FEDEX CORP
Form 10-K
July 14, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended May 31, 2015.

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	**62-1721435**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
942 South Shady Grove Road, Memphis, Tennessee	**38120**
(Address of Principal Executive Offices)	*(ZIP Code)*

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

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 þ 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 þ

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 þ No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Date 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 þ 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. þ

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 þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

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, 2014, was approximately $46.8 billion. The Registrant has no non-voting stock.

As of July 10, 2015, 282,430,208 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 2015 annual meeting of stockholders to be held on September 28, 2015 are incorporated by reference in response to Part III of this Report.

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EXHIBITS

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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-definite delivery to more than 220 countries and territories, connecting markets that comprise more than 90% of the world s gross domestic product. The FedEx Express segment also includes FedEx Trade Networks, Inc. (FedEx Trade Networks), which provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding, FedEx SupplyChain Systems, Inc. (FedEx SupplyChain Systems), which offers a range of supply chain solutions, and Bongo International, LLC (Bongo), which is a leader in cross-border enablement technology and 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 any business address in the U.S. 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. (FedEx SmartPost), 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 U.S., and GENCO Distribution System, Inc. (GENCO), which is a leading North American third-party logistics provider.

FedEx Freight: FedEx Freight, Inc. (FedEx Freight) is a leading U.S. provider of less-than-truckload (LTL) freight services across all lengths of haul, 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 to most points in Canada, Mexico, Puerto Rico and the U.S. Virgin Islands, and includes FedEx Custom Critical, Inc. (FedEx Custom Critical), 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. (FedEx TechConnect), 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 document and business services and retail access to our package transportation businesses.

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.

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Our website is located at *fedex.com*. Detailed information about our services, e-commerce tools and solutions, and citizenship efforts can be found on our website. 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 website, as soon as reasonably practicable after they are filed with or furnished to the SEC. The Investor Relations page of our website, *http://investors.fedex.com*, contains a significant amount of information about FedEx, including our SEC filings and financial and other information for investors. The information that FedEx posts on its Investor Relations website could be deemed to be material information. FedEx encourages investors, the media and others interested in the company to visit this website from time to time, as information is updated and new information is posted. The information on our website, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

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 website, *fedex.com*, provides a single point of contact for our customers to access FedEx Express, FedEx Ground and FedEx Freight shipping, pickup, 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 have 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. We are also focused on increasing returns to our stockholders, as evidenced by the recent increase in our quarterly dividend.

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

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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 response to sluggish economic growth, in 2013 we retired from service 10 aircraft and related engines and shortened the depreciable lives of an additional 76 aircraft and related engines. In 2014, we began replacing some of our retired aircraft with the more efficient, lower-emission Boeing 767-300 Freighter aircraft (B767F). The B767F is approximately 30% more fuel efficient and has unit operating costs that are more than 20% lower than the MD10 aircraft it is replacing. In 2015, to continue rationalizing capacity and modernizing our aircraft fleet to more effectively serve customers, we retired an additional 15 aircraft and 21 related engines and adjusted the retirement schedule of 23 aircraft and 57 engines.

At the same time, we continue to expand network capacity at our growing and highly successful FedEx Ground segment where we continue to boost package volumes.

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. Despite the recent slow-down in global trade growth, we continue to believe that globalization will drive international volume growth over the long term.

- ***Supply Chain Acceleration:*** While the growth of global trade has slowed, companies of all sizes continue to depend on the delivery of just-in-time inventory to help them compete. We have taken advantage of the move toward 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 continues to be 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 to achieve stronger long-term growth, productivity and profitability. To this end, we are investing in long-term strategic projects focused on expanding and modernizing our global networks to accommodate future volume growth and increase customer convenience, such as investments in Boeing 777-300 Freighter (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, during 2015, we:

- Entered into an agreement to acquire TNT Express N.V. (TNT Express), which will allow us to more quickly broaden our portfolio of international transportation solutions to take advantage of market trends, especially the continuing growth in e-commerce.

- Made the strategic acquisition of Bongo, a leader in cross-border enablement technologies and solutions, which has capabilities that complement and expand the FedEx portfolio of offerings important to the rapidly growing global e-commerce market.

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Made the strategic acquisition of GENCO, a leading North American third-party logistics provider, allowing us to expand our service offerings in the growing e-commerce marketplace.

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

Launched FedEx Global Returns, a shipping solution designed to simplify the worldwide returns process via FedEx Express and FedEx Ground, enhancing customers ability to manage their returns through editable return labels, customs documents and flexible return destinations.

Marked significant milestones in our FedEx Express European business, including 30 years of service in the German market, the successful integration of Opek Sp. z o.o. in Poland, which was acquired in 2012, and expansion into the Nordic market through a new facility that is being built at Copenhagen Airport, Denmark, which will serve as a gateway for inbound and outbound shipments for Denmark, Finland, Norway and Sweden.

Enhanced service offerings at FedEx Office through: FedEx Pack Plus, an in-store packing solution where specially trained FedEx Office pack and ship professionals can help pack items that will not fit into typical boxes; and the expansion of the range of professional print products available for commercial customers, and small businesses and consumers through FedEx Office retail locations.

Profit Improvement Initiatives

During 2013, we saw challenging global economic conditions particularly for FedEx Express as ongoing shifts from priority to deferred shipping services significantly impacted profitability. In response to these trends, in 2013 we announced programs targeting annual profitability improvement of $1.6 billion. Our plans position FedEx Express to exit 2016 with a run rate of $1.6 billion of additional operating profit from the then 2013 base business. Our profit improvement programs include multiple initiatives, primarily across FedEx Express and FedEx Services, that are reducing our overall cost structure and enhancing the quality of our revenue.

In 2015 we made substantial progress in achieving our profit improvement goals. The FedEx Express segment has improved operating income by approximately 70% from 2013 with essentially flat revenue during the three-year period. FedEx Services has reduced its total expenses while investing in major information technology transformation projects. In addition, our incentive compensation programs have been gradually reinstated so that 2016 business plan objectives represent more fully funded compensation targets.

During 2014, we completed a voluntary program offering cash buyouts to eligible U.S.-based employees in certain staff functions. As a result of this program, approximately 3,600 employees left the company.

We are also streamlining support functions and eliminating redundant systems and processes. At the same time, in addition to modernizing our air fleet, we are transforming our U.S. domestic express network by closing and realigning regional and district facilities, reorganizing pickup-and-delivery operations while maintaining our outstanding service levels, improving flight and crew scheduling, refining aircraft maintenance processes and improving fuel efficiency of our vehicle fleet.

Internationally, we are working to improve the quality of our international revenue as customers continue to make more economical choices in a low-growth global economy by moving the linehaul of certain slower-moving shipments to third-party transportation providers and better leveraging capacity within the FedEx Express international network through, for example, the reduction of flights to and from Asia. Recent international acquisitions will also help drive increases in international domestic revenues. Lastly, we are improving revenue quality by adding value for our customers with innovative and market-leading solutions, adding services for vertical industries, including healthcare and aerospace, and expanding our e-commerce service offerings. Our way forward is clear, as we continue to make FedEx an even leaner, more efficient business.

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 2015, FedEx ranked 12th in *FORTUNE* magazine s World s Most Admired Companies list the 14th consecutive year we have been ranked in the top 20 on the list. Additionally, FedEx ranked 17th on the Reputation Institute s 2015 Most Reputable Companies in the U.S. list, which measures the corporate reputations of the largest U.S. companies based on consumers trust, esteem, admiration and good feeling towards a company. Lastly, in 2015 FedEx was again listed on *Corporate Responsibility Magazine s* 100 Best Corporate Citizens list.

FedEx is well recognized as a leader, not only in the transportation industry and for 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. For instance, for the past four years, since its inaugural release, FedEx Express was named as one of the top global companies to work for by The Great Place to Work® Institute in its 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 Best Workplaces lists and have at least 5,000 employees worldwide. It is our people our 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 325,000 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, Direct Relief and The Salvation Army); pedestrian and road safety (Safe Kids Worldwide, United Nations Road Safety Collaboration and EMBARQ); and sustainability (EMBARQ, the National Fish and Wildlife Foundation and the Arbor Day 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 ORBIS International. Additionally, FedEx supports communities throughout the U.S. with an annual United Way employee giving campaign. In the midst of the Ebola outbreak that ravaged West Africa, FedEx teamed with numerous humanitarian organizations and government agencies that were leading the U.S. government s Ebola response efforts to move much needed medical materials to Monrovia, Liberia, an area heavily affected by the Ebola virus. Similarly, in the wake of the devastating earthquake in Nepal, FedEx

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worked with disaster relief agencies and committed approximately $1 million in cash, transportation support and a chartered flight to deliver critical medical aid and supplies. 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 have made significant progress over the last several years in an effort to increase FedEx Express vehicle fuel efficiency 30% from a 2005 baseline by 2020   we have already reached more than 29% cumulative improvement in fuel economy. Having nearly achieved our goal, the company expects to surpass and then revisit the goal in 2016. We also continue with our goal to reduce aircraft emissions by 30% by 2020 on an emissions per available-ton-mile basis, a goal that we increased from 20% in 2012. We have also established a goal of obtaining 30% of our jet fuel from alternative fuels by the year 2030. These efforts help us continue to reduce our environmental footprint as evidenced in 2014 when we saved 100 million gallons of jet fuel at FedEx Express and avoided more than 976,000 metric tons of carbon emissions   all while our volumes were up.

We will continue to expand on-site renewable energy generation in our facilities where feasible. 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. We have an impressive global alternative fuel fleet with over 1,045 alternative fuel vehicles, including hybrid, electric and hydrogen fueled vehicles, among others. We operate eleven solar facilities around the world, which collectively avoided 3,145 metric tons of CO_2e emissions in 2014. In addition, ten FedEx Express facilities in the U.S. have received certification in Leadership in Energy and Environmental Design (LEED®), the U.S. Green Building Council s system for rating the environmental performance of buildings, and six more are being reviewed for certification. FedEx Express has made LEED certification the standard for newly built U.S. facilities. In addition, two FedEx Ground facilities achieved LEED certification in 2014 and FedEx Ground is pursuing certification at three more 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 and the use of copy paper with recycled content, among other environmentally-responsible available choices. In 2014, 98% of paper purchased for use by FedEx Office was third-party-certified as responsibly sourced. We also use FedEx-branded cardboard packaging at FedEx Express and FedEx Ground, which is made from approximately 60% recycled content. One example of our environmentally-responsible activities is the Sustainable Purchasing Leadership Council, a U.S. nonprofit organization that supports and recognizes sustainable procurement of which we are a founding member. We continue to support the Council, contributing to discussions on how to improve sustainable purchasing in the areas of transportation and fuels, fiber- and timber-based products and more. For additional information on the ways we are minimizing our impact on the environment, see *http://csr.fedex.com*.

Governance

FedEx has an independent Board of Directors committed to the highest quality corporate governance. The Board has taken significant steps to enhance its accountability to stockholders in recent years. For example, in September 2011, stockholders approved our proposal to amend FedEx s certificate of incorporation in order to allow holders of 20% or more of FedEx s common stock the right to call special meetings of stockholders. Additionally, in June 2012, the Board adopted a lead independent director corporate governance structure.

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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 apply 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 website at *http://investors.fedex.com*. We will post in the Governance & Citizenship section of the Investor Relations page of our website 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 over 40 years ago 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 an integrated global network. FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of package and freight, connecting 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 166,000 employees and has approximately 53,000 drop-off locations (including FedEx Office centers), 647 aircraft and approximately 56,000 vehicles and trailers in its integrated global network.

Services

FedEx Express offers a wide range of U.S. domestic and international 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 U.S. 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 150 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. Additionally, FedEx One Rate gives U.S. customers a simple, predictable flat rate shipping option that is calculated based on the packaging type, service selected and destination.

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 International Priority package services provide time-definite delivery within one, two or three business days worldwide. FedEx International Economy package services provide time-definite delivery within five business days worldwide. FedEx International First package services provide time-definite delivery to select postal codes in 20 key global markets, with delivery to select U.S. ZIP Codes as early as 8:00 a.m. from more than 90 countries in one or two business days, delivery by 10 a.m. in one business day to Canada and by 11:00 a.m. in one business day to Mexico. FedEx Express also offers domestic pickup-and-delivery services within certain non-U.S. countries, including the United Kingdom, Canada, China, India, Mexico, Brazil, France, Poland and South Africa. 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.

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We also provide FedEx Delivery Manager, which allows our U.S. residential customers to customize home deliveries to fit their schedule by providing a range of options to schedule dates, locations and times of delivery. By signing up at *fedex.com*, customers can receive notification of FedEx Express and FedEx Ground packages en route to their homes, and can choose various delivery options.

For information regarding FedEx Express e-shipping tools and solutions, see FedEx Services Customer-Driven Technology.

International Expansion

We are focused on the long-term expansion of our international presence, especially in key markets such as China, India, Europe, Latin America and Southern Africa. In April 2015, we entered into a conditional agreement to acquire TNT Express, which has express delivery operations in Europe, the Middle East and Africa, Asia-Pacific and the Americas. Following the closing of the acquisition, we anticipate integrating the TNT Express operations with the FedEx Express network. This acquisition will expand our global portfolio, particularly in Europe, lower our costs to serve European markets by increasing density in our pickup-and-delivery operations and accelerate our global growth.

In 2014 we made a strategic move in Southern Africa by acquiring the businesses operated by our service provider in the following seven countries: South Africa, Botswana, Malawi, Mozambique, Namibia, Swaziland and Zambia. These acquisitions, along with our 2013 acquisitions of transportation companies in Poland, France and Brazil and our 2012 acquisition of a Mexican domestic express package delivery company, gives us more robust global transportation networks and added capabilities in important international markets, continues our strategic European, Latin American and African growth plans and are expected to provide important contributions to our long-term growth, productivity and profitability. As part of our European growth strategy, FedEx Express plans to open a new gateway facility in 2016 for inbound and outbound shipments for Denmark, Finland, Norway and Sweden. The building is a milestone for FedEx Express growth in the Nordics region, which has seen the opening of eight new stations since 2011. The facility will give customers better connectivity from the Nordics to Europe and the rest of the world.

Since we began serving mainland China in 1984, we have expanded our service to cover more than 400 cities across the country and, in 2009, we began operations at our Asia-Pacific hub at the Guangzhou Baiyun International Airport in southern China. Our new North Pacific regional hub at the Kansai International Airport in Osaka, Japan, which opened in April 2014, serves as a consolidation point for shipments from northern Asia to the U.S., and operates as an international gateway for customers in western Japan. Additionally, in October 2012, we announced plans to establish a new International Express and Cargo Hub in Shanghai. This new facility, with designated onsite customs clearance, will be located at Shanghai s Pudong International Airport and is slated for completion in early 2017. 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

In 2013, FedEx Express entered into a new seven-year agreement with the USPS for the provision of domestic air transportation services to the USPS for its First Class, Priority and Express Mail that runs through September 2020. 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, 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. As announced in September 2014, FedEx Express increased shipping rates by an average of 4.9% for U.S. domestic, U.S. export and U.S. import services, effective January 5, 2015.

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 May 2015 was based on the average spot price for jet fuel published for March 2015. 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. We routinely review our fuel surcharges and our fuel surcharge methodology. On February 2, 2015, we updated the tables used to determine our fuel surcharges at FedEx Express. 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: 2015 6%; 2014 9%; and 2013 12%. The 2013 percentage reflects certain fuel surcharge reductions that were associated with our 2013 base rate increase. See the Fuel section of Item 7 of this Annual Report on Form 10-K (Management s Discussion and Analysis of Results of Operations and Financial Condition) for a description and discussion of the net impact of fuel on our operating results.

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, Cologne/Bonn and Osaka 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, Cologne/Bonn and Osaka 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

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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.

FedEx Office offers retail access to FedEx Express shipping services at all of its U.S. and Canadian 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 and corporate or industrial parks.

Fuel Supplies and Costs

During 2015, 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
2015	$ 2,816	5.9%
2014	3,506	7.7
2013	3,683	8.3
2012	3,867	9.1
2011	3,178	8.1

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 U.S. include other package delivery concerns, principally United Parcel Service, Inc. (UPS), passenger airlines offering express package services, regional delivery concerns, air freight forwarders and the USPS. FedEx Express s principal international competitors are DHL, UPS, TNT Express, 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, 2015, FedEx Express employed approximately 114,000 permanent full-time and approximately 52,000 permanent part-time employees, of which 13% are employed in the Memphis area. FedEx Express s international employees represent 37% of all employees.

The pilots of FedEx Express, who constitute a small percentage of our total employees, are represented by the Air Line Pilots

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Association, International (ALPA), and are employed under a collective bargaining agreement. This agreement became amendable in March 2013, and the parties are currently in negotiations. In October 2014, FedEx Express formally requested assistance from the National Mediation Board (NMB) to mediate the negotiations and the NMB has been actively mediating the talks since that time. The NMB is the U.S. governmental agency that oversees labor agreements for entities covered by the Railway Labor Act of 1926, as amended (the RLA). The conduct of mediated negotiations has no impact on our operations.

Attempts by other labor organizations to organize certain other groups of FedEx Express employees occur from time to time. Although these organizing attempts have not resulted in any certification of a U.S. domestic collective bargaining representative of FedEx Express employees (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. Specifically, 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, publishes customs duty and tax information for over 180 customs areas worldwide. Additionally, FedEx Trade Networks provides customs clearance services for FedEx Express at its major U.S. hub facilities.

As trade throughout the world grows, so does the FedEx Trade Networks solutions portfolio. Value-added services of FedEx Trade Networks include 128 freight forwarding offices in 26 countries and Global Trade Data, an information tool that allows customers to track and manage imports. In addition, in 2015, FedEx Trade Networks strengthened its Latin America trade lane services with enhanced shipping options to meet customer demand. The trade lanes include the following routes: Germany to Mexico, Germany to Brazil, Hong Kong to Mexico and U.S. to Mexico.

FedEx Trade Networks has approximately 5,000 employees and 150 offices in 128 service locations throughout North America and in Africa, Asia-Pacific, Europe, India, Latin America and the Middle East. FedEx Trade Networks maintains a network of air and ocean freight-forwarding service providers and has entered into 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 also offers expanded visibility and control features, as well as forward stocking locations to support worldwide FedEx Critical Inventory Logistics customers with high-value, critical orders.

