,834**	**$ 11,661**	**$ 827**	**$ –**	**$ 827**
Nonqualified	**333**	**338**	**–**	**(338)**	**7**	**(331)**
International Plans	**349**	**445**	**218**	**(227)**	**8**	**(219)**
Total	**$ 11,212**	**$ 11,617**	**$ 11,879**	**$ 262**	**$15**	**$ 277**
2007						
Qualified	$ 10,926	$ 11,487	$ 11,300	$ (187)	$ –	$ (187)
Nonqualified	314	326	–	(326)	16	(310)
International Plans	319	396	206	(190)	6	(184)
Total	$ 11,559	$ 12,209	$ 11,506	$ (703)	$ 22	$ (681)

(1) Amounts in "Other" represent employer contributions after measurement date.

At May 31, 2008 and 2007, the fair value of plan assets for pension plans with a PBO or an ABO in excess of plan assets were as follows (in millions):

	PBO Exceeds the Fair Value of Plan Assets	
	2008	2007
Pension Benefits		
PBO	**$ 783**	$ 12,085
Fair Value of Plan Assets	**218**	11,381

	ABO Exceeds the Fair Value of Plan Assets	
	2008	2007
Pension Benefits		
PBO	**$ 782**	$ 727
ABO	**682**	637
Fair Value of Plan Assets	**217**	206

The APBO exceeds plan assets for all of our postretirement healthcare plans.

Plan funding is actuarially determined and is subject to certain tax law limitations. International defined benefit pension plans provide benefits primarily based on final earnings or final average earnings and years of service and are funded in accordance with local practice. Where plans are funded, they are funded in compliance with local laws and income tax regulations. Amounts contributed to these plans are not recoverable by us. We made tax-deductible voluntary contributions of $479 million in 2008 and $482 million in 2007 to our qualified U.S. domestic pension plans. We currently expect to make tax-deductible voluntary contributions to our qualified plans in 2009 at levels approximating those in 2008.

At the end of 2007 and prior to our adoption of SFAS 158, we recorded a minimum pension liability on a plan-by-plan basis for many of our pension plans for the amount by which the ABO exceeded the fair value of the plan assets, after adjusting for previously recorded accrued or prepaid pension cost for the plan. We subsequently eliminated the minimum pension liability balance and intangible assets related to our plans that had been recorded prior to adoption. The minimum liability eliminated at May 31, 2007 was $191 million.

Net periodic benefit cost for the three years ended May 31 were as follows (in millions):

	Pension Plans			Postretirement Healthcare Plans		
	2008	2007	2006	**2008**	2007	2006
Service cost	**$ 518**	$ 540	$ 473	**$ 35**	$ 31	$ 42
Interest cost	**720**	707	642	**31**	28	32
Expected return on plan assets	**(985)**	(930)	(811)	**–**	–	–
Recognized actuarial losses (gains) and other	**70**	150	121	**11**	(4)	(1)
Net periodic benefit cost	**$ 323**	$ 467	$ 425	**$ 77**	$ 55	$ 73

Decreases in pension costs from 2007 to 2008 are primarily the result of the plan changes discussed above and in Note 1. Increases in pension costs from 2006 to 2007 are primarily the result of changes in discount rate.

Amounts recognized in other comprehensive income ("OCI") for 2008 for all plans were as follows (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount
Net gain and other, arising during period	$ (685)	$ (430)	$ (56)	$ (38)
(Loss) gain from settlements	(17)	(10)	6	4
Amortizations:				
Prior service credit	113	70	–	–
Actuarial (losses) gains and other	(166)	(104)	3	2
Total recognized in OCI	$ (755)	$ (474)	$ (47)	$ (32)

Weighted-average actuarial assumptions for our primary U.S. pension plans, which represent substantially all of our PBO, are as follows:

	Pension Plans			Postretirement Healthcare Plans		
	2008	2007	2006	**2008**	2007	2006
Discount rate used to determine benefit obligation [(1)]	**6.96%**	6.01%	5.91%	**6.81%**	6.08%	6.08%
Discount rate used to determine net periodic benefit cost	**6.01**	5.91	6.29	**6.08**	6.08	6.16
Rate of increase in future compensation levels used to determine benefit obligation	**4.51**	4.47	3.46	**–**	–	–
Rate of increase in future compensation levels used to determine net periodic benefit cost [(2)]	**4.47**	3.46	3.15	**–**	–	–
Expected long-term rate of return on assets	**8.50**	9.10	9.10	**–**	–	–

(1) The assumed interest rate used to discount the estimated future benefit payments that have been accrued to date (the PBO) to their net present value.
(2) Average future salary increases based on age and years of service.

Benefit payments, which reflect expected future service, are expected to be paid as follows for the years ending May 31 (in millions):

	Pension Plans	Postretirement Healthcare Plans
2009	$ 362	$ 30
2010	442	31
2011	463	33
2012	537	35
2013	609	36
2014-2018	4,633	222

These estimates are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

Future medical benefit claims costs are estimated to increase at an annual rate of 9% during 2009, decreasing to an annual growth rate of 5% in 2017 and thereafter. Future dental benefit costs are estimated to increase at an annual rate of 6% during 2009, decreasing to an annual growth rate of 5% in 2013 and thereafter. A 1% change in these annual trend rates would not have a significant impact on the APBO at May 31, 2008 or 2008 benefit expense because the level of these benefits is capped.

NOTE 13: BUSINESS SEGMENT INFORMATION

FedEx Express, FedEx Ground and FedEx Freight represent our major service lines and, along with FedEx Services, form the core of our reportable segments. Our reportable segments include the following businesses:

FedEx Express Segment
- FedEx Express (express transportation)
- FedEx Trade Networks (global trade services)

FedEx Ground Segment
- FedEx Ground (small-package ground delivery)
- FedEx SmartPost (small-parcel consolidator)

FedEx Freight Segment
- FedEx Freight LTL Group:
  - FedEx Freight (regional LTL freight transportation)
  - FedEx National LTL (long-haul LTL freight transportation)
- FedEx Custom Critical (time-critical transportation)
- Caribbean Transportation Services (airfreight forwarding)

FedEx Services Segment
- FedEx Services (sales, marketing and information technology functions)
- FedEx Office (document and business services and package acceptance)
- FedEx Customer Information Services ("FCIS") (customer service, billings and collections)
- FedEx Global Supply Chain Services (logistics services)

The FedEx Services segment includes: FedEx Services, which provides sales, marketing and information technology support; FCIS, which is responsible for customer service, billings and collections for FedEx Express and FedEx Ground; FedEx Global Supply Chain Services, which provides a range of logistics services to our customers; and FedEx Office.

