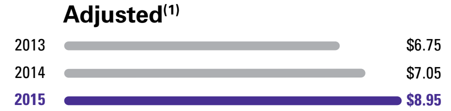
FINANCIAL HIGHLIGHTS

(in millions, except earnings per share)	2015	2014	Percent Change
Operating Results			
Revenues	$ 47,453	$ 45,567	4
Operating income, adjusted[1]	4,264	3,593	19
Operating income[2][3]	1,867	3,815	(51)
Operating margin, adjusted[1]	9.0%	7.9%	110 bp
Operating margin[2][3]	3.9%	8.4%	(450)bp
Net income, adjusted[1]	2,572	2,190	17
Net income[2][3]	1,050	2,324	(55)
Diluted earnings per common share, adjusted[1]	8.95	7.05	27
Diluted earnings per common share[2][3]	3.65	7.48	(51)
Average common and common equivalent shares	287	310	(7)
Cash provided by operating activities	5,366	4,264	26
Capital expenditures	4,347	3,533	23
Financial Position			
Cash and cash equivalents	$ 3,763	$ 2,908	29
Total assets	37,069	33,070	12
Long-term debt, including current portion	7,268	4,737	53
Common stockholders' investment	14,993	15,277	(2)

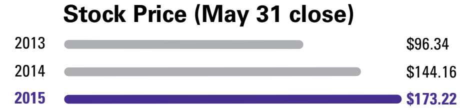
Revenue (in billions)

Operating Margin, Adjusted[1]

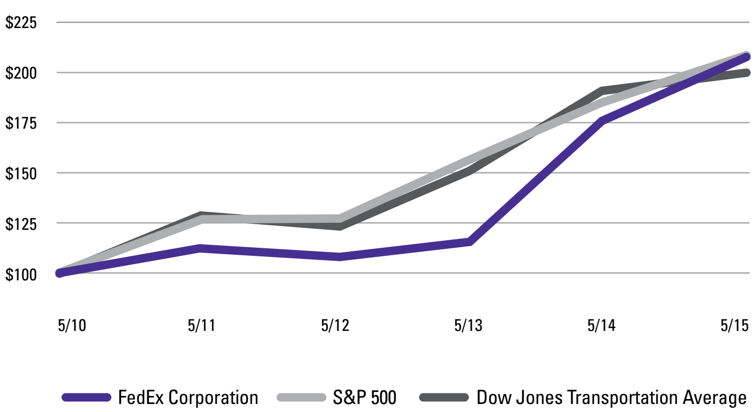
Diluted Earnings Per Share, Adjusted[1]



Stock Price (May 31 close)



Comparison of Five-Year Cumulative Total Return*



**$100 invested on 5/31/10 in stock or index, including reinvestment of dividends. Fiscal year ending May 31.*

(1) For a reconciliation of presented non–GAAP measures to the most directly comparable GAAP measures, see http://investors.fedex.com.

(2) Results for 2015 include a loss of $2.2 billion ($1.4 billion, net of tax, or $4.81 per diluted share) associated with our mark-to-market pension accounting, 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 and a charge of $197 million ($133 million, net of tax, or $0.46 per diluted share) to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement.

(3) Results for 2014 include a loss of $15 million ($9 million, net of tax, or $0.03 per diluted share) associated with our mark-to-market pension accounting.

OVERVIEW OF FINANCIAL SECTION

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

Organization of Information

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

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

> The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2016) for each of our reportable transportation segments.

> Our financial condition is reviewed through an analysis of key elements of our liquidity, capital resources and contractual cash obligations, including a discussion of our cash flows and our financial commitments.

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

> We conclude with a discussion of risks and uncertainties that may impact our financial condition and operating results.

Description of Business

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation ("FedEx Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ("FedEx Freight"), a leading U.S. provider of less-than-truckload ("LTL") freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ("FedEx Services"), form the core of our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications and certain back-office support to our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. ("FedEx Office"), and provides customer service, technical support and billing and collection services through FedEx TechConnect, Inc. ("FedEx TechConnect"). See "Reportable Segments" for further discussion.

The key indicators necessary to understand our operating results include:

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

> the volumes of transportation services provided through our networks, primarily measured by our average daily volume and shipment weight;

> the mix of services purchased by our customers;

> the prices we obtain for our services, primarily measured by yield (revenue per package or pound or revenue per hundredweight and shipment for LTL freight shipments);

> our ability to manage our cost structure (capital expenditures and operating expenses) to match shifting volume levels; and

> the timing and amount of fluctuations in fuel prices and our ability to recover incremental fuel costs through our fuel surcharges.