Bongo

In December 2014, we acquired Bongo, a leader in cross-border enablement technologies and solutions. Bongo s capabilities complement and expand the FedEx portfolio of offerings important to international e-commerce. Bongo s technology and processes provide a comprehensive and integrated end-to-end solution that helps retailers and e-tailers grow by reaching international e-commerce consumers. Bongo s capabilities include export compliance management, Harmonized System classification, currency conversions, international payment options inclusive of language translation, shopping cart management, duty and tax calculations and credit card fraud protection. Bongo is headquartered in St. Petersburg, Florida, and is a subsidiary of FedEx Trade Networks.

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% of the continental U.S. population and overnight service of up to 400 miles to nearly 100% of the continental U.S. 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. 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.

Additionally, FedEx Delivery Manager allows our U.S. residential customers to customize home deliveries to fit their schedule by providing a range of options to schedule dates, locations and times of delivery. By signing up at *fedex.com*, customers can receive notification of FedEx Ground packages en route to their homes and can choose various delivery options.

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. As previously announced, on January 5, 2015, FedEx Ground and FedEx Home Delivery average list prices increased 4.9%.

In addition, as announced in May 2014, FedEx Ground began applying dimensional weight pricing to all shipments effective January 5, 2015. Previously, FedEx Ground applied dimensional weight pricing only to packages measuring three cubic feet or greater. Dimensional weight pricing is a common industry practice that sets the transportation price based on package volume the amount of space a package occupies in relation to its actual weight.

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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 May 2015 was based on the average diesel fuel price published for March 2015. 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. On February 2, 2015, we updated the tables used to determine the fuel surcharges at FedEx Ground. See the Fuel section of Item 7 of this Annual Report on Form 10-K (Management s Discussion and Analysis of Results of Operations and Financial Condition) for a description and discussion of the net impact of fuel on our operating results.

Operations

FedEx Ground operates a multiple hub-and-spoke sorting and distribution system consisting of 547 facilities, including 33 hubs, in the U.S. and Canada. FedEx Ground conducts its operations primarily with approximately 47,000 owner-operated vehicles and approximately 48,000 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 website, *fedex.com*. For additional information regarding FedEx Ground e-shipping tools and solutions, see FedEx Services Customer-Driven Technology.

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

As of May 31, 2015, FedEx Ground had approximately 62,000 employees. In addition, FedEx Ground relies on independent small businesses 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. Henry J. Maier is the President and Chief Executive Officer of FedEx Ground. FedEx Ground is headquartered in Pittsburgh, Pennsylvania, and its primary competitors are UPS, the USPS and regional delivery carriers.

Independent Contractor Model

Although FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax or other administrative challenges) where the classification of its independent contractors is at issue, 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 18 of the accompanying consolidated financial statements.

FedEx Ground has made changes to its relationships with the small businesses it contracts with that, among other things, provide incentives for improved service and enhanced regulatory and other compliance by the contractors. For example, FedEx Ground has implemented 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 and is in the process of transitioning to the model in four additional states. Depending on a number of considerations, 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 businesses 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 owners who choose to grow their businesses by adding routes. During May 2015, approximately 93% of FedEx Ground s package volume was delivered by business owners operating multiple routes.

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 27 distribution hubs and approximately 9,000 employees, FedEx SmartPost provides delivery to all residential addresses in the U.S., including PO Boxes and military destinations.

On March 16, 2015, we announced that our FedEx SmartPost business will be merged into FedEx Ground effective September 1, 2015. The FedEx SmartPost service remains an important component of our service offerings and this internal structural change will enhance our ability to leverage the strengths of both the FedEx Ground and FedEx SmartPost networks to maximize operational efficiencies and will provide greater flexibility to meeting the needs of our e-commerce customers. There are no planned personnel reductions associated with this merger.

GENCO

On January 30, 2015, we acquired GENCO, a leading North American third-party logistics provider. With a comprehensive portfolio of supply chain services, GENCO s expertise will expand existing FedEx service offerings in the evolving retail and e-commerce markets. GENCO s infrastructure and supply chain capabilities include reverse logistics, providing triage, test and repair, remarketing and product liquidation solutions. Additionally, GENCO s breadth of expertise in targeted vertical markets such as technology, healthcare and retail aligns with our strategic priorities in these areas. With more than 10,000 employees at approximately 150 facilities, GENCO offers a complete range of product lifecycle logistics® services to customers in the technology, consumer, industrial, retail, and healthcare markets. GENCO is headquartered in Pittsburgh, Pennsylvania. The financial results of this business are included in the FedEx Ground segment from the date of acquisition. GENCO has a small number of employees that are members of unions.

FedEx Freight Segment

FedEx Freight

FedEx Freight is a leading U.S. 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, which has the fastest published transit times of any nationwide LTL service, offers a no-fee money-back guarantee on eligible shipments. Internationally, FedEx Freight Canada offers FedEx Freight Priority service, serving most points in Canada, as well as FedEx Freight Priority and FedEx Freight Economy service between Canada and the U.S. In addition, FedEx Freight serves Mexico, Puerto Rico and the U.S. Virgin Islands via alliances.

Through its many service offerings, FedEx Freight can match customers time-critical needs with industry leading transit times. With the expansion of FedEx electronic solutions, LTL shippers have the convenience of a single shipping and tracking solution for FedEx Freight, FedEx Express and FedEx Ground. These solutions make freight shipping easier and provide customers easy access to their 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. Customers can also process cross-border LTL shipments to and from Canada and Mexico, as well as intra-Canada and -Mexico shipments, through FedEx Ship Manager at *fedex.com*, FedEx Ship Manager Software, FedEx Ship Manager Server and FedEx Web Services. Additionally, FedEx Freight A.M. Delivery offers freight delivery by 10:30 a.m. within and between the U.S. and Canada, backed by a money-back guarantee.

FedEx Freight has an indexed fuel surcharge that applies to certain LTL shipments, 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. On February 2, 2015, we updated the tables used to determine FedEx Freight fuel surcharges. As previously announced, on January 5, 2015, FedEx Freight implemented a 4.9% average increase in certain U.S. and other shipping rates.

As of May 31, 2015, the FedEx Freight segment was operating approximately 65,000 vehicles and trailers from a network of approximately 370 service centers and had approximately 40,000 employees. Michael L. Ducker 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 (a subsidiary of ArcBest Corporation).

In 2015, the International Brotherhood of Teamsters (Teamsters) petitioned for Labor Board elections at sixteen FedEx Freight facilities. The Teamsters lost the vote or withdrew the petition prior to the election at twelve facilities and won the vote at four facilities. With respect to the elections that the Teamsters won, there are three appeals pending and FedEx Freight is considering whether to appeal the other election.

FedEx Custom Critical

FedEx Custom Critical provides a range of expedited, time-specific freight-shipping services throughout the U.S., 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; White Glove Services, for shipments that require extra care in handling, temperature control or specialized security; and ShipmentWatch, an offering through which FedEx Custom Critical manages SenseAware® devices to track customers shipments by programming the device to the customer s requirements prior to the shipment, sending the device to the shipper and then proactively monitoring the shipment from pickup to delivery. Service from FedEx Custom Critical is available 24 hours a day, 365 days a year. In addition, its subsidiary FedEx Truckload Brokerage provides freight brokerage solutions within the U.S. and into and out of Canada and Mexico. FedEx Custom

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Critical continuously monitors shipments through an integrated proprietary shipment-control system, including two-way satellite communications on exclusive-use shipments.

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, 2015, the FedEx Services segment had approximately 30,000 employees (including approximately 15,000 at FedEx Office).

Customer-Driven 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. In fact, FedEx ranked No. 6 overall on the 2015 InformationWeek Elite 100 list a compilation of the top business technology innovators in the U.S.

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 website, together with our customer integrated solutions.

The *fedex.com* website was launched nearly 20 years ago, and during that time, customers have shipped and tracked billions of packages at *fedex.com*. The *fedex.com* website 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 FedEx Tracking provides customers with a consolidated view of inbound and outbound shipments.

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® devices. The FedEx Mobile website has expanded to more than 220 countries and territories and 26 languages. FedEx Mobile allows customers to track the status of packages, create shipping labels, get account-specific rate quotes and access drop-off location information. FedEx Office has its own iPhone®, iPad® and Android apps that allow customers to print directly from their devices to any FedEx Office location in the U.S. or have the order delivered right to their door, while also allowing customers to get account-specific pricing, track print orders or packages, or find the nearest FedEx Office location. FedEx Office self-serve printers give customers even more flexibility by allowing direct USB access to print documents, as well as the ability to retrieve and print documents from customers cloud accounts. FedEx also uses wireless data collection devices to scan bar codes on shipments, thereby enhancing and accelerating the package information available to our customers.

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FedEx continues to provide customers with innovative solutions. For example, in May 2014 FedEx TechConnect opened a package laboratory providing FedEx Express, FedEx Ground and FedEx Freight customers with free package testing and design services.

We design our e-commerce tools and solutions to be easily integrated into our customers applications, as well as into third-party software 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 parcel and LTL shipping and associated processes.

Marketing

The FedEx brand name is symbolic of outstanding service, reliability and speed. Emphasis is placed on promoting and protecting the FedEx brand, one of our most important assets. As a result, FedEx is one of the most widely recognized brands in the world. In addition to television, print and digital advertising, we promote the FedEx brand through corporate sponsorships and special events. For example, FedEx sponsors:

- PGA TOUR and the Champions Tour golf organizations, as the Official Shipping Company, and FedExCup, a season-long points competition for PGA TOUR players
- The Title sponsor of the FedEx St. Jude Classic, a PGA TOUR event that raises millions of dollars for St. Jude Children s Research Hospital
- The National Football League (NFL), as its Official Delivery Service Sponsor and Official Office Services Provider of the NFL
- FedExField in Washington, DC
- The #11 Joe Gibbs Racing Toyota Camry driven by Denny Hamlin in the NASCAR Sprint Cup Series
- ATP World Tour men s professional tennis circuit and French Open tennis tournament
- FedExForum in Memphis, TN

Information Security

FedEx Services has a team of highly qualified professionals dedicated to securing information about our customers shipments and protecting our customers , vendors and employees 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

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Standardization in Geneva, Switzerland to promote and facilitate international trade. More than 150 countries, including European Union members, the U.S. 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. Customers may also have their FedEx Express, FedEx Ground and FedEx Home Delivery packages delivered to any FedEx Office location nationwide by choosing the Hold at FedEx Location option when initiating a shipment or even when a shipment is on its way free of charge. In addition, in 2014 FedEx Office introduced the FedEx Ship&Get® pilot program, which is a shipping and delivery option available at select retail locations that allows customers to use stand-alone kiosks and lockers that are managed electronically to ship or pick up packages at their convenience.

In addition, FedEx Office offers packing services, and packing supplies and boxes are included in its retail offerings. By allowing customers to have items professionally packed by specially trained FedEx Office team members and then shipped using FedEx Ground day-definite shipping and time-definite global FedEx Express shipping services, FedEx Office offers a complete pack-and-ship solution. In November 2014, FedEx Office rolled out a new packing feature, Pack Plus, which expanded FedEx Office s packing and shipping capabilities. FedEx Pack Plus offerings include new custom box building capabilities and techniques, a more robust assortment of specialty boxes and additional packing supplies, equipment and tools to serve our customers needs.

Almost all FedEx Office locations provide local pickup-and-delivery service for print jobs completed by FedEx Office. A FedEx courier picks up a customer s print job at the customer s location and then returns the finished product to the customer. Options and services vary by location. Additionally, through cloud printing with FedEx Office Print Online, customers can upload files from some of the most popular cloud websites including Box, Dropbox and Google Drive and then select from a variety of printing options. Customers can choose to pick up their completed order at FedEx Office locations nationwide or have the order delivered right to their door. Customers also have the ability to access these same cloud files through a USB drive or mobile device at self-serve copiers in FedEx Office locations, giving them seamless access to their files across our online and retail channels. Lastly, FedEx SameDay City service is offered in more than 20 markets across the U.S., which allows customers to get their packages across town on the same day with local delivery by FedEx Office uniformed team members in branded FedEx Office delivery vehicles.

As of May 31, 2015, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, as well as 31 closed 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, 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.

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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 December 2012, the FAA reaffirmed the exclusion of us from the new rule. It is reasonably possible, however, that future security or flight safety requirements could impose material costs on us.

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 requires 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.

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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 U.S. air carriers abroad. The right of a U.S. carrier to serve foreign points is subject to the DOT s approval and generally requires a bilateral agreement between the U.S. and the foreign government. In addition, 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.

Our operations outside of the U.S., 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 (EPA), 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, in 2015, the EPA issued a proposed finding on GHG emissions from aircraft and its relationships to air pollution. The final finding is a regulatory prerequisite to the EPA s adoption of a new certification standard for aircraft emissions. Additionally, in 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 that are wholly within 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).

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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 RLA, while labor relations within the U.S. 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 NMB before a union can strike or an 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 81 through 86 of this Annual Report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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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.

Aircraft and Vehicles

As of May 31, 2015, FedEx Express s aircraft fleet consisted of the following:

Description	Owned	Leased	Total	Maximum Gross Structural Payload (Pounds per Aircraft)[1]
Boeing B777F	25	0	25	233,300
Boeing MD11	31	25	56	192,600
Boeing MD10-30	12	1	13	175,900
Boeing MD10-10	36	0	36	137,500
Boeing 767F	18	3	21[2]	127,100
Airbus A300-600	32	36	68	106,600
Airbus A310-200/300	21	0	21	83,170
Boeing B757-200	119	0	119[3]	63,000
ATR 72-202/212	21	0	21	17,970
ATR 42-300/320	26	0	26	12,070
Cessna 208B	241	0	241	2,830
Total	582	65	647	

(1) Maximum gross structural payload includes revenue payload and container weight.
(2) Includes four aircraft not currently in operation and awaiting completion of modification.
(3) Includes eighteen 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 B767Fs are two-engine, long-range, wide-bodied cargo aircraft.

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

The B757s are two-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.

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At May 31, 2015, FedEx Express operated approximately 56,000 ground transport vehicles, including pickup-and-delivery vans, larger trucks called container transport vehicles and over-the-road tractors and trailers.

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, 2015, with the year of expected delivery:

	B767F(1)	B777F(2)	Total
2016	11	2	13
2017	12		12
2018	11	2	13
2019	6	2	8
2020		3	3
Thereafter		9	9
Total	40	18	58

(1) As of May 31, 2015, our obligation to purchase three of these aircraft was conditioned upon there being no event that causes FedEx Express or its employees to not be covered by the RLA.

(2) As of May 31, 2015, our obligation to purchase nine of these aircraft was conditioned upon there being no event that causes FedEx Express or its employees to not be covered by the RLA.

As of May 31, 2015, deposits and progress payments of $472 million had been made toward aircraft purchases and other planned aircraft-related transactions. Also see Note 17 of the accompanying consolidated financial statements for more information about our purchase commitments.

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Sorting and Handling Facilities

At May 31, 2015, 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	3,663,000	475,000	Memphis-Shelby County Airport Authority	2036
Indianapolis, Indiana	316	2,509,000	214,000	Indianapolis Airport Authority	2028
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	448,935	63,000	City of Oakland	2036
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[5]
Los Angeles, California	34	305,300	57,000	City of Los Angeles	2021/2025[6]
International					
Anchorage, Alaska[2]	64	332,000	25,000	State of Alaska, Department of Transportation and Public Facilities	2023
Paris, France[3]	111	1,238,000	63,000	Aeroports de Paris	2029
Cologne, Germany[3]	11	325,000	20,000	Cologne Bonn Airport	2040
Guangzhou, China[4]	155	873,006	64,000	Guangdong Airport Management Corp.	2029
Osaka, Japan[4]	17	425,206	9,000	New Kansai International Airport Co., Ltd.	2024

(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.

(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 2018, and lease for new facility expires in 2028.

(6) Property is held under two separate leases lease for sorting and handling facility expires in 2021, and lease for ramp expansion expires in 2025.

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. FedEx Express owns or leases 638 facilities for city station operations in the United States. In addition, 606 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, 2015, FedEx Express had approximately 41,000 Drop Boxes. FedEx Express also has approximately 15,000 FedEx Authorized ShipCenters and other types of staffed drop-off locations, such as FedEx Office centers. Internationally, FedEx Express had approximately 7,000 drop-off locations.

FedEx Ground Segment

FedEx Ground s corporate offices are located in the Pittsburgh, Pennsylvania area. As of May 31, 2015, FedEx Ground had approximately 48,000 company-owned trailers and owned or leased 547 facilities, including 33 hubs. In addition, approximately 47,000 owner-operated vehicles support FedEx Ground s business. Of the 357 facilities that support FedEx Home Delivery, 275 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 383,000 square feet and range in size from 114,000 to 825,500 square feet.

FedEx Freight Segment

FedEx Freight s corporate headquarters are located in Memphis, Tennessee, with some administrative offices for the FedEx Freight business in Harrison, Arkansas. As of May 31, 2015, the FedEx Freight segment operated approximately 65,000 vehicles and trailers and approximately 370 service centers, which are strategically located to provide service throughout North America. These facilities range in size from approximately 860 to 220,000 square feet of office and dock space. FedEx Custom Critical s headquarters are located in Green, Ohio.

FedEx Services Segment

FedEx Services corporate headquarters are located in Memphis, Tennessee. FedEx Services leases state-of-the-art technology centers in Collierville, Tennessee and Colorado Springs, Colorado. 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, 2015, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, as well as 31 closed 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 customer facing centers average 3,900 square feet in size. FedEx Services has an agreement with OfficeMax North America, Inc. to offer FedEx Express and FedEx Ground shipping services at OfficeMax retail locations (approximately 800 locations). Additionally, the FedEx Authorized Ship Center program offers U.S. domestic and international FedEx Express and FedEx Ground shipping and drop-off services through a network of approximately 5,500 franchised and independent pack and ship retail 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 18 of the accompanying consolidated financial statements.

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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	70	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	61	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.
Robert B. Carter Executive Vice President FedEx Information Services and Chief Information Officer	56	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 First Horizon National Corporation, a financial services holding company.

Name and Office	Age	Positions and Offices Held and Business Experience
Michael L. Ducker President and Chief Executive Officer, FedEx Freight Corporation	61	President and Chief Executive Officer of FedEx Freight Corporation since January 2015; Executive Vice President and Chief Operating Officer and President of International for FedEx Express from December 2009 to January 2015; Executive Vice President and President of International of FedEx Express from December 1999 to December 2009; Senior Vice President of Asia/Pacific of FedEx Express from September 1995 to December 1999; and various management positions in operations at FedEx Express from 1978 to 1995. Mr. Ducker serves as Chairman of the U.S. Chamber of Commerce, and as a director of International Flavors & Fragrances Inc., a global creator of flavors and fragrances used in consumer products.
T. Michael Glenn Executive Vice President Market Development and Corporate Communications	59	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 Level 3 Communications, Inc., a global communications services company.
Alan B. Graf, Jr. Executive Vice President and Chief Financial Officer	61	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
Henry J. Maier President and Chief Executive Officer, FedEx Ground	61	President and Chief Executive Officer of FedEx Ground since June 2013; Executive Vice President Strategic Planning and Communications of FedEx Ground from September 2009 to June 2013; Senior Vice President Strategic Planning and Communications of FedEx Ground from December 2006 to September 2009; Vice President Marketing of FedEx Services from March 2000 to December 2006; Vice President Marketing and Communications of FedEx Ground from June 1999 to March 2000; and various management positions in logistics, sales, marketing and communications with RPS, Inc. and Caliber Logistics, Inc. from 1986 to 1999.
Christine P. Richards Executive Vice President, General Counsel and Secretary	60	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.