During the fourth quarter of 2008, we decided to change the name of FedEx Kinko's to FedEx Office. We believe the FedEx Office name better describes the wide range of services available at our retail centers and takes full advantage of the FedEx brand.

During the first quarter of 2008, FedEx Office was reorganized as a part of the FedEx Services segment. FedEx Office provides retail access to our customers for our package transportation businesses and an array of document and business services. FedEx Services provides access to customers through digital channels such as fedex.com. Under FedEx Services, FedEx Office benefits from the full range of resources and expertise of FedEx Services to continue to enhance the customer experience, provide greater, more convenient access to the portfolio of services at FedEx, and increase revenues through our retail network. As part of this reorganization, we are pursuing synergies in sales, marketing, information technology and administrative areas.

With this reorganization, the FedEx Services segment became a reportable segment. Prior year amounts have been revised to conform to the current year segment presentation. FedEx Office continues to be treated as a reporting unit for purposes of goodwill and impairment testing.

Effective June 1, 2006, we moved FedEx Supply Chain Services, Inc., the results of which were previously reported in the FedEx Ground segment, into a new subsidiary of FedEx Services named FedEx Global Supply Chain Services, Inc. The net operating costs of this entity are allocated to FedEx Express and FedEx Ground. Prior year amounts were not reclassified to conform to the 2007 segment presentation, as financial results were materially comparable.

The costs of the sales, marketing and information technology support provided by FedEx Services and the customer service functions of FCIS, together with the normal, ongoing net operating costs of FedEx Global Supply Chain Services and FedEx Office, are allocated primarily to the FedEx Express and FedEx Ground segments based on metrics such as relative revenues

or estimated services provided. We believe these allocations approximate the net cost of providing these functions. The $891 million fourth quarter charge predominantly associated with the noncash impairment charges for the Kinko's trade name and goodwill was not allocated to the FedEx Express or FedEx Ground segments, as this cost was unrelated to the core performance of those businesses.

Certain FedEx operating companies provide transportation and related services for other FedEx companies outside their reportable segment. Billings for such services are based on negotiated rates, which we believe approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues and expenses are eliminated in the consolidated results and are not separately identified in the following segment information, as the amounts are not material.

The operating expenses line item "Intercompany charges" on the accompanying unaudited financial summaries of our transportation segments in Management's Discussion and Analysis of Operations and Financial Condition ("MD&A") includes the allocations from the FedEx Services segment to the respective transportation segments. The "Intercompany charges" caption also includes allocations for administrative services provided between operating companies and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. Management evaluates transportation segment financial performance based on operating income.

The following table provides a reconciliation of reportable segment revenues, depreciation and amortization, operating income (loss) and segment assets to consolidated financial statement totals for the years ended or as of May 31 (in millions):

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment[1]	FedEx Services Segment	Other and Eliminations	Consolidated Total
Revenues						
2008	**$24,421**	**$6,751**	**$4,934**	**$2,138**	**$ (291)**	**$37,953**
2007	22,681	6,043	4,586	2,136	(232)	35,214
2006	21,446	5,306	3,645	2,088	(191)	32,294
Depreciation and amortization						
2008	**$ 944**	**$ 305**	**$ 227**	**$ 469**	**$ 1**	**$ 1,946**
2007	856	268	195	420	3	1,742
2006	805	224	120	400	1	1,550
Operating income (loss) [2]						
2008 [3]	**$ 1,901**	**$ 736**	**$ 329**	**$ (891)**	**$ –**	**$ 2,075**
2007 [4]	1,991	822	463	–	–	3,276
2006 [5]	1,813	716	485	–	–	3,014
Segment assets [6]						
2008	**$13,416**	**$2,770**	**$3,276**	**$4,651**	**$ 1,520**	**$25,633**
2007	15,650	3,937	3,150	5,384	(4,121)	24,000
2006	14,673	3,378	2,245	3,807	(1,413)	22,690

(1) Includes the operations of FedEx National LTL from the date of acquisition, September 3, 2006.
(2) The net operating costs of the FedEx Services segment, including FedEx Office, are allocated back to the transportation segments it supports. Prior year amounts have been revised to conform to the current year presentation.
(3) FedEx Services segment operating expenses include a charge of approximately $891 million, predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition. These charges were not allocated to our transportation segments, as the charges were unrelated to the core performance of these businesses.
(4) FedEx Express operating expenses include a $143 million charge associated with upfront compensation and benefits under the new pilot labor contract.
(5) Includes a $79 million one-time, noncash charge to adjust the accounting for certain facility leases ($75 million at FedEx Express).
(6) Segment assets include intercompany receivables.

The following table provides a reconciliation of reportable segment capital expenditures to consolidated totals for the years ended May 31 (in millions):

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Other	Consolidated Total
2008	**$1,716**	**$509**	**$266**	**$455**	**$ 1**	**$2,947**
2007	1,672	489	287	432	2	2,882
2006	1,408	487	274	345	4	2,518

The following table presents revenue by service type and geographic information for the years ended or as of May 31 (in millions):

Revenue by Service Type

	2008	2007	2006
FedEx Express segment:			
Package:			
U.S. overnight box	**$ 6,578**	$ 6,485	$ 6,422
U.S. overnight envelope	**2,012**	1,990	1,974
U.S. deferred	**2,995**	2,883	2,853
Total domestic package revenue	**11,585**	11,358	11,249
International Priority (IP)	**7,666**	6,722	6,139
International domestic [1]	**663**	370	199
Total package revenue	**19,914**	18,450	17,587
Freight:			
U.S.	**2,398**	2,412	2,218
International Priority Freight	**1,243**	1,045	840
International airfreight	**406**	394	434
Total freight revenue	**4,047**	3,851	3,492
Other [2]	**460**	380	367
Total FedEx Express segment	**24,421**	22,681	21,446
FedEx Ground segment	**6,751**	6,043	5,306
FedEx Freight segment [3]	**4,934**	4,586	3,645
FedEx Services segment	**2,138**	2,136	2,088
Other and Eliminations	**(291)**	(232)	(191)
	$37,953	$35,214	$32,294