The majority of our operating expenses are directly impacted by revenue and volume levels. Accordingly, we expect these operating expenses to fluctuate on a year-over-year basis consistent with changes in revenues and volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than changes in revenues and volume. The line item "Other operating expenses" includes costs predominantly associated with outside service contracts (such as security and facility services), insurance, professional fees, uniforms and advertising.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2015 or ended May 31 of the year referenced and comparisons are to the prior year. References to our transportation segments include, collectively, our FedEx Express, FedEx Ground and FedEx Freight segments.

RESULTS OF OPERATIONS

Consolidated Results

Retirement Plans Mark-to-Market Adjustment

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

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

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

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

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

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

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

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

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

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

Overview

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

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

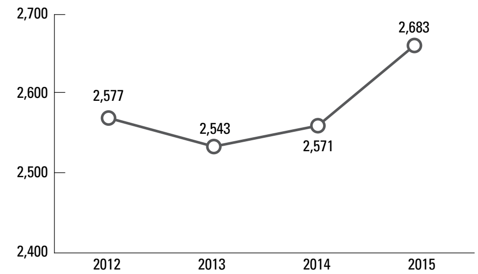
Our revenues for 2014 increased due to improved performance of all our transportation segments. In addition, our 2014 results benefited from our voluntary employee severance program and reduced variable incentive compensation, partially offset by the significant negative net impact of fuel, an estimated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

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

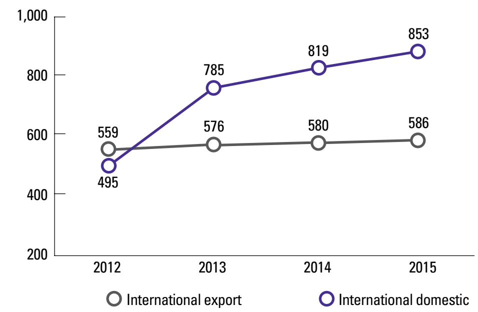
In 2013, we incurred a noncash pre-tax mark-to-market gain of $1.4 billion from actuarial adjustments to pension and postretirement healthcare plans related to the measurement of plan assets and liabilities, which resulted in a positive impact to our earnings of $2.63 per diluted share. In addition,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

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

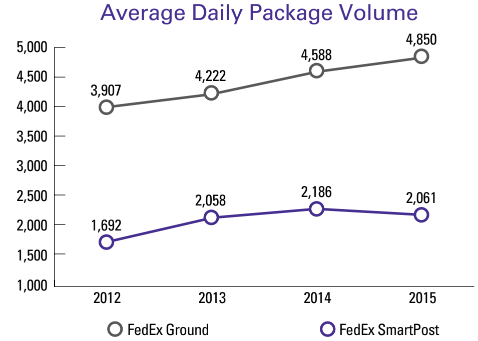
FedEx Express U.S. Domestic Average Daily Package Volume



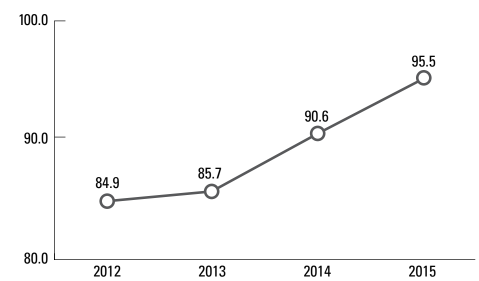
FedEx Express International(1) Average Daily Package Volume



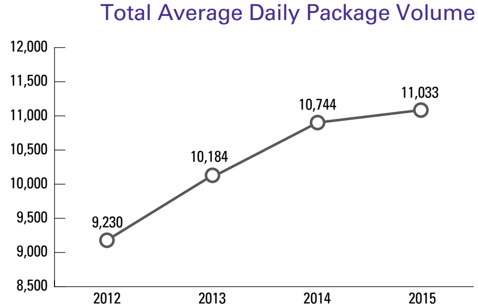
FedEx Ground Average Daily Package Volume



FedEx Freight Average Daily LTL Shipments



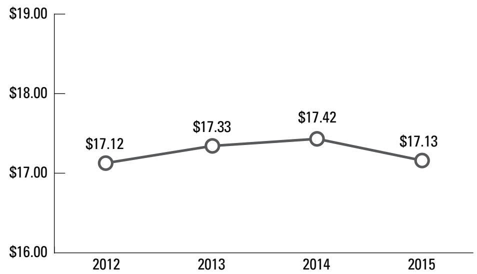
FedEx Express and FedEx Ground Total Average Daily Package Volume



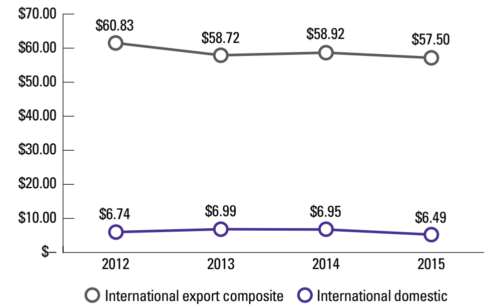
(1) International domestic average daily package volume represents our international intra-country express operations.

