

FEDEX CORP
Form 10-K
July 16, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2012.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.
Commission file number 1-15829

FEDEX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
*(State or Other Jurisdiction of
Incorporation or Organization)*

62-1721435
*(I.R.S. Employer
Identification No.)*

942 South Shady Grove Road, Memphis, Tennessee
(Address of Principal Executive Offices)

38120
(ZIP Code)

Registrant's telephone number, including area code: **(901) 818-7500**

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Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value \$0.10 per share | New York Stock Exchange |

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Rule 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing price as of the last business day of the Registrant's most recently completed second fiscal quarter, November 30, 2011, was approximately \$24.4 billion. The Registrant has no non-voting stock.

As of July 13, 2012, 316,599,754 shares of the Registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be delivered to stockholders in connection with the 2012 annual meeting of stockholders to be held on September 24, 2012 are incorporated by reference in response to Part III of this Report.

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PART I

ITEM 1. BUSINESS

Overview

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. These companies are included in four business segments:

FedEx Express: Federal Express Corporation (FedEx Express) is the world's largest express transportation company, offering time-certain delivery within one to three business days and serving markets that comprise more than 90% of the world's gross domestic product. The FedEx Express segment also includes FedEx Trade Networks, Inc., which provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding, and FedEx SupplyChain Systems, Inc., which offers a range of supply chain solutions.

FedEx Ground: FedEx Ground Package System, Inc. (FedEx Ground) is a leading North American provider of small-package ground delivery services. FedEx Ground provides low-cost, day-certain service to every business address in the United States and Canada, as well as residential delivery to nearly 100% of U.S. residences through its FedEx Home Delivery service. The FedEx Ground segment also includes FedEx SmartPost, Inc., which specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the U.S. Postal Service (USPS) for final delivery to any residential address or PO Box in the United States.

FedEx Freight: FedEx Freight, Inc. (FedEx Freight) is a leading North American provider of less-than-truckload (LTL) freight services, offering: FedEx Freight Priority, when speed is critical to meet supply chain needs; and FedEx Freight Economy, when time can be traded for cost savings. The FedEx Freight segment also offers freight delivery service throughout Canada and Mexico and includes FedEx Custom Critical, Inc., a leading North American provider of time-specific, critical shipment services.

FedEx Services: FedEx Corporate Services, Inc. (FedEx Services) provides our other companies with sales, marketing, information technology, communications and back-office support. The FedEx Services segment also includes FedEx TechConnect, Inc., which is responsible for customer service, billings and collections for our U.S. customers and offers technical support services, and FedEx Office and Print Services, Inc. (FedEx Office), which provides an array of document and business services and retail access to FedEx Express and FedEx Ground shipping services.

For financial information concerning our reportable business segments, refer to the accompanying financial section, which includes management's discussion and analysis of results of operations and financial condition and our consolidated financial statements.

Our Web site is located at fedex.com. Detailed information about our services, e-commerce tools and solutions, and citizenship efforts can be found on our Web site. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our Web site, as soon as reasonably practicable after they are filed with or furnished to the SEC. These and other SEC filings are available through the Investor Relations page of our Web site, <http://investors.fedex.com>. The information on our Web site, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

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Except as otherwise specified, any reference to a year indicates our fiscal year ended May 31 of the year referenced.

Strategy

FedEx was incorporated in Delaware on October 2, 1997 to serve as the parent holding company and provide strategic direction to the FedEx portfolio of companies. We intend to continue leveraging and extending the FedEx brand and providing our customers with convenient, seamless access to our entire portfolio of integrated services.

We believe that sales and marketing activities, as well as the information systems that support the extensive automation of our delivery services, are functions that are best coordinated across operating companies. Through the use of advanced information systems that connect the FedEx companies, we make it convenient for customers to use the full range of FedEx services. We believe that seamless information integration is critical to obtain business synergies from multiple operating units. For example, our Web site, *fedex.com*, provides a single point of contact for our customers to access FedEx Express, FedEx Ground and FedEx Freight shipping, pick-up, shipment tracking, customer service and invoicing information, as well as FedEx Office services. Similarly, by making one call to FedEx Expedited Freight Services, our customers can quickly and easily evaluate surface and air freight shipping options available from FedEx Express, FedEx Freight and FedEx Custom Critical in order to select the service best meeting their needs. Through this one point of contact, customers can select from a broad range of freight services, based on their pickup and delivery requirements, time sensitivity and the characteristics of the products being shipped. Also, we recently integrated our LTL and parcel sales teams to enhance the effectiveness of our sales efforts and provide additional simplicity for our customers.

We manage our business as a portfolio in the long-term best interest of the enterprise, not a particular operating company. As a result, we base decisions on capital investment, expansion of delivery, information technology and retail networks, and service additions or enhancements on achieving the highest overall long-term return on capital for our business as a whole. For each FedEx company, we focus on making appropriate investments in the technology and assets necessary to optimize our long-term earnings performance and cash flow. As an example of our commitment to managing collaboratively, all our management incentive compensation programs across the enterprise are tied to the performance of FedEx as a whole.

While we have increased our emphasis on competing collectively and managing collaboratively, we continue to believe that operating independent networks, each focused on its own respective markets, results in optimal service quality, reliability and profitability from each business unit. Each FedEx company focuses exclusively on the market sectors in which it has the most expertise and can be independently enhanced and managed to provide outstanding service to our customers. Each company's operations, cost structure and culture are designed to serve the unique customer demands of a particular market segment and as a result, we are able to adapt our networks in response to changing needs.

Our compete collectively, operate independently, manage collaboratively strategy also provides flexibility in sizing our various operating companies to align with varying macro-economic conditions and customer demand for the market segments in which they operate, allowing us to leverage and manage change. Volatility and uncertainty have become the norms in the global transportation market, and we are able to use our flexibility to accommodate changing conditions in the global economy. For example, in May 2012,

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we made a decision to retire from service 24 aircraft and related engines. The decision to retire these aircraft will better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes. FedEx Express is also shortening the depreciable lives of an additional 54 aircraft and related engines. This will accelerate the retirement of these aircraft to align with the delivery schedule for replacement Boeing 767-300 Freighter (B767F) and Boeing 757-200 aircraft.

In order to continue the modernization of our aircraft fleet, we have agreed to purchase a total of 46 new B767F aircraft, with the first three arriving in fiscal 2014 and continued deliveries through 2019. The B767Fs were selected as the best choice to begin replacing our MD10s, some of which are more than 40 years old, and our Airbus A310-300s with aircraft of similar capacity and without the relatively high fuel and maintenance costs, as we continue to improve the efficiency and technology of our aircraft fleet. During 2012, we delayed the delivery of 11 Boeing 777 Freighter (B777F) aircraft to better align air network capacity to demand. We have also converted four B777F aircraft deliveries two scheduled for delivery in fiscal 2016 and two scheduled for delivery in fiscal 2017 to equivalent purchase value for the B767Fs referenced above.

At the same time, we continue to expand network capacity at our growing and highly successful FedEx Ground segment. Strategic management of the FedEx Ground business resulted in higher yields and volumes boosted by e-commerce, FedEx SmartPost and residential delivery solutions in 2012.

The following four trends have driven world commerce and shaped the global marketplace, and we believe they will continue to do so over the long term:

Globalization: As the world's economy has become more fully integrated, companies are sourcing and selling globally. With customers in more than 220 countries and territories, we facilitate this supply chain through our global reach, delivery services and information capabilities.

Supply Chain Acceleration: As global trade has grown, it has also become more fast-paced, and companies of all sizes now depend on the delivery of just-in-time inventory to help them compete. We have taken advantage of the move toward faster, more efficient supply chains by helping customers obtain more visibility into their supply chains and near real-time information to manage inventory in motion, thereby reducing overhead and obsolescence and speeding time-to-market.

Increase in High-Tech and High-Value-Added Businesses: High-tech and high-value-added goods have increased as a percentage of total economic output, and our various operating companies offer a unique menu of services to fit virtually all shipping needs of high-tech and high-value-added industries.

Growth of E-Commerce: E-commerce acts as a catalyst for the other three trends and is a vital growth engine for businesses, as the Internet is increasingly being used to purchase goods and services. Through our global transportation and technology networks, we contribute to and benefit from the growth of e-commerce.

These trends have produced an unprecedented expansion of customer access to goods, services and information. Through our global transportation, information technology and retail networks, we help to make this access possible. We continue to position our companies to facilitate and capitalize on this access and move toward stronger long-term growth, productivity and profitability. To this end, we are investing in long-term strategic projects focused on expanding our global networks to accommodate future volume growth and increase customer convenience, such as investments in B777F and B767F aircraft. We also continue to broaden and more effectively bundle our portfolio of services in response to the needs and desires of our customers. For example, since the beginning of 2012, we:

Continued to reduce transit times and provide a better pickup experience within FedEx Ground's growing and highly profitable network.

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Made strategic acquisitions in Mexico, Poland, France and Brazil, which will give us more robust domestic transportation and added capabilities in these important global markets.

Continued to execute our aggressive plan to expand the global freight forwarding presence of FedEx Trade Networks by opening additional facilities (over 130 freight forwarding offices are now open), including in Johannesburg, South Africa, Bologna, Italy, and Istanbul, Ankara and Izmir, Turkey, and establishing new alliances throughout the world.

Introduced an innovative end-to-end service for the shipping of temperature-sensitive healthcare products, such as pharmaceuticals, around the world, including implementing procedures to maintain temperatures on board the B777F aircraft within a desired range during flights.

Expanded the availability of our sensor-based SenseAware service, which provides customers with near real-time tracking and increased visibility and monitoring of their shipments.

Continued to utilize FedEx Freight's expertise in technology and operational excellence under the unified LTL network to provide a powerful value proposition to customers. Moreover, the recent integration of our LTL and parcel sales teams has enhanced the effectiveness of our sales efforts.

Reputation and Responsibility

By competing collectively under the FedEx brand, our operating companies benefit from one of the world's most recognized brands. FedEx is one of the most trusted and respected companies in the world, and the FedEx brand name is a powerful sales and marketing tool. Among the many reputation awards we received during 2012, FedEx ranked 6th in *FORTUNE* magazine's World's Most Admired Companies listth the 11 consecutive year we have been ranked in the top 20 on the list. Additionally, in a recent survey of U.S. consumers conducted by the Reputation Institute and the Boston College Center for Corporate Citizenship, FedEx placed 7th on the Corporate Social Responsibility Index (CSRI) 50th a list of the most socially responsible companies in the U.S.

FedEx is well recognized as a leader, not only in the transportation industry and technological innovation, but also in global citizenship. We understand that a sustainable global business is tied to our global citizenship, and we are committed to connecting the world responsibly and resourcefully. Our latest published update to our global citizenship report is available at <http://csr.fedex.com>. These reports describe how we think about our responsibilities in the area of global citizenship and include important goals and metrics that demonstrate our commitment to fulfilling these responsibilities.

Our People

Along with a strong reputation among customers and the general public, FedEx is widely acknowledged as a great place to work. In 2012, FedEx Express was named as one of the top five global companies to work for by The Great Place to Work[®] Institute in its inaugural ranking of the World's Best Multinational Workplaces. In order to even be considered for this honor, a company must appear on at least five national Great Place to Work lists and have at least 5,000 employees worldwide. It is our people our

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greatest asset that give us our strong reputation. In addition to superior physical and information networks, FedEx has an exemplary human network, with more than 300,000 team members who are absolutely, positively focused on safety, the highest ethical and professional standards, and the needs of their customers and communities. Through our internal Purple Promise and Humanitarian Award programs, we recognize and reward employees who enhance customer service and promote human welfare. For additional information on our people-first philosophy and workplace initiatives, see <http://csr.fedex.com>.

Our Community

FedEx is committed to actively supporting the communities we serve worldwide through the strategic investment of our people, resources and network. We provide financial contributions, in-kind charitable shipping services and volunteer efforts by our team members to help a variety of non-profit organizations achieve their goals and make a measurable impact on the world. We have three core focus areas: disaster preparedness, relief and recovery (American Red Cross, Salvation Army and Direct Relief Worldwide); child pedestrian safety (Safe Kids Worldwide); and environmental sustainability (EMBARQ and National Fish & Wildlife Foundation). We support minority access to higher education by funding scholarships, are a major sponsor of the National Civil Rights Museum and also support Teach for America, Junior Achievement and St. Jude Children's Research Hospital. Additionally, we believe that the United Way of America offers one of the most effective and efficient ways of meeting community needs and have supported the annual United Way fundraising campaign since 1975. For additional information on our community involvement and disaster relief efforts, see <http://csr.fedex.com>.

The Environment

In furtherance of our commitment to protecting the environment, we recently updated one of our long-term goals to reduce aircraft emissions to reflect the significant progress we have made over the last several years. Our goal is to now reduce aircraft emissions by 30 percent by 2020 on an emissions per available-ton-mile basis. We continue with our goal to increase FedEx Express vehicle fuel efficiency by 20 percent by 2020. We will also continue to expand on-site renewable energy generation and continue the procurement of renewable energy for our facilities. To meet our future operational needs, as discussed above, we are adding more fuel-efficient aircraft to our fleet. The use of newer and more fuel-efficient aircraft is reducing our greenhouse gas emissions and airport noise and increasing our jet fuel efficiency. Our hybrid electric delivery fleet has logged more than 12 million miles of revenue service. Our solar power generation systems represent another step we are taking toward progressive environmental stewardship and resource sustainability. Several FedEx facilities, including our FedEx Express facility in Las Vegas, Nevada, our FedEx Express World Headquarters in Memphis and our enterprise data center in Colorado Springs, Colorado, have received certification by Leadership in Energy and Environmental Design (LEED®), the U.S. Green Building Council's system for rating the environmental performance of buildings. FedEx Express has made LEED certification the standard for newly built U.S. facilities.

We also continue to evaluate the environmental impacts of our packaging and copy and print services, and minimize waste generation through efforts that include recycling, pollution prevention and the use of copy paper with recycled content, among other environmentally-responsible available choices. For additional information on the ways we are minimizing our impact on the environment, see <http://csr.fedex.com>. In April 2012, we launched our FedEx Carbon-Neutral Envelope shipping program to all FedEx envelope shipping options, making FedEx Express the first global express transportation company to offer carbon-neutral envelope shipping at no extra charge to the customer. Through this program, FedEx Express will make an investment in global projects that displace or sequester greenhouse gas emissions from the atmosphere, neutralizing the impacts of the carbon emissions emitted during the shipment of all FedEx envelopes around the world.

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Governance

FedEx has an independent Board of Directors committed to the highest quality corporate governance. During the past few years, we added a number of highly qualified, independent directors to the Board, including R. Brad Martin, the former CEO of Saks Incorporated, and Joshua Cooper Ramo, Vice Chairman of Kissinger Associates, Inc. The Board has taken significant steps to enhance its accountability to stockholders in recent years. For example, in 2012, stockholders approved our proposal to amend FedEx's certificate of incorporation in order to allow holders of 20 percent or more of FedEx's common stock the right to call special meetings of stockholders. Additionally, the Board recently adopted a lead independent director corporate governance structure.

Our Board of Directors periodically reviews all aspects of our governance policies and practices, including our Corporate Governance Guidelines and our Code of Business Conduct and Ethics, in light of best practices and makes whatever changes are necessary to further our longstanding commitment to the highest standards of corporate governance. The Guidelines and the Code, which applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers, are available in the Corporate Governance section of the Investor Relations page of our Web site at <http://investors.fedex.com>. We will post in the corporate governance section of the Investor Relations page of our Web site information regarding any amendment to, or waiver from, the provisions of the Code to the extent such disclosure is required.

Business Segments

The following describes in more detail the operations of each of our reportable segments:

FedEx Express Segment

FedEx Express

Overview

FedEx Express invented express distribution in 1973 and remains the industry leader, providing rapid, reliable, time-definite delivery of packages and freight to more than 220 countries and territories through one integrated global network. FedEx Express offers time-definite delivery within one to three business days, serving markets that generate more than 90% of the world's gross domestic product through door-to-door, customs-cleared service, with a money-back guarantee. FedEx Express's unmatched air route authorities and extensive transportation infrastructure, combined with leading-edge information technologies, make it the world's largest express transportation company. FedEx Express employs approximately 149,000 employees and has approximately 58,400 drop-off locations (including FedEx Office centers), 660 aircraft and approximately 52,400 vehicles and trailers in its integrated global network.

Services

FedEx Express offers a wide range of shipping services for delivery of packages and freight. Overnight and deferred package services are backed by money-back guarantees and extend to nearly the entire United States population. FedEx Express offers three U.S. overnight package delivery services: FedEx First Overnight, FedEx Priority Overnight and FedEx Standard Overnight. FedEx SameDay service is available for urgent shipments up to 70 pounds to virtually any U.S. destination. FedEx Express also offers U.S. express overnight and deferred freight services backed by money-back guarantees to handle the needs of the time-definite freight market.

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International express and deferred package delivery with a money-back guarantee is available to more than 220 countries and territories, with a variety of time-definite services to meet distinct customer needs. FedEx Express also offers domestic pickup-and-delivery services within certain non-U.S. countries, including the United Kingdom, Canada, China, India and Mexico. In addition, FedEx Express offers comprehensive international express and deferred freight services, backed by a money-back guarantee, real-time tracking and advanced customs clearance.

For information regarding FedEx Express e-shipping tools and solutions, see [FedEx Services Technology](#).

International Expansion

We are focused on the long-term expansion of our international presence, especially in key markets such as China, India, Europe and Latin America. We recently made strategic moves in Europe and Latin America. Since the beginning of 2012, we acquired:

the Mexican domestic express package delivery company Servicios Nacionales Mupa, S.A. de C.V. (Multipack);

the Polish domestic express package delivery company Opek Sp. z o.o.;

the French express transportation company TATEX; and

the Brazilian transportation and logistics company Rapidão Cometa Logística e Transportes S.A.

These acquisitions will give us more robust domestic transportation networks and added capabilities in these important global markets, continue our strategic European and Latin American growth plans and are expected to provide important contributions to our long-term growth, productivity and profitability. Additionally, in 2012, we opened 38 new stations across Europe pursuant to our organic growth strategy.

We began serving mainland China in 1984, have expanded our service to cover more than 400 cities across the country and, in 2009, we began operations at our new Asia-Pacific hub at the Guangzhou Baiyun International Airport in southern China. Additionally, in May 2012, we announced our decision to establish a new North Pacific regional hub at the Kansai International Airport in Osaka, Japan, which will serve as a consolidation point for shipments from northern Asia to the United States, and will continue to operate as an international gateway for customers in western Japan. These hubs will allow us to continue to better serve our global customers doing business in the Asia-Pacific markets.

To facilitate the use of our growing international network, we offer a full range of international trade consulting services and a variety of online tools that enable customers to more easily determine and comply with international shipping requirements.

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U.S. Postal Service Agreement

Under an agreement with the USPS that runs through September 2013, FedEx Express provides domestic air transportation services to the USPS, including for its First-Class, Priority and Express Mail. The USPS has informed us that it intends to solicit proposals for the provision of these services upon the expiration of the current agreement. FedEx Express also has approximately 5,000 drop boxes at USPS locations in approximately 340 metropolitan areas, under an agreement that expired in June 2012. We are preparing for removal of those drop boxes in accordance with the terms of the agreement. FedEx Express also provides transportation and delivery for the USPS's international delivery service called Global Express Guaranteed (GXG) under a separate agreement. For more information about our relationship with the USPS, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

Pricing

FedEx Express periodically publishes list prices in its Service Guides for the majority of its services. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account. International rates are based on the type of service provided and vary with size, weight, destination and, whenever applicable, whether the customer charged the shipment to a FedEx account. FedEx Express offers its customers discounts generally based on actual or potential average daily revenue produced.

FedEx Express has an indexed fuel surcharge for U.S. domestic and U.S. outbound shipments and for shipments originating internationally, where legally and contractually possible. The surcharge percentage is subject to monthly adjustment based on a rounded average of a certain spot price for jet fuel. For example, the fuel surcharge for June 2012 was based on the average spot price for jet fuel published for April 2012. Changes to the FedEx Express fuel surcharge, when calculated according to the average spot price for jet fuel and FedEx Express trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable. The weighted average U.S. domestic and U.S. outbound fuel surcharge as a percentage of the base rates for the past three years was: 2012 14%; 2011 10%; and 2010 6%. These percentages include certain fuel surcharge reductions that are associated with our annual base rate increases.

Operations

FedEx Express's primary sorting facility, located in Memphis, serves as the center of the company's multiple hub-and-spoke system. A second national hub facility is located in Indianapolis. In addition to these national hubs, FedEx Express operates regional hubs in Newark, Oakland, Fort Worth and Greensboro and major metropolitan sorting facilities in Los Angeles and Chicago.

Facilities in Anchorage, Paris, Guangzhou and Cologne/Bonn serve as sorting facilities for express package and freight traffic moving to and from Asia, Europe and North America. Additional major sorting and freight handling facilities are located at Narita Airport in Tokyo, Stansted Airport outside London, and Pearson Airport in Toronto. The facilities in Guangzhou, Paris and Cologne/Bonn are also designed to serve as regional hubs for their respective market areas. A facility in Miami—the Miami Gateway Hub—serves our South Florida, Latin American and Caribbean markets.

Throughout its worldwide network, FedEx Express operates city stations and employs a staff of customer service agents, cargo handlers and couriers who pick up and deliver shipments in the station's service area. In some international areas, independent agents (Global Service Participants) have been selected to complete deliveries and to pick up packages. For more information about our sorting and handling facilities, see Part I, Item 2 of this Annual Report on Form 10-K under the caption FedEx Express Segment.

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FedEx Office offers retail access to FedEx Express shipping services at all of its U.S. retail locations. FedEx Express also has alliances with certain other retailers to provide in-store drop-off sites. Our unmanned FedEx Drop Boxes provide customers the opportunity to drop off packages in office buildings, shopping centers, corporate or industrial parks and outside some U.S. Post Offices.

Fuel Supplies and Costs

During 2012, FedEx Express purchased jet fuel from various suppliers under contracts that vary in length and which provide for estimated amounts of fuel to be delivered. The fuel represented by these contracts is purchased at market prices. Because of our indexed fuel surcharge, we do not have any jet fuel hedging contracts. See FedEx Express Pricing.

The following table sets forth FedEx Express's costs for jet fuel and its percentage of consolidated revenues for the last five fiscal years:

| Fiscal Year | Total Jet Fuel Cost (in millions) | Percentage of Consolidated Revenues |
|--------------------|--|--|
| 2012 | \$ 3,867 | 9.1% |
| 2011 | 3,178 | 8.1 |
| 2010 | 2,342 | 6.7 |
| 2009 | 2,932 | 8.3 |
| 2008 | 3,396 | 8.9 |

Most of FedEx Express's vehicle fuel needs are satisfied by retail purchases with various discounts.

Competition

As described in Item 1A of this Annual Report on Form 10-K (Risk Factors), the express package and freight markets are both highly competitive and sensitive to price and service, especially in periods of little or no macro-economic growth. The ability to compete effectively depends upon price, frequency, capacity and speed of scheduled service, ability to track packages, extent of geographic coverage, reliability and innovative service offerings.

Competitors within the United States include other package delivery concerns, principally United Parcel Service, Inc. (UPS), passenger airlines offering express package services, regional express delivery concerns, air freight forwarders and the USPS. FedEx Express's principal international competitors are DHL, UPS, TNT, other foreign postal authorities, freight forwarders, passenger airlines and all-cargo airlines. Many of FedEx Express's international competitors are government-owned, -controlled or -subsidized carriers, which may have greater resources, lower costs, less profit sensitivity and more favorable operating conditions than FedEx Express.

Employees

David J. Bronczek is the President and Chief Executive Officer of FedEx Express, which is headquartered in Memphis, Tennessee. As of May 31, 2012, FedEx Express employed approximately 101,000 permanent full-time and 48,000 permanent part-time employees, of which approximately 15% are employed in the Memphis area. FedEx Express's international employees in the aggregate represent approximately 31% of all employees.

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The pilots of FedEx Express, who constitute a small percentage of our total employees, are represented by the Air Line Pilots Association, International (ALPA), and are employed under a collective bargaining agreement. This agreement becomes amendable in March 2013.

Attempts by other labor organizations to organize certain other groups of employees occur from time to time. Although these organizing attempts have not resulted in any certification of a U.S. domestic collective bargaining representative (other than ALPA), we cannot predict the outcome of these labor activities or their effect, if any, on FedEx Express or its employees. Certain of FedEx Express's non-U.S. employees are unionized. FedEx Express believes its employee relations are excellent.

FedEx Trade Networks

FedEx Trade Networks provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding. During 2012, FedEx Trade Networks continued to execute an aggressive plan to expand its global freight forwarding presence by opening additional facilities (over 130 freight forwarding offices are now open), including in Johannesburg, South Africa, Bologna, Italy, and Istanbul, Ankara and Izmir, Turkey, and establishing new alliances throughout the world. FedEx Trade Networks provides customs clearance services for FedEx Express at its major U.S. hub facilities. Value-added services include Global Trade Data, an information tool that allows customers to track and manage imports. FedEx Trade Networks provides international trade advisory services, including assistance with the Customs-Trade Partnership Against Terrorism (C-TPAT) program, and through its WorldTariff subsidiary, FedEx Trade Networks publishes customs duty and tax information for approximately 180 customs areas worldwide. FedEx Trade Networks has approximately 4,200 employees and 138 offices in 117 service locations throughout North America and in Asia, Europe, the Middle East and Latin America. FedEx Trade Networks maintains a network of air and ocean freight-forwarding service providers and strategic alliances to provide services in certain countries in which it does not have owned offices.

FedEx SupplyChain Systems

FedEx SupplyChain is an integrated logistics provider offering a range of supply chain solutions that leverage FedEx information technology and transportation networks around the world. The company offers services that include critical inventory logistics, transportation management and temperature-controlled transportation through a network of owned and managed resources all tightly integrated via advanced information technology systems. FedEx SupplyChain recently rolled out new and expanded visibility and control features, as well as new stocking locations to support worldwide FedEx Critical Inventory Logistics customers with high-value, critical orders.

FedEx Ground Segment

FedEx Ground

Overview

By leveraging the FedEx brand, maintaining a low cost structure and efficiently using information technology and advanced automation systems, FedEx Ground continues to enhance its competitive position as a leading provider of business and residential money-back guaranteed ground package delivery services. FedEx Ground serves customers in the North American small-package market, focusing on business and residential delivery of packages weighing up to 150 pounds. Ground service is provided to 100%

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of the continental United States population and overnight service of up to 400 miles to nearly 100% of the continental United States population. Service is also provided to nearly 100% of the Canadian population. In addition, FedEx Ground offers service to Alaska and Hawaii through a ground and air network operation coordinated with other transportation providers.

FedEx Ground continues to improve the speed, reach and service capabilities of its network, by reducing transit time for many of its lanes and introducing or expanding overnight ground service in many metropolitan areas. For example, during the most recent two-year period, FedEx Ground has reduced the transit times of 7% of its lanes. FedEx Ground's ongoing network expansion program is substantially increasing the company's daily pickup capacity through the addition of new hubs featuring the latest automated sorting technology, the expansion of existing hubs, and the expansion or relocation of other existing facilities.

