FEDEX ANNUAL REPORT 2011

MOMENTUM

MOMENT

FedEx®

MOMENTUM AROUND US

POWERFUL, LONG-TERM TRENDS IN GLOBAL TRADE REVOLVE AROUND FEDEX.

THE GLOBAL SHIPPING ARROW POINTS UP

We've reached a tipping point in how the world works. The largest economy in the world is no longer the economy of any one country — it's the economy of global trade of goods and services. Value: $18.3 trillion in 2010. At FedEx, our job is to facilitate these transactions, the heart of commerce, by providing access — moving goods across the global supply chain.

Macroeconomic trends that drive global trade continue to intensify:
> Production of high-tech and high-value-added goods continues to rise.
> Global sourcing and selling are increasing.
> Supply chains are accelerating.
> E-commerce is expanding.

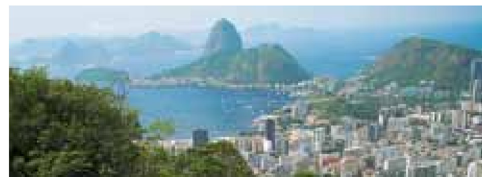
Manufacturing and emerging markets, including China, India and Brazil, are leading the charge. Thanks to the disciplined execution of our long-term strategies, FedEx is at the center of these powerful global trends:

2-2.5x

50%

30%

4x



2-2.5x The amount by which we expect global trade to outpace projected annual global GDP growth of 3.3% from 2010 to 2015.

50% The percentage emerging markets are expected to contribute to global GDP by 2013.[1]

30% The percentage of global GDP represented by total trade in goods and services in 2010, which continues to grow.[2]

4x The amount the international express market is expected to grow as part of the total air cargo market — from 3.7% in 1991 to 17.7% in 2015.[3]

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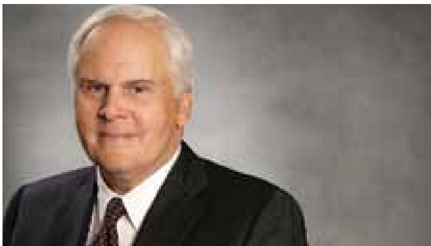
1. International Monetary Fund
2. Economic Intelligence Unit
3. 2008-2009 Boeing World Air Cargo Forecast and FedEx Analysis

MOMENTUM DEFINED



TO OUR SHAREOWNERS,

This is a defining moment for FedEx.

During 2011, an improved economy, robust customer demand and decisive actions to grow our business increased volumes and yields across all FedEx transportation segments. Revenues reached nearly $40 billion, a 13 percent year-over-year increase, and earnings per share grew more than 20 percent year over year. With our positive momentum, moderate economic growth and diminishing cost head winds, we are well-positioned to achieve stronger earnings in 2012.

We're reaping the benefits of the strategies we executed during tougher times. We said we would position ourselves for success, and we have.

Driven by trade

Today, we all benefit from a world that's more connected than ever. In fact, the largest economy in the world no longer belongs to a single country but to the realm of global trade. It's driven by emerging markets, such as China and India, and worldwide gains in manufacturing. What's more, with a growing middle class, these countries are transitioning from producing nations to consumer nations, and their domestic markets represent rich opportunities.

Global trade will continue to be our prime source of growth, especially in Asia, where we have the strongest transportation network in the industry. According to the International Air Transportation Association, Asia Pacific, the largest single region for air freight, enjoyed a growth rate of 24 percent in 2010.

Because of these trends, FedEx is reaching a tipping point. We expect higher-margin revenue from international operations will approach U.S. domestic revenues at FedEx Express for the first time in our history.

Our commitment to provide companies of all sizes with access to new markets in every corner of the world has never been stronger. Our strategy, network, people and commitment will get the job done. FedEx not only sits at the nexus of global trade — we are *indispensible* to global trade.

Committed to superior solutions

The delivery of *superior solutions* for customers is our No. 1 focus. With our unmatched portfolio of solutions that includes FedEx Express®, FedEx Ground®, FedEx Freight®, and other FedEx® services such as FedEx Trade Networks® and FedEx Custom Critical®, we offer customers plug-and-play flexibility in deciding when, where and how they do business — a big advantage in today's economy.

During the past fiscal year, we continued to enhance our solutions and extend our leadership in all aspects of our business.

FedEx Express strengthened our competitive advantage by adding larger, more fuel-efficient 777Fs on international routes connecting key global markets. Unlike our competition, the 777Fs fly nonstop from Asia to the contiguous United States with a full cargo payload. As a result of our later cutoff times, many of our customers in China have more time in their business day. Also, we completed acquisitions in India and Mexico to provide customers in those countries with better service and more access to global markets.

FedEx Ground increased market share by offering customers superior solutions, such as faster service to more locations than any other ground carrier. The new FedEx Ground hub in Portland, Ore., is an example of how we're using highly automated processes to sort 3.5 million ground packages a day across our network. For online retailers and direct marketers who need a cost-effective option to ship low-weight packages to residential customers, FedEx SmartPost® is increasingly the solution of choice.

We returned FedEx Freight to profitability in the fourth quarter by aggressively improving our pricing and successfully integrating and simplifying our networks and services. We are reshaping the LTL (less-than-truckload) industry. FedEx Freight now offers our customers two levels of service in one nationwide pickup and delivery network, a game-changing first for the industry.

Our commitment to customer solutions includes a planned $4.2 billion in FY12 capital expenditures. Nearly 60 percent of that will support growth initiatives. Two billion dollars is designated for more fuel-efficient aircraft, such as 777Fs and 757s. These aircraft expenditures are necessary to achieve significant operating savings over the long run and to support the long-term international growth we're projecting. Capital expenditures are also planned for network expansion at FedEx Ground and for vehicles at FedEx Freight. The company will benefit from the tax-expensing and accelerated depreciation provisions included in the Tax Relief Act of 2010.

Energized by technology

Technology has also helped accelerate our momentum by making our customers' lives easier. FedEx Office rolled out free Wi-Fi internet access at our U.S. locations and FedEx Office® Print & Go for mobile devices, which helps customers access and print documents directly from their smartphone or USB flash drive. Specific to the sophisticated needs of the growing healthcare industry, we launched a suite of technology solutions and organized them on a new, more customer-friendly website.

The new FedEx Data Center in Colorado Springs represents a major milestone in our commitment to use advanced technologies to benefit our customers. It not only supports our plans for growth but also provides an additional level of data protection. It's LEED-certified and is one of the most energy-efficient data centers in the country.

Dedicated to energy efficiency

At FedEx, our goal is to connect the world in responsible and resourceful ways. It starts with reducing our own fuel consumption and advocating that our nation lessen its dependence on foreign oil. We're embracing new energy alternatives and have a head start on transitioning to alternative power sources.

By 2030, we want to obtain 30 percent of our jet fuel from alternative fuel sources. We are working with the FAA, the Department of Energy and the Commercial Aviation Alternative Fuel Initiative to develop certification standards for biofuels. We're also collaborating with the U.S. Department of Agriculture and other agencies.

On the ground, our vision is to help develop a new short-haul transportation system powered by electricity. The Electrification Coalition, of which I'm a member, has recommended the creation of "electrification deployment communities" — areas where incentives would support electrification on a broad scale. Today we're testing all-electric vehicles in the U.S. and Europe. As the cost of these electric vehicles comes down, we'll add more to our fleet.

Focused on the future

As we continue to gain ground in the world marketplace, we will stay focused on three pillars supporting our reputation.

First, we are committed to growing our earnings. We exist to serve our customers and to earn a profit for our shareowners. As we've shown with our most recent earnings results, we're on track to achieve the long-term financial goals to which we've adhered for many years: growing our revenue, achieving 10 percent-plus operating margins, improving earnings per share 10 percent to 15 percent, increasing cash flows, and increasing returns on invested capital.

Second, we intend to improve on our established reputation as an ethical company. We're dedicated to conducting our business around the world in an honest and forthright way. It starts with our transparency in financial reporting, for which we've been recognized consistently.

We will continue do the right things for our shareowners, our customers, our team members and the communities we serve. We leveraged our long-standing relationships with humanitarian organizations to deliver critical medical and emergency supplies to Japan following the recent earthquake and tsunami. To support these relief efforts, we committed $1 million in cash and in-kind transportation. Overall in FY11, FedEx donated nearly $5 million in in-kind disaster relief shipping.

Finally, we'll reinforce our reputation as a great place to work. Nothing inspires more pride than our team members delivering the Purple Promise — "I will make every FedEx experience outstanding." Because of their relentless dedication, we're ranked among the Top Ten on *FORTUNE*'s World's Most Admired Companies list and on the Reputation Institute's list of most admirable U.S. companies.

That's why we're committed to giving our team members the career opportunities, the rewards and the recognition they deserve for doing a great job. Thanks, FedEx team, for being a powerhouse in the marketplace and for bringing tremendous momentum to our business.

We've set the stage for success, but at the same time, we serve a higher purpose — to provide unique access for individuals, businesses and markets around the world. The more individual economies are connected, the more the world will prosper. That's why FedEx is more than a transportation business. We are in the transformation business, making a positive difference in people's lives every single day.

Frederick W. Smith
Chairman, President and Chief Executive Officer

MOMENTUM WITHIN US

GLOBALIZED SOLUTIONS FOR A GLOBAL MARKETPLACE

When customers choose FedEx Express®, FedEx Ground®, FedEx Freight®, and other services such as FedEx Trade Networks®, FedEx Custom Critical® and FedEx Office®, they're choosing FedEx — one brand, many solutions. Whether customers are shipping between Paris and Hong Kong or between Dubai and Detroit, our network solutions allow them to choose where, when and how they do business. Coming or going. Near or far.

During FY11, we strengthened our position in each transportation service segment — express, ground and freight. Our momentum is helping customers of every size more easily access world markets, ultimately creating prosperity and improving the quality of life for people, businesses and nations.

FedEx Express: Growing Globally

› Several new nonstop 777F routes between key global markets depart later in the day than the competition, giving customers more time. U.S. customers can receive FedEx® shipments by 10:30 a.m. the next business day from more international cities than any other transportation company.

› We completed strategic acquisitions in India and Mexico that augment our global network. AFL, Pvt. Ltd. of India serves 144 cities, which in turn funnel shipments into our global network. Our acquisition of Multipack enhances our domestic and international solutions in Mexico.

› We've opened 38 FedEx Trade Networks freight forwarding offices worldwide since 2008. That's in addition to more than 70 locations in the U.S. and Canada, providing customers with international ocean, air and freight solutions.

› Cologne is home to the new FedEx Express Central and Eastern European hub. It features one of the largest FedEx solar-electric installations worldwide.

FedEx Ground: Gaining Speed

› With faster transit times in more U.S. traffic lanes than our competition, FedEx Ground is also faster to more residential locations via FedEx Home Delivery® service. More transit-time improvements are on the way.

› FedEx Home Delivery provides convenient delivery options that are designed to fit the lifestyle of busy customers. Many of these services aren't offered by anyone else in today's market.

› The growing e-commerce economy is driving increased residential deliveries via FedEx Home Delivery and FedEx SmartPost®, which had 31 percent revenue growth in FY11. FedEx SmartPost is an economical way for e-tailers to ship low-weight packages to customers. By using the United States Postal Service® for final delivery, we can reach every U.S. address, a competitive advantage for FedEx.

FedEx Freight: Reinventing LTL

› "Simple" describes the new FedEx Freight — one company, two choices (priority or economy). Not only does FedEx Freight give customers the options they've been seeking, we've streamlined our network and are reshaping the LTL (less-than-truckload) industry. No other LTL competitor provides the same level of convenience backed by a money-back guarantee. This strategy, along with improved revenue per shipment, helped return FedEx Freight to profitability by the end of FY11.

› *CIO* magazine named FedEx Freight as a recipient of the 2011 CIO 100 award for integrating its businesses and improving the customer experience. The award recognizes FedEx Freight for operational and strategic excellence in information technology and for creating genuine business value for customers.

OUR NO. 1 FOCUS IS DELIVERING SUPERIOR SOLUTIONS FOR CUSTOMERS.

FedEx Services: Enhancing Solutions and Revenues

> Revenues from packages tendered at FedEx Office locations hit record levels during December 2010. The new FedEx Office® Print & Go feature enables anyone to conveniently print from a smartphone or USB flash drive.

> Newly combined package and freight sales teams focus on selling an unmatched portfolio of express, ground and LTL solutions.

> Technology solutions recently designed for the healthcare industry include SenseAware℠. Placed into a shipment, the small monitoring device gauges and transmits temperature, light exposure, location and other information for quality assurance.

> FedEx® Deep Frozen Shipping Solution uses nonhazardous technology to maintain a temperature as low as -150 degrees C. for up to 10 days. It's designed for temperature-sensitive healthcare products.

FedEx HealthCare® Solutions Are On Call

IMAGINE

A field engineer receives an emergency call to replace a vital part on a cancer-treating medical device in a small Canadian town. Instead of stocking parts at its central warehouse, the company relies on FedEx Critical Inventory Logistics® forward stocking centers worldwide. A FedEx center in Toronto delivers the part the same day. The medical device is back on line and saving lives.

IMAGINE

As a patient waits for a spinal implant, a Kansas City surgical team and a spinal implant company collaboratively monitor the implant shipment's temperature, light exposure and location all the way to the operating room. A SenseAware℠ device placed in the implant shipment is a first-of-its-kind sensor information sharing service.

IMAGINE

With no time to spare, a pharmaceutical company must send a shipment of sensitive therapeutics from Paris to Hong Kong for clinical trials. FedEx® Deep Frozen Shipping Solution is a secure end-to-end service that relies on nonhazardous technology to maintain extremely low temperatures for days.

MOMENTUM AHEAD OF US

WE'RE MAKING EXCELLENT PROGRESS TOWARD GREATER FUEL EFFICIENCY AND IMPLEMENTING ALTERNATIVE SOURCES OF ENERGY.

WE’RE CREATING A MORE SECURE ENERGY FUTURE

The business of global trade can be complex, but we’ve kept our goal simple: to connect the world in responsible and resourceful ways. We believe that our success and the future of our environment are deeply intertwined.

Following are highlights of how we’re systematically increasing the efficiency of our aircraft, vehicles and facilities. For a more comprehensive analysis, go to **csr.fedex.com** and view our latest Global Citizenship Update. The report includes more information about the four areas of our corporate citizenship: people and workplace, economics and access, environment and efficiency, and community and disaster relief.

AIRCRAFT EMISSIONS 67%

Our progress toward the goal we set in 2005 to reduce aircraft CO_2 emissions intensity 20 percent by 2020. Adding more 777Fs to our fleet dramatically enhances our ability to move more freight worldwide while reducing aircraft emissions per shipment.

AIRCRAFT FUEL EFFICIENCY 47%

The reduction in fuel consumption per pound of payload by replacing 727 aircraft with 757s. The 777F, which can fly directly from Asia to our Memphis hub without refueling, allows later cutoff times for customers and represents an 18 percent increase in fuel efficiency compared with the MD11.

VEHICLE FLEET 408

Our hybrid-electric and all-electric vehicles in service worldwide. By the end of FY11, we increased the fleet by nearly 20 percent. The fleet has logged 9.5 million miles of service — that’s almost 20 trips to the moon and back. We’ll add close to 4,000 new, fuel-efficient Sprinters this year. Each vehicle is at least 100 percent more fuel efficient than the most common vehicle it replaces.

VEHICLE FUEL EFFICIENCY 75%

Our progress toward the goal we set in 2005 to increase vehicle fuel efficiency 20 percent by 2020. We’ve made excellent progress each year and are closing in on our goal. Early results for our all-electric vehicles indicate that operational and maintenance costs could be 70 to 80 percent lower than those costs for internal combustion engines.

ALTERNATIVE ONSITE ENERGY 5

The number of facilities that generate solar energy onsite worldwide. These facilities increase our energy efficiency and reduce CO_2 emissions by an estimated 3,918 metric tons per year. We’ve also installed a Bloom Energy Server[SM] in our Oakland Facility, complementing our existing solar array there. The solid oxide fuel cell technology provides a cleaner, more reliable and affordable alternative to the electric grid.

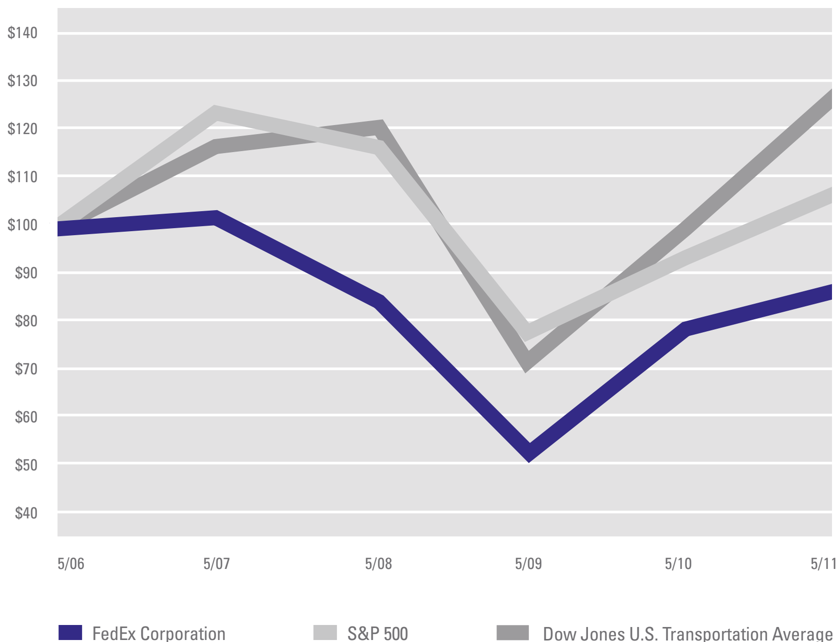
FACILITY CERTIFICATION 51

The number of FedEx facilities that are ISO 14001-certified. This international standard specifies a process for controlling and improving an organization’s environmental performance. This year we received Leadership in Energy and Environmental Design (LEED) certification for our first environmentally sustainable data center in Colorado Springs and our FedEx World Headquarters in Memphis.

FINANCIAL HIGHLIGHTS

(in millions, except earnings per share)	**2011** [1]	2010	Percent Change
Operating Results			
Revenues	**$ 39,304**	$ 34,734	13
Operating income	**2,378**	1,998	19
Operating margin	**6.1%**	5.8%	30bp
Net income	**1,452**	1,184	23
Diluted earnings per share	**4.57**	3.76	22
Average common and common equivalent shares	**317**	314	1
Capital expenditures	**3,434**	2,816	22
Financial Position			
Cash and cash equivalents	**$ 2,328**	$ 1,952	19
Total assets	**27,385**	24,902	10
Long-term debt, including current portion	**1,685**	1,930	(13)
Common stockholders' investment	**15,220**	13,811	10

Comparison of Five-Year Cumulative Total Return*

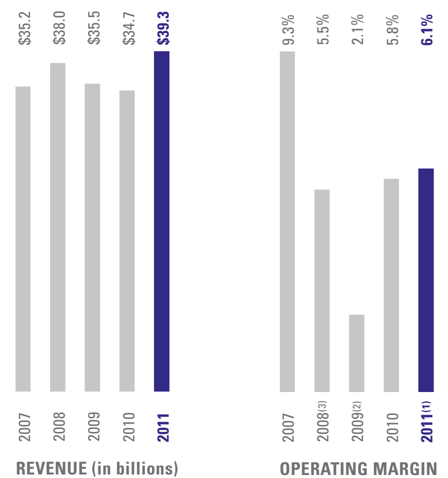


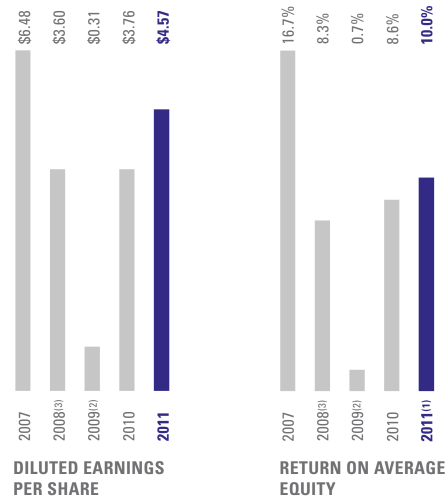
$100 invested on 5/31/06 in stock or index, including reinvestment of dividends. Fiscal year ending May 31.

(1) *Results for 2011 include charges of approximately $199 million ($104 million, net of tax and applicable variable incentive compensation impacts, or $0.33 per diluted share) for the combination of our FedEx Freight and FedEx National LTL operations and a reserve associated with a legal matter at FedEx Express.*

(2) *Results for 2009 include a charge of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share) primarily for impairment charges associated with goodwill and aircraft.*

(3) *Results for 2008 include a charge of $891 million ($696 million, net of tax, or $2.23 per diluted share) recorded during the fourth quarter, predominantly for impairment charges associated with intangible assets from the FedEx Office acquisition.*





OVERVIEW OF FINANCIAL SECTION

The financial section of the FedEx Corporation ("FedEx") Annual Report ("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 composed 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 2011 results compared to 2010, and 2010 results compared to 2009. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2012.
- The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2012) 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 flows 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 are 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, Inc. ("FedEx Freight"), a leading U.S. provider of less–than–truckload ("LTL") freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ("FedEx Services"), form the core of our reportable segments. Our FedEx Services segment provides sales, marketing and information technology support to our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. ("FedEx Office") and provides customer service, technical support and billing and collection services through FedEx TechConnect, Inc. ("FedEx TechConnect"). 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 (revenue per package or pound or revenue per hundredweight for LTL freight 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 volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than changes in revenues and volume.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2011 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 summary operating results (dollars in millions, except per share amounts) for the years ended May 31:

				Percent Change	
	2011[1]	2010	2009[2]	**2011/2010**	2010/2009
Revenues	**$ 39,304**	$ 34,734	$ 35,497	**13**	(2)
Operating income	**2,378**	1,998	747	**19**	167
Operating margin	**6.1%**	5.8%	2.1%	**30bp**	370bp
Net income	**$ 1,452**	$ 1,184	$ 98	**23**	NM
Diluted earnings per share	**$ 4.57**	$ 3.76	$ 0.31	**22**	NM

(1) Operating expenses include $133 million in costs associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011, and a $66 million legal reserve associated with the ATA Airlines lawsuit against FedEx Express.

(2) Operating expenses include charges of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share), primarily for impairment charges associated with goodwill and aircraft (described below).

The following table shows changes in revenues and operating income by reportable segment for 2011 compared to 2010, and 2010 compared to 2009 (dollars in millions):

	Revenues				Operating Income			
	Dollar Change		Percent Change		Dollar Change		Percent Change	
	2011/2010	2010/2009	**2011/2010**	2010/2009	**2011/2010**	2010/2009	**2011/2010**	2010/2009
FedEx Express segment[1]	**$ 3,026**	$ (809)	**14**	(4)	**$ 101**	$ 333	**9**	42
FedEx Ground segment	**1,046**	392	**14**	6	**301**	217	**29**	27
FedEx Freight segment[2]	**590**	(94)	**14**	(2)	**(22)**	(109)	**(14)**	(248)
FedEx Services segment[3]	**(86)**	(207)	**(5)**	(10)	**–**	810	**–**	100
Other and eliminations	**(6)**	(45)	**NM**	NM	**–**	–	**–**	–
	$ 4,570	$ (763)	**13**	(2)	**$ 380**	$ 1,251	**19**	167

(1) FedEx Express segment 2011 operating expenses include a $66 million legal reserve associated with the ATA Airlines lawsuit, and 2009 operating expenses include a charge of $260 million, primarily for aircraft–related asset impairments.