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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 10, 2015, there were 12,601 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		
	High	**Low**	**Dividend**
Fiscal Year Ended May 31, 2015			
Fourth Quarter	$ 178.79	$ 163.60	$ 0.20
Third Quarter	183.51	163.57	0.20
Second Quarter	179.79	148.37	0.20
First Quarter	155.31	138.30	0.20
Fiscal Year Ended May 31, 2014			
Fourth Quarter	$ 144.85	$ 130.64	$ 0.15
Third Quarter	144.39	128.17	0.15
Second Quarter	140.55	106.38	0.15
First Quarter	113.34	94.60	0.15

FedEx also paid a cash dividend on July 2, 2015 ($0.25 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.

The following table provides information on FedEx s repurchases of our common stock during the fourth quarter of 2015.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Purchased Under the Programs
March 1-31, 2015	50,000	$ 171.83	50,000	13,550,000
April 1-30, 2015	800,000	169.51	800,000	12,750,000
May 1-31, 2015	550,000	170.74	550,000	12,200,000
Total	1,400,000	170.12	1,400,000	

The repurchases were made under the stock repurchase program approved by our Board of Directors and announced on September 29, 2014 and through which we were authorized to purchase, in the open market or in privately negotiated transactions, up to an aggregate of 15 million shares of our common stock. As of July 10, 2015, 11.3 million shares remained authorized for purchase under the September 2014 stock repurchase program, which is the only such program that currently exists. The program does not have an expiration date.

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ITEM 6. SELECTED FINANCIAL DATA

Selected financial data as of and for the five years ended May 31, 2015 is presented on page 143 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 39 through 87 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 142 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 14, 2015 thereon, are presented on pages 90 through 141 of this Annual Report on Form 10-K.

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, 2015 (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 88 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 89 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

During our fiscal quarter ended May 31, 2015, 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.

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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 2015 annual meeting of stockholders, which will be held on September 28, 2015, 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.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding director and executive compensation will be presented in FedEx s definitive proxy statement for its 2015 annual meeting of stockholders, which will be held on September 28, 2015, 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 2015 annual meeting of stockholders, which will be held on September 28, 2015, 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 2015 annual meeting of stockholders, which will be held on September 28, 2015, 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 2015 and 2014 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 2015 annual meeting of stockholders, which will be held on September 28, 2015, and is incorporated herein by reference.

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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 14, 2015 thereon, are listed on pages 37 through 38 and presented on pages 90 through 141 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 14, 2015 thereon, is presented on pages 145 through 146 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-12 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 14, 2015

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 Frederick W. Smith	Chairman, President and Chief Executive Officer and Director *(Principal Executive Officer)*	July 14, 2015
/s/ ALAN B. GRAF, JR. Alan B. Graf, Jr.	Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*	July 14, 2015
/s/ JOHN L. MERINO John L. Merino	Corporate Vice President and Principal Accounting Officer *(Principal Accounting Officer)*	July 14, 2015
/s/ JAMES L. BARKSDALE * James L. Barksdale	Director	July 14, 2015
/s/ JOHN A. EDWARDSON * John A. Edwardson	Director	July 14, 2015
/s/ MARVIN R. ELLISON * Marvin R. Ellison	Director	July 14, 2015
/s/ KIMBERLY A. JABAL * Kimberly A. Jabal	Director	July 14, 2015
/s/ SHIRLEY ANN JACKSON * Shirley Ann Jackson	Director	July 14, 2015

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Signature	Capacity	Date
/s/ GARY W. LOVEMAN * Gary W. Loveman	Director	July 14, 2015
/s/ R. BRAD MARTIN * R. Brad Martin	Director	July 14, 2015
/s/ JOSHUA COOPER RAMO * Joshua Cooper Ramo	Director	July 14, 2015
/s/ SUSAN C. SCHWAB * Susan C. Schwab	Director	July 14, 2015
/s/ DAVID P. STEINER * David P. Steiner	Director	July 14, 2015
/s/ PAUL S. WALSH * Paul S. Walsh	Director	July 14, 2015
*By: /s/ JOHN L. MERINO John L. Merino Attorney-in-Fact		July 14, 2015

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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 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 2015 results compared to 2014 results, and 2014 results compared to 2013 results. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2016.

- The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2016) 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 condition 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 U.S. provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications and certain 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 and shipment 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 changes 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. The line item Other operating expenses includes costs predominantly associated with outside service contracts (such as security and facility services), insurance, professional fees, uniforms and advertising.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2015 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.

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RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

Retirement Plans Mark-to-Market Adjustment

On June 12, 2015, we announced a change in our accounting method for recognizing actuarial gains and losses for defined benefit pension and postretirement healthcare benefits. This method of accounting is referred to as mark-to-market or MTM accounting. Historically, we have recognized actuarial gains and losses, subject to a corridor, by amortizing them into operating results over the average future service period of active employees in these plans. We have elected to immediately recognize actuarial gains and losses in our consolidated operating results in the year in which the gains and losses occur. This change will provide greater transparency into operating results by more quickly recognizing the effects of economic and interest rate conditions on plan obligations, investments and assumptions. The actuarial gains and losses are measured annually as of May 31 and, accordingly, are recorded during the fourth quarter. In addition, for purposes of calculating the expected return on plan assets, we will no longer use an averaging technique permitted under accounting principles generally accepted in the United States for the market-related value of plan assets but instead will use actual fair value of plan assets. We have applied these changes retrospectively.

Our operating segment results follow internal management reporting, which is used for making operating decisions and assessing performance. Historically, total net periodic benefit cost was allocated to each segment. We will continue to record service cost, interest cost and expected return on plan assets at the business segments. Annual recognition of actuarial gains and losses (the MTM adjustment) will be reflected in our segment results only at the corporate level.

Additionally, although the actual asset returns of our funded plans are recognized in each fiscal year through the MTM adjustment, we continue to recognize an expected return on assets (EROA) in the determination of net pension cost. At the segment level, we have set our EROA at 6.5% for all periods presented, with an offsetting credit at the corporate level to reflect the consolidated EROA in each period. We have set our consolidated EROA assumption at 6.5% for 2016.

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The following tables compare summary operating results and changes in revenues and operating income (dollars in millions, except per share amounts) for the years ended May 31. All amounts have been recast to conform to the current year presentation reflecting the pension accounting changes and allocation of corporate headquarters costs further discussed in this MD&A and Note 1, Note 13 and Note 14 of the accompanying consolidated financial statements:

				Percent Change	
	2015	2014	2013	2015/2014	2014/2013
Consolidated revenues	$ 47,453	$ 45,567	$ 44,287	4	3
FedEx Express Segment operating income(1)	1,584	1,428	929	11	54
FedEx Ground Segment operating income(2)	2,172	2,021	1,859	7	9
FedEx Freight Segment operating income(3)	484	351	246	38	43
Corporate, eliminations and other(4)	(2,373)	15	1,400	NM	NM
Consolidated operating income	1,867	3,815	4,434	(51)	(14)
FedEx Express Segment operating margin(1)	5.8%	5.3%	3.4%	50bp	190bp
FedEx Ground Segment operating margin(2)	16.7%	17.4%	17.6%	(70)bp	(20)bp
FedEx Freight Segment operating margin(3)	7.8%	6.1%	4.6%	170bp	150bp
Consolidated operating margin(4)	3.9%	8.4%	10.0%	(450)bp	(160)bp
Consolidated net income	$ 1,050	$ 2,324	$ 2,716	(55)	(14)
Diluted earnings per share	$ 3.65	$ 7.48	$ 8.55	(51)	(13)

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	Year-over-Year Changes			
	Revenues		Operating Income	
	2015/2014	2014/2013	2015/2014	2014/2013
FedEx Express segment[1]	$ 118	$ (50)	$ 156	$ 499
FedEx Ground segment[2]	1,367	1,039	151	162
FedEx Freight segment[3]	434	356	133	105
FedEx Services segment	9	(44)		
Corporate, eliminations and other[4]	(42)	(21)	(2,388)	(1,385)
	$ 1,886	$ 1,280	$ (1,948)	$ (619)

(1) FedEx Express segment 2015 expenses include impairment and related charges of $276 million resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines. Operating expenses for 2013 include $405 million of direct and allocated business realignment costs and an impairment charge of $100 million resulting from the decision to retire 10 aircraft and related engines.

(2) FedEx Ground segment 2013 operating expenses include $105 million of allocated business realignment costs.

(3) FedEx Freight segment 2013 operating expenses include $50 million of direct and allocated business realignment costs.

(4) Operating income includes a loss of $2.2 billion in 2015, a loss of $15 million in 2014 and a gain of $1.4 billion in 2013 associated with our mark-to-market pension accounting further discussed in Note 1 of the accompanying consolidated financial statements. Operating income in 2015 also includes a $197 million charge in the fourth quarter to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement, which is further discussed in Note 18 of the accompanying consolidated financial statements.

Overview

Our results for 2015 include a $2.2 billion loss ($1.4 billion, net of tax, or $4.81 per diluted share) associated with our fourth quarter mark-to-market benefit plans adjustment. In addition, we recorded impairment and related charges of $276 million ($175 million, net of tax, or $0.61 per diluted share) associated with aircraft and engine retirements at FedEx Express, and a $197 million ($133 million, net of tax, or $0.46 per diluted share) charge in the fourth quarter to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement. These items are further described below in this MD&A. While these charges significantly impacted our results, each of our transportation segments had strong performance during 2015. All of our transportation segments experienced higher volumes, coupled with improved yields at FedEx Ground and FedEx Freight. In addition, our results benefited from our profit improvement program commenced in 2013, the positive net impact of fuel, and a lower year-over-year impact from severe winter weather. Our 2015 results include higher maintenance expense, primarily due to the timing of aircraft maintenance events at FedEx Express, and higher incentive compensation accruals, which were not affected by the mark-to-market accounting adoption, the aircraft impairment or the legal reserve adjustment described above.

In 2015, we repurchased an aggregate of $1.3 billion of our common stock through open market purchases. Share repurchases in 2015 had a $0.14 year-over-year positive impact on earnings per diluted share (net of interest expense on debt used to fund a portion of the program). See additional information on the share repurchase program in Note 1 of the accompanying consolidated financial statements.

Our revenues for 2014 increased due to improved performance of all our transportation segments. In addition, our 2014 results benefited from our voluntary employee severance program and reduced variable incentive compensation, partially offset by the significant negative net impact of fuel, an estimated $70 million year-over-year negative impact of severe weather and one fewer operating day. Our year-over-year earnings comparisons benefited from the inclusion in 2013 results of business realignment costs and an aircraft impairment charge.

In 2014, we repurchased an aggregate of $4.9 billion of our common stock through open market purchases and through accelerated share repurchase (ASR) agreements with two banks. Share repurchases in 2014 had a modest positive impact on earnings per diluted share. See additional information on the share repurchase program in Note 1 of the accompanying consolidated financial statements.

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In 2013, we incurred a noncash pre-tax mark-to-market gain of $1.4 billion from actuarial adjustments to pension and postretirement healthcare plans related to the measurement of plan assets and liabilities, which resulted in a positive impact to our earnings of $2.63 per diluted share. In addition, we recorded business realignment costs of $560 million, primarily related to our voluntary cash buyout program, and we retired from service 10 aircraft and related engines, which resulted in a noncash asset impairment charge of $100 million. These items negatively impacted our earnings by $1.31 per diluted share.

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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] International domestic average daily package volume represents our international intra-country express operations.

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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:

Revenue

Revenues increased 4% in 2015 due to improved performance at all our transportation segments. At FedEx Ground, revenues increased 12% in 2015 due to higher volume from continued growth in both our FedEx Home Delivery service and commercial business, the inclusion of GENCO Distribution System, Inc. (GENCO) results from the date of acquisition and increased yields. At FedEx Freight, revenues increased 8% in 2015 primarily due to higher average daily shipments and revenue per shipment. Revenues at FedEx Express were flat during 2015 due to U.S. domestic and international package volume growth, which were offset by lower fuel surcharges and the negative impact of exchange rates.

Revenues increased 3% in 2014, primarily due to higher volumes at FedEx Ground and FedEx Freight and yield increases at FedEx Ground. Revenues at all of our transportation segments in 2014 were negatively impacted by one fewer operating day and unusually severe weather. At our FedEx Ground segment, revenues increased 10% in 2014 due to higher volume from market share gains and increased yields as a result of rate increases. Revenues at FedEx Freight increased 7% during 2014 primarily due to higher average daily LTL shipments and revenue per LTL shipment. At FedEx Express, revenues were flat as lower fuel surcharges and lower freight revenue were offset by revenue growth in our base U.S. and international export package business and growth in our freight-forwarding business at FedEx Trade Networks. The demand shift from our priority international services to our economy international services dampened revenue growth at FedEx Express.

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Retirement Plans MTM Adjustments

We incurred noncash pre-tax mark-to-market losses of $2.2 billion in 2015 ($1.4 billion, net of tax, or $4.81 per diluted share) and $15 million in 2014 ($9 million, net of tax, or $0.03 per diluted share) and a $1.4 billion gain in 2013 ($835 million, net of tax, or $2.63 per diluted share) from actuarial adjustments to pension and postretirement healthcare plans related to the measurement of plan assets and liabilities. For more information see further discussion in the Critical Accounting Estimates section of this MD&A and Note 1 and Note 13 of the accompanying consolidated financial statements.

Business Realignment, Impairment and Other Charges

In May 2015, we made the decision to retire from service seven Boeing MD11 aircraft and 12 related engines, four Airbus A310-300 aircraft and three related engines, three Airbus A300-600 aircraft and three related engines and one Boeing MD10-10 aircraft and three related engines and related parts, and adjusted the retirement schedule of an additional 23 aircraft and 57 engines. As a consequence of this decision, impairment and related charges of $276 million ($175 million, net of tax, or $0.61 per diluted share), of which $246 million was noncash, were recorded in the fourth quarter. The decision to permanently retire these aircraft and engines aligns with FedEx Express s plans to rationalize capacity and modernize its aircraft fleet to more effectively serve its customers. These combined changes will not have a material impact on our near-term depreciation expense.

In 2013, we recorded business realignment costs of $560 million, primarily related to our voluntary cash buyout program. Furthermore, in 2013, we retired from service 10 aircraft and related engines, which resulted in a noncash asset impairment charge of $100 million. These items negatively impacted our earnings by $1.31 per diluted share.

See the Long-lived Assets section of our Critical Accounting Estimates for additional discussion of our accounting for aircraft retirement decisions.

Legal Reserve Increase

On June 12, 2015, we announced an agreement in principle with the plaintiffs in the FedEx Ground independent contractor litigation that is pending in the United States District Court for the Northern District of California to settle the matter for $228 million. The settlement agreement has been filed with the court for approval. The settlement resolves claims dating back to 2000 that concern a model that FedEx Ground no longer operates. As a consequence, a charge of $197 million ($133 million, net of tax, or $0.46 per diluted share) was recorded in the fourth quarter of 2015 to increase the reserve for this matter to the amount of the settlement. The charge is included in the caption Other in our consolidated statements of income. For further information see Note 18 of the accompanying consolidated financial statements.

Operating Expenses

The following tables compare operating expenses expressed as dollar amounts (in millions) and as a percent of revenue for the years ended May 31, and prior year amounts have been revised to conform to the current year presentation regarding pension accounting changes:

	2015	2014	2013
Operating expenses:			
Salaries and employee benefits	$ 17,110	$ 16,171	$ 16,055
Purchased transportation	8,483	8,011	7,272
Rentals and landing fees	2,682	2,622	2,521
Depreciation and amortization	2,611	2,587	2,386
Fuel	3,720	4,557	4,746
Maintenance and repairs	2,099	1,862	1,909
Business realignment, impairment and other charges	276(1)		660(2)
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
Other	6,415(3)	5,927	5,672
Total operating expenses	$ 45,586	$ 41,752	$ 39,853

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	Percent of Revenue		
	2015	2014	2013
Operating expenses:			
Salaries and employee benefits	36.1%	35.5%	36.3%
Purchased transportation	17.9	17.6	16.4
Rentals and landing fees	5.7	5.7	5.7
Depreciation and amortization	5.5	5.7	5.4
Fuel	7.8	10.0	10.7
Maintenance and repairs	4.4	4.1	4.3
Business realignment, impairment and other charges	0.6[1]		1.5[2]
Retirement plans mark-to-market adjustment	4.6		(3.1)
Other	13.5[3]	13.0	12.8
Total operating expenses	96.1	91.6	90.0
Operating margin	3.9%	8.4%	10.0%

(1) Includes charges resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines at FedEx Express.

(2) Includes predominantly severance costs associated with our voluntary buyout program and charges resulting from the decision to retire 10 aircraft and related engines at FedEx Express.

(3) Includes a $197 million charge in the fourth quarter to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement.

Our operating expenses for 2015 include a $2.2 billion loss ($1.4 billion, net of tax) associated with our mark-to-market pension accounting as described above. In addition, we recorded charges of $276 million ($175 million, net of tax) associated with the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines at FedEx Express, and a $197 million ($133 million, net of tax) charge in the fourth quarter to increase the reserve associated with the settlement of an independent contractor proceeding at FedEx Ground to the amount of the settlement. The settlement is further discussed in this MD&A and Note 18 of the accompanying consolidated financial statements. Our 2015 operating expenses also increased primarily due to volume-related growth in salaries and employee benefits and purchased transportation expenses, higher maintenance and repairs expense and higher incentive compensation accruals. However, operating margin benefited from revenue growth, our profit improvement program, which we commenced in 2013, the net impact of fuel (as further described below) and a lower year-over-year impact from severe winter weather.