The company offers our FedEx Home Delivery service, which reaches nearly 100% of U.S. residences. FedEx Home Delivery is dedicated to meeting the delivery needs of residential customers and provides routine Saturday and evening delivery and premium options such as day-specific, appointment and signature delivery. FedEx Home Delivery brings unmatched services to residential shippers and their customers and is the first residential ground package delivery service to have offered a money-back guarantee.

Pricing

FedEx Ground periodically publishes list prices for the majority of its services in its Service Guide. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account.

FedEx Ground has an indexed fuel surcharge, which is subject to a monthly adjustment. The surcharge percentage is based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel as published monthly by the U.S. Department of Energy. For example, the fuel surcharge for June 2012 was based on the average diesel fuel price published for April 2012. Changes to the FedEx Ground fuel surcharge, when calculated according to the rounded index average and FedEx Ground trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable.

Operations

FedEx Ground operates a multiple hub-and-spoke sorting and distribution system consisting of 525 facilities, including 33 hubs, in the U.S. and Canada. FedEx Ground conducts its operations primarily with 30,770 owner-operated vehicles and approximately 35,000 company-owned trailers. To provide FedEx Home Delivery service, FedEx Ground leverages its existing pickup operation and hub and linehaul network. FedEx Home Delivery's operations are often co-located with existing FedEx Ground facilities to achieve further cost efficiencies.

Advanced automated sorting technology is used to streamline the handling of millions of packages daily. Using overhead laser and six-sided camera-based bar code scan technology, hub conveyors electronically guide packages to their appropriate destination chute, where they are loaded for transport to their respective destination terminals for local delivery. Software systems and Internet-based applications are also deployed to offer customers new ways to connect internal package data with external delivery information. FedEx Ground provides shipment tracing and proof-of-delivery signature functionality through the FedEx Web site, *fedex.com*. For additional information regarding FedEx Ground e-shipping tools and solutions, see FedEx Services Technology.

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FedEx Office offers retail access to FedEx Ground shipping services at all of its U.S. retail locations. FedEx Ground is also available as a service option at many FedEx Authorized ShipCenters in the U.S.

As of May 31, 2012, FedEx Ground had approximately 50,500 employees. In addition, FedEx Ground relies on owner-operators to conduct its linehaul and pickup-and-delivery operations, as the use of independent contractors is well suited to the needs of the ground delivery business and its customers. David F. Rebholz is the President and Chief Executive Officer of FedEx Ground. FedEx Ground is headquartered in Pittsburgh, Pennsylvania, and its primary competitors are UPS and the USPS.

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 the company's classification, and the company believes its relationship with its contractors is generally excellent. For a description of these proceedings, see Item 1A of this Annual Report on Form 10-K (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. To date, FedEx Ground has transitioned to the ISP model in 17 states. Based upon the success of this model, FedEx Ground may 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 2012, approximately 85% of FedEx Ground's package volume was delivered by multiple route owner-operators or independent service providers.

FedEx SmartPost

FedEx SmartPost (a subsidiary of FedEx Ground) is a leading national small-parcel consolidator, which specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages, using the USPS for final delivery to residences. The company picks up shipments from customers (including e-tailers and catalog companies), provides sorting and linehaul services and then delivers the packages to a USPS facility for final delivery by a postal carrier. Through its network of 25 distribution hubs and approximately 6,600 employees, FedEx SmartPost provides delivery to all residential addresses in the U.S., including PO Boxes and military destinations. For more information about our relationship with the USPS, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

Table of Contents**FedEx Freight Segment*****FedEx Freight***

FedEx Freight is a leading North American provider of LTL freight services, offering choice, simplicity and reliability to meet the needs of LTL shippers. FedEx Freight Priority, when speed is critical to meet supply chain needs, and FedEx Freight Economy, when time can be traded for cost savings. Through one comprehensive network of service centers and advanced information systems, FedEx Freight provides service to virtually every U.S. ZIP code (including Alaska and Hawaii) with industry-leading transit times. FedEx Freight Priority offers a no-fee money-back guarantee on eligible shipments. Internationally, FedEx Freight Canada offers FedEx Freight Priority throughout Canada and between Canada and the U.S. To extend choice and simplicity to Canada, FedEx Freight Economy offers an economical option for LTL customers shipping from Canada to the U.S. In addition, FedEx Freight serves Mexico, Puerto Rico and the U.S. Virgin Islands via alliances and purchased transportation.

Through its many service offerings, FedEx Freight can match customers' time-critical needs with reduced transit times or after-hours pickup or delivery. With the expansion of FedEx electronic solutions, LTL shippers have the convenience of a single shipping solution for FedEx Freight, FedEx Express and FedEx Ground. FedEx Freight offers a fully integrated Web site and other electronic tools, including a bill of lading generator and e-mail delivery notification, which make freight shipping easier and bring customers closer to their own account information. The FedEx Freight Advance Notice feature available on FedEx Freight Priority shipments uses the company's innovative technology systems to proactively notify FedEx Freight customers via the Internet, e-mail or fax when a shipment may be delayed beyond its estimated delivery date, providing customers with greater visibility and control of their LTL freight shipments. Additionally, FedEx Freight A.M. offers freight delivery by 10:30 a.m. to select points in the U.S. and Canada, backed by a money-back guarantee. FedEx Freight has an indexed fuel surcharge, which is subject to weekly adjustment based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel.

As of May 31, 2012, FedEx Freight was operating approximately 58,000 vehicles and trailers from a network of 366 service centers, and the FedEx Freight segment had approximately 33,900 employees. William J. Logue is the President and Chief Executive Officer of FedEx Freight, which is based in Memphis, Tennessee. FedEx Freight's primary competitors are YRC Worldwide Inc. (which includes YRC Regional Transportation and YRC Freight), Con-way Freight (a subsidiary of Con-way Inc.), UPS Freight, Old Dominion Freight Line, Inc. and ABF Freight System, Inc.

FedEx Custom Critical

FedEx Custom Critical provides a range of expedited, time-specific freight-shipping services throughout the United States, Canada and Mexico. Among its services are Surface Expedite, for exclusive-use and network-based transport of critical shipments and expedited shipments; Air Expedite, which offers an array of air solutions to meet customers' critical delivery times; and White Glove Services, for shipments that require extra care in handling, temperature control or specialized security. In addition, its subsidiary FedEx Truckload Brokerage provides freight brokerage solutions within the United States and into and out of Canada and Mexico. Service is available 24 hours a day, 365 days a year. FedEx Custom Critical continuously monitors shipments through an integrated proprietary shipment-control system, including two-way satellite communications on exclusive-use shipments. Through the company's Shipping Toolkit, customers can quote, ship, track and map shipments; view and print out copies of a shipment's bill of lading, proof of delivery and invoice; and manage their online accounts. FedEx Custom Critical utilizes approximately 1,450 vehicles, operated by independent contractors and their drivers, which are dispatched out of approximately 150 geographically-based staging areas.

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FedEx Services Segment

FedEx Services

FedEx Services provides our other companies with sales, marketing, information technology, communications, customer service and certain other back-office support. Through FedEx Services and its subsidiary FedEx TechConnect, we provide a convenient single point of access for many customer support functions, enabling us to more effectively sell the entire portfolio of transportation services and to help ensure a consistent and outstanding experience for our customers.

T. Michael Glenn is the President and Chief Executive Officer of FedEx Services, which is based in Memphis, Tennessee. As of May 31, 2012, the FedEx Services segment had approximately 34,400 employees (including approximately 16,500 at FedEx Office).

Technology

FedEx is a world leader in technology, and FedEx founder Frederick W. Smith's vision that the information about a package is as important as the delivery of the package itself remains at the core of our comprehensive technology strategy.

Our technology strategy is driven by our desire for customer satisfaction. We strive to build technology solutions that will solve our customers business problems with simplicity, convenience, speed and reliability. The focal point of our strategy is our award-winning Web site, together with our customer integrated solutions.

The *fedex.com* Web site was launched over fifteen years ago, and during that time, customers have shipped and tracked billions of packages at *fedex.com*. The *fedex.com* Web site is widely recognized for its speed, ease of use and customer-focused features. At *fedex.com*, our customers ship packages, determine international documentation requirements, track package status, pay invoices and access FedEx Office services. The advanced tracking capability within My FedEx provides customers with a consolidated view of inbound and outbound shipments. FedEx Desktop provides customers the benefit of working offline and having real-time shipment updates sent directly to their computer desktop.

FedEx Mobile is a suite of services available on most Web-enabled mobile devices, such as the BlackBerry® and Android smartphones, and includes enhanced support for Apple products, such as the iPhone®, iPod touch® and iPad® mobile digital devices. FedEx Mobile allows customers to track the status of packages, create shipping labels, get account-specific rate quotes and access drop-off location data for FedEx shipments and utilize FedEx Office Print & Go, a smartphone solution that allows customers to send documents directly for printing on digital copy machines at FedEx Office locations across the United States. FedEx also uses wireless data collection devices to scan bar codes on shipments, thereby enhancing and accelerating the package information available to our customers. The FedEx Mobile website has expanded to 206 countries and 25 languages.

We design our e-commerce tools and solutions to be easily integrated into our customers' applications, as well as into third-party software being developed by leading e-procurement, systems integration and enterprise resource planning companies. Our FedEx Ship Manager suite of solutions offers a wide range of options to help our customers manage their shipping and associated processes, and FedEx Freight was recently integrated into this platform.

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Marketing

The FedEx brand name is a symbol for high-quality service, reliability and speed. FedEx is one of the most widely recognized brands in the world. Special emphasis is placed on promoting and protecting the FedEx brand, one of our most important assets. In addition to traditional print and broadcast advertising, we promote the FedEx brand through corporate sponsorships and special events. For example, FedEx sponsors:

The National Football League (NFL), as its Official Delivery Service Sponsor

FedExField, home of the NFL's Washington Redskins

The #11 Joe Gibbs Racing Toyota Camry driven by Denny Hamlin in the NASCAR Sprint Cup Series

PGA TOUR and the Champions Tour golf organizations, as the Official Shipping Company, and FedExCup, a season-long points competition for PGA TOUR players, which we recently extended through 2017

The FedEx St. Jude Classic, a PGA TOUR event that raises millions of dollars for St. Jude Children's Research Hospital

FedExForum, home of the NBA's Memphis Grizzlies

ATP World Tour men's professional tennis circuit and French Open tennis tournament

Information Security

FedEx Services has a team of highly qualified professionals dedicated to securing information about our customers' shipments and protecting our customers' privacy, and we strive to provide a safe, secure online environment for our customers. We are committed to compliance with applicable information security laws, regulations and industry standards including, for example, the Payment Card Industry Data Security Standard, a set of comprehensive requirements for enhancing payment account data security developed by the Payment Card Industry Security Standards Council. For a description of risks related to information security, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

Global ISO 9001 Certification

FedEx Services provides our customers with a high level of service quality, as evidenced by our ISO 9001 certification for our global express and ground operations. ISO 9001 registration is required by thousands of customers around the world. FedEx's global certification, encompassing the processes of FedEx Express, FedEx Ground and FedEx Services, enhances our single-point-of-access strategy and solidifies our reputation as the quality leader in the transportation industry. ISO 9001 is currently the most rigorous international standard for Quality Management and Assurance. ISO standards were developed by the International Organization for Standardization in Geneva, Switzerland to promote and facilitate international trade. More than 150 countries, including European Union members, the United States and Japan, recognize ISO standards.

FedEx Office

FedEx Office's network of digitally-connected locations offers access to copying and digital printing through retail and Web-based platforms, signs and graphics, professional finishing, computer rentals, and the full range of FedEx day-definite ground shipping and time-definite global express shipping services. FedEx Office's network of locations provides convenient access points to FedEx Express and FedEx Ground services for higher margin retail customers.

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In addition, FedEx Office offers packing services, and packing supplies and boxes are included in its retail product assortment. By allowing customers to have unpackaged items professionally packed by specially trained FedEx Office team members and then shipped using any of the full range of FedEx day-definite ground shipping and time-definite global express shipping services, FedEx Office provides a complete pack-and-ship solution.

Almost all FedEx Office locations provide local pick-up and delivery service – an offering whereby a FedEx courier picks up a customer's job at the customer's location and then returns the finished product to the customer – with options and service areas varying by location. Additionally, through FedEx Cloud Printing with Google Docs[®], introduced this year, customers can upload files from their Google Docs account and then select from a variety of printing options, and can choose to pick up their completed order at FedEx Office locations nationwide or have the order delivered right to their door.

As of May 31, 2012, FedEx Office operated approximately 1,840 locations, including 55 locations in five foreign countries, as well as 20 commercial production centers. FedEx Office is headquartered in Dallas, Texas.

Trademarks

The FedEx trademark, service mark and trade name is essential to our worldwide business. FedEx, FedEx Express, FedEx Ground, FedEx Freight, FedEx Office, FedEx Services, FedEx SupplyChain Systems, FedEx TechConnect, FedEx Trade Networks, FedEx SmartPost and FedEx Custom Critical, among others, are trademarks, service marks and trade names of Federal Express Corporation, or the respective companies, for which registrations, or applications for registration, are on file, as applicable. We have authorized, through licensing arrangements, the use of certain of our trademarks, service marks and trade names by our contractors and Global Service Participants to support our business. In addition, we license the use of certain of our trademarks, service marks and trade names on promotional items for the primary purpose of enhancing brand awareness.

Regulation

Air. Under the Federal Aviation Act of 1958, as amended, both the U.S. Department of Transportation (DOT) and the Federal Aviation Administration (FAA) exercise regulatory authority over FedEx Express.

The FAA's regulatory authority relates primarily to operational aspects of air transportation, including aircraft standards and maintenance, as well as personnel and ground facilities, which may from time to time affect the ability of FedEx Express to operate its aircraft in the most efficient manner. FedEx Express holds an air carrier certificate granted by the FAA pursuant to Part 119 of the federal aviation regulations. This certificate is of unlimited duration and remains in effect so long as FedEx Express maintains its standards of safety and meets the operational requirements of the regulations.

In September 2010, the FAA 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. When the FAA issued final regulations in December 2011, all-cargo carriers, including FedEx Express, were exempt from these new pilot fatigue requirements, and instead required to continue complying with previously enacted flight and duty time rules. In May 2012, however, the FAA indicated that it would reconsider the exclusion of cargo pilots from these new pilot fatigue requirements. Thus, it is reasonably possible that these rules or other future flight safety requirements could impose material costs on us.

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The DOT's authority relates primarily to economic aspects of air transportation. The DOT's jurisdiction extends to aviation route authority and to other regulatory matters, including the transfer of route authority between carriers. FedEx Express holds various certificates issued by the DOT, authorizing FedEx Express to engage in U.S. and international air transportation of property and mail on a worldwide basis.

Under the Aviation and Transportation Security Act of 2001, as amended, the Transportation Security Administration (TSA), an agency within the Department of Homeland Security, has responsibility for aviation security. The TSA continues to require FedEx Express to comply with a Full All-Cargo Aircraft Operator Standard Security Plan, which contains evolving and strict security requirements. These requirements are not static, but change periodically as the result of regulatory and legislative requirements, imposing additional security costs and creating a level of uncertainty for our operations. It is reasonably possible that these rules or other future security requirements could impose material costs on us.

FedEx Express participates in the Civil Reserve Air Fleet (CRAF) program. Under this program, the U.S. Department of Defense may requisition for military use certain of FedEx Express's wide-bodied aircraft in the event of a declared need, including a national emergency. FedEx Express is compensated for the operation of any aircraft requisitioned under the CRAF program at standard contract rates established each year in the normal course of awarding contracts. Through its participation in the CRAF program, FedEx Express is entitled to bid on peacetime military cargo charter business. FedEx Express, together with a consortium of other carriers, currently contracts with the U.S. Government for such charter flights.

Ground. The ground transportation performed by FedEx Express is integral to its air transportation services. The enactment of the Federal Aviation Administration Authorization Act of 1994 abrogated the authority of states to regulate the rates, routes or services of intermodal all-cargo air carriers and most motor carriers. States may now only exercise jurisdiction over safety and insurance. FedEx Express is registered in those states that require registration.

The operations of FedEx Ground, FedEx Freight and FedEx Custom Critical in interstate commerce are currently regulated by the DOT and the Federal Motor Carrier Safety Administration, which retain limited oversight authority over motor carriers. Federal legislation preempts regulation by the states of rates and service in intrastate freight transportation.

Like other interstate motor carriers, our operations, including those at FedEx Express, are subject to certain DOT safety requirements governing interstate operations. In addition, vehicle weight and dimensions remain subject to both federal and state regulations.

International. FedEx Express's international authority permits it to carry cargo and mail from points in its U.S. route system to numerous points throughout the world. The DOT regulates international routes and practices and is authorized to investigate and take action against discriminatory treatment of United States air carriers abroad. The right of a United States carrier to serve foreign points is subject to the DOT's approval and generally requires a bilateral agreement between the United States and the foreign government. In addition, we must obtain the permission of foreign governments to provide specific flights and services. The carrier must then be granted the permission of such foreign government to provide specific flights and services. The regulatory environment for global aviation rights may from time to time impair the ability of FedEx Express to operate its air network in the most efficient manner. Additionally, global air cargo carriers, such as FedEx Express, are subject to current and potential additional aviation security regulation by foreign governments.

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Our operations outside of the United States, such as FedEx Express's growing international domestic operations, are also subject to current and potential regulations, including certain postal regulations and licensing requirements, that restrict, make difficult and sometimes prohibit, the ability of foreign-owned companies such as FedEx Express to compete effectively in parts of the international domestic transportation and logistics market.

Communication. Because of the extensive use of radio and other communication facilities in its aircraft and ground transportation operations, FedEx Express is subject to the Federal Communications Commission Act of 1934, as amended. Additionally, the Federal Communications Commission regulates and licenses FedEx Express's activities pertaining to satellite communications.

Environmental. Pursuant to the Federal Aviation Act, the FAA, with the assistance of the U.S. Environmental Protection Agency, is authorized to establish standards governing aircraft noise. FedEx Express's aircraft fleet is in compliance with current noise standards of the federal aviation regulations. In addition to federal regulation of aircraft noise, certain airport operators have local noise regulations, which limit aircraft operations by type of aircraft and time of day. These regulations have had a restrictive effect on FedEx Express's aircraft operations in some of the localities where they apply but do not have a material effect on any of FedEx Express's significant markets. Congress's passage of the Airport Noise and Capacity Act of 1990 established a National Noise Policy, which enabled FedEx Express to plan for noise reduction and better respond to local noise constraints. FedEx Express's international operations are also subject to noise regulations in certain of the countries in which it operates.

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, including our aircraft and diesel engine 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 are now covered by the ETS requirements, and each year we are required to submit emission allowances in an amount equal to the carbon dioxide emissions from such flights. For a description of such efforts and their potential effect on our cost structure and operating results, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

We are subject to federal, state and local environmental laws and regulations relating to, among other things, the shipment of dangerous goods, contingency planning for spills of petroleum products, the disposal of waste oil and the disposal of toners and other products used in FedEx Office's copy machines. Additionally, we are subject to numerous regulations dealing with underground fuel storage tanks, hazardous waste handling, vehicle and equipment emissions and noise and the discharge of effluents from our properties and equipment. We have environmental management programs to ensure compliance with these regulations.

Customs. Our activities, including customs brokerage and freight forwarding, are subject to regulation by the Bureau of Customs and Border Protection and the TSA within the Department of Homeland Security (customs brokerage and security issues), the U.S. Federal Maritime Commission (ocean freight forwarding) and the DOT (air freight forwarding). Our offshore operations are subject to similar regulation by the regulatory authorities of foreign jurisdictions.

Labor. All U.S. employees at FedEx Express are covered by the Railway Labor Act of 1926, as amended (the RLA), while labor relations within the United States at our other companies are governed by the National Labor Relations Act of 1935, as amended (the NLRA). Under the RLA, groups that wish to unionize must do so across nationwide classes of employees. The RLA also requires mandatory government-led mediation of contract disputes supervised by the National Mediation Board before a union can strike or an

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employer can replace employees or impose contract terms. This part of the RLA helps minimize the risk of strikes that would shut down large portions of the economy. Under the NLRA, employees can unionize in small localized groups, and government-led mediation is not a required step in the negotiation process.

The RLA was originally passed to govern railroad and express carrier labor negotiations. As transportation systems evolved, the law expanded to cover airlines, which are the dominant national transportation systems of today. As an air express carrier with an integrated air/ground network, FedEx Express and its employees have been covered by the RLA since the founding of the company in 1971. The purpose of the RLA is to offer employees a process by which to unionize (if they choose) and engage in collective bargaining while also protecting global commerce from damaging work stoppages and delays. Specifically, the RLA ensures that an entire transportation system, such as at FedEx Express, cannot be shut down by the actions of a local segment of the network.

The U.S. Congress has, in the past, considered adopting changes in labor laws that would make it easier for unions to organize units of our employees. For example, there is always a possibility that Congress could remove most FedEx Express employees from the jurisdiction of the RLA, thereby exposing the FedEx Express network to sporadic labor disputes and the risk that small groups of employees could disrupt the entire air/ground network. In addition, federal and state governmental agencies have and may continue to take actions that could make it easier for our employees to organize under the RLA or NLRA. For a description of these potential labor law changes, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

ITEM 1A. RISK FACTORS

We present information about our risk factors on pages 71 through 76 of this Annual Report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

FedEx Express Segment

FedEx Express's principal owned and leased properties include its aircraft, vehicles, national, regional and metropolitan sorting facilities, administration buildings, FedEx Drop Boxes and data processing and telecommunications equipment.

Table of Contents*Aircraft and Vehicles*

As of May 31, 2012, FedEx Express's aircraft fleet consisted of the following:

| Description | Owned | Leased | Total | Maximum Operational Revenue Payload (Pounds per Aircraft) ⁽¹⁾ |
|---------------------|---------|--------|-------------------|--|
| Boeing B777F | 19 | 0 | 19 | 178,000 |
| Boeing MD11 | 38 | 26 | 64 | 164,200 |
| Boeing MD10-30 | 12 | 5 | 17 | 114,200 |
| Boeing MD10-10 | 52 | 0 | 52 | 108,700 |
| Airbus A300-600 | 35 | 36 | 71 | 85,600 |
| Airbus A310-200/300 | 35 | 0 | 35 | 61,900 |
| Boeing B757-200 | 73 | 0 | 73 ⁽²⁾ | 45,800 |
| Boeing B727-200 | 41 | 0 | 41 | 38,200 |
| ATR 72-202/212 | 21 | 0 | 21 | 14,660 |
| ATR 42-300/320 | 26 | 0 | 26 | 10,880 |
| Cessna 208B | 241 | 0 | 241 | 2,500 |
| Total | 593 | 67 | 660 | |

(1) Maximum operational revenue payload is the lesser of the net volume-limited payload and the net maximum structural payload.

(2) Includes 18 aircraft not currently in operation and awaiting completion of modification.

The B777Fs are two-engine, wide-bodied cargo aircraft that have a longer range and larger capacity than any other aircraft we operate.

The MD11s are three-engine, wide-bodied aircraft that have a longer range and larger capacity than MD10s.

The MD10s are three-engine, wide-bodied aircraft that have received an Advanced Common Flightdeck (ACF) modification, which includes a conversion to a two-pilot cockpit, as well as upgrades of electrical and other systems.

The A300s and A310s are two-engine, wide-bodied aircraft that have a longer range and more capacity than B757s and B727s.

The B757s are two-engine, narrow-bodied aircraft configured for cargo service.

The B727s are three-engine, narrow-bodied aircraft configured for cargo service.

The ATR and Cessna 208 turbo-prop aircraft are leased to independent operators to support FedEx Express operations in areas where demand does not justify use of a larger aircraft.

An inventory of spare engines and parts is maintained for each aircraft type.

In addition, FedEx Express leases smaller aircraft to operators, and these operators use the aircraft to move FedEx packages to and from airports served by FedEx Express's larger jet aircraft. The lease agreements generally call for the lessee to provide the flight crews, maintenance, fuel and other supplies required to operate the aircraft, and FedEx Express reimburses the lessee for these items. The lease agreements are for terms not exceeding one year and are generally cancelable upon 30 days' notice.

At May 31, 2012, FedEx Express operated approximately 52,400 ground transport vehicles, including pickup and delivery vans, larger trucks called container transport vehicles and over-the-road tractors and trailers.

Table of Contents*Aircraft Purchase Commitments*

The following table is a summary of the number and type of aircraft we were committed to purchase as of May 31, 2012, with the year of expected delivery:

| | B757 | B767F | B777F ⁽¹⁾ | Total |
|--------------|-----------|-----------|----------------------|-----------|
| 2013 | 10 | | 4 | 14 |
| 2014 | | 3 | 2 | 5 |
| 2015 | | 6 | 2 | 8 |
| 2016 | | 6 | 2 | 8 |
| 2017 | | 6 | 2 | 8 |
| Thereafter | | 6 | 16 | 22 |
| Total | 10 | 27 | 28 | 65 |

(1) As of May 31, 2012, our obligation to purchase 13 of these aircraft was conditioned upon there being no event that causes FedEx Express or its employees to not be covered by the RLA.

In June 2012, FedEx Express agreed to purchase 19 additional B767F aircraft. Four of these 19 additional B767F aircraft purchases are conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the RLA. These 19 additional B767F aircraft are expected to be delivered from fiscal 2015 to 2019.

In conjunction with the additional B767F aircraft purchases, FedEx Express converted four B777F aircraft deliveries that were subject to the RLA condition — two scheduled for delivery in fiscal 2016 and two scheduled for delivery in fiscal 2017 — to equivalent purchase value for the additional B767F aircraft referenced above. These aircraft transactions are not included in the table above, as they occurred subsequent to May 31, 2012.

As of May 31, 2012, deposits and progress payments of \$661 million had been made toward aircraft purchases and other planned aircraft-related transactions. Also see Note 16 of the accompanying consolidated financial statements for more information about our purchase commitments.