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

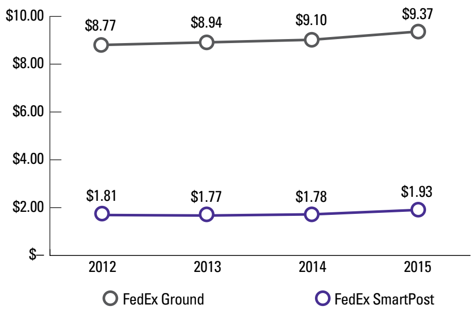
FedEx Express U.S. Domestic
Revenue per Package – Yield



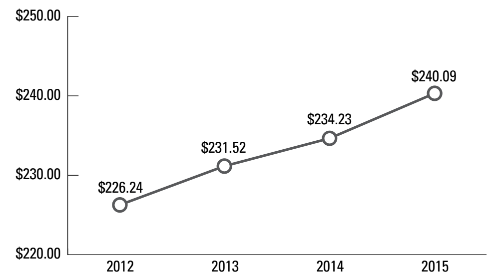
FedEx Express International
Revenue per Package – Yield



FedEx Ground
Revenue per Package – Yield



FedEx Freight
LTL Revenue per Shipment



Revenue

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

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

Retirement Plans MTM Adjustment

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

Business Realignment, Impairment and Other Charges

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

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

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

Legal Reserve Increase

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

Operating Expenses

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

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

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

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

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

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

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

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

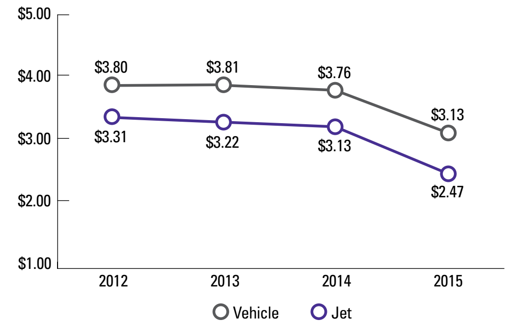
Our 2014 operating expenses grew due to the volume-related growth and higher utilization of third-party providers in purchased transportation expense, higher depreciation and amortization expense due to the accelerated depreciation on certain aircraft at FedEx Express (as further described below) and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

Purchased transportation costs increased 10% in 2014 due to volume growth at FedEx Ground, higher utilization of third-party transportation providers at FedEx Express, including recent business acquisitions at FedEx Express, higher utilization of third-party transportation providers at FedEx Freight and the expansion of our freight-forwarding business at FedEx Trade Networks. Depreciation and amortization expense increased 8% in 2014 primarily due to accelerated depreciation on certain aircraft scheduled for retirement, and aircraft placed in service at FedEx Express ($74 million). Salaries and employee benefits expense in 2014 increased 1% due to the benefits from our voluntary employee buyout program, lower pension expense, the delayed timing or absence of merit increases for many of our employees and reduced variable incentive compensation. Maintenance and repairs decreased 2% in 2014 due to network adjustments at FedEx Express and the continued modernization of our aircraft fleet, which impacted the timing of certain maintenance events.

Fuel

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

Average Fuel Cost per Gallon



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

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

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

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

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

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

The net impact of fuel on our operating results does not consider the effects that fuel surcharge levels may have on our business, including changes in demand and shifts in the mix of services purchased by our customers. While fluctuations in fuel surcharge percentages can be significant from period to period, fuel surcharges represent one of the many individual components of our pricing structure that impact our overall revenue and yield. Additional components include the mix of services sold, the base price and extra service charges we obtain for these services and the level of pricing discounts offered.

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

Interest Expense

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

Income Taxes

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

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

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

Business Acquisitions

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

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

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

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

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

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

Profit Improvement Programs

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

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

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

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

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

Outlook

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

Our capital expenditures for 2016 are expected to approximate $4.6 billion for continued expansion of the FedEx Ground network and additional aircraft deliveries in 2016 to support our fleet modernization program at FedEx Express. We will continue to evaluate our investments in critical long-term strategic projects to ensure our capital expenditures generate high returns on investments and are balanced with our outlook for global economic conditions. For additional details on key 2016 capital projects, refer to the "Capital Resources" and "Liquidity Outlook" sections of this MD&A.

