FEDEX CORP
Form 10-K
July 18, 2016
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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, 2016.

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	*(I.R.S. Employer*
Incorporation or Organization)	*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**

Floating Rate Notes due 2019	**New York Stock Exchange**
0.500% Notes due 2020	**New York Stock Exchange**
1.000% Notes due 2023	**New York Stock Exchange**
1.625% Notes due 2027	**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, 2015, was approximately $40.6 billion. The Registrant has no non-voting stock.

As of July 14, 2016, 265,524,323 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 2016 annual meeting of stockholders to be held on September 26, 2016 are incorporated by reference in response to Part III of this Report.

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PART I

ITEM 1. BUSINESS
Overview

FedEx Corporation (FedEx) provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. These companies are included in the following 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), which offers a range of supply chain solutions, and FedEx CrossBorder, LLC, formerly Bongo International, LLC (FedEx CrossBorder), which is a leader in cross-border enablement technology and solutions.

TNT Express: Acquired near the end of our 2016 fourth quarter, TNT Express B.V., formerly TNT Express N.V. (TNT Express), is an international express transportation, small-package ground delivery and freight transportation company. TNT Express services are primarily classified by the speed, distance, weight and size of consignments. While a majority of its shipments are between businesses, TNT Express also offers business-to-consumer services to select key customers. TNT Express operates road transportation networks and delivers to over 200 countries.

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 100% of U.S. residences through its FedEx Home Delivery service. On August 31, 2015, our FedEx SmartPost business was merged into FedEx Ground. The FedEx SmartPost service 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 remains an important component of our FedEx Ground service offerings. The FedEx Ground segment also includes 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 sales, marketing, information technology, communications and back-office functions that support our other companies. The FedEx Services segment includes FedEx Office and Print Services, Inc. (FedEx Office), which provides document and business services and retail access to our package transportation businesses. On May 31, 2016, FedEx TechConnect, Inc. (FedEx TechConnect) was merged into FedEx Services. Following the merger, the services previously provided by FedEx TechConnect, including customer service and billing and collection services for our U.S. customers and technical support services, are now performed by FedEx Services.

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In 2017, TNT Express s results will be disclosed as a reportable segment and combined with the FedEx Express reportable segment in a new reporting structure referred to as the FedEx Express Group. For more information about the FedEx Express Group and our reportable segments, please see Business Segments beginning on page 9 of this Annual Report on Form 10-K. For financial information concerning our reportable business segments, refer to the accompanying financial section, which includes management s discussion and analysis of results of operations and financial condition and our consolidated financial statements.

Our 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 Securities & Exchange Commission (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 we post on our Investor Relations website could be deemed to be material information. We encourage investors, the media and others interested in FedEx 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 U.S. 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 upon 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 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. In 2014, we began replacing some of our retired aircraft with the more efficient, lower-emission Boeing 767-300 Freighter (B767F) aircraft. The B767F aircraft 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.

TNT Express is the largest acquisition in FedEx history. The addition of TNT Express expands our global portfolio, particularly in Europe, and will lower our cost to serve European markets by increasing density in our pickup-and-delivery operations and accelerate our global growth. We will enhance our capabilities globally by leveraging TNT Express s low-cost road networks in different regions around the world. We have begun the process of integrating the TNT Express operations with the FedEx Express network. Although the integration will take several years to fully execute, TNT Express and FedEx Express have the benefit of similar and complementary corporate cultures and a common mission of providing superior service and value to customers around the world.

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:

Growth of E-Commerce: E-commerce continues to be a catalyst for the other trends below 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.

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.

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The growth of e-commerce over the last several years has been significant. According to third-party reports, total e-commerce activity now accounts for one in six discretionary dollars spent by consumers. If this trend continues, calendar year 2016 will be the seventh consecutive year that online sales grew near or above 15% year-over-year. We believe that FedEx is well positioned to provide innovative solutions to meet the growing demand of e-commerce. FedEx continues to invest in growth at FedEx Ground in order to take advantage of opportunities in the business-to-consumer market in the U.S. GENCO has a broad portfolio of returns services to meet the needs of e-commerce merchants and customers.

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 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 2016, we:

- Made the strategic acquisition of 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.
- Continued the integration 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.
- Successfully integrated Bongo International, LLC (Bongo) and rebranded it as FedEx CrossBorder, 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.
- Enhanced service offerings at FedEx Office through the eBay Valet Drop-Off program, a collaboration with eBay, Inc. (eBay) that allows customers to bring items to a FedEx Office location to be packed and shipped to an eBay processing center to be sold. FedEx Office also introduced a faster, cost-effective and streamlined system of delivering professional print services to large, commercial customers.

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 at FedEx Express. Our profit improvement programs included multiple initiatives, primarily across FedEx Express and FedEx Services, to reduce our overall cost structure and enhancing the quality of our revenue.

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We exited 2016 having achieved our profit improvement goals with a run rate of $1.6 billion of additional operating profit from the then 2013 base business. FedEx Express has improved operating income by approximately 170% from 2013, despite lower fuel surcharges and unfavorable exchange rates driving flat to declining revenue during the four-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 2017 business plan objectives will represent more fully funded compensation targets. While this program is completed, assuming continued modest growth in the U.S. and global economies, our profitability and productivity are expected to continue to increase for years to come as we further leverage the benefits of these initiatives and fully integrate our recent business acquisitions.

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 2016, FedEx ranked 8th in *FORTUNE* magazine s World s Most Admired Companies list the 15th consecutive year we have been ranked in the top 20 on the list. Additionally, FedEx ranked in the top 50 on the Reputation Institute s 2016 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 2016 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 example, FedEx was once again named to *Black Enterprise* magazine s 2015 list of 40 Best Companies for Diversity. 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 400,000 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 the following five core giving pillars:

Delivering for Good: Using our global network to deliver resources where they are needed most in times of disaster and for special shipments.

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Sustainable Transportation: Developing solutions that connect the world responsibly and resourcefully, especially in urban areas.

Employment Pathways: Giving a pathway to meaningful employment for underserved populations.

Road Safety: Protecting pedestrians and making roads safer worldwide.

Global Entrepreneurship: Advancing women and minority-owned small businesses and entrepreneurs around the world.

In the midst of the European migrant crisis, FedEx worked with disaster relief agencies and committed approximately $1 million in cash and transportation support to deliver critical medical aid and supplies to refugees in Europe and Turkey. For additional information on our community involvement and disaster relief efforts, see *http://csr.fedex.com*.

In 2016, FedEx announced that it will invest $200 million in more than 200 communities by 2020 through its global giving platform, FedEx Cares. FedEx also supports communities throughout the U.S. with an annual United Way employee giving campaign. Additionally, more than 17,000 FedEx team members volunteered nearly 55,000 hours of service during FedEx Cares Week, a period dedicated to service projects in 500 communities in the U.S. and other regions FedEx serves around the globe.

Like our customers, many of our vendors are diverse businesses. For more than two decades, FedEx has supported small, women-owned and minority-owned businesses in our supply chain. Our Sourcing organization manages the enterprise-wide Supplier Diversity program, aligning efforts to increase our direct spend with diverse suppliers within our broader sourcing strategy. We work with regional and national diversity organizations to promote the growth of small and diverse businesses and to increase opportunities for FedEx to work with these enterprises. The Women s Business Enterprise National Council named FedEx as a 2015 Top Corporation Award winner.

The Environment

In furtherance of our commitment to protecting the environment, we initiated an effort to increase FedEx Express vehicle fuel efficiency 30% from a 2005 baseline by 2020, and in 2016, we announced that we had surpassed that goal**.** We also continue with our goal to reduce aircraft emissions intensity 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 2015 when we saved more than 100 million gallons of jet fuel at FedEx Express and avoided more than one million metric tons of carbon emissions all while our shipment 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 approximately 1,900 alternative fuel vehicles, including hybrid, electric and hydrogen fueled vehicles, among others. We operate 15 solar facilities around the world, which collectively avoided more than 4,600 metric tons of CO_2e emissions in 2015. 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 more are being reviewed for certification. FedEx Express has made LEED certification the standard for newly built U.S. facilities. In addition, the FedEx India headquarters and the FedEx Office headquarters each received LEED certification in 2015 and 2016, respectively.

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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 2015, 96% 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 March 2016, our Board of Directors adopted a proxy access bylaw that permits up to 20 stockholders owning 3% or more of FedEx s outstanding voting stock continuously for at least three years to nominate and include in FedEx s proxy materials directors constituting up to two individuals or 20% of the Board, whichever is greater, provided that the stockholder(s) and the nominee(s) satisfy the requirements specified in our Bylaws.

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 Group

On May 25, 2016, we acquired TNT Express, a leading international express transportation, small-package ground delivery and freight transportation company. In 2017, TNT Express s results will be disclosed as reportable segment and combined with the FedEx Express reportable segment in a new reporting structure referred to as the FedEx Express Group. During the integration process, we anticipate these segments will each continue to have discrete financial information that will be regularly reviewed when evaluating performance and making resource allocation decisions. However, they are being combined for financial reporting discussion purposes into a collective business as a result of their management reporting structure. Furthermore, over time their operations will be integrated, therefore presenting a group view provides a basis for future year-over-year comparison purposes.

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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 168,000 employees and has approximately 60,000 drop-off locations (including FedEx Office centers), 643 aircraft and approximately 57,000 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.

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.

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International Expansion

In May 2016, we acquired TNT Express, which has express delivery operations in Europe, the Middle East and Africa, Asia-Pacific and South America. This acquisition expands our global portfolio, particularly in Europe, and will lower our costs to serve European markets by increasing density in our pickup-and-delivery operations and accelerate our global growth. We have begun the process of integrating TNT Express operations with the FedEx Express network, which will take several years to fully execute.

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.

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 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.

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 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. On January 4, 2016, FedEx Express implemented a 4.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services.

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 2016 was based on the average spot price for jet fuel published for March 2016. 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

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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. Effective November 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: 2016 2%; 2015 6%; and 2014 9%. 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 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 2016, 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
2016	$ 1,726	3.4%
2015	2,816	5.9
2014	3,506	7.7
2013	3,683	8.3
2012	3,867	9.1

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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 companies, air freight forwarders and the USPS. FedEx Express s principal international competitors are DHL, UPS, foreign postal authorities, freight forwarders, passenger airlines and all-cargo airlines. We also compete with startup companies that combine technology with crowdsourcing to focus on local market needs. 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, 2016, FedEx Express employed approximately 115,000 permanent full-time and approximately 53,000 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 at FedEx Express, who represent a small number of our total employees, are represented by the Air Line Pilots Association, International (ALPA) and are employed under a collective bargaining agreement that took effect on November 2, 2015. The collective bargaining agreement is scheduled to become amendable in November 2021, after a six-year term. In addition to our pilots at FedEx Express, certain of FedEx Express s non-U.S. employees are unionized.

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. 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. FedEx Trade Networks also provides international trade advisory services, including assistance with the Customs-Trade Partnership Against Terrorism 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 120 freight forwarding offices in 26 countries and Global Trade Data, an information tool that allows customers to track and manage imports. FedEx Trade Networks has approximately 5,100 employees and 136 offices in 120 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.

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In 2016, we completed the integration of Bongo and rebranded it as FedEx CrossBorder. FedEx CrossBorder, a subsidiary of FedEx Trade Networks, is a leader in cross-border enablement technologies and solutions. FedEx CrossBorder s capabilities complement and expand the FedEx portfolio of offerings important to international e-commerce. FedEx CrossBorder 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. FedEx CrossBorder 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. FedEx CrossBorder is headquartered in St. Petersburg, Florida.

FedEx SupplyChain

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.

TNT Express Segment

Overview

Recently acquired TNT Express is a leading international express transportation, small-package ground delivery and freight transportation company. TNT Express collects, transports and delivers documents, parcels and freight on a day-definite or time-definite basis. TNT Express services are primarily classified by the speed, distance, weight and size of consignments. Whereas the majority of its shipments are between businesses, TNT Express also offers business-to-consumer services to select key customers. TNT Express operates road transportation networks and delivers to over 200 countries.

Services

TNT Express provides two types of express services Express and Economy Express. The Express services are day-definite and delivered next-day or fastest-by-air for distances for which next-day is not possible. The Economy Express services are also day-definite and are delivered fastest-by-road, except for intercontinental deliveries which depend on air. For both Express and Economy Express services, TNT has time-definite options for customers requiring delivery before a certain time. TNT also provides specialized or extremely urgent deliveries which include products such as same-day, value-added and non-standard freight services.

Pricing

TNT Express periodically updates list prices for the majority of its services. In general, shipping rates are based on the selected service, destination zone, (volumetric) weight, and any ancillary service charge. TNT Express offers its customers discounted prices generally based on actual or potential volumes and/or revenue.

TNT Express has an indexed fuel surcharge that varies by region or country and by product. The fuel surcharge percentage is subject to monthly adjustment based upon the price of a designated fuel type. Updated information on the fuel surcharge is available at *tnt.com*.

If a customer has requirements that fall outside of TNT Express s standard service levels, but are acceptable under its standard operating procedures, TNT Express will provide the service with an additional charge to cover the additional costs incurred. For instance, collections and deliveries in certain remote and less accessible locations will incur an out-of-area charge.

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Operations

TNT Express has a worldwide presence with domestic, regional and intercontinental delivery. TNT Express s customers are primarily large companies and multinationals, as well as small and medium-sized enterprises. The main industries served by TNT Express are industrial, automotive, high-tech and healthcare.

Services are delivered through a combination of physical infrastructures such as hubs, depots and vehicles, and electronic infrastructures such as track-and-trace systems. TNT Express operates road networks in Europe, the Middle East, Asia, Australia and South America. TNT Express s unique European road network connects more than 40 countries through 19 road hubs and over 540 depots. TNT Express conducts its operations through a fleet of approximately 42,000 road pickup-and-delivery and linehaul vehicles. Principal competitors of TNT Express include DHL, UPS, DPD (a subsidiary of France s La Poste s GeoPost), General Logistics Systems (a Royal Mail-owned parcel delivery group), foreign postal authorities and freight forwarders.

As a condition precedent to its acquisition by FedEx, TNT Express sold its two airlines, TNT Airways and Pan Air Líneas Aéreas, to ASL Aviation Group, as European regulations prohibit foreign ownership of European-based airlines. TNT Express and ASL Aviation Group entered into a multi-year service agreement to operate flights for the FedEx-TNT Express combination. Per the terms of the service agreement, ASL Aviation Group intends to operate the airlines in a manner that will maintain contracts with former TNT Express partner airlines, contractors and suppliers. The airlines operate primarily out of TNT s central air hub in Liege, Belgium.

As of May 31, 2016, TNT Express had approximately 55,000 employees, of which 99% are employed outside the U.S. TNT Express also relies upon subcontractors and agents to conduct its pickup-and-delivery and linehaul operations. David Binks is the President and Chief Executive Officer of TNT Express (he reports to the FedEx Express Executive Vice President and Chief Operating Officer). TNT Express s headquarters are located in Hoofddorp, The Netherlands.

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 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. On August 31, 2015, our FedEx SmartPost business was merged into FedEx Ground. The FedEx SmartPost service 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 any residential address or PO Box in the U.S. and remains an important component of our FedEx Ground service offerings.

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 4, 2016, FedEx Ground and FedEx Home Delivery average list prices increased 4.9%. In addition, on November 2, 2015, FedEx Ground increased surcharges for shipments that exceed the published maximum weight or dimensional limits.

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 2016 was based on the average diesel fuel price published for March 2016. 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 November 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 575 facilities, including 33 hubs, in the U.S. and Canada. FedEx Ground conducts its operations primarily with approximately 52,000 owner-operated vehicles and approximately 51,000 company-owned trailers. To provide FedEx Home Delivery service and FedEx SmartPost Service, FedEx Ground leverages its 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.

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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 all FedEx Authorized ShipCenters in the U.S.

As of May 31, 2016, FedEx Ground had approximately 81,000 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

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. During the third quarter of 2016, we reached agreements in principle to settle all of the 19 cases on appeal in the multidistrict litigation. These cases involve a contractor model which FedEx Ground has not operated since 2011. In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation. These cases are in varying stages of litigation. We will continue to vigorously defend ourselves in these proceedings and continue to 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. 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.

In the third quarter of 2016, FedEx Ground announced plans to implement the Independent Service Provider (ISP) agreement throughout its entire U.S. pickup and delivery network. To date, service providers in 24 states are operating under, or transitioning to, the ISP agreement. The transition to the ISP agreement in the remaining 26 states is expected to be completed by 2020. The costs associated with these transitions will be recognized in the periods incurred and are not expected to be material to any future quarter.

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 11,000 employees at approximately 119 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.

In 2016, FedEx Freight introduced the new FedEx Freight box, which makes transporting LTL shipments simple with improved flexibility, increased security, better shipment integrity and no freight classification. The FedEx Freight box comes in two sizes: a standard freight box that requires a pallet to ship and a smaller freight box with an integrated pallet. The ability to choose between freight boxes makes freight shipping accessible to any business. With a distance-based pricing structure, the FedEx Freight box allows customers to ship LTL with flat rates. The FedEx Freight box was initially introduced into selected markets during the second half of 2016, and was subsequently rolled out to customers nationwide in June 2016.

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. On January 4, 2016, FedEx Freight implemented zone-based pricing on U.S. and other LTL shipping rates. Also, on January 4, 2016, FedEx Freight implemented a 4.9% average increase in certain U.S. and other shipping rates.

As of May 31, 2016, 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), XPO Logistics, Inc., UPS Freight, Old Dominion Freight Line, Inc. and ABF Freight (a subsidiary of ArcBest Corporation).

In 2014 and 2015, the International Brotherhood of Teamsters (Teamsters) petitioned for National Labor Relations 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, FedEx Freight appealed all four elections to federal appellate courts. Two of those appeals are still pending. The Eighth Circuit Court of Appeals upheld the election results in two of the locations, Charlotte, North Carolina and Croydon, Pennsylvania. We have begun bargaining with the unions in Charlotte and Croydon, but no substantive proposals have been exchanged between the parties. No new petitions for elections were filed in 2016.

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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 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, technical support, billing and collection services, and certain other back-office support. We merged FedEx TechConnect into FedEx Services, effective May 31, 2016. Through FedEx Services, 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, 2016, 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. 1 in the first-ever InformationWeek Elite 100 Decade Award category, recognizing the 10 companies that have ranked the highest on average in the InformationWeek Elite 100, a compilation of the top business technology innovators in the U.S., over the past 10 years. FedEx ranked No. 5 overall on the 2016 InformationWeek Elite 100 list. Additionally, FedEx was named a recipient of the 2015 CIO 100 Award from International Data Group s *CIO* magazine. The annual award program recognizes organizations around the world that exemplify the highest level of operational and strategic excellence in information technology.

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 over 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

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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 solutions including the FedEx mobile application, FedEx mobile website and SMS text messaging. The FedEx Mobile app provides convenience for recipients to track packages, get quick rates and estimated delivery times, quickly find the nearest FedEx location and easily access FedEx Delivery Manager to customize home deliveries. It is available on Android and Apple devices, such as iPhone®, iPod touch® and iPad®. The FedEx mobile website has expanded to more than 206 countries and territories and 25 languages. FedEx Mobile allows customers to track packages, create shipping labels, view account-specific rate quotes and access drop-off location information. SMS Notifications allows customers to track or follow a package via text messaging, and it is currently available in five countries.

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.

FedEx continues to provide customers with innovative solutions. For example, in May 2014 FedEx TechConnect (now FedEx Services) 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
- The UEFA Europa League, a major European soccer cup competition that spans 192 teams across 54 European nations

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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 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. Additionally, FedEx SameDay City has expanded to include 24 markets across the U.S., which allows customers to get their packages across town in the same day with local delivery by FedEx Office uniformed team members in branded FedEx Office delivery vehicles.

FedEx Office also 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. In May 2016, eBay and FedEx Office announced the eBay Valet Drop-Off Program to make it easier for consumers to sell items online. The eBay Valet Drop-Off Program will allow customers to bring in items to a FedEx Office location, where, backed by the FedEx Office Packing Pledge, a FedEx Office team member will pack and ship the item(s) to an eBay Valet processing center to be listed, sold and shipped to the buyer. Once the item(s) sells, the customer will receive payment via PayPal, and customers will receive updates and notifications throughout the selling process.

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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 access files from some of the most popular cloud providers including Box, Dropbox, Google Drive and Microsoft OneDrive® 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.

In July 2015, FedEx Office launched a faster, cost-effective and streamlined way to deliver professional print services to large, commercial customers. Using an industry-leading software system, large or complex print jobs are directed to one of the FedEx Office centralized production centers. FedEx Office team members at the network fulfillment center then quickly view and assess the print production volume within the network, and direct print jobs to more than 100 color and monochrome digital presses across the country. The enhanced system then allows the FedEx Office network fulfillment center to manage the distribution of print jobs originating in one location to be sent for completion at production locations closer to the customer s point of need, leveraging the vast FedEx Office national network for centralized, regionalized and localized printing, based on distribution requirements.

As of May 31, 2016, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, and also operated 33 centralized production centers. During 2016, FedEx Office relocated to its new corporate headquarters in Plano, 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 Trade Networks, FedEx Custom Critical, FedEx CrossBorder, GENCO and TNT Express, among others, are trademarks, service marks and trade names of Federal Express Corporation, or the respective companies, for which registrations, or applications for registration, are on file, as applicable. We have authorized, through licensing arrangements, the use of certain of our trademarks, service marks and trade names by our contractors and Global Service Participants to support our business. In addition, we license the use of certain of our trademarks, service marks and trade names on promotional items for the primary purpose of enhancing brand awareness.

Regulation

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

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

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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.

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).

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.

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Labor. All U.S. employees at FedEx Express are covered by the Railway Labor Act of 1926, as amended (the RLA), while labor relations within the 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 National Mediation Board 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 87 of this Annual Report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES
FedEx Express Group

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.

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Aircraft and Vehicles

As of May 31, 2016, FedEx Express s aircraft fleet consisted of the following:

Description	Owned	Leased	Total	Maximum Gross Structural Payload (Pounds per Aircraft)[1]
Boeing B777F	27	0	27	233,300
Boeing MD11	32	24	56	192,600
Boeing MD10-30	12	1	13	175,900
Boeing MD10-10	30	0	30	137,500
Boeing 747-400	2	0	2	261,400
Boeing 767F	29	3	32	127,100
Airbus A300-600	32	36	68	106,600
Airbus A310-300	10	0	10	83,170
Boeing B757-200	119	0	119[2]	63,000
ATR 72-202/212	21	0	21	17,970
ATR 42-300/320	26	0	26	12,070
Cessna 208B	239	0	239	2,830
Total	579	64	643	

(1) Maximum gross structural payload includes revenue payload and container weight.
(2) Includes seven 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 modification, which includes a conversion to a two-pilot cockpit, as well as upgrades of electrical and other systems.

The B747s are four-engine, long-range, wide-bodied cargo aircraft. These aircraft are leased to and operated by a third party.

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. 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.

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

At May 31, 2016, FedEx Express operated approximately 57,000 ground transport vehicles, including pickup-and-delivery vans, larger trucks called container transport vehicles and over-the-road tractors and trailers.

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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, 2016, with the year of expected delivery:

	B767F[1]	B777F[2]	Total
2017	12		12
2018	16	2	18
2019	13	2	15
2020	12	3	15
2021	10	3	13
Thereafter	16	6	22
Total	79	16	95

(1) As of May 31, 2016, our obligation to purchase four 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, 2016, our obligation to purchase seven 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, 2016, deposits and progress payments of $413 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.

Sorting and Handling Facilities

At May 31, 2016, 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	3,768,345	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	Kansai Airports	2024

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(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. In May 2016, FedEx Express opened the FedEx Cold Chain Center at its Memphis hub. Designed to protect the integrity of temperature-sensitive healthcare and perishable shipments, the facility added approximately 83,000 square feet to FedEx Express s facilities at Memphis International Airport and forms an integral part of the FedEx global cold chain network.

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 636 facilities for city station operations in the United States. In addition, 588 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.

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As of May 31, 2016, FedEx Express had approximately 41,000 Drop Boxes. FedEx Express customers can also ship from approximately 22,000 staffed drop-off locations, including FedEx Office centers and FedEx Authorized ShipCenters. Internationally, FedEx Express had approximately 13,000 drop-off locations.

TNT Express Segment

TNT Express corporate offices are located in Hoofddorp, The Netherlands. As of May 31, 2016, TNT Express had over 900 facilities worldwide, including road hubs, air hubs, depots and office facilities. These facilities are strategically located to cover the geographic areas served by TNT Express. TNT Express operates a central air hub near Liege, Belgium and a central European road hub in Duiven, The Netherlands. Approximately 42,000 vehicles, including 1,000 trailers, support TNT Express s business.

FedEx Ground Segment

FedEx Ground s corporate offices are located in the Pittsburgh, Pennsylvania area. As of May 31, 2016, FedEx Ground had approximately 51,000 company-owned trailers and owned or leased 575 facilities, including 33 hubs. In addition, approximately 52,000 owner-operated vehicles support FedEx Ground s business. Of the 373 facilities that support FedEx Home Delivery, 303 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 388,000 square feet and range in size from approximately 107,000 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, 2016, 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 Plano, Texas in leased facilities. As of May 31, 2016, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, and also operated 33 centralized 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 640 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.

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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.

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	71	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	62	President and Chief Executive Officer of FedEx Express since January 2000; Executive Vice President and Chief Operating Officer of FedEx Express from January 1998 to January 2000; Senior Vice President Europe, Middle East and Africa of FedEx Express from June 1995 to January 1998; Senior Vice President Europe, Africa and Mediterranean of FedEx Express from June 1993 to June 1995; Vice President Canadian Operations of FedEx Express from February 1987 to March 1993; and several sales and operations managerial positions at FedEx Express from 1976 to 1987. Mr. Bronczek serves as a director of International Paper Company, an uncoated paper and packaging company.

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Name and Office	Age	Positions and Offices Held and Business Experience
Robert B. Carter Executive Vice President FedEx Information Services and Chief Information Officer	57	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 New York Life Insurance Company, a mutual life insurance company.
Michael L. Ducker President and Chief Executive Officer, FedEx Freight Corporation	62	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 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	60	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 plc, 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.

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Name and Office	Age	Positions and Offices Held and Business Experience
Alan B. Graf, Jr. Executive Vice President and Chief Financial Officer	62	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.
Henry J. Maier President and Chief Executive Officer, FedEx Ground	62	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	61	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.

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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 14, 2016, there were 12,453 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, 2016			
Fourth Quarter	$ 169.30	$ 137.30	$ 0.25
Third Quarter	160.67	119.71	0.25
Second Quarter	164.94	140.01	0.25
First Quarter	185.19	130.13	0.25
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

FedEx also paid a cash dividend on July 1, 2016 ($0.40 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 2016.