Table of Contents*Sorting and Handling Facilities*

At May 31, 2012, FedEx Express operated the following major sorting and handling facilities:

| Location | Acres | Square Feet | Sorting Capacity (per hour)⁽¹⁾ | Lessor | Lease Expiration Year |
|----------------------------------|--------------|--------------------|--|---|------------------------------|
| National | | | | | |
| Memphis, Tennessee | 784 | 3,514,000 | 475,000 | Memphis-Shelby County Airport Authority | 2036 |
| Indianapolis, Indiana | 316 | 2,509,000 | 214,000 | Indianapolis Airport Authority | 2017/2028 ⁽⁵⁾ |
| Regional | | | | | |
| Fort Worth, Texas | 168 | 948,000 | 76,000 | Fort Worth Alliance Airport Authority | 2021 |
| Newark, New Jersey | 70 | 595,000 | 156,000 | Port Authority of New York and New Jersey | 2030 |
| Oakland, California | 75 | 320,000 | 54,000 | City of Oakland | 2031 |
| Greensboro, N. Carolina | 165 | 593,000 | 29,000 | Piedmont Triad Airport Authority | 2031 |
| Metropolitan | | | | | |
| Chicago, Illinois | 66 | 597,000 | 23,000 | City of Chicago | 2018/2028 ⁽⁶⁾ |
| Los Angeles, California | 34 | 305,000 | 57,000 | City of Los Angeles | 2021/2025 ⁽⁷⁾ |
| International | | | | | |
| Anchorage, Alaska ⁽²⁾ | 64 | 332,000 | 25,000 | Alaska Department of Transportation and Public Facilities | 2023 |
| Paris, France ⁽³⁾ | 111 | 1,238,000 | 63,000 | Aeroports de Paris | 2029 |
| Cologne, Germany ⁽³⁾ | 7 | 325,000 | 20,000 | Cologne Bonn Airport | 2040 |
| Guangzhou, China ⁽⁴⁾ | 155 | 882,000 | 64,000 | Guangdong Airport Management Corp. | 2029 |

(1) Documents and packages.

(2) Handles international express package and freight shipments to and from Asia, Europe and North America.

(3) Handles intra-Europe express package and freight shipments, as well as international express package and freight shipments to and from Europe.

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- (4) Handles intra-Asia express package and freight shipments, as well as international express package and freight shipments to and from Asia.
- (5) Property is held under two separate leases lease for original hub expires in 2017, and lease for additional buildings expires in 2028.
- (6) Property is held under two separate leases lease for original hub expires in 2018, and lease for new facility expires in 2028.
- (7) Property is held under two separate leases lease for sorting and handling facility expires in 2021, and lease for ramp expansion expires in 2025.

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FedEx Express's primary sorting facility, which serves as the center of its multiple hub-and-spoke system, is located at the Memphis International Airport. FedEx Express's facilities at the Memphis International Airport also include aircraft hangars, aircraft ramp areas, vehicle parking areas, flight training and fuel facilities, administrative offices and warehouse space. FedEx Express leases these facilities from the Memphis-Shelby County Airport Authority (the Authority). The lease obligates FedEx Express to maintain and insure the leased property and to pay all related taxes, assessments and other charges. The lease is subordinate to, and FedEx Express's rights thereunder could be affected by, any future lease or agreement between the Authority and the U.S. Government.

FedEx Express has additional international sorting-and-handling facilities located at Narita Airport in Tokyo, Stansted Airport outside London, and Pearson Airport in Toronto. FedEx Express also has a substantial presence at airports in Hong Kong, Taiwan, Dubai and Miami.

Administrative and Other Properties and Facilities

The World Headquarters of FedEx Express is located in southeastern Shelby County, Tennessee. The headquarters campus comprises nine separate buildings with approximately 1.3 million square feet of space. FedEx Express also leases 40 facilities in the Memphis area for administrative offices and warehouses.

FedEx Express owns or leases approximately 660 facilities for city station operations in the United States. In addition, approximately 500 city stations are owned or leased throughout FedEx Express's international network. The majority of these leases are for terms of five to ten years. City stations serve as a sorting and distribution center for a particular city or region. We believe that suitable alternative facilities are available in each locale on satisfactory terms, if necessary.

As of May 31, 2012, FedEx Express had approximately 43,500 Drop Boxes, including 5,000 Drop Boxes outside U.S. Post Offices. The agreement related to the 5,000 Drop Boxes outside U.S. Post Offices expired in June 2012, and we are preparing for removal of those drop boxes in accordance with the terms of the agreement. As of May 31, 2012, FedEx Express also had approximately 14,000 FedEx Authorized ShipCenters and other types of staffed drop-off locations, such as FedEx Office centers. Internationally, FedEx Express had approximately 5,800 drop-off locations.

FedEx Ground Segment

FedEx Ground's corporate offices are located in the Pittsburgh, Pennsylvania, area in an approximately 500,000 square-foot building owned by FedEx Ground. As of May 31, 2012, FedEx Ground had approximately 35,000 company-owned trailers and owned or leased 525 facilities, including 33 hubs. In addition, 30,770 owner-operated vehicles support FedEx Ground's business. Of the 327 facilities that support FedEx Home Delivery, 235 are co-located with existing FedEx Ground facilities. Leased facilities generally have terms of five years or less. The 33 hub facilities are strategically located to cover the geographic area served by FedEx Ground. The hub facilities average approximately 338,000 square feet and range in size from approximately 54,000 to approximately 715,000 square feet.

FedEx Freight Segment

FedEx Freight's corporate headquarters are located in Memphis, Tennessee, and administrative offices for the FedEx Freight business are in Harrison, Arkansas. As of May 31, 2012, FedEx Freight operated approximately 58,000 vehicles and trailers and 366 service centers, which are strategically located to provide service throughout North America. These facilities range in size from 850 to 220,000 square feet of office and dock space. FedEx Custom Critical's headquarters are located in Green, Ohio.

Table of Contents**FedEx Services Segment**

FedEx Services corporate headquarters are located in Memphis, Tennessee. FedEx Services and FedEx Express lease state-of-the-art technology centers in Collierville, Tennessee, Irving, Texas, Colorado Springs, Colorado, and Orlando, Florida. These facilities house personnel responsible for strategic software development and other functions that support FedEx's technology and e-commerce solutions. FedEx Office's corporate headquarters are located in Dallas, Texas in leased facilities. As of May 31, 2012, FedEx Office operated approximately 1,840 locations, including 55 locations in five foreign countries, as well as 20 commercial production centers. Substantially all FedEx Office centers are leased, generally for terms of five to ten years with varying renewal options. FedEx Office centers are generally located in strip malls, office buildings or stand-alone structures and average approximately 4,000 square feet in size. We have a multi-year agreement with OfficeMax to offer U.S. domestic FedEx Express and FedEx Ground shipping services at all U.S. OfficeMax retail locations (over 975 locations).

ITEM 3. LEGAL PROCEEDINGS

FedEx and its subsidiaries are subject to legal proceedings and claims that arise in the ordinary course of their business. For a description of material pending legal proceedings, see Note 17 of the accompanying consolidated financial statements.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers of FedEx is as follows (included herein pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K):

| Name and Office | Age | Positions and Offices Held and Business Experience |
|---|------------|---|
| Frederick W. Smith Chairman, President and Chief Executive Officer | 67 | Chairman, President and Chief Executive Officer of FedEx since January 1998; Chairman of FedEx Express since 1975; Chairman, President and Chief Executive Officer of FedEx Express from April 1983 to January 1998; Chief Executive Officer of FedEx Express from 1977 to January 1998; and President of FedEx Express from June 1971 to February 1975. |
| David J. Bronczek President and Chief Executive Officer, FedEx Express | 58 | President and Chief Executive Officer of FedEx Express since January 2000; Executive Vice President and Chief Operating Officer of FedEx Express from January 1998 to January 2000; Senior Vice President Europe, Middle East and Africa of FedEx Express from June 1995 to January 1998; Senior Vice President Europe, Africa and Mediterranean of FedEx Express from June 1993 to June 1995; Vice President Canadian Operations of FedEx Express from February 1987 to March 1993; and several sales and operations managerial positions at FedEx Express from 1976 to 1987. Mr. Bronczek serves as a director of International Paper Company, an uncoated paper and packaging company. |

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| Name and Office | Age | Positions and Offices Held and Business Experience |
|--|-----|---|
| Robert B. Carter Executive Vice President FedEx Information Services and Chief Information Officer | 53 | Executive Vice President FedEx Information Services and Chief Information Officer of FedEx since January 2007; Executive Vice President and Chief Information Officer of FedEx from June 2000 to January 2007; Corporate Vice President and Chief Technology Officer of FedEx from February 1998 to June 2000; Vice President Corporate Systems Development of FedEx Express from September 1993 to February 1998; Managing Director Systems Development of FedEx Express from April 1993 to September 1993. Mr. Carter serves as a director of Saks Incorporated, a retailer operating luxury, specialty and traditional department stores, and as a director of First Horizon National Corporation, a financial services holding company. |
| T. Michael Glenn Executive Vice President Market Development and Corporate Communications | 56 | Executive Vice President Market Development and Corporate Communications of FedEx since January 1998; Senior Vice President Marketing, Customer Service and Corporate Communications of FedEx Express from June 1994 to January 1998; Senior Vice President Marketing and Corporate Communications of FedEx Express from December 1993 to June 1994; Senior Vice President Worldwide Marketing Catalog Services and Corporate Communications of FedEx Express from June 1993 to December 1993; Senior Vice President Catalog and Remail Services of FedEx Express from September 1992 to June 1993; Vice President Marketing of FedEx Express from August 1985 to September 1992; and various management positions in sales and marketing and senior sales specialist of FedEx Express from 1981 to 1985. Mr. Glenn serves as a director of Pentair, Inc., a diversified industrial manufacturing company operating in water and technical products business segments, and as a director of Renasant Corporation, a financial services holding company. |
| Alan B. Graf, Jr. Executive Vice President and Chief Financial Officer | 58 | Executive Vice President and Chief Financial Officer of FedEx since January 1998; Executive Vice President and Chief Financial Officer of FedEx Express from February 1996 to January 1998; Senior Vice President and Chief Financial Officer of FedEx Express from December 1991 to February 1996; Vice President and Treasurer of FedEx Express from August 1987 to December 1991; and various management positions in finance and a senior financial analyst of FedEx Express from 1980 to 1987. Mr. Graf serves as a director of Mid-America Apartment Communities Inc., a real estate investment trust that focuses on acquiring, constructing, developing, owning and operating apartment communities, and as a director of NIKE, Inc., a designer and marketer of athletic footwear, apparel, equipment and accessories for sports and fitness activities. |

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| Name and Office | Age | Positions and Offices Held and Business Experience |
|--|-----|---|
| William J. Logue President and Chief Executive Officer, FedEx Freight Corporation | 54 | President and Chief Executive Officer of FedEx Freight Corporation (parent of FedEx Freight) since March 2010; President of FedEx Freight Corporation from December 2009 to February 2010; Executive Vice President and Chief Operating Officer U.S. of FedEx Express from March 2008 to November 2009; Executive Vice President U.S. Operations and System Support of FedEx Express from September 2006 to March 2008; Senior Vice President U.S. Operations of FedEx Express from August 2004 to September 2006; Senior Vice President Air-Ground and Freight Services of FedEx Express from 1999 to August 2004; Vice President National Hub Operations, Memphis Hub of FedEx Express from 1995 to 1999; and various operations management positions with FedEx Express from 1989 to 1995. |
| David F. Rebholz President and Chief Executive Officer, FedEx Ground | 59 | President and Chief Executive Officer of FedEx Ground since January 2007; President of FedEx Ground from September 2006 to January 2007; Executive Vice President Operations & Systems Support of FedEx Express from December 1999 to September 2006; Senior Vice President U.S. of FedEx Express from January 1997 to November 1999; Senior Vice President Sales & Customer Service of FedEx Express from June 1993 to December 1996; Vice President Regional Operations of FedEx Express from October 1991 to June 1993; Vice President Customer Service of FedEx Express from December 1988 to October 1991; and various other positions with FedEx Express from 1976 to 1988. |
| Christine P. Richards Executive Vice President, General Counsel and Secretary | 57 | Executive Vice President, General Counsel and Secretary of FedEx since June 2005; Corporate Vice President Customer and Business Transactions of FedEx from March 2001 to June 2005; Senior Vice President and General Counsel of FedEx Services from March 2000 to June 2005; Staff Vice President Customer and Business Transactions of FedEx from November 1999 to March 2001; Vice President Customer and Business Transactions of FedEx Express from 1998 to November 1999; and various legal positions with FedEx Express from 1984 to 1998. |

Executive officers are elected by, and serve at the discretion of, the Board of Directors. There is no arrangement or understanding between any executive officer and any person, other than a director or executive officer of FedEx or of any of its subsidiaries acting in his or her official capacity, pursuant to which any executive officer was selected. There are no family relationships between any executive officer and any other executive officer or director of FedEx or of any of its subsidiaries.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

FedEx's common stock is listed on the New York Stock Exchange under the symbol FDX. As of July 13, 2012, there were 13,863 holders of record of our common stock. The following table sets forth, for the periods indicated, the high and low sale prices, as reported on the NYSE, and the cash dividends paid per share of common stock.

| | Sale Prices | | Dividend |
|--------------------------------|-------------|----------|----------|
| | High | Low | |
| Fiscal Year Ended May 31, 2012 | | | |
| Fourth Quarter | \$ 96.89 | \$ 84.86 | \$ 0.13 |
| Third Quarter | 97.19 | 76.95 | 0.13 |
| Second Quarter | 85.75 | 64.07 | 0.13 |
| First Quarter | 98.66 | 72.16 | 0.13 |
| Fiscal Year Ended May 31, 2011 | | | |
| Fourth Quarter | \$ 96.89 | \$ 85.03 | \$ 0.12 |
| Third Quarter | 98.52 | 87.54 | 0.12 |
| Second Quarter | 93.03 | 79.04 | 0.12 |
| First Quarter | 87.74 | 69.78 | 0.12 |

FedEx also paid a cash dividend on July 2, 2012 (\$0.14 per share). We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by our Board of Directors. We evaluate the dividend payment amount on an annual basis at the end of each fiscal year. There are no material restrictions on our ability to declare dividends, nor are there any material restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances. FedEx did not repurchase any of its common stock during the fourth quarter of 2012.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data as of and for the five years ended May 31, 2012 is presented on page 124 of this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Management's discussion and analysis of results of operations and financial condition is presented on pages 36 through 76 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative information about market risk is presented on page 123 of this Annual Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FedEx's consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 16, 2012 thereon, are presented on pages 79 through 122 of this Annual Report on Form 10-K.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures

The management of FedEx, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to FedEx management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of May 31, 2012 (the end of the period covered by this Annual Report on Form 10-K).

Assessment of Internal Control Over Financial Reporting

Management's report on our internal control over financial reporting is presented on page 77 of this Annual Report on Form 10-K. The report of Ernst & Young LLP with respect to our internal control over financial reporting is presented on page 78 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

During our fiscal quarter ended May 31, 2012, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding members of the Board of Directors, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, FedEx's Code of Business Conduct and Ethics and certain other aspects of FedEx's corporate governance (such as the procedures by which FedEx's stockholders may recommend nominees to the Board of Directors and information about the Audit Committee, including its members and our audit committee financial expert) will be presented in FedEx's definitive proxy statement for its 2012 annual meeting of stockholders, which will be held on September 24, 2012, and is incorporated herein by reference. Information regarding executive officers of FedEx is included above in Part I of this Annual Report on Form 10-K under the caption "Executive Officers of the Registrant" pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K. Information regarding FedEx's Code of Business Conduct and Ethics is included above in Part I, Item 1 of this Annual Report on Form 10-K under the caption "Reputation and Responsibility Governance."

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ITEM 11. EXECUTIVE COMPENSATION

Information regarding director and executive compensation will be presented in FedEx's definitive proxy statement for its 2012 annual meeting of stockholders, which will be held on September 24, 2012, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and related stockholder matters, as well as equity compensation plan information, will be presented in FedEx's definitive proxy statement for its 2012 annual meeting of stockholders, which will be held on September 24, 2012, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and transactions with related persons (including FedEx's policies and procedures for the review and preapproval of related person transactions) and director independence will be presented in FedEx's definitive proxy statement for its 2012 annual meeting of stockholders, which will be held on September 24, 2012, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the fees for services provided by Ernst & Young LLP during 2012 and 2011 and the Audit Committee's administration of the engagement of Ernst & Young LLP, including the Committee's preapproval policies and procedures (such as FedEx's Policy on Engagement of Independent Auditor), will be presented in FedEx's definitive proxy statement for its 2012 annual meeting of stockholders, which will be held on September 24, 2012, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) Financial Statements; Financial Statement Schedules

FedEx's consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 16, 2012 thereon, are listed on pages 34 through 35 and presented on pages 79 through 122 of this Annual Report on Form 10-K. FedEx's Schedule II - Valuation and Qualifying Accounts, together with the report of Ernst & Young LLP dated July 16, 2012 thereon, is presented on pages 125 through 126 of this Annual Report on Form 10-K. All other financial statement schedules have been omitted because they are not applicable or the required information is included in FedEx's consolidated financial statements or the notes thereto.

(a)(3) Exhibits

See the Exhibit Index on pages E-1 through E-9 for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

FEDEX CORPORATION

Dated: July 16, 2012

By: /s/ FREDERICK W. SMITH
 Frederick W. Smith
 Chairman, President and
 Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| Signature | Capacity | Date |
|---------------------------|--|---------------|
| /s/ FREDERICK W. SMITH | Chairman, President and Chief Executive Officer and Director | July 16, 2012 |
| Frederick W. Smith | <i>(Principal Executive Officer)</i> | |
| /s/ ALAN B. GRAF, JR. | Executive Vice President and Chief Financial Officer | July 16, 2012 |
| Alan B. Graf, Jr. | <i>(Principal Financial Officer)</i> | |
| /s/ JOHN L. MERINO | Corporate Vice President and Principal Accounting Officer | July 16, 2012 |
| John L. Merino | <i>(Principal Accounting Officer)</i> | |
| /s/ JAMES L. BARKSDALE * | Director | July 16, 2012 |
| James L. Barksdale | | |
| /s/ JOHN A. EDWARDSON * | Director | July 16, 2012 |
| John A. Edwardson | | |
| /s/ SHIRLEY ANN JACKSON * | Director | July 16, 2012 |
| Shirley Ann Jackson | | |
| /s/ STEVEN R. LORANGER * | Director | July 16, 2012 |
| Steven R. Loranger | | |

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| Signature | Capacity | Date |
|--------------------------|-----------------|---------------|
| /s/ GARY W. LOVEMAN * | Director | July 16, 2012 |
| Gary W. Loveman | | |
| /s/ R. BRAD MARTIN * | Director | July 16, 2012 |
| R. Brad Martin | | |
| /s/ JOSHUA COOPER RAMO * | Director | July 16, 2012 |
| Joshua Cooper Ramo | | |
| /s/ SUSAN C. SCHWAB * | Director | July 16, 2012 |
| Susan C. Schwab | | |
| /s/ JOSHUA I. SMITH * | Director | July 16, 2012 |
| Joshua I. Smith | | |
| /s/ DAVID P. STEINER * | Director | July 16, 2012 |
| David P. Steiner | | |
| /s/ PAUL S. WALSH * | Director | July 16, 2012 |
| Paul S. Walsh | | |
| *By: /s/ JOHN L. MERINO | | July 16, 2012 |
| John L. Merino | | |
| Attorney-in-Fact | | |

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW OF FINANCIAL SECTION

The financial section of the FedEx Corporation (FedEx) Annual Report on Form 10-K (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, particularly Item 1: Business 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 2012 results compared to 2011, and 2011 results compared to 2010. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2013.

The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2013) 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.

Critical accounting estimates discusses those financial statement elements that we believe are important to understanding certain of the material judgments and assumptions incorporated in our financial results.

We conclude with a discussion of risks and uncertainties that may impact our financial and operating 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 North American provider of small-package ground delivery services; and FedEx Freight, Inc. (FedEx Freight), a leading North American 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, information technology, communications and back-office 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 and refer to Item 1: Business for a more detailed description of each of our operating companies.

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The key indicators necessary to understand our operating results include:

the overall customer demand for our various services based on macro-economic factors and the global economy;

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, 2012 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:

| | 2012 ⁽¹⁾ | 2011 ⁽²⁾ | 2010 | Percent Change | |
|----------------------------|---------------------|---------------------|-----------|----------------|-----------|
| | | | | 2012/2011 | 2011/2010 |
| Revenues | \$ 42,680 | \$ 39,304 | \$ 34,734 | 9 | 13 |
| Operating income | 3,186 | 2,378 | 1,998 | 34 | 19 |
| Operating margin | 7.5% | 6.1% | 5.8% | 140bp | 30bp |
| Net income | \$ 2,032 | \$ 1,452 | \$ 1,184 | 40 | 23 |
| Diluted earnings per share | \$ 6.41 | \$ 4.57 | \$ 3.76 | 40 | 22 |

⁽¹⁾ Operating expenses include an impairment charge of \$134 million resulting from the decision to retire 24 aircraft and related engines at FedEx Express and the reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in 2011.

- ⁽²⁾ 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.

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The following table shows changes in revenues and operating income by reportable segment for 2012 compared to 2011, and 2011 compared to 2010 (dollars in millions):

| | Revenues | | | | Operating Income | | | |
|--------------------------------------|---------------|-----------|----------------|-----------|------------------|-----------|----------------|-----------|
| | Dollar Change | | Percent Change | | Dollar Change | | Percent Change | |
| | 2012/2011 | 2011/2010 | 2012/2011 | 2011/2010 | 2012/2011 | 2011/2010 | 2012/2011 | 2011/2010 |
| FedEx Express segment ⁽¹⁾ | \$ 1,934 | \$ 3,026 | 8 | 14 | \$ 32 | \$ 101 | 3 | 9 |
| FedEx Ground segment | 1,088 | 1,046 | 13 | 14 | 439 | 301 | 33 | 29 |
| FedEx Freight segment ⁽²⁾ | 371 | 590 | 8 | 14 | 337 | (22) | 193 | (14) |
| FedEx Services segment | (13) | (86) | (1) | (5) | | | | |
| Other and eliminations | (4) | (6) | NM | NM | | | | |
| | \$ 3,376 | \$ 4,570 | 9 | 13 | \$ 808 | \$ 380 | 34 | 19 |

⁽¹⁾ FedEx Express segment 2012 operating expenses include an impairment charge of \$134 million resulting from the decision to retire 24 aircraft and related engines at FedEx Express and the reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in 2011.

⁽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.

Overview

Revenues, operating income and operating margins increased in 2012 due to the exceptional performance of our FedEx Ground segment, improved profitability at FedEx Freight and increased yields across all our operating segments, despite moderating global economic conditions. Our results for 2012 include the impact of certain charges and credits as described below, which favorably impacted our year-over-year results by \$0.15 per diluted share, after considering the effect of variable incentive compensation accruals. In addition, our results significantly benefited in 2012 from the timing lag that exists between when fuel prices change and when indexed fuel surcharges automatically adjust. We also benefited from a milder winter, as our 2011 results were negatively impacted by unusually severe winter weather.

Our 2012 results include the reversal of a \$66 million reserve associated with the ATA Airlines lawsuit at FedEx Express. This reserve was initially recorded in 2011 when a loss was deemed probable as a result of an adverse decision in the lawsuit. We reversed this reserve during 2012 when FedEx Express won the appeal of this case and the appeals court overturned the prior ruling (See Note 17 of the accompanying consolidated financial statements). Additionally, our 2012 results include a noncash impairment charge of \$134 million due to our decision to retire from service 18 Airbus A310-200 aircraft and 26 related engines, as well as six Boeing MD10-10 aircraft and 17 related engines. The decision to retire these aircraft will better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes. Our 2011 results include one-time costs associated with the combination of our FedEx Freight and FedEx National LTL operations of \$133 million, including \$89 million of impairment and other charges.

Our results for 2011 reflected 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, particularly in International Priority (IP) package shipments at FedEx Express. Our FedEx Ground segment delivered strong results through 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.

The combination of our FedEx Freight and FedEx National LTL operations was completed in 2011. Our combined LTL network increases efficiencies, reduces operational costs and provides customers both Priority and Economy LTL freight services across all lengths of haul from one integrated company.

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

- (1) Excludes international domestic operations.
- (2) Package statistics do not include the operations of FedEx SmartPost.

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

(1) Excludes international domestic operations.

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

Revenue

During 2012, revenues increased 9% due to yield growth across all our transportation segments. At FedEx Express, revenues increased 8% in 2012 led by higher U.S. domestic and IP package yields. However, U.S. domestic package and IP package volumes declined due to weakening global economic conditions. Revenues increased 13% during 2012 at our FedEx Ground segment due to higher yields and strong demand for all our major services. At FedEx Freight, revenues increased 8% during 2012 due to higher LTL yield as a result of higher fuel surcharges and yield management programs, despite a decrease in volume.

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. At FedEx Express, revenues increased 14% in 2011 led by IP volume growth in Asia, as well as U.S. 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.

Table of Contents***Impairment and Other Charges***

In May 2012, we made the decision to retire from service 18 Airbus A310-200 aircraft and 26 related engines, as well as six Boeing MD10-10 aircraft and 17 related engines. As a consequence of this decision, a noncash impairment charge of \$134 million (\$84 million, net of tax, or \$0.26 per diluted share) was recorded in the fourth quarter. The decision to retire these aircraft, the majority of which were temporarily idled and not in revenue service, will better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes.

In 2011, we incurred impairment and other charges of \$89 million related to the combination of our LTL operations at FedEx Freight. 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.

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:

| | 2012 | 2011 | 2010 |
|--------------------------------|--------------------|-------------------|-----------|
| Operating expenses: | | | |
| Salaries and employee benefits | \$ 16,099 | \$ 15,276 | \$ 14,027 |
| Purchased transportation | 6,335 | 5,674 | 4,728 |
| Rentals and landing fees | 2,487 | 2,462 | 2,359 |
| Depreciation and amortization | 2,113 | 1,973 | 1,958 |
| Fuel | 4,956 | 4,151 | 3,106 |
| Maintenance and repairs | 1,980 | 1,979 | 1,715 |
| Impairment and other charges | 134 ⁽¹⁾ | 89 ⁽²⁾ | 18 |
| Other ⁽³⁾ | 5,390 | 5,322 | 4,825 |
| Total operating expenses | \$ 39,494 | \$ 36,926 | \$ 32,736 |

(1) Represents charges resulting from the decision to retire 24 aircraft and related engines at FedEx Express.

(2) Represents charges associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011.

(3) Includes the 2012 reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in 2011 (See Note 17 of the accompanying consolidated financial statements).

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| | 2012 | Percent of Revenue 2011 | 2010 |
|---------------------------------|--------------------|----------------------------|-------------|
| Operating expenses: | | | |
| Salaries and employee benefits | 37.7% | 38.9% | 40.4% |
| Purchased transportation | 14.9 | 14.4 | 13.6 |
| Rentals and landing fees | 5.8 | 6.3 | 6.8 |
| Depreciation and amortization | 5.0 | 5.0 | 5.6 |
| Fuel | 11.6 | 10.6 | 8.9 |
| Maintenance and repairs | 4.6 | 5.0 | 4.9 |
| Impairment and other charges | 0.3 ⁽¹⁾ | 0.2 ⁽²⁾ | 0.1 |
| Other ⁽³⁾ | 12.6 | 13.5 | 13.9 |
| Total operating expenses | 92.5 | 93.9 | 94.2 |
| Operating margin | 7.5% | 6.1% | 5.8% |

(1) Represents charges resulting from the decision to retire 24 aircraft and related engines at FedEx Express.

(2) Represents charges associated with the combination of our FedEx Freight and FedEx National LTL operations effective January 30, 2011.