Operating expenses included an increase in salaries and employee benefits expense of 6% in 2015 due to the timing of merit increases for many of our employees at FedEx Express, additional staffing to support volume growth and higher incentive compensation accruals. These factors were partially offset by the positive impact of our voluntary buyout program. Other expenses were driven 8% higher in 2015 due to the legal reserve increase discussed above and the inclusion of GENCO results. Purchased transportation costs increased 6% in 2015 due to volume growth and higher service provider rates at FedEx Ground and volume growth, higher utilization and higher service provider rates at FedEx Freight. The timing of aircraft maintenance events at FedEx Express primarily drove an increase in maintenance and repairs expense of 13% in 2015.

Our 2014 operating expenses grew due to the volume-related growth and higher utilization of third-party providers in purchased transportation expense, higher depreciation and amortization expense due to the accelerated depreciation on certain aircraft at FedEx Express (as further described below) and the year-over-year impact of unusually severe weather. These factors were partially offset by the inclusion in 2013 of costs associated with our business realignment program, an aircraft impairment charge, as well as lower fuel expense, one fewer operating day and lower maintenance and repairs expense.

Purchased transportation costs increased 10% in 2014 due to volume growth at FedEx Ground, higher utilization of third-party transportation providers at FedEx Express, including recent business acquisitions at FedEx Express, higher utilization of third-party transportation providers at FedEx Freight and the expansion of our freight-forwarding business at FedEx Trade Networks.

Depreciation and amortization expense increased 8% in 2014 primarily due to accelerated depreciation on certain aircraft scheduled for retirement, and aircraft placed in service at FedEx Express ($74 million). Salaries and employee benefits expense in 2014 increased 1% due to the benefits from our voluntary employee buyout program, lower pension expense, the delayed timing or absence of merit increases for many of our employees and reduced variable incentive compensation. Maintenance and repairs decreased 2% in 2014 due to network adjustments at FedEx Express and the continued modernization of our aircraft fleet, which impacted the timing of certain maintenance events.

Fuel

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

Fuel expense decreased 18% during 2015 primarily due to lower aircraft fuel prices. However, fuel prices represent only one component of the two factors we consider meaningful in understanding the impact of fuel on our business. Consideration must also be given to the fuel surcharge revenue we collect. Accordingly, we believe discussion of the net impact of fuel on our results, which is a comparison of the year-over-year change in these two factors, is important to understand the impact of fuel on our business. In order to provide information about the impact of fuel surcharges on the trend in revenue and yield growth, we have included the comparative weighted-average fuel surcharge percentages in effect for 2015, 2014 and 2013 in the accompanying discussions of each of our transportation segments.

The index used to determine the fuel surcharge percentage for our FedEx Freight business adjusts weekly, while our fuel surcharges for the FedEx Express and FedEx Ground businesses incorporate a timing lag of approximately six to eight weeks before they are adjusted for changes in fuel prices. For example, the fuel surcharge index in effect at FedEx Express in May 2015 was set based on March 2015 fuel prices. In addition, the structure of the table that is used to determine our fuel surcharge at FedEx Express and FedEx Ground does not adjust immediately for changes in fuel price, but allows for the fuel surcharge revenue charged to our customers to remain unchanged as long as fuel prices remain within certain ranges.

Beyond these factors, the manner in which we purchase fuel also influences the net impact of fuel on our results. For example, our contracts for jet fuel purchases at FedEx Express are tied to various indices, including the U.S. Gulf Coast index. While many of these indices are aligned, each index may fluctuate at a different pace, driving variability in the prices paid for jet fuel. Furthermore, under these contractual arrangements, approximately 75% of our jet fuel is purchased based on the index price for the preceding week, with the remainder of our purchases tied to the index price for the preceding month, rather than based on daily spot rates. These contractual provisions mitigate the impact of rapidly changing daily spot rates on our jet fuel purchases.

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Because of the factors described above, our operating results may be affected should the market price of fuel suddenly change by a significant amount or change by amounts that do not result in an adjustment in our fuel surcharges, which can significantly affect our earnings either positively or negatively in the short-term.

We routinely review our fuel surcharges and our fuel surcharge methodology. On February 2, 2015, we updated the tables used to determine our fuel surcharges at FedEx Express, FedEx Ground and FedEx Freight.

The net impact of fuel had a significant benefit to operating income in 2015. This was driven by decreased fuel prices during 2015 versus the prior year, which was partially offset by the year-over-year decrease in fuel surcharge revenue during these periods.

The net impact of fuel on our operating results does not consider the effects that fuel surcharge levels may have on our business, including changes in demand and shifts in the mix of services purchased by our customers. While fluctuations in fuel surcharge percentages 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.

Fuel expense decreased 4% during 2014 primarily due to lower average price per gallon of jet fuel and lower aircraft fuel usage. The net impact of fuel had a significant negative impact on operating income in 2014. This was driven by decreased fuel surcharge revenue during 2014 versus prior year, which was slightly offset by the year-over-year decrease in fuel prices.

Interest Expense

Interest expense increased $75 million in 2015 primarily due to increased interest expense from our January 2015 debt offering and 2014 debt issuances. Interest expense increased $78 million in 2014 primarily due to increased interest expense from our January 2014 debt offering, 2013 debt issuances and a reduction in capitalized interest.

Income Taxes

Our effective tax rate was 35.5% in 2015, 36.5% in 2014 and 37.4% in 2013. Due to its effect on income before income taxes, the adoption of MTM accounting reduced our 2015 effective tax rate by 80 basis points and increased our effective tax rates by 20 basis points in 2014 and 100 basis points in 2013. Our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a benefit of approximately $48 million to our 2015 provision for income taxes. Our cumulative permanently reinvested foreign earnings were $1.9 billion at the end of 2015 and $1.6 billion at the end of 2014.

For 2016, we expect our effective tax rate to be between 36.0% and 37.0% prior to any year-end MTM adjustment. The actual rate, however, will depend on a number of factors, including the amount and source of operating income and the impact of the MTM adjustment.

Additional information on income taxes, including our effective tax rate reconciliation, liabilities for uncertain tax positions and our global tax profile can be found in Note 12 of the accompanying consolidated financial statements.

Business Acquisitions

On April 6, 2015, we entered into a conditional agreement to acquire TNT Express N.V. (TNT Express) for 4.4 billion (currently, approximately $4.9 billion). This combination is expected to expand our global portfolio, particularly in Europe, lower our costs to serve our European markets by increasing density in our pickup-and-delivery operations and accelerate our global growth. This acquisition is expected to be completed in the first half of calendar year 2016. The closing of the acquisition is subject to customary conditions, including obtaining all necessary approvals and competition clearances. We expect to secure all relevant competition approvals.

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During 2015, we acquired two businesses, expanding our portfolio in e-commerce and supply chain solutions. On January 30, 2015, we acquired GENCO, a leading North American third-party logistics provider, for $1.4 billion, which was funded using a portion of the proceeds from our January 2015 debt issuance. The financial results of this business are included in the FedEx Ground segment from the date of acquisition.

In addition, on December 16, 2014, we acquired Bongo International, LLC (Bongo), a leader in cross-border enablement technologies and solutions, for $42 million in cash from operations. The financial results of this business are included in the FedEx Express segment from the date of acquisition.

In 2014, we expanded the international service offerings of FedEx Express by completing our acquisition of the businesses operated by our previous service provider, Supaswift (Pty) Ltd., in seven countries in Southern Africa, for $36 million in cash from operations. The financial results of this business are included in the FedEx Express segment from the date of acquisition.

In 2013, we completed our acquisitions of Rapidão Cometa Logística e Transporte S.A., a Brazilian transportation and logistics company, for $398 million; TATEX, a French express transportation company, for $55 million; and Opek Sp. z o.o., a Polish domestic express package delivery company, for $54 million. The financial results of these businesses are included in the FedEx Express segment from their respective date of acquisition.

The financial results of these acquired businesses were not material, individually or in the aggregate, to our results of operations and therefore, pro forma financial information has not been presented.

Profit Improvement Programs

During 2013, we announced profit improvement programs primarily through initiatives at FedEx Express and FedEx Services targeting annual profitability improvement of $1.6 billion at FedEx Express. Our plans position FedEx Express to exit 2016 with a run rate of $1.6 billion in additional operating profit from the then 2013 base business. Our ability to achieve the profit improvement target and other benefits from these programs is dependent upon a number of factors, including the health of the global economy and future customer demand.

In 2015 we made substantial progress in achieving our profit improvement goals. FedEx Express has improved operating income by approximately 70% from 2013 with essentially flat revenue during the three-year period. FedEx Services has reduced its total expenses while investing in major information technology transformation projects. In addition, our incentive compensation programs have been gradually reinstated so that 2016 business plan objectives represent more fully funded compensation targets.

During 2014, we completed a program to offer voluntary cash buyouts to eligible U.S.-based employees in certain staff functions. As a result of this program, approximately 3,600 employees left the company. We recognized costs of $560 million ($353 million, net of tax, or $1.11 per diluted share) during 2013, which were related primarily to severance when eligible employees accepted their offers. Payments under this program were made at the time of departure and totaled approximately $300 million in 2014 and $180 million in 2013.

The cost of the program is included in the caption Business realignment, impairment and other charges in our consolidated statements of income. Also included in that caption are other external costs directly attributable to our business realignment activities, such as professional fees. See Note 1 of the accompanying consolidated financial statements for further discussion of the voluntary employee severance program.

In addition, see the Long-lived Assets section of our Critical Accounting Estimates for a discussion of fleet modernization actions taken in 2015 and 2013.

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Outlook

We anticipate revenue and earnings growth in 2016, prior to any year-end MTM adjustment, driven by continued improvements in the performance of all of our transportation segments, including the continued execution of the profit improvement programs noted above. We expect continued moderate global economic growth to drive volume and yield improvements. Our expectations for earnings growth in 2016 are dependent on key external factors, including fuel prices and global economic conditions. Our outlook for 2016 does not contemplate any impact from our announced intent to acquire TNT Express, such as integration planning or transaction costs or the operating activities of TNT Express if the transaction is consummated.

Our capital expenditures for 2016 are expected to approximate $4.6 billion for continued expansion of the FedEx Ground network and additional aircraft deliveries in 2016 to support our fleet modernization program at FedEx Express. 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. For additional details on key 2016 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. 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 18 of the accompanying consolidated financial statements, 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 owner-operators. As previously announced, FedEx Ground reached an agreement, which is subject to court approval, to settle an independent contractor case in California, and we accrued a related charge in the fourth quarter of 2015. Additionally, during the first quarter of 2015, we established an accrual for the estimated probable loss in the Oregon cases that was required to be recognized pursuant to applicable accounting standards. With respect to the matters that are pending outside of California and Oregon, the nature, timing and amount of any changes are dependent on the outcome of numerous future events. We cannot reasonably estimate the potential impact of any such changes or a meaningful range of potential outcomes, although they could be material. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business. See Note 18 of the accompanying consolidated financial statements for additional information.

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 through February is the slowest period. 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.

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RECENT ACCOUNTING GUIDANCE

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements.

On June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. We have adopted this guidance by including expanded accumulated other comprehensive income disclosure requirements in Note 9 of our consolidated financial statements.

On May 28, 2014, the FASB and International Accounting Standards Board issued a new accounting standard that will supersede virtually all existing revenue recognition guidance under accounting principles generally accepted in the United States (and International Financial Reporting Standards), which has been subsequently updated to defer the effective date of the new revenue recognition standard by one year. This standard will be effective for us beginning in fiscal 2019. The fundamental principles of the new guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and the amount of revenue recognized reflects the consideration that a company expects to receive for the goods and services provided. The new guidance establishes a five-step approach for the recognition of revenue. Based on our preliminary assessment, we do not anticipate that the new guidance will fundamentally change our revenue recognition policies, practices or systems.

We believe that no other new accounting guidance was adopted or issued during 2015 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.

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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)
	Bongo (cross-border enablement technology and solutions)
FedEx Ground Segment	FedEx Ground (small-package ground delivery)
	FedEx SmartPost (small-parcel consolidator)
	GENCO (third-party logistics)
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 operating expenses line item Intercompany charges on the accompanying consolidated financial statements of our transportation segments reflects the allocations from the FedEx Services segment to the respective transportation segments. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided.

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. 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. We believe these allocations approximate the net cost of providing these functions. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses.

During the fourth quarter of 2015, we changed our method of accounting for our defined benefit pension and postretirement healthcare plans to immediately recognize actuarial gains and losses resulting from the remeasurement of these plans in earnings in the fourth quarter of each fiscal year. This method of accounting is referred to as MTM accounting as described in this MD&A and Note 1 and Note 13 of the accompanying consolidated financial statements. FedEx s segment operating results follow internal management reporting, which is used for making operating decisions and assessing performance. Historically, total net periodic benefit cost was allocated to each segment. We continue to record service cost, interest cost and EROA at the business segments as well as an allocation from FedEx Services of their comparable costs. Annual recognition of actuarial gains and losses will be reflected in our segment results only at the corporate level. Additionally, although the actual asset returns are recognized in each fiscal year through a MTM adjustment, we continue to recognize EROA in the determination of net pension cost. At the segment level, we have set our EROA at 6.5% for all periods presented, which will equal our consolidated EROA assumption for 2016. In fiscal years where

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the consolidated EROA is greater than 6.5%, that difference is reflected as a credit in Corporate, eliminations and other. We have adjusted prior-period segment information to conform to the current period s presentation to ensure comparability of the segment results across all periods, including comparisons going forward in 2016.

In addition, in 2015, we ceased allocating to our transportation segments the costs associated with our corporate headquarters division. These costs included services related to general oversight functions, including executive officers and certain legal and finance functions as well as our annual MTM adjustment and certain other charges or credits. This change allows for additional transparency and improved management of our corporate oversight costs. These costs were previously included in the operating expenses line item Intercompany charges on the accompanying unaudited financial summaries of our transportation segments. These costs are now included in Corporate, eliminations and other in our segment reporting and reconciliations. Prior year amounts have been revised to conform to the current year segment presentation. See Note 14 of the accompanying consolidated financial statements for more information. The increase in these unallocated costs in 2015 from the prior year was driven by a loss associated with our MTM adjustment as further discussed in this MD&A and Note 1 and Note 13 of the accompanying consolidated financial statements and an increase in legal contingency reserves recorded in the first and fourth quarters of 2015 associated with a legal matter at FedEx Ground described in Note 18 of the accompanying consolidated financial statements.

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.

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FEDEX EXPRESS SEGMENT

FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of packages and freight including priority services, which provide time-definite delivery within one, two or three business days worldwide, and deferred or economy services, which provide time-definite delivery within five business days worldwide. 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, and amounts have been recast to conform to the current year presentation reflecting the pension accounting changes and allocation of corporate headquarters costs further discussed in this MD&A and Note 1, Note 13 and Note 14 of the accompanying consolidated financial statements:

				Percent Change	
	2015	2014	2013	2015/2014	2014/2013
Revenues:					
Package:					
U.S. overnight box	$ 6,704	$ 6,555	$ 6,513	2	1
U.S. overnight envelope	1,629	1,636	1,705		(4)
U.S. deferred	3,342	3,188	3,020	5	6
Total U.S. domestic package revenue	11,675	11,379	11,238	3	1
International priority	6,251	6,451	6,586	(3)	(2)
International economy	2,301	2,229	2,046	3	9
Total international export package revenue	8,552	8,680	8,632	(1)	1
International domestic[(1)]	1,406	1,446	1,398	(3)	3
Total package revenue	21,633	21,505	21,268	1	1
Freight:					
U.S.	2,300	2,355	2,562	(2)	(8)
International priority	1,588	1,594	1,678		(5)
International airfreight	180	205	276	(12)	(26)
Total freight revenue	4,068	4,154	4,516	(2)	(8)
Other[(2)]	1,538	1,462	1,387	5	5
Total revenues	27,239	27,121	27,171		
Operating expenses:					
Salaries and employee benefits	10,104	9,797	9,835	3	
Purchased transportation	2,544	2,511	2,331	1	8
Rentals and landing fees	1,693	1,705	1,684	(1)	1
Depreciation and amortization	1,460	1,488	1,350	(2)	10
Fuel	3,199	3,943	4,130	(19)	(5)
Maintenance and repairs	1,357	1,182	1,244	15	(5)
Business realignment, impairment and other charges[(3)]	276		243	NM	NM
Intercompany charges[(4)]	1,842	1,888	2,215	(2)	(15)
Other	3,180	3,179	3,210		(1)
Total operating expenses	25,655	25,693	26,242		(2)
Operating income	$ 1,584	$ 1,428	$ 929	11	54
Operating margin	5.8%	5.3%	3.4%	50bp	190bp

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	Percent of Revenue		
	2015	2014	2013
Operating expenses:			
Salaries and employee benefits	37.1%	36.1%	36.2%
Purchased transportation	9.3	9.3	8.6
Rentals and landing fees	6.2	6.3	6.2
Depreciation and amortization	5.4	5.5	5.0
Fuel	11.7	14.5	15.2
Maintenance and repairs	5.0	4.4	4.6
Business realignment, impairment and other charges(3)	1.0		0.9
Intercompany charges(4)	6.8	6.9	8.1
Other	11.7	11.7	11.8
Total operating expenses	94.2	94.7	96.6
Operating margin	5.8%	5.3%	3.4%

(1) International domestic revenues represent our international intra-country express operations.

(2) Includes FedEx Trade Networks, FedEx SupplyChain Systems and Bongo.

(3) 2015 includes $276 million of impairment and related charges resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines. 2013 includes $143 million of predominantly severance costs associated with our voluntary buyout program and a $100 million impairment charge resulting from the decision to retire 10 aircraft and related engines.

(4) Includes allocations of $262 million in 2013 for business realignment costs.

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

	2015	2014	2013	Percent Change 2015/2014	Percent Change 2014/2013
Package Statistics[1]					
Average daily package volume (ADV):					
U.S. overnight box	1,240	1,164	1,134	7	3
U.S. overnight envelope	527	538	574	(2)	(6)
U.S. deferred	916	869	835	5	4
Total U.S. domestic ADV	2,683	2,571	2,543	4	1
International priority	410	410	421		(3)
International economy	176	170	155	4	10
Total international export ADV	586	580	576	1	1
International domestic[2]	853	819	785	4	4
Total ADV	4,122	3,970	3,904	4	2
Revenue per package (yield):					
U.S. overnight box	$ 21.29	$ 22.18	$ 22.52	(4)	(2)
U.S. overnight envelope	12.15	11.97	11.66	2	3
U.S. deferred	14.36	14.44	14.18	(1)	2
U.S. domestic composite	17.13	17.42	17.33	(2)	1
International priority	60.05	61.88	61.28	(3)	1
International economy	51.54	51.75	51.77		
International export composite	57.50	58.92	58.72	(2)	
International domestic[2]	6.49	6.95	6.99	(7)	(1)
Composite package yield	20.66	21.32	21.36	(3)	
Freight Statistics[1]					
Average daily freight pounds:					
U.S.	7,833	7,854	7,612		3
International priority	2,887	2,922	3,048	(1)	(4)
International airfreight	684	798	1,066	(14)	(25)
Total average daily freight pounds	11,404	11,574	11,726	(1)	(1)
Revenue per pound (yield):					
U.S.	$ 1.16	$ 1.18	$ 1.32	(2)	(11)
International priority	2.17	2.15	2.16	1	
International airfreight	1.04	1.01	1.01	3	
Composite freight yield	1.40	1.41	1.51	(1)	(7)

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

(2) International domestic statistics represent our international intra-country express operations.