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
Mar. 1-31, 2016	1,570,000	$ 146.02	1,570,000	21,180,000
Apr. 1-30, 2016	1,043,000	164.68	1,043,000	20,137,000
May 1-31, 2016	1,162,000	162.36	1,162,000	18,975,000
Total	3,775,000	$ 156.21	3,775,000	

The repurchases were made under the stock repurchase program approved by our Board of Directors and announced on January 26, 2016 and through which we are authorized to purchase, in the open market or in the privately negotiated transactions, up to an aggregate of 25 million shares of our common stock. As of July 14, 2016, 17.6 million shares remained authorized for purchase under the January 2016 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, 2016 is presented on page 148 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 41 through 88 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 147 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 18, 2016 thereon, are presented on pages 91 through 146 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, 2016 (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 89 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 90 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

Other than as explained below, no change occurred in our internal control over financial reporting during the fiscal year ended May 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

On May 25, 2016, we acquired TNT Express. As permitted by Securities and Exchange Commission rules, we elected to exclude TNT Express from our assessment of internal control over financial reporting as of May 31, 2016. Our integration of TNT Express s systems and processes could cause changes to our internal controls over financial reporting in future periods.

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 2016 annual meeting of stockholders, which will be held on September 26, 2016, 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 2016 annual meeting of stockholders, which will be held on September 26, 2016, 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 2016 annual meeting of stockholders, which will be held on September 26, 2016, 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 2016 annual meeting of stockholders, which will be held on September 26, 2016, 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 2016 and 2015 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 2016 annual meeting of stockholders, which will be held on September 26, 2016, 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 18, 2016 thereon, are listed on pages 39 through 40 and presented on pages 91 through 146 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 18, 2016 thereon, is presented on pages 150 through 151 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-15 for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY

None.

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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 18, 2016

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 18, 2016
/s/ ALAN B. GRAF, JR. Alan B. Graf, Jr.	Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*	July 18, 2016
/s/ JOHN L. MERINO John L. Merino	Corporate Vice President and Principal Accounting Officer *(Principal Accounting Officer)*	July 18, 2016
/s/ JAMES L. BARKSDALE * James L. Barksdale	Director	July 18, 2016
/s/ JOHN A. EDWARDSON * John A. Edwardson	Director	July 18, 2016
/s/ MARVIN R. ELLISON * Marvin R. Ellison	Director	July 18, 2016
/s/ JOHN C. INGLIS * John C. Inglis	Director	July 18, 2016
/s/ KIMBERLY A. JABAL * Kimberly A. Jabal	Director	July 18, 2016

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Signature	Capacity	Date
/s/ SHIRLEY ANN JACKSON * Shirley Ann Jackson	Director	July 18, 2016
/s/ GARY W. LOVEMAN * Gary W. Loveman	Director	July 18, 2016
/s/ R. BRAD MARTIN * R. Brad Martin	Director	July 18, 2016
/s/ JOSHUA COOPER RAMO * Joshua Cooper Ramo	Director	July 18, 2016
/s/ SUSAN C. SCHWAB * Susan C. Schwab	Director	July 18, 2016
/s/ DAVID P. STEINER * David P. Steiner	Director	July 18, 2016
/s/ PAUL S. WALSH * Paul S. Walsh	Director	July 18, 2016
*By: /s/ JOHN L. MERINO John L. Merino Attorney-in-Fact		July 18, 2016

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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 and 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 2016 results compared to 2015 results, and 2015 results compared to 2014 results. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2017.

The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2017) for each of our 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 most important to understanding 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; TNT Express B.V., formerly TNT Express N.V. (TNT Express), an international express, small-package ground delivery and freight transportation company that was acquired near the end of our 2016 fourth quarter; 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, customer service, technical support, billing and collection services, and certain back-office functions that support 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). 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 and size;
- 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.

Many 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 volumes. The line item Other operating expenses predominantly includes costs associated with outside service contracts (such as security, facility services and cargo handling), insurance, legal reserves, professional fees and uniforms.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2016 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 group, including the FedEx Express and TNT Express reportable segments, the FedEx Ground segment and the FedEx Freight segment. Because TNT Express was acquired so late in 2016, its financial results are immaterial and are included in Eliminations, corporate and other. In 2017, TNT Express s results will be disclosed as a reportable segment and combined with the FedEx Express reportable segment in a new reporting structure referred to as the FedEx Express Group. This reporting structure will continue throughout the integration of the TNT Express and FedEx Express businesses. Once these businesses are integrated, our segment reporting structure could change based on how we are operating, managing and assessing the performance of the integrated businesses.

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RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table compares summary operating results (dollars in millions, except per share amounts) for the years ended May 31.

				Percent Change	
	2016[4]	2015	2014	2016/2015	2015/2014
Consolidated revenues	$ 50,365	$ 47,453	$ 45,567	6	4
FedEx Express Segment operating income[1]	2,519	1,584	1,428	59	11
FedEx Ground Segment operating income	2,276	2,172	2,021	5	7
FedEx Freight Segment operating income	426	484	351	(12)	38
Eliminations, corporate and other[2][3]	(2,144)	(2,373)	15	10	NM
Consolidated operating income[3]	3,077	1,867	3,815	65	(51)
FedEx Express Segment operating margin[1]	9.5%	5.8%	5.3%	370bp	50bp
FedEx Ground Segment operating margin	13.7%	16.7%	17.4%	(300)bp	(70)bp
FedEx Freight Segment operating margin	6.9%	7.8%	6.1%	(90)bp	170bp
Consolidated operating margin[2][3]	6.1%	3.9%	8.4%	220bp	(450)bp
Consolidated net income[3]	$ 1,820	$ 1,050	$ 2,324	73	(55)
Diluted earnings per share	$ 6.51	$ 3.65	$ 7.48	78	(51)

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The following table shows changes in revenues and operating income by reportable segment for 2016 compared to 2015, and 2015 compared to 2014 (in millions).

	Year-over-Year Changes			
	Revenues		Operating Income	
	2016/2015	2015/2014	2016/2015[4]	2015/2014
FedEx Express segment[1]	$ (788)	$ 118	$ 935	$ 156
FedEx Ground segment	3,590	1,367	104	151
FedEx Freight segment	9	434	(58)	133
FedEx Services segment	48	9		
Eliminations, corporate and other[2][3]	53	(42)	229	(2,388)
	$ 2,912	$ 1,886	$ 1,210	$ (1,948)

(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.

(2) Operating income includes a loss of $1.5 billion in 2016, $2.2 billion in 2015 and $15 million in 2014 associated with our mark-to-market pension accounting further discussed in Note 13 of the accompanying consolidated financial statements.

(3) Operating income in 2016 includes provisions related to independent contractor litigation matters at FedEx Ground for $256 million and expenses related to the settlement of a U.S. Customs and Border Protection notice of action in the amount of $69 million, in each case net of recognized immaterial insurance recovery. 2015 operating income 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.

(4) Includes transaction, financing and integration planning expenses related to our TNT Express acquisition, as well as immaterial financial results of TNT Express from the date of acquisition, aggregating $132 million during 2016. These expenses are predominantly included in Eliminations, corporate and other.

Overview

Our results for 2016 include a $1.5 billion loss ($946 million, net of tax, or $3.39 per diluted share) associated with our fourth quarter mark-to-market (or MTM) benefit plans adjustment. Our 2016 results also include provisions for the settlement of and expected losses related to independent contractor litigation matters involving FedEx Ground for $256 million, net of recognized insurance recovery ($158 million, net of tax, or $0.57 per diluted share) and expenses related to the settlement of a U.S. Customs and Border Protection (CBP) notice of action regarding uncollected duties and merchandising processing fees in the amount of $69 million, net of recognized insurance recovery ($43 million, net of tax, or $0.15 per diluted share). These items are included in Eliminations, corporate and other and are further described below in this MD&A.

We acquired TNT Express on May 25, 2016. We incurred transaction, financing and integration planning expenses related to this acquisition of $132 million ($125 million, net of tax, or $0.45 per diluted share) in 2016, which includes the impact of certain costs not deductible for tax purposes as a result of the acquisition. These expenses also include TNT Express s financial results from the time of acquisition, which are immaterial, and are predominantly included in Eliminations, corporate and other in 2016.

During 2016, a favorable tax impact from an internal corporate restructuring to facilitate the integration of FedEx Express and TNT Express was recorded in the amount of $76 million (or $0.27 per diluted share). See the Income Taxes section of this MD&A and Note 12 of the accompanying consolidated financial statements for more information.

Our 2016 results benefited from higher operating income at FedEx Express as our profit improvement program that commenced in 2013 continued to constrain expense growth while improving revenue quality, and the positive net impact of fuel. Two additional operating days benefited all our transportation segments in 2016. These factors were partially offset by lower than anticipated revenue at FedEx Freight, and network expansion costs, higher self-insurance expenses and increased purchased transportation rates at FedEx Ground. In addition, higher incentive compensation accruals, which were not impacted by the charges and credits described above, negatively impacted our overall results.

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In 2016, we repurchased an aggregate of $2.7 billion of our common stock through open market purchases. See additional information on the share repurchase program in Note 1 of the accompanying consolidated financial statements.

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 an independent contractor litigation matter at FedEx Ground. While these charges significantly impacted our consolidated 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.

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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 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 6% in 2016 driven by the FedEx Ground segment due to volume growth in our residential services coupled with rate increases, and the inclusion of GENCO Distribution System, Inc. (GENCO) revenue for a full year. In addition, revenues increased approximately $1.2 billion in 2016 as a result of recording FedEx SmartPost service revenues on a gross basis, versus our previous net treatment, as further discussed in this MD&A and in Note 1 of the accompanying consolidated financial statements. Lower fuel surcharges had a significant negative impact on revenues at all of our transportation segments in 2016. Unfavorable exchange rates also negatively impacted revenues at FedEx Express in 2016. Two additional operating days benefited revenues at all our transportation segments in 2016.

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 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, as U.S. domestic and international package volume growth was offset by lower fuel surcharges and the negative impact of exchange rates.

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Retirement Plans MTM Adjustments

We incurred noncash pre-tax mark-to-market losses of $1.5 billion in 2016 ($946 million, net of tax, or $3.39 per diluted share), $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) 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.

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:

	2016	2015	2014
Operating expenses:			
Salaries and employee benefits	$ 18,581	$ 17,110	$ 16,171
Purchased transportation	9,966	8,483	8,011
Rentals and landing fees	2,854	2,682	2,622
Depreciation and amortization	2,631	2,611	2,587
Fuel	2,399	3,720	4,557
Maintenance and repairs	2,108	2,099	1,862
Impairment and other charges		276[1]	
Retirement plans mark-to-market adjustment	1,498	2,190	15
Other	7,251[2]	6,415[3]	5,927
Total operating expenses	$ 47,288	$ 45,586	$ 41,752
Total operating income	$ 3,077	$ 1,867	$ 3,815

	Percent of Revenue		
	2016	2015	2014
Operating expenses:			
Salaries and employee benefits	36.9%	36.1%	35.5%
Purchased transportation	19.8	17.9	17.6
Rentals and landing fees	5.7	5.7	5.7
Depreciation and amortization	5.2	5.5	5.7
Fuel	4.7	7.8	10.0
Maintenance and repairs	4.2	4.4	4.1
Impairment and other charges		0.6[1]	
Retirement plans mark-to-market adjustment	3.0	4.6	
Other	14.4[2]	13.5[3]	13.0
Total operating expenses	93.9	96.1	91.6
Operating margin	6.1%	3.9%	8.4%

(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 provisions for the settlement of and expected losses related to independent contractor litigation matters involving FedEx Ground for $256 million, and $69 million in expenses related to the settlement of a CBP notice of action, in each case net of recognized immaterial insurance recovery.

(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.

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Our operating expenses for 2016 include a $1.5 billion loss ($946 million, net of tax) associated with our annual MTM adjustment described above. In addition, we recorded corporate level provisions for the settlement of and expected losses related to independent contractor litigation matters involving FedEx Ground and the settlement of the CBP matter and expenses related to our acquisition of TNT Express as described above. Operating expenses also increased due to higher salaries and employee benefits at FedEx Freight, and higher purchased transportation expenses due to the recording of FedEx SmartPost revenues on a gross basis, network expansion costs, higher self-insurance expenses and increased purchased transportation rates at FedEx Ground. In addition, higher incentive compensation accruals impacted our overall operating expenses.

Our operating margin benefited from the reduced year-over-year loss from our MTM adjustment, the strong performance of our FedEx Express segment due to the continued execution of our profit improvement program and the positive net impact of fuel (as further described below). However, operating margin was negatively impacted in 2016 by higher salaries and employee benefits at FedEx Freight, and network expansion costs, higher self-insurance expenses and the recording of FedEx SmartPost revenues on a gross basis at FedEx Ground, transaction and integration planning expenses related to our TNT Express acquisition, and higher incentive compensation accruals.

Our operating expenses included an increase in purchased transportation costs of 17% in 2016 due to the recording of FedEx SmartPost service revenues on a gross basis (including postal fees in revenues and expenses) and higher volumes and increased rates at FedEx Ground. Salaries and employee benefits expense increased 9% in 2016 due to the inclusion of GENCO results for a full year, pay initiatives coupled with increased staffing at FedEx Freight, higher healthcare costs and higher incentive compensation accruals. Other expenses were 13% higher in 2016 due to the inclusion of GENCO results for a full year, higher self-insurance costs at FedEx Ground and the CBP matter described above. Rentals and landing fees increased 6% in 2016 due to network expansion and the inclusion of GENCO results for a full year at FedEx Ground. Retirement plans mark-to-market adjustment expenses decreased 32% in 2016, as favorable demographic assumption experience partially offset the actuarial loss on pension plan asset returns in 2016.

Our operating expenses for 2015 included 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. 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 completed in 2014. 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.

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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 36% during 2016 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 2016, 2015 and 2014 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 2016 was set based on March 2016 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.

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 November 2, 2015, we updated the tables used to determine our fuel surcharges at FedEx Express, FedEx Ground and FedEx Freight.

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The net impact of fuel had a modest benefit to operating income in 2016. This was driven by decreased fuel prices during 2016 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 18% during 2015 primarily due to lower aircraft fuel prices. 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 slightly offset by the year-over-year decrease in fuel surcharge revenue during these periods.

Interest Expense

Interest expense increased $101 million in 2016 primarily due to increased interest expense from our 2016 and 2015 debt offerings used to fund our share repurchase programs and business acquisitions. Interest expense increased $75 million in 2015 primarily due to increased interest expense from our January 2015 debt offering and January 2014 debt offering.

Income Taxes

Our effective tax rate was 33.6% in 2016, 35.5% in 2015 and 36.5% in 2014. Due to its effect on income before income taxes, the adjustment for MTM accounting reduced our 2016 effective tax rate by 120 basis points and our 2015 effective tax rate by 80 basis points, and increased our effective tax rate by 20 basis points in 2014. Our 2016 tax rate was favorably impacted by $76 million from an internal corporate restructuring done in anticipation of the integration of the foreign operations of FedEx Express and TNT Express. As part of this restructuring, our Canadian subsidiary made distributions to our U.S. operations which resulted in the recognition of U.S. foreign tax credits in excess of the U.S. taxes incurred from the distributions. This favorable impact was partially offset by a $40 million tax expense attributable to non-deductible expenses incurred as part of the TNT Express acquisition. Our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a benefit of approximately $48 million to our 2016 provision for income taxes. Cumulative permanently reinvested foreign earnings were $1.6 billion at the end of 2016 and $1.9 billion at the end of 2015. The 2016 reduction in our permanently reinvested earnings was due to the internal corporate restructuring discussed above.

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 May 25, 2016, we acquired TNT Express for 4.4 billion (approximately $4.9 billion). Cash acquired in the acquisition was approximately 250 million ($280 million). As of May 31, 2016, $287 million of shares associated with the transaction remained untendered, the majority of which were tendered subsequent to May 31, 2016, and are included in the Other liabilities caption of our consolidated balance sheets. We funded the acquisition with proceeds from our April 2016 debt issuance and existing cash balances. TNT Express s financial results are immaterial from the time of acquisition and are included in Eliminations, corporate and other.

TNT Express collects, transports and delivers documents, parcels and freight to over 200 countries. This strategic acquisition broadens our portfolio of international transportation solutions with the combined strength of TNT Express s strong European road platform and our strength in other regions globally, including North America and Asia.

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Given the timing and complexity of the acquisition, the presentation of TNT Express in our financial statements, including the allocation of the purchase price, is preliminary and will likely change in future periods, perhaps significantly as fair value estimates of the assets acquired and liabilities assumed are refined during the measurement period. We will complete our purchase price allocation no later than the fourth quarter of 2017.

For more information and a presentation of unaudited pro forma consolidated results, see Note 3 of the accompanying consolidated financial statements. The accounting literature establishes guidelines regarding the presentation of this unaudited pro forma information. Therefore, this unaudited pro forma information is not intended to represent, nor do we believe it is indicative of, the consolidated results of operations of FedEx that would have been reported had the acquisition been completed as of the beginning of 2015. Furthermore, this unaudited pro forma information does not give effect to the anticipated business and tax synergies of the acquisition and is not representative or indicative of the anticipated future consolidated results of operations of FedEx.

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, now FedEx CrossBorder, LLC (FedEx CrossBorder), 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 acquiring businesses operated by our previous service provider, Supaswift (Pty) Ltd. (Supaswift), 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.

The financial results of the GENCO, FedEx CrossBorder and Supaswift 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.

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. Payments under this program, which were related primarily to employee severance, were made at the time of departure and totaled approximately $300 million in 2014.

In 2015, we continued to make progress in achieving our profit improvement goals. FedEx Express improved operating income by approximately 70% from 2013 with essentially flat revenue during the three-year period. FedEx Services reduced its total expenses while investing in major information technology transformation projects.

We exited 2016 having achieved our profit improvement goals with a run rate of $1.6 billion of additional operating profit from the then 2013 base business. FedEx Express has improved operating income by approximately 170% from 2013, despite lower fuel surcharges and unfavorable exchange rates driving flat to declining revenue during the four-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 2017 business plan objectives will represent more fully funded compensation targets. While this program is completed, assuming continued modest growth in the U.S. and global economies, profitability and productivity are expected to continue to increase for years to come as we further leverage the benefits of these initiatives and fully integrate our recent business acquisitions.

Outlook

During 2017, we expect improvements in the performance of all our transportation segments to drive revenue and earnings growth, excluding any year-end MTM adjustment and TNT Express financial results, integration expenses and financing costs. Although our profit improvement programs noted above are completed, we expect these programs to continue to constrain expense growth while improving revenue quality during 2017. Segment level pension expense for 2017 is expected to be comparable to 2016 levels. Continued moderate global economic growth is anticipated to drive volume and yield improvements. Our expectations for earnings growth in 2017 are dependent on key external factors, including fuel prices and global economic conditions.

Due to our recent acquisition of TNT Express, 2017 will be a year of intensive integration activities and investments. However, the timing and amount of integration activities and costs will be subject to change as information is validated and integration and operating plans are refined. While integration planning teams have been working for months to prepare for post-closing activities, up until May 25, 2016, we were competitors with TNT Express and therefore, access to key customer, financial and operational data was limited under competition laws and regulations. Furthermore, TNT Express is undergoing a large restructuring and turnaround program called Outlook, which includes incurring certain restructuring charges in 2017. As a result, we anticipate TNT Express will not be accretive to earnings until 2018. Longer term, we anticipate this transaction will generate substantial improvements in revenue and earnings and reduce our effective tax rate due to increased international earnings.

Our capital expenditures for 2017 are expected to approximate $5.6 billion, largely for continued expansion of the FedEx Ground network and additional aircraft deliveries in 2017 to support our fleet modernization program at FedEx Express. This capital expenditure forecast includes TNT 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 2017 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.

In the third quarter of 2016, FedEx Ground announced plans to implement the Independent Service Provider (ISP) model throughout its entire U.S. pickup and delivery network. To date, service providers in 24 states are operating under, or transitioning to, the ISP model. The transition to the ISP model in the remaining 26 states is expected to be completed by 2020. The costs associated with these transitions will be recognized in the quarter incurred and are not expected to be material.

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.

RECENT ACCOUNTING GUIDANCE

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

In the second quarter of 2016, we chose to early adopt the authoritative guidance issued by the Financial Accounting Standards Board (FASB) requiring acquirers in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period that the adjustment amounts are determined and eliminates the requirement to retrospectively account for these adjustments. It also requires additional disclosure about the effects of the adjustments on prior periods. Adoption of this guidance had no impact on our financial reporting. See the Business Acquisitions section above for further discussion regarding our recent business acquisitions.

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 have a material impact on our revenue recognition policies, practices or systems.

On February 25, 2016, the FASB issued the new lease accounting standard which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Expense related to leases determined to be operating leases will be recognized on a straight-line basis, while those determined to be financing leases will be recognized following a front-loaded expense profile in which interest and amortization are presented separately in the income statement. We are currently evaluating the impact of this new standard on our financial reporting, but recognizing the lease liability and related right-of-use asset will significantly impact our balance sheet. These changes will be effective for our fiscal year beginning June 1, 2019 (fiscal 2020), with a modified retrospective adoption method to the beginning of 2018.

On November 20, 2015, the FASB issued an Accounting Standards Update that will require companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This new guidance had minimal impact on our accounting and financial reporting, and we chose to early adopt on a retrospective basis in the fourth quarter of 2016.

In May 2015, the FASB issued an Accounting Standards Update that removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. This new guidance is effective for entities for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. We elected to early adopt this standard, which impacted our fair value disclosures related to retirement benefit plan investments in Note 13 of the accompanying consolidated financial statements but did not otherwise impact our financial statements.

In March 2016, the FASB issued an Accounting Standards Update to simplify the accounting for share-based payment transactions. The new guidance requires companies to recognize the income tax effects of awards that vest or are settled as income tax expense or benefit in the income statement as opposed to additional paid-in capital as is current practice. The guidance also provides clarification of the presentation of certain components of share-based awards in the statement of cash flows. Additionally, the guidance allows companies to make a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. We are currently evaluating the impact of this new standard on our financial reporting. These changes will be effective for our fiscal year beginning June 1, 2017 (fiscal 2018).

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We believe that no other new accounting guidance was adopted or issued during 2016 that is relevant to the readers of our financial statements.

REPORTABLE SEGMENTS

FedEx Express, TNT 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 Group:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (air and ocean freight forwarding, customs brokerage and cross-border enablement technology and solutions) FedEx SupplyChain Systems (logistics services)
TNT Express Segment	TNT Express (international express transportation, small-package ground delivery and freight transportation)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) 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, customer service, technical support, billing and collection services and back-office functions) 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.

ELIMINATIONS, CORPORATE AND OTHER

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.

Corporate and other includes corporate headquarters costs for executive officers and certain legal and financial functions, as well as certain other costs and credits not attributed to our core business. These costs are not allocated to the business segments. The year-over-year decrease in these costs was driven by a lower mark-to-market benefit plans adjustment. Also, 2015 includes benefits of approximately $266 million as a result of our change in recognizing expected return on plan assets (EROA) for our defined benefit pension and postretirement healthcare plans at the segment level described further below, which had no impact at the consolidated level. In addition, transaction and integration planning expenses related to our TNT Express acquisition and the settlement of the CBP notice of action described above increased these costs in 2016.

In 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 through our MTM accounting as described in 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 are 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 an EROA in the determination of net pension cost on an interim basis. At the segment level, we set our EROA at 6.5% for all periods presented, which equals our consolidated EROA assumption in 2016. In fiscal years where the consolidated EROA is greater than 6.5%, that difference is reflected as a credit in Eliminations, corporate and other.

FEDEX EXPRESS GROUP

On May 25, 2016, we acquired TNT Express. TNT Express collects, transports and delivers documents, parcels and freight on a day-definite or time-definite basis. Its services are primarily classified by the speed, distance, weight and size of consignments. Whereas the majority of its shipments are between businesses, TNT Express also offers business-to-consumer services to select key customers. The impact of TNT Express s results are immaterial to the FedEx Express Group from the time of acquisition and are included in Eliminations, corporate and other.

In 2017, we will combine the results of the FedEx Express and TNT Express segments to create a collective FedEx Express Group. During the integration process, we anticipate these segments will each continue to have discrete financial information that will be regularly reviewed when evaluating performance and making resource allocation decisions. However, they are being combined for financial reporting discussion purposes into a collective business as a result of their management reporting structure. Furthermore, over time their operations will be integrated, therefore presenting a group view provides a basis for future year-over-year comparison purposes. In 2017, the full-year impact of the TNT Express acquisition is expected to have a negative impact on operating margin due to integration costs and the impact of intangible asset amortization.

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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:

				Percent Change	
	2016	2015	2014	2016/2015	2015/2014
Revenues:					
Package:					
U.S. overnight box	$ 6,763	$ 6,704	$ 6,555	1	2
U.S. overnight envelope	1,662	1,629	1,636	2	
U.S. deferred	3,379	3,342	3,188	1	5
Total U.S. domestic package revenue	11,804	11,675	11,379	1	3
International priority	5,697	6,251	6,451	(9)	(3)
International economy	2,282	2,301	2,229	(1)	3
Total international export package revenue	7,979	8,552	8,680	(7)	(1)
International domestic[1]	1,285	1,406	1,446	(9)	(3)
Total package revenue	21,068	21,633	21,505	(3)	1
Freight:					
U.S.	2,481	2,300	2,355	8	(2)
International priority	1,384	1,588	1,594	(13)	
International airfreight	126	180	205	(30)	(12)
Total freight revenue	3,991	4,068	4,154	(2)	(2)
Other[2]	1,392	1,538	1,462	(9)	5
Total revenues	26,451	27,239	27,121	(3)	
Operating expenses:					
Salaries and employee benefits	10,240	10,104	9,797	1	3
Purchased transportation	2,301	2,544	2,511	(10)	1
Rentals and landing fees	1,688	1,693	1,705		(1)
Depreciation and amortization	1,385	1,460	1,488	(5)	(2)
Fuel	2,023	3,199	3,943	(37)	(19)
Maintenance and repairs	1,294	1,357	1,182	(5)	15
Impairment and other charges[3]		276		NM	NM
Intercompany charges	1,846	1,842	1,888		(2)
Other	3,155	3,180	3,179	(1)	
Total operating expenses	23,932	25,655	25,693	(7)	
Operating income	$ 2,519	$ 1,584	$ 1,428	59	11
Operating margin	9.5%	5.8%	5.3%	370bp	50bp

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	Percent of Revenue		
	2016	2015	2014
Operating expenses:			
Salaries and employee benefits	38.7%	37.1%	36.1%
Purchased transportation	8.7	9.3	9.3
Rentals and landing fees	6.4	6.2	6.3
Depreciation and amortization	5.2	5.4	5.5
Fuel	7.7	11.7	14.5
Maintenance and repairs	4.9	5.0	4.4
Impairment and other charges[3]		1.0	
Intercompany charges	7.0	6.8	6.9
Other	11.9	11.7	11.7
Total operating expenses	90.5	94.2	94.7
Operating margin	9.5%	5.8%	5.3%

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

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

(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.