Our outlook is dependent upon a stable pricing environment for fuel, as volatility in fuel prices impacts our fuel surcharge levels, fuel expense and demand for our services. Volatility in fuel costs may impact earnings because adjustments to our fuel surcharges lag changes in actual fuel prices paid. Therefore, the trailing impact of adjustments to our fuel surcharges can significantly affect our earnings either positively or negatively in the short-term.

As described in Note 18 of the accompanying consolidated financial statements, we are involved in a number of lawsuits and other proceedings that challenge the status of FedEx Ground's owner-operators as independent contractors. FedEx Ground anticipates continuing changes to its relationships with its owner-operators. As previously announced, FedEx Ground reached an agreement, which is subject to court approval, to settle an independent contractor case in California, and we accrued a related charge in the fourth quarter of 2015. Additionally, during the first quarter of 2015, we established an accrual for the estimated probable loss in the Oregon cases that was required to be recognized pursuant to applicable accounting standards. With respect to the matters that are pending outside of California and Oregon, the nature, timing and amount of any changes are dependent on the outcome of numerous future events. We cannot reasonably estimate the potential impact of any such changes or a meaningful range of potential outcomes, although they could be material. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business. See Note 18 of the accompanying consolidated financial statements for additional information.

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

Seasonality of Business

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

Recent Accounting Guidance

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

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

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

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

Reportable Segments

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

FedEx Express Segment	› FedEx Express (express transportation) › FedEx Trade Networks (air and ocean freight forwarding and customs brokerage) › FedEx SupplyChain Systems (logistics services) › Bongo (cross-border enablement technology and solutions)
FedEx Ground Segment	› FedEx Ground (small-package ground delivery) › FedEx SmartPost (small-parcel consolidator) › GENCO (third-party logistics)
FedEx Freight Segment	› FedEx Freight (LTL freight transportation) › FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	› FedEx Services (sales, marketing, information technology, communications and back-office functions) › FedEx TechConnect (customer service, technical support, billings and collections) › FedEx Office (document and business services and package acceptance)

FedEx Services Segment

The operating expenses line item "Intercompany charges" on the accompanying consolidated financial statements of our transportation segments reflects the allocations from the FedEx Services segment to the respective transportation segments. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided.

The FedEx Services segment provides direct and indirect support to our transportation businesses, and we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office, which are an immaterial component of our allocations, are allocated to FedEx Express and FedEx Ground. We review and evaluate the performance of our transportation segments based on operating income (inclusive of FedEx Services segment allocations). For the FedEx Services segment, performance is evaluated based on the impact of its total allocated net operating costs on our transportation segments. We believe these allocations approximate the net cost of providing these functions. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses.

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

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

Other Intersegment Transactions

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

FedEx Express Segment

FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of packages and freight including priority services, which provide time-definite delivery within one, two or three business days worldwide, and deferred or economy services, which provide time-definite delivery within five business days worldwide. The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) for the years ended May 31, and amounts have been recast to conform to the current year presentation reflecting the pension accounting changes and allocation of corporate headquarters costs further discussed in this MD&A and Note 1, Note 13 and Note 14 of the accompanying consolidated financial statements:

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

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

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

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

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

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

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

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

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

FedEx Express Segment Revenues

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

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

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

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

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

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

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

FedEx Express Segment Operating Income

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

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

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

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

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

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

FedEx Express Segment Outlook

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

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

FedEx Ground Segment

FedEx Ground service offerings include day-certain service delivery to businesses in the U.S. and Canada and to nearly 100% of U.S. residences. FedEx SmartPost consolidates high-volume, low-weight, less time-sensitive business-to-consumer packages and utilizes the United States Postal Service ("USPS") for final delivery. On January 30, 2015, we acquired GENCO, a leading North American third-party logistics provider. GENCO's financial results are included in the following table from the date of acquisition, which has impacted the year-over-year comparability of revenue and operating expenses. The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) and selected package statistics (in thousands, except yield amounts) for the years ended May 31, and amounts have been recast to conform to the current year presentation reflecting the pension accounting changes and allocation of corporate headquarters costs further discussed in this MD&A and Note 1, Note 13 and Note 14 of the accompanying consolidated financial statements:

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

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

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

FedEx Ground Segment Revenues

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

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

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

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

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

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

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

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

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

FedEx Ground Segment Operating Income

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

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

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

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

FedEx Ground Segment Outlook

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

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

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

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

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

FedEx Freight Segment

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

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

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

(1) 2013 includes severance costs associated with our voluntary buyout program.
(2) Includes allocations of $47 million in 2013 for business realignment costs.