(2) FedEx Freight segment 2011 operating expenses include $133 million in costs associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011, and 2009 operating expenses include a charge of $100 million, primarily for impairment charges associated with goodwill related to the FedEx National LTL acquisition.

(3) FedEx Services segment 2009 operating expenses include a charge of $810 million for impairment charges associated with goodwill related to the FedEx Office acquisition.

Overview

Our results for 2011 reflect the momentum of improved global economic conditions and strong demand for our services, which drove yield growth and volume increases across all our transportation segments during 2011, particularly in FedEx International Priority (“IP”) package shipments at FedEx Express. Our FedEx Ground segment continued its exceptional performance, increasing volume, yield and operating margins. The FedEx Freight segment returned to profitability in the fourth quarter of 2011 primarily due to higher LTL yield. All of our transportation segments benefited from our yield management initiatives in 2011. Despite the strength in our businesses and significantly improved results, we incurred increased retirement plans and medical costs, higher aircraft maintenance expenses, higher costs associated with the restoration of compensation programs curtailed during the recession and one–time costs associated with the combination of our LTL operations (described below) during 2011.

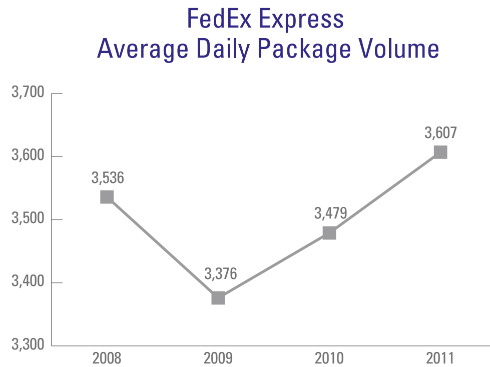
The combination of our FedEx Freight and FedEx National LTL operations was completed on January 30, 2011. Our combined LTL network will increase efficiencies, reduce operational costs and provide customers both Priority and Economy LTL freight services across all lengths of haul from one integrated company. The combination resulted in the following incremental costs and charges which were incurred primarily in the second and third quarters of 2011 (in millions):

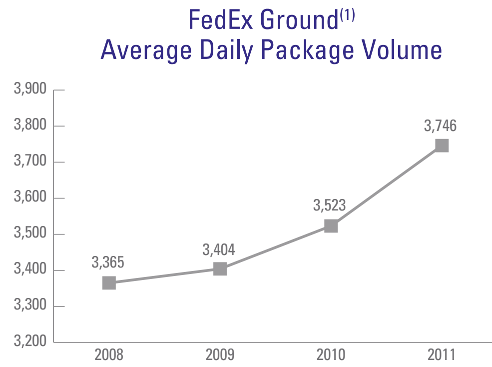
	2011
Severance	$ 40
Lease terminations	20
Asset impairments	29
Impairment and other charges	89
Other program costs	44
Total program costs	$ 133

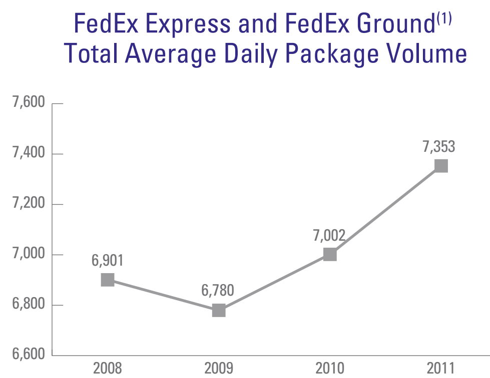
Other program costs include $15 million in 2011 of accelerated depreciation expense due to a change in the estimated useful life of certain assets impacted by the combination of these operations and other incremental costs directly associated with the program. The net cash effect of the program was immaterial, as cash proceeds from asset sales of $88 million offset severance and other cash outlays for the program.

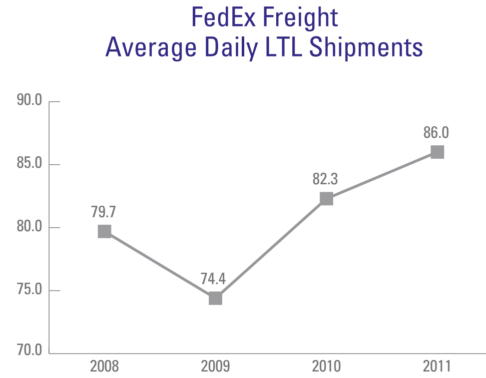
In 2010, our results reflected the impact of the global recession, which negatively impacted volumes and yields, principally in the first half of the fiscal year. As the global and U.S. economies began to emerge from recession in the second half of 2010, we experienced significant volume growth across all of our transportation segments. Our FedEx Ground segment continued to grow throughout the recession, as customers opted for lower–priced ground transportation services and we continued to gain market share. Despite higher shipment volumes in 2010, our FedEx Freight segment had a difficult year, resulting in an operating loss caused by the highly competitive pricing environment in the LTL market due to excess industry capacity.

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

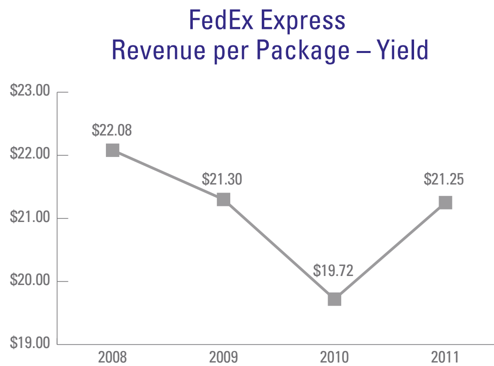


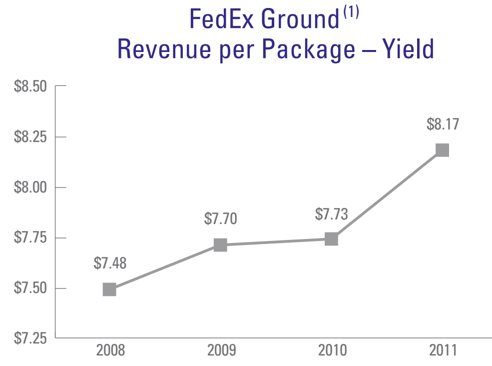


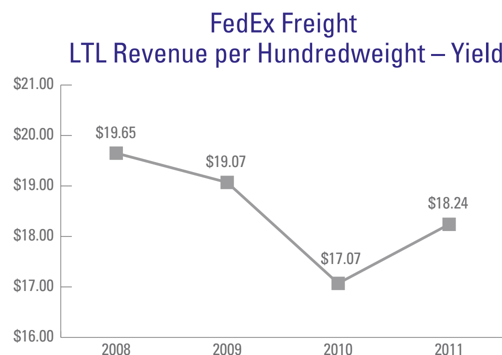




The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected yield trends for the years ended May 31:







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

Revenue

Revenues increased 13% during 2011 due to yield increases and volume growth across all our transportation segments. Yields improved due to higher fuel surcharges and increased base rates under our yield improvement programs, including our dimensional pricing changes for package shipments effective January 1, 2011. At FedEx Express, revenues increased 14% in 2011 led by IP volume growth in Asia, as well as domestic and IP package yield increases. At the FedEx Ground segment, revenues increased 14% in 2011 due to continued volume growth driven by market share gains and yield growth at both FedEx Ground and FedEx SmartPost. At FedEx Freight, yield increases due to our yield management programs and higher LTL fuel surcharges, and higher average daily LTL volumes led to a 14% increase in revenues in 2011.

Revenues decreased 2% during 2010 primarily due to yield decreases at FedEx Express and FedEx Freight as a result of lower fuel surcharges and a continued competitive pricing environment for our services. Increased volumes at all of our transportation segments due to improved economic conditions in the second half of the fiscal year partially offset the yield decreases in 2010. At FedEx Express, IP package volume increased 10%, led by volume growth in Asia. IP freight and U.S. domestic package volume growth also contributed to the revenue increase in 2010. At the FedEx Ground segment, market share gains resulted in a 3% increase in volumes at FedEx Ground and a 48% increase in volumes at FedEx SmartPost during 2010. At FedEx Freight, discounted pricing drove an increase in average daily LTL freight shipments, but also resulted in significant yield declines during 2010.

Impairment and Other Charges

In 2011, we incurred impairment and other charges of $89 million related to the combination of our LTL operations at FedEx Freight (see "Overview" above for additional information). In 2010, we recorded a charge of $18 million for the impairment of goodwill related to the FedEx National LTL acquisition, eliminating the remaining goodwill attributable to this reporting unit. Our operating results for 2009 included charges of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share) recorded during the fourth quarter, primarily for the impairment of goodwill related to the FedEx Office and FedEx National LTL acquisitions and certain aircraft–related assets at FedEx Express. The key factor contributing to the goodwill impairment was a decline in FedEx Office's and FedEx National LTL's actual and forecasted financial performance as a result of weak economic conditions. The FedEx National LTL 2010 and 2009 goodwill impairment charges were included in the results of the FedEx Freight segment. The FedEx Office 2009 goodwill impairment charge was 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 those businesses.

The majority of our property and equipment impairment charges during 2009 resulted from our decision to permanently remove from service certain aircraft, along with certain excess aircraft engines, at FedEx Express. This decision was the result of efforts to optimize our express network in light of excess aircraft capacity due to weak economic conditions and the delivery of newer, more fuel–efficient aircraft.

Operating Income

The following tables compare operating expenses expressed as dollar amounts (in millions) and as a percent of revenue for the years ended May 31:

	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	**$ 15,276**	$ 14,027	$ 13,767
Purchased transportation	**5,674**	4,728	4,534
Rentals and landing fees	**2,462**	2,359	2,429
Depreciation and amortization	**1,973**	1,958	1,975
Fuel	**4,151**	3,106	3,811
Maintenance and repairs	**1,979**	1,715	1,898
Impairment and other charges	**89**(1)	18	1,204(2)
Other	**5,322**(3)	4,825	5,132
Total operating expenses	**$ 36,926**	$ 32,736	$ 34,750

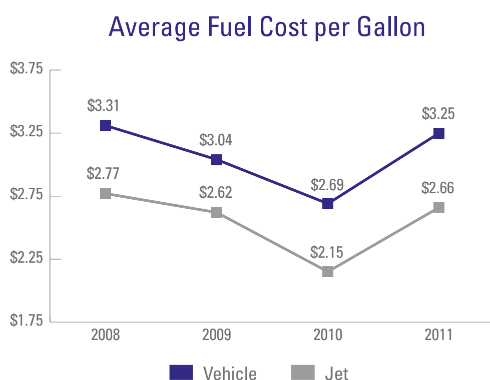
(1) Represents charges associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011.
(2) Includes charges of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share), primarily for impairment charges associated with goodwill and aircraft (described above).
(3) Includes a $66 million legal reserve associated with the ATA Airlines lawsuit against FedEx Express.

	Percent of Revenue		
	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	**38.9%**	40.4%	38.8%
Purchased transportation	**14.4**	13.6	12.8
Rentals and landing fees	**6.3**	6.8	6.8
Depreciation and amortization	**5.0**	5.6	5.6
Fuel	**10.6**	8.9	10.7
Maintenance and repairs	**5.0**	4.9	5.3
Impairment and other charges	**0.2**	0.1	3.4
Other	**13.5**	13.9	14.5
Total operating expenses	**93.9**	94.2	97.9
Operating margin	**6.1%**	5.8%	2.1%

In 2011, operating income increased 19% primarily due to yield and volume increases across all our transportation segments. Higher compensation and benefits, including retirement plans and medical costs, and increased maintenance and repairs expenses had a negative impact on our performance for 2011. Costs related to the combination of our FedEx Freight and FedEx National LTL operations also negatively impacted our 2011 results by $133 million. Unusually severe weather in the second half of 2011 caused widespread disruptions to our networks, which led to lost revenues and drove higher purchased transportation, salaries and wages and other operational costs. Additionally, a $66 million reserve associated with an adverse jury decision in the ATA Airlines lawsuit against FedEx Express was recognized in 2011.

Salaries and employee benefits increased 9% in 2011 due to the reinstatement of merit salary increases, increases in pension and medical costs and the reinstatement of full 401(k) company–matching contributions effective January 1, 2011. Purchased transportation increased 20% in 2011 due to volume growth, higher fuel surcharges and higher rates paid to our independent contractors at FedEx Ground, as well as costs associated with the expansion of our freight forwarding business at FedEx Trade Networks. Maintenance and repairs expense increased 15% in 2011 primarily due to an increase in maintenance events, as a result of timing, and higher utilization of our fleet driven by increased volumes. Other operating expense increased 10% primarily due to volume– and weather–related expenses.

The following graph for our transportation segments shows our average cost of jet and vehicle fuel per gallon for the years ended May 31:



Fuel expense increased 34% during 2011 primarily due to increases in the average price per gallon of fuel and fuel consumption driven by volume increases. Based on a static analysis of the net impact of year–over–year changes in fuel prices compared to year–over–year changes in fuel surcharges, fuel had a positive impact on operating income in 2011, predominantly at FedEx Express.

Our analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express and FedEx Ground services. However, this analysis does not consider the negative effects that fuel surcharge levels may have on our business, including reduced demand and shifts by our customers to lower–yielding services. While 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 sold, the base price and 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 trends in revenue and yield growth, we have included the comparative fuel surcharge rates in effect for 2011, 2010 and 2009 in the accompanying discussions of each of our transportation segments.

Operating income and operating margin increased in 2010 primarily as a result of the inclusion in 2009 of the impairment and other charges described above. Volume increases at our package businesses, particularly in higher–margin IP package and freight services at FedEx Express, also benefited our 2010 results. Additionally, we benefited in 2010 from several actions implemented in 2009 to lower our cost structure, including reducing base salaries, optimizing our networks by adjusting routes and equipment types, permanently and temporarily idling certain equipment and consolidating facilities; however, these benefits were partially offset by increased costs in 2010 associated with our variable incentive compensation programs. An operating loss at the FedEx Freight segment due to continued weakness in the LTL freight market constrained the earnings increase.

Maintenance and repairs expense decreased 10% in 2010 primarily due to the timing of maintenance events. Other operating expense decreased 6% in 2010 due to actions to control spending and the inclusion in the prior year of higher self–insurance reserve requirements at FedEx Ground. Purchased transportation costs increased 4% in 2010 due to increased utilization of third–party transportation providers associated primarily with our LTL freight service as a result of higher shipment volumes.

Fuel expense decreased 18% during 2010 primarily due to decreases in the average price per gallon of fuel and fuel consumption, as we lowered flight hours and improved route efficiencies. Based on a static analysis of the net impact of year–over–year changes in fuel prices compared to year–over–year changes in fuel surcharges, fuel had a significant negative impact to operating income in 2010.

Other Income and Expense

Interest expense increased $7 million during 2011 primarily due to a decrease in capitalized interest related to the timing of construction projects and progress payments on aircraft purchases. Interest expense decreased $6 million during 2010 due to increased capitalized interest primarily related to progress payments on aircraft purchases. Interest income decreased $18 million during 2010 primarily due to lower interest rates and invested balances. Other expense increased $22 million during 2010 primarily due to higher amortization of financing fees and foreign currency losses.

Income Taxes

Our effective tax rate was 35.9% in 2011, 37.5% in 2010 and 85.6% in 2009. Our 2011 rate was lower than our 2010 rate primarily due to increased permanently reinvested foreign earnings and a lower state tax rate driven principally by favorable audit and legislative developments. In 2011, our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a 1.3% benefit to our effective tax rate. Our total permanently reinvested foreign earnings were $640 million at the end of 2011 and $325 million at the end of 2010. Our 2009 rate was significantly impacted by goodwill impairment charges that were not deductible for income tax purposes.

Our current federal income tax expenses in 2011, 2010, and 2009 were significantly reduced by accelerated depreciation deductions we claimed under provisions of the Tax Relief and the Small Business Jobs Acts of 2010, the American Recovery and Reinvestment Tax Act of 2009, and the Economic Stimulus Act of 2008. Those acts, designed to stimulate new business investment in the U.S., accelerated our depreciation deductions for new qualifying investments, such as our

new Boeing 777 Freighter ("B777F") aircraft. These are timing benefits only, in that the depreciation would have otherwise been recognized in later years.

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

	2011	2010	2009
Current	**$ 79**	$ 36	$ (35)
Deferred	**485**	408	327
Total Federal Provision	**$ 564**	$ 444	$ 292

For 2012, we expect our effective tax rate to be in the range of 36.0% to 38.0%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income.

Additional information on income taxes, including our effective tax rate reconciliation and liabilities for uncertain tax positions, can be found in Note 11 of the accompanying consolidated financial statements.

Business Acquisitions

On February 22, 2011, FedEx Express completed the acquisition of the Indian logistics, distribution and express businesses of AFL Pvt. Ltd. and its affiliate Unifreight India Pvt. Ltd. for $96 million in cash. The financial results of the acquired businesses are included in the FedEx Express segment from the date of acquisition and were not material to our results of operations or financial condition. Substantially all of the purchase price was allocated to goodwill.

On December 15, 2010, FedEx entered into an agreement to acquire Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company. This acquisition will be funded with cash from operations and is expected to be completed during the first quarter of 2012, subject to customary closing conditions. The financial results of the acquired company will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2012 results.

These acquisitions will give us more robust domestic transportation networks and added capabilities in these important global markets.

Outlook

We expect moderate growth in the global economy, combined with ongoing yield improvement actions, to drive a significant improvement in earnings in 2012. Results at FedEx Express, driven by international services, are expected to be the primary driver of earnings growth during 2012. In addition, we expect our FedEx Freight segment to be profitable throughout 2012 and anticipate our FedEx Ground segment to continue to grow significantly. However, our outlook is dependent on continued strengthening in global economic conditions, particularly in industrial production, the pace of which is uncertain due to several factors, including the impact of higher fuel prices on demand. We expect growth in international trade to substantially outpace growth in the U.S. domestic economy, and our unmatched global network is uniquely positioned to service customer needs in this sector. While cost headwinds in pension plans and maintenance and repairs are expected to abate, we expect higher incentive compensation expense as a result of higher earnings and higher expenses related to the full restoration of the company–matching contributions on our 401(k) programs.

Our capital expenditures for 2012 are expected to be approximately $4.2 billion, an increase over 2011, driven primarily by replacement vehicles and equipment to support international growth at FedEx Express. Our strategic investments in our more fuel efficient B777F and Boeing 757 ("B757") aircraft will continue in 2012. We are committed to investing in critical long–term strategic projects focused on enhancing and broadening our service offerings to position us for stronger growth as global economic conditions continue to improve. For additional details on key 2012 capital projects, refer to the "Liquidity Outlook" section of this MD&A.

Our outlook is dependent upon a stable pricing environment for fuel, as volatility in fuel prices impacts our fuel surcharge levels, fuel expense and demand for our services. Historically, our fuel surcharges have largely offset incremental fuel costs; however, volatility in fuel costs 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 either positively or negatively 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 lawsuits 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 cyclical in nature, as 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 FedEx Freight, 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 the impact of severe winter weather in our third fiscal quarter.

NEW ACCOUNTING GUIDANCE

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. New accounting guidance that has impacted our financial statements can be found in Note 2 of the accompanying consolidated financial statements.

In June 2011, the Financial Accounting Standards Board issued new guidance to make the presentation of items within other comprehensive income ("OCI") more prominent. The new standard will require companies to present items of net income, items of OCI and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of OCI in the statement of stockholders' equity. Reclassification adjustments between OCI and net income will be presented separately on the face of the financial statements. This new standard is effective for our fiscal year ending May 31, 2013.

We believe there is no additional new accounting guidance adopted but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

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 SupplyChain Systems (logistics services)
FedEx Ground Segment	> FedEx Ground (small–package ground delivery) > FedEx SmartPost (small–parcel consolidator)
FedEx Freight Segment	> FedEx Freight (LTL freight transportation) > FedEx Custom Critical (time–critical transportation)
FedEx Services Segment	> FedEx Services (sales, marketing and information technology functions) > FedEx TechConnect (customer service, technical support, billings and collections) > FedEx Office (document and business services and package acceptance)

Effective January 30, 2011, our FedEx Freight and FedEx National LTL businesses were merged into a single operation. FedEx Freight now offers two standard services: FedEx Freight Priority, a faster transit service with a price premium; and FedEx Freight Economy, an economical service.

FEDEX SERVICES SEGMENT

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to obtain synergies from the combination of these functions. The FedEx Services segment includes: FedEx Services, which provides sales, marketing and information technology support to our other companies; FedEx TechConnect, which is responsible for customer service, technical support, billings and collections for U.S. customers of our major business units; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses. Effective September 1, 2009,

FedEx SupplyChain Systems, formerly included in the FedEx Services reporting segment, was realigned to become part of the FedEx Express reporting segment. Prior year amounts have not been reclassified to conform to the current year segment presentation because these reclassifications are immaterial.

The FedEx Services segment provides direct and indirect support to our transportation businesses, and we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office are allocated to FedEx Express and FedEx Ground. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions. We review and evaluate the performance of our transportation segments based on operating income (inclusive of FedEx Services segment allocations). For the FedEx Services segment, performance is evaluated based on the impact of its total allocated net operating costs on our transportation segments.

The operating expenses line item "Intercompany charges" on the accompanying unaudited financial summaries of our transportation segments reflects the allocations from the FedEx Services segment to the respective transportation segments. The "Intercompany charges" caption also includes charges and credits 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. We believe these allocations approximate the net cost of providing these functions.

Effective August 1, 2009, approximately 3,600 employees (predominantly from the FedEx Freight segment) were transferred to entities within the FedEx Services segment. This internal reorganization further centralized most customer support functions, such as sales, customer service and information technology, into our shared services organizations. While the reorganization had no impact on the net operating results of any of our transportation segments, the net intercompany charges to our FedEx Freight segment increased significantly with corresponding decreases to other expense captions, such as salaries and employee benefits. The impact of this internal reorganization to the expense captions in our other segments was immaterial.

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 our consolidated results and are not separately identified in the following segment information, because the amounts are not material.