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

				Percent Change	
	2016	2015	2014	2016/2015	2015/2014
Package Statistics[1]					
Average daily package volume (ADV):					
U.S. overnight box	1,271	1,240	1,164	3	7
U.S. overnight envelope	541	527	538	3	(2)
U.S. deferred	901	916	869	(2)	5
Total U.S. domestic ADV	2,713	2,683	2,571	1	4
International priority	394	410	410	(4)	
International economy	181	176	170	3	4
Total international export ADV	575	586	580	(2)	1
International domestic[2]	888	853	819	4	4
Total ADV	4,176	4,122	3,970	1	4
Revenue per package (yield):					
U.S. overnight box	$ 20.79	$ 21.29	$ 22.18	(2)	(4)

U.S. overnight envelope	11.99	12.15	11.97	(1)	2
U.S. deferred	14.66	14.36	14.44	2	(1)
U.S. domestic composite	17.00	17.13	17.42	(1)	(2)
International priority	56.47	60.05	61.88	(6)	(3)
International economy	49.15	51.54	51.75	(5)	
International export composite	54.16	57.50	58.92	(6)	(2)
International domestic[2]	5.65	6.49	6.95	(13)	(7)
Composite package yield	19.71	20.66	21.32	(5)	(3)
Freight Statistics[1]					
Average daily freight pounds:					
U.S.	8,178	7,833	7,854	4	
International priority	2,510	2,887	2,922	(13)	(1)
International airfreight	623	684	798	(9)	(14)
Total average daily freight pounds	11,311	11,404	11,574	(1)	(1)
Revenue per pound (yield):					
U.S.	$ 1.19	$ 1.16	$ 1.18	3	(2)
International priority	2.15	2.17	2.15	(1)	1
International airfreight	0.79	1.04	1.01	(24)	3
Composite freight yield	1.38	1.40	1.41	(1)	(1)

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

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

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FedEx Express Segment Revenues

FedEx Express segment revenues decreased 3% in 2016 primarily due to lower fuel surcharges and unfavorable exchange rates, which were partially offset by improved U.S. domestic and international export yield management and U.S. domestic volume and pounds growth. Two additional operating days also benefited revenues in 2016.

During 2016, lower fuel surcharges resulted in decreased package and freight yields. Unfavorable exchange rates also contributed to the decrease in international package and freight yields. Higher base rates partially offset the yield decrease for our U.S. domestic package, international export and freight services. U.S. domestic volumes increased 1% in 2016 driven by our overnight service offerings. International domestic revenues declined 9% in 2016 due to the negative impact of unfavorable exchange rates, which were partially offset by increased volumes.

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.

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

	2016	2015	2014
U.S. Domestic and Outbound Fuel Surcharge:			
Low	%	1.50%	8.00%
High	4.00	9.50	10.50
Weighted-average	1.84	6.34	9.47
International Fuel Surcharges:			
Low		0.50	12.00
High	12.00	18.00	19.00
Weighted-average	6.09	12.80	16.26

On January 4, 2016 and January 5, 2015, FedEx Express implemented a 4.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services. In addition, effective November 2, 2015 and February 2, 2015, FedEx Express updated certain tables used to determine fuel surcharges.

FedEx Express Segment Operating Income

FedEx Express operating income and operating margin increased despite lower revenues in 2016. This increase was primarily driven by profit improvement program initiatives, which continued to constrain expense growth while improving revenue quality, the positive net impact of fuel and lower international expenses due to currency exchange rates. Also, operating income benefited from two additional operating days in 2016. 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.

Salaries and employee benefits increased 1% in 2016 due to merit increases and higher incentive compensation accruals, which were partially offset by a favorable exchange rate impact. Purchased transportation decreased 10% in 2016 driven primarily by a favorable exchange rate impact. Accelerated aircraft retirements during 2015 caused depreciation and amortization expense to decrease 5% in 2016. Maintenance and repairs expense decreased 5% in 2016 primarily due to the timing of aircraft maintenance events.

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Fuel expense decreased 37% in 2016 due to lower aircraft fuel prices. The net impact of fuel had a significant benefit to operating income in 2016. See the Fuel section of this MD&A for a description and additional discussion of the net impact of fuel on our operating results.

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.

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 Group Outlook

Revenues and earnings are expected to increase at FedEx Express during 2017. We expect revenues to increase primarily due to improved international export and U.S. domestic volume and package yields during 2017, as we continue to focus on revenue quality while managing costs. Although our profit improvement programs announced in 2013 are completed, we expect operating income to improve through our continued execution of these 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. These benefits will be partially offset in 2017 by higher maintenance expense due to the timing of aircraft maintenance events.

Capital expenditures at FedEx Express are expected to be essentially flat in 2017, excluding TNT Express expenditures, which are further discussed below, but will continue to be 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.

We plan to complete our purchase price allocation for TNT Express no later than the fourth quarter of 2017. Given the timing and complexity of this acquisition, the presentation of TNT Express in our financial statements, including the allocation of the purchase price, is preliminary and will likely change in future periods, perhaps significantly.

We will also begin operational integration activities focused on combining TNT Express s strong European capabilities and FedEx Express s strength in other regions globally, including North America and Asia. Prior to our acquisition, TNT Express announced their Outlook strategy aimed at doubling their adjusted operating income and margin percentage by calendar 2018. This program includes various initiatives focused on yield management, improved operational efficiency and productivity and improved customer service. We plan to continue these initiatives in 2017, although integration activities may affect the execution of some of these initiatives.

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We expect TNT Express earnings in 2017 to be negatively impacted by integration expenses and intangible asset amortization, which will more than offset the benefits of the Outlook programs.

Capital expenditures at TNT Express are expected to be approximately $400 million during 2017 as we continue the Outlook program and invest in projects related to the modernization of IT systems and optimization of hubs and networks. Capital expenditures for 2017 will also include integration-related investments.

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FEDEX GROUND SEGMENT

FedEx Ground service offerings include day-certain delivery to businesses in the U.S. and Canada and to 100% of U.S. residences. On August 31, 2015, our FedEx SmartPost business was merged into FedEx Ground. The FedEx SmartPost service remains an important component of our FedEx Ground service offerings; however, for presentation purposes, FedEx SmartPost service revenues and operating statistics have been combined with our FedEx Ground service offerings. Also, on June 1, 2015, we prospectively began recording revenues associated with the FedEx SmartPost service on a gross basis and including postal fees in revenues and expenses, versus our previous net treatment, due to operational changes that occurred in 2016, which resulted in us being the principal in all cases for the FedEx SmartPost service. 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:

				Percent Change	
	2016	2015	2014	2016/2015	2015/2014
Revenues:					
FedEx Ground	$ 15,050	$ 12,568	$ 11,617	20	8
GENCO	1,524	416		NM	NM
Total revenues	16,574	12,984	11,617	28	12
Operating expenses:					
Salaries and employee benefits	2,834	2,146	1,749	32	23
Purchased transportation	6,817	5,021	4,635	36	8
Rentals	639	485	402	32	21
Depreciation and amortization	608	530	468	15	13
Fuel	10	12	17	(17)	(29)
Maintenance and repairs	288	244	222	18	10
Intercompany charges	1,230	1,123	1,095	10	3
Other	1,872	1,251	1,008	50	24
Total operating expenses	14,298	10,812	9,596	32	13
Operating income	$ 2,276	$ 2,172	$ 2,021	5	7
Operating margin	13.7%	16.7%	17.4%	(300)bp	(70)bp
Average daily package volume:					
FedEx Ground	7,526	6,911	6,774	9	2
Revenue per package (yield):					
FedEx Ground	$ 7.80	$ 7.16	$ 6.75	9	6

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	Percent of Revenue		
	2016	2015	2014
Operating expenses:			
Salaries and employee benefits	17.1%	16.5%	15.0%
Purchased transportation	41.1	38.7	39.9
Rentals	3.9	3.7	3.5
Depreciation and amortization	3.7	4.1	4.0
Fuel	0.1	0.1	0.2
Maintenance and repairs	1.7	1.9	1.9
Intercompany charges	7.4	8.7	9.4
Other	11.3	9.6	8.7
Total operating expenses	86.3	83.3	82.6
Operating margin	13.7%	16.7%	17.4%

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 28% in 2016 due to volume and yield growth at FedEx Ground and the inclusion of GENCO revenue for a full year, which were partially offset by lower fuel surcharges. Revenues increased approximately $1.2 billion in 2016 as a result of recording FedEx SmartPost revenues on a gross basis, versus our previous net treatment. In addition, revenues benefited from two additional operating days in 2016.

Average daily volume at FedEx Ground increased 9% in 2016 primarily due to continued growth in our residential services driven by e-commerce. FedEx Ground yield increased 9% in 2016 primarily due to the recording of FedEx SmartPost revenues on a gross basis, versus our previous net treatment, and increased base rates, which include additional dimensional weight charges. These factors were partially offset by lower fuel surcharges.

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

Average daily volume at FedEx Ground increased 2% in 2015 due to continued growth in our FedEx Home Delivery service and commercial business, which was partially offset by a reduction in FedEx SmartPost volumes from a major customer. Yield increased 6% in 2015 primarily due to higher dimensional weight charges and rate increases, which were partially offset by higher postage costs for FedEx SmartPost services. During 2015, FedEx SmartPost service yield represented the amount charged to customers net of postage paid to the United States Postal Service (USPS). As stated above, on June 1, 2015, we prospectively began recording revenues associated with the FedEx SmartPost service on a gross basis and including postal fees in revenues and expenses.

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:

	2016	2015	2014
Low	2.75%	4.50%	6.50%
High	4.50	7.00	7.00
Weighted-average	3.82	5.90	6.66

On January 4, 2016 and January 5, 2015, FedEx Ground implemented a 4.9% increase in average list price. In addition, on November 2, 2015, FedEx Ground increased surcharges for shipments that exceed the published maximum weight or dimensional limits and updated certain tables used to determine fuel surcharges. On February 2, 2015, FedEx Ground updated the tables used to determine fuel surcharges. On January 5, 2015, FedEx Ground began applying dimensional weight pricing to all shipments.

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FedEx Ground Segment Operating Income

FedEx Ground segment operating income increased 5% in 2016 due to higher volumes and increased yield, as well as the benefit from two additional operating days. These factors were partially offset by network expansion costs, higher self-insurance expenses and increased purchased transportation rates.

Operating margin decreased in 2016 primarily due to the recording of FedEx SmartPost revenues on a gross basis (including postal fees in revenues and expenses), the inclusion of GENCO results for a full year, and higher self-insurance expenses. The change in FedEx SmartPost revenue recognition and the inclusion of GENCO collectively decreased operating margin by 190 basis points in 2016.

The inclusion of GENCO in the FedEx Ground segment results for a full year has impacted the year-over-year comparability of all operating expenses. Along with incremental costs from GENCO, purchased transportation expense increased 36% in 2016 due to the recording of FedEx SmartPost revenues on a gross basis, as further discussed in this MD&A, and higher volumes and increased rates. Salaries and employee benefits expense increased 32% in 2016 due to the inclusion of GENCO results, additional staffing to support volume growth and higher healthcare costs. Other expenses increased 50% in 2016 primarily due to the addition of GENCO results and higher self-insurance costs. Rentals expense increased 32% in 2016 due to network expansion and the inclusion of GENCO results. Depreciation and amortization expense increased 15% in 2016 due to network expansion and the inclusion of GENCO results.

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 continued 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.

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 Outlook

We expect FedEx Ground segment revenues and operating income to increase in 2017, driven by e-commerce volume growth and market share gains. We also anticipate continued yield growth in 2017 due to yield management programs. Continued growth in e-commerce has led to higher volumes of larger shipments that cannot be processed in our automated sortation systems. Therefore, we are making investments to adjust our network to efficiently handle the larger packages, and we are adjusting our pricing to reflect the higher cost of handling these packages. However, we anticipate FedEx Ground operating margin will be negatively impacted by higher operating costs in 2017 due to network expansion and other operational costs resulting from higher residential service volumes driven by continued growth in e-commerce.

Capital expenditures at FedEx Ground are expected to increase in 2017 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 continue to partially offset earnings growth in 2017.

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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:

				Percent Change	
	2016	2015	2014	2016/2015	2015/2014
Revenues	$ 6,200	$ 6,191	$ 5,757		8
Operating expenses:					
Salaries and employee benefits	2,925	2,698	2,442	8	10
Purchased transportation	962	1,045	981	(8)	7
Rentals	142	129	131	10	(2)
Depreciation and amortization	248	230	231	8	
Fuel	363	508	595	(29)	(15)
Maintenance and repairs	206	201	179	2	12
Intercompany charges	456	444	431	3	3
Other	472	452	416	4	9
Total operating expenses	5,774	5,707	5,406	1	6
Operating income	$ 426	$ 484	$ 351	(12)	38
Operating margin	6.9%	7.8%	6.1%	(90)bp	170bp
Average daily LTL shipments (in thousands)					
Priority	67.7	66.9	62.9	1	6
Economy	31.1	28.6	27.7	9	3
Total average daily LTL shipments	98.8	95.5	90.6	3	5
Weight per LTL shipment					
Priority	1,191	1,272	1,262	(6)	1
Economy	1,145	1,003	1,000	14	
Composite weight per LTL shipment	1,177	1,191	1,182	(1)	1
LTL revenue per shipment					
Priority	$ 218.50	$ 229.57	$ 223.61	(5)	3
Economy	261.27	264.34	258.05	(1)	2
Composite LTL revenue per shipment	$ 232.11	$ 240.09	$ 234.23	(3)	3
LTL revenue per hundredweight					
Priority	$ 18.35	$ 18.05	$ 17.73	2	2
Economy	22.81	26.34	25.80	(13)	2
Composite LTL revenue per hundredweight	$ 19.73	$ 20.15	$ 19.82	(2)	2

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	Percent of Revenue		
	2016	2015	2014
Operating expenses:			
Salaries and employee benefits	47.2%	43.6%	42.4%
Purchased transportation	15.5	16.9	17.1
Rentals	2.3	2.1	2.3
Depreciation and amortization	4.0	3.7	4.0
Fuel	5.8	8.2	10.3
Maintenance and repairs	3.3	3.2	3.1
Intercompany charges	7.4	7.2	7.5
Other	7.6	7.3	7.2
Total operating expenses	93.1	92.2	93.9
Operating margin	6.9%	7.8%	6.1%

FedEx Freight Segment Revenues

FedEx Freight segment revenues were flat in 2016 as higher average daily shipments were offset by lower revenue per shipment. Average daily LTL shipments increased 3% in 2016 due to increased volume primarily related to small and mid-sized customers. LTL revenue per shipment decreased 3% in 2016 due to lower fuel surcharges and lower weight per shipment.

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.

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:

	2016	2015	2014
Low	18.50%	20.90%	22.70%
High	23.10	26.20	23.70
Weighted-average	20.60	24.30	23.20

On January 4, 2016, FedEx Freight implemented zone-based pricing on U.S. and other LTL shipping rates. Also, on January 4, 2016 and January 5, 2015, FedEx Freight implemented a 4.9% average increase in certain U.S. and other shipping rates. On February 2, 2015, FedEx Freight updated the tables used to determine fuel surcharges.

FedEx Freight Segment Operating Income

FedEx Freight segment operating income and operating margin decreased in 2016 primarily due to salaries and employee benefits expense outpacing revenue growth, which was driven by weaker than anticipated industrial production. Within operating expenses, salaries and employee benefits increased 8% in 2016 due to pay initiatives and increased staffing levels for higher shipment volumes. Other expenses increased 4% in 2016 primarily due to higher insurance claims, a legal reserve, and higher operating supplies. Depreciation and amortization increased 8% in 2016 due to investments in transportation equipment. Rentals increased 10% in 2016 driven primarily by a charge related to a facility closure. Purchased transportation expense decreased 8% in 2016 due to lower rates and increased usage of lower cost rail transportation. Fuel expense decreased 29% in 2016 due to lower average price per gallon of diesel fuel. See the Fuel section of this MD&A for a description and additional discussion of the net impact of fuel on our operating results.

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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, due to higher 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 partially due to higher cargo claims.

FedEx Freight Segment Outlook

During 2017 we expect revenue, operating income and operating margin improvement driven by effective yield management as well as modest volume growth from small and mid-sized customers. FedEx Freight earnings are also expected to be positively impacted by improvement in productivity and further investments in technology.

Capital expenditures at FedEx Freight are expected to increase slightly in 2017 primarily due to investments in vehicles.

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FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $3.5 billion at May 31, 2016, compared to $3.8 billion at May 31, 2015. The following table provides a summary of our cash flows for the years ended May 31 (in millions).

	2016	2015	2014
Operating activities:			
Net income	$ 1,820	$ 1,050	$ 2,324
Impairment and other charges		246	
Retirement plans mark-to-market adjustment	1,498	2,190	15
Other noncash charges and credits	2,927	2,317	3,173
Changes in assets and liabilities	(537)	(437)	(1,248)
Cash provided by operating activities	5,708	5,366	4,264
Investing activities:			
Capital expenditures	(4,818)	(4,347)	(3,533)
Business acquisitions, net of cash acquired	(4,618)	(1,429)	(36)
Proceeds from asset dispositions and other	(10)	24	18
Cash used in investing activities	(9,446)	(5,752)	(3,551)
Financing activities:			
Purchase of treasury stock	(2,722)	(1,254)	(4,857)
Principal payments on debt	(41)	(5)	(254)
Proceeds from debt issuances	6,519	2,491	1,997
Dividends paid	(277)	(227)	(187)
Other	132	344	582
Cash provided by (used in) financing activities	3,611	1,349	(2,719)
Effect of exchange rate changes on cash	(102)	(108)	(3)
Net (decrease) increase in cash and cash equivalents	$ (229)	$ 855	$ (2,009)
Cash and cash equivalents at end of period	$ 3,534	$ 3,763	$ 2,908

Cash Provided by Operating Activities. Cash flows from operating activities increased $342 million in 2016 primarily due to higher segment operating income at FedEx Express and lower tax payments due to bonus depreciation on aircraft purchases and other qualifying assets. During the fourth quarter of 2016, we defeased the underlying debt of certain leveraged operating leases, which was accounted for as a prepayment of the lease obligations that reduced our operating cash flows by $501 million.

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. We made contributions of $660 million to our tax-qualified U.S. domestic pension plans (U.S. Pension Plans) in 2016, 2015 and 2014.

Cash Used in Investing Activities. Capital expenditures were 11% higher in 2016 largely due to increased spending for sort facility expansion at FedEx Ground, and were 23% higher in 2015 than in 2014 due to increased spending for aircraft at FedEx Express and sort facility expansion at FedEx Ground. See Capital Resources for a more detailed discussion of capital expenditures during 2016 and 2015.

Financing Activities. We had various senior unsecured debt issuances in 2016, 2015 and 2014. See Note 6 of the accompanying consolidated financial statements for more information on these issuances. Interest on our fixed-rate notes is paid semi-annually. Interest on our Euro

fixed-rate notes is paid annually. Our floating-rate Euro senior notes bear interest at three-month

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EURIBOR plus a spread of 55 basis points and resets quarterly. We utilized the net proceeds of our 2016 debt issuances for working capital and general corporate purposes, our acquisition of TNT Express, share repurchases and the redemption and the prepayment and defeasance of the underlying debt of certain leveraged operating leases. 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. 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.

The effect of exchange rate changes on cash during 2016 and 2015 was impacted 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):

	2016			2015		
	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	18,225,000	$ 149.35	$ 2,722	8,142,410	$ 154.03	$ 1,254

In January 2016, the stock repurchase authorization announced in 2015 for 15 million shares was completed. On January 26, 2016, our Board of Directors approved a new share repurchase program of up to 25 million shares. Shares under the current repurchase program may be repurchased from time to time in the open market or in privately negotiated transactions. The timing and volume of repurchases are at the discretion of management, based on the capital needs of the business, the market price of FedEx common stock and general market conditions. No time limit was set for the completion of the program, and the program may be suspended or discontinued at any time.

From 2014 through 2016, we repurchased 63.2 million shares of FedEx common stock at an average price of $139.73 per share for a total of $8.8 billion. As of May 31, 2016, 19.0 million shares remained under the current share repurchase authorization.

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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	
	2016	2015	2014	2016/2015	2015/2014
Aircraft and related equipment	$ 1,697	$ 1,866	$ 1,327	(9)	41
Facilities and sort equipment	1,691	1,224	819	38	49
Vehicles	730	601	784	21	(23)
Information and technology investments	396	348	403	14	(14)
Other equipment	304	308	200	(1)	54
Total capital expenditures	$ 4,818	$ 4,347	$ 3,533	11	23
FedEx Express segment	$ 2,356	$ 2,380	$ 1,994	(1)	19
FedEx Ground segment	1,597	1,248	850	28	47
FedEx Freight segment	433	337	325	28	4
FedEx Services segment	432	381	363	13	5
Other		1	1	NM	NM
Total capital expenditures	$ 4,818	$ 4,347	$ 3,533	11	23

Capital expenditures during 2016 were higher than the prior-year period primarily due to increased spending for sort facility expansion at FedEx Ground. Aircraft and related equipment purchases at FedEx Express during 2016 included the delivery of 11 Boeing 767-300 Freighter (B767F) aircraft and two Boeing 777 Freighter (B777F) aircraft, as well as the modification of certain aircraft before being placed into service. 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 B767F aircraft and 13 Boeing 757 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 $3.5 billion at May 31, 2016, 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 TNT Express integration expenses. Our cash and cash equivalents balance at May 31, 2016 includes $522 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 $5.6 billion in 2017. We anticipate that our cash flow from operations will be sufficient to fund our increased capital expenditures in 2017, which will include spending for network expansion at FedEx Ground and aircraft modernization and re-fleeting at FedEx Express. This capital expenditure forecast includes TNT Express. We expect approximately 50% of capital expenditures in 2016 to be designated for growth initiatives, predominantly at FedEx Ground. Our expected capital expenditures for 2017 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 and B767F 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.

In July 2015, FedEx Express entered into a supplemental agreement to purchase 50 additional B767F aircraft from Boeing. Four of the 50 additional B767F aircraft purchases are conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended (RLA). The 50 additional B767F aircraft are expected to be delivered from fiscal 2018 through fiscal 2023 and will enable FedEx Express to continue to improve the efficiency and reliability of its aircraft fleet. In 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.

On November 13, 2015, we replaced our revolving and letter of credit facilities with a new, single five-year $1.75 billion revolving credit facility that expires in November 2020. The facility, which includes a $500 million letter of credit sublimit, is available to finance our operations and other cash flow needs. The agreement contains a financial covenant, which requires us to maintain a ratio of debt to consolidated earnings (excluding non-cash pension mark-to-market adjustments and non-cash asset impairment charges) before interest, taxes, depreciation and amortization (adjusted EBITDA) of not more than 3.5 to 1.0, calculated as of the end of the applicable quarter on a rolling four quarters basis. The ratio of our debt to adjusted EBITDA was 1.9 to 1.0 at May 31, 2016. We believe this 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 financial 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. If we failed to comply with the financial covenant or any other covenants of our revolving credit agreement, our access to financing could become limited. We do not expect to be at risk of noncompliance with the financial covenant or any other covenants of our revolving credit agreement. As of May 31, 2016, no commercial paper was outstanding. However, we had a total of $318 million in letters of credit outstanding at May 31, 2016, with $182 million of the letter of credit sublimit unused under our revolving credit facility.

For 2017, we anticipate making contributions totaling $1.0 billion (approximately $615 million of which are required) to our U.S. Pension Plans. Contributions to our U.S. Pension Plans are increasing in 2017 to cover increasing retiree benefit payments and to improve the funded status of our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments.

In December 2015, The Protecting Americans from Tax Hikes Act of 2015 (PATH Act) was passed into law. As a result, our current federal income taxes will be reduced due to the accelerated depreciation provisions on qualifying capital investments through December 31, 2019.

On June 6, 2016, our Board of Directors declared a quarterly dividend of $0.40 per share of common stock, an increase of $0.15 per common share from the prior quarter s dividend. The dividend was paid on July 1, 2016 to stockholders of record as of the close of business on June 16, 2016. 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. On March 15, 2016, Moody s Investors Service lowered our unsecured debt credit rating of Baa1 to Baa2 and affirmed our commercial paper rating of P-2 and a ratings outlook of stable. If our credit ratings drop, our interest expense may increase. If our commercial paper ratings drop below current levels, we may have difficulty utilizing the commercial paper market. If our senior unsecured debt credit ratings drop below investment grade, our access to financing may become limited.

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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, 2016. 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, 2016. 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)						
	2017	2018	2019	2020	2021	Thereafter	Total
Operating activities:							
Operating leases	$ 2,475	$ 2,243	$ 1,953	$ 1,668	$ 1,451	$ 8,023	$ 17,813
Non-capital purchase obligations and other	577	396	260	192	119	100	1,644
Interest on long-term debt	491	497	496	434	422	8,233	10,573
Contributions to our U.S. Pension Plans	615						615
Investing activities:							
Aircraft and aircraft-related capital commitments	1,212	1,770	1,563	1,620	1,476	4,240	11,881
Other capital purchase obligations	44	5	4	1	1	8	63
Financing activities:							
Debt	3	3	1,311	961		11,577	13,855
Total	$ 5,417	$ 4,914	$ 5,587	$ 4,876	$ 3,469	$ 32,181	$ 56,444

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 $17.8 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 undiscounted 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, 2016. Under the new lease accounting rules, the majority of these leases will be required to be recognized at the net present value 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.

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Included in the table above within the caption entitled Non-capital purchase obligations and other is our estimate of the current portion of the liability ($1 million) for uncertain tax positions. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the liability ($48 million) is excluded from the table. See Note 12 of the accompanying consolidated financial statements for further information.

We had $413 million in deposits and progress payments as of May 31, 2016 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.

On June 10, 2016, FedEx Express exercised options to acquire six additional B767F aircraft for delivery in 2019 and 2020.

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.

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.

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The TNT Express acquisition added a number of defined benefit pension plans to our retirement plans portfolio. The net funded status of these defined benefit pension plans is included in our disclosures as of May 31, 2016. The completion of the purchase accounting process to identify and value all of the defined benefit arrangements under accounting principles generally accepted in the United States may result in adjustment to the funded status of such plans during 2017.