Geographical Information [4]

	2008	2007	2006
Revenues:			
U.S.	**$ 27,306**	$ 26,132	$ 24,172
International	**10,647**	9,082	8,122
	$ 37,953	$ 35,214	$ 32,294
Noncurrent assets:			
U.S.	**$ 14,920**	$ 14,191	$ 13,804
International	**3,469**	3,180	2,422
	$ 18,389	$ 17,371	$ 16,226

(1) International domestic revenues include our international domestic express operations, primarily in the United Kingdom, Canada, India and China. We reclassified the prior period international domestic revenues previously included within other revenues to conform to the current period presentation.
(2) Other revenues includes FedEx Trade Networks.
(3) Includes the operations of FedEx National LTL from the date of acquisition, September 3, 2006.
(4) International revenue includes shipments that either originate in or are destined to locations outside the United States. Noncurrent assets include property and equipment, goodwill and other long-term assets. Flight equipment is allocated between geographic areas based on usage.

NOTE 14: SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest expense and income taxes for the years ended May 31 was as follows (in millions):

	2008	2007	2006
Interest (net of capitalized interest)	**$100**	$ 136	$145
Income taxes	**816**	1,064	880

NOTE 15: GUARANTEES AND INDEMNIFICATIONS

In conjunction with certain transactions, primarily the lease, sale or purchase of operating assets or services in the ordinary course of business, we may provide routine guarantees or indemnifications (e.g., environmental, fuel, tax and software infringement), the terms of which range in duration, and often they are not limited and have no specified maximum obligation. As a result, the overall maximum potential amount of the obligation under such guarantees and indemnifications cannot be reasonably estimated. Historically, we have not been required to make significant payments under our guarantee or indemnification obligations and no amounts have been recognized in our financial statements for the underlying fair value of these obligations.

Special facility revenue bonds have been issued by certain municipalities primarily to finance the acquisition and construction of various airport facilities and equipment. These facilities were leased to us and are accounted for as either capital leases or operating leases. FedEx Express has unconditionally guaranteed $755 million in principal of these bonds (with total future principal and interest payments of approximately $1.1 billion as of May 31, 2008) through these leases. Of the $755 million bond principal guaranteed, $204 million was included in capital lease obligations in our balance sheet at May 31, 2008. The remaining $551 million has been accounted for as operating leases.

NOTE 16: COMMITMENTS

Annual purchase commitments under various contracts as of May 31, 2008 were as follows (in millions):

	Aircraft	Aircraft-Related [1]	Other [2]	Total
2009	$965	$178	$561	$1,704
2010	919	132	127	1,178
2011	665	9	61	735
2012	31	–	56	87
2013	–	–	33	33
Thereafter	–	–	134	134

(1) Primarily aircraft modifications.
(2) Primarily vehicles, facilities, computers and advertising and promotions contracts.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport unless we have entered into noncancelable commitments to modify such aircraft. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

Included in our aircraft commitments are aircraft under our Boeing 757-200 ("B757") and Boeing 777 Freighter ("B777F") programs. In 2007, we announced a multi-year program to acquire and modify approximately 90 B757 aircraft to replace our narrow-body fleet of Boeing 727-200 aircraft. As of May 31, 2008, we had entered into agreements to purchase 29 B757 aircraft, in addition to the 12 we already owned, under this program. In addition, during 2007, we entered into an agreement to acquire 15 new B777F aircraft and an option to purchase an additional 15 B777F aircraft. In connection with the decision to purchase the B777F aircraft, we canceled an order with Airbus for 10 A380-800F aircraft. In a settlement agreement with Airbus, we were provided, among other things, credit memoranda applicable to the purchase of goods and services in the future. The net impact of this settlement was immaterial to our 2007 results and was recorded as an operating gain during the fourth quarter of 2007.

Deposits and progress payments of $254 million have been made toward aircraft purchases, options to purchase additional aircraft and other planned aircraft-related transactions. Our primary aircraft purchase commitments include the B757 in passenger configuration, which will require additional costs to modify for cargo transport, and the new B777F aircraft. In addition, we have committed to modify our DC10 aircraft for two-man cockpit configurations. Future payments related to these activities are included in the table above. Aircraft and aircraft-related contracts are subject to price escalations. The following table is a summary of the number and type of aircraft we are committed to purchase as of May 31, 2008, with the year of expected delivery:

	A300	B757	B777F	MD11	Total
2009	4	16	–	2	22
2010	–	6	6	–	12
2011	–	5	9	–	14
2012	–	2	–	–	2
2013	–	–	–	–	–
Thereafter	–	–	–	–	–
Total	4	29	15	2	50

NOTE 17: CONTINGENCIES

Wage-and-Hour. We are a defendant in a number of lawsuits containing various class-action allegations of wage-and-hour violations. The plaintiffs in these lawsuits allege, among other things, that they were forced to work "off the clock," were not paid overtime or were not provided work breaks or other benefits. The complaints generally seek unspecified monetary damages, injunctive relief, or both.

In February 2008, one of these wage-and-hour cases, *Wiegele v. FedEx Ground*, was certified as a class action by a California federal court, and in April 2008, the U.S. Court of Appeals for the Ninth Circuit denied our petition to review the class certification ruling. The class certification ruling, however, does not address whether we will ultimately be held liable. The plaintiffs in *Wiegele* represent a class of FedEx Ground sort managers and dock service managers in California from May 10, 2002 to present. The plaintiffs allege that FedEx Ground has misclassified the managers as exempt from the overtime requirements of California wage-and-hour laws and is correspondingly liable for failing to pay them overtime compensation and for failing to provide them with rest and meal breaks.

We have agreed to settle two wage-and-hour lawsuits against FedEx Ground for an immaterial amount and executed a settlement agreement, which awaits court approval. We have denied any liability and intend to vigorously defend ourselves in the other wage-and-hour lawsuits, including *Wiegele*. We do not believe that any loss is probable in these other lawsuits, and given the nature and status of the claims, we cannot yet determine the amount or a reasonable range of potential loss, if any.