FedEx Express Segment Revenues

FedEx Express total revenues were flat in 2015 as U.S. and international package volume and base yield growth were offset by lower fuel surcharges and unfavorable exchange rates.

U.S. domestic volumes increased 4% in 2015 driven by both our overnight box and deferred service offerings. U.S. domestic yields decreased 2% in 2015 due to the negative impact of lower fuel surcharges, which were partially offset by higher rates. International export volumes grew 1%, driven by a 4% growth in our international economy service offering. The 2% decrease in international export yields in 2015 was due to the negative impact of lower fuel surcharges and unfavorable exchange rates, which were partially offset by higher rates and weight per package. International domestic revenues declined 3% in 2015 due to the negative impact of unfavorable exchange rates, which were partially offset by a 4% volume increase.

FedEx Express segment revenues were also flat in 2014. Lower fuel surcharges, lower freight revenue, unfavorable exchange rates and one fewer operating day were offset by revenue growth in our U.S. and international export package base business and the growth of our freight-forwarding business at FedEx Trade Networks. In addition, the demand shift from our priority international services to our economy international services dampened revenue growth.

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Freight yields decreased 7% in 2014 due to lower fuel surcharges and lower rates. Freight average daily pounds decreased by 1% in 2014 due to weakness in global economic conditions and capacity reductions. U.S. domestic yields increased 1% in 2014 primarily due to higher rates and weight per package, partially offset by lower fuel surcharges. International export package revenues increased 1% in 2014 as base business growth was offset by lower fuel surcharges and the demand shift to our lower-yielding economy services. International priority yields increased 1% in 2014, while international priority volumes declined 3%. Within this category, volumes for lower-yielding distribution services declined, while international priority volumes, excluding these distribution services, increased 1%. International domestic average daily volumes increased 4% in 2014 primarily due to prior year international business acquisitions.

Our U.S. domestic and outbound fuel surcharge and the international fuel surcharges ranged as follows for the years ended May 31:

	2015	2014	2013
U.S. Domestic and Outbound Fuel Surcharge:			
Low	1.50%	8.00%	10.00%
High	9.50	10.50	14.50
Weighted-average	6.34	9.47	11.84
International Fuel Surcharges:			
Low	0.50	12.00	12.00
High	18.00	19.00	20.50
Weighted-average	12.80	16.26	17.02

On February 2, 2015, FedEx Express updated the tables used to determine fuel surcharges. On September 16, 2014, FedEx Express announced a 4.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services effective January 5, 2015. In January 2014, we implemented a 3.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services.

FedEx Express Segment Operating Income

Despite flat revenues, FedEx Express operating income and operating margin increased in 2015, driven by U.S. domestic and international package base yield and volume growth, benefits associated with our profit improvement program, the positive net impact of fuel, reduced pension expense, lower international expenses due to currency exchange rates, lower depreciation expense and a lower year-over-year impact from severe winter weather. These factors were partially offset by higher maintenance expense and higher incentive compensation accruals. Additionally, results for 2015 were negatively impacted by $276 million ($175 million, net of tax) of impairment and related charges, of which $246 million was noncash, resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines.

Within operating expenses, salaries and employee benefits increased 3% in 2015 due to the timing of annual merit increases for many of our employees and higher incentive compensation accruals. These factors were partially offset by the benefits from our voluntary employee severance program and lower pension expense. Maintenance and repairs expense increased 15% in 2015 primarily due to the timing of aircraft maintenance events. Costs associated with the growth of our freight-forwarding business at FedEx Trade Networks drove an increase in purchased transportation costs of 1% in 2015. Depreciation and amortization expense decreased 2% in 2015 driven by the expiration of accelerated depreciation for certain aircraft that were retired from service during the year.

Fuel expense decreased 19% in 2015 due to lower aircraft fuel prices. The net impact of fuel had a significant benefit in 2015 to operating income. See the Fuel section of this MD&A for a description and additional discussion of the net impact of fuel on our operating results.

FedEx Express operating income and operating margin in 2014 were positively impacted by the inclusion in 2013 of costs associated with our business realignment program and an aircraft impairment charge as discussed above. In addition, FedEx Express results in 2014 benefited from the revenue growth in our U.S. and international export package business, lower pension expense, our voluntary employee severance program and lower maintenance expense. These factors were partially offset by lower freight revenues, a significant negative net impact of fuel and higher depreciation expense. In addition, operating income in 2014 reflects one fewer operating day and the year-over-year negative impact of severe weather.

In 2014, salaries and employee benefits were flat due to lower pension expense, the delayed timing or absence of annual merit increases for many of our employees, benefits from our voluntary employee severance program and lower variable incentive compensation. Intercompany charges decreased 15% in 2014 due to the inclusion in the prior year results of costs associated with the business realignment program at FedEx Services, as well as lower allocated sales and information technology costs. FedEx Express maintenance and repairs costs decreased 5% in 2014 due to network reductions and the benefits from the retirement of aircraft and related engines, as well as the timing of major maintenance events. Purchased transportation costs increased 8% in 2014 due to higher utilization of third-party transportation providers, including recent business acquisitions, and costs associated with the expansion of our freight-forwarding business at FedEx Trade Networks. Depreciation and amortization expense increased 10% during 2014 as a result of $74 million of year-over-year incremental accelerated depreciation due to the shortened life of certain aircraft scheduled for retirement, and aircraft placed into service.

Fuel costs decreased 5% in 2014 due to lower aircraft fuel prices and usage. The net impact of fuel had a significant negative impact on operating income in 2014. See the Fuel section of this MD&A for a description and additional discussion of the net impact of fuel on our operating results.

FedEx Express Segment Outlook

We expect revenues and earnings to increase at FedEx Express during 2016 primarily due to improved U.S. domestic and international export volume and package yields, as we continue to focus on revenue quality while managing costs. In addition, we expect operating income to improve through the continued execution of our profit improvement programs, including managing network capacity to match customer demand, reducing structural costs, modernizing our fleet and driving productivity increases throughout our U.S. and international operations.

Capital expenditures at FedEx Express are expected to increase in 2016 driven by our aircraft fleet modernization programs, as we add new aircraft that are more reliable, fuel-efficient and technologically advanced and retire older, less-efficient aircraft.

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FEDEX GROUND SEGMENT

FedEx Ground service offerings include day-certain service delivery to businesses in the U.S. and Canada and to nearly 100% of U.S. residences. FedEx SmartPost consolidates high-volume, low-weight, less time-sensitive business-to-consumer packages and utilizes the United States Postal Service (USPS) for final delivery. On January 30, 2015, we acquired GENCO, a leading North American third-party logistics provider. GENCO s financial results are included in the following table from the date of acquisition, which has impacted the year-over-year comparability of revenue and operating expenses. 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, and amounts have been recast to conform to the current year presentation reflecting the pension accounting changes and allocation of corporate headquarters costs further discussed in this MD&A and Note 1, Note 13 and Note 14 of the accompanying consolidated financial statements:

				Percent Change	
	2015	2014	2013	2015/2014	2014/2013
Revenues:					
FedEx Ground	$ 11,563	$ 10,634	$ 9,652	9	10
FedEx SmartPost	1,005	983	926	2	6
GENCO	416			NM	NM
Total revenues	12,984	11,617	10,578	12	10
Operating expenses:					
Salaries and employee benefits	2,146	1,749	1,577	23	11
Purchased transportation	5,021	4,635	4,191	8	11
Rentals	485	402	331	21	21
Depreciation and amortization	530	468	434	13	8
Fuel	12	17	17	(29)	
Maintenance and repairs	244	222	190	10	17
Intercompany charges(1)	1,123	1,095	1,086	3	1
Other	1,251	1,008	893	24	13
Total operating expenses	10,812	9,596	8,719	13	10
Operating income	$ 2,172	$ 2,021	$ 1,859	7	9
Operating margin	16.7%	17.4%	17.6%	(70)bp	(20)bp
Average daily package volume:					
FedEx Ground	4,850	4,588	4,222	6	9
FedEx SmartPost	2,061	2,186	2,058	(6)	6
Revenue per package (yield):					
FedEx Ground	$ 9.37	$ 9.10	$ 8.94	3	2
FedEx SmartPost	$ 1.93	$ 1.78	$ 1.77	8	1

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	Percent of Revenue		
	2015	2014	2013
Operating expenses:			
Salaries and employee benefits	16.5%	15.0%	14.9%
Purchased transportation	38.7	39.9	39.6
Rentals	3.7	3.5	3.1
Depreciation and amortization	4.1	4.0	4.1
Fuel	0.1	0.2	0.2
Maintenance and repairs	1.9	1.9	1.8
Intercompany charges[1]	8.7	9.4	10.3
Other	9.6	8.7	8.4
Total operating expenses	83.3	82.6	82.4
Operating margin	16.7%	17.4%	17.6%

(1) Includes allocations of $105 million in 2013 for business realignment costs.

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 12% in 2015 due to volume and yield growth at FedEx Ground, the inclusion of GENCO results and yield growth at FedEx SmartPost, partially offset by lower volumes at FedEx SmartPost.

Average daily volume at FedEx Ground increased 6% in 2015 due to continued growth in our FedEx Home Delivery service and commercial business. Yield increased 3% in 2015 primarily due to higher dimensional weight charges and rate increases.

FedEx SmartPost average daily volume decreased 6% in 2015 due to the reduction in volume from a major customer. FedEx SmartPost yield increased 8% in 2015 due to rate increases and improved customer mix, partially offset by higher postage costs. FedEx SmartPost yield represents the amount charged to customers net of postage paid to the USPS.

FedEx Ground segment revenues increased 10% in 2014 due to both volume and yield growth at FedEx Ground and volume growth at FedEx SmartPost. In addition, 2014 revenues were negatively impacted by one fewer operating day, unusually severe weather and lower fuel surcharges.

Average daily volume at FedEx Ground increased 9% during 2014 due to market share gains resulting from continued growth in our FedEx Home Delivery service and commercial business. FedEx Ground yield increased 2% during 2014 primarily due to rate increases and higher residential surcharges, partially offset by lower fuel surcharge revenue.

FedEx SmartPost volumes grew 6% during 2014 primarily due to growth in e-commerce. Yields at FedEx SmartPost increased 1% during 2014 primarily due to rate increases and change in service mix, partially offset by higher postage costs and lower fuel surcharges.

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:

	2015	2014	2013
Low	4.50%	6.50%	6.50%
High	7.00	7.00	8.50
Weighted-average	5.90	6.66	7.60

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On February 2, 2015, FedEx Ground updated the tables used to determine fuel surcharges. On September 16, 2014, FedEx Ground and FedEx Home Delivery announced a 4.9% increase in average list price effective January 5, 2015. In addition, as announced in May 2014, FedEx Ground began applying dimensional weight pricing to all shipments effective January 5, 2015. In January 2014, FedEx Ground and FedEx Home Delivery implemented a 4.9% increase in average list price. FedEx SmartPost rates also increased.

FedEx Ground Segment Operating Income

FedEx Ground segment operating income increased 7% in 2015 driven by higher revenue per package and volumes, the positive net impact of fuel, and a lower year-over-year impact from severe winter weather. The increase to operating income was partially offset by higher network expansion costs, as we continue to invest heavily in our FedEx Ground and FedEx SmartPost businesses. The decline in operating margin for 2015 is primarily attributable to network expansion costs and the inclusion of GENCO results.

The inclusion of GENCO results in the FedEx Ground segment results has impacted the year-over-year comparability of all operating expenses. Including the incremental costs from GENCO, salaries and employee benefits increased 23% driven by additional staffing to support volume growth. Volume growth and higher service provider rates drove purchased transportation expense to increase 8% in 2015. Other expense increased 24% in 2015 primarily due to the addition of GENCO results and higher self-insurance costs. Network expansion caused rentals expense to increase 21% in 2015. Depreciation and amortization expense increased 13% in 2015 due to network expansion and trailer purchases.

FedEx Ground segment operating income increased 9% in 2014 driven by higher volumes and yields. Operating income comparisons were also positively impacted by the inclusion in 2013 of costs associated with our business realignment program. The increase to operating income in 2014 was partially offset by higher network expansion costs, as we continue to invest heavily in the growing FedEx Ground and FedEx SmartPost businesses, and the net negative impact of fuel. In addition, operating income in 2014 was negatively affected by year-over-year impact of unusually severe weather and one fewer operating day. The decline in operating margin for 2014 is primarily attributable to the negative net impact of fuel and network expansion costs. Operating margin in 2014 benefited from the inclusion in 2013 of costs associated with our business realignment program.

Salaries and employee benefits expense increased 11% during 2014 primarily due to additional staffing to support volume growth and higher healthcare costs. Other expense increased 13% primarily due to higher self-insurance costs and credit card fees. Rentals expense increased 21% in 2014 due to network expansion. Depreciation and amortization expense increased 8% in 2014 due to network expansion and trailer purchases.

FedEx Ground Segment Outlook

FedEx Ground segment revenues and operating income are expected to continue to grow in 2016, led by volume growth across all our major services due to market share gains. We also anticipate yield growth to continue in 2016 through yield management programs, including our dimensional weight rating changes. However, the full-year impact of the GENCO acquisition will have a negative impact on FedEx Ground operating margin in 2016 due to integration costs and the impact of intangible asset amortization arising from purchase accounting.

Capital expenditures at FedEx Ground are expected to increase in 2016 as we continue to make investments to grow our highly profitable FedEx Ground network through facility expansions and equipment purchases. The impact of these investments on our cost structure will partially offset earnings growth in 2016.

On March 16, 2015, we announced that our FedEx SmartPost business will be merged into FedEx Ground effective September 1, 2015. The FedEx SmartPost service remains an important component of our service offerings and this internal structural change will enhance our ability to leverage the strengths of both the FedEx Ground and FedEx SmartPost networks to maximize operational efficiencies and will provide greater flexibility to meeting the needs of our e-commerce customers. No personnel reductions associated with this merger are expected, and the estimated cost of the merger activities is immaterial to our results.

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Effective June 1, 2015, we will begin recording revenues associated with FedEx SmartPost on a gross basis including postal fees in revenues and expenses, versus our previous net treatment, due to operational changes occurring in 2016 which result in us being the principal in all cases for the FedEx SmartPost service. This change will be prospective as the operational changes did not occur until the beginning of 2016. While we expect this to have a negative impact of approximately 120 basis points on the FedEx Ground operating margin in 2016, it will not impact the total operating income of FedEx Ground.

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 additional material losses 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.

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FEDEX FREIGHT SEGMENT

FedEx Freight service offerings include priority LTL services when speed is critical and economy services when time can be traded for savings. The following table compares revenues, operating expenses, operating expenses as a percent of revenue, operating income, operating margin (dollars in millions) and selected statistics for the years ended May 31, and amounts have been recast to conform to the current year presentation reflecting the pension accounting changes and allocation of corporate headquarters costs further discussed in this MD&A and Note 1, Note 13 and Note 14 of the accompanying consolidated financial statements:

				Percent Change	
	2015	2014	2013	2015/2014	2014/2013
Revenues	$ 6,191	$ 5,757	$ 5,401	8	7
Operating expenses:					
Salaries and employee benefits	2,698	2,442	2,336	10	5
Purchased transportation	1,045	981	865	7	13
Rentals	129	131	118	(2)	11
Depreciation and amortization	230	231	217		6
Fuel	508	595	598	(15)	(1)
Maintenance and repairs	201	179	191	12	(6)
Business realignment, impairment and other charges[(1)]			3	NM	NM
Intercompany charges[(2)]	444	431	452	3	(5)
Other	452	416	375	9	11
Total operating expenses	5,707	5,406	5,155	6	5
Operating income	$ 484	$ 351	$ 246	38	43
Operating margin	7.8%	6.1%	4.6%	170bp	150bp
Average daily LTL shipments (in thousands)					
Priority	66.9	62.9	59.3	6	6
Economy	28.6	27.7	26.4	3	5
Total average daily LTL shipments	95.5	90.6	85.7	5	6
Weight per LTL shipment					
Priority	1,272	1,262	1,237	1	2
Economy	1,003	1,000	990		1
Composite weight per LTL shipment	1,191	1,182	1,161	1	2
LTL revenue per shipment					
Priority	$ 229.57	$ 223.61	$ 220.32	3	1
Economy	264.34	258.05	256.38	2	1
Composite LTL revenue per shipment	$ 240.09	$ 234.23	$ 231.52	3	1
LTL revenue per hundredweight					
Priority	$ 18.05	$ 17.73	$ 17.80	2	
Economy	26.34	25.80	25.90	2	
Composite LTL revenue per hundredweight	$ 20.15	$ 19.82	$ 19.94	2	(1)

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	Percent of Revenue		
	2015	2014	2013
Operating expenses:			
Salaries and employee benefits	43.6%	42.4%	43.3%
Purchased transportation	16.9	17.1	16.0
Rentals	2.1	2.3	2.2
Depreciation and amortization	3.7	4.0	4.0
Fuel	8.2	10.3	11.1
Maintenance and repairs	3.2	3.1	3.5
Business realignment, impairment and other charges(1)			
Intercompany charges(2)	7.2	7.5	8.4
Other	7.3	7.2	6.9
Total operating expenses	92.2	93.9	95.4
Operating margin	7.8%	6.1%	4.6%

(1) 2013 includes severance costs associated with our voluntary buyout program.

(2) Includes allocations of $47 million in 2013 for business realignment costs.

FedEx Freight Segment Revenues

FedEx Freight segment revenues increased 8% in 2015 due to higher average daily shipments and revenue per shipment. Average daily LTL shipments increased 5% in 2015 due to higher demand for our FedEx Freight Priority and FedEx Freight Economy service offerings. LTL revenue per shipment increased 3% in 2015 due to higher rates and higher weight per LTL shipment.