(3) Includes the 2012 reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in 2011 (See Note 17 of the accompanying consolidated financial statements).

Our 2012 operating income increased 34% and operating margin increased 140 basis points driven by higher yields across all our transportation segments due to higher fuel surcharges and our yield management programs. Our results also significantly benefited in 2012 from the timing lag that exists between when fuel prices change and when indexed fuel surcharges automatically adjust. FedEx Ground segment operating income increased \$439 million in 2012 driven by higher yields and strong demand for all our major services. At our FedEx Freight segment, operating income increased \$337 million due to higher LTL yield and efficiencies gained from the combination of our LTL operations in 2011. Additionally, our year-over-year comparisons were favorably impacted by several items as described above in the Overview section.

Salaries and benefits increased 5% in 2012 primarily due to higher incentive compensation costs and the full reinstatement of 401(k) company-matching contributions effective January 1, 2011. Purchased transportation costs increased 12% in 2012 due to volume growth and higher fuel surcharges at FedEx Ground, costs associated with the expansion of our freight forwarding business at FedEx Trade Networks and higher utilization of third-party transportation providers in international locations primarily due to business acquisitions at FedEx Express.

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

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Fuel expense increased 19% during 2012 primarily due to price increases. Our fuel surcharges, which are more fully described in the Quantitative and Qualitative Disclosures About Market Risk section of this MD&A, have a timing lag and are designed to pass through the price of fuel not included in our base shipping rates to our customers. Based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared changes in fuel surcharges, fuel surcharges significantly exceeded incremental fuel costs in 2012. If fuel prices remain at current levels, that effect is expected to reverse in 2013.

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 trend in revenue and yield growth, we have included the comparative fuel surcharge rates in effect for 2012, 2011 and 2010 in the accompanying discussions of each of our transportation segments.

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.

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.

Other Income and Expense

Interest expense decreased \$34 million in 2012 due to debt maturities, an increase in capitalized interest related to the timing of progress payments on aircraft purchases and lower financing fees. Interest expense increased \$7 million in 2011 due to a decrease in capitalized interest related to timing of construction projects and progress payments on aircraft purchases.

Income Taxes

Our effective tax rate was 35.3% in 2012, 35.9% in 2011 and 37.5% in 2010. Our 2012 rate was lower than our 2011 rate primarily due to favorable audit developments. The 2011 rate was lower than our 2010 rate primarily due to increased permanently reinvested foreign earnings and a lower state rate driven by favorable audit and legislative developments. Our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a 1.3% benefit to our 2012 effective tax rate. Our total permanently reinvested foreign earnings were \$1.0 billion at the end of 2012 and \$640 million at the end of 2011.

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Our current federal income tax expenses in 2012, 2011 and 2010 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):

| | 2012 | 2011 | 2010 |
|--------------------------------|---------------|---------------|---------------|
| Current | \$ (120) | \$ 79 | \$ 36 |
| Deferred | 947 | 485 | 408 |
| Total Federal Provision | \$ 827 | \$ 564 | \$ 444 |

For 2013, we expect our effective tax rate to be between 37.0% and 38.0%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income. We also expect our current federal income tax expense will increase in 2013, possibly significantly, due to lower accelerated depreciation benefits than in prior years.

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

During 2012, we continued to expand our FedEx Express international network. On July 25, 2011, we completed our acquisition of Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company, for \$128 million in cash from operations. Last year, 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 on February 22, 2011. The financial results of these acquired businesses are included in the FedEx Express segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations or financial condition. Substantially all of the purchase price was allocated to goodwill, which was entirely attributed to our FedEx Express reporting unit.

Subsequent to year-end, we completed the following acquisitions:

Opek Sp. z o.o., a Polish domestic express package delivery company, for \$54 million in cash from operations on June 13, 2012

TATEX, a French express transportation company, for \$55 million in cash from operations on July 3, 2012

Rapidão Cometa Logística e Transportes S.A., a Brazilian transportation and logistics company, for \$398 million in cash from operations on July 4, 2012

Based on the timing of the completion of these acquisitions in relation to the date of issuance of the financial statements, the initial purchase price accounting was not completed for these acquisitions. The financial results of these acquired businesses will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2013 results. These acquisitions will give us more robust transportation networks within these countries and added capabilities in these important global markets.

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Outlook

We anticipate revenue and earnings growth in 2013 despite only modest growth in the global economy. We believe U.S. domestic and global economic conditions will be impacted by the European debt crisis, slowing growth in Asia, and the uncertainty these issues create on the global economy and the demand for our services. These weaker global economic conditions have driven a shift by our customers from premium services to our deferred services, and we expect that trend to continue in 2013.

Our anticipated earnings growth in 2013 is predicated on continued improvement in profitability at our FedEx Freight segment from yield growth and efficiency improvements and the sustained strong performance of our FedEx Ground segment. International revenue growth and network efficiency improvements at FedEx Express should also contribute to our earnings growth in 2013. However, significant cost headwinds in pension expense will hamper earnings growth in 2013 as a historically low discount rate at our May 31, 2012 measurement date will increase these costs by approximately \$150 million.

During 2013, we will continue to evaluate actions and opportunities to reduce costs, improve efficiencies and adjust our networks to match anticipated demand. Initial actions were taken in 2012, as we made the decision to retire 24 aircraft and related engines at FedEx Express to better align the U.S. domestic air network capacity to match current and anticipated shipment volumes. In addition, we remain focused on modernizing our aircraft fleet at FedEx Express by adding newer aircraft that are more reliable, fuel efficient and technologically advanced, and retiring older, less-efficient aircraft. As a result of these efforts, FedEx Express is shortening the depreciable lives of the following aircraft and related engines: 31 additional Boeing MD10-10s, 18 additional Airbus A310s, four Boeing 727s (B727) and one Boeing MD10-30. This will accelerate the retirement of these aircraft to align with the delivery schedule for replacement Boeing 767-300 Freighter (B767F) and Boeing 757-200 (B757) aircraft. The accelerated depreciation on these aircraft is expected to total \$69 million in 2013, with a partial offset from the avoidance of depreciation related to the aircraft retirements (described in the Impairment and Other Charges section above). FedEx Express is also developing an operating and cost structure plan during 2013 to further improve its operational efficiency.

Our capital expenditures for 2013 are expected to decrease to approximately \$3.9 billion, with fewer aircraft deliveries in 2013. We will continue to evaluate our investments in critical long-term strategic projects to ensure our capital expenditures generate high returns on investments and are balanced with our outlook for global economic conditions. On June 29, 2012, FedEx Express entered into a supplemental agreement to purchase nine additional B767F aircraft, exercised ten B767F options available under the December 2011 agreement and purchased the right to 15 additional options. In conjunction with the supplemental agreement to purchase B767F aircraft, FedEx Express converted four B777F aircraft deliveries to equivalent purchase value for B767F aircraft purchased under the supplemental agreement. For additional details on key 2013 capital projects, refer to the Capital Resources and Liquidity Outlook sections 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.

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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.

During our fiscal year, 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. 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.

Table of Contents**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:

| | |
|-------------------------------|---|
| FedEx Express Segment | FedEx Express (express transportation) |
| | FedEx Trade Networks (air and ocean freight forwarding and customs brokerage) |
| | 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, information technology, communications and back-office functions) |
| | FedEx TechConnect (customer service, technical support, billings and collections) |
| | FedEx Office (document and business services and package acceptance) |

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. For the international regions of FedEx Express, some of these functions are performed on a regional basis by FedEx Express and reported in the FedEx Express segment in expense line items outside of intercompany charges. The FedEx Services segment includes: FedEx Services, which provides sales, marketing, information technology, communications and back-office 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.

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, which are an immaterial component of our allocations, 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.

Table of Contents**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:

| | 2012 | 2011 | 2010 | Percent Change | |
|---|-----------------|-----------------|-----------------|----------------|---------------|
| | | | | 2012/2011 | 2011/2010 |
| Revenues: | | | | | |
| Package: | | | | | |
| U.S. overnight box | \$ 6,546 | \$ 6,128 | \$ 5,602 | 7 | 9 |
| U.S. overnight envelope | 1,747 | 1,736 | 1,640 | 1 | 6 |
| U.S. deferred | 3,001 | 2,805 | 2,589 | 7 | 8 |
| Total U.S. domestic package revenue | 11,294 | 10,669 | 9,831 | 6 | 9 |
| International priority ⁽¹⁾ | 8,708 | 8,228 | 7,087 | 6 | 16 |
| International domestic ⁽²⁾ | 853 | 653 | 578 | 31 | 13 |
| Total package revenue | 20,855 | 19,550 | 17,496 | 7 | 12 |
| Freight: | | | | | |
| U.S. | 2,498 | 2,188 | 1,980 | 14 | 11 |
| International priority ⁽¹⁾ | 1,827 | 1,722 | 1,303 | 6 | 32 |
| International airfreight | 307 | 283 | 251 | 8 | 13 |
| Total freight revenue | 4,632 | 4,193 | 3,534 | 10 | 19 |
| Other ⁽³⁾ | 1,028 | 838 | 525 | 23 | 60 |
| Total revenues | 26,515 | 24,581 | 21,555 | 8 | 14 |
| Operating expenses: | | | | | |
| Salaries and employee benefits | 9,657 | 9,183 | 8,402 | 5 | 9 |
| Purchased transportation | 1,828 | 1,573 | 1,177 | 16 | 34 |
| Rentals and landing fees | 1,680 | 1,672 | 1,577 | | 6 |
| Depreciation and amortization | 1,169 | 1,059 | 1,016 | 10 | 4 |
| Fuel | 4,304 | 3,553 | 2,651 | 21 | 34 |
| Maintenance and repairs | 1,332 | 1,353 | 1,131 | (2) | 20 |
| Impairment and other charges ⁽⁴⁾ | 134 | | | NM | |
| Intercompany charges | 2,193 | 2,043 | 1,940 | 7 | 5 |
| Other ⁽⁵⁾ | 2,958 | 2,917 | 2,534 | 1 | 15 |
| Total operating expenses | 25,255 | 23,353 | 20,428 | 8 | 14 |
| Operating income | \$ 1,260 | \$ 1,228 | \$ 1,127 | 3 | 9 |
| Operating margin | 4.8% | 5.0% | 5.2% | (20)bp | (20)bp |

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- (1) International priority includes FedEx International Priority and FedEx International Economy services.
- (2) International domestic revenues include our international intra-country domestic express operations, including acquisitions in India (February 2011) and Mexico (July 2011).
- (3) Other revenues include FedEx Trade Networks and, beginning in the second quarter of 2010, FedEx SupplyChain Systems.
- (4) Represents charges resulting from the decision to retire 24 aircraft and related engines.
- (5) Includes the 2012 reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in 2011 (See Note 17 of the accompanying consolidated financial statements).

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| | Percent of Revenue | | |
|---|--------------------|-------------|-------------|
| | 2012 | 2011 | 2010 |
| Operating expenses: | | | |
| Salaries and employee benefits | 36.4% | 37.4% | 39.0% |
| Purchased transportation | 6.9 | 6.4 | 5.5 |
| Rentals and landing fees | 6.3 | 6.8 | 7.3 |
| Depreciation and amortization | 4.4 | 4.3 | 4.7 |
| Fuel | 16.2 | 14.4 | 12.3 |
| Maintenance and repairs | 5.0 | 5.5 | 5.2 |
| Impairment and other charges ⁽¹⁾ | 0.5 | | |
| Intercompany charges | 8.3 | 8.3 | 9.0 |
| Other ⁽²⁾ | 11.2 | 11.9 | 11.8 |
| Total operating expenses | 95.2 | 95.0 | 94.8 |
| | | | |
| Operating margin | 4.8% | 5.0% | 5.2% |

⁽¹⁾ Represents charges resulting from the decision to retire 24 aircraft and related engines.

⁽²⁾ Includes the 2012 reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in 2011 (See Note 17 of the accompanying consolidated financial statements).

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

| | 2012 | 2011 | 2010 | Percent Change | |
|--|----------|----------|----------|----------------|-----------|
| | | | | 2012/2011 | 2011/2010 |
| Package Statistics⁽¹⁾ | | | | | |
| Average daily package volume (ADV): | | | | | |
| U.S. overnight box | 1,146 | 1,184 | 1,157 | (3) | 2 |
| U.S. overnight envelope | 586 | 627 | 614 | (7) | 2 |
| U.S. deferred | 845 | 873 | 867 | (3) | 1 |
| | | | | | |
| Total U.S. domestic ADV | 2,577 | 2,684 | 2,638 | (4) | 2 |
| International priority ⁽²⁾ | 559 | 575 | 523 | (3) | 10 |
| International domestic ⁽³⁾ | 495 | 348 | 318 | 42 | 9 |
| | | | | | |
| Total ADV | 3,631 | 3,607 | 3,479 | 1 | 4 |
| | | | | | |
| Revenue per package (yield): | | | | | |
| U.S. overnight box | \$ 22.31 | \$ 20.29 | \$ 19.00 | 10 | 7 |
| U.S. overnight envelope | 11.65 | 10.86 | 10.47 | 7 | 4 |
| U.S. deferred | 13.87 | 12.60 | 11.70 | 10 | 8 |
| U.S. domestic composite | 17.12 | 15.59 | 14.61 | 10 | 7 |
| International priority ⁽²⁾ | 60.83 | 56.08 | 53.10 | 8 | 6 |
| International domestic ⁽³⁾ | 6.74 | 7.38 | 7.14 | (9) | 3 |
| Composite package yield | 22.44 | 21.25 | 19.72 | 6 | 8 |
| Freight Statistics⁽¹⁾ | | | | | |
| Average daily freight pounds: | | | | | |
| U.S. | 7,487 | 7,340 | 7,141 | 2 | 3 |
| International priority ⁽²⁾ | 3,303 | 3,184 | 2,544 | 4 | 25 |

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| | | | | | |
|---|---------------|---------------|---------------|----------|----------|
| International airfreight | 1,171 | 1,235 | 1,222 | (5) | 1 |
| Total average daily freight pounds | 11,961 | 11,759 | 10,907 | 2 | 8 |
| Revenue per pound (yield): | | | | | |
| U.S. | \$ 1.30 | \$ 1.17 | \$ 1.09 | 11 | 7 |
| International priority ⁽²⁾ | 2.16 | 2.12 | 2.01 | 2 | 5 |
| International airfreight | 1.02 | 0.90 | 0.81 | 13 | 11 |
| Composite freight yield | 1.51 | 1.40 | 1.27 | 8 | 10 |

⁽¹⁾ Package and freight statistics include only the operations of FedEx Express.

⁽²⁾ International priority includes FedEx International Priority and FedEx International Economy services.

⁽³⁾ International domestic statistics include our international intra-country domestic express operations, including acquisitions in India (February 2011) and Mexico (July 2011).

Table of Contents***FedEx Express Segment Revenues***

FedEx Express segment revenues increased 8% in 2012 primarily due to an increase in U.S. domestic and IP package yields, partially offset by decreases in U.S. domestic and IP package volumes. In 2012, U.S. domestic package yields increased 10% due to higher fuel surcharges and increased rate per pound. IP package yields increased 8% in 2012 due to higher fuel surcharges, increased package weights and increased rate per pound. Continued softness in the global economy resulted in decreased demand for our U.S. domestic and IP package services in 2012. IP revenue growth was negatively impacted by a lower-yielding mix of services, consisting of growth in deferred services and declines in premium services.

FedEx Express segment revenues increased 14% in 2011 on higher yields 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. International priority freight pounds increased 25% led by volume growth in Europe.

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:

| | 2012 | 2011 | 2010 |
|---|--------|-------|-------|
| U.S. Domestic and Outbound Fuel Surcharge: | | | |
| Low | 11.50% | 7.00% | 1.00% |
| High | 16.50 | 15.50 | 8.50 |
| Weighted-average | 14.23 | 9.77 | 6.20 |
| International Fuel Surcharges: | | | |
| Low | 13.50 | 7.00 | 1.00 |
| High | 23.00 | 21.00 | 13.50 |
| Weighted-average | 17.45 | 12.36 | 9.47 |

In January 2012, we implemented a 5.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services, while we lowered our fuel surcharge index by two percentage points. 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.

FedEx Express Segment Operating Income

FedEx Express segment operating income increased 3% in 2012 primarily due to the benefit from the timing lag that exists between when fuel prices change and when indexed fuel surcharges automatically adjust and U.S. domestic and IP package yield improvements. Results of the FedEx Express segment reflect the impact of two one-time items in 2012. FedEx Express segment results for 2012 were negatively impacted by \$134 million as a result of the decision to retire from service 18 Airbus A310-200 aircraft and 26 related engines as well as six Boeing MD10-10 aircraft and 17 related engines to better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes. The 2012 operating results at the FedEx Express segment were favorably impacted by the reversal of a legal reserve of \$66 million associated with the ATA Airlines lawsuit which was initially recorded in 2011 (see Note 17 of the accompanying consolidated financial statements). FedEx Express segment results also benefited from a milder winter compared to the negative impact of unusually severe winter weather in 2011.

Salaries and employee benefits increased 5% in 2012 due to higher incentive compensation accruals and the full reinstatement of 401(k) company-matching contributions effective January 1, 2011. Purchased transportation costs increased 16% in 2012 due to costs associated with the expansion of our freight forwarding business at FedEx Trade Networks, recent business acquisitions in India and Mexico and higher utilization of third-party transportation providers, primarily in Europe. Intercompany charges increased 7% in 2012 due to higher allocated variable incentive compensation expenses.

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Fuel costs increased 21% in 2012 due to increases in the average price per gallon of fuel. Fuel usage in 2012 was down slightly.

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 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 Outlook

We expect increased revenues in 2013 at the FedEx Express segment in our international services and moderately improved yields across all our services as we continue to focus on our yield management programs. We anticipate a slight decline in U.S domestic package revenue in 2013 due to lower volumes.

FedEx Express segment operating income and operating margin are expected to increase modestly in 2013, on continued growth in international revenues led by IP package services. We also expect improved operating results due to productivity enhancements such as continued improvement in on-road productivity, air operations initiatives and continued realignment of our network. FedEx Express is developing an operating and cost structure plan during 2013 to further improve its operational efficiency.

We will continue to modernize our aircraft fleet at FedEx Express during 2013 by adding newer aircraft that are more reliable, fuel efficient and technologically advanced, and retiring older, less-efficient aircraft. Due to the accelerated retirement of 54 aircraft and related engines to better align with the delivery schedule for replacement aircraft, we expect an additional \$69 million in depreciation expense in 2013, partially offset from the avoidance of depreciation related to aircraft retirements (See the Outlook section for additional information).

Capital expenditures at FedEx Express are expected to decrease in 2013 as we have delayed the delivery of two B777F aircraft from 2013 related to our aircraft modernization programs (see Liquidity Outlook for additional information) which will improve reliability, increase fuel efficiency and reduce operating costs in future years.

Table of Contents**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:

| | 2012 | 2011 | 2010 | Percent Change | |
|--------------------------------------|----------|----------|----------|----------------|-----------|
| | | | | 2012/2011 | 2011/2010 |
| Revenues: | | | | | |
| FedEx Ground | \$ 8,791 | \$ 7,855 | \$ 6,958 | 12 | 13 |
| FedEx SmartPost | 782 | 630 | 481 | 24 | 31 |
| Total revenues | 9,573 | 8,485 | 7,439 | 13 | 14 |
| Operating expenses: | | | | | |
| Salaries and employee benefits | 1,451 | 1,282 | 1,158 | 13 | 11 |
| Purchased transportation | 3,762 | 3,431 | 2,966 | 10 | 16 |
| Rentals | 284 | 263 | 244 | 8 | 8 |
| Depreciation and amortization | 389 | 337 | 334 | 15 | 1 |
| Fuel | 14 | 12 | 8 | 17 | 50 |
| Maintenance and repairs | 176 | 169 | 166 | 4 | 2 |
| Intercompany charges | 978 | 897 | 795 | 9 | 13 |
| Other | 755 | 769 | 744 | (2) | 3 |
| Total operating expenses | 7,809 | 7,160 | 6,415 | 9 | 12 |
| Operating income | \$ 1,764 | \$ 1,325 | \$ 1,024 | 33 | 29 |
| Operating margin | 18.4% | 15.6% | 13.8% | 280bp | 180bp |
| Average daily package volume: | | | | | |
| FedEx Ground | 3,907 | 3,746 | 3,523 | 4 | 6 |
| FedEx SmartPost | 1,692 | 1,432 | 1,222 | 18 | 17 |
| Revenue per package (yield): | | | | | |
| FedEx Ground | \$ 8.77 | \$ 8.17 | \$ 7.73 | 7 | 6 |
| FedEx SmartPost | \$ 1.81 | \$ 1.72 | \$ 1.56 | 5 | 10 |

| | Percent of Revenue | | |
|--------------------------------|--------------------|-------|-------|
| | 2012 | 2011 | 2010 |
| Operating expenses: | | | |
| Salaries and employee benefits | 15.2% | 15.1% | 15.5% |
| Purchased transportation | 39.3 | 40.4 | 39.9 |
| Rentals | 3.0 | 3.1 | 3.3 |
| Depreciation and amortization | 4.1 | 4.0 | 4.5 |
| Fuel | 0.1 | 0.1 | 0.1 |
| Maintenance and repairs | 1.8 | 2.0 | 2.2 |
| Intercompany charges | 10.2 | 10.6 | 10.7 |
| Other | 7.9 | 9.1 | 10.0 |
| Total operating expenses | 81.6 | 84.4 | 86.2 |

| | | | |
|------------------|-------|-------|-------|
| Operating margin | 18.4% | 15.6% | 13.8% |
|------------------|-------|-------|-------|

FedEx Ground Segment Revenues

During 2012, FedEx Ground segment revenues increased 13% due to yield and volume growth at both FedEx Ground and FedEx SmartPost.

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FedEx Ground yields increased 7% during 2012 primarily due to rate increases, higher fuel surcharges and higher extra service revenue. Average daily package volume increased 4% at FedEx Ground in 2012 due to market share gains from continued growth in our FedEx Home Delivery service and an increase in our commercial business.

At FedEx SmartPost, yields increased 5% in 2012 primarily due to higher fuel surcharges and increased rates, partially offset by an unfavorable service mix. FedEx SmartPost yield represents the amount charged to customers net of postage paid to the United States Postal Service (USPS). Average daily volume increased 18% at FedEx SmartPost in 2012 as a result of growth in e-commerce.

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 USPS final destination facilities.

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:

| | 2012 | 2011 | 2010 |
|------------------|-------|-------|-------|
| Low | 7.50% | 5.50% | 2.75% |
| High | 9.50 | 8.50 | 5.50 |
| Weighted-average | 8.46 | 6.20 | 4.23 |

In January 2012 and 2011, FedEx Ground and FedEx Home Delivery implemented a 4.9% average list price increase. 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. FedEx SmartPost rates also increased. In January 2011, FedEx Ground made additional changes to dimensional weight charges and surcharges.

FedEx Ground Segment Operating Income

FedEx Ground segment operating income increased 33% and operating margin increased 280 basis points during 2012 primarily due to higher yields and volume growth. FedEx Ground has continued to shorten transit times throughout 2012 by accelerating various lanes throughout the U.S. and Canada, while maintaining consistently high on-time service. Purchased transportation costs increased 10% in 2012 primarily as a result of volume growth and higher fuel surcharges. Salaries and employee benefits increased 13% primarily due to increased staffing to support volume growth and higher incentive compensation accruals. Intercompany charges increased 9% in 2012 primarily due to higher allocated information technology costs. Depreciation expense increased 15% in 2012 due to higher capital spending across the network, including technology and transportation equipment upgrades and an initiative to replace lighting fixtures throughout the network in order to reduce energy costs.

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 realized a higher retention of our annual rate increase in 2011 as more customers recognized the competitive advantage that we maintain across many shipping lanes in the U.S. We 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 surcharges and

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higher rates paid to our independent contractors. Salaries and employee benefits 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.

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. To date, FedEx Ground has transitioned to the ISP model in 17 states. Based upon the success of this model, FedEx Ground may transition to it in some other states in the future. For more information on the FedEx Ground ISP model, see Part I, Item 1 of this Annual Report under the caption **Evolution of Independent Contractor Model**.

FedEx Ground Segment Outlook

FedEx Ground segment revenues are expected to continue to grow in 2013, led by volume growth across all our major services due to market share gains while continuing to improve U.S. transit times on additional lanes. We also anticipate yield growth in 2013 through yield management programs.

We expect continued growth in operating income at the FedEx Ground segment in 2013 due to volume and yield increases as well as through productivity enhancements such as automation of the planning and execution of our preload, pickup and delivery processes, and installation of GPS devices on all trailers and dollies to improve fleet management.

Capital spending is expected to increase in 2013, with the majority of our spending resulting from our hub expansions, and vehicle and equipment purchases.

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.

Table of Contents**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:

| | 2012 | 2011 | 2010 | Percent Change | |
|---|----------|----------|----------|----------------|-----------|
| | | | | 2012/2011 | 2011/2010 |
| Revenues | \$ 5,282 | \$ 4,911 | \$ 4,321 | 8 | 14 |
| Operating expenses: | | | | | |
| Salaries and employee benefits | 2,316 | 2,303 | 2,128 | 1 | 8 |
| Purchased transportation | 851 | 779 | 690 | 9 | 13 |
| Rentals | 114 | 122 | 116 | (7) | 5 |
| Depreciation and amortization | 185 | 205 | 198 | (10) | 4 |
| Fuel | 636 | 585 | 445 | 9 | 31 |
| Maintenance and repairs | 192 | 182 | 148 | 5 | 23 |
| Impairment and other charges ⁽¹⁾ | | 89 | 18 | NM | 394 |
| Intercompany charges | 433 | 427 | 351 | 1 | 22 |
| Other | 393 | 394 | 380 | | 4 |
| Total operating expenses | 5,120 | 5,086 | 4,474 | 1 | 14 |
| Operating income (loss) | \$ 162 | \$ (175) | \$ (153) | 193 | (14) |
| Operating margin | 3.1% | (3.6)% | (3.5)% | 670bp | (10)bp |
| Average daily LTL shipments (in thousands) | 84.9 | 86.0 | 82.3 | (1) | 4 |
| Weight per LTL shipment (lbs) | 1,156 | 1,144 | 1,134 | 1 | 1 |
| LTL yield (revenue per hundredweight) | \$ 19.57 | \$ 18.24 | \$ 17.07 | 7 | 7 |

⁽¹⁾ In 2011, this charge 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, this charge represents impairment charges associated with goodwill related to the FedEx National LTL acquisition.

| | Percent of Revenue | | |
|---|--------------------|--------|--------|
| | 2012 | 2011 | 2010 |
| Operating expenses: | | | |
| Salaries and employee benefits | 43.9% | 46.9% | 49.2% |
| Purchased transportation | 16.1 | 15.9 | 16.0 |
| Rentals | 2.2 | 2.5 | 2.7 |
| Depreciation and amortization | 3.5 | 4.2 | 4.6 |
| Fuel | 12.0 | 11.9 | 10.3 |
| Maintenance and repairs | 3.6 | 3.7 | 3.4 |
| Impairment and other charges ⁽¹⁾ | | 1.8 | 0.4 |
| Intercompany charges | 8.2 | 8.7 | 8.1 |
| Other | 7.4 | 8.0 | 8.8 |
| Total operating expenses | 96.9 | 103.6 | 103.5 |
| Operating margin | 3.1% | (3.6)% | (3.5)% |

- (1) In 2011, this charge 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, this charge represents impairment charges associated with goodwill related to the FedEx National LTL acquisition.