Independent Contractor — Estrada and Mason. Estrada v. FedEx Ground is a class action involving single-route contractors in California. In August 2007, the California appellate court affirmed the trial court's ruling in *Estrada* that a limited number of California single-route contractors (most of whom have not contracted with FedEx Ground since 2001) should be reimbursed as employees for some of their operating expenses. The Supreme Court of California has affirmed the appellate court's liability and class certification decisions. The case has been remanded to the trial court for reconsideration of the amount of such reimbursable expenses and attorneys' fees. Forty of the class members from the *Estrada* litigation have filed another lawsuit (entitled *Mason*) seeking reimbursement of expenses for the post-*Estrada* period (January 1, 2005 to present). The forty plaintiffs continued to provide pickup-and-delivery services to FedEx Ground after the damages period terminated in *Estrada* (December 31, 2004). We do not expect to incur a material loss in the *Estrada* and *Mason* matters.

Independent Contractor — Other Lawsuits and State Administrative Proceedings. FedEx Ground is involved in approximately 45 other class-action lawsuits (including 21 that have been certified as class actions), several individual lawsuits and approximately 30 state tax and other administrative proceedings that claim that the company's owner-operators should be treated as employees, rather than independent contractors.

Most of the class-action lawsuits have been consolidated for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. With the exception of recently filed cases that have been or will be transferred to the multidistrict litigation, discovery and class certification briefing are now complete. In October 2007, we received a decision from the court granting class certification in a Kansas action alleging state law claims on behalf of a statewide class and federal law claims under the Employee Retirement Income Security Act of 1974 on behalf of a nationwide class. In January 2008, the U.S. Court of Appeals for the Seventh Circuit declined our request for appellate review of the class certification decision. In March 2008, the court granted class certification in 19 additional cases and denied it in nine cases. The court has not yet ruled on class certification in the other cases that are pending in the multidistrict litigation. Motions for summary judgment on the classification issue (*i.e.*, independent contractor vs. employee) are pending in all 20 of the cases that have been certified as class actions.

In January 2008, one of the contractor-model lawsuits that is not part of the multidistrict litigation, *Anfinson v. FedEx Ground*, was certified as a class action by a Washington state court. The plaintiffs in *Anfinson* represent a class of FedEx Ground single-route, pickup-and-delivery owner-operators in Washington from December 21, 2001 through December 31, 2005 and allege that the class members should be reimbursed as employees for their uniform expenses and should receive overtime pay. The *Anfinson* case is scheduled for trial in October 2008. The other contractor-model lawsuits that are not part of the multidistrict litigation are not as far along procedurally as *Anfinson*.

FedEx Ground is also involved in several lawsuits, including three purported class actions, brought by drivers of the company's independent contractors who claim that they were jointly employed by the contractor and FedEx Ground.

Adverse determinations in these matters could, among other things, entitle certain of our contractors and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for FedEx Ground, and could result in changes to the independent contractor status of FedEx Ground's owner-operators. We believe that FedEx Ground's owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company's independent contractors. Given the nature and status of these lawsuits, we cannot yet determine the amount or a reasonable range of potential loss, if any, but it is reasonably possible that such potential loss or such changes to the independent contractor status of FedEx Ground's owner-operators could be material. However, we do not believe that a material loss is probable in any of these matters.

Independent Contractor — IRS Audit. On December 20, 2007, the Internal Revenue Service ("IRS") informed us that its audit team had concluded an audit for the 2002 calendar year regarding the classification of owner-operators at FedEx Ground. The IRS has tentatively concluded, subject to ongoing discussions with us, that FedEx Ground's pickup-and-delivery owner-operators should be reclassified as employees for federal employment tax purposes. The IRS has indicated that it anticipates assessing tax and penalties of $319 million plus interest for 2002. Substantially all of the IRS's tentative assessment relates to employment and withholding taxes for the 2002 calendar year and, if paid by the company, would be fully deductible. Similar issues are under audit by the IRS for calendar years 2004 through 2006. We are in discussions with the IRS audit team and expect that a final resolution of this matter will not occur for some time. We believe that we have strong defenses to the IRS's tentative assessment and will vigorously defend our position, as we continue to believe that FedEx Ground's owner-operators are independent contractors. Given the preliminary status of this matter, we cannot yet determine the amount or a reasonable range of potential loss. However, we do not believe that loss is probable.

Independent Contractor — Shareholder Derivative Lawsuits. The Plumbers and Pipefitters Local 51 Pension Fund and the Western Pennsylvania Bricklayers Pension Fund have each filed shareholder derivative lawsuits in Tennessee federal court naming FedEx Corporation as a nominal defendant and the members of the Board of Directors of FedEx Corporation as defendants (the Plumbers and Pipefitters suit was filed in May 2008 and the Bricklayers suit was filed in June 2008). The derivative lawsuits, which are purportedly brought to assert the rights of FedEx Corporation, assert claims against the Board members for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment in connection with the management of FedEx Ground — in particular, the classification of FedEx Ground's owner-operators as independent contractors. Given the preliminary status of these matters, we cannot yet determine the amount or a reasonable range of potential loss. However, we do not believe that any loss is probable.

Antitrust — FedEx Freight Fuel Surcharge. In July 2007, a purported antitrust class-action lawsuit was filed in California federal court, naming FedEx Corporation (particularly FedEx Freight Corporation and its LTL freight subsidiaries) and several other major LTL freight carriers as defendants. The lawsuit alleges that the defendants conspired to fix fuel surcharge rates in violation of federal antitrust laws and seeks injunctive relief, treble damages and attorneys' fees. Since the filing of the original case, numerous similar cases have been filed against us and other LTL freight carriers, each with allegations of conspiracy to fix fuel surcharge rates along with other related allegations. The U.S. Judicial Panel on Multidistrict Litigation has consolidated these cases for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Georgia. We do not believe that any loss is probable, and given the nature and status of the claims, we cannot yet determine the amount or a reasonable range of potential loss, if any, in these matters.

Other. FedEx and its subsidiaries are subject to other legal proceedings that arise in the ordinary course of their business. In the opinion of management, the aggregate liability, if any, with respect to these other actions will not have a material adverse effect on our financial position, results of operations or cash flows.

Additional information about our contingencies can be found in the Critical Accounting Estimates section of Management's Discussion and Analysis.

NOTE 18: RELATED PARTY TRANSACTIONS

Our Chairman, President and Chief Executive Officer, Frederick W. Smith, currently holds an approximate 10% ownership interest in the National Football League Washington Redskins professional football team ("Redskins") and is a member of its board of directors. FedEx has a multi-year naming rights agreement with the Redskins granting us certain marketing rights, including the right to name the Redskins' stadium "FedExField."