FEDEX EXPRESS SEGMENT

The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) for the years ended May 31:

				Percent Change	
	2011	2010	2009	**2011/ 2010**	2010/ 2009
Revenues:					
Package:					
U.S. overnight box	**$ 6,128**	$ 5,602	$ 6,074	**9**	(8)
U.S. overnight envelope	**1,736**	1,640	1,855	**6**	(12)
U.S. deferred	**2,805**	2,589	2,789	**8**	(7)
Total U.S. domestic package revenue	**10,669**	9,831	10,718	**9**	(8)
International priority	**8,228**	7,087	6,978	**16**	2
International domestic[1]	**653**	578	565	**13**	2
Total package revenue	**19,550**	17,496	18,261	**12**	(4)
Freight:					
U.S.	**2,188**	1,980	2,165	**11**	(9)
International priority	**1,722**	1,303	1,104	**32**	18
International airfreight	**283**	251	369	**13**	(32)
Total freight revenue	**4,193**	3,534	3,638	**19**	(3)
Other[2]	**838**	525	465	**60**	13
Total revenues	**24,581**	21,555	22,364	**14**	(4)
Operating expenses:					
Salaries and employee benefits	**9,183**	8,402	8,217	**9**	2
Purchased transportaion	**1,573**	1,177	1,112	**34**	6
Rentals and landing fees	**1,672**	1,577	1,613	**6**	(2)
Depreciation and amortization	**1,059**	1,016	961	**4**	6
Fuel	**3,553**	2,651	3,281	**34**	(19)
Maintenance and repairs	**1,353**	1,131	1,351	**20**	(16)
Impairment and other charges	**–**	–	260[3]	**–**	NM
Intercompany charges	**2,043**	1,940	2,103	**5**	(8)
Other	**2,917[4]**	2,534	2,672	**15**	(5)
Total operating expenses	**23,353**	20,428	21,570	**14**	(5)
Operating income	**$ 1,228**	$ 1,127	$ 794	**9**	42
Operating margin	**5.0%**	5.2%	3.6%	**(20)bp**	160bp

(1) International domestic revenues include our international intra–country domestic express operations.

(2) Other revenues include FedEx Trade Networks and, beginning in the second quarter of 2010, FedEx SupplyChain Systems.

(3) Represents charges associated with aircraft–related asset impairments and other charges primarily associated with aircraft–related lease and contract termination costs and employee severance.

(4) Includes a $66 million legal reserve associated with the ATA Airlines lawsuit.

	Percent of Revenue		
	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	**37.4%**	39.0%	36.7%
Purchased transportation	**6.4**	5.5	5.0
Rentals and landing fees	**6.8**	7.3	7.2
Depreciation and amortization	**4.3**	4.7	4.3
Fuel	**14.4**	12.3	14.7
Maintenance and repairs	**5.5**	5.2	6.0
Impairment and other charges	**–**	–	1.2[(1)]
Intercompany charges	**8.3**	9.0	9.4
Other	**11.9**[(2)]	11.8	11.9
Total operating expenses	**95.0**	94.8	96.4
Operating margin	**5.0%**	5.2%	3.6%

(1) Includes a charge of $260 million related to aircraft–related asset impairments and other charges primarily associated with aircraft–related lease and contract termination costs and employee severance.
(2) Includes a $66 million legal reserve associated with the ATA Airlines lawsuit.

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

				Percent Change	
	2011	2010	2009	**2011/ 2010**	2010/ 2009
Package Statistics[(1)]					
Average daily package volume (ADV):					
U.S. overnight box	**1,184**	1,157	1,127	**2**	3
U.S. overnight envelope	**627**	614	627	**2**	(2)
U.S. deferred	**873**	867	849	**1**	2
Total U.S. domestic ADV	**2,684**	2,638	2,603	**2**	1
International priority	**575**	523	475	**10**	10
International domestic[(2)]	**348**	318	298	**9**	7
Total ADV	**3,607**	3,479	3,376	**4**	3
Revenue per package (yield):					
U.S. overnight box	**$ 20.29**	$ 19.00	$ 21.21	**7**	(10)
U.S. overnight envelope	**10.86**	10.47	11.65	**4**	(10)
U.S. deferred	**12.60**	11.70	12.94	**8**	(10)
U.S. domestic composite	**15.59**	14.61	16.21	**7**	(10)
International priority	**56.08**	53.10	57.81	**6**	(8)
International domestic[(2)]	**7.38**	7.14	7.50	**3**	(5)
Composite package yield	**21.25**	19.72	21.30	**8**	(7)
Freight Statistics[(1)]					
Average daily freight pounds:					
U.S.	**7,340**	7,141	7,287	**3**	(2)
International priority	**3,184**	2,544	1,959	**25**	30
International airfreight	**1,235**	1,222	1,475	**1**	(17)
Total average daily freight pounds	**11,759**	10,907	10,721	**8**	2
Revenue per pound (yield):					
U.S.	**$ 1.17**	$ 1.09	$ 1.17	**7**	(7)
International priority	**2.12**	2.01	2.22	**5**	(9)
International airfreight	**0.90**	0.81	0.99	**11**	(18)
Composite freight yield	**1.40**	1.27	1.34	**10**	(5)

(1) Package and freight statistics include only the operations of FedEx Express.
(2) International domestic statistics include our international intra–country domestic express operations.

FedEx Express Segment Revenues

FedEx Express segment revenues increased 14% in 2011 driven by higher yield and volumes. In 2011, IP package volume increased 10% led by volume growth from Asia, Europe and the U.S. FedEx Express U.S. domestic package yields increased 7% due to higher fuel surcharges, rate increases and increased package weights. IP package yields increased 6% due to higher fuel surcharges, increased package weights and favorable exchange rates. IP freight pounds increased 25% led by volume growth in Europe.

FedEx Express segment revenues decreased 4% in 2010 due to lower yields primarily driven by a decrease in fuel surcharges. Yield decreases during 2010 were partially offset by increased IP package volume, particularly from Asia, IP freight volume and U.S. domestic package volume due to improved global economic conditions. Lower fuel surcharges were the primary driver of decreased composite package and freight yield in 2010. U.S. domestic package yield also decreased during 2010 due to lower rates and lower package weights. In addition to lower fuel surcharges, IP package yield decreased during 2010 due to lower rates, partially offset by higher package weights and favorable exchange rates.

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:

	2011	2010	2009
U.S. Domestic and Outbound Fuel Surcharge:			
Low	**7.00%**	1.00%	–%
High	**15.50**	8.50	34.50
Weighted–average	**9.77**	6.20	17.45
International Fuel Surcharges:			
Low	**7.00**	1.00	–
High	**21.00**	13.50	34.50
Weighted–average	**12.36**	9.47	16.75

In January 2011, we implemented a 5.9% average list price increase on FedEx Express U.S. domestic and U.S. outbound express package and freight shipments and made various changes to other surcharges, while we lowered our fuel surcharge index by two percentage points. In January 2010, we implemented a 5.9% average list price increase on FedEx Express U.S. domestic and U.S. outbound express package and freight shipments and made various changes to other surcharges, while we lowered our fuel surcharge index by two percentage points.

FedEx Express Segment Operating Income

FedEx Express segment operating income increased in 2011 due to yield and volume growth, particularly in our higher–margin IP package services, although operating margin was down slightly. Higher revenues in 2011 were partially offset by higher retirement plans and medical expenses, increased aircraft maintenance costs, the reinstatement of certain employee compensation programs, and the negative impact of severe weather during the second half of the year. Results in 2011 were also negatively impacted by a $66 million legal reserve associated with the ATA Airlines lawsuit (see Note 17 of the accompanying consolidated financial statements).

Salaries and benefits increased 9% in 2011 due to volume–related increases in labor hours, the reinstatement of several employee compensation programs including merit salary increases, higher pension and medical costs, and full 401(k) company–matching contributions. Purchased transportation costs increased 34% in 2011 due to costs associated with the expansion of our freight forwarding business at FedEx Trade Networks and IP package and freight volume growth. Other operating expenses increased 15% due to volume–related expenses and the ATA Airlines legal reserve. Maintenance and repairs expense increased 20% in 2011 primarily due to an increase in aircraft maintenance expenses as a result of timing of maintenance events and higher utilization of our fleet driven by increased volumes.

Fuel costs increased 34% in 2011 due to increases in the average price per gallon of fuel and fuel consumption driven by volume increases. Based on a static analysis of the net impact of year–over–year changes in fuel prices compared to year–over–year changes in fuel surcharges, fuel had a positive impact in 2011. This analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services.

FedEx Express segment operating income and operating margin increased during 2010 due to volume growth, particularly in higher–margin IP package and freight services. Reductions in network operating costs driven by lower flight hours and improved route efficiencies, as well as other actions to control spending, positively impacted our results for 2010. Our 2010 year–over–year results were also positively impacted by a $260 million charge in 2009 for aircraft–related asset impairments and other charges primarily associated with aircraft–related lease and contract termination costs and employee severance.

Maintenance and repairs expense decreased 16% in 2010 primarily due to the timing of maintenance events, as lower aircraft utilization as a result of weak economic conditions, particularly in the first half of 2010, lengthened maintenance cycles. Purchased transportation costs increased 6% in 2010 primarily due to higher air transportation volume and costs in our freight forwarding business at FedEx Trade Networks. Depreciation expense increased 6% in 2010 primarily due to the addition of 21 aircraft placed into service during the year. Intercompany charges decreased 8% in 2010 primarily due to lower allocated information technology costs and lower net operating costs at FedEx Office.

Fuel costs decreased 19% in 2010 due to decreases in the average price per gallon of fuel and fuel consumption. Based on a static analysis of the net impact of year–over–year changes in fuel prices compared to year–over–year changes in fuel surcharges, fuel had a significant negative impact to operating income in 2010. This analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services.

FedEx Express Segment Outlook

In 2012, we expect revenue growth at FedEx Express to be driven by continued growth in our international services as international economic conditions are expected to improve at a faster rate than in the U.S. We also anticipate improvement in both domestic and international yields through ongoing yield management initiatives.

FedEx Express segment operating income and operating margin are expected to increase in 2012, driven by continued growth in international package and freight services, and productivity enhancements such as improving on–road productivity, sort efficiency and efficiencies in our aircraft maintenance processes. We anticipate that increases in merit pay, higher incentive compensation and increased depreciation will dampen our earnings growth in 2012.

Capital expenditures at FedEx Express are expected to increase in 2012 driven by replacement vehicle and equipment purchases. In 2012, capital expenditures will also include continued investments for the new B777F and B757 aircraft. These aircraft capital expenditures are necessary to achieve significant long–term operating savings and to support projected long–term international volume growth.

FEDEX GROUND SEGMENT

The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) and selected package statistics (in thousands, except yield amounts) for the years ended May 31:

				Percent Change	
	2011	2010	2009	**2011/ 2010**	2010/ 2009
Revenues:					
FedEx Ground	**$ 7,855**	$ 6,958	$ 6,670	**13**	4
FedEx SmartPost	**630**	481	377	**31**	28
Total revenues	**8,485**	7,439	7,047	**14**	6
Operating expenses:					
Salaries and employee benefits	**1,282**	1,158	1,102	**11**	5
Purchased transportation	**3,431**	2,966	2,918	**16**	2
Rentals	**263**	244	222	**8**	10
Depreciation and amortization	**337**	334	337	**1**	(1)
Fuel	**12**	8	9	**50**	(11)
Maintenance and repairs	**169**	166	147	**2**	13
Intercompany charges	**897**	795	710	**13**	12
Other	**769**	744	795	**3**	(6)
Total operating expenses	**7,160**	6,415	6,240	**12**	3
Operating income	**$ 1,325**	$ 1,024	$ 807	**29**	27
Operating margin	**15.6%**	13.8%	11.5%	**180bp**	230bp
Average daily package volume:					
FedEx Ground	**3,746**	3,523	3,404	**6**	3
FedEx SmartPost	**1,432**	1,222	827	**17**	48
Revenue per package (yield):					
FedEx Ground	**$ 8.17**	$ 7.73	$ 7.70	**6**	–
FedEx SmartPost	**$ 1.72**	$ 1.56	$ 1.81	**10**	(14)

	Percent of Revenue		
	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	**15.1%**	15.5%	15.6%
Purchased transportation	**40.4**	39.9	41.4
Rentals	**3.1**	3.3	3.1
Depreciation and amortization	**4.0**	4.5	4.8
Fuel	**0.1**	0.1	0.1
Maintenance and repairs	**2.0**	2.2	2.1
Intercompany charges	**10.6**	10.7	10.1
Other	**9.1**	10.0	11.3
Total operating expenses	**84.4**	86.2	88.5
Operating margin	**15.6%**	13.8%	11.5%

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 14% during 2011 due to volume and yield increases at both FedEx Ground and FedEx SmartPost.

FedEx Ground average daily package volume increased 6% during 2011 due to continued growth in our commercial business and our FedEx Home Delivery service. The 6% yield improvement at FedEx Ground during 2011 was primarily due to rate increases, higher fuel surcharges and higher extra service revenue, particularly in residential surcharges.

FedEx SmartPost average daily volume grew 17% during 2011 primarily as a result of growth in e–commerce business, gains in market share and the introduction of new service offerings. Yields increased 10% during 2011 primarily due to growth in higher yielding services, improved fuel surcharges and lower postage costs as a result of increased deliveries to United States Postal Service ("USPS") final destination facilities.

FedEx Ground segment revenues increased 6% during 2010 due to volume growth at both FedEx Ground and FedEx SmartPost, partially offset by declines in yield at FedEx SmartPost. FedEx Ground average daily package volume increased 3% during 2010 due to growth in our commercial business and our FedEx Home Delivery service. The slight yield improvement at FedEx Ground during 2010 was primarily due to higher base rates and increased extra service revenue, but was mostly offset by higher customer discounts and lower fuel surcharges. FedEx SmartPost volumes grew 48% during 2010 primarily as a result of market share gains, while yields decreased 14% during 2010 due to changes in customer and service mix.

The FedEx Ground fuel surcharge is based on a rounded average of the national U.S. on–highway average price 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:

	2011	2010	2009
Low	**5.50%**	2.75%	2.25%
High	**8.50**	5.50	10.50
Weighted–average	**6.20**	4.23	6.61

In January 2011, we implemented a 4.9% list price increase for FedEx Ground and FedEx Home Delivery services. The full average rate increase of 5.9% was partially offset by adjusting the fuel price threshold at which the fuel surcharge begins, reducing the fuel surcharge by one percentage point. Additional changes were made to other FedEx Ground surcharges and FedEx SmartPost rates. In January 2010, we implemented a 4.9% average list price increase and made various changes to other surcharges, including modifying the fuel surcharge table, on FedEx Ground shipments.

FedEx Ground Segment Operating Income

During 2011, FedEx Ground segment operating income increased 29% and operating margin increased 180 basis points due to improved yield and higher volume resulting from market share growth. We have realized a higher retention of our annual rate increase this year as more customers recognize the competitive advantage that we maintain across many shipping lanes in the U.S. We have also improved our customers' experience by dramatically reducing our package loss and damage claims while maintaining exceptional service levels. Purchased transportation costs increased 16% in 2011 primarily due to volume growth, higher fuel costs and higher rates paid to our independent contractors. Salaries and employee benefits expense increased 11% in 2011 due primarily to increased staffing at FedEx Ground and FedEx SmartPost to support volume growth and higher pension and medical costs. Intercompany charges increased in 2011 primarily due to higher allocated information technology costs.

FedEx Ground segment operating income and operating margin increased during 2010 due to higher package volume, lower self–insurance expenses and improved productivity. Improved performance at FedEx SmartPost also contributed to the operating income and operating margin increase. The increase in salaries and employee benefits expense during 2010 was primarily due to accruals for our variable incentive compensation programs, increased staffing at FedEx SmartPost to support volume growth and increased healthcare costs. Purchased transportation costs increased 2% during 2010 primarily as a result of higher package volume. Rent expense increased during 2010 primarily due to higher spending on facilities associated with our multi–year network expansion plan. Intercompany charges increased 12% in 2010 primarily due to higher allocated information technology costs (formerly direct charges). Other operating expense decreased during 2010 due to higher self–insurance reserve requirements in 2009.

Evolution of Independent Contractor Model

Although FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax audits or other administrative challenges) where the classification of its independent contractors is at issue, a number of recent judicial decisions support our classification and we believe our relationship with the contractors is generally excellent. For a description of these proceedings, see "Risk Factors" and Note 17 of the accompanying consolidated financial statements.

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 the contractors. For example, FedEx Ground has implemented or is implementing its Independent Service Provider ("ISP") model in a number of states. The ISP model requires pickup–and–delivery contractors based in those states to, among other things: (i) assume responsibility for the pickup–and–delivery operations of an entire geographic service area that includes multiple routes, and (ii) negotiate independent agreements with FedEx Ground, rather than agree to a standard contract.

As of May 31, 2011, FedEx Ground has transitioned to the ISP model in Maryland, New Hampshire, Rhode Island and Vermont, and plans to complete transition to the ISP model in Connecticut, Delaware, Illinois, Iowa, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, North Dakota, South Dakota and Tennessee during 2012. Based upon the success of this model, FedEx Ground may possibly transition to it in other states as well.

In addition, because of state–specific legal and regulatory issues, FedEx Ground only contracts with contractors that (i) are organized as corporations registered and in good standing under applicable state law, and (ii) ensure that their personnel who provide services under an operating agreement with FedEx Ground are treated as their employees. FedEx Ground also has an ongoing nationwide program to incentivize contractors who choose to grow their businesses by adding routes. During May 2011, approximately 80% of FedEx Ground's package volume was delivered by multiple route owner–operators or independent service providers.

FedEx Ground Segment Outlook

In 2012, we expect the FedEx Ground segment revenue growth will be led by continued improvement in commercial, FedEx Home Delivery and FedEx SmartPost volumes, resulting in additional market share gains. FedEx SmartPost is expected to continue to strengthen its market position by continuing to leverage the FedEx Ground network to enter the optimal USPS entry point. Yields for FedEx Ground are expected to improve in 2012 as a result of yield management initiatives and growth in our higher yielding FedEx Home Delivery service.

We expect the FedEx Ground segment to provide strong operating income growth in 2012 due to efficiency improvements such as an automated operational planning system and improved transit time across numerous shipping lanes. However, we expect to incur higher purchased transportation costs due to higher rates paid to our independent contractors and higher variable incentive compensation in 2012.

We are committed to investing in the FedEx Ground network because of the anticipated growth opportunities within this market. Capital spending is expected to increase in 2012, with the majority of our spending resulting from our continued network expansion and productivity–enhancing technologies.

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 material changes to our contractor model. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business.

FEDEX FREIGHT SEGMENT

The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating loss and operating margin (dollars in millions) and selected statistics for the years ended May 31:

				Percent Change	
	2011	2010	2009[3]	**2011/ 2010**	2010/ 2009
Revenues	**$ 4,911**	$ 4,321	$ 4,415	**14**	(2)
Operating expenses:					
Salaries and employee benefits	**2,303**	2,128	2,247	**8**	(5)
Purchased transportation	**779**	690	540	**13**	28
Rentals	**122**	116	139	**5**	(17)
Depreciation and amortization	**205**	198	224	**4**	(12)
Fuel	**585**	445	520	**31**	(14)
Maintenance and repairs	**182**	148	153	**23**	(3)
Impairment and other charges[1]	**89**	18	100	**394**	(82)
Intercompany charges[2]	**427**	351	109	**22**	222
Other	**394**	380	427	**4**	(11)
Total operating expenses	**5,086**	4,474	4,459	**14**	–
Operating loss	**$ (175)**	$ (153)	$ (44)	**(14)**	(248)
Operating margin	**(3.6)%**	(3.5)%	(1.0)%	**(10)bp**	(250)bp
Average daily LTL shipments (in thousands)	**86.0**	82.3	74.4	**4**	11
Weight per LTL shipment (lbs)	**1,144**	1,134	1,126	**1**	1
LTL yield (revenue per hundredweight)	**$ 18.24**	$ 17.07	$ 19.07	**7**	(10)

(1) Includes severance, impairment and other charges associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011. In 2010 and 2009, this charge represents impairment charges associated with goodwill related to the FedEx National LTL acquisition. The charge in 2009 also includes other charges primarily associated with employee severance.

(2) Certain functions were transferred from the FedEx Freight segment to FedEx Services and FedEx TechConnect effective August 1, 2009. For 2011 and 2010, the costs associated with these functions, previously a direct charge, were allocated to the FedEx Freight segment through intercompany allocations.

(3) Includes Caribbean Transportation Services, which was merged into FedEx Express effective June 1, 2009.

	Percent of Revenue		
	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	**46.9%**	49.2%	50.9%
Purchased transportation	**15.9**	16.0	12.2
Rentals	**2.5**	2.7	3.1
Depreciation and amortization	**4.2**	4.6	5.0
Fuel	**11.9**	10.3	11.8
Maintenance and repairs	**3.7**	3.4	3.5
Impairment and other charges[1]	**1.8**	0.4	2.3
Intercompany charges[2]	**8.7**	8.1	2.5
Other	**8.0**	8.8	9.7
Total operating expenses	**103.6**	103.5	101.0
Operating margin	**(3.6)%**	(3.5)%	(1.0)%

(1) Includes severance, impairment and other charges associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011. In 2010 and 2009, this charge represents impairment charges associated with goodwill related to the FedEx National LTL acquisition. The charge in 2009 also includes other charges primarily associated with employee severance.

(2) Certain functions were transferred from the FedEx Freight segment to FedEx Services and FedEx TechConnect effective August 1, 2009. For 2011 and 2010, the costs associated with these functions, previously a direct charge, were allocated to the FedEx Freight segment through intercompany allocations.

FedEx Freight Segment Revenues

FedEx Freight segment revenues increased 14% in 2011 due to higher LTL yield and average daily LTL shipments. LTL yields increased 7% during 2011 due to our yield management programs, which began during the fourth quarter of 2010 and continued throughout 2011, and higher fuel surcharges. Under these programs, LTL yields have increased sequentially in each of the past four quarters, while average daily LTL shipments fell during the second half of 2011. For the full year, average daily LTL shipments increased 4% in 2011 primarily due to volume increases during the first half of 2011 resulting from the impact of discounted pricing in contracts signed during 2010.

In 2010, FedEx Freight segment revenues decreased primarily due to lower LTL yield and the merger of Caribbean Transportation Services into FedEx Express effective June 1, 2009, mostly offset by higher average daily LTL shipments. LTL yield decreased 10% during 2010 due to the highly competitive LTL freight market, resulting from excess capacity and lower fuel surcharges. Discounted pricing drove an increase in average daily LTL shipments of 11% during 2010.

The indexed LTL fuel surcharge is based on the average of the national U.S. on–highway average price 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:

	2011	2010	2009
Low	**15.10%**	10.80%	8.30%
High	**20.70**	16.10	23.90
Weighted–average	**17.00**	14.00	15.70

In November 2010, we implemented a 6.9% general rate increase for FedEx Freight shipments. In February 2010, we implemented 5.9% general rate increases for FedEx Freight and FedEx National LTL shipments.

FedEx Freight Segment Operating Loss

The FedEx Freight segment operating loss in 2011 included costs associated with the combination of our FedEx Freight and FedEx National LTL operations and the significant impact from severe weather in the second half of the year. We incurred costs associated with the combination of $133 million in 2011, including $89 million recorded in the "Impairment and other charges" caption of the consolidated income statement (see "Overview" above for additional information).

Salaries and employee benefits increased 8% in 2011 primarily due to volume–related increases in labor, wage increases, higher healthcare and pension costs, and the reinstatement of full 401(k) company–matching contributions. Purchased transportation costs increased 13% in 2011 due to higher shipment volumes and higher rates. Fuel costs increased 31% in 2011 due to a higher average price per gallon of diesel fuel and increased fuel consumption as a result of higher shipment volumes. Based on a static analysis of the net impact of year–over–year changes in fuel prices compared to year–over–year changes in fuel surcharges, fuel had a slightly favorable impact to operating income in 2011. Maintenance and repairs expense increased 23% in 2011 due to higher volumes and the aging of our fleet. Also, higher intercompany charges in 2011 reflect the transfer of sales and customer service employees from the FedEx Freight segment entities in the first quarter of 2010 (described below).