FedEx Freight segment revenues increased 7% during 2014 due to higher average daily LTL shipments and revenue per LTL shipment. Revenues in 2014 were negatively impacted by one fewer operating day. Average daily LTL shipments increased 6% in 2014 due to higher demand for both of our service offerings. LTL revenue per shipment increased 1% in 2014 due to changes in shipment characteristics, primarily higher weight per LTL shipment.

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

	2015	2014	2013
Low	20.90%	22.70%	21.80%
High	26.20	23.70	24.40
Weighted-average	24.30	23.20	23.38

On February 2, 2015, FedEx Freight updated the tables used to determine fuel surcharges. On September 16, 2014, FedEx Freight announced a 4.9% average increase in certain U.S. and other shipping rates effective January 5, 2015. In June 2014, FedEx Freight increased its published fuel surcharge indices by three percentage points. In March 2014, FedEx Freight increased certain U.S. and other shipping rates by an average of 3.9%.

FedEx Freight Segment Operating Income

FedEx Freight segment operating income and operating margin increased in 2015 due to higher LTL revenue per shipment and higher average daily LTL shipments. These factors were partially offset by a 10% increase in salaries and employee benefits expense, driven by staffing to support volume growth and higher incentive compensation accruals. Volume growth, higher utilization and higher service provider rates drove an increase to purchased transportation expense of 7% in 2015. Other expense increased 9% in 2015 driven partially by higher cargo claims.

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FedEx Freight segment operating income and operating margin increased in 2014 due to the positive impacts of higher average daily LTL shipments, higher LTL revenue per shipment and greater network efficiency. Operating income comparisons also benefited from the inclusion in 2013 of costs associated with our business realignment program as discussed below. Operating income in 2014 was negatively impacted by higher depreciation and amortization expense, the negative year-over-year impact of severe weather and one fewer operating day.

Purchased transportation expense increased 13% in 2014 due to increased use of rail and road third-party transportation providers and higher rates. Salaries and employee benefits increased 5% in 2014 primarily due to a volume-related increase in labor hours and higher healthcare costs. Other operating expenses increased 11% in 2014 due to higher self-insurance costs, bad debt expense and real estate taxes. Intercompany charges decreased 5% in 2014 primarily due to the inclusion in the prior year results of costs associated with the business realignment program at FedEx Services, partially offset by higher allocated sales costs.

FedEx Freight Segment Outlook

We expect continued revenue and operating income growth, as well as improvement in our operating margin during 2016 driven by moderate volume growth from our differentiated LTL services. We also anticipate effective yield management practices to result in increased revenues. FedEx Freight earnings growth will also be positively impacted by continued improvement in productivity along with further investment in technology.

Capital expenditures at FedEx Freight are expected to increase in 2016 primarily driven by investments in vehicles, as well as additional investments in facilities.

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FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $3.8 billion at May 31, 2015, compared to $2.9 billion at May 31, 2014. The following table provides a summary of our cash flows for the periods ended May 31 (in millions). All amounts have been recast to conform to the current year presentation reflecting the MTM accounting changes further discussed in this MD&A and Note 1, Note 13 and Note 14 of the accompanying consolidated financial statements:

	2015	2014	2013
Operating activities:			
Net income	$ 1,050	$ 2,324	$ 2,716
Business realignment, impairment and other charges	246		479
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
Other noncash charges and credits	2,317	3,173	3,396
Changes in assets and liabilities	(437)	(1,248)	(535)
Cash provided by operating activities	5,366	4,264	4,688
Investing activities:			
Capital expenditures	(4,347)	(3,533)	(3,375)
Business acquisitions, net of cash acquired	(1,429)	(36)	(483)
Proceeds from asset dispositions and other	24	18	55
Cash used in investing activities	(5,752)	(3,551)	(3,803)
Financing activities:			
Purchase of treasury stock, including ASRs	(1,254)	(4,857)	(246)
Principal payments on debt	(5)	(254)	(417)
Proceeds from debt issuances	2,491	1,997	1,739
Dividends paid	(227)	(187)	(177)
Other	344	582	285
Cash provided by (used in) financing activities	1,349	(2,719)	1,184
Effect of exchange rate changes on cash	(108)	(3)	5
Net increase (decrease) in cash and cash equivalents	$ 855	$ (2,009)	$ 2,074
Cash and cash equivalents at end of period	$ 3,763	$ 2,908	$ 4,917

Cash Provided by Operating Activities. Cash flows from operating activities increased $1.1 billion in 2015 primarily due to higher segment operating income, the inclusion in the prior year of payments associated with our voluntary employee buyout program and lower incentive compensation payments. Cash flows from operating activities decreased $424 million in 2014 primarily due to voluntary employee severance program payouts, an income tax refund received in the prior year, higher income tax payments and higher pension contributions, partially offset by higher segment operating income. We made contributions of $660 million to our tax-qualified U.S. domestic pension plans (U.S. Pension Plans) in 2015 and 2014 and $560 million in 2013.

Cash Used in Investing Activities. Capital expenditures were 23% higher in 2015 largely due to increased spending for aircraft at FedEx Express and sort facility expansion at FedEx Ground, and were 5% higher in 2014 than in 2013, largely due to increased spending at FedEx Ground and FedEx Express. See Capital Resources for a more detailed discussion of capital expenditures during 2015 and 2014.

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Financing Activities. We had various senior unsecured debt issuances in 2015, 2014 and 2013. See Note 6 of the accompanying consolidated financial statements for more information on these issuances. Interest on these notes is paid semiannually. We utilized $1.4 billion of the net proceeds of the 2015 debt issuance to fund our acquisition of GENCO and the remaining proceeds for working capital and general corporate purposes. We utilized the net proceeds of the 2014 debt issuance to finance the ASR agreements as discussed below. We utilized the net proceeds of the 2013 debt issuances for working capital and general corporate purposes. See Note 3 of the accompanying consolidated financial statements for further discussion of business acquisitions.

During 2014, we repaid our $250 million 7.38% senior unsecured notes that matured on January 15, 2014. During 2013, we made principal payments of $116 million related to capital lease obligations and repaid our $300 million 9.65% unsecured notes that matured in June 2012 using cash from operations.

The effect of exchange rate changes on cash during 2015 was driven by the overall strengthening of the U.S. dollar primarily against the Brazilian real, the British pound, the Japanese yen, the Canadian dollar and the Mexican peso.

The following table provides a summary of our common stock share repurchases for the periods ended May 31 (dollars in millions, except per share amounts):

	2015			2014		
	Total Number of Shares Purchased	Average Price Paid per Share	Total Purchase Price	Total Number of Shares Purchased	Average Price Paid per Share	Total Purchase Price
Common stock purchases	8,142,410	$ 154.03	$ 1,254	36,845,590	$ 131.83	$ 4,857

As of May 31, 2015, 12.2 million shares remained under our share repurchase authorizations. Our share repurchase activity in 2014 includes ASR agreements entered into with two banks to repurchase $2.0 billion of our common stock.

In 2015, our Board of Directors authorized the repurchase of up to 15 million shares of common stock. It is expected that the share authorization will primarily be utilized to offset equity compensation dilution over the next several years. Shares may be repurchased under this program from time to time in the open market or in privately negotiated transactions. This is the only repurchase program that currently exists, and it does not have an expiration date.

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CAPITAL RESOURCES

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

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

				Percent Change	
	2015	2014	2013	2015/2014	2014/2013
Aircraft and related equipment	$ 1,866	$ 1,327	$ 1,190	41	12
Facilities and sort equipment	1,224	819	727	49	13
Vehicles	601	784	734	(23)	7
Information and technology investments	348	403	452	(14)	(11)
Other equipment	308	200	272	54	(26)
Total capital expenditures	$ 4,347	$ 3,533	$ 3,375	23	5
FedEx Express segment	$ 2,380	$ 1,994	$ 2,067	19	(4)
FedEx Ground segment	1,248	850	555	47	53
FedEx Freight segment	337	325	326	4	
FedEx Services segment	381	363	424	5	(14)
Other	1	1	3	NM	NM
Total capital expenditures	$ 4,347	$ 3,533	$ 3,375	23	5

Capital expenditures during 2015 were higher than the prior year primarily due to increased spending for aircraft at FedEx Express and increased spending for sort facility expansion at FedEx Ground. Aircraft and related equipment purchases at FedEx Express during 2015 included the delivery of 14 Boeing 767-300 Freighter (B767F) and 13 Boeing 757 (B757) aircraft, as well as the modification of certain aircraft before being placed into service. Capital expenditures during 2014 were higher than the prior year primarily due to increased spending for sort facility expansion and equipment at FedEx Ground and aircraft and related equipment at FedEx Express. Aircraft and related equipment expenditures at FedEx Express during 2014 included the delivery of 17 B757 aircraft, four B767F aircraft and two Boeing 777 Freighter (B777F) aircraft, as well as the modification of certain aircraft before being placed into service.

LIQUIDITY OUTLOOK

We believe that our cash and cash equivalents, which totaled $3.8 billion at May 31, 2015, cash flow from operations and available financing sources will be adequate to meet our liquidity needs, including working capital, capital expenditure requirements, debt payment obligations and our announced intent to acquire TNT Express. Our cash and cash equivalents balance at May 31, 2015 includes $478 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 U.S. domestic debt or working capital obligations.

Our capital expenditures are expected to be approximately $4.6 billion in 2016. We anticipate that our cash flow from operations will be sufficient to fund our increased capital expenditures in 2016, which will include spending for network expansion at FedEx Ground and aircraft modernization and re-fleeting at FedEx Express. We expect approximately 45% of capital expenditures in 2016 to be designated for growth initiatives, predominantly at FedEx Ground, and 55% dedicated to maintaining our existing operations. Our expected capital expenditures for 2016 include $1.6 billion in investments for delivery of aircraft and progress payments toward future aircraft deliveries at FedEx Express.

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We have several aircraft modernization programs underway that are supported by the purchase of B777F, B767F and B757 aircraft. These aircraft are significantly more fuel-efficient per unit than the aircraft types previously utilized, and these expenditures are necessary to achieve significant long-term operating savings and to replace older aircraft. Our ability to delay the timing of these aircraft-related expenditures is limited without incurring significant costs to modify existing purchase agreements. During September 2014, FedEx Express entered into an agreement to purchase four additional B767F aircraft, the delivery of which will begin in 2017 and continue through 2019.

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.

We plan to finance the aggregate consideration of the announced intent to acquire TNT Express by utilizing available cash on our balance sheet and through available financing sources.

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 March 2018. 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 61% at May 31, 2015. We believe the leverage ratio covenant is the 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, 2015, no commercial paper was outstanding, and the entire $1 billion under the revolving credit facility was available for future borrowings.

For 2016, we anticipate making contributions totaling $660 million (approximately $500 million of which are required) to our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments.

On June 8, 2015, our Board of Directors declared a quarterly dividend of $0.25 per share of common stock, an increase of $0.05 per common share from the prior quarter s dividend. The dividend was paid on July 2, 2015 to stockholders of record as of the close of business on June 18, 2015. 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.

Standard & Poor s has assigned us a senior unsecured debt credit rating of BBB and commercial paper rating of A-2 and a ratings outlook of stable. Moody s Investors Service has assigned us a senior unsecured debt credit rating of Baa1 and commercial paper rating of P-2 and a ratings outlook of negative. 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.

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CONTRACTUAL CASH OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth a summary of our contractual cash obligations as of May 31, 2015. 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 interest on long-term debt, this table does not include amounts already recorded in our balance sheet as current liabilities at May 31, 2015. 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. Unless statutorily required, 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) (in millions)						
	2016	2017	2018	2019	2020	Thereafter	Total
Operating activities:							
Operating leases	$ 2,128	$ 2,241	$ 1,751	$ 1,511	$ 1,265	$ 7,489	$ 16,385
Non-capital purchase obligations and other	432	230	127	69	22	89	969
Interest on long-term debt	325	320	320	320	260	5,331	6,876
Contributions to our U.S. Pension Plans	500						500
Investing activities:							
Aircraft and aircraft-related capital commitments	1,255	1,024	1,399	1,017	662	3,786	9,143
Other capital purchase obligations	129	5	1				135
Financing activities:							
Debt				750	400	6,090	7,240
Total	$ 4,769	$ 3,820	$ 3,598	$ 3,667	$ 2,609	$ 22,785	$ 41,248

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 17 of the accompanying consolidated financial statements for more information on such purchase orders.

Operating Activities

In accordance with accounting principles generally accepted in the United States, future contractual payments under our operating leases (totaling $16 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, 2015. Under the proposed new lease accounting rules, the majority of these leases will be required to be recognized on the balance sheet as a liability with an offsetting right-to-use asset.

The amounts reflected for purchase obligations represent noncancelable agreements to purchase goods or services that are not capital-related. Such contracts include those for printing and advertising and promotions contracts.

Included in the table above within the caption entitled Non-capital purchase obligations and other is our estimate of the current portion of the liability ($1 million) for uncertain tax positions. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the liability ($35 million) is excluded from the table. See Note 12 of the accompanying consolidated financial statements for further information.

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We had $472 million in deposits and progress payments as of May 31, 2015 on aircraft purchases and other planned aircraft-related transactions.

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 2016, we have no scheduled debt payments.

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 and are described in Note 13 of the accompanying consolidated financial statements. The rules for pension accounting are complex and can produce tremendous volatility in our results, financial condition and liquidity.

As described in the consolidated results section of this MD&A, in 2015 we adopted MTM accounting for recognition of actuarial gains and losses on our defined benefit pension and postretirement healthcare plans. Previously, we amortized actuarial gains or losses in excess of a corridor amount over the average remaining service lives of our covered employees. Further, we used a calculated value method to determine the value of plan assets amortizing changes in the fair value of plan assets over a period no longer than four years. Under our new MTM accounting methodology (as described in Note 1 of the accompanying consolidated financial statements), we will immediately recognize changes in the fair value of plan assets and actuarial gains or losses in our operating results annually in the fourth quarter each year. The remaining components of pension and postretirement healthcare expense, primarily service and interest costs and the expected return on plan assets, will continue to be recorded on a quarterly basis.

We elected to adopt MTM accounting for a number of reasons. Immediate recognition of gains and losses in the income statement is the preferred method of accounting for these plans as it aligns the income statement treatment with the treatment required to measure the related assets and liabilities in the balance sheet. Furthermore, the accumulated actuarial losses relate primarily to the remeasurement of our legacy pension formula which has been frozen for the vast majority of employees since 2008. Due to persistently low interest rates and demographic assumption changes, those accumulated losses have become increasingly material and amortizing them into future periods would punitively burden future operations for legacy benefit costs.

We are required to record year-end adjustments to our financial statements on an annual basis for the net funded status of our pension and postretirement healthcare plans. The funded status of our plans also impacts our liquidity; however, the cash funding rules operate under a completely different set of assumptions and standards than those used for financial reporting purposes. As a result, our actual cash funding requirements can differ materially from our reported funded status.

The Salaries and employee benefits caption of our consolidated income statements includes expense associated with service and interest costs and the expected return on plan assets. Our fourth quarter MTM adjustment is included in the Retirement plans mark-to-market adjustment caption in our consolidated income statements. A summary of our retirement plans costs over the past three years is as follows (in millions):

	2015	2014	2013
Defined benefit pension plans:			
Segment level	$ 191	$ 285	$ 355
Corporate, eliminations and other	(232)	(186)	(192)
Total defined benefit pension plans	$ (41)	$ 99	$ 163
Defined contribution plans	385	363	354
Postretirement healthcare plans	81	78	78
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
	$ 2,615	$ 555	$ (773)

The components of the pre-tax mark-to-market losses (gains) are as follows, in millions:

	2015	2014	2013
Discount rate changes	$ 791	$ 705	$ (1,076)
Actual versus expected return on assets	(35)	(1,013)	(696)
Demographic assumption changes	1,434	323	404
Total mark-to-market loss (gain)	$ 2,190	$ 15	$ (1,368)

<u>2015</u>

The implementation of new U.S. mortality tables in 2015 resulted in an increased participant life expectancy assumption, which increased the overall projected benefit obligation by $1.2 billion. The weighted average discount rate for all of our pension and postretirement healthcare plans declined from 4.57% at May 31, 2014 to 4.38% at May 31, 2015.

<u>2014</u>

The actual rate of return on our U.S. Pension Plan assets of 13.3% exceeded our expected return of 7.75% primarily due to a favorable investment environment for global equity markets. The weighted average discount rate for all of our pension and postretirement healthcare plans decreased from 4.76% at May 31, 2013 to 4.57% at May 31, 2014.

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2013

The weighted average discount rate for all of our pension and postretirement healthcare plans increased from 4.44% at May 31, 2012 to 4.76% at May 31, 2013. The actual rate of return on our U.S. Pension Plan assets of 12.1% exceeded our expected return of 8.0% primarily due to a favorable investment environment for global equity and credit markets.

Following is a discussion of the key estimates we consider in determining our U.S. Pension Plans 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 ongoing pension expense (prior to any year-end MTM adjustment). The discount rate is determined each year at the plan measurement date. The discount rate at each measurement date is as follows:

Measurement Date	Discount Rate
5/31/2015	4.42%
5/31/2014	4.60
5/31/2013	4.79
5/31/2012	4.44

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). 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. For our largest pension plan, at our May 31, 2015 measurement date, a 50-basis-point increase in the discount rate would have decreased our 2015 PBO by approximately $1.7 billion and a 50-basis-point decrease in the discount rate would have increased our 2015 PBO by approximately $1.9 billion. With the adoption of MTM accounting, the impact of changes in the discount rate on pension expense are predominately isolated to our fourth quarter mark-to-market adjustment. A one-basis-point change in the discount rate for our largest pension plan would have a $37 million effect on the fourth quarter mark-to-market adjustment but only a net $100,000 impact on segment level pension expense.

PLAN ASSETS. The expected average rate of return on plan assets is a long-term, forward-looking assumption. It is required to be the expected future long-term rate of earnings on plan assets. Our pension plan assets are invested primarily in publicly tradeable 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 pension costs and funded status volatility, we have transitioned to a liability-driven investment strategy 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.

For consolidated pension expense, we assumed a 7.75% expected long-term rate of return on our U.S. Pension Plan assets in 2015 and 2014 and 8% in 2013. The actual returns during each of the last three fiscal years have exceeded those long-term assumptions. However, for 2016, we have lowered our expected return on plan assets assumption for long-term returns on plan assets to 6.5% as we continue to implement our asset and liability management strategy. In lowering this assumption we considered our historical returns, our current capital markets outlook and our investment strategy for our plan assets, including the impact of the duration of our plan liability. Our actual return on plan assets has contracted from 2014 as we have increased our asset allocation to lower yielding fixed income investments. At the segment level, we have set our EROA at 6.5% for all periods presented.