NOTE 19: SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

(in millions, except per share amounts)	First Quarter	Second Quarter [1]	Third Quarter	Fourth Quarter [2]
2008				
Revenues	**$9,199**	**$9,451**	**$9,437**	**$9,866**
Operating income (loss)	**814**	**783**	**641**	**(163)**
Net income (loss)	**494**	**479**	**393**	**(241)**
Basic earnings (loss) per common share	**1.60**	**1.55**	**1.27**	**(0.78)**
Diluted earnings (loss) per common share	**1.58**	**1.54**	**1.26**	**(0.78)**
2007				
Revenues	$ 8,545	$ 8,926	$ 8,592	$ 9,151
Operating income	784	839	641	1,012
Net income	475	511	420	610
Basic earnings per common share	1.55	1.67	1.37	1.98
Diluted earnings per common share	1.53	1.64	1.35	1.96

(1) Results for the second quarter of 2007 include a $143 million charge at FedEx Express associated with upfront compensation and benefits under the new pilot labor contract. The impact of this new contract on second quarter net income was approximately $78 million net of tax, or $0.25 per diluted share. Additionally, FedEx National LTL's financial results have been included from September 3, 2006 (the date of acquisition).

(2) Results for the fourth quarter of 2008 include a charge of approximately $891 million ($696 million, net of tax, or $2.22 per diluted share), predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition. The earnings per share impact of the impairment charge differs for the fourth quarter and full year due to differences in the weighted-average number of shares outstanding.

NOTE 20: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

We are required to present condensed consolidating financial information in order for the subsidiary guarantors (other than FedEx Express) of our public debt to continue to be exempt from reporting under the Securities Exchange Act of 1934.

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee approximately $1.2 billion of our debt. The guarantees are full and unconditional and joint and several. Our guarantor subsidiaries were not determined using geographic, service line or other similar criteria, and as a result, the "Guarantor" and "Non-Guarantor" columns each include portions of our domestic and international operations. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting.

Condensed consolidating financial statements for our guarantor subsidiaries and non-guarantor subsidiaries are presented in the following tables (in millions):

CONDENSED CONSOLIDATING BALANCE SHEETS

	May 31, 2008				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 1,101	$ 166	$ 272	$ –	$ 1,539
Receivables, less allowances	4	3,310	1,083	(38)	4,359
Spare parts, supplies and fuel, prepaid expenses and other, less allowances	10	710	82	–	802
Deferred income taxes	–	512	32	–	544
Total current assets	1,115	4,698	1,469	(38)	7,244
Property and Equipment, at Cost	24	26,658	2,623	–	29,305
Less accumulated depreciation and amortization	16	14,578	1,233	–	15,827
Net property and equipment	8	12,080	1,390	–	13,478
Intercompany Receivable	1,902	–	333	(2,235)	–
Goodwill	–	2,299	866	–	3,165
Investment in Subsidiaries	11,683	2,678	–	(14,361)	–
Pension Assets	813	1	13	–	827
Other Assets	381	744	153	(359)	919
	$15,902	$ 22,500	$ 4,224	$ (16,993)	$ 25,633
LIABILITIES AND STOCKHOLDERS' INVESTMENT					
Current Liabilities					
Current portion of long-term debt	$ 500	$ –	$ 2	$ –	$ 502
Accrued salaries and employee benefits	41	881	196	–	1,118
Accounts payable	11	1,774	448	(38)	2,195
Accrued expenses	23	1,301	229	–	1,553
Total current liabilities	575	3,956	875	(38)	5,368
Long-Term Debt, Less Current Portion	749	756	1	–	1,506
Intercompany Payable	–	2,235	–	(2,235)	–
Other Liabilities					
Deferred income taxes	–	1,518	105	(359)	1,264
Other liabilities	288	2,549	132	–	2,969
Total other long-term liabilities	288	4,067	237	(359)	4,233
Stockholders' Investment	14,290	11,486	3,111	(14,361)	14,526
	$15,902	$ 22,500	$ 4,224	$ (16,993)	$ 25,633

CONDENSED CONSOLIDATING BALANCE SHEETS

	May 31, 2007				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
Current Assets					
Cash and cash equivalents	$ 1,212	$ 124	$ 233	$ –	$ 1,569
Receivables, less allowances	–	3,029	948	(35)	3,942
Spare parts, supplies and fuel, prepaid expenses and other, less allowances	7	500	75	–	582
Deferred income taxes	–	505	31	–	536
Total current assets	1,219	4,158	1,287	(35)	6,629
Property and Equipment, at Cost	22	24,681	2,387	–	27,090
Less accumulated depreciation and amortization	14	13,422	1,018	–	14,454
Net property and equipment	8	11,259	1,369	–	12,636
Intercompany Receivable	–	924	539	(1,463)	–
Goodwill	–	2,667	830	–	3,497
Investment in Subsidiaries	14,588	3,340	–	(17,928)	–
Other Assets	670	457	755	(644)	1,238
	$16,485	$ 22,805	$ 4,780	$ (20,070)	$ 24,000
LIABILITIES AND STOCKHOLDERS' INVESTMENT					
Current Liabilities					
Current portion of long-term debt	$ 551	$ 85	$ 3	$ –	$ 639
Accrued salaries and employee benefits	60	1,079	215	–	1,354
Accounts payable	37	1,563	448	(32)	2,016
Accrued expenses	36	1,197	189	(3)	1,419
Total current liabilities	684	3,924	855	(35)	5,428
Long-Term Debt, Less Current Portion	1,248	757	2	–	2,007
Intercompany Payable	1,463	–	–	(1,463)	–
Other Liabilities					
Deferred income taxes	–	1,262	279	(644)	897
Other liabilities	451	2,445	116	–	3,012
Total other long-term liabilities	451	3,707	395	(644)	3,909
Stockholders' Investment	12,639	14,417	3,528	(17,928)	12,656
	$16,485	$ 22,805	$ 4,780	$ (20,070)	$ 24,000