A weak pricing environment, which led to aggressive discounting for our LTL freight services, resulted in an operating loss in 2010 at the FedEx Freight segment. The actions implemented in 2009 to lower our cost structure were more than offset by the negative impacts of lower LTL yields and higher volume–related costs, as significantly higher shipment levels required increased purchased transportation and other expenses during 2010. In addition, we recorded a charge of $18 million for the impairment of the remaining goodwill related to the FedEx National LTL acquisition.

Intercompany charges increased in 2010 due to expenses associated with the functions of approximately 2,700 FedEx Freight segment employees that were transferred to FedEx Services and FedEx TechConnect in the first quarter of 2010. The costs of these functions were previously a direct charge. Purchased transportation costs increased 28% in 2010 due to increased utilization of third–party transportation providers, which were required to support higher shipment volumes. Fuel costs decreased 14% during 2010 due to a lower average price per gallon of diesel fuel, partially offset by increased fuel consumption as a result of higher shipment volumes. Based on a static analysis of the net impact of year–over–year changes in fuel prices compared to year–over–year changes in fuel surcharges, fuel had a negative impact to operating income in 2010. Rent expense decreased 17% and other operating expense decreased 11% in 2010 due to the merger of Caribbean Transportation Services into FedEx Express effective June 1, 2009. Depreciation and amortization expense decreased 12% in 2010 due to the impact of the transfer of employees from the FedEx Freight segment to FedEx Services and FedEx TechConnect during the first quarter of 2010.

FedEx Freight Segment Outlook

In 2012, we expect revenue growth at the FedEx Freight segment to be driven by continued growth in our Priority and Economy service lines as customers increase their utilization of our new integrated LTL network. We expect yield improvement across all service and customer segments due to our unique value proposition and yield management initiatives.

We expect the FedEx Freight segment to be profitable throughout 2012 due to continued yield management initiatives and the successful integration of our operations and optimization of our LTL network. In addition, we will continue to improve productivity and efficiency across our integrated network through technology investments focused on network and equipment planning and customer automation. These investments will further enhance our already outstanding customer service levels.

Capital expenditures are expected to increase significantly in 2012 with the majority of our spending for replacement of vehicles and freight handling equipment.

FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $2.3 billion at May 31, 2011, compared to $2.0 billion at May 31, 2010. The following table provides a summary of our cash flows for the periods ended May 31 (in millions):

	2011	2010	2009
Operating activities:			
Net income	**$ 1,452**	$ 1,184	$ 98
Noncash impairment and other charges	**29**	18	1,103
Other noncash charges and credits	**2,892**	2,514	2,554
Changes in assets and liabilities	**(332)**	(578)	(1,002)
Cash provided by operating activities	**4,041**	3,138	2,753
Investing activities:			
Capital expenditures	**(3,434)**	(2,816)	(2,459)
Business acquisition, net of cash acquired	**(96)**	–	–
Proceeds from asset dispositions and other	**111**	35	76
Cash used in investing activities	**(3,419)**	(2,781)	(2,383)
Financing activities:			
Proceeds from debt issuance	**–**	–	1,000
Principal payments on debt	**(262)**	(653)	(501)
Dividends paid	**(151)**	(138)	(137)
Other	**126**	99	38
Cash (used in) provided by financing activities	**(287)**	(692)	400
Effect of exchange rate changes on cash	**41**	(5)	(17)
Net increase (decrease) in cash and cash equivalents	**$ 376**	$ (340)	$ 753

CASH PROVIDED BY OPERATING ACTIVITIES. Cash flows from operating activities increased $903 million in 2011 primarily due to increased earnings in 2011 and lower pension contributions. Cash flows from operating activities increased $385 million in 2010 primarily due to the receipt of income tax refunds of $279 million and increased income. We made contributions of $480 million to our tax–qualified U.S. domestic pension plans ("U.S. Pension Plans") during 2011, including $121 million in voluntary contributions and contributions of $848 million to our U.S. Pension Plans during 2010, including $495 million in voluntary contributions. We made contributions of $1.1 billion to our U.S. Pension Plans during 2009.

CASH USED IN INVESTING ACTIVITIES. Capital expenditures were 22% higher in 2011 and 15% higher in 2010 largely due to increased spending at FedEx Express. See "Capital Resources" for a discussion of capital expenditures during 2011 and 2010.

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. During 2011, we repaid our $250 million 7.25% unsecured notes that matured on February 15, 2011. During 2010, we repaid our $500 million 5.50% notes that matured on August 15, 2009 using cash from operations and a portion of the proceeds of our January 2009 $1 billion senior unsecured debt offering. During 2011, we made principal payments in the amount of $12 million related to capital lease obligations. During 2010, we made principal payments in the amount of $153 million related to capital lease obligations.

A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. This five–year credit agreement was entered into on April 26, 2011, and replaced the $1 billion three–year credit agreement dated July 22, 2009. The 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 our last four fiscal quarters' 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, 2011. Under this financial covenant, our additional borrowing capacity is capped, although this covenant continues to provide us with ample liquidity, if needed. 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, including our liquidity or borrowing capacity. As of May 31, 2011, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.

CAPITAL RESOURCES

Our operations are capital intensive, characterized by significant investments in aircraft, vehicles, technology, facilities, and 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):

				Percent Change	
	2011	2010	2009	**2011/ 2010**	2010/ 2009
Aircraft and related equipment	**$ 1,988**	$ 1,537	$ 925	**29**	66
Facilities and sort equipment	**555**	630	742	**(12)**	(15)
Vehicles	**282**	220	319	**28**	(31)
Information and technology investments	**455**	289	298	**57**	(3)
Other equipment	**154**	140	175	**10**	(20)
Total capital expenditures	**$ 3,434**	$ 2,816	$ 2,459	**22**	15
FedEx Express segment	**2,467**	1,864	1,348	**32**	38
FedEx Ground segment	**426**	400	636	**7**	(37)
FedEx Freight segment	**153**	212	240	**(28)**	(12)
FedEx Services segment	**387**	340	235	**14**	45
Other	**1**	–	–	**–**	–
Total capital expenditures	**$ 3,434**	$ 2,816	$ 2,459	**22**	15

Capital expenditures during 2011 were higher than the prior–year period primarily due to increased spending at FedEx Express for aircraft and aircraft–related equipment and at FedEx Services for information technology investments. Aircraft and aircraft–related equipment purchases at FedEx Express during 2011 included the delivery of six new B777Fs and 22 B757s. Capital expenditures during 2010 were higher than the prior year primarily due to increased spending at FedEx Express for aircraft and aircraft–related equipment. Aircraft and aircraft–related equipment purchases at FedEx Express during 2010 included six new B777Fs and 12 B757s. FedEx Services capital expenditures increased in 2010 due to information technology facility expansions and projects. Capital spending at FedEx Ground decreased in 2010 due to decreased spending for facilities and sort equipment and vehicles.

LIQUIDITY OUTLOOK

We believe that our existing cash and cash equivalents, cash flow from operations, and available financing sources will be adequate to meet our liquidity needs, including working capital, capital expenditure requirements and debt payment obligations. Our cash and cash equivalents balance at May 31, 2011 includes $300 million of cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations. Although we expect higher capital expenditures in 2012, we anticipate that our cash flow from operations will be sufficient to fund these expenditures. Historically, we have been successful in obtaining unsecured financing, from both domestic and international sources, although the marketplace for such investment capital can become restricted depending on a variety of economic factors.

Our capital expenditures are expected to be $4.2 billion in 2012 and will include spending for aircraft and aircraft–related equipment at FedEx Express, network expansion at FedEx Ground and revenue equipment at the FedEx Freight segment. We expect approximately 59% of capital expenditures in 2012 will be designated for growth initiatives and 41% dedicated to maintaining our existing operations. Our capital expenditures are expected to increase in 2012 due to spending for vehicle equipment and on–going investments in aircraft programs. Our expected capital expenditures for 2012 include $2.0 billion in investments for delivery of aircraft as well as progress payments toward future aircraft deliveries at FedEx Express, including B757s and the B777F which are significantly more fuel–efficient per unit than the aircraft type previously utilized. Our B757 aircraft are replacing our Boeing 727 aircraft, and we expect to be completely transitioned out of this aircraft type by 2016. We will benefit from the tax expensing and accelerated depreciation provisions of the Tax Relief Act of 2010 on qualifying capital investments we make in 2012.

We have agreed to purchase a total of 45 B777F aircraft (12 of which were in service at May 31, 2011, and an additional seven to be delivered in 2012). Our obligation to purchase 15 of these aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. These aircraft–related capital expenditures are necessary to achieve significant long–term operating savings and to support projected long–term international volume growth. Our ability to delay the timing of these aircraft–related expenditures is limited without incurring significant costs to modify existing purchase agreements.

For 2012, we anticipate making required contributions to our U.S. Pension Plans totaling approximately $500 million. Our U.S. Pension Plans have ample funds to meet expected benefit payments. In 2012, we have scheduled principal and interest payments of $25 million on capital leases.

Standard & Poor's has assigned us a senior unsecured debt credit rating of BBB and commercial paper rating of A–2 and a ratings outlook of "stable." During the third quarter of 2010, Moody's Investors Service reaffirmed our senior unsecured debt credit rating of Baa2 and commercial paper rating of P–2 and raised our ratings outlook to "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 credit ratings drop below investment grade, our access to financing may become limited.

CONTRACTUAL CASH OBLIGATIONS AND OFF–BALANCE SHEET ARRANGEMENTS

The following table sets forth a summary of our contractual cash obligations as of May 31, 2011. 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, 2011. 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 (Undiscounted)						
(in millions)	2012	2013	2014	2015	2016	Thereafter	Total
Operating activities:							
Operating leases	$ 1,794	$ 1,654	$ 1,465	$ 1,354	$ 1,192	$ 6,533	$ 13,992
Non–capital purchase obligations and other	209	97	35	24	11	132	508
Interest on long–term debt	126	98	97	78	78	1,659	2,136
Quarterly contributions to our U.S. Pension Plans	500	–	–	–	–	–	500
Investing activities:							
Aircraft and aircraft–related capital commitments	1,480	1,086	781	569	584	1,470	5,970
Other capital purchase obligations	210	8	8	6	–	–	232
Financing activities:							
Debt	–	300	250	–	–	989	1,539
Capital lease obligations	25	119	2	2	2	13	163
Total	$ 4,344	$ 3,362	$ 2,638	$ 2,033	$ 1,867	$ 10,796	$ 25,040

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.

We have other long–term liabilities reflected in our balance sheet, including deferred income taxes, qualified and nonqualified pension and postretirement healthcare plan 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 12 months, which are included in current liabilities. Included in the table above are anticipated quarterly contributions to our U.S. Pension Plans totaling approximately $500 million for 2012 that begin in the first quarter.

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. See Note 16 of the accompanying consolidated financial statements for more information.

Operating Activities

In accordance with accounting principles generally accepted in the United States, future contractual payments under our operating leases (totaling $14.0 billion on an undiscounted basis) 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, 2011. 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 that 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 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.

Included in the table above within the caption entitled "Non–capital purchase obligations and other" is our estimate of the current portion of the liability ($1 million) for uncertain tax positions. 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 ($68 million) is excluded from the 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. 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.

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 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.

The amounts reflected in the table above for long–term debt represent future scheduled payments on our long–term debt. We currently have no scheduled debt payments in 2012.

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 postretirement healthcare plans.

Pension benefits for most employees are accrued under a cash balance formula we call the Portable Pension Account. 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. The Portable Pension Account benefit is payable as a lump sum or an annuity at retirement at the election of the employee. The plan interest credit rate varies from year to year based on a U.S. Treasury index. Prior to 2009, certain employees earned benefits using a traditional pension formula (based on average earnings and years of service); however, benefits under this formula were capped on May 31, 2008.

The current rules for pension accounting are complex and can produce tremendous volatility in our results, financial condition and liquidity. Our pension expense is primarily a function of the value of our plan assets and the discount rate used to measure our pension liabilities at a single point in time at the end of our fiscal year (the measurement date). Both of these factors are significantly influenced by the stock and bond markets, which in recent years have experienced substantial volatility.

In addition to expense volatility, we are required to record year–end adjustments to our balance sheet on an annual basis for the net funded status of our pension and postretirement healthcare plans. These adjustments have fluctuated significantly over the past several years and like our pension expense, are a result of the discount rate and value of our plan assets at the measurement date. The funded status of our plans also impacts our liquidity, as current funding laws require increasingly aggressive funding levels for our pension plans. However, the cash funding rules operate under a completely different set of assumptions and standards than those used for financial reporting purposes, so our actual cash funding requirements can differ materially from our reported funded status.

Our retirement plans cost is included in the "Salaries and Employee Benefits" caption in our consolidated income statements. A summary of our retirement plans costs over the past three years is as follows (in millions):

	2011	2010	2009
U.S. domestic and international pension plans	**$ 543**	$ 308	$ 177
U.S. domestic and international defined contribution plans	**257**	136	237
Postretirement healthcare plans	**60**	42	57
	$ 860	$ 486	$ 471

Total retirement plans cost for 2011 increased $374 million due to a significantly lower discount rate used to measure our benefit obligations at our May 31, 2010 measurement date. Additionally, we incurred higher expenses for our 401(k) plans due to the partial reinstatement of the company–matching contributions on January 1, 2010, and the full restoration of company–matching contributions on January 1, 2011 (previously suspended in February 2009). Total retirement plans cost increased $15 million in 2010, primarily due to the negative impact of market conditions on our pension plan assets at our May 31, 2009 measurement date, mostly offset by lower expenses for our 401(k) plans due to the temporary suspension of the company–matching contributions.

Retirement plans cost is expected to increase in 2012 due to the full restoration of company–matching contributions on our 401(k) plans noted above. However, our pension costs in 2012 are expected to remain flat, as the benefit of significant investment returns on our pension plan assets will offset the negative impact of a lower discount rate.

PENSION COST. 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. Pension Plans. The components of pension cost for all pension plans are as follows (in millions):

	2011	2010	2009
Service cost	**$ 521**	$ 417	$ 499
Interest cost	**900**	823	798
Expected return on plan assets	**(1,062)**	(955)	(1,059)
Recognized actuarial losses (gains) and other	**184**	23	(61)
Net periodic benefit cost	**$ 543**	$ 308	$ 177

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

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. A decrease in the discount rate increases pension expense. The discount rate affects the PBO and pension expense based on the measurement dates, as described below.

Measurement Date[1]	Discount Rate	Amounts Determined by Measurement Date and Discount Rate
5/31/2011	5.76%	2011 PBO and 2012 expense
5/31/2010	6.37	2010 PBO and 2011 expense
5/31/2009	7.68	2009 PBO and 2010 expense
6/01/2008	7.15	2009 expense
2/29/2008	6.96	2008 PBO

(1) Accounting rules required us to change our measurement date to May 31, beginning in 2009.

We determine the discount rate 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 designed to match our expected benefit payments in future years. In developing this theoretical portfolio, we select bonds that match cash flows to benefit payments, limit our concentration by industry and issuer, and apply screening criteria to ensure 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 calculation assumes those excess proceeds are reinvested at one–year forward rates.

The decrease in the discount rate at May 31, 2011 was driven by conditions in the market for high–grade corporate bonds, where yields have continued to decrease from May 31, 2010. The discount rate assumption is highly sensitive, as the following table illustrates for our largest tax–qualified U.S. domestic pension plan:

	Sensitivity (in millions)	
	Effect on 2012 Pension Expense	Effect on 2011 Pension Expense
One–basis–point change in discount rate	$ 1.9	$ 1.7

At our May 31, 2011 measurement date, a 50–basis–point increase in the discount rate would have decreased our 2011 PBO by approximately $1.1 billion and a 50–basis–point decrease in the discount rate would have increased our 2011 PBO by approximately $1.2 billion. From 2009 to 2011, the discount rate used to value our liabilities has declined by nearly 200 basis points, which increased the valuation of our liabilities by over $4 billion.

PLAN ASSETS. 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. Our pension plan assets are invested primarily in listed securities, and 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. As part of our strategy to manage future pension costs and net funded status volatility, we have transitioned to a liability–driven investment strategy with a greater concentration of fixed–income securities to better align plan assets with liabilities. We review the expected long–term rate of return on an annual basis and revise it as appropriate.

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 time; and

> the investment returns we can reasonably expect our investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

The following table summarizes our current asset allocation strategy (dollars in millions):

	Plan Assets at Measurement Date					
	2011			2010		
Asset Class	Actual	Actual%	Target%	Actual	Actual%	Target%
Domestic equities	**$ 5,761**	**37%**	**33%**	$ 4,569	35%	33%
International equities	**2,013**	**13**	**12**	1,502	12	12
Private equities	**403**	**3**	**5**	399	3	5
Total equities	**8,177**	**53**	**50**	6,470	50	50
Fixed–income securities	**6,995**	**45**	**49**	6,205	47	49
Cash and other	**346**	**2**	**1**	380	3	1
	$ 15,518	**100%**	**100%**	$ 13,055	100%	100%

We have assumed an 8.0% compound geometric long–term rate of return on our U.S. Pension Plan assets for 2012, 2011 and 2010, as described in Note 12 of the accompanying consolidated financial statements. A one–basis–point change in our expected return on plan assets impacts our pension expense by $1.5 million.

The actual historical return on our U.S. Pension Plan assets, calculated on a compound geometric basis, was approximately 7.8%, net of investment manager fees, for the 15–year period ended May 31, 2011 and 7.9%, net of investment manager fees, for the 15–year period ended May 31, 2010.

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) by amortizing certain actuarial gains or losses over a period no longer than four years. Another method used in practice applies the market value of plan assets at the measurement date. For purposes of valuing plan assets for determining 2012 pension expense, we used the calculated–value method, as our actual returns on plan assets significantly exceeded our assumptions. However, as previously indicated, our pension costs in 2012 are expected to remain flat. The calculated–value method resulted in the same value as the market value in 2011. The calculated–value method significantly mitigated the impact of asset value declines in the determination of our 2010 pension expense, reducing our 2010 expense by approximately $135 million.

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

	2011	2010
Funded Status of Plans:		
Projected benefit obligation (PBO)	**$ 17,372**	$ 14,484
Fair value of plan assets	**15,841**	13,295
Funded status of the plans	**$ (1,531)**	$ (1,189)
Components of Funded Status by Plans:		
U.S. qualified plans	**$ (927)**	$ (580)
U.S. nonqualified plans	**(339)**	(348)
International plans	**(265)**	(261)
Net funded status	**$ (1,531)**	$ (1,189)
Components of Amounts Included in Balance Sheets:		
Current pension and other benefit obligations	**(33)**	(30)
Noncurrent pension and other benefit obligations	**(1,498)**	(1,159)
Net amount recognized	**$ (1,531)**	$ (1,189)
Cash Amounts:		
Cash contributions during the year	**$ 557**	$ 900
Benefit payments during the year	**$ 468**	$ 391

The amounts recognized in the balance sheet reflect a snapshot of the state of our long–term pension liabilities at the plan measurement date and the effect of year–end accounting on plan assets. At May 31, 2011, we recorded a decrease to equity through OCI of $350 million (net of tax) to reflect unrealized actuarial losses during 2011 related to a decline in the discount rate. Those losses are subject to amortization over future years and may be reflected in future income statements unless they are recovered. At May 31, 2010, we recorded a decrease to equity through OCI of $1.0 billion (net of tax) attributable to our pension plans.

The funding requirements for our U.S. Pension Plans are governed by the Pension Protection Act of 2006, which has aggressive funding requirements in order to avoid benefit payment restrictions that become effective if the funded status determined under Internal Revenue Service rules falls below 80% at the beginning of a plan year. All of our U.S. Pension Plans have funded status levels in excess of 80% and our plans remain adequately funded to provide benefits to our employees as they come due. Additionally, current benefit payments are nominal compared to our total plan assets (benefit payments for our U.S. Pension Plans for 2011 were approximately $411 million or 3% of plan assets).

During 2011, we made $480 million in contributions to our U.S. Pension Plans, including $121 million in voluntary contributions. Over the past several years, we have made voluntary contributions to our U.S. Pension Plans in excess of the minimum required contributions. Amounts contributed in excess of the minimum required result in a credit balance for funding purposes that can be used to meet minimum contribution requirements in future years. For 2012, we anticipate making required contributions to our U.S. Pension Plans totaling approximately $500 million.

Cumulative unrecognized actuarial losses were $5.4 billion through May 31, 2011, compared to $5.2 billion through May 31, 2010. These unrecognized losses reflect changes in the discount rates and 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. Our pension expense includes amortization of these actuarial losses of $276 million in 2011, $125 million in 2010 and $44 million in 2009.

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. Our reserves are established for estimates of loss on reported claims, including incurred–but–not–reported claims. At May 31, 2011 and 2010, there were $1.6 billion of self–insurance accruals reflected in our balance sheet. Approximately 40% of these accruals were classified as current liabilities.

Our self–insurance accruals are primarily based on the actuarially estimated, undiscounted cost of claims to provide us with estimates of future claim costs based on claims incurred as of the balance sheet date. These estimates include consideration of factors such as severity of claims, frequency of claims and future healthcare costs. Cost trends on material accruals are updated each quarter. 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 57% 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.

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. For our aircraft, we typically assign no residual value due to the utilization of these assets in cargo configuration, which results in little to no value at the end of their useful life. 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 aggregating less than $10 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. Aircraft purchases (primarily aircraft in passenger configuration) that have not been placed in service totaled $173 million at May 31, 2011 and $101 million at May 31, 2010. We plan to modify these assets in the future and place them into operations.

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. 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. Further, decisions about capital investments are evaluated based on the impact to the overall network rather than the return on an individual asset. 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 less costs to sell 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 revision from period to period.

There were no material property and equipment impairment charges recognized in 2011 (see "Overview" for additional information on certain asset impairments in our FedEx Freight segment in 2011) or 2010. However, during 2009, we recorded $202 million in property and equipment impairment charges. These charges were primarily related to our decision to permanently remove from service certain aircraft, along with certain excess aircraft engines, at FedEx Express.

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 of the accompanying consolidated financial statements, at May 31, 2011 we had approximately $14 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, 2011 was approximately six years. The future commitments for operating leases are not reflected as a liability in our balance sheet under current U.S. accounting rules.

Under a proposed revision to the accounting standards for leases, we would be required to record an asset and a liability for our outstanding operating leases similar to the current accounting for capital leases. Notably, the amount we record in the future would be the net present value of our future lease commitments at the date of adoption. This proposed guidance has not been issued and has been subjected to numerous revisions since the proposal was issued. Accordingly, we cannot make any judgments about the specific impact of the new proposed standard to us. However, our existing financing agreements and the rating agencies that evaluate our credit worthiness already take our operating leases into account.

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 $2.3 billion of recorded goodwill 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.

Our annual evaluation of goodwill impairment requires management judgment and the use of estimates and assumptions to determine the fair value of our reporting units. Fair value is estimated using standard valuation methodologies (principally the income or market 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. Changes in forecasted operating results and other assumptions could materially affect these estimates. We perform our annual impairment tests in the fourth quarter unless circumstances indicate the need to accelerate the timing of the test.