A one-basis-point change in our expected return on plan assets impacts our 2016 segment pension expense by $2.3 million. The actual historical annual return on our U.S. Pension Plan assets, calculated on a compound geometric basis, was 6.7%, net of investment manager fees and administrative expenses, for the 15-year period ended May 31, 2015 and 7%, net of investment manager fees and administrative expenses, for the 15-year period ended May 31, 2014. Any difference between actual plan asset performance and the expected return is reflected in our year-end MTM adjustment each fiscal year.

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

	2015	2014
Funded Status of Plans:		
Projected benefit obligation (PBO)	$ 27,512	$ 24,578
Fair value of plan assets	23,505	21,907
Funded status of the plans	$ (4,007)	$ (2,671)
Cash Amounts:		
Cash contributions during the year	$ 746	$ 727
Benefit payments during the year	$ 815	$ 801

FUNDING. 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 IRS 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 2015 were approximately $744 million or 3.2% of plan assets).

During 2015, we made $388 million in required contributions to our U.S. Pension Plans. 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 can result in a credit balance for funding purposes that can be used to reduce minimum contribution requirements in future years. Our current credit balance exceeds $2.8 billion at May 31, 2015. For 2016, we anticipate making contributions to our U.S. Pension Plans totaling $660 million (approximately $500 million of which are required).

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See Note 13 of the accompanying consolidated financial statements for further information about our retirement plans.

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 $2.0 billion at May 31, 2015 and $1.8 billion at May 31, 2014. Approximately 41% of these accruals were classified as current liabilities.

Our self-insurance accruals are primarily based on the actuarially estimated, cost of claims incurred as of the balance sheet date. These estimates include consideration of factors such as severity of claims, frequency and volume of claims, healthcare inflation, seasonality and plan designs. 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

USEFUL LIVES AND SALVAGE VALUES. Our business is capital intensive, with approximately 56% of our total assets invested in our transportation and information systems infrastructures.

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. 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 (as described below). 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.

In 2013, FedEx Express made the decision to accelerate the retirement of 76 aircraft and related engines to aid in our fleet modernization and improve our global network. In 2012, we shortened the depreciable lives for 54 aircraft and related engines to accelerate the retirement of these aircraft, resulting in a depreciation expense increase of $69 million in 2013. As a result of these accelerated retirements, we incurred an additional $74 million in year-over-year accelerated depreciation expense in 2014.

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IMPAIRMENT. The FedEx Express global air and ground network includes a fleet of 647 aircraft (including approximately 300 supplemental aircraft) that provide delivery of packages and freight to more than 220 countries and territories through a wide range of U.S. and international shipping services. While certain aircraft are utilized in primary geographic areas (U.S. versus international), we operate an integrated global network, and utilize our aircraft and other modes of transportation to achieve the lowest cost of delivery while maintaining our service commitments to our customers. Because of the integrated nature of our global network, our aircraft are interchangeable across routes and geographies, giving us flexibility with our fleet planning to meet changing global economic conditions and maintain and modify aircraft as needed.

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. Aircraft purchases (primarily aircraft in passenger configuration) that have not been placed in service totaled $102 million at May 31, 2015 and $82 million at May 31, 2014. We plan to modify these assets in the future and place them into operations.

The accounting test for whether an asset held for use is impaired involves first comparing the carrying value of the asset with its estimated future undiscounted cash flows. If the cash flows do not exceed the carrying value, the asset must be adjusted to its current fair value. We operate integrated transportation networks and, accordingly, cash flows for most of our operating assets are assessed at a network level, not at an individual asset level for our analysis of impairment. Further, decisions about capital investments are evaluated based on the impact to the overall network rather than the return on an individual asset. We make decisions to remove certain long-lived assets from service based on projections of reduced capacity needs or lower operating costs of newer aircraft types, and those decisions may result in an impairment charge. Assets held for disposal must be adjusted to their estimated fair values less costs to sell when the decision is made to dispose of the asset and certain other criteria are met. The fair value determinations for such aircraft may require management estimates, as there may not be active markets for some of these aircraft. Such estimates are subject to revision from period to period.

In the normal management of our aircraft fleet, we routinely idle aircraft and engines temporarily due to maintenance cycles and adjustments of our network capacity to match seasonality and overall customer demand levels. Temporarily idled assets are classified as available-for-use, and we continue to record depreciation expense associated with these assets. These temporarily idled assets are assessed for impairment on a quarterly basis. The criteria for determining whether an asset has been permanently removed from service (and, as a result, impaired) include, but are not limited to, our global economic outlook and the impact of our outlook on our current and projected volume levels, including capacity needs during our peak shipping seasons; the introduction of new fleet types or decisions to permanently retire an aircraft fleet from operations; and changes to planned service expansion activities. At May 31, 2015, we had one aircraft temporarily idled. This aircraft has been idled for approximately two months and is expected to return to revenue service.

In the fourth quarter of 2015, we retired from service seven Boeing MD11 aircraft and 12 related engines, four Airbus A310-300 aircraft and three related engines, three Airbus A300-600 aircraft and three related engines and one Boeing MD10-10 aircraft and three related engines, and related parts. We also adjusted the retirement schedule of an additional 23 aircraft and 57 engines. As a consequence, impairment and related charges of $276 million ($175 million, net of tax, or $0.61 per diluted share), of which $246 million was noncash, were recorded in the fourth quarter. The decision to permanently retire these aircraft and engines aligns with FedEx Express s plans to rationalize capacity and modernize its aircraft fleet to more effectively serve its customers. These combined retirement changes will not have a material impact on our near-term depreciation expense.

In 2013, we retired from service two Airbus A310-200 aircraft and four related engines, three Airbus A310-300 aircraft and two related engines and five Boeing MD10-10 aircraft and 15 related engines, to align with the plans of FedEx Express to modernize its aircraft fleet and improve its global network. As a consequence of this decision, a noncash impairment charge of $100 million ($63 million, net of tax, or $0.20 per diluted share) was recorded in 2013. All of these aircraft were temporarily idled and not in revenue service.

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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, 2015 we had approximately $16 billion (on an undiscounted basis) of future commitments for payments under operating leases. The weighted-average remaining lease term of all operating leases outstanding at May 31, 2015 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, most recently in May 2013. While we are not required to quantify the effects of the proposed rule changes until they are finalized, we believe that a majority of our operating lease obligations reflected in the contractual cash obligations table would be required to be reflected in our balance sheet were the proposed rules to be adopted. Furthermore, our existing financing agreements and the rating agencies that evaluate our creditworthiness already take our operating leases into account.

GOODWILL. As of May 31, 2015, we had $3.8 billion of recorded goodwill from our business acquisitions, representing the excess of the purchase price over the fair value of the net assets we have acquired. During 2015 we recorded $1.1 billion in additional goodwill associated with our GENCO and Bongo acquisitions. 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 business.

In our evaluation of goodwill impairment, we perform a qualitative assessment that 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 proceed to a two-step process to test goodwill for impairment, including comparing the fair value of the reporting unit to 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 tests.

Our reporting units with significant recorded goodwill include FedEx Express, FedEx Ground, FedEx Freight, FedEx Office (reported in the FedEx Services segment) and GENCO (reported in the FedEx Ground segment). We evaluated these reporting units during the fourth quarters of 2015 and 2014. The estimated fair value of each of these reporting units exceeded their carrying values in 2015 and 2014, and we do not believe that any of these reporting units were at risk as of May 31, 2015.

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

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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 18 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 18 is not expected to be material to our financial position, results of operations or cash flows. The following describes our methods and associated processes for evaluating these matters.

TAX CONTINGENCIES. We are subject to income and operating tax rules of the U.S., its states and municipalities, and of the foreign jurisdictions in which we operate. Significant judgment is required in determining income tax provisions, as well as deferred tax asset and liability balances and related deferred tax valuation allowances, if necessary, due to the complexity of these rules and their interaction with one another. We account for income taxes by recording both current taxes payable and deferred tax assets and liabilities. Our provision for income taxes is based on domestic and international statutory income tax rates in the jurisdictions in which we operate, applied to taxable income, reduced by applicable tax credits.

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

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

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

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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, governmental enforcement actions, 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 has been 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 existing matters.

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

- the current status of each matter within the scope and context of the entire lawsuit or proceeding (i.e., the lengthy and complex nature of class-action matters);
- the procedural status of each matter;
- any opportunities to dispose of a lawsuit on its merits before trial (i.e., motion to dismiss or for summary judgment);
- the amount of time remaining before a 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. 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, and as companies expand the number of distribution centers and move manufacturing closer to consumer markets, we transport goods shorter distances. 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, the rate of growth of global trade and the typically more volatile economies of emerging markets. In 2015, we saw a continued customer preference for slower, less costly shipping 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 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, 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.

We rely heavily on information and technology to operate our transportation and business networks, and any cybersecurity incident or other disruption to our technology infrastructure could result in the loss of critical confidential information or adversely impact our reputation, business or results of operations. 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 and to protect our confidential business information and the information provided by our customers. We are subject to risks imposed by cybersecurity incidents, which can range from uncoordinated individual attempts to gain unauthorized access to our information technology systems, to sophisticated and targeted measures directed at us and our systems, customers or service providers. Additionally, risks such as code anomalies, Acts of God, transitional challenges in migrating operating company functionality to our FedEx enterprise automation platform, data leakage and human error pose a direct threat to our products, services and data.

Any disruption to our complex, global technology infrastructure, including those impacting our computer systems and *fedex.com*, could result in the loss of confidential business or customer information, adversely impact our customer service, volumes and revenues or could lead to litigation or investigations, resulting in significant 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 cybersecurity incidents, technology disruptions or data loss, which could adversely impact our competitiveness and results of operations. Additionally, the cost and operational consequences of implementing further data or system protection measures could be significant.

Our transportation businesses are 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. Additionally, if fuel prices rise sharply, even if we increase our fuel surcharge, we could experience a lag time in implementing the surcharge, which could adversely affect our short-term operating results. Even if we are able to offset the cost of fuel with our surcharges, high fuel surcharges could move our customers away from our higher-yielding express services to our lower-yielding deferred or 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.

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 also compete with regional transportation providers that operate smaller and less capital-intensive transportation networks. In addition, some high volume package shippers are developing in-house ground delivery capabilities, which would in turn reduce our revenues and market share. 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. 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.

If we do not successfully execute or 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, over the past several years, we have acquired businesses in Europe, Latin America, Africa and the United States. Additionally, in April 2015, we entered into a conditional agreement to acquire TNT Express.

While we expect to successfully execute the TNT Express acquisition, we may not be able to complete the transaction on favorable terms, on a timely basis or at all. Additionally, while we anticipate that our past and future acquisitions will 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 and drivers at four FedEx Freight facilities, our U.S. employees have thus far chosen not to unionize (we acquired GENCO in January 2015, which already had a small number of employees that are members of unions).

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 Railway Labor Act of 1926, as amended (RLA). For additional discussion of the RLA, see Part I, Item 1 of this Annual Report on Form 10-K 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,

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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 (NLRA). In addition, federal and state governmental agencies, such as the National Labor Relations Board, have and may continue to take actions that could make it easier for our employees to organize under the RLA or NLRA. Finally, changes to federal or state laws governing employee classification could impact the status of FedEx Ground s owner-operators as independent contractors. If 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.

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 owner-operators 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. Changes to state laws governing the definition of independent contractors could also impact the status of FedEx Ground s owner-operators.

We may not be able to achieve our profit improvement goal by the end of 2016. In 2013, we announced profit improvement programs primarily through initiatives at FedEx Express and FedEx Services that include cost reductions, modernization of our aircraft fleet, transformation of the U.S. domestic operations and international profit improvements at FedEx Express, and improved efficiencies and lower costs of information technology at FedEx Services. To this end, since 2013, we have retired from service 25 aircraft and 42 related engines, and we have adjusted the retirement schedule of numerous aircraft and engines, in an effort to rationalize capacity and modernize our aircraft fleet. Additionally, during 2014, we completed a voluntary buyout program offering cash buyouts to eligible U.S.-based employees. We will continue to work towards our goal of annual profitability improvement at FedEx Express of $1.6 billion by the end of 2016. Our ability to achieve this objective is dependent on a number of factors, including the health of the global economy and future customer demand, particularly for our priority services. In light of these factors, we may not be able to achieve our goal.

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 requires 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 or slow our service to our customers. 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.

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, in 2015, the U.S. Environmental Protection Agency (the EPA) issued a proposed finding on GHG emissions from aircraft and its relationships to air pollution. The final finding is a regulatory prerequisite to the EPA s adoption of a new certification standard for aircraft emissions. Additionally, in 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 that are wholly within 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 adverse weather conditions or 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 or any resulting structural changes to its operations, network, service offerings or pricing could have an adverse effect on our operations and financial results.

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;

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the increasing costs of compliance with federal, state and foreign governmental agency mandates (including the Foreign Corrupt Practices Act and the U.K. Bribery Act) 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 Chinese yuan, euro, British pound, Brazilian real, Mexican peso and the Canadian dollar, 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 became amendable in March 2013, and the parties are currently in negotiations) and with the union that was elected in 2015 to represent drivers at four FedEx Freight facilities;

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;

governmental underinvestment in transportation infrastructure, which could increase our costs and adversely impact our service levels due to traffic congestion or sub-optimal routing of our vehicles and aircraft;

widespread outbreak of an illness or any other communicable disease, or any other public health crisis; and

availability of financing on terms acceptable to us and our ability to maintain our current credit ratings, especially given the capital intensity of our operations.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in Outlook (including segment outlooks), Liquidity, Capital Resources, Liquidity Outlook, Contractual Cash Obligations and Critical Accounting Estimates, and the Retirement Plans and Contingencies notes to the consolidated financial statements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations, cash flows, plans, objectives, future performance and business. Forward-looking statements include those preceded by, followed by or that include the words may, could, would, should, believes, expects, anticipates, plans, estimates, targets, projects, intends or similar expressions. These forward-looking statements involve risks and uncertai 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

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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, 2015, 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 (2013 framework) (the COSO criteria).

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of May 31, 2015.

The effectiveness of our internal control over financial reporting as of May 31, 2015, 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, 2015, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (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, 2015, 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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders investment, and cash flows for each of the three years in the period ended May 31, 2015 of FedEx Corporation and our report dated July 14, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Memphis, Tennessee

July 14, 2015

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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, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders investment and cash flows for each of the three years in the period ended May 31, 2015. 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, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company has elected to change its method of accounting for actuarial gains and losses and the calculation of expected return on plan assets related to its pension and other postretirement benefit plans in 2015.

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, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated July 14, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Memphis, Tennessee

July 14, 2015

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FEDEX CORPORATION

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	May 31, 2015	May 31, 2014 As Adjusted
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,763	$ 2,908
Receivables, less allowances of $185 and $164	5,719	5,460
Spare parts, supplies and fuel, less allowances of $207 and $212	498	463
Deferred income taxes	606	522
Prepaid expenses and other	355	330
Total current assets	10,941	9,683
PROPERTY AND EQUIPMENT, AT COST		
Aircraft and related equipment	16,186	15,632
Package handling and ground support equipment	6,725	6,082
Computer and electronic equipment	5,208	5,097
Vehicles	5,816	5,514
Facilities and other	8,929	8,366
	42,864	40,691
Less accumulated depreciation and amortization	21,989	21,141
Net property and equipment	20,875	19,550
OTHER LONG-TERM ASSETS		
Goodwill	3,810	2,790
Other assets	1,443	1,047
Total other long-term assets	5,253	3,837
	$ 37,069	$ 33,070

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)

	May 31, 2015	May 31, 2014 As Adjusted
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 19	$ 1
Accrued salaries and employee benefits	1,436	1,277
Accounts payable	2,066	1,971
Accrued expenses	2,436	2,063
Total current liabilities	5,957	5,312
LONG-TERM DEBT, LESS CURRENT PORTION	7,249	4,736
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	1,747	2,114
Pension, postretirement healthcare and other benefit obligations	4,893	3,484
Self-insurance accruals	1,120	1,038
Deferred lease obligations	711	758
Deferred gains, principally related to aircraft transactions	181	206
Other liabilities	218	145
Total other long-term liabilities	8,870	7,745
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of May 31, 2015 and 2014	32	32
Additional paid-in capital	2,786	2,643
Retained earnings	16,900	16,229
Accumulated other comprehensive income	172	506
Treasury stock, at cost	(4,897)	(4,133)
Total common stockholders investment	14,993	15,277
	$ 37,069	$ 33,070

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,		
	2015	2014	2013
		As Adjusted	
REVENUES	$ 47,453	$ 45,567	$ 44,287
OPERATING EXPENSES:			
Salaries and employee benefits	17,110	16,171	16,055
Purchased transportation	8,483	8,011	7,272
Rentals and landing fees	2,682	2,622	2,521
Depreciation and amortization	2,611	2,587	2,386
Fuel	3,720	4,557	4,746
Maintenance and repairs	2,099	1,862	1,909
Business realignment, impairment and other charges	276		660
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
Other	6,415	5,927	5,672
	45,586	41,752	39,853
OPERATING INCOME	1,867	3,815	4,434
OTHER INCOME (EXPENSE):			
Interest expense	(235)	(160)	(82)
Interest income	14	18	21
Other, net	(19)	(15)	(35)
	(240)	(157)	(96)
INCOME BEFORE INCOME TAXES	1,627	3,658	4,338
PROVISION FOR INCOME TAXES	577	1,334	1,622
NET INCOME	$ 1,050	$ 2,324	$ 2,716
BASIC EARNINGS PER COMMON SHARE	$ 3.70	$ 7.56	$ 8.61
DILUTED EARNINGS PER COMMON SHARE	$ 3.65	$ 7.48	$ 8.55

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

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FEDEX CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(IN MILLIONS)

	Years Ended May 31,		
	2015	2014	2013
		As Adjusted	
NET INCOME	$ 1,050	$ 2,324	$ 2,716
OTHER COMPREHENSIVE (LOSS) INCOME:			
Foreign currency translation adjustments, net of tax benefit of $45, $1 and $12	(334)	(25)	41
Amortization of prior service credit and other, net of tax expense of $1 in 2015 and tax benefit of $38 and $51 in 2014 and 2013		(76)	(63)
	(334)	(101)	(22)
COMPREHENSIVE INCOME	$ 716	$ 2,223	$ 2,694