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Year Ended May 31, 2008				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	**$ –**	**$ 31,464**	**$ 6,860**	**$ (371)**	**$ 37,953**
OPERATING EXPENSES:					
Salaries and employee benefits	**98**	**11,660**	**2,444**	**–**	**14,202**
Purchased transportation	**–**	**3,216**	**1,322**	**(91)**	**4,447**
Rentals and landing fees	**4**	**2,127**	**313**	**(3)**	**2,441**
Depreciation and amortization	**2**	**1,651**	**293**	**–**	**1,946**
Fuel	**–**	**4,272**	**324**	**–**	**4,596**
Maintenance and repairs	**1**	**1,907**	**160**	**–**	**2,068**
Impairment charges	**–**	**882**	**–**	**–**	**882**
Intercompany charges, net	**(204)**	**(94)**	**298**	**–**	**–**
Other	**99**	**4,400**	**1,074**	**(277)**	**5,296**
	–	**30,021**	**6,228**	**(371)**	**35,878**
OPERATING INCOME	**–**	**1,443**	**632**	**–**	**2,075**
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	**1,125**	**310**	**–**	**(1,435)**	**–**
Interest, net	**(44)**	**4**	**(14)**	**–**	**(54)**
Intercompany charges, net	**51**	**(66)**	**15**	**–**	**–**
Other, net	**(7)**	**3**	**(1)**	**–**	**(5)**
INCOME BEFORE INCOME TAXES	**1,125**	**1,694**	**632**	**(1,435)**	**2,016**
Provision for income taxes	**–**	**687**	**204**	**–**	**891**
NET INCOME	**$ 1,125**	**$ 1,007**	**$ 428**	**$ (1,435)**	**$ 1,125**

	Year Ended May 31, 2007				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ –	$ 29,894	$ 5,671	$ (351)	$ 35,214
OPERATING EXPENSES:					
Salaries and employee benefits	103	11,632	2,005	–	13,740
Purchased transportation	–	2,964	944	(35)	3,873
Rentals and landing fees	3	2,082	261	(3)	2,343
Depreciation and amortization	2	1,513	227	–	1,742
Fuel	–	3,317	216	–	3,533
Maintenance and repairs	1	1,830	121	–	1,952
Intercompany charges, net	(193)	(170)	363	–	–
Other	84	4,133	851	(313)	4,755
	–	27,301	4,988	(351)	31,938
OPERATING INCOME	–	2,593	683	–	3,276
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	2,016	390	–	(2,406)	–
Interest, net	(22)	(29)	(2)	–	(53)
Intercompany charges, net	29	(34)	5	–	–
Other, net	(7)	–	(1)	–	(8)
INCOME BEFORE INCOME TAXES	2,016	2,920	685	(2,406)	3,215
Provision for income taxes	–	971	228	–	1,199
NET INCOME	$ 2,016	$ 1,949	$ 457	$ (2,406)	$ 2,016

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Year Ended May 31, 2006				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$ –	$28,310	$4,325	$ (341)	$32,294
OPERATING EXPENSES:					
Salaries and employee benefits	81	11,046	1,444	–	12,571
Purchased transportation	–	2,642	627	(18)	3,251
Rentals and landing fees	4	2,163	226	(3)	2,390
Depreciation and amortization	2	1,401	147	–	1,550
Fuel	–	3,128	128	–	3,256
Maintenance and repairs	1	1,709	67	–	1,777
Intercompany charges, net	(164)	(229)	393	–	–
Other	76	4,008	721	(320)	4,485
	–	25,868	3,753	(341)	29,280
OPERATING INCOME	–	2,442	572	–	3,014
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,806	327	–	(2,133)	–
Interest, net	(47)	(57)	–	–	(104)
Intercompany charges, net	55	(78)	23	–	–
Other, net	(8)	(4)	1	–	(11)
INCOME BEFORE INCOME TAXES	1,806	2,630	596	(2,133)	2,899
Provision for income taxes	–	876	217	–	1,093
NET INCOME	$ 1,806	$ 1,754	$ 379	$ (2,133)	$ 1,806

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended May 31, 2008				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	**$ (44)**	**$ 3,072**	**$ 456**	**$ –**	**$ 3,484**
INVESTING ACTIVITIES					
Capital expenditures	**(1)**	**(2,683)**	**(263)**	**–**	**(2,947)**
Business acquisitions, net of cash acquired	**–**	**–**	**(4)**	**–**	**(4)**
Collection on (payment of) loan to Parent	**(5,971)**	**5,971**	**–**	**–**	**–**
Proceeds from asset dispositions and other	**–**	**34**	**20**	**–**	**54**
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(5,972)**	**3,322**	**(247)**	**–**	**(2,897)**
FINANCING ACTIVITIES					
Net transfers (to) from Parent	**463**	**(296)**	**(167)**	**–**	**–**
Dividend paid (to) from Parent	**5,971**	**(5,971)**	**–**	**–**	**–**
Principal payments on debt	**(551)**	**(85)**	**(3)**	**–**	**(639)**
Proceeds from stock issuances	**108**	**–**	**–**	**–**	**108**
Excess tax benefits on the exercise of stock options	**38**	**–**	**–**	**–**	**38**
Dividends paid	**(124)**	**–**	**–**	**–**	**(124)**
Other, net	**–**	**–**	**–**	**–**	**–**
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	**5,905**	**(6,352)**	**(170)**	**–**	**(617)**
CASH AND CASH EQUIVALENTS					
Net (decrease) increase in cash and cash equivalents	**(111)**	**42**	**39**	**–**	**(30)**
Cash and cash equivalents at beginning of period	**1,212**	**124**	**233**	**–**	**1,569**
Cash and cash equivalents at end of period	**$ 1,101**	**$ 166**	**$ 272**	**$ –**	**$ 1,539**

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended May 31, 2007				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (57)	$ 2,741	$ 879	$ –	$ 3,563
INVESTING ACTIVITIES					
Capital expenditures	(1)	(2,631)	(250)	–	(2,882)
Business acquisitions, net of cash acquired	(175)	(36)	(1,099)	–	(1,310)
Proceeds from asset dispositions	–	47	21	–	68
CASH USED IN INVESTING ACTIVITIES	(176)	(2,620)	(1,328)	–	(4,124)
FINANCING ACTIVITIES					
Net transfers (to) from Parent	(578)	40	538	–	–
Principal payments on debt	(700)	(206)	–	–	(906)
Proceeds from debt issuance	999	55	–	–	1,054
Proceeds from stock issuances	115	–	–	–	115
Excess tax benefits on the exercise of stock options	45	–	–	–	45
Dividends paid	(110)	–	–	–	(110)
Other, net	(5)	–	–	–	(5)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(234)	(111)	538	–	193
CASH AND CASH EQUIVALENTS					
Net (decrease) increase in cash and cash equivalents	(467)	10	89	–	(368)
Cash and cash equivalents at beginning of period	1,679	114	144	–	1,937
Cash and cash equivalents at end of period	$1,212	$ 124	$ 233	$ –	$ 1,569