We are required to record annual year-end adjustments to our financial statements 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, prior service and interest costs, the EROA and settlements and curtailments. 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):

	2016	2015	2014
Defined benefit pension plans:			
Segment level	$ 209	$ 222	$ 332
Eliminations, corporate and other	5	(263)	(233)
Total defined benefit pension plans	$ 214	$ (41)	$ 99
Defined contribution plans	416	385	363
Postretirement healthcare plans	82	81	78
Retirement plans mark-to-market adjustment	1,498	2,190	15
	$ 2,210	$ 2,615	$ 555

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

	2016	2015	2014
Actual versus expected return on assets	$ 1,285	$ (35)	$ (1,013)
Discount rate changes	1,129	791	705
Demographic assumption experience	(916)	1,434	323
Total mark-to-market loss	$ 1,498	$ 2,190	$ 15

2016

The actual rate of return on our U.S. Pension Plan assets of 1.2% was lower than our expected return of 6.50% primarily due to a challenging environment for global equities and other risk-seeking asset classes. The weighted average discount rate for all of our pension and postretirement healthcare plans declined from 4.38% at May 31, 2015 to 4.04% at May 31, 2016. The demographic assumption experience in 2016 reflects a change in disability rates and an increase in the average retirement age for U.S. pension and other postemployment benefit plans.

2015

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.

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2014

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.

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 was as follows:

Measurement Date	Discount Rate
5/31/2016	4.13%
5/31/2015	4.42
5/31/2014	4.60
5/31/2013	4.79

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, 2016 measurement date, a 50-basis-point increase in the discount rate would have decreased our 2016 PBO by approximately $1.8 billion and a 50-basis-point decrease in the discount rate would have increased our 2016 PBO by approximately $2.0 billion. With the adoption of MTM accounting, the impact of changes in the discount rate on pension expense is predominantly 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 $38 million effect on the fourth quarter mark-to-market adjustment but only a net $200,000 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 tradable 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 follow a liability-driven investment strategy to better align plan assets with liabilities.

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.

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For consolidated pension expense, we assumed a 6.5% expected long-term rate of return on our U.S. Pension Plan assets in 2016 and 7.75% in 2015 and 2014. We lowered our EROA assumption in 2016 as we continued 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 liabilities. Our actual return in 2016 was less than the expected return. Our actual returns in 2015 and 2014, however, exceeded those long-term assumptions. Our actual return on plan assets has contracted from 2015 due to lower than expected returns on public equities.

At the segment level, we set our EROA at 6.5% for all periods presented when we adopted MTM accounting in 2015. We record service cost, interest cost and EROA at the segment level, but our annual MTM adjustment and any difference between our consolidated EROA and our segment EROA are reflected only at the corporate level. This allows our segment operating results to follow internal management reporting, which is used for making operating decisions and assessing performance.

For our U.S. Pension Plans, a one basis-point change in our EROA impacts our 2017 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 6.9%, net of investment manager fees and administrative expenses, for the 15-year period ended May 31, 2016.

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

	2016	2015
Funded Status of Plans:		
Projected benefit obligation (PBO)	$ 29,602	$ 27,512
Fair value of plan assets	24,271	23,505
Funded status of the plans	$ (5,331)	$ (4,007)
Cash Amounts:		
Cash contributions during the year	$ 726	$ 746
Benefit payments during the year	$ 912	$ 815

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 Internal Revenue Service rules falls below 80% at the beginning of a plan year. All of our U.S. Pension Plans have funded status levels in excess of 80% and our plans remain adequately funded to provide benefits to our employees as they come due. Additionally, current benefit payments do not materially impact our total plan assets (benefit payments for our U.S. Pension Plans for 2016 were approximately $860 million or 3.7% of plan assets).

During 2016, required contributions to our U.S. Pension Plans were not significant. 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 $2.9 billion at May 31, 2016. For 2017, we anticipate making contributions to our U.S. Pension Plans totaling $1.0 billion (approximately $615 million of which are required).

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

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SELF-INSURANCE ACCRUALS

We are self-insured up to certain limits for costs associated with workers compensation claims, vehicle accidents and general business liabilities, and benefits paid under employee healthcare and 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 $2.2 billion at May 31, 2016 and $2.0 billion at May 31, 2015. Approximately 40% 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 type of risk. Periodically, we evaluate the level of insurance coverage and adjust insurance levels based on risk tolerance and premium expense.

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 53% 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.

IMPAIRMENT. As of May 31, 2016, the FedEx Express global air and ground network includes a fleet of 643 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.

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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 $22 million at May 31, 2016 and $102 million at May 31, 2015. 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, is 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, 2016, we had four aircraft temporarily idled. These aircraft have been idled for less than one year and are 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.

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, 2016 we had approximately $17.8 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, 2016 was approximately six years. The future commitments for operating leases are not yet reflected as a liability in our balance sheet until the new rules on lease accounting issued in 2016 become effective in our fiscal 2020 as described below.

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.

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On February 25, 2016, the FASB issued the new lease accounting standard, which will require us to record an asset and a liability for our outstanding operating leases similar to the current accounting for capital leases. Notably, the new standard states that a lessee will recognize a lease liability for the net present values of the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Expense related to leases determined to be operating leases will be recognized on a straight-line basis, while those determined to be financing leases will be recognized following a front-loaded expense profile in which interest and amortization are presented separately in the income statement. Under the new rules, 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 at their net present value. These changes will be effective for our fiscal year beginning June 1, 2019 (fiscal 2020), with a modified retrospective adoption method to the beginning of 2018.

GOODWILL. As of May 31, 2016, we had $6.7 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 2016, we recorded $3.0 billion in additional goodwill associated with our TNT Express acquisition. During 2015, we recorded $1.1 billion in additional goodwill associated with our GENCO and FedEx CrossBorder 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.

Goodwill is reviewed at least annually for impairment. 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, TNT Express, FedEx Ground, FedEx Freight, FedEx Office (reported in the FedEx Services segment) and GENCO (reported in the FedEx Ground segment). With the exception of TNT Express due to the timing of the acquisition, we evaluated these reporting units during the fourth quarters of 2016 and 2015. The estimated fair value of each of these reporting units exceeded their carrying values in 2016 and 2015; therefore, we do not believe that any of these reporting units were impaired as of the balance sheet dates.

CONTINGENCIES

We are subject to various loss contingencies, including tax proceedings and litigation, in connection with our operations. Contingent liabilities are difficult to measure, as their measurement is subject to multiple factors that are not easily predicted or projected. Further, additional complexity in measuring these liabilities arises due to the various jurisdictions in which these matters occur, which makes our ability to predict their outcome highly uncertain. Moreover, different accounting rules must be employed to account for these items based on the nature of the contingency. Accordingly, significant management judgment is required to assess these matters and to make determinations about the measurement of a liability, if any. Our material pending loss contingencies are described in Note 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.

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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.

LEGAL AND 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.

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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 (e.g., 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. Most recently, the United Kingdom s

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(UK) vote to leave the European Union (EU) could result in economic uncertainty and instability, resulting in fewer goods being transported globally. In 2016, 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 effectively respond. 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.

The failure to integrate successfully the businesses and operations of FedEx Express and TNT Express in the expected time frame may adversely affect our future results. Prior to FedEx s acquisition of TNT Express in May 2016, FedEx Express and TNT Express operated as independent companies. There can be no assurances that these businesses can be integrated successfully. It is possible that the integration process could result in higher than expected integration costs, the loss of customers, the disruption of ongoing businesses, unexpected integration issues, or the loss of key historical FedEx Express or TNT Express employees. It is also possible that the overall post-acquisition integration process will take longer than currently anticipated. Specifically, the following issues, among others, must be addressed as we begin to integrate the operations of FedEx Express and TNT Express in order to realize the anticipated benefits of the transaction:

- combining the companies operations and corporate functions;
- combining the businesses of FedEx Express and TNT Express and meeting the capital requirements of the combination in a manner that permits us to achieve the operating and financial results we anticipated from the acquisition, the failure of which could result in the material anticipated benefits of the transaction not being realized in the time frame currently anticipated, or at all;
- integrating and consolidating the companies administrative and information technology infrastructure and computer systems;
- integrating workforces while continuing to provide consistent, high-quality service to customers;
- integrating and unifying the offerings and services available to historical FedEx Express and TNT Express customers;
- harmonizing the companies operating practices, employee development and compensation programs, integrity and compliance programs, internal controls and other policies, procedures and processes;
- integrating the companies financial reporting and internal control systems, including our ability to become compliant with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, as amended, and the rules promulgated thereunder by the SEC;
- maintaining existing agreements with customers and service providers and avoiding delays in entering into new agreements with prospective customers and service providers;

- addressing possible differences in business backgrounds, corporate cultures and management philosophies;
- addressing employee social issues so as to maintain efficient and effective labor and employee relations;
- coordinating rebranding and marketing efforts;
- managing the movement of certain positions to different locations;
- managing potential unknown and unidentified liabilities, including liabilities that are significantly larger than currently anticipated, and unforeseen increased expenses or delays associated with the integration process; and
- managing the expanded operations of a significantly larger, more complex company.

All of these factors could dilute FedEx s earnings per share, decrease or delay the expected accretive effect of the acquisition and negatively impact the price of FedEx s common stock. In addition, at times the attention of certain members of our management may be focused on the integration of the businesses of FedEx Express and TNT Express and diverted from day-to-day business operations, which may disrupt our business.

A significant data breach or other disruption to our technology infrastructure could disrupt our operations and result in the loss of critical confidential information, adversely impacting 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 data breaches, particularly through cyber-attack or cyber-intrusion, including by computer hackers, foreign governments and cyber terrorists. Data breaches have increased in recent years as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. 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. Recently, there has also been heightened regulatory and enforcement focus on data protection in the U.S. and abroad (particularly in the EU), and failure to comply with applicable U.S. or foreign data protection regulations or other data protection standards may expose us to litigation, fines, sanctions or other penalties, which could harm our reputation and adversely impact our business, results of operations and financial condition.

We have invested and continue to invest in technology security initiatives, information technology risk management and disaster recovery plans. The development and maintenance of these measures is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly more sophisticated. Despite our efforts, we are not fully insulated from data breaches, technology disruptions or data loss, which could adversely impact our competitiveness and results of operations. Although we have not experienced data breaches or other disruptions to our technology infrastructure that are material either individually or in the aggregate, we may be unable to detect or prevent a material breach or disruption in the future.

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, package handling facilities, vehicles, technology, 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 and startups that combine technology with crowdsourcing to focus on local market needs. In addition, some high volume package shippers, such as Amazon.com, are developing in-house delivery capabilities, which could 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, it could impede our ability to maintain or grow our market share. Moreover, if our current customers, such as Amazon.com, become competitors, it will reduce our revenue and could negatively impact our financial condition and results of operations.

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, in addition to TNT Express, we have acquired businesses in Europe, Latin America, Africa and the United States over the past several years. While we expect our past and future acquisitions to enhance our value proposition to customers and improve our long-term profitability, there can be no assurance that we will realize our expectations within the time frame we have established, if at all, or that we can continue to support the value we allocate to these acquired businesses, including their goodwill or other intangible assets.

Labor organizations attempt to organize groups of our employees from time to time, and potential changes in labor laws could make it easier for them to do so. If we are unable to continue to maintain good relationships with our employees and prevent labor organizations from organizing groups of our employees, our operating costs could significantly increase and our operational flexibility could be significantly reduced. Despite continual organizing attempts by labor unions, other than the pilots of FedEx Express 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).

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The U.S. Congress has, in the past, considered adopting changes in labor laws, however, that would make it easier for unions to organize units of our employees. For example, there is always a possibility that Congress could remove most FedEx Express employees from the purview of the RLA. For additional discussion of the RLA, see Part I, Item 1 of this Annual Report 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, 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 employers of drivers. If FedEx Ground is deemed to be a joint employer of independent contractors 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 and direct employers of drivers providing these services, 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 under a contractor model no longer in use should have been treated as our employees rather than independent contractors, or that drivers employed by independent contractors should be treated as our employees. 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.

The UK vote to leave the EU could adversely impact our business, results of operations and financial condition. There is substantial uncertainty surrounding the UK s June 23, 2016 vote to leave the EU (Brexit). Any impact of the Brexit vote depends on the terms of the UK s withdrawal from the EU, which still need to be determined and could take several years to accomplish. The UK s withdrawal from the EU could result in a global economic downturn, which could depress the demand for our services. The UK also could lose access to the single EU market and to the global trade deals negotiated by the EU on behalf of its members, depressing trade between the UK and other countries, which would negatively impact our international operations. Additionally, we may face new regulations regarding trade, aviation, security and employees, among others in the UK. Compliance with such regulations could be costly, negatively impacting our business, results of operations and financial condition.

Disruptions or modifications in service by the USPS or changes in its business could have an adverse effect on our operations and financial results. The USPS is a significant customer and vendor of FedEx. In particular, the USPS is the largest customer of FedEx Express, which provides domestic air transportation services for the USPS s First Class, Priority and Express Mail and transportation and delivery for the USPS s international delivery service. Disruptions or modifications in service by the USPS as a result of financial difficulties or changes in its business, including any structural changes to its operations, network, service offerings or pricing, could adversely affect our operations, negatively impacting our revenue and financial results.

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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

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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.

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

- increasing costs, the volatility of costs and funding requirements and other legal mandates for employee benefits, especially pension and healthcare benefits;
- the increasing costs of compliance with federal, 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 euro, Chinese yuan, British pound, Brazilian real, Canadian dollar and the Mexican peso, 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, joint employment, and discrimination and retaliation claims, and any other legal or governmental proceedings;
- our ability to achieve the benefits of any ongoing or future profit improvement initiatives;
- 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 agreement is scheduled to become amendable in November 2021) 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.

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FORWARD-LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in Outlook (including group and 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, will, believes, expects, anticipates, plans, estimates, targets, projects, intends or similar expressions. These forward-looking statements in and uncertainties. Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements, because of, among other things, the risk factors identified above and the other risks and uncertainties you can find in our press releases and other SEC filings.

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

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MANAGEMENT S REPORT ON INTERNAL

CONTROL OVER FINANCIAL REPORTING

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

Management, with the participation of our principal executive and financial officers, assessed our internal control over financial reporting as of May 31, 2016, 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, 2016.

On May 25, 2016, we acquired TNT Express. See Note 3 Business Combinations of our consolidated financial statements for additional information. Total assets of TNT Express represented approximately 16% of our consolidated total assets as of May 31, 2016. As permitted by the Securities and Exchange Commission, management has elected to exclude TNT Express from its assessment of internal control over financial reporting as of May 31, 2016.

The effectiveness of our internal control over financial reporting as of May 31, 2016, 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, 2016, 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.

As indicated in the accompanying Management s Report on Internal Control over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of TNT Express, which is included in the consolidated financial statements of FedEx Corporation and constituted approximately 16% of consolidated total assets as of May 31, 2016. Our audit of internal control over financial reporting of FedEx Corporation also did not include an evaluation of internal control over financial reporting of TNT Express.

In our opinion, FedEx Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2016, 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, 2016 and 2015, 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, 2016 of FedEx Corporation and our report dated July 18, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Memphis, Tennessee

July 18, 2016

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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, 2016 and 2015, 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, 2016. 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, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FedEx Corporation s internal control over financial reporting as of May 31, 2016, 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 18, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Memphis, Tennessee

July 18, 2016

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FEDEX CORPORATION

CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	May 31, 2016	May 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,534	$ 3,763
Receivables, less allowances of $178 and $185	7,252	5,719
Spare parts, supplies and fuel, less allowances of $218 and $207	496	498
Prepaid expenses and other	707	355
Total current assets	11,989	10,335
PROPERTY AND EQUIPMENT, AT COST		
Aircraft and related equipment	17,499	16,186
Package handling and ground support equipment	7,961	6,725
Computer and electronic equipment	5,149	5,208
Vehicles	6,422	5,816
Facilities and other	9,987	8,929
	47,018	42,864
Less accumulated depreciation and amortization	22,734	21,989
Net property and equipment	24,284	20,875
OTHER LONG-TERM ASSETS		
Goodwill	6,747	3,810
Other assets	3,044	1,511
Total other long-term assets	9,791	5,321
	$ 46,064	$ 36,531

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, 2016	May 31, 2015
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 29	$ 19
Accrued salaries and employee benefits	1,972	1,436
Accounts payable	2,944	2,066
Accrued expenses	3,063	2,435
Total current liabilities	8,008	5,956
LONG-TERM DEBT, LESS CURRENT PORTION	13,838	7,249
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	1,567	1,210
Pension, postretirement healthcare and other benefit obligations	6,227	4,893
Self-insurance accruals	1,314	1,120
Deferred lease obligations	400	711
Deferred gains, principally related to aircraft transactions	155	181
Other liabilities	771	218
Total other long-term liabilities	10,434	8,333
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of May 31, 2016 and 2015	32	32
Additional paid-in capital	2,892	2,786
Retained earnings	18,371	16,900
Accumulated other comprehensive income	(169)	172
Treasury stock, at cost	(7,342)	(4,897)
Total common stockholders investment	13,784	14,993
	$ 46,064	$ 36,531

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,		
	2016	2015	2014
REVENUES	$ 50,365	$ 47,453	$ 45,567
OPERATING EXPENSES:			
Salaries and employee benefits	18,581	17,110	16,171
Purchased transportation	9,966	8,483	8,011
Rentals and landing fees	2,854	2,682	2,622
Depreciation and amortization	2,631	2,611	2,587
Fuel	2,399	3,720	4,557
Maintenance and repairs	2,108	2,099	1,862
Impairment and other charges		276	
Retirement plans mark-to-market adjustment	1,498	2,190	15
Other	7,251	6,415	5,927
	47,288	45,586	41,752
OPERATING INCOME	3,077	1,867	3,815
OTHER INCOME (EXPENSE):			
Interest expense	(336)	(235)	(160)
Interest income	21	14	18
Other, net	(22)	(19)	(15)
	(337)	(240)	(157)
INCOME BEFORE INCOME TAXES	2,740	1,627	3,658
PROVISION FOR INCOME TAXES	920	577	1,334
NET INCOME	$ 1,820	$ 1,050	$ 2,324
BASIC EARNINGS PER COMMON SHARE	$ 6.59	$ 3.70	$ 7.56
DILUTED EARNINGS PER COMMON SHARE	$ 6.51	$ 3.65	$ 7.48

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,		
	2016	2015	2014
NET INCOME	$ 1,820	$ 1,050	$ 2,324
OTHER COMPREHENSIVE LOSS:			
Foreign currency translation adjustments, net of tax benefit of $22, $45 and $1	(261)	(334)	(25)
Amortization of prior service credit and other, net of tax benefit of $45 in 2016, tax expense of $1 in 2015 and tax benefit of $38 in 2014	(80)		(76)
	(341)	(334)	(101)
COMPREHENSIVE INCOME	$ 1,479	$ 716	$ 2,223

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,		
	2016	2015	2014
OPERATING ACTIVITIES			
Net income	$ 1,820	$ 1,050	$ 2,324
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	2,631	2,611	2,587
Provision for uncollectible accounts	121	145	130
Deferred income taxes and other noncash items	31	(572)	339
Impairment and other charges		246	
Stock-based compensation	144	133	117
Retirement plans mark-to-market adjustment	1,498	2,190	15
Changes in assets and liabilities:			
Receivables	(199)	(392)	(516)
Other current assets	(234)	25	(22)
Pension and postretirement healthcare assets and liabilities, net	(346)	(692)	(453)
Accounts payable and other liabilities	467	659	(235)
Other, net	(225)	(37)	(22)
Cash provided by operating activities	5,708	5,366	4,264
INVESTING ACTIVITIES			
Capital expenditures	(4,818)	(4,347)	(3,533)
Business acquisitions, net of cash acquired	(4,618)	(1,429)	(36)
Proceeds from asset dispositions and other	(10)	24	18
Cash used in investing activities	(9,446)	(5,752)	(3,551)
FINANCING ACTIVITIES			
Principal payments on debt	(41)	(5)	(254)
Proceeds from debt issuances	6,519	2,491	1,997
Proceeds from stock issuances	183	320	557
Excess tax benefit on the exercise of stock options	3	51	44
Dividends paid	(277)	(227)	(187)
Purchase of treasury stock	(2,722)	(1,254)	(4,857)
Other, net	(54)	(27)	(19)
Cash provided by (used in) financing activities	3,611	1,349	(2,719)
Effect of exchange rate changes on cash	(102)	(108)	(3)
Net (decrease) increase in cash and cash equivalents	(229)	855	(2,009)
Cash and cash equivalents at beginning of period	3,763	2,908	4,917
Cash and cash equivalents at end of period	$ 3,534	$ 3,763	$ 2,908

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, 2013	**$ 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	**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**
Net income			1,820			1,820
Other comprehensive loss, net of tax of $67				(341)		(341)
Purchase of treasury stock (18.2 million shares)					(2,722)	(2,722)
Cash dividends declared ($1.00 per share)			(277)			(277)
Employee incentive plans and other (2.0 million shares issued)		106	(72)		277	311
Balance at May 31, 2016	**$ 32**	**$ 2,892**	**$ 18,371**	**$ (169)**	**$ (7,342)**	**$ 13,784**

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

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FEDEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

DESCRIPTION OF BUSINESS. FedEx Corporation (FedEx) provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation (FedEx Express), the world s largest express transportation company; TNT Express B.V., formerly TNT Express N.V. (TNT Express), an international express, small-package ground delivery and freight transportation company that was acquired near the end of our 2016 fourth quarter; 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, customer service, technical support, billing and collection services, and certain back-office functions that support 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).

FISCAL YEARS. Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2016 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.

ADVERTISING. Advertising and promotion costs are expensed as incurred and are classified in other operating expenses. Advertising and promotion expenses were $417 million in 2016, $403 million in 2015 and $407 million in 2014.

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 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 and historically have been nominal.

For financial reporting purposes, we record depreciation and amortization of property and equipment on a straight-line basis over the asset s service life or related lease term, if shorter. For income tax purposes, depreciation is computed using accelerated methods when applicable.

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

		Net Book Value at May 31,	
	Range	2016	2015
Wide-body aircraft and related equipment	15 to 30 years	$ 8,356	$ 7,548
Narrow-body and feeder aircraft and related equipment	5 to 18 years	3,180	2,943
Package handling and ground support equipment	3 to 30 years	3,249	2,410
Vehicles	3 to 15 years	3,084	2,717
Computer and electronic equipment	2 to 10 years	1,051	866
Facilities and other	2 to 40 years	5,364	4,391

The fair value of TNT Express property and equipment included in the table above at May 31, 2016 was $1.1 billion. Given the timing of the TNT Express acquisition, this value is preliminary and likely to change during the purchase price allocation measurement period, which ends no later than the fourth quarter of 2017.

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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. As a result of these accelerated retirements, we incurred an additional $74 million in year-over-year accelerated depreciation expense in 2014.

Depreciation and amortization expense, excluding gains and losses on sales of property and equipment used in operations, was $2.6 billion in 2016, 2015 and 2014. 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 $42 million in 2016, $37 million in 2015 and $29 million in 2014.

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, is 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, 2016, we had four aircraft temporarily idled. These aircraft have been idled for less than one year and are 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, 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 2015. 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.

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.

INTANGIBLE ASSETS. Intangible assets primarily include customer relationships, technology assets and trademarks acquired in business combinations. Intangible assets are amortized over periods ranging from 3 to 15 years, either on a straight-line basis or on a basis consistent with the pattern in which the economic benefits are realized.

PENSION AND POSTRETIREMENT HEALTHCARE PLANS. Our defined benefit plans are measured using actuarial techniques that reflect management s assumptions for discount rate, 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. We use the fair value of plan assets to calculate the expected return on plan assets (EROA) for interim and segment reporting purposes. Our EROA is a judgmental matter which is reviewed on an annual basis and revised as appropriate.

The accounting guidance related to employers accounting for defined benefit pension and other postretirement plans requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans. We use mark-to-market or MTM accounting and 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 annual MTM adjustment is recognized at the corporate level and does not impact segment results. The remaining components of pension and postretirement healthcare expense, primarily service and interest costs and the EROA, are recorded on a quarterly basis.

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.

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 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.

DERIVATIVE FINANCIAL INSTRUMENTS. Our recently acquired TNT Express segment maintains a risk management strategy that includes the use of derivative instruments to reduce the effects of volatility in foreign currency exchange exposure on operating results and cash flows. In accordance with our risk management policies, we do not hold or issue derivative instruments for trading or speculative purposes. We account for derivative instruments under the provisions of the accounting guidance related to derivatives and hedging, which requires all derivative instruments to be recognized in the financial statements and measured at fair value, regardless of the purpose or intent for holding them.

Derivatives are recognized in our consolidated balance sheets at their fair values. When we become a party to a derivative instrument and intend to apply hedge accounting, we formally document the hedge relationship and the risk management objective for undertaking the hedge, which includes designating the instrument for financial reporting purposes as a fair value hedge, a cash flow hedge, or a net investment hedge.

If a derivative is designated as a cash flow or net investment hedge, changes in its fair value are considered to be effective and are recorded in accumulated other comprehensive income until the hedged item is recorded in income. Any portion of a change in the fair value of a derivative that is considered to be ineffective, along with the change in fair value of any derivatives not designated in a hedging relationship, is immediately recorded in the income statement.

For derivative instruments designated as hedges, we assess, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. In addition, when we determine that a derivative is not highly effective as a hedge, hedge accounting is discontinued. When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses existing in equity at that time, remain in equity until the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gains or losses that were reported in equity are immediately transferred to the income statement. The financial statement impact of derivative transactions were immaterial for the year ended May 31, 2016 and as such, additional disclosures have been excluded from this report.

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.

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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 that took effect on November 2, 2015. This collective bargaining agreement is scheduled to become amendable in November 2021, after a six-year term. 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 stock option exercises and restricted stock grants.

TREASURY SHARES. In January 2016, the stock repurchase authorization announced in September 2014 for 15 million shares was completed. On January 26, 2016, our Board of Directors approved a new share repurchase program of up to 25 million shares. During 2016, we repurchased 18.2 million shares of FedEx common stock at an average price of $149.35 per share for a total of $2.7 billion. As of May 31, 2016, 19 million shares remained under the share repurchase authorization. Shares under the current repurchase program may be repurchased from time to time in the open market or in privately negotiated transactions. The timing and volume of repurchases are at the discretion of management, based on the capital needs of the business, the market price of FedEx common stock and general market conditions. No time limit was set for the completion of the program, and the program may be suspended or discontinued at any time.