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,		
	2015	2014	2013
		As Adjusted	
OPERATING ACTIVITIES			
Net income	$ 1,050	$ 2,324	$ 2,716
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	2,611	2,587	2,386
Provision for uncollectible accounts	145	130	167
Deferred income taxes and other noncash items	(572)	339	734
Business realignment, impairment and other charges	246		479
Stock-based compensation	133	117	109
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
Changes in assets and liabilities:			
Receivables	(392)	(516)	(451)
Other current assets	25	(22)	257
Pension and postretirement healthcare assets and liabilities, net	(692)	(453)	(335)
Accounts payable and other liabilities	659	(235)	10
Other, net	(37)	(22)	(16)
Cash provided by operating activities	5,366	4,264	4,688
INVESTING ACTIVITIES			
Capital expenditures	(4,347)	(3,533)	(3,375)
Business acquisitions, net of cash acquired	(1,429)	(36)	(483)
Proceeds from asset dispositions and other	24	18	55
Cash used in investing activities	(5,752)	(3,551)	(3,803)
FINANCING ACTIVITIES			
Principal payments on debt	(5)	(254)	(417)
Proceeds from debt issuances	2,491	1,997	1,739
Proceeds from stock issuances	320	557	280
Excess tax benefit on the exercise of stock options	51	44	23
Dividends paid	(227)	(187)	(177)
Purchase of treasury stock, including accelerated share repurchase agreements	(1,254)	(4,857)	(246)
Other, net	(27)	(19)	(18)
Cash provided by (used in) financing activities	1,349	(2,719)	1,184
Effect of exchange rate changes on cash	(108)	(3)	5
Net increase (decrease) in cash and cash equivalents	855	(2,009)	2,074
Cash and cash equivalents at beginning of period	2,908	4,917	2,843
Cash and cash equivalents at end of period	$ 3,763	$ 2,908	$ 4,917

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

(IN MILLIONS, EXCEPT SHARE DATA)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at May 31, 2012 - as adjusted	**$ 32**	**$ 2,595**	**$ 11,552**	**$ 629**	**$ (81)**	**$ 14,727**
Net income			2,716			2,716
Other comprehensive loss, net of tax of $63				(22)		(22)
Purchase of treasury stock (2.7 million shares)					(246)	(246)
Cash dividends declared ($0.56 per share)			(176)			(176)
Employee incentive plans and other (4.2 million shares issued)		73			326	399
Balance at May 31, 2013 - as adjusted	**32**	**2,668**	**14,092**	**607**	**(1)**	**17,398**
Net income			2,324			2,324
Other comprehensive loss, net of tax of $39				(101)		(101)
Purchase of treasury stock (36.8 million shares)					(4,857)	(4,857)
Cash dividends declared ($0.60 per share)			(187)			(187)
Employee incentive plans and other (6.7 million shares issued)		(25)			725	700
Balance at May 31, 2014 - as adjusted	**32**	**2,643**	**16,229**	**506**	**(4,133)**	**15,277**
Net income			1,050			1,050
Other comprehensive loss, net of tax of $44				(334)		(334)
Purchase of treasury stock (8.1 million shares)					(1,254)	(1,254)
Cash dividends declared ($0.80 per share)			(227)			(227)
Employee incentive plans and other (3.7 million shares issued)		143	(152)		490	481
Balance at May 31, 2015	**$ 32**	**$ 2,786**	**$ 16,900**	**$ 172**	**$ (4,897)**	**$ 14,993**

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

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 U.S. provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments. Our FedEx Services segment provides sales, marketing, information technology, communications and certain 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, 2015 or ended May 31 of the year referenced.

RECLASSIFICATIONS. Certain reclassifications have been made to the prior years consolidated financial statements to conform to the current year s presentation.

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. We are not the primary beneficiary of, nor do we have a controlling financial interest in, any variable interest entity. Accordingly, we have not consolidated any variable interest entity.

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 most of these services and revenue from these transactions is recognized on a gross basis. Costs associated with independent contractor settlements are recognized as incurred and included in the caption Purchased transportation in the accompanying consolidated statements of income. For shipments in transit, revenue is recorded based on the percentage of service completed at the balance sheet date. Estimates for future billing adjustments to revenue and accounts receivable are recognized at the time of shipment for money-back service guarantees and billing corrections. Delivery costs are accrued as incurred.

Our contract logistics, global trade services and certain transportation businesses engage in some transactions wherein they act as agents. Revenue from these transactions is recorded on a net basis. Net revenue includes billings to customers less third-party charges, including transportation or handling costs, fees, commissions and taxes and duties.

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 $403 million in 2015, $407 million in 2014 and $424 million in 2013.

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 currently identified as excess or obsolete as well as 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. The majority of our supplies and our 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 costs are charged to expense as incurred, except for certain aircraft engine maintenance costs incurred under third-party service agreements. These agreements, which became effective June 1, 2014, resulted in costs being expensed based on cycles or hours flown and are subject to annual escalation. These service contracts transfer risk to third party service providers and generally fix the amount we pay for maintenance to the service provider as a rate per cycle or flight hour, in exchange for maintenance and repairs under a predefined maintenance program. 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 consolidated balance sheet for 2014 reflects the reclassification of $1.1 billion of vehicles that were previously presented in package handling and ground support equipment and $72 million of facilities and other that were previously presented in computer and electronic equipment. The reclassification has no impact on the net book value of property and equipment, total assets, or depreciation expense.

The depreciable lives and net book value of our property and equipment are as follows (dollars in millions):

		Net Book Value at May 31,	
	Range	2015	2014
Wide-body aircraft and related equipment	15 to 30 years	$ 7,548	$ 7,223
Narrow-body and feeder aircraft and related equipment	5 to 18 years	2,943	2,639
Package handling and ground support equipment	3 to 30 years	2,410	2,024
Vehicles	3 to 15 years	2,717	2,615
Computer and electronic equipment	2 to 10 years	866	923
Facilities and other	2 to 40 years	4,391	4,126

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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. In May 2015, we adjusted the depreciable lives of 23 aircraft and 57 engines. These changes will not have a material impact on near-term depreciation expense. In May 2013, FedEx Express made the decision to accelerate the retirement of 76 aircraft and related engines to aid in our fleet modernization and improve our global network. In 2012, we shortened the depreciable lives for 54 aircraft and related engines to accelerate the retirement of these aircraft, resulting in a depreciation expense increase of $69 million in 2013. As a result of these accelerated retirements, we incurred an additional $74 million in year-over-year accelerated depreciation expense in 2014.

Depreciation expense, excluding gains and losses on sales of property and equipment used in operations, was $2.6 billion in 2015 and 2014 and $2.3 billion in 2013. 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 $37 million in 2015, $29 million in 2014 and $45 million in 2013.

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 to be held and used are assessed at a network level, not at an individual asset level, for our analysis of impairment.

In the normal management of our aircraft fleet, we routinely idle aircraft and engines temporarily due to maintenance cycles and adjustments of our network capacity to match seasonality and overall customer demand levels. Temporarily idled assets are classified as available-for-use, and we continue to record depreciation expense associated with these assets. These temporarily idled assets are assessed for impairment on a quarterly basis. The criteria for determining whether an asset has been permanently removed from service (and, as a result, potentially impaired) include, but are not limited to, our global economic outlook and the impact of our outlook on our current and projected volume levels, including capacity needs during our peak shipping seasons; the introduction of new fleet types or decisions to permanently retire an aircraft fleet from operations; and changes to planned service expansion activities. At May 31, 2015, we had one aircraft temporarily idled. This aircraft has been idled for approximately two months and is expected to return to revenue service.

In May 2015, we retired from service seven Boeing MD11 aircraft and 12 related engines, four Airbus A310-300 aircraft and three related engines, three Airbus A300-600 aircraft and three related engines and one Boeing MD10-10 aircraft and three related engines, and related parts. As a consequence of this decision, impairment and related charges of $276 million ($175 million, net of tax, or $0.61 per diluted share) were recorded in the fourth quarter. Of this amount, $246 million was non-cash. The decision to permanently retire these aircraft and engines aligns with FedEx Express s plans to rationalize capacity and modernize its aircraft fleet to more effectively serve its customers.

In 2013, we retired from service two Airbus A310-200 aircraft and four related engines, three Airbus A310-300 aircraft and two related engines and five Boeing MD10-10 aircraft and 15 related engines. As a consequence of this decision, a noncash impairment charge of $100 million ($63 million, net of tax, or $0.20 per diluted share) was recorded in 2013. All of these aircraft were temporarily idled and not in revenue service.

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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 business. 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 proceed to a two-step process to test goodwill for impairment, including comparing the fair value of the reporting unit to 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, 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. Our expected rate of return is a judgmental matter which is reviewed on an annual basis and revised as appropriate.

During the fourth quarter of 2015 we changed our method of accounting for our defined benefit pension and postretirement healthcare plans. Under our new method of accounting, we will immediately recognize changes in the fair value of plan assets and actuarial gains or losses in our operating results annually in the fourth quarter each year. Further, we voluntarily changed our method for determining the expected return on plan assets (EROA), which is used in the calculation of pension and other postretirement expense for funded postretirement benefit plans for interim periods. We now use the fair value of plan assets to calculate the EROA. The new methods of accounting are collectively referred to as mark-to-market or MTM accounting. Historically, we recognized actuarial gains and losses, subject to a corridor, as a component of other comprehensive income and amortized these gains and losses as a component of pension and postretirement healthcare expenses over the average future service period of the covered employees (13 years). Previously, we used a calculated value method to determine the value of plan assets and amortized changes in the fair value of plan assets over a period no longer than four years.

We believe the immediate recognition of actuarial gains and losses under MTM accounting is a preferable method of accounting as it aligns the recognition of changes in the fair value of plan assets and liabilities in the income statement with the fair value accounting principles that are used to measure the net funded status of the plans in our balance sheet. MTM accounting also eliminates the impact on future periods of the amortization of the increasingly material amount of accumulated actuarial losses resulting from persistently low interest rates and changes in demographic assumptions.

The adoption of MTM accounting is a voluntary change in accounting principle that is required to be adopted retrospectively. Therefore all periods presented have been recast to conform to the current year presentation reflecting the retirement plan accounting changes as discussed further in Note 13 and Note 14.

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The cumulative effect of the change on retained earnings as of June 1, 2012, was a pre-tax reduction of $8.9 billion, with an offset to accumulated other comprehensive income (OCI) and therefore no net impact to shareholders equity. The impact of all adjustments made to the financial statements presented is summarized below (amounts in millions, except per share data):

	2014			2013		
	Previously Reported	Adjusted	Effect of Change	Previously Reported	Adjusted	Effect of Change
Consolidated Statements of Income						
Operating expenses						
Salaries and employee benefits	$ 16,555	$ 16,171	$ (384)	$ 16,570	$ 16,055	$ (515)
Retirement plans MTM adjustment		15	15		(1,368)	(1,368)
Operating Income	3,446	3,815	369	2,551	4,434	1,883
Income Before Income Taxes	3,289	3,658	369	2,455	4,338	1,883
Provision for Income Taxes	1,192	1,334	142	894	1,622	728
Net Income	2,097	2,324	227	1,561	2,716	1,155
Basic Earnings per Common Share	6.82	7.56	0.74	4.95	8.61	3.66
Diluted Earnings per Common Share	6.75	7.48	0.73	4.91	8.55	3.64
Consolidated Statements of Comprehensive Income						
Net Income	2,097	2,324	227	1,561	2,716	1,155
Amortization of prior service credit and other, net of tax	151	(76)	(227)	1,092	(63)	(1,155)
Consolidated Balance Sheets						
Retained Earnings	20,429	16,229	(4,200)	18,519	14,092	(4,427)
Accumulated other comprehensive income (loss)	(3,694)	506	4,200	(3,820)	607	4,427
Consolidated Statements of Cash Flows						
Operating Activities						
Net Income	2,097	2,324	227	1,561	2,716	1,155
Deferred income taxes and other noncash items	581	339	(242)	521	734	213
Retirement plans MTM adjustment		15	15		(1,368)	(1,368)

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 noncurrent portion of our income tax liabilities and accrued interest and penalties are recorded in the caption Other liabilities in the accompanying consolidated balance sheets.

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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 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.

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. The contract became amendable in March 2013, and the parties are currently in negotiations. In October 2014, FedEx Express formally requested assistance from the National Mediation Board (NMB) to mediate the negotiations, and the NMB has been actively mediating the talks since that time. The NMB is the U.S. governmental agency that oversees labor agreements for entities covered by the Railway Labor Act of 1926, as amended. The conduct of mediated negotiations has no impact on our operations. In addition to our pilots at FedEx Express, GENCO Distribution System, Inc. (GENCO) has a small number of employees who are members of unions, and certain 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. We issue new shares or repurchase shares on the open market to cover employee share option exercises and restricted stock grants.

TREASURY SHARES. In September 2014, our Board of Directors authorized the repurchase of up to 15 million shares of common stock. It is expected that the share authorization will primarily be utilized to offset equity compensation dilution over the next several years. During 2015, we repurchased 8.1 million shares of FedEx common stock at an average price of $154.03 per share for a total of $1.3 billion. As of May 31, 2015, 12.2 million shares remained under the share repurchase authorization. Under this program, shares may be purchased from time to time in the open market or in privately negotiated transactions. Repurchases are made at the company s discretion, based on ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. No time limit was set for the completion of the repurchase program, and the program may be suspended or discontinued at any time.

In 2014, we repurchased 36.8 million shares of FedEx common stock at an average price of $131.83 per share for a total of $4.9 billion.

DIVIDENDS DECLARED PER COMMON SHARE. On June 8, 2015, our Board of Directors declared a quarterly dividend of $0.25 per share of common stock. The dividend was paid on July 2, 2015 to stockholders of record as of the close of business on June 18, 2015. 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.

BUSINESS REALIGNMENT COSTS. During 2013, we announced profit improvement programs primarily through initiatives at FedEx Express and FedEx Services and completed a program to offer voluntary cash buyouts to eligible U.S.-based employees in certain staff functions. As a result of this program, approximately 3,600 employees left the company by the end of 2014. Costs of the benefits provided under the voluntary employee severance program were recognized as special termination benefits in the period that eligible employees accepted their offers. Payments under this program were made at the time of departure and totaled approximately $300 million in 2014 and $180 million in 2013.

The voluntary buyout program included voluntary severance payments and funding to healthcare reimbursement accounts, with the voluntary severance calculated based on four weeks of gross base salary for every year of FedEx service up to a maximum payment of two years of pay. Of the total population leaving the company, approximately 40% of the employees vacated positions on May 31, 2013. An additional 35% departed throughout 2014 and approximately 25% of this population remained until May 31, 2014.

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We incurred costs of $560 million ($353 million, net of tax, or $1.11 per diluted share) during 2013 associated with our business realignment activities. These costs related primarily to severance for employees who accepted voluntary buyouts in the third and fourth quarters of 2013. The cost of the buyout program is included in the caption Business realignment, impairment and other charges in our consolidated statements of income. Also included in that caption are other external costs directly attributable to our business realignment activities, such as professional fees.

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; loss contingencies; litigation 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.

On June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. We have adopted this guidance by including expanded accumulated other comprehensive income disclosure requirements in Note 9 of our consolidated financial statements.

On May 28, 2014, the FASB and International Accounting Standards Board issued a new accounting standard that will supersede virtually all existing revenue recognition guidance under generally accepted accounting principles in the United States (and International Financial Reporting Standards) which has been subsequently updated to defer the effective date of the new revenue recognition standard by one year. This standard will be effective for us beginning in fiscal 2019. The fundamental principles of the new guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and the amount of revenue recognized reflects the consideration that a company expects to receive for the goods and services provided. The new guidance establishes a five-step approach for the recognition of revenue. Based on our preliminary assessment, we do not anticipate that the new guidance will fundamentally change our revenue recognition policies, practices or systems.

We believe that no other new accounting guidance was adopted or issued during 2015 that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

NOTE 3: BUSINESS COMBINATIONS

On April 6, 2015, FedEx entered into a conditional agreement to acquire TNT Express N.V. for 4.4 billion (currently, approximately $4.9 billion). This combination is expected to expand our global portfolio, particularly in Europe, lower our cost to serve European markets by increasing density in our pickup-and-delivery operations and accelerate our global growth. This acquisition is expected to be completed in the first half of calendar year 2016. The closing of the acquisition is subject to customary conditions, including obtaining all necessary approvals and competition clearances.

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During 2015, we acquired two businesses, expanding our portfolio in e-commerce and supply chain solutions. On January 30, 2015, we acquired GENCO, a leading North American third-party logistics provider, for $1.4 billion, which was funded using a portion of the proceeds from our January 2015 debt issuance. The financial results of this business are included in the FedEx Ground segment from the date of acquisition.

In addition, on December 16, 2014, FedEx acquired Bongo International, LLC (Bongo), a leader in cross-border enablement technologies and solutions, for $42 million in cash from operations. The financial results of this business are included in the FedEx Express segment from the date of acquisition.

These acquisitions will allow us to enter new markets, as well as strengthen our current service offerings to existing customers. We expect that the goodwill of $40 million associated with our Bongo acquisition will be entirely attributable to our FedEx Express reporting unit. We expect that the goodwill of approximately $1.1 billion associated with our GENCO acquisition will be primarily attributable to our FedEx Ground and GENCO reporting units.

The estimated fair values of the assets and liabilities related to these acquisitions have been recorded in the FedEx Ground and FedEx Express segments and are included in the accompanying balance sheets based on a preliminary allocation of the purchase price (summarized in the table below in millions). These allocations are expected to be completed during the first quarter of our fiscal year 2016.

Current assets	$ 349
Property and equipment	113
Goodwill	1,133
Identifiable intangible assets	172
Other non-current assets	26
Current liabilities	(245)
Long-term liabilities	(92)
Total purchase price	$ 1,456

The goodwill recorded of approximately $1.1 billion is primarily attributable to expected benefits from synergies of the combinations with existing businesses and other acquired entities and the work force in place at GENCO. The majority of the purchase price allocated to goodwill is not deductible for U.S. income tax purposes. The intangible assets acquired consist primarily of customer-related intangible assets, which will be amortized on an accelerated basis over an estimated life of 15 years.

In 2014, we expanded the international service offerings of FedEx Express by completing our acquisition of the businesses operated by our previous service provider, Supaswift (Pty) Ltd., in seven countries in Southern Africa, for $36 million in cash from operations. The financial results of these businesses are included in the FedEx Express segment from their respective date of acquisition.

In 2013, we completed our acquisitions of Rapidão Cometa Logística e Transporte S.A., a Brazilian transportation and logistics company, for $398 million; TATEX, a French express transportation company, for $55 million; and Opek Sp. z o.o., a Polish domestic express package delivery company, for $54 million. The financial results of these businesses are included in the FedEx Express segment from their respective date of acquisition.

The financial results of these acquired businesses were not material, individually or in the aggregate, to our results of operations and therefore, pro forma financial information has not been presented.

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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):

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Total