Our businesses with significant recorded goodwill include our FedEx Express, FedEx Freight and FedEx Office reporting units. We evaluated these reporting units during the fourth quarter of 2011. The estimated fair value of each of these reporting units exceeded their carrying values in 2011, and we do not believe that any of these reporting units are at risk as of May 31, 2011. However, as noted below, we have recorded goodwill impairment charges associated with our FedEx Office reporting unit in recent years. While the performance of this business has improved, the realization of the value of the remaining attributable goodwill ($362 million) is dependent upon execution of our growth strategies and initiatives in the future.

Goodwill Impairment Charges – 2010

In connection with our annual impairment testing of goodwill conducted in the fourth quarter of 2010, we recorded a charge of $18 million for impairment of the value of the remaining goodwill at our FedEx National LTL reporting unit. The impairment charge resulted from the significant negative impact of the U.S. recession on the LTL industry, which resulted in volume and yield declines and operating losses. In connection with the combination of our LTL networks in 2011, this unit was merged into the FedEx Freight reporting unit.

Goodwill Impairment Charges – 2009

FEDEX OFFICE. During 2009, in response to the lower revenues and continued operating losses at FedEx Office resulting from the U.S. recession, the company initiated an internal reorganization designed to improve revenue–generating capabilities and reduce costs including headcount reductions, the termination of operations in some international locations and substantially curtailing future network expansion. Despite these actions, operating losses and weak economic conditions significantly impacted our FedEx Office reporting unit.

In connection with our annual impairment testing in 2009, we concluded that the recorded goodwill was impaired and recorded an impairment charge of $810 million during the fourth quarter of 2009. The goodwill impairment charge is included in 2009 operating expenses in the accompanying consolidated statements of income. This charge was 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 those businesses.

FEDEX NATIONAL LTL. In 2009, we recorded a goodwill impairment charge of $90 million at our FedEx National LTL unit. This charge was a result of reduced revenues and increased operating losses due to the negative impact of the U.S. recession.

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 of the accompanying 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 methods and associated processes for evaluating these matters.

TAX CONTINGENCIES. We are subject to income and operating tax rules of the U.S., 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 and related deferred tax valuation allowances, if necessary, due to the complexity of these rules and their interaction with one another. We account 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.

Tax contingencies arise from uncertainty in the application of tax rules throughout the many jurisdictions in which we operate and 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. 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.

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 the accompanying consolidated balance sheets.

We account for operating taxes based on multi–state, local and foreign 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.

We measure and record operating tax contingency accruals in accordance with accounting guidance for contingencies. As discussed below, this guidance 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. Accounting guidance for contingencies 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. This guidance also requires disclosure of a loss contingency matter when, in management's judgment, a material loss is reasonably possible or probable.

During the preparation of our financial statements, we evaluate our contingencies to determine whether it is probable, reasonably possible or remote that a liability has been incurred. A loss is recognized for all contingencies deemed probable and estimable, regardless of amount. For unresolved contingencies with potentially material exposure that are deemed reasonably possible, we evaluate whether a potential loss or range of loss can be reasonably estimated.

Our evaluation of these matters is the result of a comprehensive process designed to ensure that accounting recognition of a loss or disclosure of these contingencies is made in a timely manner and involves our legal and accounting personnel, as well as external counsel where applicable. The process includes regular communications during each quarter and scheduled meetings shortly before the completion of our financial statements to evaluate any new legal proceedings and the status of any existing matters.

In determining whether a loss should be accrued or a loss contingency disclosed, we evaluate, among other factors:

> the current status of each matter within the scope and context of the entire lawsuit (i.e., the lengthy and complex nature of class–action matters);

> the procedural status of each lawsuit;

> any opportunities to dispose of the lawsuit on its merits before trial (i.e., motion to dismiss or for summary judgment);

> the amount of time remaining before the trial date;

> the status of discovery;

> the status of settlement, arbitration or mediation proceedings; and

> our judgment regarding the likelihood of success prior to or at trial.

In reaching our conclusions with respect to accrual of a loss or loss contingency disclosure, we take a holistic view of each matter based on these factors and the information available prior to the issuance of our financial statements. Uncertainty with respect to an individual factor or combination of these factors may impact our decisions related to accrual or disclosure of a loss contingency, including a conclusion that we are unable to establish an estimate of possible loss or a meaningful range of possible loss. We update our disclosures to reflect our most current understanding of the contingencies at the time we issue our financial statements. However, 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 or range of possible loss.

Despite the inherent complexity in the accounting and disclosure of contingencies, we believe that our processes are robust and thorough and provide a consistent framework for management in evaluating the potential outcome of contingencies for proper accounting recognition and disclosure.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 estimated fair values of $1.9 billion at May 31, 2011 and $2.1 billion at May 31, 2010. 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 $36 million as of May 31, 2011 and $41 million as of May 31, 2010. 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.

We have interest rate risk with respect to our pension and postretirement benefit obligations. Changes in interest rates impact our liabilities associated with these benefit plans as well as the amount of pension and postretirement benefit expense recognized. Declines in the value of plan assets could diminish the funded status of our pension plans and potentially increase our requirement to make contributions to the plans. Substantial investment losses on plan assets will also increase pension and postretirement benefit expense in the years following the losses.

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 principal foreign currency exchange rate risks to which we are exposed are in the euro, Chinese yuan, Canadian dollar, British pound and Japanese yen. Historically, 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 2011 and 2010, 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, 2011, 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 $38 million for 2012. This theoretical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. This calculation 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 in a specific period may be significantly affected should the spot price of fuel suddenly change by a substantial amount or change by amounts that do not result in an adjustment 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.

We are directly affected by the state of the economy. While macro–economic risks apply to most companies, we are particularly vulnerable. The transportation industry is highly cyclical and especially susceptible to trends in economic activity, such as the recent global recession. 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 quickly adjust to match shifting volume levels. Moreover, as we grow our international business, we are increasingly affected by the health of the global economy. As a result, the recent global recession had a disproportionately negative impact on us and our recent financial results.

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, such as noncompliance with anti–corruption laws, 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 information and 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. External and internal risks, such as malware, insecure coding, "Acts of God," attempts to penetrate our networks, data leakage and human error, pose a direct threat to our products, services and data. Any disruption to the Internet or our complex, global technology infrastructure, including those impacting our computer systems and customer Web sites, could adversely impact our customer service, volumes, and revenues and result in increased costs. These types of adverse impacts could also occur in the event the confidentiality, integrity, or availability of company and customer information was compromised due to a data loss by FedEx or a trusted third party. While we have invested and continue to invest in technology security initiatives, information technology risk management and disaster recovery plans, these measures cannot fully insulate us from technology disruptions or data loss 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 over time 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. 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 assets 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, especially in periods of little or no macro–economic growth. 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, an irrational pricing environment can limit our ability not only to maintain or increase our prices (including our fuel surcharges in response to rising fuel costs), but also 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.

Labor organizations attempt to organize groups of our employees from time to time, and potential changes in labor laws could make it easier for them to do so. If we are unable

to continue to maintain good relationships with our employees and prevent labor organizations from organizing groups of our employees, our operating costs could significantly increase and our operational flexibility could be significantly reduced. Despite continual organizing attempts by labor unions, other than the pilots of FedEx Express, all of our U.S. employees have thus far chosen not to unionize. The U.S. Congress has, in the past, considered adopting changes in labor laws, however, that would make it easier for unions to organize small units of our employees. For example, there is always a possibility that Congress could remove most FedEx Express employees from the purview of the Railway Labor Act of 1926, as amended (the "RLA"). Such legislation could expose our customers to the type of service disruptions that the RLA was designed to prevent — local work stoppages in key areas that interrupt the timely flow of shipments of time–sensitive, high–value goods throughout our global network. Such disruptions could threaten our ability to provide competitively priced shipping options and ready access to global markets. There is also the possibility that Congress could pass other labor legislation that could adversely affect our companies, such as FedEx Ground and FedEx Freight, whose employees are governed by the National Labor Relations Act of 1935, as amended (the "NLRA"). In addition, federal and state governmental agencies, such as the National Labor Relations Board, have and may continue to take actions that could make it easier for our employees to organize under the RLA or NLRA. Finally, changes to federal or state laws governing employee classification could impact the status of FedEx Ground's owner–operators as independent contractors.

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, we recently made strategic moves in India and Mexico. While we expect our past and future 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.

FedEx Ground relies on owner–operators to conduct its linehaul and pickup–and–delivery 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 lawsuits and state tax and other administrative proceedings that claim that the company's owner–operators or their drivers should be treated as our employees, rather than independent contractors. We 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, labor organizations could more easily organize these individuals, our operating costs could increase materially and we could incur significant capital outlays.

Increased security or pilot safety requirements could impose substantial costs on us. 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 and potentially slow service for businesses, including those in the transportation industry. For example, the U.S. Transportation Security Administration has issued to us a Full All–Cargo Aircraft Operator Standard Security Plan, which contains many new and enhanced security requirements. These requirements are not static, but will change periodically as the result of regulatory and legislative requirements, and to respond to evolving threats. The Federal Aviation Administration, in September 2010, proposed rules that would significantly reduce the maximum number of hours on duty and increase the minimum amount of rest time for our pilots, and thus require us to hire additional pilots and modify certain of our aircraft. Until these requirements are adopted, 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 or flight safety requirements could impose material costs on us.

The regulatory environment for global aviation or other transportation rights may impact our 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. Our operations outside of the United States, such as FedEx Express's growing international domestic operations, are also subject to current and potential regulations that restrict, and sometimes prohibit, our ability to compete in parts of the transportation and logistics market. As an example, the Chinese government has adopted postal regulations that exclude foreign–owned companies such as FedEx from competing in the mainland China domestic document delivery market. Regulatory actions affecting global aviation or transportation rights or a failure to obtain or maintain aviation or other transportation rights in important international markets could impair our ability to operate our networks.

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, during 2009, the European Commission approved the extension of the European Union Emissions Trading Scheme ("ETS") for GHG emissions, to the airline industry. Under this decision, all FedEx Express flights to and

from any airport in any member state of the European Union will be covered by the ETS requirements beginning in 2012, and each year we will be required to submit emission allowances in an amount equal to the carbon dioxide emissions from such flights. In addition, the U.S. Congress has, in the past, considered bills that would regulate GHG emissions, and some form of federal climate change legislation is possible in the 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 vehicles prematurely. Until the timing, scope and extent of such 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. Finally, given the broad and global scope of our operations and our susceptibility to global macro–economic trends, we are particularly vulnerable to the physical risks of climate change that could affect all of humankind, such as shifts in world ecosystems.

A localized disaster in a key geography could adversely impact our business. While we operate several integrated networks with assets distributed throughout the world, there are concentrations of key assets within our networks that are exposed to localized risks from natural or manmade disasters such as tornados, floods, earthquakes or terrorist attacks. The loss of a key location such as our Memphis super hub or one of our information technology centers could cause a significant disruption to our operations and cause us to incur significant costs to relocate or reestablish these functions. Moreover, resulting economic dislocations, including supply chain and fuel disruptions, could adversely impact demand for our services.

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

- increasing costs, the volatility of costs and funding requirements and other legal mandates for employee benefits, especially pension and healthcare benefits;
- the increasing costs of compliance with federal and state governmental agency mandates and defending against inappropriate or unjustified enforcement or other actions by such agencies;
- 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;
- 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;
- 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, discrimination and retaliation claims, and any other legal proceedings;
- the outcome of future negotiations to reach new collective bargaining agreements — including with the union that represents the pilots of FedEx Express (the current pilot contract is scheduled to become amendable in March 2013 unless the union exercises its option to shorten the contract, in which case the agreement would be amendable in March 2012);
- the impact of technology developments on our operations and on demand for our services, and our ability to continue to identify and eliminate unnecessary information technology redundancy and complexity throughout the organization;
- 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.

FORWARD–LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in "Outlook (including segment outlooks)," "Liquidity," "Capital Resources," "Liquidity Outlook," "Contractual Cash Obligations" and "Critical Accounting Estimates," and the "Retirement Plans" and "Contingencies" notes 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 other 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 all identified deficiencies. 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, 2011, 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, 2011.

The effectiveness of our internal control over financial reporting as of May 31, 2011, 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, 2011, 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, 2011, 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, 2011 and 2010, 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, 2011 of FedEx Corporation and our report dated July 12, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP

Memphis, Tennessee
July 12, 2011

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	Years ended May 31, 2011	2010	2009
Revenues	**$ 39,304**	$ 34,734	$ 35,497
Operating Expenses:			
Salaries and employee benefits	**15,276**	14,027	13,767
Purchased transportation	**5,674**	4,728	4,534
Rentals and landing fees	**2,462**	2,359	2,429
Depreciation and amortization	**1,973**	1,958	1,975
Fuel	**4,151**	3,106	3,811
Maintenance and repairs	**1,979**	1,715	1,898
Impairment and other charges	**89**	18	1,204
Other	**5,322**	4,825	5,132
	36,926	32,736	34,750
Operating Income	**2,378**	1,998	747
Other Income (Expense):			
Interest expense	**(86)**	(79)	(85)
Interest income	**9**	8	26
Other, net	**(36)**	(33)	(11)
	(113)	(104)	(70)
Income Before Income Taxes	**2,265**	1,894	677
Provision For Income Taxes	**813**	710	579
Net Income	**$ 1,452**	$ 1,184	$ 98
Basic Earnings Per Common Share	**$ 4.61**	$ 3.78	$ 0.31
Diluted Earnings Per Common Share	**$ 4.57**	$ 3.76	$ 0.31

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

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)	May 31, 2011	2010
Assets		
Current Assets		
Cash and cash equivalents	**$ 2,328**	$ 1,952
Receivables, less allowances of $182 and $166	**4,581**	4,163
Spare parts, supplies and fuel, less allowances of $169 and $170	**437**	389
Deferred income taxes	**610**	529
Prepaid expenses and other	**329**	251
Total current assets	**8,285**	7,284
Property and Equipment, at Cost		
Aircraft and related equipment	**13,146**	11,640
Package handling and ground support equipment	**5,591**	5,193
Computer and electronic equipment	**4,408**	4,218
Vehicles	**3,294**	3,170
Facilities and other	**7,247**	7,081
	33,686	31,302
Less accumulated depreciation and amortization	**18,143**	16,917
Net property and equipment	**15,543**	14,385
Other Long–Term Assets		
Goodwill	**2,326**	2,200
Other assets	**1,231**	1,033
Total other long–term assets	**3,557**	3,233
	$ 27,385	$ 24,902
Liabilities and Stockholders' Investment		
Current Liabilities		
Current portion of long–term debt	**$ 18**	$ 262
Accrued salaries and employee benefits	**1,268**	1,146
Accounts payable	**1,702**	1,522
Accrued expenses	**1,894**	1,715
Total current liabilities	**4,882**	4,645
Long–Term Debt, Less Current Portion	**1,667**	1,668
Other Long–Term Liabilities		
Deferred income taxes	**1,336**	891
Pension, postretirement healthcare and other benefit obligations	**2,124**	1,705
Self–insurance accruals	**977**	960
Deferred lease obligations	**779**	804
Deferred gains, principally related to aircraft transactions	**246**	267
Other liabilities	**154**	151
Total other long–term liabilities	**5,616**	4,778
Commitments and Contingencies		
Common Stockholders' Investment		
Common stock, $0.10 par value; 800 million shares authorized; 317 million shares issued as of May 31, 2011 and 314 million shares issued as of May 31, 2010	**32**	31
Additional paid–in capital	**2,484**	2,261
Retained earnings	**15,266**	13,966
Accumulated other comprehensive loss	**(2,550)**	(2,440)
Treasury stock, at cost	**(12)**	(7)
Total common stockholders' investment	**15,220**	13,811
	$ 27,385	$ 24,902

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Years ended May 31, 2011	2010	2009
Operating Activities			
Net Income	**$ 1,452**	$ 1,184	$ 98
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**1,973**	1,958	1,975
Provision for uncollectible accounts	**152**	124	181
Deferred income taxes and other noncash items	**669**	331	299
Impairment and other charges	**29**	18	1,103
Stock–based compensation	**98**	101	99
Changes in assets and liabilities:			
Receivables	**(400)**	(906)	762
Other assets	**(114)**	276	(196)
Pension assets and liabilities, net	**(169)**	(611)	(913)
Accounts payable and other liabilities	**370**	710	(628)
Other, net	**(19)**	(47)	(27)
Cash provided by operating activities	**4,041**	3,138	2,753
Investing Activities			
Capital expenditures	**(3,434)**	(2,816)	(2,459)
Business acquisition, net of cash acquired	**(96)**	–	–
Proceeds from asset dispositions and other	**111**	35	76
Cash used in investing activities	**(3,419)**	(2,781)	(2,383)
Financing Activities			
Principal payments on debt	**(262)**	(653)	(501)
Proceeds from debt issuance	**–**	–	1,000
Proceeds from stock issuances	**108**	94	41
Excess tax benefit on the exercise of stock options	**23**	25	4
Dividends paid	**(151)**	(138)	(137)
Other, net	**(5)**	(20)	(7)
Cash (used in) provided by financing activities	**(287)**	(692)	400
Effect of exchange rate changes on cash	**41**	(5)	(17)
Net increase (decrease) in cash and cash equivalents	**376**	(340)	753
Cash and cash equivalents at beginning of period	**1,952**	2,292	1,539
Cash and cash equivalents at end of period	**$ 2,328**	$ 1,952	$ 2,292

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, 2008	$ 31	$ 1,922	$ 13,002	$ (425)	$ (4)	$ 14,526
Adjustment to opening balances for retirement plans measurement date transition, net of tax benefit of $26 and expense of $220, respectively	–	–	(44)	369	–	325
Balance at June 1, 2008	31	1,922	12,958	(56)	(4)	14,851
Net income	–	–	98	–	–	98
Foreign currency translation adjustment, net of tax of $28	–	–	–	(112)	–	(112)
Retirement plans adjustments, net of tax of $718	–	–	–	(1,205)	–	(1,205)
Total comprehensive loss						(1,219)
Cash dividends declared ($0.44 per share)	–	–	(137)	–	–	(137)
Employee incentive plans and other (995,271 shares issued)	–	131	–	–	–	131
Balance at May 31, 2009	31	2,053	12,919	(1,373)	(4)	13,626
Net income	–	–	1,184	–	–	1,184
Foreign currency translation adjustment, net of tax of $2	–	–	–	(25)	–	(25)
Retirement plans adjustments, net of tax of $617	–	–	–	(1,042)	–	(1,042)
Total comprehensive income						117
Purchase of treasury stock	–	–	–	–	(3)	(3)
Cash dividends declared ($0.44 per share)	–	–	(137)	–	–	(137)
Employee incentive plans and other (2,375,753 shares issued)	–	208	–	–	–	208
Balance at May 31, 2010	31	2,261	13,966	(2,440)	(7)	13,811
Net income	**–**	**–**	**1,452**	**–**	**–**	**1,452**
Foreign currency translation adjustment, net of tax of $27	**–**	**–**	**–**	**125**	**–**	**125**
Retirement plans adjustments, net of tax of $141	**–**	**–**	**–**	**(235)**	**–**	**(235)**
Total comprehensive income						**1,342**
Purchase of treasury stock	**–**	**–**	**–**	**–**	**(5)**	**(5)**
Cash dividends declared ($0.48 per share)	**–**	**–**	**(152)**	**–**	**–**	**(152)**
Employee incentive plans and other (2,229,051 shares issued)	**1**	**223**	**–**	**–**	**–**	**224**
Balance at May 31, 2011	**$ 32**	**$ 2,484**	**$ 15,266**	**$ (2,550)**	**$ (12)**	**$ 15,220**

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 are 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, Inc. ("FedEx Freight"), a leading U.S. provider of less–than–truckload ("LTL") freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ("FedEx Services"), form the core of our reportable segments. Our FedEx Services segment provides sales, marketing and information technology support to our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. ("FedEx Office") and provides customer service, technical support and billing and collection services through FedEx TechConnect, Inc. ("FedEx TechConnect").

FISCAL YEARS. Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2011 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.

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, such as FedEx SmartPost, 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.

Certain of our revenue–producing transactions are subject to taxes, such as sales tax, assessed by governmental authorities. 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 the impact of current economic factors on 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 $375 million in 2011, $374 million in 2010 and $379 million in 2009.

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. 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. Supplies and fuel are reported at weighted average cost.

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. 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, if shorter. 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	**2011**	2010
Wide–body aircraft and related equipment	15 to 30 years	**$ 6,536**	$ 5,897
Narrow–body and feeder aircraft and related equipment	5 to 18 years	**1,517**	1,049
Package handling and ground support equipment	3 to 30 years	**1,985**	1,895
Vehicles	3 to 15 years	**1,076**	1,095
Computer and electronic equipment	2 to 10 years	**776**	649
Facilities and other	2 to 40 years	**3,653**	3,800

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 $1.9 billion in 2011 and 2010, and $1.8 billion in 2009. 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, including purchase deposits, 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 $71 million in 2011, $80 million in 2010 and $71 million in 2009.

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. In 2011, we incurred asset impairment charges of $29 million related to the combination of our LTL operations at FedEx Freight (see "FedEx Freight Network Combination" below for additional information).

There were no material property and equipment impairment charges recognized in 2010. During 2009, we recorded $202 million in property and equipment impairment charges. These charges were primarily related to our decision to permanently remove from service certain aircraft, along with certain excess aircraft engines, at FedEx Express.

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 or market approach incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third–party valuations. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter.

INTANGIBLE ASSETS. Intangible assets include customer relationships, technology assets and contract–based intangibles acquired in business combinations. Intangible assets are amortized over periods ranging from 3 to 12 years, either on a straight–line basis or an accelerated basis depending upon the pattern in which the economic benefits are realized.

PENSION AND POSTRETIREMENT HEALTHCARE PLANS. 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 are designed to match our expected benefit payments in future years. 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 tax–qualified U.S. domestic pension plans ("U.S. Pension Plans").

The accounting guidance related to employers' accounting for defined benefit pension and other postretirement plans requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in other comprehensive income ("OCI") of unrecognized gains or losses and prior service costs or credits. Additionally, the guidance requires the measurement date for plan assets and liabilities to coincide with the plan sponsor's year end.

At May 31, 2011, we recorded a decrease to equity through OCI of $350 million (net of tax) based primarily on year–end adjustments related to increases in our projected benefit obligation due to a decrease in the discount rate used to measure the liability at May 31, 2011. At May 31, 2010, we recorded a decrease to equity through OCI of $1.0 billion (net of tax) based primarily on year–end adjustments related to increases in our projected benefit obligation due to a decrease in the discount rate used to measure the liability at May 31, 2010.

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.

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 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 the accompanying consolidated balance sheets.

SELF–INSURANCE ACCRUALS. We are 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 "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 income 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 income were $156 million at May 31, 2011, $30 million at May 31, 2010 and $56 million at May 31, 2009.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of Federal Express Corporation ("FedEx Express"), which represent a small number of FedEx Express's total employees, are employed under a collective bargaining agreement. During the fourth quarter of 2011, the pilots ratified a new labor contract that includes safety initiatives, increases in hourly pay rates and travel per diem rates, and provisions for opening a European crew base. The new contract is scheduled to become amendable in March 2013 unless the union exercises its option to shorten the contract, in which case the agreement would be amendable in March 2012 and a portion of the hourly pay increases would be canceled. In addition to our pilots at FedEx Express, certain of FedEx Express's non–U.S. employees are unionized.