In 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. 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 6, 2016, our Board of Directors declared a quarterly dividend of $0.40 per share of common stock. The dividend was paid on July 1, 2016 to stockholders of record as of the close of business on June 16, 2016. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

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

NOTE 2: RECENT ACCOUNTING GUIDANCE

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

In the second quarter of 2016, we chose to early adopt the authoritative guidance issued by the Financial Accounting Standards Board (FASB) requiring acquirers in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period that the adjustment amounts are determined and eliminates the requirement to

retrospectively account for these adjustments. It also requires additional disclosure about the effects of the adjustments on prior periods. Adoption of this guidance had no impact on our financial reporting. See Note 3 for further discussion regarding our recent business acquisitions.

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 have a material impact on our revenue recognition policies, practices or systems.

On February 25, 2016, the FASB issued the new lease accounting standard which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Expense related to leases determined to be operating leases will be recognized on a straight-line basis, while those determined to be financing leases will be recognized following a front-loaded expense profile in which interest and amortization are presented separately in the income statement. We are currently evaluating the impact of this new standard on our financial reporting, but recognizing the lease liability and related right-of-use asset will significantly impact our balance sheet. These changes will be effective for our fiscal year beginning June 1, 2019 (fiscal 2020), with a modified retrospective adoption method to the beginning of 2018.

On November 20, 2015, the FASB issued an Accounting Standards Update that will require companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet instead of separating deferred taxes into current and noncurrent amounts. This new guidance had minimal impact on our accounting and financial reporting, and we chose to early adopt on a retrospective basis in the fourth quarter of 2016.

In May 2015, the FASB issued an Accounting Standards Update that removes the requirement to categorize within the fair value hierarchy investments for which fair values are estimated using the net asset value practical expedient provided by Accounting Standards Codification 820, Fair Value Measurement. This new guidance is effective for entities for fiscal years beginning after December 15, 2016, with retrospective application to all periods presented. We elected to early adopt this standard, which impacted our fair value disclosures related to retirement benefit plan investments in Note 13 of the accompanying consolidated financial statements but did not otherwise impact our financial statements.

In March 2016, the FASB issued an Accounting Standards Update to simplify the accounting for share-based payment transactions. The new guidance requires companies to recognize the income tax effects of awards that vest or are settled as income tax expense or benefit in the income statement as opposed to additional paid-in capital as is current practice. The guidance also provides clarification of the presentation of certain components of share-based awards in the statement of cash flows. Additionally, the guidance allows companies to make a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. We are currently evaluating the impact of this new standard on our financial reporting. These changes will be effective for our fiscal year beginning June 1, 2017 (fiscal 2018).

We believe that no other new accounting guidance was adopted or issued during 2016 that is relevant to the readers of our financial statements.

NOTE 3: BUSINESS COMBINATIONS

On May 25, 2016, we acquired TNT Express for 4.4 billion (approximately $4.9 billion). Cash acquired in the acquisition was approximately 250 million ($280 million). As of May 31, 2016, $287 million of shares associated with the transaction remained untendered, the majority of which were tendered subsequent to May 31, 2016, and are included in the Other liabilities caption of our consolidated balance sheets. We funded the acquisition with proceeds from our April 2016 debt issuance and existing cash balances. TNT Express s financial results are immaterial from the time of acquisition and are included in Eliminations, corporate and other.

TNT Express collects, transports and delivers documents, parcels and freight to over 200 countries. This strategic acquisition broadens our portfolio of international transportation solutions with the combined strength of TNT Express s strong European road platform and our strength in other regions globally, including North America and Asia.

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This acquisition is included in the accompanying balance sheets based on an allocation of the purchase price (summarized in the table below, in millions). Given the timing and complexity of the acquisition, the presentation of TNT Express in our financial statements, including the allocation of the purchase price, is preliminary and will likely change in future periods, perhaps significantly as fair value estimates of the assets acquired and liabilities assumed are refined during the measurement period. We will complete our purchase price allocation no later than the fourth quarter of 2017.

Current assets[1]	$ 1,905
Property and equipment	1,104
Goodwill	2,964
Identifiable intangible assets	920
Other non-current assets	289
Current liabilities[2]	(1,644)
Long-term liabilities	(644)
Total purchase price	$ 4,894

[1] Primarily accounts receivable and cash.

[2] Primarily accounts payable and other accrued expenses.

As a result of this acquisition, we recognized a preliminary value of $3.0 billion of goodwill, which is primarily attributable to the TNT Express workforce and the expected benefits from synergies of the combination with existing businesses and growth opportunities. The majority of the purchase price allocated to goodwill is not deductible for income tax purposes.

The purchase price was preliminarily allocated to the identifiable intangible assets acquired as follows (in millions):

Intangible assets with finite lives	
Customer relationships (15-year useful life)	$ 685
Technology (4-year useful life)	90
Trademarks (4-year useful life)	145
Total intangible assets	$ 920

See Note 4 for further discussion of our intangible assets.

The following unaudited pro forma consolidated financial information presents the combined operations of FedEx and TNT Express as if the acquisition had occurred at the beginning of 2015 (dollars in millions, except per share amounts):

	(Unaudited)	
	2016	2015
Consolidated revenues	$ 57,899	$ 55,862
Consolidated net income	1,566	595
Diluted earnings per share	$ 5.60	$ 2.07

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The accounting literature establishes guidelines regarding the presentation of this unaudited pro forma information. Therefore, this unaudited pro forma information is not intended to represent, nor do we believe it is indicative of, the consolidated results of operations of FedEx that would have been reported had the acquisition been completed as of the beginning of 2015. Furthermore, this unaudited pro forma information does not give effect to the anticipated business and tax synergies of the acquisition and is not representative or indicative of the anticipated future consolidated results of operations of FedEx.

The unaudited pro forma consolidated financial information reflects our historical financial information and the historical results of TNT Express, after conversion of TNT Express s accounting methods from International Financial Reporting Standards to U.S. generally accepted accounting principles, adjusted to reflect the acquisition had it been completed as of the beginning of 2015. The most significant pro forma adjustments to the historical results of operations relate to the application of purchase accounting and the financing for the acquisition. The unaudited pro forma financial information includes various assumptions, including those related to the preliminary purchase price allocation that may be impacted upon the finalization of the purchase price allocation. The tax impact of these adjustments was calculated based on TNT Express s statutory rate.

Included in the unaudited pro forma net income (net of tax) are nonrecurring acquisition-related costs incurred by TNT Express associated with the sale of TNT Express s airline operations, a condition precedent to the acquisition, and transaction and integration planning expenses of $115 million in 2016. In addition, the TNT Express results include expenses for restructuring, impairments, litigation matters and pension adjustments of approximately $40 million in 2016 and $320 million in 2015.

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, now FedEx CrossBorder, LLC (FedEx CrossBorder), 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 acquiring businesses operated by our previous service provider, Supaswift (Pty) Ltd. (Supaswift), 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.

The financial results of the GENCO, FedEx CrossBorder and Supaswift 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	TNT Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Total
Goodwill at May 31, 2014	$ 1,750	$	$ 90	$ 735	$ 1,525	$ 4,100
Accumulated impairment charges				(133)	(1,177)	(1,310)
Balance as of May 31, 2014	1,750		90	602	348	2,790
Goodwill acquired[1]	40		1,055	38		1,133
Purchase adjustments and other[2]	(113)					(113)
Balance as of May 31, 2015	1,677		1,145	640	348	3,810
Goodwill acquired[1]		2,964				2,964
Purchase adjustments and other[2]	(88)		66	(5)		(27)
Balance as of May 31, 2016	$ 1,589	$ 2,964	$ 1,211	$ 635	$ 348	$ 6,747
Accumulated goodwill impairment charges as of May 31, 2016	$	$	$	$ (133)	$ (1,177)	$ (1,310)

(1) Goodwill acquired relates to the acquisition of transportation companies in Southern Africa in 2014, the acquisition of e-commerce and supply chain solutions companies in 2015, and the acquisition of TNT Express in 2016. See Note 3 for related disclosures.

(2) Primarily currency translation adjustments, acquired goodwill related to immaterial acquisitions, and purchase related adjustments.

Our reporting units with significant recorded goodwill include FedEx Express, TNT Express, FedEx Ground, FedEx Freight, FedEx Office (reported in the FedEx Services segment) and GENCO (reported in the FedEx Ground segment). We evaluated reporting units for impairment during the fourth quarter of 2016 and 2015. The estimated fair value of each of these reporting units exceeded their carrying values in 2016 and 2015, and we do not believe that any of these reporting units were impaired as of the balance sheet dates. The goodwill for our TNT Express reporting unit will be tested beginning in 2017.

Given the timing and complexity of the TNT Express acquisition, the full amount of acquired goodwill has been presented in the TNT Express segment for 2016 as we continue to evaluate benefits from synergies with our FedEx Express segment. Therefore, attribution of this goodwill could change in future periods.

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OTHER INTANGIBLE ASSETS. The summary of our intangible assets and related accumulated amortization at May 31, 2016 and 2015 is as follows (in millions):

	2016			2015		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	$ 912	$ (156)	$ 756	$ 338	$ (151)	$ 187
Technology	123	(16)	107	34	(14)	20
Trademarks and other	202	(57)	145	60	(60)	
Total	$ 1,237	$ (229)	$ 1,008	$ 432	$ (225)	$ 207

Amortization expense for intangible assets was $14 million in 2016, $21 million in 2015 and $23 million in 2014.

Expected amortization expense for the next five years is as follows (in millions):

2017	$ 130
2018	116
2019	115
2020	112
2021	54

Given the timing and complexity of the TNT Express acquisition, the amount and timing of expected amortization expense may change once the purchase price allocation is complete.

NOTE 5: SELECTED CURRENT LIABILITIES

The components of selected current liability captions at May 31 were as follows (in millions):

	2016	2015
Accrued Salaries and Employee Benefits		
Salaries	$ 478	$ 345
Employee benefits, including variable compensation	804	507
Compensated absences	690	584
	$ 1,972	$ 1,436
Accrued Expenses		
Self-insurance accruals	$ 837	$ 865
Taxes other than income taxes	311	328
Other	1,915	1,242
	$ 3,063	$ 2,435

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NOTE 6: LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

The components of long-term debt (net of discounts), along with maturity dates for the years subsequent to May 31, 2016, are as follows (in millions):

			May 31,	
			2016	2015
	Interest Rate%	Maturity		
Senior unsecured debt:	8.00	2019	$ 750	$ 750
	2.30	2020	399	399
	2.625-2.70	2023	749	749
	4.00	2024	749	749
	3.20	2025	699	699
	3.25	2026	749	
	4.90	2034	499	499
	3.90	2035	498	498
	3.875-4.10	2043	992	992
	5.10	2044	749	749
	4.10	2045	646	646
	4.55-4.75	2046	2,483	
	4.50	2065	248	248
	7.60	2098	240	239
Euro senior unsecured debt:	floating rate	2019	559	
	0.50	2020	558	
	1.00	2023	836	
	1.625	2027	1,389	
Total senior unsecured debt			13,792	7,217
Other debt			12	
Capital lease obligations			63	51
			13,867	7,268
Less current portion			29	19
			$ 13,838	$ 7,249

Interest on our U.S. dollar fixed-rate notes is paid semi-annually. Interest on our Euro fixed-rate notes is paid annually. Our floating-rate Euro senior notes bear interest at three-month EURIBOR plus a spread of 55 basis points, and resets quarterly. Long-term debt, exclusive of capital leases, had estimated fair values of $14.3 billion at May 31, 2016 and $7.4 billion at May 31, 2015. The estimated fair values were determined based on quoted market prices and the current rates offered for debt with similar terms and maturities. The fair value of our long-term debt is classified as Level 2 within the fair value hierarchy. This classification is defined as a fair value determined using market-based inputs other than quoted prices that are observable for the liability, either directly or indirectly.

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.

On April 11, 2016, we issued 3 billion of senior unsecured debt under our current shelf registration statement, comprised of 500 million of senior unsecured floating rate notes due in April 2019 with interest payments quarterly, 500 million of senior unsecured 0.5% fixed-rate notes due in April 2020, 750 million of senior unsecured 1.00% fixed-rate notes due in January 2023, and 1.25 billion of senior unsecured 1.625% fixed-rate notes due in January 2027. Interest on the fixed-rate notes is paid annually. We utilized the net proceeds for working capital and general corporate purposes, including our acquisition of TNT Express.

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On March 24, 2016, we issued $2 billion of senior unsecured debt under our current shelf registration statement, comprised of $750 million of senior unsecured 3.25% fixed-rate notes due in April 2026 and $1.25 billion of senior unsecured 4.55% fixed-rate notes due in April 2046. Interest on the notes is paid semiannually. We utilized the net proceeds for working capital and general corporate purposes, including the redemption and the prepayment and defeasance of the underlying debt of certain leveraged operating leases and share repurchases.

On October 23, 2015, we issued under our current shelf registration statement $1.25 billion of senior unsecured 4.75% fixed-rate notes due in November 2045. Interest on the notes is paid semiannually. We utilized the net proceeds for working capital and general corporate purposes, including share repurchases.

On November 13, 2015, we replaced our revolving and letter of credit facilities with a new, single five-year $1.75 billion revolving credit facility that expires in November 2020. The facility, which includes a $500 million letter of credit sublimit, is available to finance our operations and other cash flow needs. The agreement contains a financial covenant, which requires us to maintain a ratio of debt to consolidated earnings (excluding non-cash pension mark-to-market adjustments and non-cash asset impairment charges) before interest, taxes, depreciation and amortization (adjusted EBITDA) of not more than 3.5 to 1.0, calculated as of the end of the applicable quarter on a rolling four quarters basis. The ratio of our debt to adjusted EBITDA was 1.9 to 1.0 at May 31, 2016. We believe this 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 financial 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, 2016, no commercial paper was outstanding. However, we had a total of $318 million in letters of credit outstanding at May 31, 2016, with $182 million of the letter of credit sublimit unused under our revolving credit facility.

NOTE 7: LEASES

We utilize certain aircraft, land, facilities, retail locations and equipment under capital and operating leases that expire at various dates through 2046. We leased 10% of our total aircraft fleet under operating leases as of May 31, 2016 and May 31, 2015. A portion of our supplemental aircraft are leased by us under agreements that provide for cancellation upon 30 days notice. Our leased facilities include national, regional and metropolitan sorting facilities, retail facilities and administrative buildings.

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

	2016	2015	2014
Minimum rentals	$ 2,394	$ 2,249	$ 2,154
Contingent rentals[(1)]	214	194	197
	$ 2,608	$ 2,443	$ 2,351

[(1)] Contingent rentals are based on equipment usage.

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A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at May 31, 2016 is as follows (in millions):

	Operating Leases		
	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2017	$ 454	$ 2,021	$ 2,475
2018	383	1,860	2,243
2019	321	1,632	1,953
2020	240	1,428	1,668
2021	182	1,269	1,451
Thereafter	352	7,671	8,023
Total	$ 1,932	$ 15,881	$ 17,813

Property and equipment recorded under capital leases and future minimum lease payments under capital leases were immaterial at May 31, 2016 and 2015. The weighted-average remaining lease term of all operating leases outstanding at May 31, 2016 was approximately six years. While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of insurance, none of our lease agreements include material financial covenants or limitations.

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

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

NOTE 8: PREFERRED STOCK

Our Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 4,000,000 shares of preferred stock. The stock is issuable in series, which may vary as to certain rights and preferences, and has no par value. As of May 31, 2016, none of these shares had been issued.

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NOTE 9: ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table provides changes in accumulated other comprehensive income (loss) (AOCI), net of tax, reported in the consolidated financial statements for the years ended May 31 (in millions; amounts in parentheses indicate debits to AOCI):

	2016	2015	2014
Foreign currency translation gain (loss):			
Balance at beginning of period	$ (253)	$ 81	$ 106
Translation adjustments	(261)	(334)	(25)
Balance at end of period	(514)	(253)	81
Retirement plans adjustments:			
Balance at beginning of period	425	425	501
Prior service credit and other arising during period	(4)	72	1
Reclassifications from AOCI	(76)	(72)	(77)
Balance at end of period	345	425	425
Accumulated other comprehensive (loss) income at end of period	$ (169)	$ 172	$ 506

The following table presents details of the reclassifications from AOCI for the years ended May 31 (in millions; amounts in parentheses indicate debits to earnings):

	Amount Reclassified from AOCI			Affected Line Item in the Income Statement
	2016	2015	2014	
Amortization of retirement plans prior service credits, before tax	$ 121	$ 115	$ 115	Salaries and employee benefits
Income tax benefit	(45)	(43)	(38)	Provision for income taxes
AOCI reclassifications, net of tax	$ 76	$ 72	$ 77	Net income

NOTE 10: STOCK-BASED COMPENSATION

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

	2016	2015	2014
Stock-based compensation expense	$ 144	$ 133	$ 117

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

STOCK OPTIONS. Under the provisions of our incentive stock plans, key employees and non-employee directors may be granted options to purchase shares of our common stock at a price not less than its fair market value on the date of grant. Vesting requirements are determined at the discretion of the Compensation Committee of our Board of Directors (or our Board of Directors with respect to grants to non-employee directors). Option-vesting periods range from one to four years, with 82% of our options vesting ratably over four years. Compensation expense associated with these awards is recognized on a straight-line basis over the requisite service period of the award.

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RESTRICTED STOCK. Under the terms of our incentive stock plans, restricted shares of our common stock are awarded to key employees. All restrictions on the shares expire ratably over a four-year period. Shares are valued at the market price on the date of award. The terms of our restricted stock provide for continued vesting subsequent to the employee s retirement. Compensation expense associated with these awards is recognized on a straight-line basis over the shorter of the remaining service or vesting period.

VALUATION AND ASSUMPTIONS. We use the Black-Scholes option pricing model to calculate the fair value of stock options. The value of restricted stock awards is based on the stock price of the award on the grant date. We record stock-based compensation expense in the Salaries and employee benefits caption in the accompanying consolidated statements of income.

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

	2016	2015	2014
Weighted-average Black-Scholes value	$ 52.40	$ 53.33	$ 35.79
Intrinsic value of options exercised	$ 115	$ 253	$ 347
Black-Scholes Assumptions:			
Expected lives	6.4 years	6.3 years	6.2 years
Expected volatility	28%	34%	35%
Risk-free interest rate	1.94%	2.02%	1.47%
Dividend yield	0.519%	0.448%	0.561%

The expected life represents an estimate of the period of time options are expected to remain outstanding, and we examine actual stock option exercises to determine the expected life of the options. Options granted have a maximum term of 10 years. Expected volatilities are based on the actual changes in the market value of our stock and are calculated using daily market value changes from the date of grant over a past period equal to the expected life of the options. The risk-free interest rate is the U.S. Treasury Strip rate posted at the date of grant having a term equal to the expected life of the option. The expected dividend yield is the annual rate of dividends per share over the exercise price of the option.

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The following table summarizes information about stock option activity for the year ended May 31, 2016:

	Stock Options			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)[1]
Outstanding at June 1, 2015	14,221,824	$ 101.54		
Granted	2,229,582	171.41		
Exercised	(1,822,547)	100.40		
Forfeited	(187,428)	138.40		
Outstanding at May 31, 2016	14,441,431	$ 111.99	6.0	$ 795
Exercisable	8,717,768	$ 92.93	4.6	$ 629
Expected to vest	5,408,862	$ 141.03	8.1	$ 156
Available for future grants	10,948,196			

[1] Only presented for options with market value at May 31, 2016 in excess of the exercise price of the option.

The options granted during the year ended May 31, 2016 are primarily related to our principal annual stock option grant in June 2015.

The following table summarizes information about vested and unvested restricted stock for the year ended May 31, 2016:

	Restricted Stock	
	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 1, 2015	439,042	$ 112.87
Granted	139,838	168.83
Vested	(185,933)	104.42
Forfeited	(3,795)	158.82
Unvested at May 31, 2016	389,152	$ 136.57

During the year ended May 31, 2015, there were 154,115 shares of restricted stock granted with a weighted-average fair value of $148.89. During the year ended May 31, 2014, there were 191,964 shares of restricted stock granted with a weighted-average fair value of $100.80.

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

	Stock Options	
	Vested during the year	Fair value (in millions)
2016	2,572,129	$ 98
2015	2,611,524	83
2014	2,408,179	65

As of May 31, 2016, there was $188 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share-based compensation arrangements. This compensation expense is expected to be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately two years.

Total shares outstanding or available for grant related to equity compensation at May 31, 2016 represented 9% of the total outstanding common and equity compensation shares and equity compensation shares available for grant.

NOTE 11: COMPUTATION OF EARNINGS PER SHARE

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

	2016	2015	2014
Basic earnings per common share:			
Net earnings allocable to common shares[1]	$ 1,818	$ 1,048	$ 2,320
Weighted-average common shares	276	283	307
Basic earnings per common share	$ 6.59	$ 3.70	$ 7.56
Diluted earnings per common share:			
Net earnings allocable to common shares[1]	$ 1,818	$ 1,048	$ 2,320
Weighted-average common shares	276	283	307
Dilutive effect of share-based awards	3	4	3
Weighted-average diluted shares	279	287	310
Diluted earnings per common share	$ 6.51	$ 3.65	$ 7.48
Anti-dilutive options excluded from diluted earnings per common share	3.9	2.1	3.3

[1] Net earnings available to participating securities were immaterial in all periods presented.

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NOTE 12: INCOME TAXES

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

	2016	2015	2014
Current provision			
Domestic:			
Federal	$ 513	$ 795	$ 624
State and local	72	102	56
Foreign	200	214	194
	785	1,111	874
Deferred provision (benefit)			
Domestic:			
Federal	155	(474)	360
State and local	(18)	(47)	82
Foreign	(2)	(13)	18
	135	(534)	460
	$ 920	$ 577	$ 1,334

Pre-tax earnings of foreign operations for 2016, 2015 and 2014 were $905 million, $773 million and $412 million, respectively. These amounts represent only a portion of total results associated with international shipments and do not represent our international results of operations.

A reconciliation of total income tax expense and the amount computed by applying the statutory federal income tax rate (35%) to income before taxes for the years ended May 31 is as follows (in millions):

	2016	2015	2014
Taxes computed at federal statutory rate	$ 959	$ 569	$ 1,280
Increases (decreases) in income tax from:			
State and local income taxes, net of federal benefit	33	36	90
Foreign operations	(50)	(43)	(38)
Internal restructuring	(76)		
TNT Express acquisition costs	40		
Other, net	14	15	2
	$ 920	$ 577	$ 1,334
Effective Tax Rate	33.6%	35.5%	36.5%

Our 2016 tax rate was favorably impacted by $76 million from an internal corporate restructuring done in anticipation of the integration of the foreign operations of FedEx Express and TNT Express. As part of this restructuring, our Canadian subsidiary made distributions to our U.S. operations which resulted in the recognition of U.S. foreign tax credits in excess of the U.S. taxes incurred from the distributions. This favorable impact was partially offset by a $40 million tax expense attributable to non-deductible expenses incurred as part of the TNT Express acquisition.

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

	2016		2015	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment, leases and intangibles	$ 129	$ 4,767	$ 93	$ 3,872
Employee benefits	2,453		2,029	13
Self-insurance accruals	681		607	
Other	528	343	477	414
Net operating loss/credit carryforwards	925		326	
Valuation allowances	(738)		(224)	
	$ 3,978	$ 5,110	$ 3,308	$ 4,299

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

	2016	2015
Noncurrent deferred tax assets[1]	$ 435	$ 219
Noncurrent deferred tax liabilities	(1,567)	(1,210)
	$ (1,132)	$ (991)

[1] Noncurrent deferred tax assets are included in the line item Other Assets in our consolidated balance sheets.
The table above has been revised to reflect the new accounting standard discussed in Note 2 which requires companies to classify all deferred tax assets and liabilities as noncurrent on the balance sheet.

We have approximately $3.0 billion of net operating loss carryovers in various foreign jurisdictions and $581 million of state operating loss carryovers. The valuation allowances primarily represent amounts reserved for operating loss and tax credit carryforwards, which expire over varying periods starting in 2017. The change in the valuation allowance is primarily due to the increase in net operating losses as a result of the acquisition of TNT Express. As a result of this and other factors, we believe that a substantial portion of these deferred tax assets may not be realized. We establish valuation allowances if it is more likely than not that deferred income tax assets will not be realized. In making this determination, we consider all available positive and negative evidence and make certain assumptions. We consider, among other things, our future projections of sustained profitability, deferred income tax liabilities, the overall business environment, our historical financial results and potential current and future tax planning strategies. If we were to identify and implement tax planning strategies to recover these deferred tax assets or generate sufficient income of the appropriate character in these jurisdictions in the future, it could lead to the reversal of these valuation allowances and a reduction of income tax expense. We believe that we will generate sufficient future taxable income to realize the tax benefits related to the remaining net deferred tax assets in our consolidated balance sheets.

Permanently reinvested earnings of our foreign subsidiaries amounted to $1.6 billion at the end of 2016 and $1.9 billion at the end of 2015. Our permanently reinvested earnings were reduced in 2016 due to an internal corporate restructuring done to facilitate the integration of FedEx Express and TNT Express. We have not recognized deferred taxes for U.S. federal income tax purposes on those earnings. In 2016, our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided an approximate $48 million benefit to our provision for income taxes. Were the earnings to be distributed, in the form of dividends or otherwise, these earnings could be subject to U.S. federal income tax and non-U.S. withholding taxes. Unrecognized foreign tax credits potentially could be available to reduce a portion of any U.S. tax liability. Determination of the amount of unrecognized

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deferred U.S. income tax liability is not practicable due to uncertainties related to the timing and source of any potential distribution of such funds, along with other important factors such as the amount of associated foreign tax credits. Cash in offshore jurisdictions associated with our permanent reinvestment strategy totaled $522 million at the end of 2016 and $478 million at the end of 2015.

In 2016, approximately 80% of our total enterprise-wide income was earned in U.S. companies of FedEx that are taxable in the United States. As a U.S. airline, our FedEx Express unit is required by Federal Aviation Administration and other rules to conduct its air operations, domestic and international, through a U.S. company. However, we serve more than 220 countries and territories around the world, and are required to establish legal entities in many of them. Most of our entities in those countries are operating entities, engaged in picking up and delivering packages and performing other transportation services. We are continually expanding our global network to meet our customers needs, which requires increasing investment outside the U.S. We typically use cash generated overseas to fund these investments and have a foreign holding company which manages our investments in several foreign operating companies.

We are subject to taxation in the U.S. and various U.S. state, local and foreign jurisdictions. During 2016, the Internal Revenue Service completed the audit of our 2012 and 2013 tax returns without any significant adjustments. It is reasonably possible that certain income tax return proceedings will be completed during the next 12 months and could result in a change in our balance of unrecognized tax benefits. The expected impact of any changes would not be material to our consolidated financial statements.