	Year Ended May 31, 2006				
	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (69)	$ 3,418	$ 327	$ –	$ 3,676
INVESTING ACTIVITIES					
Capital expenditures	(4)	(2,321)	(193)	–	(2,518)
Proceeds from asset dispositions	–	58	6	–	64
CASH USED IN INVESTING ACTIVITIES	(4)	(2,263)	(187)	–	(2,454)
FINANCING ACTIVITIES					
Net transfers (to) from Parent	1,215	(1,073)	(142)	–	–
Principal payments on debt	(250)	(119)	–	–	(369)
Proceeds from stock issuances	144	–	–	–	144
Dividends paid	(97)	–	–	–	(97)
Other, net	(2)	–	–	–	(2)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	1,010	(1,192)	(142)	–	(324)
CASH AND CASH EQUIVALENTS					
Net increase (decrease) in cash and cash equivalents	937	(37)	(2)	–	898
Cash and cash equivalents at beginning of period	742	151	146	–	1,039
Cash and cash equivalents at end of period	$1,679	$ 114	$ 144	$ –	$ 1,937

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited the accompanying consolidated balance sheets of FedEx Corporation as of May 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' investment and comprehensive income, and cash flows for each of the three years in the period ended May 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FedEx Corporation at May 31, 2008 and 2007, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective June 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," and effective May 31, 2007 the Company adopted SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Benefit Plans—An Amendment of FASB Statements No. 87, 88, 106 and 132(R)."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FedEx Corporation's internal control over financial reporting as of May 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 10, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

Memphis, Tennessee
July 10, 2008

SELECTED FINANCIAL DATA

The following table sets forth (in millions, except per share amounts and other operating data) certain selected consolidated financial and operating data for FedEx as of and for the five years ended May 31, 2008. This information should be read in conjunction with the Consolidated Financial Statements, Management's Discussion and Analysis of Results of Operations and Financial Condition and other financial data appearing elsewhere in this Report.

	2008 (1)	2007 (2)	2006 (3)	2005 (4)	2004 (5)
Operating Results					
Revenues	**$ 37,953**	$ 35,214	$ 32,294	$ 29,363	$ 24,710
Operating income	**2,075**	3,276	3,014	2,471	1,440
Income before income taxes	**2,016**	3,215	2,899	2,313	1,319
Net income	**1,125**	2,016	1,806	1,449	838
Per Share Data					
Earnings per share:					
Basic	**$ 3.64**	$ 6.57	$ 5.94	$ 4.81	$ 2.80
Diluted	**$ 3.60**	$ 6.48	$ 5.83	$ 4.72	$ 2.76
Average shares of common stock outstanding	**309**	307	304	301	299
Average common and common equivalent shares outstanding	**312**	311	310	307	304
Cash dividends declared	**$ 0.30**	$ 0.37	$ 0.33	$ 0.29	$ 0.29
Financial Position					
Property and equipment, net	**$ 13,478**	$ 12,636	$ 10,770	$ 9,643	$ 9,037
Total assets	**25,633**	24,000	22,690	20,404	19,134
Long-term debt, less current portion	**1,506**	2,007	1,592	2,427	2,837
Common stockholders' investment	**14,526**	12,656	11,511	9,588	8,036
Other Operating Data					
FedEx Express aircraft fleet	**677**	669	671	670	645
Average full-time equivalent employees and contractors	**254,142**	241,903	221,677	215,838	195,838

(1) Results for 2008 include a charge of approximately $891 million ($696 million, net of tax, or $2.23 per diluted share) recorded during the fourth quarter, predominantly related to noncash impairment charges associated with the decision to minimize the use of the Kinko's trade name and goodwill resulting from the Kinko's acquisition. See Note 4 to the accompanying consolidated financial statements. Additionally, results for 2008 and 2007 include several 2007 acquisitions as described in Note 3 to the accompanying financial statements.

(2) Results for 2007 include a $143 million charge at FedEx Express associated with upfront compensation and benefits under the new labor contract with our pilots. See Note 1 to the accompanying consolidated financial statements.

(3) Results for 2006 include a $79 million ($49 million, net of tax, or $0.16 per diluted share) charge to adjust the accounting for certain facility leases, predominantly at FedEx Express. See Note 7 to the accompanying consolidated financial statements.

(4) Results for 2005 include a $48 million ($31 million, net of tax, or $0.10 per diluted share) Airline Stabilization Act charge at FedEx Express and a $12 million or $0.04 per diluted share benefit from an income tax adjustment.

(5) Results for 2004 include $435 million ($270 million, net of tax, or $0.89 per diluted share) of business realignment costs and a $37 million, or $0.12 per diluted share, benefit related to a favorable ruling on an aircraft engine maintenance tax case and the reduction of our effective tax rate. Additionally, FedEx Office financial results have been included from February 12, 2004 (the date of acquisition).

BOARD OF DIRECTORS

James L. Barksdale [3] [4]
Chairman and President
Barksdale Management Corporation
Investment management company

August A. Busch IV [2]
President and Chief Executive Officer
Anheuser-Busch Companies, Inc.
Brewing organization

John A. Edwardson [1*]
Chairman and Chief Executive Officer
CDW Corporation
Technology products and services company

Judith L. Estrin [3*]
Chief Executive Officer
JLABS, LLC
Technology company

Philip Greer [2*]
Managing Director
Greer Family Consulting & Investments, LLC
Investment management firm

J.R. Hyde III [3]
Chairman
GTx, Inc.
Biopharmaceutical company

Shirley A. Jackson [3] [4]
President
Rensselaer Polytechnic Institute
Technological research university

Steven R. Loranger [2]
Chairman, President and
Chief Executive Officer
ITT Corporation
Engineering and manufacturing company

Gary W. Loveman [1] [3]
Chairman, President and
Chief Executive Officer
Harrah's Entertainment, Inc.
Casino entertainment company