FedEx Freight Segment Revenues

During 2012, FedEx Freight revenues increased 8% due to increased LTL yield and weight per LTL shipment, partially offset by lower average daily LTL shipments. LTL yield increased 7% during 2012 due to higher fuel surcharges and base yield improvement. Average daily LTL shipments decreased 1% in 2012; however, during the second half of 2012, LTL shipment year-over-year comparisons improved sequentially (2% in the third quarter and 4% in the fourth quarter) due to enhanced service levels, strong customer satisfaction from our service offerings and the impact of severe weather in the prior year.

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FedEx Freight segment revenues increased 14% in 2011 due to higher LTL yield and average daily LTL shipments. LTL yields increased 7% in 2011 due to our yield management programs and higher fuel surcharges. Under these programs, LTL yields increased sequentially in each of the previous 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.

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:

| | 2012 | 2011 | 2010 |
|------------------|--------|--------|--------|
| Low | 19.80% | 15.10% | 10.80% |
| High | 24.30 | 20.70 | 16.10 |
| Weighted-average | 22.90 | 17.00 | 14.00 |

On June 8, 2012, FedEx Freight announced a general rate increase of 6.9% for LTL shipments to be effective on July 9, 2012. In June 2011, FedEx Freight increased the fuel surcharge rate to a maximum of 3.6 percentage points above previous levels. In September 2011, we implemented a general rate increase of 6.75% for LTL shipments. In November 2010, we implemented a 6.9% general rate increase for LTL shipments.

FedEx Freight Segment Operating Income (Loss)

In 2012, the FedEx Freight segment operating income increased significantly as a result of higher fuel surcharges, yield growth and ongoing improvements in operational efficiencies due to the combination of our FedEx Freight and FedEx National LTL operations in 2011 (see below). Additionally, the FedEx Freight segment's 2012 results benefited from milder winter weather, while our 2011 results were negatively impacted by unusually severe winter weather.

Purchased transportation costs increased 9% in 2012 due to higher rates and the increased utilization of rail, partially offset by a lower cost per mile due to our ability to optimize mode of transportation while meeting service standards. Fuel costs increased 9% in 2012 due to a higher average price per gallon of diesel fuel partially offset by the increased utilization of rail. 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 to operating income in 2012. Depreciation and amortization expense decreased 10% in 2012 primarily due to accelerated depreciation in 2011 associated with the combination of our LTL operations.

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.

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

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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.

FedEx Freight Segment Outlook

We expect revenue growth at the FedEx Freight segment in 2013 as customers increase their utilization of our integrated network. In addition, we expect yield and volume improvement driven by the unique value proposition of our differentiated LTL services.

FedEx Freight operating income is expected to increase significantly in 2013 driven by improvements in yields and the continued improvement in productivity and efficiency across our integrated network. We will continue to use investments in technology, focused on network and equipment planning and customer automation, to further enhance customer service levels throughout 2013.

Capital expenditures in 2013 are expected to be comparable to 2012, with the majority of our spending for replacement of vehicles and freight handling equipment.

FINANCIAL CONDITION**LIQUIDITY**

Cash and cash equivalents totaled \$2.8 billion at May 31, 2012, compared to \$2.3 billion at May 31, 2011. The following table provides a summary of our cash flows for the periods ended May 31 (in millions):

| | 2012 | 2011 | 2010 |
|--|----------|----------|----------|
| Operating activities: | | | |
| Net income | \$ 2,032 | \$ 1,452 | \$ 1,184 |
| Impairment and other charges | 134 | 29 | 18 |
| Other noncash charges and credits | 3,504 | 2,892 | 2,514 |
| Changes in assets and liabilities | (835) | (332) | (578) |
| Cash provided by operating activities | 4,835 | 4,041 | 3,138 |
| Investing activities: | | | |
| Capital expenditures | (4,007) | (3,434) | (2,816) |
| Business acquisitions, net of cash acquired | (116) | (96) | |
| Proceeds from asset dispositions and other | 74 | 111 | 35 |
| Cash used in investing activities | (4,049) | (3,419) | (2,781) |
| Financing activities: | | | |
| Purchase of treasury stock | (197) | | |
| Principal payments on debt | (29) | (262) | (653) |
| Dividends paid | (164) | (151) | (138) |
| Other | 146 | 126 | 99 |
| Cash used in financing activities | (244) | (287) | (692) |
| Effect of exchange rate changes on cash | (27) | 41 | (5) |
| Net increase (decrease) in cash and cash equivalents | \$ 515 | \$ 376 | \$ (340) |

Cash Provided by Operating Activities. Cash flows from operating activities increased \$794 million in 2012 primarily due to increased earnings, partially offset by higher pension contributions. Cash flows from operating activities increased \$903 million in 2011 primarily due to increased earnings and lower pension contributions.

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We made contributions of \$722 million to our tax-qualified U.S. domestic pension plans (U.S. Pension Plans) during 2012, including \$226 million in voluntary contributions, and contributions of \$480 million to our U.S. Pension Plans during 2011, including \$121 million in voluntary contributions. We made contributions of \$848 million to our U.S. Pension Plans during 2010, including \$495 million in voluntary contributions.

Cash Used in Investing Activities. Capital expenditures were 17% higher in 2012 largely due to increased spending at FedEx Express and FedEx Freight and 22% higher in 2011 primarily due to increased spending at FedEx Express. See *Capital Resources* for a discussion of capital expenditures during 2012 and 2011.

Financing Activities. During the second quarter of 2012, we repurchased 2.8 million FedEx common shares at an average price of \$70 per share for a total of \$197 million. As of May 31, 2012, 2.9 million shares remained under existing share repurchase authorizations.

During 2011, we repaid our \$250 million 7.25% notes that matured on February 15, 2011.

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):

| | 2012 | 2011 | 2010 | Percent Change | |
|--|-----------------|-----------------|-----------------|----------------|-----------|
| | | | | 2012/2011 | 2011/2010 |
| Aircraft and related equipment | \$ 1,875 | \$ 1,988 | \$ 1,537 | (6) | 29 |
| Facilities and sort equipment | 638 | 555 | 630 | 15 | (12) |
| Vehicles | 723 | 282 | 220 | 156 | 28 |
| Information and technology investments | 541 | 455 | 289 | 19 | 57 |
| Other equipment | 230 | 154 | 140 | 49 | 10 |
| Total capital expenditures | \$ 4,007 | \$ 3,434 | \$ 2,816 | 17 | 22 |
| FedEx Express segment | \$ 2,689 | \$ 2,467 | \$ 1,864 | 9 | 32 |
| FedEx Ground segment | 536 | 426 | 400 | 26 | 7 |
| FedEx Freight segment | 340 | 153 | 212 | 122 | (28) |
| FedEx Services segment | 437 | 387 | 340 | 13 | 14 |
| Other | 5 | 1 | | NM | NM |
| Total capital expenditures | \$ 4,007 | \$ 3,434 | \$ 2,816 | 17 | 22 |

Capital expenditures during 2012 were higher than the prior year primarily due to increased spending for vehicles at FedEx Express, FedEx Freight and FedEx Ground, although spending for aircraft and related equipment at FedEx Express decreased. Aircraft and aircraft-related equipment purchases at FedEx Express during 2012 included the delivery of seven B777Fs and 15 B757s. Capital expenditures during 2011 were higher than the prior year 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 six new B777Fs and 22 B757s.

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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, 2012 includes \$410 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.

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. 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.

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. The revolving credit agreement expires in April 2016. 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 70%. Our leverage ratio of adjusted debt to capital was 53% at May 31, 2012. We believe the leverage ratio covenant is our only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of May 31, 2012, no commercial paper was outstanding, and the entire \$1 billion under the revolving credit facility was available for future borrowings.

Standard & Poor's has assigned us a senior unsecured debt credit rating of BBB, commercial paper rating of A-2 and a ratings outlook of stable. During 2012, Moody's Investors Service raised our senior unsecured debt credit rating to Baa1 from Baa2 and affirmed a commercial paper rating of P-2 and a ratings outlook of 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.

Subsequent to year-end, we completed acquisitions in Poland, Brazil and France for approximately \$500 million (see Business Acquisitions for additional information), and on June 15, 2012, we repaid our \$300 million 9.65% unsecured notes when they matured.

Our capital expenditures are expected to be \$3.9 billion in 2013. We anticipate that our cash flow from operations will be sufficient to fund our capital expenditures in 2013, which will include spending for aircraft and aircraft-related equipment at FedEx Express, sort facility expansion at FedEx Express and FedEx Ground and vehicle replacement at all our transportation segments. We expect approximately 46% of capital expenditures in 2013 will be designated for growth initiatives and 54% dedicated to maintaining our existing operations. Our capital expenditures are expected to decrease in 2013 due to delayed delivery of two B777F aircraft (see below) partially offset by increased spending on facility investment. Our expected capital expenditures for 2013 include \$1.3 billion in investments for delivery of aircraft as well as progress payments toward future aircraft deliveries at FedEx Express. For 2013, we anticipate making required contributions to our U.S. Pension Plans totaling approximately \$550 million. Our U.S. Pension Plans have ample funds to meet expected benefit payments.

We have several aircraft modernization programs underway which are supported by the purchase of B777F, B767F and B757 aircraft. These aircraft are significantly more fuel-efficient per unit than the aircraft type previously utilized, and these 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. We will have a benefit from the tax expensing and accelerated depreciation provisions of the Tax Relief Act of 2010 on qualifying capital investments we make until December 31, 2012.

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B777F Aircraft. We have agreed to purchase a total of 43 B777F aircraft (19 of which were in service at May 31, 2012, and an additional four to be delivered in 2013). During the second quarter of 2012, FedEx Express delayed the delivery of two B777F aircraft from 2013, and in conjunction with the execution of the December 2011 B767F aircraft purchase agreement (described below), also delayed the delivery of nine B777F aircraft, five of which were deferred from 2014 and one per year from 2015 to 2018, to better align air network capacity to demand. FedEx Express also exercised two B777F options for aircraft to be delivered at the end of the delivery schedule.

In conjunction with the June 29, 2012 supplemental agreement to purchase B767F aircraft (described below), we agreed to convert four contracted B777F aircraft deliveries that were subject to the Railway Labor Act of 1926, as amended (RLA) (two scheduled for delivery in fiscal 2016 and two scheduled for delivery in fiscal 2017) to equivalent purchase value for B767F aircraft acquired under the supplemental agreement referenced below.

With consideration of the supplemental agreement, our obligation to purchase 9 of these B777F aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the RLA.

B767F Aircraft. We have agreed to purchase a total of 46 B767F aircraft (the first three to be delivered in 2014). In December 2011, FedEx Express entered into an agreement to acquire 27 new B767F aircraft, with the first three arriving in 2014 followed by six per year from 2015 to 2018. The B767F was selected as the best choice to begin replacing FedEx Express' s MD10 aircraft, some of which are more than 40 years old. The B767Fs will provide similar capacity as the MD10s, with improved reliability, an approximate 30% increase in fuel efficiency and a minimum of a 20% reduction in unit operating costs.

On June 29, 2012, FedEx Express entered into a supplemental agreement to purchase nine additional B767F aircraft. Additionally, FedEx Express exercised ten B767F options available under the December 2011 agreement and purchased the right to 15 additional options. Four of these 19 additional B767F aircraft purchases are subject to the RLA condition. These 19 additional B767F aircraft are expected to be delivered from fiscal 2015 to 2019 and will replace current MD10-10 and A310-200 aircraft.

B757 Aircraft. Our B757 aircraft are replacing our B727 aircraft, and we expect to be completely transitioned out of the B727 aircraft by 2015.

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The following table sets forth a summary of our contractual cash obligations as of May 31, 2012. 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, 2012. 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 below. 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 below due to the absence of scheduled maturities. 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) | | | | | | Total |
|---|--|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | (in millions) | | | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter | |
| Operating activities: | | | | | | | |
| Operating leases | \$ 1,872 | \$ 1,725 | \$ 1,572 | \$ 1,391 | \$ 1,433 | \$ 5,993 | \$ 13,986 |
| Non-capital purchase obligations and other | 173 | 191 | 139 | 78 | 52 | 134 | 767 |
| Interest on long-term debt | 98 | 97 | 78 | 78 | 78 | 1,581 | 2,010 |
| Quarterly contributions to our U.S. Pension Plans | 550 | | | | | | 550 |
| Investing activities: | | | | | | | |
| Aircraft and aircraft-related capital commitments | 965 | 558 | 824 | 912 | 1,009 | 5,166 | 9,434 |
| Other capital purchase obligations | 127 | | | | | | 127 |
| Financing activities: | | | | | | | |
| Debt | 300 | 250 | | | | 989 | 1,539 |
| Capital lease obligations | 120 | 2 | 2 | 1 | 1 | 11 | 137 |
| Total | \$ 4,205 | \$ 2,823 | \$ 2,615 | \$ 2,460 | \$ 2,573 | \$ 13,874 | \$ 28,550 |

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 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, 2012. 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.

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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 (\$50 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 standby letters of credit and surety bonds. 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.

The amounts reflected in the table above for long-term debt represent future scheduled payments on our long-term debt. In 2013, we have scheduled debt payments of \$420 million, which includes \$300 million for principal payments on our 9.65% unsecured notes that matured in June 2012, and principal and interest payments on capital leases.

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

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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 and corporate bond rates. Prior to 2009, certain employees earned benefits using a traditional pension formula (based on average earnings and years of service). Benefits under this formula were capped on May 31, 2008 for most employees.

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):

| | 2012 | 2011 | 2010 |
|--|--------|--------|--------|
| U.S. domestic and international pension plans | \$ 524 | \$ 543 | \$ 308 |
| U.S. domestic and international defined contribution plans | 338 | 257 | 136 |
| Postretirement healthcare plans | 70 | 60 | 42 |
| | \$ 932 | \$ 860 | \$ 486 |

Total retirement plans cost increased \$72 million in 2012 primarily due to higher expenses for our 401(k) plans due to the full restoration of company matching contributions on January 1, 2011. Total retirement plans cost increased \$374 million in 2011 driven by lower discount rates used to measure our benefit obligations at our May 31, 2010 measurement date. Additionally, we incurred higher expenses for our 401(k) plans in 2011 due to the partial reinstatement of company-matching contributions on January 1, 2010 (previously suspended in February 2009).

Our retirement plans costs are expected to increase significantly in 2013, as historically low discount rates at May 31, 2012 will increase our expenses by over \$165 million, of which \$150 million is attributable to U.S. Pension Plan expense.

PENSION COST. The accounting for pension and postretirement healthcare plans includes numerous assumptions, including the discount rate and expected long-term investment returns on plan assets. These assumptions most significantly impact our U.S. Pension Plans. The components of pension cost for all pension plans are as follows (in millions):

| | 2012 | 2011 | 2010 |
|---|---------|---------|--------|
| Service cost | \$ 593 | \$ 521 | \$ 417 |
| Interest cost | 976 | 900 | 823 |
| Expected return on plan assets | (1,240) | (1,062) | (955) |
| Recognized actuarial losses (gains) and other | 195 | 184 | 23 |
| Net periodic benefit cost | \$ 524 | \$ 543 | \$ 308 |

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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 | xxxx,xxx Discount Rate | xxxx,xxx Amounts Determined by Measurement Date and Discount Rate |
|------------------|---------------------------|--|
| 5/31/2012 | 4.44% | 2012 PBO and 2013 expense |
| 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 |

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 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 2013 Pension Expense | Effect on 2012 Pension Expense |
| One-basis-point change in discount rate | \$ 2.3 | \$ 1.9 |

At our May 31, 2012 measurement date, a 50-basis-point increase in the discount rate would have decreased our 2012 PBO by approximately \$1.5 billion and a 50-basis-point decrease in the discount rate would have increased our 2012 PBO by approximately \$1.7 billion. From 2009 to 2012, the discount rate used to value our liabilities has declined by over 300 basis points, which increased the valuation of our liabilities by over \$7 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.

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Establishing the expected future rate of investment return on our pension assets is a judgmental matter, which we review on an annual basis and revise 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.

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

| Asset Class | Plan Assets at Measurement Date | | | | | |
|-------------------------|---------------------------------|----------|----------|-----------|----------|----------|
| | 2012 | | | 2011 | | |
| | Actual | Actual % | Target % | Actual | Actual % | Target % |
| Domestic equities | \$ 5,616 | 33% | 33% | \$ 5,761 | 37% | 33% |
| International equities | 1,657 | 10 | 12 | 2,013 | 13 | 12 |
| Private equities | 402 | 2 | 5 | 403 | 3 | 5 |
| Total equities | 7,675 | 45 | 50 | 8,177 | 53 | 50 |
| Fixed-income securities | 8,799 | 52 | 49 | 6,995 | 45 | 49 |
| Cash and other | 539 | 3 | 1 | 346 | 2 | 1 |
| | \$ 17,013 | 100% | 100% | \$ 15,518 | 100% | 100% |

We have assumed an 8.0% compound geometric long-term rate of return on our U.S. Pension Plan assets for 2013, 2012 and 2011. The actual returns during each of the last three fiscal years have exceeded that long-term assumption. The actual historical return on our U.S. Pension Plan assets, calculated on a compound geometric basis, was approximately 7.4%, net of investment manager fees, for the 15-year period ended May 31, 2012 and 7.8%, net of investment manager fees, for the 15-year period ended May 31, 2011. A one-basis-point change in our expected return on plan assets impacts our pension expense by \$1.7 million.

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 2013 pension expense, the calculated value method resulted in the same value as the market value.

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

| | 2012 | 2011 |
|--|------------|------------|
| <i>Funded Status of Plans:</i> | | |
| Projected benefit obligation (PBO) | \$ 22,187 | \$ 17,372 |
| Fair value of plan assets | 17,334 | 15,841 |
| Funded status of the plans | \$ (4,853) | \$ (1,531) |
| <i>Components of Funded Status by Plans:</i> | | |
| U.S. qualified plans | \$ (4,179) | \$ (927) |
| U.S. nonqualified plans | (355) | (339) |
| International plans | (319) | (265) |
| Net funded status | \$ (4,853) | \$ (1,531) |
| <i>Components of Amounts Included in Balance Sheets:</i> | | |
| Current pension and other benefit obligations | \$ (35) | \$ (33) |
| Noncurrent pension and other benefit obligations | (4,818) | (1,498) |
| Net amount recognized | \$ (4,853) | \$ (1,531) |

Cash Amounts:

| | | |
|------------------------------------|--------|--------|
| Cash contributions during the year | \$ 780 | \$ 557 |
| Benefit payments during the year | \$ 502 | \$ 468 |

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, 2012, we recorded a decrease to equity through OCI of \$2.4 billion (net of tax) to reflect unrealized actuarial losses during 2012 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, 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.

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 2012 were approximately \$465 million or 3% of plan assets).

During 2012, we made \$722 million in contributions to our U.S. Pension Plans, including \$226 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 2013, we anticipate making required contributions to our U.S. Pension Plans totaling approximately \$550 million.

Cumulative unrecognized actuarial losses were \$8.9 billion through May 31, 2012, compared to \$5.4 billion through May 31, 2011. 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 \$302 million in 2012, \$276 million in 2011 and \$125 million in 2010.

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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. Self-insurance accruals reflected in our balance sheet were \$1.6 billion at May 31, 2012, and May 31, 2011. 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 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.

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 58% 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 30 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. In May 2012, we made the decision to shorten the depreciable lives for 54 aircraft and related engines to accelerate the retirement of these aircraft to better align the U.S. domestic air network capacity to match current and anticipated shipment volumes in light of the delivery schedule for replacement aircraft. Due to our decision to accelerate retirement of certain aircraft and related engines, our depreciation expense will increase over the next three years, partially offset from the avoidance of depreciation related to aircraft retirements. (See the Outlook section for additional information). 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 disposals of operating equipment have not been material. 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 \$127 million at May 31, 2012 and \$173 million at May 31, 2011. We plan to modify these assets in the future and place them into operations.

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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.

During the fourth quarter of 2012, we incurred a noncash impairment charge of \$134 million. This charge related to our May 2012 decision to permanently retire 18 Airbus A310-200 aircraft and 26 related engines as well as six Boeing MD10-10 aircraft and 17 related engines to better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes. The majority of these aircraft were temporarily idled and not in revenue service.

In 2011, we incurred asset impairment charges of \$29 million related to the combination of our LTL operations at FedEx Freight. There were no material property and equipment impairment charges recognized in 2010.

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, 2012 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, 2012 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.

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.

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.

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GOODWILL. As of May 31, 2012, we had \$2.4 billion of recorded goodwill from our acquisitions, representing the excess of the purchase price 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.

In our evaluation of goodwill impairment, we perform a qualitative assessment which requires management judgment and the use of estimates to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we would proceed to a two-step process to test goodwill for impairment, including comparing the fair value of each reporting unit with its carrying value (including attributable goodwill). 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 reporting units with significant recorded goodwill include our FedEx Express, FedEx Freight and FedEx Office (reported in the FedEx Services segment) reporting units. We evaluated these reporting units during the fourth quarters of 2012 and 2011. The estimated fair value of each of these reporting units exceeded their carrying values in 2012 and 2011, and we do not believe that any of these reporting units were at risk as of May 31, 2012. 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 (\$351 million) is dependent upon execution of our growth strategies and initiatives in the future.

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.

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

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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 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.

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.

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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.

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 continue to grow our international business, we are increasingly affected by the health of the global economy. In 2012, global economic conditions resulted in decreased demand for our U.S. domestic and International Priority package services at FedEx Express, as customers utilized lower priced deferred services.

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 customer service mishaps or noncompliance with anti-corruption laws, could tarnish our reputation and reduce the value of our brand. With the increase in the use of social media outlets such as YouTube and Twitter,

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adverse publicity can be disseminated quickly and broadly, making it increasingly difficult for us to defend against. 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.

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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, code anomalies, 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 decisions 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. 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. For example, in the fourth quarter of 2012, in order to better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes, we made a decision to retire from service certain aircraft and certain excess aircraft engines and thus recorded a noncash impairment charge of \$134 million. We are also developing operating and cost structure plans to further improve our efficiency at FedEx Express.

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, high volume package shippers could develop in-house ground delivery capabilities, which would in turn reduce our revenues and market share. While we believe we compete effectively through our current service offerings, if our current competitors or potential future competitors offer a broader range of services or more effectively bundle their services or our current customers become competitors, it could impede our ability to maintain or grow our market share.

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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 acquisitions in Mexico, Poland, France and Brazil. 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.

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 units of our employees. For example, there is always a possibility that Congress could remove most FedEx Express employees from the purview of the RLA. For additional discussion of the RLA, see Part I, Item 1 of this Annual Report under the caption

Regulation. 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.

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.

The transportation infrastructure continues to be a target of terrorist activities. Because transportation assets continue to be a target of terrorist activities, 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 continues to require FedEx Express to comply with a Full All-Cargo Aircraft Operator Standard Security Plan, which contains evolving and strict security requirements. These requirements are not static, but change periodically as the result of regulatory and legislative requirements, imposing additional security costs and creating a level of uncertainty for our operations. Thus, it is reasonably possible that these rules or other future security requirements could impose material costs on us. Moreover, a terrorist attack directed at FedEx or other aspects of the transportation infrastructure could disrupt our operations and adversely impact demand for our services.

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Increased pilot safety requirements could impose substantial costs on us. The FAA, 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. When the FAA issued final regulations in December 2011, all-cargo carriers, including FedEx Express, were exempt from these new pilot fatigue requirements, and instead required to continue complying with previously enacted flight and duty time rules. In May 2012, however, the FAA indicated that it would reconsider the exclusion of cargo pilots from these new pilot fatigue requirements. Thus, it is reasonably possible that these rules or other future 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, including certain postal regulations and licensing requirements, that restrict, make difficult and sometimes prohibit, the ability of foreign-owned companies such as FedEx Express to compete effectively in parts of the international domestic transportation and logistics 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, including our aircraft and diesel engine 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 are now covered by the ETS requirements, and each year we are 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 weather patterns and 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 reestablish or relocate these functions. Moreover, resulting economic dislocations, including supply chain and fuel disruptions, could adversely impact demand for our services.

Our business may be adversely impacted by disruptions or modifications in service by the USPS. The USPS is a significant customer and vendor of FedEx, and thus, disruptions or modifications in services by the USPS as a consequence of the USPS's current financial difficulties or any resulting structural changes to its operations, network, service offerings or pricing could have an

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adverse effect on our operations and financial results. For instance, because FedEx SmartPost uses the USPS for final delivery to residences, any changes in USPS services (such as the cessation of Saturday delivery) could impact the terms and cost of our FedEx SmartPost service.

In addition, the USPS has informed us that it intends to solicit proposals for the provision of air transportation services currently provided by FedEx Express upon the expiration of the current agreement in September 2013. Accordingly, upon the expiration of the current agreement, the transportation services we provide to the USPS could be transitioned, in whole or in part, to another provider. This would have a negative impact on our asset utilization and profitability. Moreover, to the extent that any such services are retained by us, the terms and conditions of the new arrangement may be less favorable than those currently in place.

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 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 British pound, Canadian dollar, Chinese yuan, euro, Hong Kong dollar 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 and discrimination and retaliation claims, and any other legal or governmental 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);

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

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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

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include the words may, could, would, should, believes, expects, anticipates, plans, estimates, targets, projects, intends o
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.

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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, 2012, 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, 2012.

The effectiveness of our internal control over financial reporting as of May 31, 2012, 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 on Form 10-K. Ernst & Young LLP's report on the Company's internal control over financial reporting is included in this Annual Report on Form 10-K.