STOCK–BASED COMPENSATION. We recognize compensation expense for stock–based awards under the provisions of the accounting guidance related to share–based payments. This guidance requires recognition of compensation expense for stock–based awards using a fair value method.

DIVIDENDS DECLARED PER COMMON SHARE. On June 6, 2011, our Board of Directors declared a quarterly dividend of $0.13 per share of common stock. The dividend was paid on July 1, 2011 to stockholders of record as of the close of business on June 17, 2011. 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.

FEDEX FREIGHT NETWORK COMBINATION. The previously announced combination of our FedEx Freight and FedEx National LTL operations was completed on January 30, 2011. Our combined LTL network will increase efficiencies, reduce operational costs and provide customers both Priority and Economy LTL freight services across all lengths of haul from one integrated company. These actions resulted in the following incremental costs, including an impairment charge recorded during 2011. Charges for the year ended May 31, 2011 include the following (in millions):

	2011
Severance	$ 40
Lease terminations	20
Asset impairments	29
Impairment and other charges	89
Other program costs	44
Total program costs	$ 133

Other program costs include $15 million of accelerated depreciation expense due to a change in the estimated useful life of certain assets impacted by the combination of these operations and other incremental costs directly associated with the program. Substantially all of the severance accruals were paid during the fourth quarter of 2011 and the remaining severance accruals will be paid during the first quarter of 2012. We have received $88 million related to asset sales, which offset the total cash outlays for the program. The estimates recorded at May 31, 2011 are not subject to any material risk of change.

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; accounts receivable allowances; 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 GUIDANCE

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 guidance is relevant to the readers of our financial statements.

On June 1, 2008, we adopted the authoritative guidance issued by the Financial Accounting Standards Board ("FASB") on 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. On June 1, 2009, we implemented the previously deferred provisions of this guidance for nonfinancial assets and liabilities recorded at fair value, as required. The adoption of this new guidance had no impact on our financial statements.

On June 1, 2009, we adopted the authoritative guidance issued by FASB on employers' disclosures about postretirement benefit plan assets. This guidance provides objectives that an employer should consider when providing detailed disclosures about assets of a defined benefit pension or other postretirement plan, including disclosures about investment policies and strategies, categories of plan assets, significant concentrations of risk and the inputs and valuation techniques used to measure the fair value of plan assets. See Note 12 for related disclosures.

On June 1, 2009, we adopted the authoritative guidance issued by FASB related to interim disclosures about the fair value of financial instruments. This guidance requires disclosures about the fair value of financial instruments for interim reporting periods in addition to annual reporting periods.

In June 2011, the FASB issued new guidance to make the presentation of items within OCI more prominent. The new standard will require companies to present items of net income, items of OCI and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of OCI in the statement of stockholders' equity. Reclassification adjustments between OCI and net income will be presented separately on the face of the financial statements. This new standard is effective for our fiscal year ending May 31, 2013.

We believe there is no additional new accounting guidance adopted but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

NOTE 3: BUSINESS COMBINATIONS

On February 22, 2011, FedEx Express completed the acquisition of the Indian logistics, distribution and express businesses of AFL Pvt. Ltd. and its affiliate Unifreight India Pvt. Ltd. for $96 million in cash. The financial results of the acquired businesses are included in the FedEx Express segment from the date of acquisition and were not material to our results of operations or financial condition. Substantially all of the purchase price was allocated to goodwill.

On December 15, 2010, FedEx entered into an agreement to acquire Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company. This acquisition will be funded with cash from operations and is expected to be completed during the first quarter of 2012, subject to customary closing conditions. The financial results of the acquired company will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2012 results.

These acquisitions will give us more robust domestic transportation networks and added capabilities in these important global markets.

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

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

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Total
Goodwill at May 31, 2009	$ 1,090	$ 90	$ 802	$ 1,539	$ 3,521
Accumulated impairment charges	–	–	(115)	(1,177)	(1,292)
Balance as of May 31, 2009	1,090	90	687	362	2,229
Impairment charge	–	–	(18)	–	(18)
Purchase adjustments and other[1]	(11)	–	–	–	(11)
Transfer between segments[2]	66	–	(66)	–	–
Balance as of May 31, 2010	1,145	90	603	362	2,200
Goodwill acquired[3]	**89**	**–**	**–**	**–**	**89**
Purchase adjustments and other[1]	**38**	**–**	**(1)**	**–**	**37**
Balance as of May 31, 2011	**$ 1,272**	**$ 90**	**$ 602**	**$ 362**	**$ 2,326**
Accumulated goodwill impairment charges as of May 31, 2011	**$ –**	**$ –**	**$ (133)**	**$ (1,177)**	**$ (1,310)**

(1) Primarily currency translation adjustments.
(2) Transfer of goodwill related to the merger of Caribbean Transportation Services into FedEx Express effective June 1, 2009.
(3) Goodwill acquired in 2011 relates to the acquisition of the Indian logistics, distribution and express businesses of AFL Pvt. Ltd. and its affiliate Unifreight India Pvt. Ltd. See Note 3 for related disclosures.

Our reporting units with significant recorded goodwill include our FedEx Express, FedEx Freight and FedEx Office reporting units. We evaluated these reporting units during the fourth quarter of 2011. The estimated fair value of each of these reporting units exceeded their carrying values in 2011, and we do not believe that any of these reporting units are at risk as of May 31, 2011.

Goodwill Impairment Charges – 2010

In connection with our annual impairment testing of goodwill conducted in the fourth quarter of 2010, we recorded a charge of $18 million for impairment of the value of the remaining goodwill at our FedEx National LTL reporting unit. In connection with the combination of our LTL networks in 2011, this unit was merged into the FedEx Freight reporting unit. The impairment charge resulted from the significant negative impact of the U.S. recession on the LTL industry, which resulted in volume and yield declines and operating losses.

Goodwill Impairment Charges – 2009

FEDEX OFFICE. During 2009, in response to the lower revenues and continued operating losses at FedEx Office resulting from the U.S. recession, the company initiated an internal reorganization designed to improve revenue–generating capabilities and reduce costs including headcount reductions, the termination of operations in some international locations and substantially curtailing future network expansion. Despite these actions, operating losses and weak economic conditions significantly impacted our FedEx Office reporting unit.

In connection with our annual impairment testing in 2009, we concluded that the recorded goodwill was impaired and recorded an impairment charge of $810 million during the fourth quarter of 2009. The goodwill impairment charge is included in 2009 operating expenses in the accompanying consolidated statements of income. This charge was 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 those businesses.

FEDEX NATIONAL LTL. In 2009, we recorded a goodwill impairment charge of $90 million at our FedEx National LTL unit. This charge was a result of reduced revenues and increased operating losses due to the negative impact of the U.S. recession.

OTHER INTANGIBLE ASSETS. The net book value of our intangible assets was $38 million in 2011 and $69 million in 2010. Amortization expense for intangible assets was $32 million in 2011, $51 million in 2010 and $73 million in 2009. Estimated amortization expense is expected to be immaterial in 2012.

NOTE 5: SELECTED CURRENT LIABILITIES

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

	May 31, 2011	2010
Accrued Salaries and Employee Benefits		
Salaries	**$ 256**	$ 230
Employee benefits, including variable compensation	**468**	386
Compensated absences	**544**	530
	$ 1,268	$ 1,146
Accrued Expenses		
Self–insurance accruals	**$ 696**	$ 675
Taxes other than income taxes	**357**	347
Other	**841**	693
	$ 1,894	$ 1,715

NOTE 6: LONG–TERM DEBT AND OTHER FINANCING ARRANGEMENTS

The components of long–term debt (net of discounts), along with maturity dates for the years subsequent to May 31, 2011, are as follows (in millions):

	May 31,	
	2011	2010
Senior unsecured debt		
Interest rate of 7.25%, due in 2011	**$ –**	$ 250
Interest rate of 9.65%, due in 2013	**300**	300
Interest rate of 7.38%, due in 2014	**250**	250
Interest rate of 8.00%, due in 2019	**750**	750
Interest rate of 7.60%, due in 2098	**239**	239
	1,539	1,789
Capital lease obligations	**146**	141
	1,685	1,930
Less current portion	**18**	262
	$ 1,667	$ 1,668

Interest on our fixed–rate notes is paid semi–annually. Long–term debt, exclusive of capital leases, had carrying values of $1.5 billion compared with estimated fair values of $1.9 billion at May 31, 2011, and $1.8 billion compared with estimated fair values of $2.1 billion at May 31, 2010. 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 have a shelf registration statement filed with the Securities and Exchange Commission that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock.

During 2011, we repaid our $250 million 7.25% unsecured notes that matured on February 15, 2011. During 2010, we repaid our $500 million 5.50% notes that matured on August 15, 2009 using cash from operations and a portion of the proceeds of our January 2009 $1 billion senior unsecured debt offering. During 2011, we made principal payments in the amount of $12 million related to capital lease obligations. During 2010, we made principal payments in the amount of $153 million related to capital lease obligations.

A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. This five–year credit agreement was entered into on April 26, 2011, and replaced the $1 billion three–year credit agreement dated July 22, 2009. The 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 our last four fiscal quarters' 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, 2011. Under this financial covenant, our additional borrowing capacity is capped, although this covenant continues to provide us with ample liquidity, if needed. 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, including our liquidity or borrowing capacity. As of May 31, 2011, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.

We issue other financial instruments in the normal course of business to support our operations, including letters of credit and surety bonds. We had a total of $619 million in letters of credit outstanding at May 31, 2011, with $93 million unused under our primary $500 million letter of credit facility, and $460 million in outstanding surety bonds placed by third–party insurance providers. These instruments are 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 letters of credit and surety bonds themselves.

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 2046. We leased 11% of our total aircraft fleet under capital or operating leases as of May 31, 2011 as compared to 12% as of May 31, 2010. A portion of our 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,	
	2011	2010
Aircraft	**$ 8**	$ 15
Package handling and ground support equipment	**165**	165
Vehicles	**17**	17
Other, principally facilities	**145**	146
	335	343
Less accumulated amortization	**307**	312
	$ 28	$ 31

Rent expense under operating leases for the years ended May 31 was as follows (in millions):

	2011	2010	2009
Minimum rentals	**$ 2,025**	$ 2,001	$ 2,047
Contingent rentals[1]	**193**	152	181
	$ 2,218	$ 2,153	$ 2,228

(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, 2011 is as follows (in millions):

	Capital Leases	Operating Leases: Aircraft and Related Equipment	Operating Leases: Facilities and Other	Operating Leases: Total Operating Leases
2012	$ 25	$ 494	$ 1,300	$ 1,794
2013	119	499	1,155	1,654
2014	2	473	992	1,465
2015	2	455	899	1,354
2016	2	458	734	1,192
Thereafter	13	1,545	4,988	6,533
Total	163	$ 3,924	$ 10,068	$ 13,992
Less amount representing interest	17			
Present value of net minimum lease payments	$ 146			

The weighted–average remaining lease term of all operating leases outstanding at May 31, 2011 was approximately six 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.

We are the lessee in a series of operating leases covering a portion of our leased aircraft. The lessors are trusts established specifically to purchase, finance and lease aircraft to us. These leasing entities meet the criteria for variable interest entities. We are not the primary beneficiary of the leasing entities, as the lease terms are consistent with market terms at the inception of the lease and do not include a residual value guarantee, fixed–price purchase option or similar feature that obligates us to absorb decreases in value or entitles us to participate in increases in the value of the aircraft. As such, we are not required to consolidate the entity as the primary beneficiary. Our maximum exposure under these leases is included in the summary of future minimum lease payments shown above.

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, 2011, 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):

	2011	2010	2009
Stock–based compensation expense	**$ 98**	$ 101	$ 99

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. 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 83% of our options vesting ratably over four years. Compensation expense associated with these awards is recognized on a straight–line basis over the requisite service period of the award.

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. The terms of our restricted stock 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.

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 record stock–based compensation expense 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:

	2011	2010	2009
Weighted–average Black–Scholes value	**$ 28.12**	$ 20.47	$ 23.66
Intrinsic value of options exercised	**$ 80**	$ 77	$ 7
Black–Scholes Assumptions:			
Expected lives	**5.9 years**	5.7 years	5.5 years
Expected volatility	**34%**	32%	23%
Risk–free interest rate	**2.36%**	3.24%	3.28%
Dividend yield	**0.558%**	0.742%	0.492%

Expected Lives. This is the period of time over which the options granted are expected to remain outstanding. 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, 2011:

	Stock Options			
	Shares	Weighted–Average Exercise Price	Weighted–Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)[1]
Outstanding at June 1, 2010	20,238,056	$ 78.32		
Granted	**2,474,603**	**81.86**		
Exercised	**(2,043,050)**	**53.13**		
Forfeited	**(506,446)**	**104.38**		
Outstanding at May 31, 2011	**20,163,163**	**$ 81.20**	**5.7 years**	**$ 327**
Exercisable	**12,968,690**	**$ 84.74**	**4.3 years**	**$ 181**
Expected to vest	**6,618,915**	**$ 74.83**	**8.2 years**	**$ 135**
Available for future grants	**11,928,567**			

(1) Only presented for options with market value at May 31, 2011 in excess of the exercise price of the option.

The options granted during the year ended May 31, 2011 are primarily related to our principal annual stock option grant in June 2010.

The following table summarizes information about vested and unvested restricted stock for the year ended May 31, 2011:

	Restricted Stock	
	Shares	Weighted–Average Grant Date Fair Value
Unvested at June 1, 2010	637,296	$ 74.02
Granted	**235,998**	**78.74**
Vested	**(234,716)**	**81.11**
Forfeited	**(12,198)**	**70.91**
Unvested at May 31, 2011	**626,380**	**$ 73.20**

During the year ended May 31, 2010, there were 391,786 shares of restricted stock granted with a weighted–average fair value of $57.07. During the year ended May 31, 2009, there were 197,180 shares of restricted stock granted with a weighted–average fair value of $90.57.

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)
2009	2,414,815	$ 64
2010	2,296,211	63
2011	**2,721,602**	**67**

As of May 31, 2011, there was $132 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, 2011 represented 10% 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):

	2011	2010	2009
Basic earnings per common share:			
Net earnings allocable to common shares[1]	**$ 1,449**	$ 1,182	$ 97
Weighted–average common shares	**315**	312	311
Basic earnings per common share	**$ 4.61**	$ 3.78	$ 0.31
Diluted earnings per common share:			
Net earnings allocable to common shares[1]	**$ 1,449**	$ 1,182	$ 97
Weighted–average common shares	**315**	312	311
Dilutive effect of share–based awards	**2**	2	1
Weighted–average diluted shares	**317**	314	312
Diluted earnings per common share	**$ 4.57**	$ 3.76	$ 0.31
Anti–dilutive options excluded from diluted earnings per common share	**9.3**	11.5	12.6

(1) Net earnings available to participating securities were immaterial in all periods presented.

NOTE 11: INCOME TAXES

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

	2011	2010	2009
Current provision (benefit)			
Domestic:			
Federal	**$ 79**	$ 36	$ (35)
State and local	**48**	54	18
Foreign	**198**	207	214
	325	297	197
Deferred provision (benefit)			
Domestic:			
Federal	**485**	408	327
State and local	**12**	15	48
Foreign	**(9)**	(10)	7
	488	413	382
	$ 813	$ 710	$ 579

Our current federal income tax expenses in 2011, 2010, and 2009 were significantly reduced by accelerated depreciation deductions we claimed under provisions of the Tax Relief and the Small Business Jobs Acts of 2010, the American Recovery and Reinvestment Tax Act of 2009, and the Economic Stimulus Act of 2008. Those acts, designed to stimulate new business investment in the U.S., accelerated our depreciation deductions for new qualifying investments, such as our new Boeing 777 freighter ("B777F") aircraft. These are timing benefits only, in that the depreciation would have otherwise been recognized in later years.

Pre–tax earnings of foreign operations for 2011, 2010 and 2009 were $472 million, $555 million and $106 million, respectively, which represent 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:

	2011	2010	2009
Statutory U.S. income tax rate	**35.0%**	35.0%	35.0%
Increase resulting from:			
Goodwill impairment	**–**	–	48.0
State and local income taxes, net of federal benefit	**1.7**	2.4	1.9
Other, net	**(0.8)**	0.1	0.7
Effective tax rate	**35.9%**	37.5%	85.6%

Our 2011 rate was lower than our 2010 rate primarily due to increased permanently reinvested foreign earnings and a lower state tax rate driven principally by favorable audit and legislative developments. Our 2009 rate was significantly impacted by goodwill impairment charges that are not deductible for income tax purposes.

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

	2011		2010	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment, leases and intangibles	**$ 274**	**$ 2,675**	$ 377	$ 2,157
Employee benefits	**1,016**	**34**	783	36
Self–insurance accruals	**519**	**–**	416	–
Other	**422**	**269**	490	238
Net operating loss/credit carryforwards	**172**	**–**	142	–
Valuation allowances	**(151)**	**–**	(139)	–
	$ 2,252	**$ 2,978**	$ 2,069	$ 2,431

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

	2011	2010
Current deferred tax asset	**$ 610**	$ 529
Noncurrent deferred tax liability	**(1,336)**	(891)
	$ (726)	$ (362)

We have $484 million of net operating loss carryovers in various foreign jurisdictions and $524 million of state operating loss carryovers. The valuation allowances primarily represent amounts reserved for operating loss and tax credit carryforwards, which expire over varying periods starting in 2012. 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 $640 million at the end of 2011 and $325 million at the end of 2010. We have not recognized deferred taxes for U.S. federal income tax purposes on the unremitted earnings of our foreign subsidiaries that are permanently reinvested. In 2011, our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a 1.3% benefit to our effective tax rate. Were the earnings to be distributed, in the form of dividends or otherwise, these unremitted earnings would be subject to U.S. federal income tax and non–U.S. withholding taxes. Unrecognized foreign tax credits potentially would be available to reduce a portion of the U.S. tax liability. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable due to uncertainties related to the timing and source of any potential distribution of such funds, along with other important factors such as the amount of associated foreign tax credits. As of May 31, 2011, we had $300 million of cash in offshore jurisdictions associated with our permanent reinvestment strategy.

We file income tax returns in the U.S., various U.S. state and local jurisdictions, and various foreign jurisdictions. The Internal Revenue Service is currently auditing our consolidated U.S. income tax returns for the 2007 through 2009 tax years. We are no longer subject to U.S. federal income tax examination for years through 2006 except for specific U.S. federal income tax positions that are in various stages of appeal and/or litigation. No resolution date can be reasonably estimated at this time for these appeals and litigation, but their resolution is not expected to have a material effect on our consolidated financial statements. 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):

	2011	2010	2009
Balance at beginning of year	**$ 82**	$ 72	$ 88
Increases for tax positions taken in the current year	**2**	3	7
Increases for tax positions taken in prior years	**6**	14	10
Decreases for tax positions taken in prior years	**(10)**	(4)	(30)
Settlements	**(11)**	(3)	(3)
Balance at end of year	**$ 69**	$ 82	$ 72

Our liabilities recorded for uncertain tax positions include $56 million at May 31, 2011 and $67 million at May 31, 2010 associated with positions that if favorably resolved would provide a benefit to our effective tax rate. 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 balance of accrued interest and penalties was $18 million on May 31, 2011 and $20 million on May 31, 2010. Total interest and penalties included in our consolidated statements of income are immaterial. Included in the 2011 and 2010 balances are $9 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. Changes may result from the conclusion of ongoing audits, appeals or litigation 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 uncertain tax positions includes no matters that are individually or collectively 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 uncertain tax positions 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 postretirement 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. Pension Plans.

The accounting guidance related to postretirement benefits 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. At May 31, 2011, we recorded a decrease to equity of $350 million (net of tax) attributable to our plans. At May 31, 2010, we recorded a decrease to equity of $1 billion (net of tax) to reflect unrealized actuarial losses during 2010.

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

	2011	2010	2009
U.S. domestic and international pension plans	**$ 543**	$ 308	$ 177
U.S. domestic and international defined contribution plans	**257**	136	237
Postretirement healthcare plans	**60**	42	57
	$ 860	$ 486	$ 471

PENSION PLANS. Our largest pension plan covers certain U.S. employees age 21 and over, with at least one year of service. Pension benefits for most employees are accrued under a cash balance formula we call the Portable Pension Account. 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. The Portable Pension Account benefit is payable as a lump sum or an annuity at retirement at the election of the employee. The plan interest credit rate varies from year to year based on a U.S. Treasury index. Prior to 2009, certain employees earned benefits using a traditional pension formula (based on average earnings and years of service); however, benefits under this formula were capped on May 31, 2008. 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 compliance with local laws and practices.

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.

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 use a measurement date of May 31 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. 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. Additional information about our pension plans can be found in the Critical Accounting Estimates section of Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") in this Annual Report.

Weighted–average actuarial assumptions for our primary U.S. retirement plans, which represent substantially all of our PBO and accumulated postretirement benefit obligation ("APBO"), are as follows:

	Pension Plans			Postretirement Healthcare Plans		
	2011	2010	2009	**2011**	2010	2009
Discount rate used to determine benefit obligation	**5.76%**	6.37%	7.68%	**5.67%**	6.11%	7.27%
Discount rate used to determine net periodic benefit cost	**6.37**	7.68	7.15	**6.11**	7.27	7.13
Rate of increase in future compensation levels used to determine benefit obligation	**4.58**	4.63	4.42	**–**	–	–
Rate of increase in future compensation levels used to determine net periodic benefit cost	**4.63**	4.42	4.49	**–**	–	–
Expected long–term rate of return on assets	**8.00**	8.00	8.50	**–**	–	–

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. Establishing the expected future rate of investment return on our pension assets is a judgmental matter. We review the expected long–term rate of return on an annual basis and revise it as appropriate. 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 time; and
- the investment returns we can reasonably expect our investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

Our estimated long–term rate of return on plan assets remains at 8% for 2012, consistent with our expected rate of return in 2011 and 2010. For the 15–year period ended May 31, 2011, our actual returns were 7.8%.

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) by amortizing certain actuarial gains or losses over a period no longer than four years. Another method used in practice applies the market value of plan assets at the measurement date. For purposes of valuing plan assets for determining 2012 pension expense, we used the calculated–value method, as our actual returns on plan assets significantly exceeded our assumptions. However, as previously indicated, our pension costs in 2012 are expected to remain flat. The calculated–value method resulted in the same value as the market value in 2011. The calculated–value method significantly mitigated the impact of asset value declines in the determination of our 2010 pension expense, reducing our 2010 expense by approximately $135 million.