Charles T. Manatt [4]
Partner and Co-Founder
Manatt, Phelps & Phillips, LLP
Law firm

Frederick W. Smith
Chairman, President and
Chief Executive Officer
FedEx Corporation

Joshua I. Smith [1]
Chairman and Managing Partner
Coaching Group, LLC
Management consulting firm

Paul S. Walsh [2]
Chief Executive Officer
Diageo plc
Beverage company

Peter S. Willmott [1] [4*]
Chairman and Chief Executive Officer
Willmott Services, Inc.
Retail and consulting firm

(1) *Audit Committee*
(2) *Compensation Committee*
(3) *Information Technology Oversight Committee*
(4) *Nominating & Governance Committee*
* *Committee Chair*

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FedEx Corporation

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FedEx Information Services and Chief Information Officer

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Executive Vice President, General Counsel and Secretary

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Executive Vice President,
Market Development and Corporate Communications

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Corporate Vice President and Principal Accounting Officer

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FedEx Express

Michael L. Ducker
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FedEx Express

William J. Logue
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FedEx Trade Networks

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FedEx Services

Brian D. Philips
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FedEx Office

Cary C. Pappas
President and Chief Operating Officer
FedEx Customer Information Services

Thomas Schmitt
President and Chief Executive Officer
FedEx Global Supply Chain Services

CORPORATE INFORMATION

FedEx Corporation: 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7500, fedex.com

Annual Meeting of Shareowners: Monday, September 29, 2008, 10:00 a.m. local time, The Peabody Hotel, Grand Ballroom, 149 Union Avenue, Memphis, Tennessee 38103.

Stock Listing: FedEx Corporation's common stock is listed on the New York Stock Exchange under the ticker symbol FDX.

Shareowners: As of July 14, 2008, there were 18,589 shareowners of record.

Market Information: Following are high and low sale prices and cash dividends paid, by quarter, for FedEx Corporation's common stock in 2008 and 2007:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 2008				
High	**$119.10**	**$111.29**	**$101.53**	**$99.46**
Low	**99.30**	**91.10**	**80.00**	**82.50**
Dividend	**0.10**	**0.10**	**0.10**	**0.10**
FY 2007				
High	$118.74	$119.21	$121.42	$116.76
Low	97.79	99.34	106.63	104.01
Dividend	0.09	0.09	0.09	0.09

Financial Information: Copies of FedEx Corporation's Annual Report on Form 10-K, other documents filed with the Securities and Exchange Commission (SEC) and other financial and statistical information are available through our Web site at fedex.com. Company documents filed electronically with the SEC can also be found at the SEC's Web site at www.sec.gov. You will be mailed a copy of the Form 10-K upon request to: FedEx Corporation Investor Relations, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7200, e-mail: ir@fedex.com.

SEC and NYSE Certifications: The most recent certifications by our principal executive and financial officers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K. We have also filed with the New York Stock Exchange the most recent Annual CEO Certification as required by section 303A.12(a) of the NYSE Listed Company Manual.

Independent Registered Public Accounting Firm: Ernst & Young LLP, Memphis, Tennessee

Customer Service: Call 1-800-Go-FedEx or visit fedex.com.

Media Inquiries: Jesse W. Bunn, Staff Director, Marketplace Communications, FedEx Corporation, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7463, e-mail: mediarelations@fedex.com

Shareowner Account Services: Computershare Investor Services, P.O. Box 43069, Providence, Rhode Island 02940-3069, (800) 446-2617, www.computershare.com

Direct Stock Purchase and Dividend Reinvestment: For information on the direct stock purchase and dividend reinvestment plan for FedEx Corporation common stock, call Computershare at (800) 446-2617 or visit their direct stock purchase plan Web site at www.computershare.com. This plan provides an alternative to traditional retail brokerage methods of purchasing, holding and selling FedEx common stock. This plan also permits shareowners to automatically reinvest their dividends to purchase additional shares of FedEx common stock.

Investor Relations: Mickey Foster, Vice President, Investor Relations, FedEx Corporation, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7200, e-mail: ir@fedex.com

Equal Employment Opportunity: Our greatest asset is our people. We are committed to providing a workplace where our employees and contractors feel respected, satisfied and appreciated. Our policies are designed to promote fairness and respect for everyone. We hire, evaluate and promote employees, and engage contractors, based on their skills and performance. With this in mind, we will not tolerate certain behaviors. These include harassment, violence, intimidation and discrimination of any kind involving race, color, religion, national origin, gender, sexual orientation, age, disability, veteran status or, where applicable, marital status.

Service Marks: The following are registered service marks of Federal Express Corporation, registered with the U.S. Patent & Trademark Office and in other countries: FedEx®, FedEx Express®, FedEx Ground®, FedEx Freight®, FedEx Custom Critical®, FedEx International Priority®, FedEx International Priority® Freight, FedEx Supply Chain Services®, FedEx SmartPost®, FedEx Home Delivery®, FedEx Trade Networks®, FedEx National LTL®, and FedEx Services®. Caribbean Transportation Services℠, FedEx Office℠, Expressfreighter℠, and FedEx Global Supply Chain Services℠ are service marks of Federal Express Corporation. FedEx Kinko's Office and Print Centers® is a registered service mark of Federal Express Corporation and Kinko's Ventures, Inc.

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SAFE KIDS

IN EMERGING COUNTRIES A GROWING MIDDLE CLASS is driving something more than an economy — it's driving new cars and lots of them. But many communities are unprepared for the shift from two wheels to four. Roads often lack crosswalks and stop signs, and children grow up without learning the basics of pedestrian safety. Safe Kids Worldwide is helping communities address this need through *Safe Kids Walk This Way*, a program created with FedEx in 2000. At FedEx, we understand the value of pedestrian safety, and our drivers are among the most skilled in the industry. With our extensive networks already in place in countries like the United States, Philippines, South Korea, India, Canada and Brazil, Safe Kids and FedEx are working with governments to create and improve critical infrastructure and foster behavioral changes. Our volunteers are assessing environmental needs and educating children and caregivers. Together, we helped establish the first school zone in China, and through projects such as International Walk to School Day and Global Road Safety Week, we're boosting support for child pedestrian safety. There's also an unexpected benefit: as more and more FedEx employees give their time to Safe Kids initiatives, they're contributing to a global culture of volunteerism.

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