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

	2016	2015	2014
Balance at beginning of year	$ 36	$ 38	$ 47
Increases for tax positions taken in the current year	3	1	1
Increases for tax positions taken in prior years	3	6	3
Increase for business acquisition	25		
Decreases for tax positions taken in prior years	(5)	(2)	(3)
Settlements	(4)	(2)	(6)
Decreases from lapse of statute of limitations	(7)		(3)
Changes due to currency translation	(2)	(5)	(1)
Balance at end of year	$ 49	$ 36	$ 38

Our liabilities recorded for uncertain tax positions include $45 million at May 31, 2016 and $31 million at May 31, 2015 associated with positions that if favorably resolved would provide a benefit to our effective tax rate. We classify interest related to income tax liabilities as interest expense and, if applicable, penalties are recognized as a component of income tax expense. The balance of accrued interest and penalties was $11 million on May 31, 2016 and $19 million on May 31, 2015. Total interest and penalties included in our consolidated statements of income are immaterial.

It is difficult to predict the ultimate outcome or the timing of resolution for tax positions. Changes may result from the conclusion of ongoing audits, appeals or litigation in state, local, federal and foreign tax jurisdictions, or from the resolution of various proceedings between U.S. and foreign tax authorities. Our liability for uncertain tax positions includes no matters that are individually or collectively material to us. It is reasonably possible that the amount of the benefit with respect to certain of our unrecognized tax positions will increase or decrease within the next 12 months, but an estimate of the range of the reasonably possible changes cannot be made. However, we do not expect that the resolution of any of our uncertain tax positions will have a material effect on us.

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NOTE 13: RETIREMENT PLANS

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

The accounting guidance related to postretirement benefits requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in either expense or AOCI of unrecognized gains or losses and prior service costs or credits. During 2015, we adopted mark-to-market accounting for the recognition of our actuarial gains and losses related to our defined benefit pension and postretirement healthcare plans as described in Note 1. The funded status is measured as the difference between the fair value of the plan s assets and the projected benefit obligation (PBO) of the plan.

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

	2016	2015	2014
Defined benefit pension plans	$ 214	$ (41)	$ 99
Defined contribution plans	416	385	363
Postretirement healthcare plans	82	81	78
Retirement plans mark-to-market adjustment	1,498	2,190	15
	$ 2,210	$ 2,615	$ 555

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

	2016	2015	2014
Actual versus expected return on assets	$ 1,285	$ (35)	$ (1,013)
Discount rate changes	1,129	791	705
Demographic assumption experience	(916)	1,434	323
Total mark-to-market loss	$ 1,498	$ 2,190	$ 15

2016

The actual rate of return on our tax-qualified U.S. domestic pension plans (U.S. Pension Plans) assets of 1.2% was lower than our expected return of 6.50% primarily due to a challenging environment for global equities and other risk-seeking asset classes. The weighted average discount rate for all of our pension and postretirement healthcare plans declined from 4.38% at May 31, 2015 to 4.04% at May 31, 2016. The demographic assumption experience in 2016 reflects a change in disability rates and an increase in the average retirement age for U.S. pension and other postemployment benefit plans.

2015

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.

2014

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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PENSION PLANS. Our largest pension plan covers certain U.S. employees age 21 and over, with at least one year of service. Pension benefits for most employees are accrued under a cash balance formula we call the Portable Pension Account. Under the Portable Pension Account, the retirement benefit is expressed as a dollar amount in a notional account that grows with annual credits based on pay, age and years of credited service, and interest on the notional account balance. The Portable Pension Account benefit is payable as a lump sum or an annuity at retirement at the election of the employee. The plan interest credit rate varies from year to year based on a U.S. Treasury index. Prior to 2009, certain employees earned benefits using a traditional pension formula (based on average earnings and years of service). Benefits under this formula were capped on May 31, 2008 for most employees.

We also sponsor or participate in nonqualified benefit plans covering certain of our U.S. employee groups and other pension plans covering certain of our international employees. The international defined benefit pension plans provide benefits primarily based on earnings and years of service and are funded in compliance with local laws and practices. The majority of our international obligations are for defined benefit pension plans in the Netherlands and the United Kingdom. The TNT Express acquisition added a number of defined benefit pension plans, the most significant of which are in the Netherlands, Germany, Italy and Belgium. At May 31, 2016, the total projected benefit obligation for all of these defined benefit plans is $907 million and the total fair value of assets is $761 million. The assets of the largest acquired plan are primarily invested in fixed income managed funds. At May 31, 2016, the weighted average discount rate for all of these defined benefit plans is 2.25% and the expected return on assets used to calculate 2017 expense is 3.29%. Our international pension PBO at May 31, 2016, is approximately 6% of the total pension obligation, and therefore, disaggregated disclosures have not been provided.

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

PENSION PLAN ASSUMPTIONS. We use a measurement date of May 31 for our pension and postretirement healthcare plans. Management reviews the assumptions used to measure pension costs on an annual basis. Economic and market conditions at the measurement date impact these assumptions from year to year. Actuarial gains or losses are generated for changes in assumptions and to the extent that actual results differ from those assumed. These actuarial gains and losses are immediately recognized and expensed in the fourth quarter mark-to-market adjustment.

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

	Pension Plans			Postretirement Healthcare Plans		
	2016	2015	2014	2016	2015	2014
Discount rate used to determine benefit obligation	4.13%	4.42%	4.60%	4.41%	4.60%	4.70%
Discount rate used to determine net periodic benefit cost	4.42	4.60	4.79	4.60	4.70	4.91
Rate of increase in future compensation levels used to determine benefit obligation	4.46	4.62	4.56			
Rate of increase in future compensation levels used to determine net periodic benefit cost	4.62	4.56	4.54			
Expected long-term rate of return on assets - Consolidated	6.50	7.75	7.75			
Expected long-term rate of return on assets - Segment Reporting	6.50	6.50	6.50			

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 tradable 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 follow a liability-driven investment strategy to better align plan assets with liabilities.

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 6.5% expected long-term rate of return on our U.S. Pension Plan assets in 2016 and 7.75% in 2015 and 2014. We lowered our EROA assumption in 2016 as we continued 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 liabilities. Our actual return in 2016 was less than the expected return. Our actual returns in 2015 and 2014, however, exceeded those long-term assumptions. Our actual return on plan assets has contracted from 2015 due to lower than expected returns on public equities. For the 15-year period ended May 31, 2016, our actual returns were 6.9%.

The investment strategy for pension plan assets is to utilize a diversified mix of global public and private equity portfolios, together with fixed-income portfolios, to earn a long-term investment return that meets our pension plan obligations. Our largest asset classes are Corporate Fixed Income Securities and Government Fixed Income Securities (which are largely benchmarked against the Barclays Long Government/Long Corporate Index), and U.S. and International Large Cap Equities (which are mainly indexed to the S&P 500 Index and other global indices). Accordingly, we do not have any significant concentrations of risk. Active management strategies are utilized within the plan in an effort to realize investment returns in excess of market indices. Our investment strategy also includes the limited use of derivative financial instruments on a discretionary basis to improve investment returns and manage exposure to market risk. In all cases, our investment managers are prohibited from using derivatives for speculative purposes and are not permitted to use derivatives to leverage a portfolio.

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

Cash and cash equivalents. These Level 1 investments include cash, cash equivalents and foreign currency valued using exchange rates. These Level 2 investments include short-term investment funds which are collective funds priced at a constant value by the administrator of the funds.

Domestic, international and global equities. These Level 1 investments are valued at the closing price or last trade reported on the major market on which the individual securities are traded. These Level 2 investments include mutual funds.

Fixed income. We determine the fair value of these Level 2 corporate bonds, U.S. and non-U.S. government securities and other fixed income securities by using bid evaluation pricing models or quoted prices of securities with similar characteristics.

Alternative Investments. The valuation of these Level 3 investments requires significant judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. Investments in private equity, debt, real estate and other private investments are valued at estimated fair value based on quarterly financial information received from the investment advisor and/or general partner. These estimates incorporate factors such as contributions and distributions, market transactions, market comparables and performance multiples.

In accordance with recently updated accounting standards, certain investments in 2016 and 2015 that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified as Level 1, 2 or 3 in the below fair value hierarchy but are included in the total. As a result, a reclassification has been made to the prior year s plan asset classification table to conform to the current year s presentation, which also resulted in the removal of the prior year Level 3 asset roll-forward. See Note 2 for additional information.

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The fair values of investments by level and asset category and the weighted-average asset allocations for our U.S. Pension Plans at the measurement date are presented in the following table (in millions):

	Plan Assets at Measurement Date					
	2016					
Asset Class	Fair Value	Actual %	Target Range %	Quoted Prices in Active Markets Level 1	Other Observable Inputs Level 2	Unobservable Inputs Level 3
Cash and cash equivalents	$ 568	2%	0 - 5%	$ 76	$ 492	
Equities			35 - 55			
U.S. large cap equity[1]	3,257	14		750		
International equities[1]	3,381	15		2,685	121	
Global equities[1]	2,794	12				
U.S. SMID cap equity	913	4		913		
Fixed income securities			45 - 65			
Corporate	6,608	29			6,608	
Government	5,148	22			5,148	
Mortgage backed and other[1]	347	2			146	
Alternative investments[1]	322	1	0 - 5			48
Other	(321)	(1)		(305)	(16)	
	$ 23,017	100%		$ 4,119	$ 12,499	$ 48

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy but are included in the total.

	2015				
Asset Class	Fair Value	Actual %	Target Range %	Quoted Prices in Active Markets Level 1	Other Observable Inputs Level 2
Cash and cash equivalents	$ 738	3%	0 - 5%	$ 36	$ 702
Equities			35 - 55		
U.S. large cap equity[1]	4,291	19		302	
International equities[1]	3,064	14		2,429	1
Global equities[1]	2,579	11			
U.S. SMID cap equity	979	4		979	
Fixed income securities			45 - 65		
Corporate	6,455	28			6,455
Government	4,645	20			4,645
Mortgage backed and other[1]	213	1			153
Alternative investments[1]	226	1	0 - 5		
Other	(184)	(1)		(181)	(3)
	$ 23,006	100%		$ 3,565	$ 11,953

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy but are included in the total.

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

	2016
Balance at beginning of year[1]	$
Actual return on plan assets:	
Assets held during current year	2
Assets sold during the year	
Purchases, sales and settlements	46
Balance at end of year	$ 48

[1] Investments classified in prior years as Level 3 that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have been removed from the fair value hierarchy in accordance with retrospective adoption of recently updated accounting standards. See Note 2 for additional information.

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The following table provides a reconciliation of the changes in the pension and postretirement healthcare plans benefit obligations and fair value of assets over the two-year period ended May 31, 2016 and a statement of the funded status as of May 31, 2016 and 2015 (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	2016	2015	2016	2015
Accumulated Benefit Obligation (ABO)	$ 28,845	$ 26,793		
Changes in Projected Benefit Obligation (PBO) and Accumulated Postretirement Benefit Obligation (APBO)				
PBO/APBO at the beginning of year	$ 27,512	$ 24,578	$ 929	$ 883
Service cost	662	653	40	40
Interest cost	1,180	1,096	42	41
Actuarial loss	277	2,231	(64)	6
Benefits paid	(912)	(815)	(78)	(73)
Business acquisition	907			
Other	(24)	(231)	36	32
PBO/APBO at the end of year	$ 29,602	$ 27,512	$ 905	$ 929
Change in Plan Assets				
Fair value of plan assets at the beginning of year	$ 23,505	$ 21,907	$	$
Actual return on plan assets	223	1,718		
Company contributions	726	746	42	37
Benefits paid	(912)	(815)	(78)	(73)
Business acquisition	761			
Other	(32)	(51)	36	36
Fair value of plan assets at the end of year	$ 24,271	$ 23,505	$	$
Funded Status of the Plans	$ (5,331)	$ (4,007)	$ (905)	$ (929)
Amount Recognized in the Balance Sheet at May 31:				
Noncurrent asset	$ 53	$ 26	$	$
Current pension, postretirement healthcare and other benefit obligations	(31)	(34)	(40)	(42)
Noncurrent pension, postretirement healthcare and other benefit obligations	(5,353)	(3,999)	(865)	(887)
Net amount recognized	$ (5,331)	$ (4,007)	$ (905)	$ (929)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost:				
Prior service credit and other	$ (546)	$ (668)	$	$
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost expected to be amortized in next year s Net Periodic Benefit Cost:				
Prior service credit and other	$ (121)	$ (121)	$	$

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Our pension plans included the following components at May 31 (in millions):

	PBO	Fair Value of Plan Assets	Funded Status
2016			
Qualified	$ 27,543	$ 23,017	$ (4,526)
Nonqualified	261		(261)
International Plans	1,798	1,254	(544)
Total	$ 29,602	$ 24,271	$ (5,331)
2015			
Qualified	$ 26,365	$ 23,006	$ (3,359)
Nonqualified	271		(271)
International Plans	876	499	(377)
Total	$ 27,512	$ 23,505	$ (4,007)

The table above provides the PBO, fair value of plan assets and funded status of our pension plans on an aggregated basis. The following table presents our plans on a disaggregated basis to show those plans (as a group) whose assets did not exceed their liabilities. The fair value of plan assets for pension plans with a PBO or ABO in excess of plan assets at May 31 were as follows (in millions):

	PBO Exceeds the Fair Value of Plan Assets	
	2016	2015
Pension Benefits		
Fair value of plan assets	$ 23,867	$ 23,099
PBO	(29,251)	(27,132)
Net funded status	$ (5,384)	$ (4,033)

	ABO Exceeds the Fair Value of Plan Assets	
	2016	2015
Pension Benefits		
ABO[1]	$ (28,493)	$ (26,413)
Fair value of plan assets	23,865	23,099
PBO	(29,249)	(27,132)
Net funded status	$ (5,384)	$ (4,033)

[1] ABO not used in determination of funded status.

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

	2016	2015
Required	$ 8	$ 388
Voluntary	652	272
	$ 660	$ 660

For 2017, we anticipate making contributions to our U.S. Pension Plans totaling $1.0 billion (approximately $615 million of which are required).

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

	Pension Plans			Postretirement Healthcare Plans		
	2016	2015	2014	2016	2015	2014
Service cost	$ 662	$ 653	$ 657	$ 40	$ 40	$ 38
Interest cost	1,180	1,096	1,055	42	41	40
Expected return on plan assets	(1,508)	(1,678)	(1,495)			
Amortization of prior service credit	(121)	(115)	(115)			
Actuarial losses (gains) and other	1,562	2,190	7	(64)	6	5
Net periodic benefit cost	$ 1,775	$ 2,146	$ 109	$ 18	$ 87	$ 83

Amounts recognized in other comprehensive income (OCI) for all plans for the years ended May 31 were as follows (in millions):

	2016				2015			
	Pension Plans		Postretirement Healthcare Plans		Pension Plans		Postretirement Healthcare Plans	
	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount
Prior service cost arising during period	$	$	$	$	$ (113)	$ (72)	$ (1)	$
Amortizations:								
Prior services credit	121	76			115	72		
Total recognized in OCI	$ 121	$ 76	$	$	$ 2	$	$ (1)	$

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

	Pension Plans	Postretirement Healthcare Plans
2017	$ 982	$ 40
2018	1,010	41
2019	1,091	43
2020	1,201	42
2021	1,287	43

2022-2026	8,424	240

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

Future medical benefit claims costs are estimated to increase at an annual rate of 8.3% during 2017, decreasing to an annual growth rate of 4.50% in 2037 and thereafter. A 1% change in these annual trend rates would not have a significant impact on the APBO at May 31, 2016 or 2016 benefit expense because the level of these benefits is capped.

NOTE 14: BUSINESS SEGMENT INFORMATION

FedEx Express, TNT 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 Group:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (air and ocean freight forwarding, customs brokerage and cross-border enablement technology and solutions) FedEx SupplyChain Systems (logistics services)
TNT Express Segment	TNT Express (international express transportation, small-package ground delivery and freight transportation)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) 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, customer service, technical support, billing and collection services and back-office functions) FedEx Office (document and business services and package acceptance)

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to obtain synergies from the combination of these functions. For the international regions of FedEx Express, some of these functions are performed on a regional basis by FedEx Express and reported in the FedEx Express segment in their natural expense line items. The FedEx Services segment includes: FedEx Services, which provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services for U.S. customers of our major business units and certain back-office support to our other companies; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses.

The FedEx Services segment provides direct and indirect support to our transportation businesses, and we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office, which are an immaterial component of our allocations, are allocated to FedEx Express and FedEx Ground. 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.

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Operating expenses for each of our transportation segments include the allocations from the FedEx Services segment to the respective transportation segments. These allocations also include charges and credits for administrative services provided between operating companies. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses.

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.

Corporate and other includes corporate headquarters costs for executive officers and certain legal and financial functions, as well as certain other costs and credits not attributed to our core business. These costs are not allocated to the business segments. In 2016, these costs include our annual mark-to-market benefit plans adjustment, transaction and integration planning expenses related to our TNT Express acquisition, provisions for the settlement of and expected losses related to independent contractor litigation matters at FedEx Ground and the settlement of a U.S. Customs and Border Protection (CBP) notice of action (both legal matters are net of recognized immaterial insurance recovery).

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

	FedEx Express Segment[1]	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Eliminations, corporate and other[2][3]	Consolidated Total
Revenues						
2016	$ 26,451	$ 16,574	$ 6,200	$ 1,593	$ (453)	$ 50,365
2015	27,239	12,984	6,191	1,545	(506)	47,453
2014	27,121	11,617	5,757	1,536	(464)	45,567
Depreciation and amortization						
2016	$ 1,385	$ 608	$ 248	$ 384	$ 6	$ 2,631
2015	1,460	530	230	390	1	2,611
2014	1,488	468	231	399	1	2,587
Operating income						
2016	$ 2,519	$ 2,276	$ 426	$	$ (2,144)	$ 3,077
2015	1,584	2,172	484		(2,373)	1,867
2014	1,428	2,021	351		15	3,815
Segment assets[4]						
2016	$ 21,207	$ 13,098	$ 3,749	$ 5,390	$ 2,620	$ 46,064
2015	20,382	11,691	3,471	5,356	(4,369)	36,531
2014	19,901	8,466	3,216	5,186	(3,699)	33,070

(1) FedEx Express segment 2015 operating income 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.

(2) Operating income includes a loss of $1.5 billion in 2016, $2.2 billion in 2015 and $15 million in 2014 associated with our mark-to-market pension accounting. Operating income in 2016 includes provisions for the settlement of and expected losses related to independent contractor litigation matters at FedEx Ground for $256 million and expenses related to the settlement of a CBP notice of action in the amount of $69 million, in each case net of recognized immaterial insurance recovery. 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.

(3) Includes TNT Express s assets and immaterial financial results from the time of acquisition (May 25, 2016).

(4) Segment assets include intercompany receivables.

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

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Other	Consolidated Total
2016	$ 2,356	$ 1,597	$ 433	$ 432	$	$ 4,818
2015	2,380	1,248	337	381	1	4,347
2014	1,994	850	325	363	1	3,533

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

	2016	2015	2014
REVENUE BY SERVICE TYPE			
FedEx Express segment:			
Package:			
U.S. overnight box	$ 6,763	$ 6,704	$ 6,555
U.S. overnight envelope	1,662	1,629	1,636
U.S. deferred	3,379	3,342	3,188
Total U.S. domestic package revenue	11,804	11,675	11,379
International priority	5,697	6,251	6,451
International economy	2,282	2,301	2,229
Total international export package revenue	7,979	8,552	8,680
International domestic[1]	1,285	1,406	1,446
Total package revenue	21,068	21,633	21,505
Freight:			
U.S.	2,481	2,300	2,355
International priority	1,384	1,588	1,594
International airfreight	126	180	205
Total freight revenue	3,991	4,068	4,154
Other[2]	1,392	1,538	1,462
Total FedEx Express segment	26,451	27,239	27,121
FedEx Ground segment:			
FedEx Ground	15,050	12,568	11,617
GENCO	1,524	416	
Total FedEx Ground segment	16,574	12,984	11,617
FedEx Freight segment	6,200	6,191	5,757
FedEx Services segment	1,593	1,545	1,536
Other and eliminations[3]	(453)	(506)	(464)
	$ 50,365	$ 47,453	$ 45,567
GEOGRAPHICAL INFORMATION[4]			
Revenues:			
U.S.	$ 38,070	$ 34,216	$ 32,259
International:			
FedEx Express segment	11,672	12,772	12,916
FedEx Ground segment	383	311	248

FedEx Freight segment	137	142	130
FedEx Services segment	10	12	14
Other[3]	93		
Total international revenue	12,295	13,237	13,308
	$ 50,365	$ 47,453	$ 45,567
Noncurrent assets:			
U.S.	$ 26,047	$ 23,582	$ 20,658
International	8,028	2,614	2,729
	$ 34,075	$ 26,196	$ 23,387

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

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

(3) Includes TNT Express s revenue from the time of acquisition (May 25, 2016).

(4) International revenue includes shipments that either originate in or are destined to locations outside the United States, which could include U.S. payors. Noncurrent assets include property and equipment, goodwill and other long-term assets. Our flight equipment is registered in the U.S. and is included as U.S. assets; however, many of our aircraft operate internationally.

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NOTE 15: SUPPLEMENTAL CASH FLOW INFORMATION

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

	2016	2015	2014
Cash payments for:			
Interest (net of capitalized interest)	$ 321	$ 201	$ 131
Income taxes	$ 996	$ 1,122	$ 820
Income tax refunds received	(5)	(9)	(54)
Cash tax payments, net	$ 991	$ 1,113	$ 766

NOTE 16: GUARANTEES AND INDEMNIFICATIONS

In conjunction with certain transactions, primarily the lease, sale or purchase of operating assets or services in the ordinary course of business and in connection with business acquisitions, we may provide routine guarantees or indemnifications (e.g., environmental, fuel, tax and software infringement), the terms of which range in duration, and often they are not limited and have no specified maximum obligation. As a result of the TNT Express acquisition, we have assumed a guarantee related to the demerger of TNT Express and PostNL Holding B.V., which occurred in 2011 for pension benefits earned prior to the date of the demerger. The risk of making payments associated with this guarantee is remote. The overall maximum potential amount of the obligation under such guarantees and indemnifications cannot be reasonably estimated. Historically, we have not been required to make significant payments under our guarantee or indemnification obligations and no material amounts have been recognized in our financial statements for the underlying fair value of these obligations.

NOTE 17: COMMITMENTS

Annual purchase commitments under various contracts as of May 31, 2016 were as follows (in millions):

	Aircraft and Aircraft Related	Other[1]	Total
2017	$ 1,212	$ 1,235	$ 2,447
2018	1,770	401	2,171
2019	1,563	264	1,827
2020	1,620	193	1,813
2021	1,476	120	1,596
Thereafter	4,240	108	4,348
Total	$ 11,881	$ 2,321	$ 14,202

(1) Primarily equipment, advertising contracts and, in 2017, approximately $615 million of estimated required quarterly contributions to our U.S. Pension Plans.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of May 31, 2016, our obligation to purchase four Boeing 767-300 Freighter (B767F) aircraft and seven Boeing 777 Freighter (B777F) aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

We have several aircraft modernization programs underway that are supported by the purchase of B777F and B767F 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.

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During July 2015, FedEx Express entered into a supplemental agreement to purchase 50 additional B767F aircraft from Boeing. The 50 additional B767F aircraft are expected to be delivered from fiscal 2018 through fiscal 2023 and will enable FedEx Express to continue to improve the efficiency and reliability of its aircraft fleet.

On June 10, 2016, FedEx Express exercised options to acquire six additional B767F aircraft for delivery in 2019 and 2020.

We had $413 million in deposits and progress payments as of May 31, 2016 on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the Other assets caption of our consolidated balance sheets. Aircraft and aircraft-related contracts are subject to price escalations. The following table is a summary of the key aircraft we are committed to purchase as of May 31, 2016, with the year of expected delivery:

	B767F	B777F	Total
2017	12		12
2018	16	2	18
2019	13	2	15
2020	12	3	15
2021	10	3	13
Thereafter	16	6	22
Total	79	16	95

NOTE 18: CONTINGENCIES

Wage-and-Hour. We are a defendant in several lawsuits containing various class-action allegations of wage-and-hour violations. The plaintiffs in these lawsuits allege, among other things, that they were forced to work off the clock, were not paid overtime or were not provided work breaks or other benefits. The complaints generally seek unspecified monetary damages, injunctive relief, or both. We do not believe that a material loss is reasonably possible with respect to any of these matters.

Independent Contractor Lawsuits and State Administrative Proceedings. FedEx Ground is involved in numerous class-action lawsuits (including 25 that have been certified as class actions), individual lawsuits and state tax and other administrative proceedings that claim that the company s owner-operators under a contractor model no longer in use should have been treated as employees, rather than independent contractors.

Most of the class-action lawsuits were consolidated for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. The multidistrict litigation court granted class certification in 28 cases and denied it in 14 cases. On December 13, 2010, the court entered an opinion and order addressing all outstanding motions for summary judgment on the status of the owner-operators (i.e., independent contractor vs. employee). In sum, the court ruled on our summary judgment motions and entered judgment in favor of FedEx Ground on all claims in 20 of the 28 multidistrict litigation cases that had been certified as class actions, finding that the owner-operators in those cases were contractors as a matter of the law of 20 states. The plaintiffs filed notices of appeal in all of these 20 cases. The Seventh Circuit heard the appeal in the Kansas case in January 2012 and, in July 2012, issued an opinion that did not make a determination with respect to the correctness of the district court s decision and, instead, certified two questions to the Kansas Supreme Court related to the classification of the plaintiffs as independent contractors under the Kansas Wage Payment Act. The other 19 cases that are before the Seventh Circuit were stayed.

On October 3, 2014, the Kansas Supreme Court determined that a 20 factor right to control test applies to claims under the Kansas Wage Payment Act and concluded that under that test, the class members were employees, not independent contractors. The case was

subsequently transferred back to the Seventh Circuit, where both parties made filings requesting the action necessary to complete the resolution of the appeals. The parties also made recommendations to the court regarding next steps for the other 19 cases that are before the Seventh Circuit. FedEx Ground requested that each of those cases be separately briefed given the potential differences in the applicable state law from that in Kansas. On July 8, 2015, the Seventh Circuit issued an order and opinion confirming the decision of the Kansas Supreme Court, concluding that the class members are employees, not independent contractors. Additionally, the Seventh Circuit referred the other 19 cases to a representative of the court for purposes of setting a case management conference to address briefing and argument for those cases.

During the second quarter of 2015, we established an accrual for the estimated probable loss in the Kansas case. In the second quarter of 2016 the Kansas case settled, and we increased the accrual to the amount of the settlement. The settlement will require court approval.