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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, 2012, 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, 2012, 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, 2012 and 2011, and the related consolidated statements of income, changes in stockholders investment and comprehensive income (loss), and cash flows for each of the three years in the period ended May 31, 2012 of FedEx Corporation and our report dated July 16, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Memphis, Tennessee

July 16, 2012

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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, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' investment and comprehensive income (loss), and cash flows for each of the three years in the period ended May 31, 2012. 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, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2012, 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, 2012, 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 16, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Memphis, Tennessee

July 16, 2012

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FEDEX CORPORATION
 CONSOLIDATED BALANCE SHEETS
 (IN MILLIONS)

| | 2012 | May 31, 2011 |
|--|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,843 | \$ 2,328 |
| Receivables, less allowances of \$178 and \$182 | 4,704 | 4,581 |
| Spare parts, supplies and fuel, less allowances of \$184 and \$169 | 440 | 437 |
| Deferred income taxes | 533 | 610 |
| Prepaid expenses and other | 536 | 329 |
| Total current assets | 9,056 | 8,285 |
| PROPERTY AND EQUIPMENT, AT COST | | |
| Aircraft and related equipment | 14,360 | 13,146 |
| Package handling and ground support equipment | 5,912 | 5,591 |
| Computer and electronic equipment | 4,646 | 4,408 |
| Vehicles | 3,654 | 3,294 |
| Facilities and other | 7,592 | 7,247 |
| | 36,164 | 33,686 |
| Less accumulated depreciation and amortization | 18,916 | 18,143 |
| Net property and equipment | 17,248 | 15,543 |
| OTHER LONG-TERM ASSETS | | |
| Goodwill | 2,387 | 2,326 |
| Other assets | 1,212 | 1,231 |
| Total other long-term assets | 3,599 | 3,557 |
| | \$ 29,903 | \$ 27,385 |

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

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FEDEX CORPORATION

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE DATA)

| | 2012 | May 31, 2011 |
|--|------------------|------------------|
| LIABILITIES AND STOCKHOLDERS INVESTMENT | | |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt | \$ 417 | \$ 18 |
| Accrued salaries and employee benefits | 1,635 | 1,268 |
| Accounts payable | 1,613 | 1,702 |
| Accrued expenses | 1,709 | 1,894 |
| Total current liabilities | 5,374 | 4,882 |
| LONG-TERM DEBT, LESS CURRENT PORTION | 1,250 | 1,667 |
| OTHER LONG-TERM LIABILITIES | | |
| Deferred income taxes | 836 | 1,336 |
| Pension, postretirement healthcare and other benefit obligations | 5,582 | 2,124 |
| Self-insurance accruals | 963 | 977 |
| Deferred lease obligations | 784 | 779 |
| Deferred gains, principally related to aircraft transactions | 251 | 246 |
| Other liabilities | 136 | 154 |
| Total other long-term liabilities | 8,552 | 5,616 |
| COMMITMENTS AND CONTINGENCIES | | |
| COMMON STOCKHOLDERS INVESTMENT | | |
| Common stock, \$0.10 par value; 800 million shares authorized; 317 million shares issued as of May 31, 2012 and May 31, 2011 | 32 | 32 |
| Additional paid-in capital | 2,595 | 2,484 |
| Retained earnings | 17,134 | 15,266 |
| Accumulated other comprehensive loss | (4,953) | (2,550) |
| Treasury stock, at cost | (81) | (12) |
| Total common stockholders investment | 14,727 | 15,220 |
| | \$ 29,903 | \$ 27,385 |

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

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FEDEX CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

| | Years ended May 31, | | |
|-----------------------------------|---------------------|-----------|-----------|
| | 2012 | 2011 | 2010 |
| REVENUES | \$ 42,680 | \$ 39,304 | \$ 34,734 |
| OPERATING EXPENSES: | | | |
| Salaries and employee benefits | 16,099 | 15,276 | 14,027 |
| Purchased transportation | 6,335 | 5,674 | 4,728 |
| Rentals and landing fees | 2,487 | 2,462 | 2,359 |
| Depreciation and amortization | 2,113 | 1,973 | 1,958 |
| Fuel | 4,956 | 4,151 | 3,106 |
| Maintenance and repairs | 1,980 | 1,979 | 1,715 |
| Impairment and other charges | 134 | 89 | 18 |
| Other | 5,390 | 5,322 | 4,825 |
| | 39,494 | 36,926 | 32,736 |
| OPERATING INCOME | 3,186 | 2,378 | 1,998 |
| OTHER INCOME (EXPENSE): | | | |
| Interest expense | (52) | (86) | (79) |
| Interest income | 13 | 9 | 8 |
| Other, net | (6) | (36) | (33) |
| | (45) | (113) | (104) |
| INCOME BEFORE INCOME TAXES | 3,141 | 2,265 | 1,894 |
| PROVISION FOR INCOME TAXES | 1,109 | 813 | 710 |
| NET INCOME | \$ 2,032 | \$ 1,452 | \$ 1,184 |
| BASIC EARNINGS PER COMMON SHARE | \$ 6.44 | \$ 4.61 | \$ 3.78 |
| DILUTED EARNINGS PER COMMON SHARE | \$ 6.41 | \$ 4.57 | \$ 3.76 |

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

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FEDEX CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN MILLIONS)

| | Years ended May 31, | | |
|---|---------------------|-----------------|-----------------|
| | 2012 | 2011 | 2010 |
| OPERATING ACTIVITIES | | | |
| Net income | \$ 2,032 | \$ 1,452 | \$ 1,184 |
| Adjustments to reconcile net income to cash provided by operating activities: | | | |
| Depreciation and amortization | 2,113 | 1,973 | 1,958 |
| Provision for uncollectible accounts | 160 | 152 | 124 |
| Deferred income taxes and other noncash items | 1,126 | 669 | 331 |
| Impairment and other charges | 134 | 29 | 18 |
| Stock-based compensation | 105 | 98 | 101 |
| Changes in assets and liabilities: | | | |
| Receivables | (254) | (400) | (906) |
| Other current assets | (231) | (114) | 276 |
| Pension assets and liabilities, net | (453) | (169) | (611) |
| Accounts payable and other liabilities | 144 | 370 | 710 |
| Other, net | (41) | (19) | (47) |
| Cash provided by operating activities | 4,835 | 4,041 | 3,138 |
| INVESTING ACTIVITIES | | | |
| Capital expenditures | (4,007) | (3,434) | (2,816) |
| Business acquisitions, net of cash acquired | (116) | (96) | |
| Proceeds from asset dispositions and other | 74 | 111 | 35 |
| Cash used in investing activities | (4,049) | (3,419) | (2,781) |
| FINANCING ACTIVITIES | | | |
| Principal payments on debt | (29) | (262) | (653) |
| Proceeds from stock issuances | 128 | 108 | 94 |
| Excess tax benefit on the exercise of stock options | 18 | 23 | 25 |
| Dividends paid | (164) | (151) | (138) |
| Purchase of treasury stock | (197) | | |
| Other, net | | (5) | (20) |
| Cash used in financing activities | (244) | (287) | (692) |
| Effect of exchange rate changes on cash | (27) | 41 | (5) |
| Net increase (decrease) in cash and cash equivalents | 515 | 376 | (340) |
| Cash and cash equivalents at beginning of period | 2,328 | 1,952 | 2,292 |
| Cash and cash equivalents at end of period | \$ 2,843 | \$ 2,328 | \$ 1,952 |

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

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FEDEX CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS

INVESTMENT AND COMPREHENSIVE INCOME (LOSS)

(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, 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 |
| Net income | | | 2,032 | | | 2,032 |
| Foreign currency translation adjustment, net of tax of \$26 | | | | (95) | | (95) |
| Retirement plans adjustments, net of tax of \$1,369 | | | | (2,308) | | (2,308) |
| Total comprehensive loss | | | | | | (371) |
| Purchase of treasury stock | | | | | (197) | (197) |
| Cash dividends declared (\$0.52 per share) | | | (164) | | | (164) |
| Employee incentive plans and other (2,359,659 shares issued) | | 111 | | | 128 | 239 |

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| | | | | | | |
|--------------------------------|--------------|-----------------|------------------|-------------------|----------------|------------------|
| Balance at May 31, 2012 | \$ 32 | \$ 2,595 | \$ 17,134 | \$ (4,953) | \$ (81) | \$ 14,727 |
|--------------------------------|--------------|-----------------|------------------|-------------------|----------------|------------------|

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

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FEDEX CORPORATION

NOTES TO 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 North American provider of small-package ground delivery services; and FedEx Freight, Inc. (FedEx Freight), a leading North American 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, information technology, communications and back-office 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, 2012 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. Transportation services are provided with the use of employees and independent contractors. FedEx is the principal to the transaction for these services and revenue from these transactions is recognized on a gross basis (with the exception of FedEx SmartPost as described below). 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.

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ADVERTISING. Advertising and promotion costs are expensed as incurred and are classified in other operating expenses. Advertising and promotion expenses were \$421 million in 2012, \$375 million in 2011 and \$374 million in 2010.

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 and flight equipment modifications 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. Expenditures for equipment overhaul costs of engines or airframes prior to their operational use are capitalized as part of the cost of such assets as they are costs required to ready the asset for its intended use. 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):

| | Range | Net Book Value at May 31, | |
|---|----------------|---------------------------|----------|
| | | 2012 | 2011 |
| Wide-body aircraft and related equipment | 15 to 30 years | \$ 7,161 | \$ 6,536 |
| Narrow-body and feeder aircraft and related equipment | 5 to 18 years | 1,881 | 1,517 |
| Package handling and ground support equipment | 3 to 30 years | 2,101 | 1,985 |
| Vehicles | 3 to 15 years | 1,411 | 1,076 |
| Computer and electronic equipment | 2 to 10 years | 930 | 776 |
| Facilities and other | 2 to 40 years | 3,764 | 3,653 |

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 30 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 as it did in 2012 with certain aircraft. Such changes did not materially affect depreciation expense in any period presented; however, changes to the estimated lives of certain aircraft will impact 2013 depreciation expense. In May 2012, FedEx Express made the decision to accelerate the retirement of 54 aircraft and related engines to better align with the delivery schedule for replacement aircraft, and we expect an additional \$69 million in accelerated depreciation expense in 2013, with a partial offset from the avoidance of depreciation related to the aircraft retirements (described in the [Impairment of Long-Lived Assets](#) section below).

Depreciation expense, excluding gains and losses on sales of property and equipment used in operations, was \$2.1 billion in 2012 and \$1.9 billion in 2011 and 2010. 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 \$85 million in 2012, \$71 million in 2011 and \$80 million in 2010.

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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 May 2012, we made the decision to retire from service 18 Airbus A310-200 aircraft and 26 related engines, as well as six Boeing MD10-10 aircraft and 17 related engines. As a consequence of this decision, a noncash impairment charge of \$134 million (\$84 million, net of tax, or \$0.26 per diluted share) was recorded in the fourth quarter. The decision to retire these aircraft, the majority of which were temporarily idled and not in revenue service, will better align the U.S. domestic air network capacity of FedEx Express to match current and anticipated shipment volumes.

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.

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. In our evaluation of goodwill impairment, we perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we would proceed to a two-step process to test goodwill for impairment including 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.

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 asset values for our tax-qualified U.S. domestic pension plans (U.S. Pension Plans). Our expected rate of return is a judgmental matter which is reviewed on an annual basis and revised as appropriate.

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.

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At May 31, 2012, we recorded a decrease to equity through OCI of \$2.4 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, 2012. 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.

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 costs associated with workers' compensation claims, vehicle accidents and general business liabilities, and benefits paid under employee healthcare and long-term disability programs. 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.

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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 \$60 million at May 31, 2012, \$156 million at May 31, 2011 and \$30 million at May 31, 2010.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of FedEx Express, which represent a small number of FedEx Express's total employees, are employed under a collective bargaining agreement. In 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 becomes amendable in March 2013. In addition to our pilots at FedEx Express, certain of FedEx'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.

TREASURY SHARES. During the second quarter of 2012, we repurchased 2.8 million FedEx common shares at an average price of \$70 per share for a total of \$197 million. As of May 31, 2012, 2.9 million shares remained under existing share repurchase authorizations.

DIVIDENDS DECLARED PER COMMON SHARE. On June 4, 2012, our Board of Directors declared a quarterly dividend of \$0.14 per share of common stock. The dividend was paid on July 2, 2012 to stockholders of record as of the close of business on June 18, 2012. 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 combination of our FedEx Freight and FedEx National LTL operations was completed on January 30, 2011. These actions resulted in total program costs of \$133 million, which includes \$89 million of impairment and other charges and \$44 million of other program costs recorded during 2011.

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.

During our fiscal year, the Financial Accounting Standards Board 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

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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. 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

During 2012, we continued to expand our FedEx Express international network. On July 25, 2011, we completed our acquisition of Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company, for \$128 million in cash from operations. Last year, 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 on February 22, 2011. The financial results of these acquired businesses are included in the FedEx Express segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations or financial condition and therefore, pro forma financial information has not been presented. Substantially all of the purchase price was allocated to goodwill, which was entirely attributed to our FedEx Express reporting unit.

Subsequent to year-end, we completed the following acquisitions:

Oppek Sp. z o.o., a Polish domestic express package delivery company, for \$54 million in cash from operations on June 13, 2012

TATEX, a French express transportation company, for \$55 million in cash from operations on July 3, 2012

Rapidão Cometa Logística e Transportes S.A., a Brazilian transportation and logistics company, for \$398 million in cash from operations on July 4, 2012

Based on the timing of the completion of these acquisitions in relation to the date of issuance of the financial statements, the initial purchase price accounting was not completed for these acquisitions. The financial results of these acquired businesses will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2013 results. These acquisitions will give us more robust transportation networks within these countries and added capabilities in these important global markets.

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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):

| | XXXXXXXXXXXXX FedEx Express Segment | XXXXXXXXXXXXX FedEx Ground Segment | XXXXXXXXXXXXX FedEx Freight Segment | XXXXXXXXXXXXX FedEx Services Segment | XXXXXXXXXXXXX Total |
|---|---|--|---|--|------------------------|
| Goodwill at May 31, 2010 | \$ 1,145 | \$ 90 | \$ 736 | \$ 1,539 | \$ 3,510 |
| Accumulated impairment charges | | | (133) | (1,177) | (1,310) |
| Balance as of May 31, 2010 | 1,145 | 90 | 603 | 362 | 2,200 |
| Goodwill acquired ⁽¹⁾ | 89 | | | | 89 |
| Purchase adjustments and other ⁽²⁾ | 38 | | (1) | | 37 |
| Balance as of May 31, 2011 | 1,272 | 90 | 602 | 362 | 2,326 |
| Goodwill acquired ⁽³⁾ | 104 | | | | 104 |
| Purchase adjustments and other ⁽²⁾ | (32) | | | (11) | (43) |
| Balance as of May 31, 2012 | \$ 1,344 | \$ 90 | \$ 602 | \$ 351 | \$ 2,387 |
| Accumulated goodwill impairment charges as of May 31, 2012 | \$ | \$ | \$ (133) | \$ (1,177) | \$ (1,310) |

⁽¹⁾ 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.

⁽²⁾ Primarily currency translation adjustments.

⁽³⁾ Goodwill acquired in 2012 relates to the acquisition of the Mexican domestic express package delivery company, Multipack. See Note 3 for related disclosures.

Our reporting units with significant recorded goodwill include our FedEx Express, FedEx Freight and FedEx Office (reported in the FedEx Services segment) reporting units. We evaluated these reporting units during the fourth quarter of 2012. The estimated fair value of each of these reporting units exceeded their carrying values in 2012 and 2011, and we do not believe that any of these reporting units were at risk as of May 31, 2012.

In 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.

OTHER INTANGIBLE ASSETS. The net book value of our other intangible assets was \$34 million at May 31, 2012 and \$38 million at May 31, 2011. Amortization expense for intangible assets was \$18 million in 2012, \$32 million in 2011 and \$51 million in 2010. Estimated amortization expense is expected to be immaterial in 2013.

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NOTE 5: SELECTED CURRENT LIABILITIES

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

| | May 31, | |
|--|----------|----------|
| | 2012 | 2011 |
| Accrued Salaries and Employee Benefits | | |
| Salaries | \$ 280 | \$ 256 |
| Employee benefits, including variable compensation | 803 | 468 |
| Compensated absences | 552 | 544 |
| | \$ 1,635 | \$ 1,268 |
| Accrued Expenses | | |
| Self-insurance accruals | \$ 678 | \$ 696 |
| Taxes other than income taxes | 386 | 357 |
| Other | 645 | 841 |
| | \$ 1,709 | \$ 1,894 |

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, 2012, are as follows (in millions):

| | May 31, | |
|-------------------------------------|----------|----------|
| | 2012 | 2011 |
| Senior unsecured debt | | |
| 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 | 1,539 |
| Capital lease obligations | 128 | 146 |
| | 1,667 | 1,685 |
| Less current portion | 417 | 18 |
| | \$ 1,250 | \$ 1,667 |

Interest on our fixed-rate notes is paid semi-annually. Long-term debt, exclusive of capital leases, had carrying values of \$1.5 billion at May 31, 2012 and May 31, 2011 compared with estimated fair values of \$2.0 billion at May 31, 2012 and \$1.9 billion at May 31, 2011. 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.

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During 2012, we made principal payments in the amount of \$29 million related to capital lease obligations. During 2011, we repaid our \$250 million 7.25% unsecured notes that matured on February 15, 2011. During 2011, we made principal payments in the amount of \$12 million related to capital lease obligations.

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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. The revolving credit agreement expires in April 2016. 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 70%. Our leverage ratio of adjusted debt to capital was 53% at May 31, 2012. We believe the leverage ratio covenant is our only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of May 31, 2012, 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 standby letters of credit and surety bonds. We had a total of \$609 million in letters of credit outstanding at May 31, 2012, with \$107 million unused under our primary \$500 million letter of credit facility, and \$458 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 2045. We leased 10% of our total aircraft fleet under capital or operating leases as of May 31, 2012 as compared to 11% as of May 31, 2011. 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):

| | xx,xxx,x 2012 | xx,xxx,x May 31, 2011 |
|---|------------------|-----------------------------|
| Aircraft | \$ 7 | \$ 8 |
| Package handling and ground support equipment | 165 | 165 |
| Vehicles | 16 | 17 |
| Other, principally facilities | 147 | 145 |
| | 335 | 335 |
| Less accumulated amortization | 319 | 307 |
| | \$ 16 | \$ 28 |

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

| | XX,XXX,X 2012 | XX,XXX,X 2011 | XX,XXX,X 2010 |
|-----------------------------------|------------------|------------------|------------------|
| Minimum rentals | \$ 2,018 | \$ 2,025 | \$ 2,001 |
| Contingent rentals ⁽¹⁾ | 210 | 193 | 152 |
| | \$ 2,228 | \$ 2,218 | \$ 2,153 |

⁽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, 2012 is as follows (in millions):

| | XX,XXX,X Capital Leases | XX,XXX,X Aircraft and Related Equipment | XX,XXX,X Operating Leases Facilities and Other | XX,XXX,X Total Operating Leases |
|---|-------------------------------|--|---|--|
| 2013 | \$ 120 | \$ 486 | \$ 1,386 | \$ 1,872 |
| 2014 | 2 | 462 | 1,263 | 1,725 |
| 2015 | 2 | 448 | 1,124 | 1,572 |
| 2016 | 1 | 453 | 938 | 1,391 |
| 2017 | 1 | 391 | 1,042 | 1,433 |
| Thereafter | 11 | 1,150 | 4,843 | 5,993 |
| Total | 137 | \$ 3,390 | \$ 10,596 | \$ 13,986 |
| Less amount representing interest | 9 | | | |
| Present value of net minimum lease payments | \$ 128 | | | |

The weighted-average remaining lease term of all operating leases outstanding at May 31, 2012 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.

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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, 2012, 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):

| | XXXXXX 2012 | XXXXXX 2011 | XXXXXX 2010 |
|----------------------------------|----------------|----------------|----------------|
| Stock-based compensation expense | \$ 105 | \$ 98 | \$ 101 |

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. 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:

| | XXXXXX 2012 | XXXXXX 2011 | XXXXXX 2010 |
|--------------------------------------|----------------|----------------|----------------|
| Weighted-average Black-Scholes value | \$ 29.92 | \$ 28.12 | \$ 20.47 |
| Intrinsic value of options exercised | \$ 67 | \$ 80 | \$ 77 |
| Black-Scholes Assumptions: | | | |
| Expected lives | 6.0 years | 5.9 years | 5.7 years |
| Expected volatility | 34% | 34% | 32% |
| Risk-free interest rate | 1.79% | 2.36% | 3.24% |
| Dividend yield | 0.563% | 0.558% | 0.742% |

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.

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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, 2012:

| | Shares | Stock Options | | |
|-----------------------------|-------------|---------------------------------|---|--|
| | | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term | Aggregate Intrinsic Value (in millions) ⁽¹⁾ |
| Outstanding at June 1, 2011 | 20,163,163 | \$ 81.20 | | |
| Granted | 3,303,368 | 87.90 | | |
| Exercised | (2,142,410) | 59.73 | | |
| Forfeited | (292,583) | 84.70 | | |
| Outstanding at May 31, 2012 | 21,031,538 | \$ 84.39 | 5.6 years | \$ 193 |
| Exercisable | 13,608,746 | \$ 87.59 | 4.2 years | \$ 115 |
| Expected to vest | 6,977,189 | \$ 78.53 | 8.2 years | \$ 73 |
| Available for future grants | 8,912,829 | | | |

⁽¹⁾ Only presented for options with market value at May 31, 2012 in excess of the exercise price of the option.

The options granted during the year ended May 31, 2012 are primarily related to our principal annual stock option grant in June 2011.

The following table summarizes information about vested and unvested restricted stock for the year ended May 31, 2012:

| | Shares | Restricted Stock | |
|--------------------------|-----------|--|--|
| | | Weighted-Average Grant Date Fair Value | |
| Unvested at June 1, 2011 | 626,380 | \$ 73.20 | |
| Granted | 214,435 | 88.95 | |
| Vested | (248,413) | 78.25 | |
| Forfeited | (2,530) | 74.98 | |

| | | | |
|--------------------------|---------|----|-------|
| Unvested at May 31, 2012 | 589,872 | \$ | 76.79 |
|--------------------------|---------|----|-------|

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During the year ended May 31, 2011, there were 235,998 shares of restricted stock granted with a weighted-average fair value of \$78.74. 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.

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) |
| 2010 | 2,296,211 | \$ 63 |
| 2011 | 2,721,602 | 67 |
| 2012 | 2,807,809 | 70 |

As of May 31, 2012, there was \$150 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 three years.

Total shares outstanding or available for grant related to equity compensation at May 31, 2012 represented 9% 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):

| | xx,xxx,x 2012 | xx,xxx,x 2011 | xx,xxx,x 2010 |
|---|------------------|------------------|------------------|
| Basic earnings per common share: | | | |
| Net earnings allocable to common shares ⁽¹⁾ | \$ 2,029 | \$ 1,449 | \$ 1,182 |
| Weighted-average common shares | 315 | 315 | 312 |
| Basic earnings per common share | \$ 6.44 | \$ 4.61 | \$ 3.78 |
| Diluted earnings per common share: | | | |
| Net earnings allocable to common shares ⁽¹⁾ | \$ 2,029 | \$ 1,449 | \$ 1,182 |
| Weighted-average common shares | 315 | 315 | 312 |
| Dilutive effect of share-based awards | 2 | 2 | 2 |
| Weighted-average diluted shares | 317 | 317 | 314 |
| Diluted earnings per common share | \$ 6.41 | \$ 4.57 | \$ 3.76 |
| Anti-dilutive options excluded from diluted earnings per common share | 12.6 | 9.3 | 11.5 |

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

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NOTE 11: INCOME TAXES

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

| | 2012 | 2011 | 2010 |
|------------------------------|----------|--------|--------|
| Current provision (benefit) | | | |
| Domestic: | | | |
| Federal | \$ (120) | \$ 79 | \$ 36 |
| State and local | 80 | 48 | 54 |
| Foreign | 181 | 198 | 207 |
| | 141 | 325 | 297 |
| Deferred provision (benefit) | | | |
| Domestic: | | | |
| Federal | 947 | 485 | 408 |
| State and local | 21 | 12 | 15 |
| Foreign | | (9) | (10) |
| | 968 | 488 | 413 |
| | \$ 1,109 | \$ 813 | \$ 710 |

Our current federal income tax expenses in 2012, 2011 and 2010 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 2012, 2011 and 2010 were \$358 million, \$472 million and \$555 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:

| | 2012 | 2011 | 2010 |
|--|-------|-------|-------|
| Statutory U.S. income tax rate | 35.0% | 35.0% | 35.0% |
| Increase (decrease) resulting from: | | | |
| State and local income taxes, net of federal benefit | 2.1 | 1.7 | 2.4 |
| Other, net | (1.8) | (0.8) | 0.1 |
| Effective tax rate | 35.3% | 35.9% | 37.5% |

Our 2012 rate was lower than our 2011 rate primarily due to favorable audit developments. The 2011 rate was lower than our 2010 rate primarily due to increased permanently reinvested foreign earnings and a lower state rate driven by favorable audit and legislative developments.

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

| | 2012 | | 2011 | |
|---|---------------------|--------------------------|---------------------|--------------------------|
| | Deferred Tax Assets | Deferred Tax Liabilities | Deferred Tax Assets | Deferred Tax Liabilities |
| Property, equipment, leases and intangibles | \$ 248 | \$ 3,436 | \$ 274 | \$ 2,675 |
| Employee benefits | 2,300 | 11 | 1,016 | 34 |
| Self-insurance accruals | 495 | | 519 | |
| Other | 338 | 271 | 422 | 269 |
| Net operating loss/credit carryforwards | 179 | | 172 | |
| Valuation allowances | (145) | | (151) | |
| | \$ 3,415 | \$ 3,718 | \$ 2,252 | \$ 2,978 |

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

| | 2012 | 2011 |
|-----------------------------------|----------|----------|
| Current deferred tax asset | \$ 533 | \$ 610 |
| Noncurrent deferred tax liability | (836) | (1,336) |
| | \$ (303) | \$ (726) |

We have \$560 million of net operating loss carryovers in various foreign jurisdictions and \$510 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 2013. As a result of this and other factors, we believe that a substantial portion of these deferred tax assets may not be realized.

Permanently reinvested earnings of our foreign subsidiaries amounted to \$1 billion at the end of 2012 and \$640 million at the end of 2011. We have not recognized deferred taxes for U.S. federal income tax purposes on those earnings. In 2012, 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 earnings could be subject to U.S. federal income tax and non-U.S. withholding taxes. Unrecognized foreign tax credits potentially could be available to reduce a portion of any 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. Cash in offshore jurisdictions associated with our permanent reinvestment strategy totaled \$410 million at the end of 2012 and \$300 million at the end of 2011.

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 2010 and 2011 tax years. We are no longer subject to U.S. federal income tax examination for years through 2009 except for specific and immaterial U.S. federal income tax positions that are in various stages of litigation. We anticipate resolution of part or all of this litigation could occur within 2013, but it would not 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.

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

| | xxxxxx 2012 | xxxxxx 2011 | xxxxxx 2010 |
|---|----------------|----------------|----------------|
| Balance at beginning of year | \$ 69 | \$ 82 | \$ 72 |
| Increases for tax positions taken in the current year | 2 | 2 | 3 |
| Increases for tax positions taken in prior years | 4 | 6 | 14 |
| Decreases for tax positions taken in prior years | (35) | (10) | (4) |
| Settlements | (3) | (11) | (3) |
| Increases due to acquisitions | 15 | | |
| Changes due to currency translation | (1) | | |
| Balance at end of year | \$ 51 | \$ 69 | \$ 82 |

Our liabilities recorded for uncertain tax positions include \$47 million at May 31, 2012 and \$56 million at May 31, 2011 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 \$29 million on May 31, 2012 and \$18 million on May 31, 2011. Total interest and penalties included in our consolidated statements of income are immaterial.