The investment strategy for pension plan assets is to utilize a diversified mix of global public and private equity portfolios, together with fixed–income portfolios, to earn a long–term investment return that meets our pension plan obligations. Our pension plan assets are invested primarily in listed securities, and 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. Our largest holding classes are U.S. Large Cap Equities, which is indexed to an S&P 500 fund, and Corporate and U.S. Government Fixed Income Securities. Accordingly, we do not have any significant concentrations of risk. Active management strategies are utilized within the plan in an effort to realize investment returns in excess of market indices. As part of our strategy to manage future pension costs and net funded status volatility, we have transitioned to a liability–driven investment strategy with a greater concentration of fixed–income securities to better align plan assets with liabilities. Our investment strategy also includes the limited use of derivative financial instruments on a discretionary basis to improve investment returns and manage exposure to market risk. In all cases, our investment managers are prohibited from using derivatives for speculative purposes and are not permitted to use derivatives to leverage a portfolio.

Following is a description of the valuation methodologies used for investments measured at fair value:

- Cash and cash equivalents. These Level 1 investments include cash, cash equivalents and foreign currency valued using exchange rates. The Level 2 investments include commingled funds valued using the net asset value.
- Domestic and international equities. These Level 1 investments are valued at the closing price or last trade reported on the major market on which the individual securities are traded. The Level 2 investments are commingled funds valued using the net asset value.
- Private equity. The valuation of these Level 3 investments requires significant judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long–term nature of such assets. Investments are valued based upon recommendations of our investment managers incorporating factors such as contributions and distributions, market transactions, market comparables and performance multiples.
- Fixed income. We determine the fair value of these Level 2 corporate bonds, U.S. government securities and other fixed income securities by using bid evaluation pricing models or quoted prices of securities with similar characteristics.

The fair values of investments by level and asset category and the weighted–average asset allocations for our domestic pension plans at the measurement date are presented in the following table (in millions):

	Plan Assets at Measurement Date					
	2011					
Asset Class	Fair Value	Actual%	Target%	Quoted Prices in Active Markets Level 1	Other Observable Inputs Level 2	Unobservable Inputs Level 3
Cash and cash equivalents	**$ 409**	**3%**	**1%**	**$ 107**	**$ 302**	
Domestic equities						
U.S. large cap equity	**4,280**	**27**	**24**	**26**	**4,254**	
U.S. SMID cap equity	**1,481**	**10**	**9**	**1,481**		
International equities	**2,013**	**13**	**12**	**1,702**	**311**	
Private equities	**403**	**3**	**5**			**$ 403**
Fixed income securities			**49**			
Corporate	**3,794**	**24**			**3,794**	
U.S. government	**3,135**	**20**			**3,135**	
Mortgage backed and other	**66**	**–**			**66**	
Other	**(63)**	**–**	**–**	**(59)**	**(4)**	
	$ 15,518	**100%**	**100%**	**$ 3,257**	**$ 11,858**	**$ 403**

	2010					
Asset Class	Fair Value	Actual%	Target%	Quoted Prices in Active Markets Level 1	Other Observable Inputs Level 2	Unobservable Inputs Level 3
Cash and cash equivalents	$ 427	3%	1%	$ 145	$ 282	
Domestic equities						
U.S. large cap equity	3,374	26	24		3,374	
U.S. SMID cap equity	1,195	9	9	1,195		
International equities	1,502	12	12	1,262	240	
Private equities	399	3	5			$ 399
Fixed income securities			49			
Corporate	3,546	27			3,546	
U.S. government	2,537	19			2,537	
Mortgage backed and other	122	1			122	
Other	(47)	–	–	(46)	(1)	
	$ 13,055	100%	100%	$ 2,556	$ 10,100	$ 399

The change in fair value of Level 3 assets that use significant unobservable inputs is shown in the table below (in millions):

Beginning balance May 31, 2009	$ 341
Actual return on plan assets:	
Assets held at May 31, 2010	38
Assets sold during the year	24
Purchases, sales and settlements	(4)
Balance at May 31, 2010	399
Actual return on plan assets:	
Assets held at May 31, 2011	**27**
Assets sold during the year	**36**
Purchases, sales and settlements	**(59)**
Ending balance May 31, 2011	**$ 403**

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, 2011 and a statement of the funded status as of May 31, 2011 and 2010 (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	2011	2010	**2011**	2010
Accumulated Benefit Obligation ("ABO")	**$ 16,806**	$ 14,041		
Changes in Projected Benefit Obligation ("PBO") and Accumulated Postretirement Benefit Obligation ("APBO")				
PBO/APBO at the beginning of year	**$ 14,484**	$ 11,050	**$ 565**	$ 433
Service cost	**521**	417	**31**	24
Interest cost	**900**	823	**34**	30
Actuarial loss	**1,875**	2,607	**44**	102
Benefits paid	**(468)**	(391)	**(48)**	(45)
Other	**60**	(22)	**22**	21
PBO/APBO at the end of year	**$ 17,372**	$ 14,484	**$ 648**	$ 565
Change in Plan Assets				
Fair value of plan assets at the beginning of year	**$ 13,295**	$ 10,812	**$ –**	$ –
Actual return on plan assets	**2,425**	1,994	**–**	–
Company contributions	**557**	900	**26**	24
Benefits paid	**(468)**	(391)	**(48)**	(45)
Other	**32**	(20)	**22**	21
Fair value of plan assets at the end of year	**$ 15,841**	$ 13,295	**$ –**	$ –
Funded Status of the Plans	**$ (1,531)**	$ (1,189)	**$ (648)**	$ (565)
Amount Recognized in the Balance Sheet at May 31:				
Current pension, postretirement healthcare and other benefit obligations	**$ (33)**	$ (30)	**$ (31)**	$ (28)
Noncurrent pension, postretirement healthcare and other benefit obligations	**(1,498)**	(1,159)	**(617)**	(537)
Net amount recognized	**$ (1,531)**	$ (1,189)	**$ (648)**	$ (565)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost:				
Net actuarial loss (gain)	**$ 5,386**	$ 5,157	**$ (85)**	$ (134)
Prior service (credit) cost and other	**(993)**	(1,106)	**2**	2
Total	**$ 4,393**	$ 4,051	**$ (83)**	$ (132)
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)	**$ 307**	$ 284	**$ (1)**	$ (5)
Prior service credit and other	**(112)**	(113)	**–**	–
Total	**$ 195**	$ 171	**$ (1)**	$ (5)

Our pension plans included the following components at May 31, 2011 and 2010 (in millions):

	ABO	PBO	Fair Value of Plan Assets	Funded Status
2011				
Qualified	**$ 16,024**	**$ 16,445**	**$ 15,518**	**$ (927)**
Nonqualified	**335**	**339**	**–**	**(339)**
International Plans	**447**	**588**	**323**	**(265)**
Total	**$ 16,806**	**$ 17,372**	**$ 15,841**	**$ (1,531)**
2010				
Qualified	$ 13,311	$ 13,635	$ 13,055	$ (580)
Nonqualified	346	348	–	(348)
International Plans	384	501	240	(261)
Total	$ 14,041	$ 14,484	$ 13,295	$ (1,189)

The table above provides the ABO, PBO, fair value of plan assets and funded status of our pension plans on an aggregated basis. The following table presents our plans on a disaggregated basis to show those plans (as a group) whose assets did not exceed their liabilities. These plans are comprised of our unfunded nonqualified plans, certain international plans and our U.S. Pension Plans. At May 31, 2011 and 2010, the fair value of plan assets for pension plans with a PBO or ABO in excess of plan assets were as follows (in millions):

	PBO Exceeds the Fair Value of Plan Assets	
	2011	2010
Pension Benefits		
Fair value of plan assets	**$ 15,815**	$ 13,295
PBO	**(17,346)**	(14,484)
Net funded status	**$ (1,531)**	$ (1,189)

	ABO Exceeds the Fair Value of Plan Assets	
Pension Benefits	**2011**	2010
ABO[(1)]	**$ (16,530)**	$ (14,014)
Fair value of plan assets	**15,538**	13,263
PBO	**(17,014)**	(14,441)
Net funded status	**$ (1,476)**	$ (1,178)

(1) ABO not used in determination of funded status.

Contributions to our U.S. Pension Plans for the years ended May 31 were as follows (in millions):

	2011	2010
Required	**$ 359**	$ 353
Voluntary	**121**	495
	$ 480	$ 848

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

	Pension Plans			Postretirement Healthcare Plans		
	2011	2010	2009	**2011**	2010	2009
Service cost	**$ 521**	$ 417	$ 499	**$ 31**	$ 24	$ 31
Interest cost	**900**	823	798	**34**	30	33
Expected return on plan assets	**(1,062)**	(955)	(1,059)	**–**	–	–
Recognized actuarial losses (gains) and other	**184**	23	(61)	**(5)**	(12)	(7)
Net periodic benefit cost	**$ 543**	$ 308	$ 177	**$ 60**	$ 42	$ 57

The increase in pension costs from 2010 to 2011 was due to a significantly lower discount rate used to measure our benefit obligations at our May 31, 2010 measurement date.

Amounts recognized in OCI for all plans were as follows (in millions):

	2011				2010			
	Pension Plans		Postretirement Healthcare Plans		Pension Plans		Postretirement Healthcare Plans	
	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount
Net loss and other arising during period	**$ 511**	**$ 321**	**$ 44**	**$ 26**	$ 1,562	$ 986	$ 102	$ 59
Loss from settlements and curtailments	**(13)**	**(8)**	**–**	**–**	–	–	–	–
Amortizations:								
Prior services credit	**113**	**71**	**–**	**–**	113	99	–	–
Actuarial (losses) gains and other	**(284)**	**(178)**	**5**	**3**	(130)	(114)	12	12
Total recognized in OCI	**$ 327**	**$ 206**	**$ 49**	**$ 29**	$ 1,545	$ 971	$ 114	$ 71

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

	Pension Plans	Postretirement Healthcare Plans
2012	$ 562	$ 31
2013	633	31
2014	694	33
2015	754	35
2016	843	37
2017–2021	5,667	225

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 8.3% during 2012, decreasing to an annual growth rate of 4.5% in 2029 and thereafter. Future dental benefit costs are estimated to increase at an annual rate of 7.0% during 2012, decreasing to an annual growth rate of 4.5% in 2029 and thereafter. A 1% change in these annual trend rates would not have a significant impact on the APBO at May 31, 2011 or 2011 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 SupplyChain Systems (logistics services)
FedEx Ground Segment	> FedEx Ground (small–package ground delivery) > FedEx SmartPost (small–parcel consolidator)
FedEx Freight Segment	> FedEx Freight (LTL freight transportation) > FedEx Custom Critical (time–critical transportation)
FedEx Services Segment	> FedEx Services (sales, marketing and information technology functions) > FedEx TechConnect (customer service, technical support, billings and collections) > FedEx Office (document and business services and package acceptance)

Effective January 30, 2011, our FedEx Freight and FedEx National LTL businesses were merged into a single operation. FedEx Freight now offers two standard services: FedEx Freight Priority, a faster transit service with a price premium; and FedEx Freight Economy, an economical service.

FEDEX SERVICES SEGMENT

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to obtain synergies from the combination of these functions. The FedEx Services segment includes: FedEx Services, which provides sales, marketing and information technology support to our other companies; FedEx TechConnect, which is responsible for customer service, technical support, billings and collections for U.S. customers of our major business units; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses. Effective September 1, 2009, FedEx SupplyChain Systems, formerly included in the FedEx Services reporting segment, was realigned to become part of the FedEx Express reporting segment. Prior year amounts have not been reclassified to conform to the current year segment presentation because these reclassifications are immaterial.

The FedEx Services segment provides direct and indirect support to our transportation businesses, and we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office are allocated to FedEx Express and FedEx Ground. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions. We review and evaluate the performance of our transportation segments based on operating income (inclusive of FedEx Services segment allocations). For the FedEx Services segment, performance is evaluated based on the impact of its total allocated net operating costs on our transportation segments.

The operating expenses line item "Intercompany charges" on the accompanying unaudited financial summaries of our transportation segments in MD&A reflects the allocations from the FedEx Services segment to the respective transportation segments. The "Intercompany charges" caption also includes charges and credits 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. We believe these allocations approximate the net cost of providing these functions.

Effective August 1, 2009, approximately 3,600 employees (predominantly from the FedEx Freight segment) were transferred to entities within the FedEx Services segment. This internal reorganization further centralized most customer support functions, such as sales, customer service and information technology, into our shared services organizations. While the reorganization had no impact on the net operating results of any of our transportation segments, the net intercompany charges to our FedEx Freight segment increased significantly with corresponding decreases to other expense captions, such as salaries and employee benefits. The impact of this internal reorganization to the expense captions in our other segments was immaterial.

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 our consolidated results and are not separately identified in the following segment information, as the amounts are not material.

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[1]	FedEx Ground Segment	FedEx Freight Segment[2]	FedEx Services Segment[3]	Other and Eliminations	Consolidated Total
Revenues						
2011	**$ 24,581**	**$ 8,485**	**$ 4,911**	**$ 1,684**	**$ (357)**	**$ 39,304**
2010	21,555	7,439	4,321	1,770	(351)	34,734
2009	22,364	7,047	4,415	1,977	(306)	35,497
Depreciation and amortization						
2011	**$ 1,059**	**$ 337**	**$ 205**	**$ 371**	**$ 1**	**$ 1,973**
2010	1,016	334	198	408	2	1,958
2009	961	337	224	451	2	1,975
Operating income (loss)						
2011	**$ 1,228**	**$ 1,325**	**$ (175)**	**$ –**	**$ –**	**$ 2,378**
2010	1,127	1,024	(153)	–	–	1,998
2009	794	807	(44)	(810)	–	747
Segment assets[4]						
2011	**$ 16,463**	**$ 5,048**	**$ 2,664**	**$ 4,278**	**$ (1,068)**	**$ 27,385**
2010	14,819	4,118	2,786	4,079	(900)	24,902
2009	13,483	3,291	3,044	3,240	1,186	24,244

(1) FedEx Express segment 2011 operating expenses include a $66 million legal reserve associated with the ATA Airlines lawsuit, and 2009 operating expenses include a charge of $260 million primarily for aircraft–related asset impairments.

(2) FedEx Freight segment 2011 operating expenses include $133 million in costs associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011, and 2009 operating expenses include a charge of $100 million primarily for impairment charges associated with goodwill related to the FedEx National LTL acquisition.

(3) FedEx Services segment 2009 operating expenses include a charge of $810 million for impairment of goodwill related to the Kinko's (now known as FedEx Office) acquisition. The normal, ongoing net operating costs of the FedEx Services segment are allocated back to the transportation segments.

(4) 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
2011	**$ 2,467**	**$ 426**	**$ 153**	**$ 387**	**$ 1**	**$ 3,434**
2010	1,864	400	212	340	–	2,816
2009	1,348	636	240	235	–	2,459

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

	2011	2010	2009
Revenue by Service Type			
FedEx Express segment:			
Package:			
U.S. overnight box	**$ 6,128**	$ 5,602	$ 6,074
U.S. overnight envelope	**1,736**	1,640	1,855
U.S. deferred	**2,805**	2,589	2,789
Total domestic package revenue	**10,669**	9,831	10,718
International Priority (IP)	**8,228**	7,087	6,978
International domestic[1]	**653**	578	565
Total package revenue	**19,550**	17,496	18,261
Freight:			
U.S.	**2,188**	1,980	2,165
International priority	**1,722**	1,303	1,104
International airfreight	**283**	251	369
Total freight revenue	**4,193**	3,534	3,638
Other[2]	**838**	525	465
Total FedEx Express segment	**24,581**	21,555	22,364
FedEx Ground segment	**8,485**	7,439	7,047
FedEx Freight segment	**4,911**	4,321	4,415
FedEx Services segment	**1,684**	1,770	1,977
Other and eliminations	**(357)**	(351)	(306)
	$ 39,304	$ 34,734	$ 35,497
Geographical Information[3]			
Revenues:			
U.S.	**$ 27,461**	$ 24,852	$ 25,819
International:			
FedEx Express segment	**11,437**	9,547	9,363
FedEx Ground segment	**177**	140	124
FedEx Freight segment	**84**	60	39
FedEx Services segment	**145**	135	152
Total international revenue	**11,843**	9,882	9,678
	$ 39,304	$ 34,734	$ 35,497
Noncurrent assets:			
U.S.	**$ 17,235**	$ 16,089	$ 15,615
International	**1,865**	1,529	1,513
	$ 19,100	$ 17,618	$ 17,128

(1) International domestic revenues include our international intra–country domestic express operations.

(2) Other revenues includes FedEx Trade Networks and, beginning in the second quarter of 2010, FedEx SupplyChain Systems.

(3) 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. Our flight equipment registered in the U.S. is included as U.S. assets; however, many of our aircraft operate internationally.

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):

	2011	2010	2009
Cash payments for:			
Interest (net of capitalized interest)	**$ 93**	$ 88	$ 61
Income taxes	**$ 493**	$ 322	$ 517
Income tax refunds received	**(106)**	(279)	(8)
Cash tax payments, net	**$ 387**	$ 43	$ 509

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 $667 million in principal of these bonds (with total future principal and interest payments of approximately $886 million as of May 31, 2011) through these leases. Of the $667 million bond principal guaranteed, $116 million was included in capital lease obligations in our balance sheet at May 31, 2011. The remaining $551 million has been accounted for as operating leases.

NOTE 16: COMMITMENTS

Annual purchase commitments under various contracts as of May 31, 2011 were as follows (in millions):

	Aircraft and Aircraft Related	Facilities and Other[1]	Total
2012	$ 1,480	$ 918	$ 2,398
2013	1,086	105	1,191
2014	781	43	824
2015	569	30	599
2016	584	11	595
Thereafter	1,470	132	1,602

(1) Primarily vehicles, facilities, advertising and promotions contracts.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. Our obligation to purchase 15 of these B777F aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. 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.

We had $604 million in deposits and progress payments as of May 31, 2011 (an increase of $167 million from May 31, 2010) on aircraft purchases and other planned aircraft–related transactions. These deposits are classified in the "Other assets" caption of our consolidated balance sheets. In addition to our commitment to purchase B777Fs, our aircraft purchase commitments include the Boeing 757 ("B757") in passenger configuration, which will require additional costs to modify for cargo transport. 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, 2011, with the year of expected delivery:

	B757	B777F	Total
2012	16	7	23
2013	4	6	10
2014	–	7	7
2015	–	3	3
2016	–	3	3
Thereafter	–	7	7
Total	20	33	53

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. The following describes the wage–and–hour matters that have been certified as class actions.

In September 2008, in *Tidd v. Adecco USA, Kelly Services and FedEx Ground*, a Massachusetts federal court conditionally certified a class limited to individuals who were employed by two temporary employment agencies and who worked as temporary pickup–and–delivery drivers for FedEx Ground in the New England region within the past three years. Potential claimants must voluntarily "opt in" to the lawsuit in order to be considered part of the class. In addition, in the same opinion, the court granted summary judgment in favor of FedEx Ground with respect to the plaintiffs' claims for unpaid overtime wages. The court has since granted judgment in favor of the other two defendants with respect to the overtime claims. Accordingly, the conditionally certified class of plaintiffs was limited to a claim of failure to pay minimum wage due under the federal Fair Labor Standards Act. During the fourth quarter of fiscal 2011, FedEx Ground reached an agreement to settle this action for an immaterial amount.

In September 2009, in *Taylor v. FedEx Freight*, a California state court granted class certification, certifying a class of all current and former drivers employed by FedEx Freight in California who performed linehaul services since June 2003. The plaintiffs alleged, among other things, that they were forced to work "off the clock" and were not provided with required rest or meal breaks. We entered into a tentative settlement agreement with the plaintiffs in June 2011 for an immaterial amount, and the court's hearing to approve the settlement is anticipated to occur during the first half of fiscal 2012.

In April 2009, in *Bibo v. FedEx Express*, a California federal court granted class certification, certifying several subclasses of FedEx Express couriers in California from April 14, 2006 (the date of the settlement of the *Foster* class action) to the present. The plaintiffs allege that FedEx Express violated California wage–and–hour laws after the date of the *Foster* settlement. In particular, the plaintiffs allege, among other things, that they were forced to work "off the clock" and were not provided with required meal breaks or split–shift premiums. The U.S. Court of Appeals for the Ninth Circuit has refused to accept a discretionary appeal of the class certification order at this time. In April 2011, the court granted our motion for partial summary judgment regarding the proper method for calculating a split–shift premium, effectively eliminating the certified subclass for split–shift premiums. Although the claims for alleged off–the–clock work and missed meal periods are still pending, we do not believe that a material loss is reasonably possible with respect to these remaining claims. We have denied any liability and intend to vigorously defend ourselves in this matter.

INDEPENDENT CONTRACTOR — LAWSUITS AND STATE ADMINISTRATIVE PROCEEDINGS. FedEx Ground is involved in numerous class–action lawsuits (including 30 that have been certified as class actions), individual lawsuits and 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 were consolidated for administration of the pre–trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. The multidistrict litigation court granted class certification in 28 cases and denied it in 14 cases. On December 13, 2010, the court entered an opinion and order addressing all outstanding motions for summary judgment on the status of the owner–operators (*i.e.*, independent contractor vs. employee). In sum, the court has now ruled on our summary judgment motions and entered judgment in favor of FedEx Ground on all claims in 20 of the 28 multidistrict litigation cases that had been certified as class actions, finding that the owner–operators in those cases were contractors as a matter of the law of the following states: Alabama, Arizona, Georgia, Indiana, Kansas (the court previously dismissed without prejudice the nationwide class claim under the Employee Retirement Income Security Act of 1974 based on the plaintiffs' failure to exhaust administrative remedies), Louisiana, Maryland, Minnesota, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, West Virginia and Wisconsin. The plaintiffs filed notices of appeal in all of these 20 cases.

In the other eight certified class actions in the multidistrict litigation, the court ruled in favor of FedEx Ground on some of the claims and against FedEx Ground on at least one claim in three of the cases (filed in Kentucky, Nevada and New Hampshire) and then remanded all eight cases back to district court in the following states for resolution of the remaining claims: Arkansas, California, Florida, Kentucky, Nevada, New Hampshire and Oregon (two certified classes). In January 2011, we asked the court to issue final judgments in these eight cases, and the court denied our motion. In July 2011, we filed a petition for mandamus to the Seventh Circuit asking the appeals court to require these cases to be returned to the multidistrict litigation court for issuance of a final judgment so that all appeals of the December 2010 summary judgment rulings would be heard by the Seventh Circuit.

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 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. In March 2009, a jury trial in the *Anfinson* case was held, and the jury returned a verdict in favor of FedEx Ground, finding that all 320 class members were independent contractors, not employees. The plaintiffs appealed the verdict. In December 2010, the Washington Court of Appeals reversed and remanded for further proceedings, including a new trial. We filed a motion to reconsider, and this motion was denied. In March 2011, we filed a discretionary appeal with the Washington Supreme Court.

In August 2010, another one of the contractor–model lawsuits that is not part of the multidistrict litigation, *Rascon v. FedEx Ground*, was certified as a class action by a Colorado state court. The plaintiff in *Rascon* represents a class of single–route, pickup–and–delivery owner–operators in Colorado who drove vehicles weighing less than 10,001 pounds at any time from August 27, 2005 through the present. The lawsuit seeks unpaid overtime compensation, and related penalties and attorneys' fees and costs, under Colorado law. Our applications for appeal challenging this class certification decision have been rejected.

Other contractor–model cases that are not or are no longer part of the multidistrict litigation are in varying stages of litigation.