During the third quarter of 2016, we reached agreements in principle to settle all of the 19 cases on appeal in the multidistrict independent contractor litigation. All of these settlements require court approval. We recognized a liability for the expected loss (net of recognized insurance recovery) related to these cases and certain other pending independent-contractor-related proceedings of $204 million.

The Kansas case was remanded to the multidistrict litigation court, and the other 19 cases remain at the Seventh Circuit; however, approval proceedings will be conducted primarily by the multidistrict litigation court. Plaintiffs filed preliminary approval motions in all 20 cases on June 15 and 29, 2016. The multidistrict litigation court set a fairness hearing for January 23 and 24, 2017.

The multidistrict litigation court remanded the other eight certified class actions back to the district courts where they were originally filed because its summary judgment ruling did not completely dispose of all of the claims in those lawsuits. Three of these matters settled for immaterial amounts and have received court approval. The cases in Arkansas and Florida settled in the second quarter of 2016, and we established an accrual in each of these cases for the amount of the settlement. The settlements are subject to court approval. On January 13, 2016, the court preliminarily approved the settlement of the Florida case and granted final approval at a fairness hearing on July 15, 2016. On January 29, 2016, the plaintiffs filed their motion for preliminary approval of the settlement in the Arkansas case.

Two cases in Oregon and one in California were appealed to the Ninth Circuit Court of Appeals, where the court reversed the district court decisions and held that the plaintiffs in California and Oregon were employees as a matter of law and remanded the cases to their respective district courts for further proceedings. In the first quarter of 2015, we recognized an accrual for the then-estimated probable loss in those cases.

In June 2015, the parties in the California case reached an agreement to settle the matter for $228 million, and in the fourth quarter of 2015 we increased the accrual to that amount. The court granted final approval of the settlement on June 15, 2016. However, on June 30, 2016, an objector to the class settlement filed an appeal of the court s approval of the settlement. We anticipate that the appeal will be argued in the spring of 2017. The settlement is not effective until all appeals have been resolved without affecting the court s approval of the settlement.

The two cases in Oregon were consolidated with a non-multidistrict litigation independent contractor case in Oregon. The three cases collectively settled in the second quarter of 2016, and we increased the accrual in these cases to the amount of the settlement. The settlement was preliminarily approved on April 20, 2016 and the court set a fairness hearing for October 18, 2016.

In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation. These cases are in varying stages of litigation. We do not expect to incur a material loss in these matters; however, it is reasonably possible that potential loss in some of these lawsuits or changes to the independent contractor status of FedEx Ground s owner-operators could be material. In these cases, we continue to evaluate what facts may arise in the course of discovery and what legal rulings the courts may render and how these facts and rulings might impact FedEx Ground s loss. For a number of reasons, we are not currently able to estimate a range of reasonably possible loss in these cases. The number and identities of plaintiffs in these lawsuits are uncertain, as they are dependent on how the class of drivers is defined and how many individuals will qualify based on whatever criteria may be established. In addition, the parties have conducted only very limited discovery into damages in certain of these cases, which could vary considerably from plaintiff to plaintiff and be dependent on evidence pertaining to individual plaintiffs, which has

yet to be produced in the cases. Further, the range of potential loss could be impacted substantially by future rulings by the court, including on the merits of the claims, on FedEx Ground s defenses, and on evidentiary issues. As a consequence of these factors, as well as others that are specific to these cases, we are not currently able to estimate a range of reasonably possible loss. We do not believe that a material loss is probable in these matters.

Adverse determinations in matters related to FedEx Ground s independent contractors, could, among other things, entitle certain 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. 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.

City and State of New York Cigarette Suit. The City of New York and the State of New York filed two related lawsuits against FedEx Ground in December 2013 and November 2014 arising from FedEx Ground s alleged shipments of cigarettes to New York residents in contravention of several statutes, including the Racketeer Influenced and Corrupt Organizations Act (RICO) and New York s Public Health Law, as well as common law nuisance claims. In April 2016, the two lawsuits were consolidated and will now proceed as one lawsuit. The first-filed lawsuit alleges that FedEx Ground provided delivery services on behalf of four shippers, and the second-filed lawsuit alleges that FedEx Ground provided delivery services on behalf of six additional shippers; none of these shippers continue to ship in our network. Pursuant to motions to dismiss filed in both lawsuits, some of the claims have been dismissed entirely or limited. In the first-filed lawsuit, the New York Public Health Law and common law nuisance claims were dismissed and the plaintiffs voluntarily dismissed another claim. In the second-filed lawsuit, the court dismissed, without prejudice to plaintiffs right to refile the claim at a later date, the New York Public Health Law claim. Other claims, including the RICO claims, remain in both lawsuits. The likelihood of loss is reasonably possible, but the amount of loss cannot be estimated at this stage of the litigation and we expect the amount of any loss to be immaterial.

Environmental Matters. SEC regulations require disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions that management reasonably believes could exceed $100,000.

In February 2014, FedEx Ground received oral communications from District Attorneys Offices (representing California s county environmental authorities) and the California Attorney General s Office (representing the California Division of Toxic Substances Control (DTSC)) that they were seeking civil penalties for alleged violations of the state s hazardous waste regulations. Specifically, the California environmental authorities alleged that FedEx Ground improperly generates and/or handles, stores and transports hazardous waste from its stations to its hubs in California. In April 2014, FedEx Ground filed a declaratory judgment action in the United States District Court for the Eastern District of California against the Director of the California DTSC and the County District Attorneys with whom we had been negotiating. In June 2014, the California Attorney General filed a complaint against FedEx Ground in Sacramento County Superior Court alleging violations by FedEx Ground as described above. The County District Attorneys filed a similar complaint in Sacramento County Superior Court in July 2014. The county and state authorities filed a motion to dismiss FedEx Ground s declaratory judgment action, and their motion was granted on January 22, 2015. FedEx Ground filed a notice of appeal with the Ninth Circuit Court of Appeals on February 23, 2015.

FedEx Ground and the County District Attorneys reached an agreement to resolve all claims between them, and on August 10, 2015, they filed a negotiated final judgment in Sacramento County Superior Court that the court subsequently approved. In the fourth quarter of 2015, we established an accrual for the final judgment amount, which was immaterial. On November 19, 2015, FedEx Ground and the DTSC agreed to settle their dispute, and on June 2, 2016, filed a negotiated final judgment in Sacramento County Superior Court, consistent with the terms FedEx Ground agreed upon with the County District Attorneys. We established an accrual for the settlement amount in the second quarter of 2016. This amount was immaterial.

On January 14, 2014, the U.S. Department of Justice (DOJ) issued a Grand Jury Subpoena to FedEx Express relating to an asbestos matter previously investigated by the U.S. Environmental Protection Agency. On May 1, 2014, the DOJ informed us that it had

determined to continue to pursue the matter as a criminal case, citing seven asbestos-related regulatory violations associated with removal of roof materials from a hangar in Puerto Rico during cleaning and repair activity, as well as violation of waste disposal requirements. Loss is reasonably possible; however, the amount of any loss is expected to be immaterial.

Department of Justice Indictment Internet Pharmacy Shipments. In the past, we received requests for information from the DOJ in the Northern District of California in connection with a criminal investigation relating to the transportation of packages for online pharmacies that may have shipped pharmaceuticals in violation of federal law. In July 2014, the DOJ filed a criminal indictment in the United States District Court for the Northern District of California in connection with the matter. A superseding indictment was filed in August 2014. The indictment alleges that FedEx Corporation, FedEx Express and FedEx Services, together with certain pharmacies, conspired to unlawfully distribute controlled substances, unlawfully distributed controlled substances and conspired to unlawfully distribute misbranded drugs. The superseding indictment adds conspiracy to launder money counts related to services provided to and payments from online pharmacies.

In March 2016, the Court denied our motions to dismiss the money laundering charges and granted our motion to dismiss FedEx Corporation and FedEx Services from certain counts. Trial in this matter commenced on June 13, 2016, and on June 17, 2016, the DOJ dismissed all remaining criminal charges against FedEx and its subsidiaries.

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

NOTE 19: RELATED PARTY TRANSACTIONS

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

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NOTE 20: SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

(in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2016[1]				
Revenues	$ 12,279	$ 12,453	$ 12,654	$ 12,979
Operating income (loss)	1,144	1,137	864	(68)
Net income (loss)	692	691	507	(70)
Basic earnings (loss) per common share[3]	2.45	2.47	1.86	(0.26)
Diluted earnings (loss) per common share[3]	2.42	2.44	1.84	(0.26)
2015[2]				
Revenues	$ 11,684	$ 11,939	$ 11,716	$ 12,114
Operating income (loss)	1,062	1,088	1,038	(1,321)
Net income (loss)	653	663	628	(895)
Basic earnings (loss) per common share[3]	2.29	2.34	2.21	(3.16)
Diluted earnings (loss) per common share[3]	2.26	2.31	2.18	(3.16)

(1) The fourth quarter of 2016 includes a $1.5 billion retirement plans mark-to-market loss and TNT Express transaction, financing and integration planning expenses and immaterial financial results from the time of acquisition totaling $79 million. In addition, the fourth quarter of 2016 includes a $76 million favorable tax impact from an internal corporate restructuring to facilitate the integration of FedEx Express and TNT Express and $11 million of expenses related to independent contractor litigation matters at FedEx Ground. The third quarter of 2016 includes provisions related to independent contractor litigation matters at FedEx Ground for $204 million and expenses related to the settlement of a U.S. Customs and Border Protection notice of action in the amount of $69 million, as well as TNT Express transaction, financing and integration planning expenses of $25 million. The second quarter of 2016 includes provisions related to independent contractor litigation matters at FedEx Ground for $41 million and $19 million of TNT Express transaction, financing and integration planning expenses.

(2) The fourth quarter of 2015 includes a $2.2 billion retirement plans mark-to-market loss, $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 at FedEx Express and a $197 million reserve increase due to the settlement of a legal matter at FedEx Ground.

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

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NOTE 21: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

We are required to present condensed consolidating financial information in order for the subsidiary guarantors of our public debt to continue to be exempt from reporting under the Securities Exchange Act of 1934, as amended.

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee $13.6 billion of our debt. The guarantees are full and unconditional and joint and several. Our guarantor subsidiaries were not determined using geographic, service line or other similar criteria, and as a result, the Guarantor Subsidiaries and Non-guarantor Subsidiaries columns each include portions of our domestic and international operations. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting.

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

CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,974	$ 326	$ 1,277	$ (43)	$ 3,534
Receivables, less allowances	1	4,461	2,831	(41)	7,252
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	233	724	246		1,203
Total current assets	2,208	5,511	4,354	(84)	11,989
PROPERTY AND EQUIPMENT, AT COST	22	43,760	3,236		47,018
Less accumulated depreciation and amortization	17	21,566	1,151		22,734
Net property and equipment	5	22,194	2,085		24,284
INTERCOMPANY RECEIVABLE	2,437	1,284		(3,721)	
GOODWILL		1,571	5,176		6,747
INVESTMENT IN SUBSIDIARIES	24,766	3,697		(28,463)	
OTHER ASSETS	3,461	970	1,851	(3,238)	3,044
	$ 32,877	$ 35,227	$ 13,466	$ (35,506)	$ 46,064
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$	$ 13	$ 16	$	$ 29
Accrued salaries and employee benefits	54	1,377	541		1,972
Accounts payable	8	1,501	1,519	(84)	2,944
Accrued expenses	883	1,411	769		3,063
Total current liabilities	945	4,302	2,845	(84)	8,008
LONG-TERM DEBT, LESS CURRENT PORTION	13,553	248	37		13,838
INTERCOMPANY PAYABLE			3,721	(3,721)	
OTHER LONG-TERM LIABILITIES					
Deferred income taxes		4,436	369	(3,238)	1,567
Other liabilities	4,595	3,375	897		8,867
Total other long-term liabilities	4,595	7,811	1,266	(3,238)	10,434
STOCKHOLDERS INVESTMENT	13,784	22,866	5,597	(28,463)	13,784
	$ 32,877	$ 35,227	$ 13,466	$ (35,506)	$ 46,064

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CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2015

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 2,383	$ 487	$ 971	$ (78)	$ 3,763
Receivables, less allowances	3	4,383	1,385	(52)	5,719
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	41	689	123		853
Total current assets	2,427	5,559	2,479	(130)	10,335
PROPERTY AND EQUIPMENT, AT COST	29	40,364	2,471		42,864
Less accumulated depreciation and amortization	23	20,685	1,281		21,989
Net property and equipment	6	19,679	1,190		20,875
INTERCOMPANY RECEIVABLE		713	1,554	(2,267)	
GOODWILL		1,552	2,258		3,810
INVESTMENT IN SUBSIDIARIES	23,173	3,800		(26,973)	
OTHER ASSETS	2,770	898	480	(2,637)	1,511
	$ 28,376	$ 32,201	$ 7,961	$ (32,007)	$ 36,531
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$	$ 7	$ 12	$	$ 19
Accrued salaries and employee benefits	34	1,208	194		1,436
Accounts payable	5	1,433	758	(130)	2,066
Accrued expenses	604	1,557	274		2,435
Total current liabilities	643	4,205	1,238	(130)	5,956
LONG-TERM DEBT, LESS CURRENT PORTION	6,978	248	23		7,249
INTERCOMPANY PAYABLE	2,267			(2,267)	
OTHER LONG-TERM LIABILITIES					
Deferred income taxes		3,662	185	(2,637)	1,210
Other liabilities	3,495	3,367	261		7,123
Total other long-term liabilities	3,495	7,029	446	(2,637)	8,333
STOCKHOLDERS INVESTMENT	14,993	20,719	6,254	(26,973)	14,993
	$ 28,376	$ 32,201	$ 7,961	$ (32,007)	$ 36,531

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

Year Ended May 31, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 42,143	$ 8,547	$ (325)	$ 50,365
OPERATING EXPENSES:					
Salaries and employee benefits	119	15,880	2,582		18,581
Purchased transportation		7,380	2,720	(134)	9,966
Rentals and landing fees	5	2,484	371	(6)	2,854
Depreciation and amortization	1	2,399	231		2,631
Fuel		2,324	75		2,399
Maintenance and repairs	1	1,954	153		2,108
Retirement plans mark-to-market adjustment		1,414	84		1,498
Intercompany charges, net	(645)	425	220		
Other	519	5,274	1,643	(185)	7,251
		39,534	8,079	(325)	47,288
OPERATING INCOME		2,609	468		3,077
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,820	279		(2,099)	
Interest, net	(355)	27	13		(315)
Intercompany charges, net	369	(354)	(15)		
Other, net	(14)	(14)	6		(22)
INCOME BEFORE INCOME TAXES	1,820	2,547	472	(2,099)	2,740
Provision for income taxes		818	102		920
NET INCOME	$ 1,820	$ 1,729	$ 370	$ (2,099)	$ 1,820
COMPREHENSIVE INCOME	$ 1,746	$ 1,704	$ 128	$ (2,099)	$ 1,479

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

Year Ended May 31, 2015

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 39,420	$ 8,414	$ (381)	$ 47,453
OPERATING EXPENSES:					
Salaries and employee benefits	106	14,626	2,378		17,110
Purchased transportation		5,802	2,878	(197)	8,483
Rentals and landing fees	5	2,322	360	(5)	2,682
Depreciation and amortization	1	2,370	240		2,611
Fuel		3,632	88		3,720
Maintenance and repairs	1	1,949	149		2,099
Impairment and other charges		276			276
Retirement plans mark-to-market adjustment		2,075	115		2,190
Intercompany charges, net	(450)	117	333		
Other	337	4,946	1,311	(179)	6,415
		38,115	7,852	(381)	45,586
OPERATING INCOME		1,305	562		1,867
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,050	337		(1,387)	
Interest, net	(247)	23	3		(221)
Intercompany charges, net	253	(265)	12		
Other, net	(6)	(32)	19		(19)
INCOME BEFORE INCOME TAXES	1,050	1,368	596	(1,387)	1,627
Provision for income taxes		390	187		577
NET INCOME	$ 1,050	$ 978	$ 409	$ (1,387)	$ 1,050
COMPREHENSIVE INCOME	$ 1,053	$ 929	$ 121	$ (1,387)	$ 716

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

Year Ended May 31, 2014

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 38,088	$ 7,820	$ (341)	$ 45,567
OPERATING EXPENSES:					
Salaries and employee benefits	99	13,936	2,136		16,171
Purchased transportation		5,374	2,796	(159)	8,011
Rentals and landing fees	5	2,282	340	(5)	2,622
Depreciation and amortization	1	2,379	207		2,587
Fuel		4,460	97		4,557
Maintenance and repairs	1	1,734	127		1,862
Retirement plans mark-to-market adjustment		13	2		15
Intercompany charges, net	(209)	(125)	334		
Other	103	4,823	1,178	(177)	5,927
		34,876	7,217	(341)	41,752
OPERATING INCOME		3,212	603		3,815
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	2,324	412		(2,736)	
Interest, net	(167)	16	9		(142)
Intercompany charges, net	172	(194)	22		
Other, net	(5)	(14)	4		(15)
INCOME BEFORE INCOME TAXES	2,324	3,432	638	(2,736)	3,658
Provision for income taxes		1,141	193		1,334
NET INCOME	$ 2,324	$ 2,291	$ 445	$ (2,736)	$ 2,324
COMPREHENSIVE INCOME	$ 2,248	$ 2,294	$ 417	$ (2,736)	$ 2,223

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Year Ended May 31, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (831)	$ 5,932	$ 572	$ 35	$ 5,708
INVESTING ACTIVITIES					
Capital expenditures		(4,617)	(201)		(4,818)
Business acquisitions, net of cash acquired			(4,618)		(4,618)
Proceeds from asset dispositions and other	(55)	33	12		(10)
CASH USED IN INVESTING ACTIVITIES	(55)	(4,584)	(4,807)		(9,446)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	1,629	(1,549)	(80)		
Payment on loan between subsidiaries	(4,805)	109	4,696		
Intercompany dividends		20	(20)		
Principal payments on debt		(19)	(22)		(41)
Proceeds from debt issuance	6,519				6,519
Proceeds from stock issuances	183				183
Excess tax benefit on the exercise of stock options	3				3
Dividends paid	(277)				(277)
Purchase of treasury stock	(2,722)				(2,722)
Other, net	(54)	(48)	48		(54)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	476	(1,487)	4,622		3,611
Effect of exchange rate changes on cash	1	(22)	(81)		(102)
Net (decrease) increase in cash and cash equivalents	(409)	(161)	306	35	(229)
Cash and cash equivalents at beginning of period	2,383	487	971	(78)	3,763
Cash and cash equivalents at end of period	$ 1,974	$ 326	$ 1,277	$ (43)	$ 3,534

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Year Ended May 31, 2015

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (727)	$ 5,446	$ 575	$ 72	$ 5,366
INVESTING ACTIVITIES					
Capital expenditures	(1)	(4,139)	(207)		(4,347)
Business acquisitions, net of cash acquired	(1,429)				(1,429)
Proceeds from asset dispositions and other		42	(18)		24
CASH USED IN INVESTING ACTIVITIES	(1,430)	(4,097)	(225)		(5,752)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	1,431	(1,502)	71		
Payment on loan between subsidiaries		267	(267)		
Intercompany dividends		68	(68)		
Principal payments on debt		(1)	(4)		(5)
Proceeds from debt issuances	2,491				2,491
Proceeds from stock issuances	320				320
Excess tax benefit on the exercise of stock options	51				51
Dividends paid	(227)				(227)
Purchase of treasury stock	(1,254)				(1,254)
Other, net	(27)	(105)	105		(27)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,785	(1,273)	(163)		1,349
Effect of exchange rate changes on cash	(1)	(30)	(77)		(108)
Net increase in cash and cash equivalents	627	46	110	72	855
Cash and cash equivalents at beginning of period	1,756	441	861	(150)	2,908
Cash and cash equivalents at end of period	$ 2,383	$ 487	$ 971	$ (78)	$ 3,763

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Year Ended May 31, 2014

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (8)	$ 3,790	$ 535	$ (53)	$ 4,264
INVESTING ACTIVITIES					
Capital expenditures	(1)	(3,230)	(302)		(3,533)
Business acquisitions, net of cash acquired		(36)			(36)
Proceeds from asset dispositions and other		37	(19)		18
CASH USED IN INVESTING ACTIVITIES	(1)	(3,229)	(321)		(3,551)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	588	(546)	(42)		
Payment on loan between subsidiaries		(4)	4		
Intercompany dividends		54	(54)		
Principal payments on debt	(250)	(4)			(254)
Proceeds from debt issuance	1,997				1,997
Proceeds from stock issuances	557				557
Excess tax benefit on the exercise of stock options	44				44
Dividends paid	(187)				(187)
Purchase of treasury stock	(4,857)				(4,857)
Other, net	(19)	(16)	16		(19)
CASH USED IN FINANCING ACTIVITIES	(2,127)	(516)	(76)		(2,719)
Effect of exchange rate changes on cash		(9)	6		(3)
Net (decrease) increase in cash and cash equivalents	(2,136)	36	144	(53)	(2,009)
Cash and cash equivalents at beginning of period	3,892	405	717	(97)	4,917
Cash and cash equivalents at end of period	$ 1,756	$ 441	$ 861	$ (150)	$ 2,908

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATES. While we currently have market risk sensitive instruments related to interest rates, we have no significant exposure to changing interest rates on our fixed-rate, long-term debt or our floating-rate debt. As disclosed in Note 6 to the accompanying consolidated financial statements, we had outstanding fixed- and floating-rate, long-term debt (exclusive of capital leases) with an estimated fair value of $14.3 billion at May 31, 2016 and outstanding fixed-rate, long-term debt (exclusive of capital leases) with an estimated fair value of $7.4 billion at May 31, 2015. Market risk for fixed- and floating-rate, long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 10% increase in interest rates and amounts to $312 million as of May 31, 2016 and $208 million as of May 31, 2015. The underlying fair values of our long-term debt were estimated based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

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

FOREIGN CURRENCY. While we are a global provider of transportation, e-commerce and business services, the substantial majority of our transactions during the periods presented in this Annual Report are denominated in U.S. dollars. The principal foreign currency exchange rate risks to which we are exposed are in the euro, Chinese yuan, British pound, Brazilian real, Canadian dollar and Mexican peso. Historically, our exposure to foreign currency fluctuations is more significant with respect to our revenues than our expenses, as a significant portion of our expenses are denominated in U.S. dollars, such as aircraft and fuel expenses. Foreign currency fluctuations had a moderately positive impact on operating income in 2016 and 2015. However, favorable foreign currency fluctuations also may have had an offsetting impact on the price we obtained or the demand for our services, which is not quantifiable. At May 31, 2016, the result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which our transactions are denominated would result in a decrease in operating income of $68 million for 2017. This theoretical calculation required under SEC guidelines assumes that each exchange rate would change in the same direction relative to the U.S. dollar, which is not consistent with our actual experience in foreign currency transactions. In addition to the direct effects of changes in exchange rates, fluctuations in exchange rates also affect the volume of sales or the foreign currency sales price as competitors services become more or less attractive. The sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

Our recently acquired TNT Express segment impacts our exposure to foreign currency exchange risk. TNT Express maintains derivative financial instruments to manage foreign currency fluctuations related to probable future transactions and cash flows denominated in currencies other than the currency of the transacting entity. These derivatives are not designated as hedges and are accounted for at fair value with any profit or loss recorded in income during the period since acquisition, which was immaterial for 2016.

COMMODITY. While we have market risk for changes in the price of jet and vehicle fuel, this risk is largely mitigated by our indexed fuel surcharges. For additional discussion of our indexed fuel surcharges, see the Fuel section of Management s Discussion and Analysis of Results of Operations and Financial Condition.

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SELECTED FINANCIAL DATA

The following table sets forth (in millions, except per share amounts and other operating data) certain selected consolidated financial and operating data for FedEx as of and for the five years ended May 31, 2016. This information should be read in conjunction with the Consolidated Financial Statements, MD&A and other financial data appearing elsewhere in this Annual Report.

	2016[1][2]	2015[2][3]	2014[2]	2013[2][4]	2012[2][5]
Operating Results					
Revenues	$ 50,365	$ 47,453	$ 45,567	$ 44,287	$ 42,680
Operating income (loss)	3,077	1,867	3,815	4,434	(399)
Income (loss) before income taxes	2,740	1,627	3,658	4,338	(444)
Net income (loss)	1,820	1,050	2,324	2,716	(220)
Per Share Data					
Earnings (loss) per share:					
Basic	$ 6.59	$ 3.70	$ 7.56	$ 8.61	$ (0.70)
Diluted	$ 6.51	$ 3.65	$ 7.48	$ 8.55	$ (0.70)
Average shares of common stock outstanding	276	283	307	315	315
Average common and common equivalent shares outstanding	279	287	310	317	317
Cash dividends declared	$ 1.00	$ 0.80	$ 0.60	$ 0.56	$ 0.52
Financial Position					
Property and equipment, net	$ 24,284	$ 20,875	$ 19,550	$ 18,484	$ 17,248
Total assets	46,064	36,531	33,070	33,567	29,903
Long-term debt, less current portion	13,838	7,249	4,736	2,739	1,250
Common stockholders investment	13,784	14,993	15,277	17,398	14,727
Other Operating Data					
FedEx Express aircraft fleet	643	647	650	647	660

(1) Results for 2016 include provisions related to independent contractor litigation matters at FedEx Ground for $256 million, net of recognized insurance recovery ($158 million, net of tax, or $0.57 per diluted share), and expenses related to the settlement of a U.S. Customs and Border Protection notice of action in the amount of $69 million, net of recognized insurance recovery ($43 million, net of tax, or $0.15 per diluted share). Total transaction, financing and integration planning expenses related to our TNT Express acquisition, as well as TNT Express s immaterial financial results from the time of acquisition, were $132 million ($125 million, net of tax, or $0.45 per diluted share) during 2016. In addition, 2016 results include a $76 million ($0.27 per diluted share) favorable tax impact from an internal corporate restructuring to facilitate the integration of FedEx Express and TNT Express.

(2) Results include mark-to-market losses of $1.5 billion ($946 million, net of tax, or $3.39 per diluted share) in 2016, losses of $2.2 billion ($1.4 billion, net of tax, or $4.81 per diluted share) in 2015 and $15 million ($9 million, net of tax, or $0.03 per diluted share) in 2014, a gain of $1.4 billion ($835 million, net of tax, or $2.63 per diluted share) in 2013 and losses of $3.9 billion ($2.5 billion, net of tax, or $7.76 per diluted share) in 2012. See Note 1 and Note 13 of the accompanying consolidated financial statements.

(3) Results for 2015 include impairment and related charges of $276 million ($175 million, net of tax, or $0.61 per diluted share) resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines. See Note 1 to the accompanying consolidated financial statements. Additionally, results for 2015 include a charge of $197 million ($133 million, net of tax, or $0.46 per diluted share) 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. See Note 18 to the accompanying consolidated financial statements.