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, 2012, we recorded a decrease to equity of \$2.4 billion (net of tax) attributable to our plans. At May 31, 2011, we recorded a decrease to equity of \$350 million (net of tax) attributable to our plans.

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

| | xxxxxxx 2012 | xxxxxxx 2011 | xxxxxxx 2010 |
|--|-----------------|-----------------|-----------------|
| U.S. domestic and international pension plans | \$ 524 | \$ 543 | \$ 308 |
| U.S. domestic and international defined contribution plans | 338 | 257 | 136 |
| Postretirement healthcare plans | 70 | 60 | 42 |
| | \$ 932 | \$ 860 | \$ 486 |

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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 and corporate bond rates. Prior to 2009, certain employees earned benefits using a traditional pension formula (based on average earnings and years of service). Benefits under this formula were capped on May 31, 2008 for most employees. 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. 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 on Form 10-K (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 | | |
|--|---------------|-------|-------|---------------------------------|-------|-------|
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| Discount rate used to determine benefit obligation | 4.44% | 5.76% | 6.37% | 4.55% | 5.67% | 6.11% |
| Discount rate used to determine net periodic benefit cost | 5.76 | 6.37 | 7.68 | 5.67 | 6.11 | 7.27 |
| Rate of increase in future compensation levels used to determine benefit obligation | 4.62 | 4.58 | 4.63 | | | |
| Rate of increase in future compensation levels used to determine net periodic benefit cost | 4.58 | 4.63 | 4.42 | | | |
| Expected long-term rate of return on assets | 8.00 | 8.00 | 8.00 | | | |

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The estimated average rate of return on plan assets is the expected future long-term rate of earnings on plan assets and is a forward-looking assumption that materially affects our pension cost. 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 2013, consistent with our expected rate of return in 2012 and 2011. Our actual return in each of the past three years exceeded that amount for our principal U.S. domestic pension plan. For the 15-year period ended May 31, 2012, our actual returns were 7.4%.

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 2013 pension expense, the calculated value method resulted in the same value as the market value, as it did in 2011. For determining 2012 pension expense, we used the calculated value method which resulted in a portion of the asset gain in 2011 being deferred to future years because our actual returns on plan assets significantly exceeded our assumptions.

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 Corporate Fixed Income Securities, U.S. Large Cap Equities, which is indexed to the S&P 500 Index, and 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.

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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.

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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):

| Asset Class | Plan Assets at Measurement Date | | | | | | |
|---------------------------|---------------------------------|----------|----------|---|---------------------------------|-----------------------------|-----------------------------|
| | Fair Value | Actual % | Target % | 2012 | | | Unobservable Inputs Level 3 |
| | | | | Quoted Prices in Active Markets Level 1 | Other Observable Inputs Level 2 | Unobservable Inputs Level 3 | |
| Cash and cash equivalents | \$ 618 | 4 % | 1 % | \$ 8 | \$ 610 | | |
| Domestic equities | | | | | | | |
| U.S. large cap equity | 4,248 | 25 | 24 | 9 | 4,239 | | |
| U.S. SMID cap equity | 1,368 | 8 | 9 | 1,368 | | | |
| International equities | 1,657 | 10 | 12 | 1,395 | 262 | | |
| Private equities | 402 | 2 | 5 | | | | \$ 402 |
| Fixed income securities | | | 49 | | | | |
| Corporate | 4,565 | 27 | | | 4,565 | | |
| Government | 4,175 | 24 | | | 4,175 | | |
| Mortgage backed and other | 59 | | | | 59 | | |
| Other | (79) | | | (85) | 6 | | |
| | \$ 17,013 | 100 % | 100 % | \$ 2,695 | \$ 13,916 | | \$ 402 |

| Asset Class | 2011 | | | | | | |
|---------------------------|------------|----------|----------|------------------------|---------------------------------|-----------------------------|-----------------------------|
| | Fair Value | Actual % | Target % | Quoted Prices in | | | Unobservable Inputs Level 3 |
| | | | | 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 | | |
| 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 |

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

| | 2012 | 2011 |
|----------------------------------|--------|--------|
| Balance at beginning of year | \$ 403 | \$ 399 |
| Actual return on plan assets: | | |
| Assets held during current year | 3 | 27 |
| Assets sold during the year | 38 | 36 |
| Purchases, sales and settlements | (42) | (59) |

Balance at end of the year

\$ 402 \$ 403

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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, 2012 and a statement of the funded status as of May 31, 2012 and 2011 (in millions):

| | XXX,XXX,X 2012 | XXX,XXX,X 2011 | XXX,XXX,X 2012 | XXX,XXX,X 2011 |
|---|-------------------|-------------------|---------------------------------|-------------------|
| | Pension Plans | | Postretirement Healthcare Plans | |
| Accumulated Benefit Obligation (ABO) | \$ 21,556 | \$ 16,806 | | |
| Changes in Projected Benefit Obligation (PBO) and Accumulated Postretirement Benefit Obligation (APBO) | | | | |
| PBO/APBO at the beginning of year | \$ 17,372 | \$ 14,484 | \$ 648 | \$ 565 |
| Service cost | 593 | 521 | 35 | 31 |
| Interest cost | 976 | 900 | 36 | 34 |
| Actuarial loss | 3,789 | 1,875 | 98 | 44 |
| Benefits paid | (502) | (468) | (51) | (48) |
| Other | (41) | 60 | 24 | 22 |
| PBO/APBO at the end of year | \$ 22,187 | \$ 17,372 | \$ 790 | \$ 648 |
| Change in Plan Assets | | | | |
| Fair value of plan assets at the beginning of year | \$ 15,841 | \$ 13,295 | \$ | \$ |
| Actual return on plan assets | 1,235 | 2,425 | | |
| Company contributions | 780 | 557 | 27 | 26 |
| Benefits paid | (502) | (468) | (51) | (48) |
| Other | (20) | 32 | 24 | 22 |
| Fair value of plan assets at the end of year | \$ 17,334 | \$ 15,841 | \$ | \$ |
| Funded Status of the Plans | \$ (4,853) | \$ (1,531) | \$ (790) | \$ (648) |
| Amount Recognized in the Balance Sheet at May 31: | | | | |
| Current pension, postretirement healthcare and other benefit obligations | \$ (35) | \$ (33) | \$ (33) | \$ (31) |
| Noncurrent pension, postretirement healthcare and other benefit obligations | (4,818) | (1,498) | (757) | (617) |
| Net amount recognized | \$ (4,853) | \$ (1,531) | \$ (790) | \$ (648) |
| Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost: | | | | |
| Net actuarial loss (gain) | \$ 8,866 | \$ 5,386 | \$ 13 | \$ (85) |
| Prior service (credit) cost and other | (897) | (993) | 2 | 2 |
| Total | \$ 7,969 | \$ 4,393 | \$ 15 | \$ (83) |

Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost expected to be amortized in next year s

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Net Periodic Benefit Cost:

| | | | | | | | |
|--------------------------------|-----------|------------|-----------|------------|-----------|-----------|------------|
| Net actuarial loss (gain) | \$ | 516 | \$ | 307 | \$ | \$ | (1) |
| Prior service credit and other | | (114) | | (112) | | | |
| Total | \$ | 402 | \$ | 195 | \$ | \$ | (1) |

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Our pension plans included the following components at May 31, 2012 and 2011 (in millions):

| | ABO | PBO | Fair Value of Plan Assets | Funded Status |
|---------------------|------------------|------------------|---------------------------|-------------------|
| 2012 | | | | |
| Qualified | \$ 20,667 | \$ 21,192 | \$ 17,013 | \$ (4,179) |
| Nonqualified | 352 | 355 | | (355) |
| International Plans | 537 | 640 | 321 | (319) |
| Total | \$ 21,556 | \$ 22,187 | \$ 17,334 | \$ (4,853) |
| 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) |

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, 2012 and 2011, 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 | |
|--|---|-------------------|
| | 2012 | 2011 |
| Pension Benefits | | |
| Fair value of plan assets | \$ 17,334 | \$ 15,815 |
| PBO | (22,187) | (17,346) |
| Net funded status | \$ (4,853) | \$ (1,531) |
| ABO Exceeds the Fair Value of Plan Assets | | |
| | 2012 | 2011 |
| Pension Benefits | | |
| ABO ⁽¹⁾ | \$ (21,555) | \$ (16,530) |
| Fair value of plan assets | 17,333 | 15,538 |
| PBO | (22,185) | (17,014) |
| Net funded status | \$ (4,852) | \$ (1,476) |

⁽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):

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| | 2012 | 2011 |
|-----------|--------|--------|
| Required | \$ 496 | \$ 359 |
| Voluntary | 226 | 121 |
| | \$ 722 | \$ 480 |

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

| | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX | XXXXXX |
|---|---------------|-----------------------|---------------|--------------|---|--------------|
| | 2012 | Pension Plans 2011 | 2010 | 2012 | Postretirement Healthcare Plans 2011 | 2010 |
| Service cost | \$ 593 | \$ 521 | \$ 417 | \$ 35 | \$ 31 | \$ 24 |
| Interest cost | 976 | 900 | 823 | 36 | 34 | 30 |
| Expected return on plan assets | (1,240) | (1,062) | (955) | | | |
| Recognized actuarial losses (gains) and other | 195 | 184 | 23 | (1) | (5) | (12) |
| Net periodic benefit cost | \$ 524 | \$ 543 | \$ 308 | \$ 70 | \$ 60 | \$ 42 |

Pension costs in 2012 were slightly lower than 2011, as the benefit of significant investment returns on our pension plan assets in 2011 offset the negative impact of a lower discount rate at our May 31, 2011 measurement date.

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

| | 2012 | | | | 2011 | | | |
|--|-----------------|-------------------|---------------------------------|-------------------|---------------|-------------------|---------------------------------|-------------------|
| | 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 | \$ 3,777 | \$ 2,371 | \$ 97 | \$ 61 | \$ 511 | \$ 321 | \$ 44 | \$ 26 |
| Loss from settlements and curtailments | | | | | (13) | (8) | | |
| Amortizations: | | | | | | | | |
| Prior services credit | 113 | 71 | | | 113 | 71 | | |
| Actuarial (losses) gains and other | (311) | (195) | 1 | | (284) | (178) | 5 | 3 |
| Total recognized in OCI | \$ 3,579 | \$ 2,247 | \$ 98 | \$ 61 | \$ 327 | \$ 206 | \$ 49 | \$ 29 |

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 |
|-----------|---------------|---------------------------------|
| 2013 | \$ 640 | \$ 33 |
| 2014 | 723 | 34 |
| 2015 | 803 | 36 |
| 2016 | 861 | 38 |
| 2017 | 922 | 40 |
| 2018-2022 | 6,289 | 246 |

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 8.0% during 2013, 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 6.9% during 2013, 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, 2012 or 2012 benefit expense because the level of these benefits is capped.

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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 (air and ocean freight forwarding and customs brokerage) 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, information technology, communications and back-office functions) FedEx TechConnect (customer service, technical support, billings and collections) FedEx Office (document and business services and package acceptance) |

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. For the international regions of FedEx Express, some of these functions are performed on a regional basis by FedEx Express and reported in the FedEx Express segment in expense line items outside of intercompany charges. The FedEx Services segment includes: FedEx Services, which provides sales, marketing, information technology, communications and back-office 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.

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, which are an immaterial component of our allocations, 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.

Table of Contents*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.

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):

| | XXXX.XX FedEx Express Segment ⁽¹⁾ | XXXX.XX FedEx Ground Segment | XXXX.XX FedEx Freight Segment ⁽²⁾ | XXXX.XX FedEx Services Segment | XXXX.XX Other and Eliminations | XXXX.XX Consolidated Total |
|--------------------------------------|---|---------------------------------------|---|---|--------------------------------------|----------------------------------|
| Revenues | | | | | | |
| 2012 | \$ 26,515 | \$ 9,573 | \$ 5,282 | \$ 1,671 | \$ (361) | \$ 42,680 |
| 2011 | 24,581 | 8,485 | 4,911 | 1,684 | (357) | 39,304 |
| 2010 | 21,555 | 7,439 | 4,321 | 1,770 | (351) | 34,734 |
| Depreciation and amortization | | | | | | |
| 2012 | \$ 1,169 | \$ 389 | \$ 185 | \$ 369 | \$ 1 | \$ 2,113 |
| 2011 | 1,059 | 337 | 205 | 371 | 1 | 1,973 |
| 2010 | 1,016 | 334 | 198 | 408 | 2 | 1,958 |
| Operating income (loss) | | | | | | |
| 2012 | \$ 1,260 | \$ 1,764 | \$ 162 | \$ | \$ | \$ 3,186 |
| 2011 | 1,228 | 1,325 | (175) | | | 2,378 |
| 2010 | 1,127 | 1,024 | (153) | | | 1,998 |
| Segment assets⁽³⁾ | | | | | | |
| 2012 | \$ 17,981 | \$ 6,154 | \$ 2,807 | \$ 4,546 | \$ (1,585) | \$ 29,903 |
| 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 |

⁽¹⁾ FedEx Express segment 2012 operating expenses include an impairment charge of \$134 million resulting from the decision to retire 24 aircraft and related engines and a reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in 2011.

⁽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.

⁽³⁾ 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 |
|------|-----------------------------|----------------------------|-----------------------------|------------------------------|-------|-----------------------|
| 2012 | \$ 2,689 | \$ 536 | \$ 340 | \$ 437 | \$ 5 | \$ 4,007 |
| 2011 | 2,467 | 426 | 153 | 387 | 1 | 3,434 |
| 2010 | 1,864 | 400 | 212 | 340 | | 2,816 |

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

REVENUE BY SERVICE TYPE

| | 2012 | 2011 | 2010 |
|--|---------------|---------------|---------------|
| FedEx Express segment: | | | |
| Package: | | | |
| U.S. overnight box | \$ 6,546 | \$ 6,128 | \$ 5,602 |
| U.S. overnight envelope | 1,747 | 1,736 | 1,640 |
| U.S. deferred | 3,001 | 2,805 | 2,589 |
| Total U.S. domestic package revenue | 11,294 | 10,669 | 9,831 |
| International priority ⁽¹⁾ | 8,708 | 8,228 | 7,087 |
| International domestic ⁽²⁾ | 853 | 653 | 578 |
| Total package revenue | 20,855 | 19,550 | 17,496 |
| Freight: | | | |
| U.S. | 2,498 | 2,188 | 1,980 |
| International priority ⁽¹⁾ | 1,827 | 1,722 | 1,303 |
| International airfreight | 307 | 283 | 251 |
| Total freight revenue | 4,632 | 4,193 | 3,534 |
| Other ⁽³⁾ | 1,028 | 838 | 525 |
| Total FedEx Express segment | 26,515 | 24,581 | 21,555 |
| FedEx Ground segment: | | | |
| FedEx Ground | 8,791 | 7,855 | 6,958 |
| FedEx SmartPost | 782 | 630 | 481 |
| Total FedEx Ground segment | 9,573 | 8,485 | 7,439 |
| FedEx Freight segment | 5,282 | 4,911 | 4,321 |
| FedEx Services segment | 1,671 | 1,684 | 1,770 |
| Other and eliminations | (361) | (357) | (351) |
| | \$ 42,680 | \$ 39,304 | \$ 34,734 |

GEOGRAPHICAL INFORMATION⁽⁴⁾

| | | | |
|------------------------|-----------|-----------|-----------|
| Revenues: | | | |
| U.S. | \$ 29,837 | \$ 27,461 | \$ 24,852 |
| International: | | | |
| FedEx Express segment | 12,370 | 11,437 | 9,547 |
| FedEx Ground segment | 216 | 177 | 140 |
| FedEx Freight segment | 101 | 84 | 60 |
| FedEx Services segment | 156 | 145 | 135 |

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| | | | |
|-----------------------------|-----------|-----------|-----------|
| Total international revenue | 12,843 | 11,843 | 9,882 |
| | \$ 42,680 | \$ 39,304 | \$ 34,734 |
| Noncurrent assets: | | | |
| U.S. | \$ 18,874 | \$ 17,235 | \$ 16,089 |
| International | 1,973 | 1,865 | 1,529 |
| | \$ 20,847 | \$ 19,100 | \$ 17,618 |

- (1) International priority includes FedEx International Priority and FedEx International Economy services.
- (2) International domestic revenues include our international intra-country domestic express operations, including acquisitions in India (February 2011) and Mexico (July 2011).
- (3) Other revenues include FedEx Trade Networks and, beginning in the second quarter of 2010, FedEx SupplyChain Systems.
- (4) International revenue includes shipments that either originate in or are destined to locations outside the United States. Noncurrent assets include property and equipment, goodwill and other long-term assets. Our flight equipment registered in the U.S. is included as U.S. assets; however, many of our aircraft operate internationally.

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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):

| | 2012 | 2011 | 2010 |
|--|--------|--------|--------|
| Cash payments for: | | | |
| Interest (net of capitalized interest) | \$ 52 | \$ 93 | \$ 88 |
| Income taxes | \$ 403 | \$ 493 | \$ 322 |
| Income tax refunds received | (146) | (106) | (279) |
| Cash tax payments, net | \$ 257 | \$ 387 | \$ 43 |

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 \$852 million as of May 31, 2012) 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, 2012. The remaining \$551 million has been accounted for as operating leases.

NOTE 16: COMMITMENTS

Annual purchase commitments under various contracts as of May 31, 2012 were as follows (in millions):

| | Aircraft and Aircraft Related | Facilities and Other ⁽¹⁾ | Total |
|------------|----------------------------------|--|----------|
| 2013 | \$ 965 | \$ 849 | \$ 1,814 |
| 2014 | 558 | 191 | 749 |
| 2015 | 824 | 139 | 963 |
| 2016 | 912 | 78 | 990 |
| 2017 | 1,009 | 52 | 1,061 |
| Thereafter | 5,166 | 134 | 5,300 |

⁽¹⁾ Primarily vehicles, facilities, advertising contracts and \$550 million of quarterly contributions to our U.S. Pension Plans.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of May 31, 2012, our obligation to purchase 13 B777Fs was 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 (RLA). 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.

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In December 2011, FedEx Express entered into an agreement to acquire 27 new Boeing 767-300 Freighter (B767F) aircraft, with the first three arriving in 2014 followed by six per year from 2015 to 2018. In conjunction with the execution of the B767F aircraft purchase agreement, FedEx Express also delayed the delivery of nine B777F aircraft, five of which were deferred from 2014 and one per year from 2015 to 2018, to better align air network capacity to demand. FedEx Express also removed the RLA condition from two of the 15 B777F aircraft and exercised two B777F options for aircraft to be delivered at the end of the delivery schedule.

We had \$661 million in deposits and progress payments as of May 31, 2012 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 and B767Fs, 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 key aircraft we are committed to purchase as of May 31, 2012, with the year of expected delivery:

| | B757 | B767F | B777F | Total |
|--------------|-----------|-----------|-----------|-----------|
| 2013 | 10 | | 4 | 14 |
| 2014 | | 3 | 2 | 5 |
| 2015 | | 6 | 2 | 8 |
| 2016 | | 6 | 2 | 8 |
| 2017 | | 6 | 2 | 8 |
| Thereafter | | 6 | 16 | 22 |
| Total | 10 | 27 | 28 | 65 |

On June 29, 2012, FedEx Express entered into a supplemental agreement to purchase nine additional B767F aircraft. Additionally, FedEx Express exercised ten B767F options available under the December 2011 agreement and purchased the right to 15 additional options. Four of these 19 additional B767F aircraft purchases are subject to the RLA condition. These 19 additional B767F aircraft are expected to be delivered from fiscal 2015 to 2019 and will replace current MD10-10 and A310-200 aircraft to continue to improve efficiency and technology of FedEx Express's aircraft fleet.

In conjunction with the additional B767F aircraft purchases, four currently contracted B777F aircraft deliveries that were subject to the RLA condition (two scheduled for delivery in fiscal 2016 and two scheduled for delivery in fiscal 2017) were converted to equivalent purchase value for B767F aircraft. With consideration of these two agreements, there are nine B777F purchase obligations subject to the RLA condition. These aircraft transactions are not included in the table above, as they occurred subsequent to May 31, 2012.

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. We do not believe that a material loss is reasonably possible with respect to any of these matters.

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.

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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. The Seventh Circuit heard the appeal in the Kansas case in January 2012 and, in July 2012, issued an opinion that did not make a determination with respect to the correctness of the district court's decision and, instead, certified two questions to the Kansas Supreme Court related to the classification of the plaintiffs as independent contractors under the Kansas Wage Payment Act.

The multidistrict litigation court remanded the other eight certified class actions back to the district courts where they were originally filed because its summary judgment ruling did not completely dispose of all of the claims in those lawsuits. Specifically, in the five cases in Arkansas, California, Florida, and Oregon (two certified cases), the court's ruling granted summary judgment in FedEx Ground's favor on all of the certified claims but did not decide the uncertified claims. In the three cases filed in Kentucky, Nevada and New Hampshire, the court ruled in favor of FedEx Ground on some of the claims and against FedEx Ground on at least one claim. In May 2012, the Oregon district court dismissed the two Oregon cases, but in June 2012, the plaintiffs in both cases filed notices of appeal with the Ninth Circuit Court of Appeals. In June 2012, the Kentucky district court ruled in favor of FedEx Ground on certain of the plaintiffs' claims, thereby reducing our potential exposure in the matter.

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, and in August 2011, that petition was granted. The Washington Supreme Court heard oral arguments in February 2012.

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. We settled this matter for an immaterial amount, subject to court approval, in June 2012.

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. In January 2012, FedEx Ground settled the lawsuit filed by the Kentucky Attorney General for an immaterial amount, and in April 2012, the lawsuit was dismissed.

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 matters related to FedEx Ground's independent contractors, however,

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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, discovery is still ongoing. 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 breach of contract lawsuit against FedEx Express and awarded damages of \$66 million, and in January 2011, the court awarded ATA pre-judgment interest of \$5 million. In December 2011, the Seventh Circuit overturned the entire judgment entered against FedEx Express. ATA Airlines requested the Seventh Circuit to rehear oral argument on appeal, and in February 2012, the Seventh Circuit denied the request. We have reversed the \$66 million accrual established in the second quarter of 2011. After the Seventh Circuit denied ATA Airlines' request for the Seventh Circuit to rehear oral argument on appeal, ATA Airlines asked the U.S. Supreme Court to accept a discretionary appeal of the matter. We believe that it is unlikely that the U.S. Supreme Court will accept the discretionary appeal.

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 noncompliant paystubs. The court certified the class in June 2011. The court ruled that FedEx Express was liable to the State of California and was prepared to rule as to whether FedEx Express was liable to class members who could prove they were injured by the paystub deficiencies. The judge did not decide on the amount, if any, of liability to the State of California or to the class, but had wide discretion. Prior to any decision on the amount of liability, we reached an agreement to settle this matter for an immaterial amount in October 2011, subject to approval by the court. The court granted final approval of the settlement in July 2012.

Other Matters. In August 2010, a third-party consultant who works with shipping customers to negotiate lower rates filed a lawsuit in federal district court in California against FedEx and UPS alleging violations of U.S. antitrust law. This matter was dismissed in May 2011, but the court granted the plaintiff permission to file an amended complaint, which FedEx received in June 2011. In November 2011, the court granted our motion to dismiss this complaint, but again allowed the plaintiff to file an amended complaint. The plaintiff filed a new complaint in December 2011, and the matter remains pending before the court. In February 2011, shortly after the initial lawsuit was filed, we received a demand for the production of information and documents in connection with a civil investigation by the U.S. Department of Justice (DOJ) into the policies and practices of FedEx and UPS for dealing with third-party consultants who work with shipping customers to negotiate lower rates. We are cooperating with the investigation, do not believe that we have engaged in any anti-competitive activities and will vigorously defend ourselves in any action that may result from the investigation. While the litigation proceedings and the DOJ investigation are in an early stage and the amount of loss, if any, is dependent on a number of factors that are not yet fully developed or resolved, we do not believe that a material loss is reasonably possible.

We have received requests for information from the DOJ in the Northern District of California in connection with a criminal investigation relating to the transportation of packages for online pharmacies that may have shipped pharmaceuticals in violation of federal law. We responded to grand jury subpoenas issued in June 2008 and August 2009 and to additional requests for information pursuant to those subpoenas, and we continue to respond and cooperate with the investigation. We do not believe that we have engaged in any illegal activities and will vigorously defend ourselves in any action that may result from the investigation. We cannot estimate the amount or range of loss, if any, in this matter, as such analysis would depend on facts and law that are not yet fully developed or resolved.

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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 |
|--|------------------|-------------------|------------------|-------------------|
| 2012⁽¹⁾ | | | | |
| Revenues | \$ 10,521 | \$ 10,587 | \$ 10,564 | \$ 11,008 |
| Operating income | 737 | 780 | 813 | 856 |
| Net income | 464 | 497 | 521 | 550 |
| Basic earnings per common share ⁽²⁾ | 1.46 | 1.57 | 1.66 | 1.74 |
| Diluted earnings per common share | 1.46 | 1.57 | 1.65 | 1.73 |
| 2011⁽³⁾ | | | | |
| 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 ⁽²⁾ | 1.21 | 0.90 | 0.73 | 1.76 |
| Diluted earnings per common share | 1.20 | 0.89 | 0.73 | 1.75 |

⁽¹⁾ The fourth quarter of 2012 includes an impairment charge of \$134 million resulting from the decision to retire 24 aircraft and related engines at FedEx Express. The third quarter of 2012 includes the reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit.

⁽²⁾ 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.

⁽³⁾ The second quarter of 2011 includes a \$66 million legal reserve associated with the ATA Airlines lawsuit. Costs related to the combination of our FedEx Freight and FedEx National LTL operations in 2011 were \$86 million in the second quarter and \$43 million in the third quarter.

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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.