With respect to the state administrative proceedings relating to the classification of FedEx Ground's owner–operators as independent contractors, during the second quarter of 2011, the attorneys general in New York and Kentucky each filed lawsuits against FedEx Ground challenging the validity of the contractor model.

While the granting of summary judgment in favor of FedEx Ground by the multidistrict litigation court in 20 of the 28 cases that had been certified as class actions remains subject to appeal, we believe that it significantly improves the likelihood that our independent contractor model will be upheld. Adverse determinations in the remaining matters related to FedEx Ground's independent contractors, however, 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 in certain jurisdictions. 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. While it is reasonably possible that potential loss in some of these lawsuits or such changes to the independent contractor status of FedEx Ground's owner–operators could be material, we cannot yet determine the amount or reasonable range of potential loss. A number of factors contribute to this. The number of plaintiffs in these lawsuits continues to change, with some being dismissed and others being added and, as to new plaintiffs, no discovery has been conducted. In addition, the parties have not yet conducted any discovery into damages, which could vary considerably from plaintiff to plaintiff. Further, the range of potential loss could be impacted considerably by future rulings on the merits of certain claims and FedEx Ground's various defenses, and on evidentiary issues. In any event, we do not believe that a material loss is probable in these matters.

ATA AIRLINES. In October 2010, a jury returned a verdict in favor of ATA Airlines in its lawsuit against FedEx Express and awarded damages of $66 million, and in January 2011, the court awarded ATA pre–judgment interest of $5 million. The suit was filed in Indiana federal court and alleged that we had breached a contract by not including ATA on our 2009 Civil Reserve Air Fleet (CRAF)/Air Mobility Command (AMC) team, which provides cargo and passenger service to the U.S. military. While we do not agree with the verdict or the amount of damages awarded and have appealed the matter to the U.S. Court of Appeals for the Seventh Circuit, accounting standards

required an accrual of a $66 million loss in the second quarter of 2011. We did not accrue the $5 million of interest as a loss because we have additional arguments on appeal that lead us to believe that loss of that amount is not probable.

CALIFORNIA PAYSTUB CLASS ACTION. A federal court in California ruled in April 2011 that paystubs for certain FedEx Express employees in California did not meet that state's requirements to reflect pay period begin date, total overtime hours worked and the correct overtime wage rate. The ruling came in a class action lawsuit filed by a former courier seeking damages on behalf of herself and all other FedEx Express employees in California that allegedly received non-compliant paychecks. The court certified the class in June 2011. The court has ruled that FedEx Express is liable to the State of California, and there will be a ruling as to whether FedEx Express is liable to class members who can prove they were injured by the paystub deficiencies. The judge has not yet decided on the amount, if any, of liability to the State of California or to the class, but has wide discretion. A material loss in this matter is reasonably possible but not estimable because both the number of class members and the amount, if any, to which some class members may be entitled is uncertain, and in ruling the judge may consider some or all of the following: whether employees suffered injury; whether remedial action was undertaken; whether there was knowledge of any violation; whether any violation was intentional; and whether any award would be unjust under the circumstances.

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.

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	Third Quarter	Fourth Quarter
2011				
Revenues	**$ 9,457**	**$ 9,632**	**$ 9,663**	**$ 10,552**
Operating income	**628**	**469**	**393**	**888**
Net income	**380**	**283**	**231**	**558**
Basic earnings per common share[1]	**1.21**	**0.90**	**0.73**	**1.76**
Diluted earnings per common share	**1.20**	**0.89**	**0.73**	**1.75**
2010				
Revenues	$ 8,009	$ 8,596	$ 8,701	$ 9,428
Operating income	315	571	416	696
Net income	181	345	239	419
Basic earnings per common share	0.58	1.10	0.76	1.34
Diluted earnings per common share[1]	0.58	1.10	0.76	1.33

(1) The sum of the quarterly earnings per share may not equal annual amounts due to differences in the weighted–average number of shares outstanding during the respective period.

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, as amended.

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee $1 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 Subsidiaries" and "Non–guarantor Subsidiaries" 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, 2011				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 1,589	$ 279	$ 546	$ (86)	$ 2,328
Receivables, less allowances	–	3,696	912	(27)	4,581
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	77	645	44	–	766
Deferred income taxes	–	598	12	–	610
Total current assets	1,666	5,218	1,514	(113)	8,285
Property and Equipment, at Cost	24	31,916	1,746	–	33,686
Less accumulated depreciation and amortization	18	17,071	1,054	–	18,143
Net property and equipment	6	14,845	692	–	15,543
Intercompany Receivable	–	–	1,317	(1,317)	–
Goodwill	–	1,564	762	–	2,326
Investment in Subsidiaries	15,404	2,705	–	(18,109)	–
Other Assets	1,652	1,039	63	(1,523)	1,231
	$ 18,728	$ 25,371	$ 4,348	$ (21,062)	$ 27,385
Liabilities and Stockholders' Investment					
Current Liabilities					
Current portion of long–term debt	$ –	$ 18	$ –	$ –	$ 18
Accrued salaries and employee benefits	50	1,071	147	–	1,268
Accounts payable	–	1,385	430	(113)	1,702
Accrued expenses	198	1,563	133	–	1,894
Total current liabilities	248	4,037	710	(113)	4,882
Long–Term Debt, Less Current Portion	1,000	667	–	–	1,667
Intercompany Payable	1,095	222	–	(1,317)	–
Other Long–Term Liabilities					
Deferred income taxes	–	2,842	17	(1,523)	1,336
Other liabilities	1,165	3,001	114	–	4,280
Total other long–term liabilities	1,165	5,843	131	(1,523)	5,616
Stockholders' Investment	15,220	14,602	3,507	(18,109)	15,220
	$ 18,728	$ 25,371	$ 4,348	$ (21,062)	$ 27,385

CONDENSED CONSOLIDATING BALANCE SHEETS

	May 31, 2010				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 1,310	$ 258	$ 443	$ (59)	$ 1,952
Receivables, less allowances	1	3,425	782	(45)	4,163
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	5	581	54	–	640
Deferred income taxes	–	492	37	–	529
Total current assets	1,316	4,756	1,316	(104)	7,284
Property and Equipment, at Cost	23	29,193	2,086	–	31,302
Less accumulated depreciation and amortization	18	15,801	1,098	–	16,917
Net property and equipment	5	13,392	988	–	14,385
Intercompany Receivable	–	–	1,132	(1,132)	–
Goodwill	–	1,551	649	–	2,200
Investment in Subsidiaries	13,850	2,619	–	(16,469)	–
Other Assets	1,527	801	99	(1,394)	1,033
	$ 16,698	$ 23,119	$ 4,184	$ (19,099)	$ 24,902
Liabilities and Stockholders' Investment					
Current Liabilities					
Current portion of long–term debt	$ 250	$ 12	$ –	$ –	$ 262
Accrued salaries and employee benefits	36	955	155	–	1,146
Accounts payable	8	1,196	422	(104)	1,522
Accrued expenses	47	1,488	180	–	1,715
Total current liabilities	341	3,651	757	(104)	4,645
Long–Term Debt, Less Current Portion	1,000	668	–	–	1,668
Intercompany Payable	702	430	–	(1,132)	–
Other Long–Term Liabilities					
Deferred income taxes	–	2,253	32	(1,394)	891
Other liabilities	844	2,921	122	–	3,887
Total other long–term liabilities	844	5,174	154	(1,394)	4,778
Stockholders' Investment	13,811	13,196	3,273	(16,469)	13,811
	$ 16,698	$ 23,119	$ 4,184	$ (19,099)	$ 24,902

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Year Ended May 31, 2011				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ –	$ 33,124	$ 6,498	$ (318)	$ 39,304
Operating Expenses:					
Salaries and employee benefits	109	13,206	1,961	–	15,276
Purchased transportation	–	4,034	1,745	(105)	5,674
Rentals and landing fees	4	2,209	253	(4)	2,462
Depreciation and amortization	1	1,784	188	–	1,973
Fuel	–	4,003	148	–	4,151
Maintenance and repairs	1	1,862	116	–	1,979
Impairment and other charges	–	28	61	–	89
Intercompany charges, net	(222)	(317)	539	–	–
Other	107	4,392	1,032	(209)	5,322
	–	31,201	6,043	(318)	36,926
Operating Income	–	1,923	455	–	2,378
Other Income (Expense):					
Equity in earnings of subsidiaries	1,452	200	–	(1,652)	–
Interest, net	(88)	13	(2)	–	(77)
Intercompany charges, net	104	(135)	31	–	–
Other, net	(16)	(14)	(6)	–	(36)
Income Before Income Taxes	1,452	1,987	478	(1,652)	2,265
Provision for income taxes	–	677	136	–	813
Net Income	$ 1,452	$ 1,310	$ 342	$ (1,652)	$ 1,452

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Year Ended May 31, 2010				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ –	$ 29,360	$ 5,700	$ (326)	$ 34,734
Operating Expenses:					
Salaries and employee benefits	91	12,026	1,910	–	14,027
Purchased transportation	–	3,424	1,392	(88)	4,728
Rentals and landing fees	4	2,118	240	(3)	2,359
Depreciation and amortization	1	1,751	206	–	1,958
Fuel	–	2,946	160	–	3,106
Maintenance and repairs	1	1,589	125	–	1,715
Impairment and other charges	–	–	18	–	18
Intercompany charges, net	(202)	(109)	311	–	–
Other	105	3,950	1,005	(235)	4,825
	–	27,695	5,367	(326)	32,736
Operating Income	–	1,665	333	–	1,998
Other Income (Expense):					
Equity in earnings of subsidiaries	1,184	161	–	(1,345)	–
Interest, net	(100)	41	(12)	–	(71)
Intercompany charges, net	114	(147)	33	–	–
Other, net	(14)	(18)	(1)	–	(33)
Income Before Income Taxes	1,184	1,702	353	(1,345)	1,894
Provision for income taxes	–	625	85	–	710
Net Income	$ 1,184	$ 1,077	$ 268	$ (1,345)	$ 1,184

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

	Year Ended May 31, 2009				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ –	$ 29,923	$ 5,851	$ (277)	$ 35,497
Operating Expenses:					
Salaries and employee benefits	82	11,483	2,202	–	13,767
Purchased transportation	–	3,362	1,211	(39)	4,534
Rentals and landing fees	4	2,134	296	(5)	2,429
Depreciation and amortization	2	1,706	267	–	1,975
Fuel	–	3,554	257	–	3,811
Maintenance and repairs	1	1,755	142	–	1,898
Impairment and other charges	–	1,098	106	–	1,204
Intercompany charges, net	(193)	81	112	–	–
Other	104	4,198	1,063	(233)	5,132
	–	29,371	5,656	(277)	34,750
Operating Income	–	552	195	–	747
Other Income (Expense):					
Equity in earnings of subsidiaries	98	103	–	(201)	–
Interest, net	(73)	28	(14)	–	(59)
Intercompany charges, net	90	(118)	28	–	–
Other, net	(17)	(3)	9	–	(11)
Income Before Income Taxes	98	562	218	(201)	677
Provision for income taxes	–	514	65	–	579
Net Income	$ 98	$ 48	$ 153	$ (201)	$ 98

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended May 31, 2011				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	$ 25	$ 3,978	$ 65	$ (27)	$ 4,041
Investing activities					
Capital expenditures	(1)	(3,263)	(170)	–	(3,434)
Business acquisition, net of cash acquired	–	(96)	–	–	(96)
Proceeds from asset dispositions and other	–	110	1	–	111
Cash used in investing activities	(1)	(3,249)	(169)	–	(3,419)
Financing activities					
Net transfers from (to) Parent	530	(994)	464	–	–
Payment on loan between subsidiaries	–	235	(235)	–	–
Intercompany dividends	–	61	(61)	–	–
Principal payments on debt	(250)	(12)	–	–	(262)
Proceeds from stock issuances	108	–	–	–	108
Excess tax benefit on the exercise of stock options	23	–	–	–	23
Dividends paid	(151)	–	–	–	(151)
Other, net	(5)	(9)	9	–	(5)
Cash (used in) provided by financing activities	255	(719)	177	–	(287)
Effect of exchange rate changes on cash	–	11	30	–	41
Net increase (decrease) in cash and cash equivalents	279	21	103	(27)	376
Cash and cash equivalents at beginning of period	1,310	258	443	(59)	1,952
Cash and cash equivalents at end of period	$ 1,589	$ 279	$ 546	$ (86)	$ 2,328

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended May 31, 2010				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	$ (450)	$ 2,942	$ 653	$ (7)	$ 3,138
Investing activities					
Capital expenditures	–	(2,661)	(155)	–	(2,816)
Proceeds from asset dispositions and other	–	38	(3)	–	35
Cash used in investing activities	–	(2,623)	(158)	–	(2,781)
Financing activities					
Net transfers from (to) Parent	531	(397)	(134)	–	–
Payment on loan between subsidiaries	–	72	(72)	–	–
Intercompany dividends	–	158	(158)	–	–
Principal payments on debt	(500)	(153)	–	–	(653)
Proceeds from stock issuances	94	–	–	–	94
Excess tax benefit on the exercise of stock options	25	–	–	–	25
Dividends paid	(138)	–	–	–	(138)
Other, net	(20)	(5)	5	–	(20)
Cash used in financing activities	(8)	(325)	(359)	–	(692)
Effect of exchange rate changes on cash	–	(8)	3	–	(5)
Net (decrease) increase in cash and cash equivalents	(458)	(14)	139	(7)	(340)
Cash and cash equivalents at beginning of period	1,768	272	304	(52)	2,292
Cash and cash equivalents at end of period	$ 1,310	$ 258	$ 443	$ (59)	$ 1,952

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Year Ended May 31, 2009				
	Parent	Guarantor Subsidiaries	Non–guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	$ (924)	$ 3,156	$ 573	$ (52)	$ 2,753
Investing activities					
Capital expenditures	–	(2,248)	(211)	–	(2,459)
Proceeds from asset dispositions and other	–	69	7	–	76
Cash used in investing activities	–	(2,179)	(204)	–	(2,383)
Financing activities					
Net transfers from (to) Parent	1,173	(1,066)	(107)	–	–
Payment on loan from Parent	17	–	(17)	–	–
Payment on loan between subsidiaries	–	36	(36)	–	–
Intercompany dividends	–	165	(165)	–	–
Principal payments on debt	(500)	–	(1)	–	(501)
Proceeds from debt issuance	1,000	–	–	–	1,000
Proceeds from stock issuances	41	–	–	–	41
Excess tax benefit on the exercise of stock options	4	–	–	–	4
Dividends paid	(137)	–	–	–	(137)
Other, net	(7)	–	–	–	(7)
Cash provided by (used in) financing activities	1,591	(865)	(326)	–	400
Effect of exchange rate changes on cash	–	(6)	(11)	–	(17)
Net increase (decrease) in cash and cash equivalents	667	106	32	(52)	753
Cash and cash equivalents at beginning of period	1,101	166	272	–	1,539
Cash and cash equivalents at end of period	$ 1,768	$ 272	$ 304	$ (52)	$ 2,292

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, 2011 and 2010, 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, 2011. 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2011, in conformity with U.S. generally accepted accounting principles.

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, 2011, 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 12, 2011 expressed an unqualified opinion thereon.

Ernst & Young LLP

Memphis, Tennessee
July 12, 2011

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, 2011. This information should be read in conjunction with the Consolidated Financial Statements, MD&A and other financial data appearing elsewhere in this Annual Report.

	2011[(1)]	2010	2009[(2)]	2008[(3)]	2007[(4)]
Operating Results					
Revenues	**$ 39,304**	$ 34,734	$ 35,497	$ 37,953	$ 35,214
Operating income	**2,378**	1,998	747	2,075	3,276
Income before income taxes	**2,265**	1,894	677	2,016	3,215
Net income	**1,452**	1,184	98	1,125	2,016
Per Share Data					
Earnings per share:					
Basic	**$ 4.61**	$ 3.78	$ 0.31	$ 3.64	$ 6.57
Diluted	**$ 4.57**	$ 3.76	$ 0.31	$ 3.60	$ 6.48
Average shares of common stock outstanding	**315**	312	311	309	307
Average common and common equivalent shares outstanding	**317**	314	312	312	311
Cash dividends declared	**$ 0.48**	$ 0.44	$ 0.44	$ 0.30	$ 0.37
Financial Position					
Property and equipment, net	**$ 15,543**	$ 14,385	$ 13,417	$ 13,478	$ 12,636
Total assets	**27,385**	24,902	24,244	25,633	24,000
Long–term debt, less current portion	**1,667**	1,668	1,930	1,506	2,007
Common stockholders' investment	**15,220**	13,811	13,626	14,526	12,656
Other Operating Data					
FedEx Express aircraft fleet	**688**	667	654	677	669
Average full–time equivalent employees and contractors	**255,573**	245,109	247,908	254,142	241,903

(1) Results for 2011 include charges of approximately $199 million ($104 million, net of tax and applicable variable incentive compensation impacts, or $0.33 per diluted share) for the combination of our FedEx Freight and FedEx National LTL operations and a reserve associated with a legal matter at FedEx Express. See Notes 1 and 17 to the accompanying consolidated financial statements.

(2) Results for 2009 include a charge of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share) primarily for impairment charges associated with goodwill and aircraft. See Note 4 to the accompanying consolidated financial statements. Additionally, common stockholders' investment includes an other comprehensive income charge of $1.2 billion, net of tax, for the funded status of our retirement plans at May 31, 2009.

(3) Results for 2008 include a charge of $891 million ($696 million, net of tax, or $2.23 per diluted share) recorded during the fourth quarter, predominantly for impairment charges associated with intangible assets from the FedEx Office acquisition. See Note 4 to the accompanying consolidated financial statements. Additionally, results for 2008 and 2007 include several 2007 acquisitions.

(4) Results for 2007 include a charge of $143 million at FedEx Express associated with upfront compensation and benefits under our labor contract with our pilots.

BOARD OF DIRECTORS

James L. Barksdale [3*] [4]
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Barksdale Management Corporation
Investment management company

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

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

Shirley Ann Jackson [2] [4*]
President
Rensselaer Polytechnic Institute
Technological research university

Steven R. Loranger [2*] [4]
Chairman, President and
Chief Executive Officer
ITT Corporation
Engineering and manufacturing company

Gary W. Loveman [1] [3]
Chairman, President and
Chief Executive Officer
Caesars Entertainment Corporation
Branded gaming entertainment company

Susan C. Schwab [2]
Professor
University of Maryland
School of Public Policy
Former U.S. Trade Representative

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

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Chief Executive Officer
Waste Management, Inc.
Integrated waste management services company

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

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

EXECUTIVE OFFICERS AND SENIOR MANAGEMENT

FedEx Corporation

Frederick W. Smith
Chairman, President and Chief Executive Officer

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

Robert B. Carter
Executive Vice President,
FedEx Information Services and Chief Information Officer

Christine P. Richards
Executive Vice President, General Counsel and Secretary

T. Michael Glenn
Executive Vice President,
Market Development and Corporate Communications

John L. Merino
Corporate Vice President and Principal Accounting Officer

FedEx Express Segment

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President and Chief Executive Officer
FedEx Express

Michael L. Ducker
Executive Vice President and Chief Operating Officer
FedEx Express

James R. Parker
Executive Vice President, Air Operations
FedEx Express

Cathy D. Ross
Executive Vice President and Chief Financial Officer
FedEx Express

Manfred Schardt
President and Chief Executive Officer
FedEx Trade Networks

Craig M. Simon
President and Chief Executive Officer
FedEx SupplyChain Systems

FedEx Freight Segment

William J. Logue
President and Chief Executive Officer
FedEx Freight

Donald C. Brown
Executive Vice President, Finance and Administration
and Chief Financial Officer
FedEx Freight

Patrick L. Reed
Executive Vice President and Chief Operating Officer
FedEx Freight

Virginia C. Albanese
President and Chief Executive Officer
FedEx Custom Critical

FedEx Ground Segment

David F. Rebholz
President and Chief Executive Officer
FedEx Ground

Henry J. Maier
Executive Vice President
Strategic Planning and Communications
FedEx Ground

Michael P. Mannion
Executive Vice President and Chief Operating Officer
FedEx Ground

Ward B. Strang
President and Chief Executive Officer
FedEx SmartPost

FedEx Services Segment

Sherry A. Aaholm
Executive Vice President, Information Technology
FedEx Services

Donald F. Colleran
Executive Vice President, Global Sales
FedEx Services

Brian D. Philips
President and Chief Executive Officer
FedEx Office

Cary C. Pappas
President and Chief Executive Officer
FedEx TechConnect

CORPORATE INFORMATION

FEDEX CORPORATION: 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818–7500, fedex.com

ANNUAL MEETING OF SHAREOWNERS: Monday, September 26, 2011, 10:00 a.m. local time, FedEx World Technology Center, 50 FedEx Parkway, Collierville, Tennessee 38017

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

SHAREOWNERS: As of July 11, 2011, there were 14,370 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 2011 and 2010:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY2011				
High	**$ 87.74**	**$ 93.03**	**$ 98.52**	**$ 96.89**
Low	**69.78**	**79.04**	**87.54**	**85.03**
Dividend	**0.12**	**0.12**	**0.12**	**0.12**
FY2010				
High	$ 70.27	$ 85.43	$ 92.59	$ 97.75
Low	49.76	68.06	75.17	78.29
Dividend	0.11	0.11	0.11	0.11

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.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM: Ernst & Young LLP, Memphis, Tennessee

CUSTOMER SERVICE: Call 1–800–Go–FedEx or visit fedex.com.

MEDIA INQUIRIES: Jess Bunn, Manager, Investor Relations, 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, gender identity, age, disability, veteran status or, where applicable, marital status.

For more detail on the information in this report, visit http://www.fedex.com/us/investorrelations.

Our latest Global Citizenship Report is available at http://csr.fedex.com.

Strategy, writing and design by Hanley Wood, LLC, Minneapolis, MN. Printing by EarthColor Inc.

The minimized environmental footprint of this report is the result of an extensive, collaborative effort between FedEx and EarthColor Inc. Environmental impact was a main consideration from the inception of the project. This book is printed on Forest Stewardship Council™–certified, responsibly forested paper containing 10% recycled post–consumer waste fiber. This book was produced with the highest regard for the planet and its ecosystems and was printed using 100 percent green renewable wind power along with sustainable manufacturing principles employed in the printing process. These practices include socially responsible procurement, lean manufacturing, green chemistry principles, the recycling of residual materials and inks and coatings with reduced volatile organic compounds.

Carbon reduction strategies have been used to minimize the environmental impacts. Our efforts net the following savings:

- 110 trees preserved for the future
- 44 million BTUs of energy conserved
- 6,077.5 kWh of electricity offset
- 11,145 pounds of greenhouse gas reduced
- 50,256 gallons of water waste eliminated
- 3,185 pounds of solid waste eliminated

Sources: Environmental impact estimates were made using the Environmental Paper Network Paper Calculator and the U.S. EPA's power profiler.

IMAGINE

One world and one market.
A rising tide of commerce, connection, confluence.
Today global trade is the world's largest economy.
Increasing growth, prosperity and well being.
Energized by one force at the center of it all—FedEx.
One brand with unique global perspectives.
Dynamic solutions, innovations, people.
The strongest networks in the industry.
This is the defining momentum.
For us and the world.

FEDEX CORPORATION
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