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(4) Results for 2013 include $560 million ($353 million, net of tax, or $1.11 per diluted share) of business realignment costs and a $100 million ($63 million, net of tax, or $0.20 per diluted share) impairment charge resulting from the decision to retire 10 aircraft and related engines at FedEx Express.

(5) Results for 2012 include a $134 million ($84 million, net of tax, or $0.26 per diluted share) impairment charge resulting from the decision to retire 24 aircraft and related engines at FedEx Express and the reversal of a $66 million legal reserve initially recorded in 2011.

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REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

FedEx Corporation

We have audited the consolidated financial statements of FedEx Corporation as of May 31, 2016 and 2015, and for each of the three years in the period ended May 31, 2016, and have issued our report thereon dated July 18, 2016 (included elsewhere in this Annual Report on Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a) in this Annual Report on Form 10-K. This schedule is the responsibility of the Company s management. Our responsibility is to express an opinion on this schedule based on our audits.

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

/s/ Ernst & Young LLP

Memphis, Tennessee

July 18, 2016

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SCHEDULE II

FEDEX CORPORATION

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED MAY 31, 2016, 2015, AND 2014

(IN MILLIONS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO EXPENSES	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF YEAR
Accounts Receivable Reserves:					
Allowance for Doubtful Accounts					
2016	$ 86	$ 121	$	$ 134(a)	$ 73
2015	81	145		140(a)	86
2014	94	130		143(a)	81
Allowance for Revenue Adjustments					
2016	$ 99	$	$ 692(b)	$ 686(c)	$ 105
2015	83		740(b)	724(c)	99
2014	82		626(b)	625(c)	83
Inventory Valuation Allowance:					
2016	$ 207	$ 26	$	$ 15	$ 218
2015	212	23		28	207
2014	205	20		13	212

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

(b) Principally charged against revenue.

(c) Service failures, rebills and other.

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FEDEX CORPORATION

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)

(IN MILLIONS, EXCEPT RATIOS)

	Year Ended May 31,				
	2016	2015	2014	2013	2012[1]
Earnings (loss):					
Income (loss) before income taxes	$ 2,740	$ 1,627	$ 3,658	$ 4,338	$ (444)
Add back:					
Interest expense, net of capitalized interest	336	235	160	82	52
Amortization of debt issuance costs	8	5	4	5	5
Portion of rent expense representative of interest factor	924	908	876	864	797
Earnings as adjusted	$ 4,008	$ 2,775	$ 4,698	$ 5,289	$ 410
Fixed Charges:					
Interest expense, net of capitalized interest	$ 336	$ 235	$ 160	$ 82	$ 52
Capitalized interest	42	37	29	45	85
Amortization of debt issuance costs	8	5	4	5	5
Portion of rent expense representative of interest factor	924	908	876	864	797
	$ 1,310	$ 1,185	$ 1,069	$ 996	$ 939
Ratio of Earnings to Fixed Charges	3.1	2.3	4.4	5.3	

[1] Earnings for 2012 were inadequate to cover fixed charges. Additional earnings of $529 million would have been necessary to bring the ratio for this period to 1.0.

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession
2.1	Merger Protocol, dated as of April 6, 2015, between FedEx and TNT Express N.V. (Filed as Exhibit 2.1 to FedEx s Current Report on Form 8-K dated April 6, 2015 and filed April 9, 2015, and incorporated herein by reference.)
	Certificate of Incorporation and Bylaws
3.1	Third Amended and Restated Certificate of Incorporation of FedEx. (Filed as Exhibit 3.1 to FedEx s Current Report on Form 8-K dated September 26, 2011 and filed September 28, 2011, and incorporated herein by reference.)
3.2	Amended and Restated Bylaws of FedEx. (Filed as Exhibit 3.1 to FedEx s Current Report on Form 8-K dated and filed March 7, 2016, and incorporated herein by reference.)
	Long-Term Debt Instruments
4.1	Indenture, dated as of August 8, 2006, between FedEx, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A. (formerly, The Bank of New York Trust Company, N.A.), as trustee. (Filed as Exhibit 4.3 to FedEx s Registration Statement on Form S-3 filed on September 19, 2012, and incorporated herein by reference.)
4.2	Supplemental Indenture No. 2, dated as of January 16, 2009, between FedEx, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee. (Filed as Exhibit 4.4 to FedEx s Registration Statement on Form S-3 filed on September 19, 2012, and incorporated herein by reference.)
4.3	Form of 8.000% Note due 2019. (Included in Exhibit 4.4 to FedEx s Registration Statement on Form S-3 filed on September 19, 2012, and incorporated herein by reference.)
4.4	Supplemental Indenture No. 3, dated as of July 27, 2012, between FedEx, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee. (Filed as Exhibit 4.5 to FedEx s Registration Statement on Form S-3 filed on September 19, 2012, and incorporated herein by reference.)
4.5	Form of 2.625% Note due 2022. (Included in Exhibit 4.5 to FedEx s Registration Statement on Form S-3 filed on September 19, 2012, and incorporated herein by reference.)
4.6	Form of 3.875% Note due 2042. (Included in Exhibit 4.5 to FedEx s Registration Statement on Form S-3 filed on September 19, 2012, and incorporated herein by reference.)
4.7	Supplemental Indenture No. 4, dated as of April 11, 2013, between FedEx, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee. (Filed as Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed April 11, 2013, and incorporated herein by reference.)
4.8	Form of 2.70% Note due 2023. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed April 11, 2013, and incorporated herein by reference.)

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4.9	Form of 4.10% Note due 2043. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed April 11, 2013, and incorporated herein by reference.)
4.10	Supplemental Indenture No. 5, dated as of January 9, 2014, between FedEx, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee. (Filed as Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2014, and incorporated herein by reference.)
4.11	Form of 4.000% Note due 2024. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2014, and incorporated herein by reference.)
4.12	Form of 4.900% Note due 2034. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2014, and incorporated herein by reference.)
4.13	Form of 5.100% Note due 2044. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2014, and incorporated herein by reference.)
4.14	Supplemental Indenture No. 6, dated as of January 9, 2015, between FedEx, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee. (Filed as Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2015, and incorporated herein by reference.)
4.15	Form of 2.300% Note due 2020. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2015, and incorporated herein by reference.)
4.16	Form of 3.200% Note due 2025. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2015, and incorporated herein by reference.)
4.17	Form of 3.900% Note due 2035. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2015, and incorporated herein by reference.)
4.18	Form of 4.100% Note due 2045. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2015, and incorporated herein by reference.)
4.19	Form of 4.500% Note due 2065. (Included in Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed January 9, 2015, and incorporated herein by reference.)
4.20	Indenture, dated as of October 23, 2015, between FedEx, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee. (Filed as Exhibit 4.1 to FedEx s Current Report on Form 8-K dated and filed October 23, 2015, and incorporated herein by reference.)
4.21	Supplemental Indenture No. 1, dated as of October 23, 2015, between FedEx, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee. (Filed as Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed October 23, 2015, and incorporated herein by reference.)
4.22	Form of 4.750% Note due 2045. (Included in Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed October 23, 2015, and incorporated herein by reference.)
4.23	Supplemental Indenture No. 2, dated as of March 24, 2016, between FedEx, the Guarantors named therein and Wells Fargo Bank, National Association, as trustee. (Filed as Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed March 24, 2016, and incorporated herein by reference.)

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4.24	Form of 3.250% Note due 2026. (Included in Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed March 24, 2016, and incorporated herein by reference.)
4.25	Form of 4.550% Note due 2046. (Included in Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed March 24, 2016, and incorporated herein by reference.)
4.26	Supplemental Indenture No. 3, dated as of April 11, 2016, between FedEx, the Guarantors named therein, Wells Fargo Bank, National Association, as trustee, and Elavon Financial Services Limited, UK Branch, as paying agent. (Filed as Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed April 11, 2016, and incorporated herein by reference.)
4.27	Form of Floating Rate Note due 2019. (Included in Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed April 11, 2016, and incorporated herein by reference.)
4.28	Form of 0.500% Note due 2020. (Included in Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed April 11, 2016, and incorporated herein by reference.)
4.29	Form of 1.000% Note due 2023. (Included in Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed April 11, 2016, and incorporated herein by reference.)
4.30	Form of 1.625% Note due 2027. (Included in Exhibit 4.2 to FedEx s Current Report on Form 8-K dated and filed April 11, 2016, and incorporated herein by reference.)
	Facility Lease Agreements
10.1	Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Memphis-Shelby County Airport Authority and FedEx Express (the Composite Lease Agreement). (Filed as Exhibit 10.1 to FedEx s FY07 Annual Report on Form 10-K, and incorporated herein by reference.)
10.2	First Amendment dated December 29, 2009 (but effective as of September 1, 2008) to the Composite Lease Agreement. (Filed as Exhibit 10.1 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.3	Second Amendment dated March 30, 2010 (but effective as of June 1, 2009) and Third Amendment dated April 27, 2010 (but effective as of July 1, 2009), each amending the Composite Lease Agreement. (Filed as Exhibit 10.3 to FedEx s FY10 Annual Report on Form 10-K, and incorporated herein by reference.)
10.4	Fourth Amendment dated December 22, 2011 (but effective as of December 15, 2011) to the Composite Lease Agreement. (Filed as Exhibit 10.4 to FedEx s FY12 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.5	Fifth Amendment dated December 19, 2012 (but effective as of January 1, 2013) to the Composite Lease Agreement. (Filed as Exhibit 10.5 to FedEx s FY13 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.6	Sixth Amendment dated September 19, 2013 (but effective as of July 1, 2014) to the Composite Lease Agreement. (Filed as Exhibit 10.5 to FedEx s FY14 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
*10.7	Seventh Amendment dated June 1, 2016 (but effective as of April 1, 2016) to the Composite Lease Agreement.

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Aircraft-Related Agreements

10.8	Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express (the Boeing 777 Freighter Purchase Agreement). Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended (the Exchange Act). (Filed as Exhibit 10.1 to FedEx s FY07 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.9	Supplemental Agreement No. 1 dated as of June 16, 2008 to the Boeing 777 Freighter Purchase Agreement. (Filed as Exhibit 10.13 to FedEx s FY08 Annual Report on Form 10-K, and incorporated herein by reference.)
10.10	Supplemental Agreement No. 2 dated as of July 14, 2008 to the Boeing 777 Freighter Purchase Agreement. (Filed as Exhibit 10.3 to FedEx s FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.11	Supplemental Agreement No. 3 dated as of December 15, 2008 (and related side letters) to the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.12	Supplemental Agreement No. 4 dated as of January 9, 2009 (and related side letters) to the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY09 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.13	Side letters dated May 29, 2009 and May 19, 2009, amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.17 to FedEx s FY09 Annual Report on Form 10-K, and incorporated herein by reference.)
10.14	Supplemental Agreement No. 5 dated as of January 11, 2010 to the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.15	Supplemental Agreement No. 6 dated as of March 17, 2010, Supplemental Agreement No. 7 dated as of March 17, 2010, and Supplemental Agreement No. 8 (and related side letters) dated as of April 30, 2010, each amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.22 to FedEx s FY10 Annual Report on Form 10-K, and incorporated herein by reference.)
10.16	Supplemental Agreement No. 9 dated as of June 18, 2010, Supplemental Agreement No. 10 dated as of June 18, 2010, Supplemental Agreement No. 11 (and related side letter) dated as of August 19, 2010, and Supplemental Agreement No. 13 (and related side letter) dated as of August 27, 2010, each amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY11 First Quarter Report on Form 10-Q, and incorporated herein by reference.)

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10.17	Supplemental Agreement No. 12 (and related side letter) dated as of September 3, 2010, Supplemental Agreement No. 14 (and related side letter) dated as of October 25, 2010, and Supplemental Agreement No. 15 (and related side letter) dated as of October 29, 2010, each amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY11 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.18	Supplemental Agreement No. 16 (and related side letters) dated as of January 31, 2011, and Supplemental Agreement No. 17 dated as of February 14, 2011, each amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY11 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.19	Supplemental Agreement No. 18 (and related side letter) dated as of March 30, 2011 to the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.26 to FedEx s FY11 Annual Report on Form 10-K, and incorporated herein by reference.)
10.20	Supplemental Agreement No. 19 (and related side letter) dated as of October 27, 2011, amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY12 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.21	Supplemental Agreement No. 20 (and related side letters) dated as of December 14, 2011, amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY12 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.22	Supplemental Agreement No. 21 dated as of June 29, 2012, amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY13 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.23	Supplemental Agreement No. 22 (and related side letters) dated as of December 11, 2012, amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY13 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.24	Supplemental Agreement No. 23 (and related side letters) dated as December 10, 2013, amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY14 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
*10.25	Supplemental Agreement No. 24 (and related side letters) dated as May 4, 2016, amending the Boeing 777 Freighter Purchase Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.

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10.26	Boeing 767-3S2 Freighter Purchase Agreement dated as of December 14, 2011 between The Boeing Company and FedEx Express (the Boeing 767-3S2 Freighter Purchase Agreement). Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY12 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.27	Supplemental Agreement No. 1 (and related side letters) dated as of June 29, 2012, amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY13 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.28	Supplemental Agreement No. 2 dated as of October 8, 2012, amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY13 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.29	Supplemental Agreement No. 3 (and related side letters) dated as of December 11, 2012, amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY13 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.30	Supplemental Agreement No. 4 (and related side letter) dated as of December 10, 2013, amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY14 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.31	Supplemental Agreement No. 5 (and related side letters) dated as of September 29, 2014, amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.32	Letter Agreement dated as of January 22, 2015, amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.5 to FedEx s FY15 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.33	Supplemental Agreement No. 6 (and related side letters) dated as of July 21, 2015, amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.5 to FedEx s FY16 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
*10.34	Supplemental Agreement No. 7 dated as of April 18, 2016 amending the Boeing 767-3S2 Freighter Purchase Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.

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Settlement Agreement

10.35 Class Action Settlement Agreement between Dean Alexander, Peter Allen, Albert Anaya, Suzanne Andrade, Jerrett Henderson, Ely Ines, Paul Infantino, Jorge Isla, Eric Jeppson, Gupertino Magana, Bernard Mendoza, Jesse Padilla, Marjorie Pontarolo, Joey Rodriguez, Dale Rose, Allan Ross, Agostino Scalercio, and Anthony Ybarra, on behalf of themselves, the Certified Class, the Overtime Sub-Class, and the Meal and Rest Period Settlement Sub-Class, and Defendant FedEx Ground Package System, Inc. (this agreement amends and restates in its entirety the Class Action Settlement Agreement filed as Exhibit 10.6 to FedEx s FY16 First Quarter Report on Form 10-Q). (Filed as Exhibit 10.6 to FedEx s FY16 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)

U.S. Postal Service Agreements

10.36 Transportation Agreement dated April 23, 2013 between the USPS and FedEx Express (the USPS Transportation Agreement). Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.52 to FedEx Corporation s FY13 Annual Report on Form 10-K, and incorporated herein by reference.)

10.37 Amendment dated May 28, 2013, amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.53 to FedEx s FY13 Annual Report on Form 10-K, and incorporated herein by reference.)

10.38 Amendment dated June 24, 2013, amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY14 First Quarter Report on Form 10-Q, and incorporated herein by reference.)

10.39 Amendment dated October 10, 2013 (but effective as of September 30, 2013), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY14 Second Quarter Report on Form 10-Q/A (Amendment No. 1), and incorporated herein by reference.)

10.40 Amendment dated October 15, 2013 (but effective as of October 10, 2013), amending the USPS Transportation Agreement. (Filed as Exhibit 10.2 to FedEx s FY14 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)

10.41 Amendment dated November 7, 2013 (but effective as of October 1, 2013), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY14 Second Quarter Report on Form 10-Q/A (Amendment No. 1), and incorporated herein by reference.)

10.42 Amendment dated November 7, 2013 (but effective as of December 15, 2013), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY14 Second Quarter Report on Form 10-Q/A (Amendment No. 1), and incorporated herein by reference.)

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10.43	Amendment dated December 16, 2013 (but effective as of November 4, 2013), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY14 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.44	Amendment dated December 16, 2013 (but effective as of December 2, 2013), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY14 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.45	Amendment dated March 27, 2014 (but effective as of January 6, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.38 to FedEx s FY14 Annual Report on Form 10-K, and incorporated herein by reference.)
10.46	Amendment dated March 27, 2014 (but effective as of February 3, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.39 to FedEx s FY14 Annual Report on Form 10-K, and incorporated herein by reference.)
10.47	Amendment dated March 27, 2014 (but effective as of March 3, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.40 to FedEx s FY14 Annual Report on Form 10-K, and incorporated herein by reference.)
10.48	Amendment dated April 16, 2014 (but effective as of March 31, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.41 to FedEx s FY14 Annual Report on Form 10-K, and incorporated herein by reference.)
10.49	Amendment dated May 27, 2014 (but effective as of April 28, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.42 to FedEx s FY14 Annual Report on Form 10-K, and incorporated herein by reference.)
10.50	Amendment dated May 27, 2014 (but effective as of May 14, 2014), amending the USPS Transportation Agreement. (Filed as Exhibit 10.43 to FedEx s FY14 Annual Report on Form 10-K, and incorporated herein by reference.)
10.51	Amendment dated June 25, 2014 (but effective as of June 2, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY15 First Quarter Report on Form 10-Q, and incorporated herein by reference.)

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10.52	Amendment dated June 25, 2014 (but effective as of June 2, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY15 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.53	Amendment dated September 9, 2014 (but effective as of June 27, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.54	Amendment dated September 9, 2014 (but effective as of September 30, 2013), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.55	Amendment dated September 9, 2014 (but effective as of June 27, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.5 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.56	Amendment dated September 24, 2014 (but effective as of June 30, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.6 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.57	Amendment dated September 30, 2014 (but effective as of July 28, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.7 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.58	Amendment dated October 1, 2014 (but effective as of September 1, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.8 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.59	Amendment dated September 30, 2014 (but effective as of September 29, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.9 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.60	Amendment dated November 4, 2014 (but effective as of September 29, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.10 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)

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10.61	Amendment dated November 4, 2014 (but effective as of December 1, 2013), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.11 to FedEx s FY15 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.62	Amendment dated December 23, 2014 (but effective as of October 27, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY15 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.63	Amendment dated December 10, 2014 (but effective as of November 24, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY15 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.64	Amendment dated December 23, 2014 (but effective as of January 5, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY15 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.65	Amendment dated February 19, 2015 (but effective as of December 1, 2014), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY15 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.66	Amendment dated June 12, 2015 (but effective as of January 5, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY16 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.67	Amendment dated June 16, 2015 (but effective as of February 2, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY16 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.68	Amendment dated June 23, 2015 (but effective as of March 2, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY16 First Quarter Report on Form 10-Q, and incorporated herein by reference.)

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10.69	Amendment dated August 31, 2015 (but effective as of January 4, 2016), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY16 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.70	Amendment dated September 15, 2015 (but effective as of June 29, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY16 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.71	Amendment dated September 1, 2015, amending the USPS Transportation Agreement. (Filed as Exhibit 10.2 to FedEx s FY16 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.72	Amendment dated October 15, 2015 (but effective as of March 30, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY16 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.73	Amendment dated November 9, 2015 (but effective as of January 4, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY16 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.74	Amendment dated November 9, 2015 (but effective as of January 4, 2016), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.5 to FedEx s FY16 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.75	Amendment dated January 12, 2016, amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.1 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.76	Amendment dated January 28, 2016, amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.2 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)

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10.77	Amendment dated January 28, 2016, amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.3 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.78	Amendment dated January 29, 2016 (but effective as of January 31, 2016), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.4 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.79	Amendment dated February 11, 2016, amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.5 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.80	Amendment dated February 16, 2016 (but effective as of August 31, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.6 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.81	Amendment dated February 11, 2016 (but effective as of February 10, 2016), amending the USPS Transportation Agreement. (Filed as Exhibit 10.7 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.82	Amendment dated February 29, 2016 (but effective as of September 28, 2015), amending the USPS Transportation Agreement. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. (Filed as Exhibit 10.8 to FedEx s FY16 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
*10.83	Amendment dated March 7, 2016, amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.
*10.84	Amendment dated March 7, 2016, amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.
*10.85	Amendment dated March 7, 2016 (but effective as of November 28, 2015), amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.

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*10.86	Amendment dated April 5, 2016 (but effective as of January 4, 2016), amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.
*10.87	Amendment dated April 5, 2016 (but effective as of January 4, 2016), amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.
*10.88	Amendment dated April 11, 2016 (but effective as of February 1, 2016), amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.
*10.89	Amendment dated April 11, 2016 (but effective as of February 29, 2016), amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.
*10.90	Amendment dated April 12, 2016 (but effective as of April 4, 2016), amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act.
	Financing Agreement
10.91	Five-Year Credit Agreement dated as of November 13, 2015, among FedEx Corporation, JPMorgan Chase Bank, N.A., individually and as administrative agent, and certain lenders. (Filed as Exhibit 99.1 to FedEx s Current Report on Form 8-K dated November 13, 2015 and filed November 18, 2015, and incorporated herein by reference.)
	Management Contracts/Compensatory Plans or Arrangements
10.92	FedEx 1997 Stock Incentive Plan, as amended, and Form of Stock Option Agreement pursuant to the 1997 Stock Incentive Plan. (The 1997 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx s Registration Statement on Form S-8, Registration No. 333-71065, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-71065 on Form S-8, and is incorporated herein by reference.)
10.93	Amendment to the 1997 Stock Incentive Plan. (Filed as Exhibit A to FedEx s FY98 Definitive Proxy Statement, and incorporated herein by reference.)
10.94	FedEx 1999 Stock Incentive Plan and Form of Stock Option Agreement pursuant to the 1999 Stock Incentive Plan. (The 1999 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx s Registration Statement No. 333-34934 on Form S-8, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-34934 on Form S-8, and is incorporated herein by reference.)

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10.95	FedEx 2002 Stock Incentive Plan and Form of Stock Option Agreement pursuant to the 2002 Stock Incentive Plan. (The 2002 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx s Registration Statement No. 333-100572 on Form S-8, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-100572 on Form S-8, and is incorporated herein by reference.)
10.96	Amendment to the 1995, 1997, 1999 and 2002 Stock Incentive Plans and the 2001 Restricted Stock Plan. (Filed as Exhibit 10.3 to FedEx s FY04 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.97	FedEx Incentive Stock Plan, as amended; Amendment to the Incentive Stock Plan, as amended, and the 1997, 1999 and 2002 Stock Incentive Plans; Form of Terms and Conditions of stock option grant pursuant to the Incentive Stock Plan, as amended; and Form of Restricted Stock Agreement pursuant to the Incentive Stock Plan, as amended. (The Incentive Stock Plan, as amended, was filed as Exhibit 4.1 to FedEx s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; the Amendment to the Incentive Stock Plan, as amended, and the 1997, 1999 and 2002 Stock Incentive Plans was filed as Exhibit 4.2 to FedEx s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; the Form of Terms and Conditions of stock option grant pursuant to the Incentive Stock Plan, as amended, was filed as Exhibit 4.3 to FedEx s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; and the Form of Restricted Stock Agreement was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference.)
10.98	FedEx Incentive Stock Plan 2005 Inland Revenue Approved Sub-Plan for the United Kingdom and Form of Share Option Agreement pursuant to the Incentive Stock Plan 2005 Inland Revenue Approved Sub-Plan for the United Kingdom. (The United Kingdom Sub-Plan was filed as Exhibit 4.2 to FedEx s Registration Statement No. 333-130619 on Form S-8, and is incorporated herein by reference, and the form of share option agreement pursuant to the United Kingdom Sub-Plan was filed as Exhibit 4.3 to FedEx s Registration Statement No. 333-130619 on Form S-8, and is incorporated herein by reference.)
10.99	Amendments to the 1993, 1995, 1997, 1999 and 2002 Stock Incentive Plans, as amended, the 2001 Restricted Stock Plan, as amended, and the Incentive Stock Plan, as amended. (Filed as Exhibit 10.48 to FedEx s FY10 Annual Report on Form 10-K, and incorporated herein by reference.)
10.100	Amendments to the 1993, 1995, 1997, 1999 and 2002 Stock Incentive Plans, the 2001 Restricted Stock Plan and the Incentive Stock Plan. (Filed as Exhibit 10.2 to FedEx s FY11 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.101	FedEx 2010 Omnibus Stock Incentive Plan, as amended (the 2010 Omnibus Stock Incentive Plan); Form of Terms and Conditions of stock option grant pursuant to the 2010 Omnibus Stock Incentive Plan; Form of Terms and Conditions of restricted stock grant pursuant to the 2010 Omnibus Stock Incentive Plan; and Form of Restricted Stock Agreement pursuant to the 2010 Omnibus Stock Incentive Plan. (The 2010 Omnibus Stock Incentive Plan was filed as Exhibit 4.3 to FedEx s Registration Statement No. 333-192957 on Form S-8, and is incorporated herein by reference; the Form of Terms and Conditions of stock option grant was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-171232 on Form S-8, and is incorporated herein by reference; the Form of Terms and Conditions of restricted stock grant pursuant to the 2010 Omnibus Stock Incentive Plan was filed as Exhibit 4.5 to FedEx s Registration Statement No. 333-171232 on Form S-8, and is incorporated herein by reference; and the Form of Restricted Stock Agreement was filed as Exhibit 4.5 to FedEx s Registration Statement No. 333-192957 on Form S-8, and is incorporated herein by reference.)

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10.102	Amended and Restated FedEx Retirement Parity Pension Plan. (Filed as Exhibit 10.35 to FedEx s FY08 Annual Report on Form 10-K, and incorporated herein by reference.)
10.103	FedEx Express Supplemental Long Term Disability Plan and Amendment to the Plan. (Filed as Exhibit 10.56 to FedEx s FY11 Annual Report on Form 10-K, and incorporated herein by reference.)
10.104	FedEx s Amended and Restated Retirement Plan for Outside Directors. (Filed as Exhibit 10.2 to FedEx s FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.105	Form of Management Retention Agreement between FedEx and each of Frederick W. Smith, David J. Bronczek, Robert B. Carter, Michael L. Ducker, T. Michael Glenn, Alan B. Graf, Jr., Henry J. Maier and Christine P. Richards. (Filed as Exhibit 10.5 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
	Other Exhibits
*12	Statement re Computation of Ratio of Earnings to Fixed Charges (presented on page 152 of this Annual Report on Form 10-K).
*21	Subsidiaries of Registrant.
*23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
*24	Powers of Attorney.
*31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.1	Interactive Data Files.

* Filed herewith.