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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, 2012

| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|---------------|---------------------------|-------------------------------|-----------------|---------------|
| ASSETS | | | | | |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | \$ 1,906 | \$ 417 | \$ 636 | \$ (116) | \$ 2,843 |
| Receivables, less allowances | 3 | 3,793 | 943 | (35) | 4,704 |
| Spare parts, supplies, fuel, prepaid expenses and other, less allowances | 261 | 671 | 44 | | 976 |
| Deferred income taxes | | 514 | 19 | | 533 |
| Total current assets | 2,170 | 5,395 | 1,642 | (151) | 9,056 |
| PROPERTY AND EQUIPMENT, AT COST | 29 | 34,301 | 1,834 | | 36,164 |
| Less accumulated depreciation and amortization | 20 | 17,822 | 1,074 | | 18,916 |
| Net property and equipment | 9 | 16,479 | 760 | | 17,248 |
| INTERCOMPANY RECEIVABLE | | 323 | 1,524 | (1,847) | |
| GOODWILL | | 1,553 | 834 | | 2,387 |
| INVESTMENT IN SUBSIDIARIES | 17,163 | 2,978 | | (20,141) | |
| OTHER ASSETS | 2,845 | 1,099 | 86 | (2,818) | 1,212 |
| | \$ 22,187 | \$ 27,827 | \$ 4,846 | \$ (24,957) | \$ 29,903 |
| LIABILITIES AND STOCKHOLDERS INVESTMENT | | | | | |
| CURRENT LIABILITIES | | | | | |
| Current portion of long-term debt | \$ | \$ 417 | \$ | \$ | \$ 417 |
| Accrued salaries and employee benefits | 83 | 1,365 | 187 | | 1,635 |
| Accounts payable | 6 | 1,276 | 482 | (151) | 1,613 |
| Accrued expenses | 184 | 1,406 | 119 | | 1,709 |
| Total current liabilities | 273 | 4,464 | 788 | (151) | 5,374 |
| LONG-TERM DEBT, LESS CURRENT PORTION | 1,000 | 250 | | | 1,250 |
| INTERCOMPANY PAYABLE | 1,847 | | | (1,847) | |
| OTHER LONG-TERM LIABILITIES | | | | | |
| Deferred income taxes | | 3,649 | 5 | (2,818) | 836 |
| Other liabilities | 4,341 | 3,193 | 182 | | 7,716 |
| Total other long-term liabilities | 4,341 | 6,842 | 187 | (2,818) | 8,552 |
| STOCKHOLDERS INVESTMENT | 14,726 | 16,271 | 3,871 | (20,141) | 14,727 |
| | \$ 22,187 | \$ 27,827 | \$ 4,846 | \$ (24,957) | \$ 29,903 |

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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 | | | | | |
| Less accumulated depreciation and amortization | 24 | 31,916 | 1,746 | | 33,686 |
| | 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 |

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME

Year Ended May 31, 2012

| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
| REVENUES | \$ | \$ 36,412 | \$ 6,569 | \$ (301) | \$ 42,680 |
| OPERATING EXPENSES: | | | | | |
| Salaries and employee benefits | 114 | 14,153 | 1,832 | | 16,099 |
| Purchased transportation | | 4,509 | 1,944 | (118) | 6,335 |
| Rentals and landing fees | 5 | 2,221 | 267 | (6) | 2,487 |
| Depreciation and amortization | 1 | 1,962 | 150 | | 2,113 |
| Fuel | | 4,877 | 79 | | 4,956 |
| Maintenance and repairs | 1 | 1,882 | 97 | | 1,980 |
| Impairment and other charges | | 134 | | | 134 |
| Intercompany charges, net | (218) | (323) | 541 | | |
| Other | 97 | 4,482 | 988 | (177) | 5,390 |
| | | 33,897 | 5,898 | (301) | 39,494 |
| OPERATING INCOME | | 2,515 | 671 | | 3,186 |
| OTHER INCOME (EXPENSE): | | | | | |
| Equity in earnings of subsidiaries | 2,032 | 395 | | (2,427) | |
| Interest, net | (75) | 31 | 5 | | (39) |
| Intercompany charges, net | 80 | (102) | 22 | | |
| Other, net | (5) | (10) | 9 | | (6) |
| INCOME BEFORE INCOME TAXES | 2,032 | 2,829 | 707 | (2,427) | 3,141 |
| Provision for income taxes | | 875 | 234 | | 1,109 |
| NET INCOME | \$ 2,032 | \$ 1,954 | \$ 473 | \$ (2,427) | \$ 2,032 |

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 |

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| | | | | | |
|------------------------------------|----------|----------|--------|------------|----------|
| | | 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 |

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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 |

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Year Ended May 31, 2012

| | Parent | Guarantor Subsidiaries | Non-guarantor Subsidiaries | Eliminations | Consolidated |
|--|----------|---------------------------|-------------------------------|--------------|--------------|
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | \$ (88) | \$ 4,383 | \$ 570 | \$ (30) | \$ 4,835 |
| INVESTING ACTIVITIES | | | | | |
| Capital expenditures | (5) | (3,792) | (210) | | (4,007) |
| Business acquisition, net of cash acquired | | | (116) | | (116) |
| Proceeds from asset dispositions and other | | 74 | | | 74 |
| CASH USED IN INVESTING ACTIVITIES | (5) | (3,718) | (326) | | (4,049) |
| FINANCING ACTIVITIES | | | | | |
| Net transfers from (to) Parent | 625 | (550) | (75) | | |
| Intercompany dividends | | 76 | (76) | | |
| Principal payments on debt | | (29) | | | (29) |
| Proceeds from stock issuances | 128 | | | | 128 |
| Excess tax benefit on the exercise of stock options | 18 | | | | 18 |
| Dividends paid | (164) | | | | (164) |
| Purchase of treasury stock | (197) | | | | (197) |
| Other, net | | (19) | 19 | | |
| CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES | 410 | (522) | (132) | | (244) |
| Effect of exchange rate changes on cash | | (5) | (22) | | (27) |
| Net increase (decrease) in cash and cash equivalents | 317 | 138 | 90 | (30) | 515 |
| Cash and cash equivalents at beginning of period | 1,589 | 279 | 546 | (86) | 2,328 |
| Cash and cash equivalents at end of period | \$ 1,906 | \$ 417 | \$ 636 | \$ (116) | \$ 2,843 |

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) |

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| | | | | | |
|--|----------|--------|--------|---------|----------|
| 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 |

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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 |

Table of Contents**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 \$2.0 billion at May 31, 2012 and \$1.9 billion at May 31, 2011. 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 \$30 million as of May 31, 2012 and \$36 million as of May 31, 2011. 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 British pound, Canadian dollar, Chinese yuan, euro, Hong Kong dollar 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 2012 and 2011, foreign currency fluctuations positively impacted operating income. 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, 2012, 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 \$75 million for 2013. 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.

Table of Contents**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, 2012. This information should be read in conjunction with the Consolidated Financial Statements, MD&A and other financial data appearing elsewhere in this Annual Report.

| | 2012 ⁽¹⁾ | 2011 ⁽²⁾ | 2010 | 2009 ⁽³⁾ | 2008 ⁽⁴⁾ |
|---|---------------------|---------------------|-----------|---------------------|---------------------|
| Operating Results | | | | | |
| Revenues | \$ 42,680 | \$ 39,304 | \$ 34,734 | \$ 35,497 | \$ 37,953 |
| Operating income | 3,186 | 2,378 | 1,998 | 747 | 2,075 |
| Income before income taxes | 3,141 | 2,265 | 1,894 | 677 | 2,016 |
| Net income | 2,032 | 1,452 | 1,184 | 98 | 1,125 |
| Per Share Data | | | | | |
| Earnings per share: | | | | | |
| Basic | \$ 6.44 | \$ 4.61 | \$ 3.78 | \$ 0.31 | \$ 3.64 |
| Diluted | \$ 6.41 | \$ 4.57 | \$ 3.76 | \$ 0.31 | \$ 3.60 |
| Average shares of common stock outstanding | 315 | 315 | 312 | 311 | 309 |
| Average common and common equivalent shares outstanding | 317 | 317 | 314 | 312 | 312 |
| Cash dividends declared | \$ 0.52 | \$ 0.48 | \$ 0.44 | \$ 0.44 | \$ 0.30 |
| Financial Position | | | | | |
| Property and equipment, net | \$ 17,248 | \$ 15,543 | \$ 14,385 | \$ 13,417 | \$ 13,478 |
| Total assets | 29,903 | 27,385 | 24,902 | 24,244 | 25,633 |
| Long-term debt, less current portion | 1,250 | 1,667 | 1,668 | 1,930 | 1,506 |
| Common stockholders' investment | 14,727 | 15,220 | 13,811 | 13,626 | 14,526 |
| Other Operating Data | | | | | |
| FedEx Express aircraft fleet | 660 | 688 | 667 | 654 | 677 |

- (1) Results for 2012 include a \$134 million (\$84 million, net of tax or \$0.26 per share) impairment charge resulting from the decision to retire 24 aircraft and related engines at FedEx Express and the reversal of a \$66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in the second quarter of 2011. See Notes 1 and 17 to the accompanying consolidated financial statements.
- (2) 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.
- (3) 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. 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.
- (4) 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. Additionally, results for 2008 include several 2007 acquisitions.

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REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

FedEx Corporation

We have audited the consolidated financial statements of FedEx Corporation as of May 31, 2012 and 2011, and for each of the three years in the period ended May 31, 2012, and have issued our report thereon dated July 16, 2012 (included elsewhere in this Annual Report on Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a) in this Annual Report on Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Memphis, Tennessee

July 16, 2012

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SCHEDULE II

FEDEX CORPORATION
 VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED MAY 31, 2012, 2011, AND 2010
 (IN MILLIONS)

| DESCRIPTION | BALANCE AT BEGINNING OF YEAR | ADDITIONS | | DEDUCTIONS | BALANCE AT END OF YEAR |
|--|--|---------------------------|------------------------------------|------------|---------------------------------|
| | | CHARGED TO EXPENSES | CHARGED TO OTHER ACCOUNTS | | |
| Accounts Receivable Reserves: | | | | | |
| <i>Allowance for Doubtful Accounts</i> | | | | | |
| 2012 | \$ 97 | \$ 160 | \$ | \$ 163(a) | \$ 94 |
| 2011 | 93 | 152 | | 148(a) | 97 |
| 2010 | 114 | 124 | | 145(a) | 93 |
| <i>Allowance for Revenue Adjustments</i> | | | | | |
| 2012 | \$ 85 | \$ | \$ 570(b) | \$ 571(c) | \$ 84 |
| 2011 | 73 | | 532(b) | 520(c) | 85 |
| 2010 | 82 | | 430(b) | 439(c) | 73 |
| Inventory Valuation Allowance: | | | | | |
| 2012 | \$ 169 | \$ 15 | \$ | \$ | \$ 184 |
| 2011 | 170 | 13 | | 14 | 169 |
| 2010 | 175 | 12 | | 17 | 170 |

(a) Uncollectible accounts written off, net of recoveries.

(b) Principally charged against revenue.

(c) Service failures, rebills and other.

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FEDEX CORPORATION

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

(IN MILLIONS, EXCEPT RATIOS)

| | Year Ended May 31, | | | | |
|---|--------------------|-----------------|-----------------|-----------------|-----------------|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Earnings: | | | | | |
| Income before income taxes | \$ 3,141 | \$ 2,265 | \$ 1,894 | \$ 677 | \$ 2,016 |
| Add back: | | | | | |
| Interest expense, net of capitalized interest | 52 | 86 | 79 | 85 | 98 |
| Amortization of debt issuance costs | 5 | 16 | 14 | 5 | 5 |
| Portion of rent expense representative of interest factor | 797 | 852 | 806 | 795 | 784 |
| Earnings as adjusted | \$ 3,995 | \$ 3,219 | \$ 2,793 | \$ 1,562 | \$ 2,903 |
| Fixed Charges: | | | | | |
| Interest expense, net of capitalized interest | \$ 52 | \$ 86 | \$ 79 | \$ 85 | \$ 98 |
| Capitalized interest | 85 | 71 | 80 | 71 | 50 |
| Amortization of debt issuance costs | 5 | 16 | 14 | 5 | 5 |
| Portion of rent expense representative of interest factor | 797 | 852 | 806 | 795 | 784 |
| | \$ 939 | \$ 1,025 | \$ 979 | \$ 956 | \$ 937 |
| Ratio of Earnings to Fixed Charges | 4.3 | 3.1 | 2.9 | 1.6 | 3.1 |

Table of Contents**EXHIBIT INDEX****Exhibit****Number****Description of Exhibit****Certificate of Incorporation and Bylaws**

- 3.1 Third Amended and Restated Certificate of Incorporation of FedEx. (Filed as Exhibit 3.1 to FedEx's Current Report on Form 8-K dated September 26, 2011 and filed September 28, 2011, and incorporated herein by reference.)
- 3.2 Amended and Restated Bylaws of FedEx. (Filed as Exhibit 3.3 to FedEx's Current Report on Form 8-K dated September 26, 2011 and filed September 28, 2011, and incorporated herein by reference.)

Facility Lease Agreements

- 10.1 Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Memphis-Shelby County Airport Authority (the Authority) and FedEx Express. (Filed as Exhibit 10.1 to FedEx's FY07 Annual Report on Form 10-K, and incorporated herein by reference.)
- 10.2 First Amendment dated December 29, 2009 (but effective as of September 1, 2008) to the Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Authority and FedEx Express. (Filed as Exhibit 10.1 to FedEx's FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
- 10.3 Second Amendment dated March 30, 2010 (but effective as of June 1, 2009) and Third Amendment dated April 27, 2010 (but effective as of July 1, 2009), each amending the Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Authority and FedEx Express. (Filed as Exhibit 10.3 to FedEx's FY10 Annual Report on Form 10-K, and incorporated herein by reference.)
- 10.4 Fourth Amendment dated December 22, 2011 (but effective as of December 15, 2011) to the Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Authority and FedEx Express. (Filed as Exhibit 10.4 to FedEx's FY12 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
- 10.5 Special Facility Lease Agreement dated as of August 1, 1979 between the Authority and FedEx Express. (Filed as Exhibit 10.15 to FedEx Express's FY90 Annual Report on Form 10-K, and incorporated herein by reference.)
- 10.6 First Special Facility Supplemental Lease Agreement dated as of May 1, 1982 between the Authority and FedEx Express. (Filed as Exhibit 10.25 to FedEx Express's FY93 Annual Report on Form 10-K, and incorporated herein by reference.)
- 10.7 Second Special Facility Supplemental Lease Agreement dated as of November 1, 1982 between the Authority and FedEx Express. (Filed as Exhibit 10.26 to FedEx Express's FY93 Annual Report on Form 10-K, and incorporated herein by reference.)
- 10.8 Third Special Facility Supplemental Lease Agreement dated as of December 1, 1984 between the Authority and FedEx Express. (Filed as Exhibit 10.25 to FedEx Express's FY95 Annual Report on Form 10-K, and incorporated herein by reference.)

Table of Contents**Exhibit**

| Number | Description of Exhibit |
|---------------|--|
| 10.9 | Fourth Special Facility Supplemental Lease Agreement dated as of July 1, 1992 between the Authority and FedEx Express. (Filed as Exhibit 10.20 to FedEx Express's FY92 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.10 | Fifth Special Facility Supplemental Lease Agreement dated as of July 1, 1997 between the Authority and FedEx Express. (Filed as Exhibit 10.35 to FedEx Express's FY97 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.11 | Sixth Special Facility Supplemental Lease Agreement dated as of December 1, 2001 between the Authority and FedEx Express. (Filed as Exhibit 10.28 to FedEx's FY02 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.12 | Seventh Special Facility Supplemental Lease Agreement dated as of June 1, 2002 between the Authority and FedEx Express. (Filed as Exhibit 10.3 to FedEx's FY03 First Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.13 | Special Facility Lease Agreement dated as of July 1, 1993 between the Authority and FedEx Express. (Filed as Exhibit 10.29 to FedEx Express's FY93 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.14 | Special Facility Ground Lease Agreement dated as of July 1, 1993 between the Authority and FedEx Express. (Filed as Exhibit 10.30 to FedEx Express's FY93 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.15 | First Amendment dated December 29, 2009 (but effective as of September 1, 2008) to the Special Facility Ground Lease Agreement dated as of July 1, 1993 between the Authority and FedEx Express. (Filed as Exhibit 10.2 to FedEx's FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| | <u>Aircraft-Related Agreements</u> |
| 10.16 | Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx's FY07 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.17 | Supplemental Agreement No. 1 dated as of June 16, 2008 to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. (Filed as Exhibit 10.13 to FedEx's FY08 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.18 | Supplemental Agreement No. 2 dated as of July 14, 2008 to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. (Filed as Exhibit 10.3 to FedEx's FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.19 | Supplemental Agreement No. 3 dated as of December 15, 2008 (and related side letters) to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.4 to FedEx's FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |

Table of Contents**Exhibit**

| Number | Description of Exhibit |
|---------------|---|
| 10.20 | Supplemental Agreement No. 4 dated as of January 9, 2009 (and related side letters) to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY09 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.21 | Side letters dated May 29, 2009 and May 19, 2009, amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.17 to FedEx s FY09 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.22 | Supplemental Agreement No. 5 dated as of January 11, 2010 to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.3 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.23 | Supplemental Agreement No. 6 dated as of March 17, 2010, Supplemental Agreement No. 7 dated as of March 17, 2010, and Supplemental Agreement No. 8 (and related side letters) dated as of April 30, 2010, each amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.22 to FedEx s FY10 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.24 | Supplemental Agreement No. 9 dated as of June 18, 2010, Supplemental Agreement No. 10 dated as of June 18, 2010, Supplemental Agreement No. 11 (and related side letter) dated as of August 19, 2010, and Supplemental Agreement No. 13 (and related side letter) dated as of August 27, 2010, each amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY11 First Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.25 | Supplemental Agreement No. 12 (and related side letter) dated as of September 3, 2010, Supplemental Agreement No. 14 (and related side letter) dated as of October 25, 2010, and Supplemental Agreement No. 15 (and related side letter) dated as of October 29, 2010, each amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx s FY11 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |

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| Number | Description of Exhibit |
|---|--|
| 10.26 | Supplemental Agreement No. 16 (and related side letters) dated as of January 31, 2011, and Supplemental Agreement No. 17 dated as of February 14, 2011, each amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx's FY11 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.27 | Supplemental Agreement No. 18 (and related side letter) dated as of March 30, 2011 to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.26 to FedEx's FY11 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.28 | Supplemental Agreement No. 19 (and related side letter) dated as of October 27, 2011, amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx's FY12 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.29 | Supplemental Agreement No. 20 (and related side letters) dated as of December 14, 2011, amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx's FY12 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.30 | Boeing 767-3S2 Freighter Purchase Agreement dated as of December 14, 2011 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx's FY12 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| <u>U.S. Postal Service Agreement</u> | |
| 10.31 | Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx's FY07 First Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.32 | Amendment dated November 30, 2006 to the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx's FY07 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |

Table of Contents**Exhibit**

| Number | Description of Exhibit |
|---------------|---|
| 10.33 | Letter Agreement dated March 8, 2007 and Letter Agreement dated May 14, 2007, each amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.15 to FedEx's FY07 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.34 | Amendment dated June 20, 2007 and Amendment dated July 31, 2007, each amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx's FY08 First Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.35 | Amendment dated December 4, 2007 to the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx's FY08 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.36 | Letter Agreement dated October 23, 2008 and Amendment dated October 23, 2008, each amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx's FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.37 | Letter Agreement dated March 4, 2009, amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. (Filed as Exhibit 10.24 to FedEx's FY09 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.38 | Letter Agreement dated September 29, 2009, amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx's FY10 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.39 | Amendment dated December 8, 2009 to the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.4 to FedEx's FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.40 | Letter Agreement dated August 30, 2010, amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx's FY11 First Quarter Report on Form 10-Q, and incorporated herein by reference.) |

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| Number | Description of Exhibit |
|---------------|--|
| 10.41 | Amendment dated November 22, 2010 to the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.3 to FedEx's FY11 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.42 | Letter Agreement dated September 9, 2011, amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.3 to FedEx's FY12 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.43 | Amendment dated December 5, 2011 to the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.3 to FedEx's FY12 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| | <u>Financing Agreement</u> |
| 10.44 | Five-Year Credit Agreement dated as of April 26, 2011, among FedEx, JPMorgan Chase Bank, N.A., individually and as administrative agent, and certain lenders. (Filed as Exhibit 99.1 to FedEx's Current Report on Form 8-K dated April 26, 2011 and filed April 29, 2011, and incorporated herein by reference.) |
| | <i>FedEx is not filing any other instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10% of the total assets of FedEx and its subsidiaries on a consolidated basis. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.</i> |
| | <u>Management Contracts/Compensatory Plans or Arrangements</u> |
| 10.45 | 1993 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 1993 Stock Incentive Plan, as amended. (The 1993 Stock Incentive Plan was filed as Exhibit A to FedEx Express's FY93 Definitive Proxy Statement, Commission File No. 1-7806, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 10.61 to FedEx Express's FY94 Annual Report on Form 10-K, and is incorporated herein by reference.) |
| 10.46 | Amendment to 1993 Stock Incentive Plan. (Filed as Exhibit 10.63 to FedEx Express's FY94 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.47 | 1995 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 1995 Stock Incentive Plan. (The 1995 Stock Incentive Plan was filed as Exhibit A to FedEx Express's FY95 Definitive Proxy Statement, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 99.2 to FedEx Express's Registration Statement No. 333-03443 on Form S-8, and is incorporated herein by reference.) |
| 10.48 | Amendment to 1993 and 1995 Stock Incentive Plans. (Filed as Exhibit 10.79 to FedEx Express's FY97 Annual Report on Form 10-K, and incorporated herein by reference.) |

Table of Contents**Exhibit**

| Number | Description of Exhibit |
|---------------|--|
| 10.49 | 1997 Stock Incentive Plan, as amended, and Form of Stock Option Agreement pursuant to 1997 Stock Incentive Plan. (The 1997 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx's Registration Statement on Form S-8, Registration No. 333-71065, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx's Registration Statement No. 333-71065 on Form S-8, and is incorporated herein by reference.) |
| 10.50 | Amendment to 1997 Stock Incentive Plan. (Filed as Exhibit A to FedEx's FY98 Definitive Proxy Statement, and incorporated herein by reference.) |
| 10.51 | 1999 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 1999 Stock Incentive Plan. (The 1999 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx's Registration Statement No. 333-34934 on Form S-8, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx's Registration Statement No. 333-34934 on Form S-8, and is incorporated herein by reference.) |
| 10.52 | 2002 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 2002 Stock Incentive Plan. (The 2002 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx's Registration Statement No. 333-100572 on Form S-8, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx's Registration Statement No. 333-100572 on Form S-8, and is incorporated herein by reference.) |
| 10.53 | 2001 Restricted Stock Plan and Form of Restricted Stock Agreement pursuant to 2001 Restricted Stock Plan. (Filed as Exhibit 10.60 to FedEx's FY01 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.54 | Amendment to 2001 Restricted Stock Plan. (Filed as Exhibit 10.67 to FedEx's FY02 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.55 | Amendment to 1995, 1997, 1999 and 2002 Stock Incentive Plans and 2001 Restricted Stock Plan. (Filed as Exhibit 10.3 to FedEx's FY04 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.56 | FedEx Corporation Incentive Stock Plan, as amended; Amendment to FedEx Corporation Incentive Stock Plan, as amended, and 1997, 1999 and 2002 Stock Incentive Plans; Form of Terms and Conditions of stock option grant pursuant to FedEx Corporation Incentive Stock Plan, as amended; and Form of Restricted Stock Agreement pursuant to FedEx Corporation Incentive Stock Plan, as amended. (The FedEx Corporation Incentive Stock Plan, as amended, was filed as Exhibit 4.1 to FedEx's Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; the Amendment to FedEx Corporation Incentive Stock Plan, as amended, and 1997, 1999 and 2002 Stock Incentive Plans was filed as Exhibit 4.2 to FedEx's Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; the Form of Terms and Conditions of stock option grant pursuant to FedEx Corporation Incentive Stock Plan, as amended, was filed as Exhibit 4.3 to FedEx's Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; and the Form of Restricted Stock Agreement pursuant to FedEx Corporation Incentive Stock Plan, as amended, was filed as Exhibit 4.4 to FedEx's Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference.) |

Table of Contents**Exhibit**

| Number | Description of Exhibit |
|---------------|--|
| 10.57 | FedEx Corporation Incentive Stock Plan 2005 Inland Revenue Approved Sub-Plan for the United Kingdom and Form of Share Option Agreement pursuant to the FedEx Corporation Incentive Stock Plan 2005 Inland Revenue Approved Sub-Plan for the United Kingdom. (The United Kingdom Sub-Plan was filed as Exhibit 4.2 to FedEx's Registration Statement No. 333-130619 on Form S-8, and is incorporated herein by reference, and the form of share option agreement pursuant to the UK Sub-Plan was filed as Exhibit 4.3 to FedEx's Registration Statement No. 333-130619 on Form S-8, and is incorporated herein by reference.) |
| 10.58 | Amendments to 1993, 1995, 1997, 1999 and 2002 Stock Incentive Plans, as amended, 2001 Restricted Stock Plan, as amended, and FedEx Corporation Incentive Stock Plan, as amended. (Filed as Exhibit 10.48 to FedEx's FY10 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.59 | Amendments to 1993, 1995, 1997, 1999 and 2002 Stock Incentive Plans, 2001 Restricted Stock Plan and FedEx Corporation Incentive Stock Plan. (Filed as Exhibit 10.2 to FedEx's FY11 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.60 | FedEx Corporation 2010 Omnibus Stock Incentive Plan; Form of Terms and Conditions of stock option grant pursuant to FedEx Corporation 2010 Omnibus Stock Incentive Plan; and Form of Terms and Conditions of restricted stock grant pursuant to FedEx Corporation 2010 Omnibus Stock Incentive Plan. (The FedEx Corporation 2010 Omnibus Stock Incentive Plan was filed as Exhibit 4.3 to FedEx's Registration Statement No. 333-171232 on Form S-8, and is incorporated herein by reference; the Form of Terms and Conditions of stock option grant pursuant to FedEx Corporation 2010 Omnibus Stock Incentive Plan was filed as Exhibit 4.4 to FedEx's Registration Statement No. 333-171232 on Form S-8, and is incorporated herein by reference; and the Form of Terms and Conditions of restricted stock grant pursuant to FedEx Corporation 2010 Omnibus Stock Incentive Plan was filed as Exhibit 4.5 to FedEx's Registration Statement No. 333-171232 on Form S-8, and is incorporated herein by reference.) |
| 10.61 | Amended and Restated FedEx Corporation Retirement Parity Pension Plan. (Filed as Exhibit 10.35 to FedEx's FY08 Annual Report on Form 10-K, and incorporated herein by reference.) |
| 10.62 | FedEx Express Supplemental Long Term Disability Plan and Amendment to the Plan. (Filed as Exhibit 10.56 to FedEx's FY11 Annual Report on Form 10-K, and incorporated herein by reference.) |
| *10.63 | Compensation Arrangements with Named Executive Officers. |
| 10.64 | Compensation Arrangements with Outside Directors. (Filed as Exhibit 10.1 to FedEx's FY12 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.65 | FedEx's Amended and Restated Retirement Plan for Outside Directors. (Filed as Exhibit 10.2 to FedEx's FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.) |
| 10.66 | Form of revised Management Retention Agreement, dated March 18, 2010, entered into between FedEx and each of Frederick W. Smith, David J. Bronczek, Robert B. Carter, T. Michael Glenn, Alan B. Graf, Jr., William J. Logue, David F. Rebolz and Christine P. Richards. (Filed as Exhibit 10.5 to FedEx's FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.) |

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Exhibit

| Number | Description of Exhibit |
|---------------|---|
| | <i><u>Other Exhibits</u></i> |
| *12 | Statement re Computation of Ratio of Earnings to Fixed Charges (presented on page 127 of this Annual Report on Form 10-K). |
| *21 | Subsidiaries of Registrant. |
| *23 | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. |
| *24 | Powers of Attorney. |
| *31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| *32.1 | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *32.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| *101.1 | Interactive Data Files. |

* Filed herewith.