FedEx Freight Segment Revenues

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

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

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

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

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

FedEx Freight Segment Operating Income

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

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

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

FedEx Freight Segment Outlook

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

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

FINANCIAL CONDITION

Liquidity

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

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

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

CASH USED IN INVESTING ACTIVITIES. Capital expenditures were 23% higher in 2015 largely due to increased spending for aircraft at FedEx Express and sort facility expansion at FedEx Ground, and were 5% higher in 2014 than in 2013, largely due to increased spending at FedEx Ground and FedEx Express. See "Capital Resources" for a more detailed discussion of capital expenditures during 2015 and 2014.

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

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

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

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

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

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

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

Capital Resources

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

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

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

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

Liquidity Outlook

We believe that our cash and cash equivalents, which totaled $3.8 billion at May 31, 2015, cash flow from operations and available financing sources will be adequate to meet our liquidity needs, including working capital, capital expenditure requirements, debt payment obligations and our announced intent to acquire TNT Express. Our cash and cash equivalents balance at May 31, 2015 includes $478 million of cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our U.S. domestic debt or working capital obligations.

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

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

We have a shelf registration statement filed with the Securities and Exchange Commission ("SEC") that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock.

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

A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in March 2018. The agreement contains a financial covenant, which requires us to maintain a leverage ratio of adjusted debt (long-term debt, including the current portion of such debt, plus six times our last four fiscal quarters' rentals and landing fees) to capital (adjusted debt plus total common stockholders' investment) that does not exceed 70%. Our leverage ratio of adjusted debt to capital was 61% at May 31, 2015. We believe the leverage ratio covenant is the only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of May 31, 2015, no commercial paper was outstanding, and the entire $1 billion under the revolving credit facility was available for future borrowings.

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

On June 8, 2015, our Board of Directors declared a quarterly dividend of $0.25 per share of common stock, an increase of $0.05 per common share from the prior quarter's dividend. The dividend was paid on July 2, 2015 to stockholders of record as of the close of business on June 18, 2015. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

Standard & Poor's has assigned us a senior unsecured debt credit rating of BBB and commercial paper rating of A-2 and a ratings outlook of "stable." Moody's Investors Service has assigned us a senior unsecured debt credit rating of Baa1 and commercial paper rating of P-2 and a ratings outlook of "negative." If our credit ratings drop, our interest expense may increase. If our commercial paper ratings drop below current levels, we may have difficulty utilizing the commercial paper market. If our senior unsecured debt credit ratings drop below investment grade, our access to financing may become limited.

Contractual Cash Obligations and Off-Balance Sheet Arrangements

The following table sets forth a summary of our contractual cash obligations as of May 31, 2015. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States. Except for the current portion of interest on long-term debt, this table does not include amounts already recorded in our balance sheet as current liabilities at May 31, 2015. We have certain contingent liabilities that are not accrued in our balance sheet in accordance with accounting principles generally accepted in the United States. These contingent liabilities are not included in the table below. We have other long-term liabilities reflected in our balance sheet, including deferred income taxes, qualified and nonqualified pension and postretirement healthcare plan liabilities and other self-insurance accruals. Unless statutorily required, the payment obligations associated with these liabilities are not reflected in the table below due to the absence of scheduled maturities. Accordingly, this table is not meant to represent a forecast of our total cash expenditures for any of the periods presented.

	Payments Due by Fiscal Year (Undiscounted)						
(in millions)	2016	2017	2018	2019	2020	Thereafter	Total
Operating activities:							
Operating leases	$ 2,128	$ 2,241	$ 1,751	$ 1,511	$ 1,265	$ 7,489	$ 16,385
Non-capital purchase obligations and other	432	230	127	69	22	89	969
Interest on long-term debt	325	320	320	320	260	5,331	6,876
Contributions to our U.S. Pension Plans	500	–	–	–	–	–	500
Investing activities:							
Aircraft and aircraft-related capital commitments	1,255	1,024	1,399	1,017	662	3,786	9,143
Other capital purchase obligations	129	5	1	–	–	–	135
Financing activities:							
Debt	–	–	–	750	400	6,090	7,240
Total	$ 4,769	$ 3,820	$ 3,598	$ 3,667	$ 2,609	$ 22,785	$ 41,248

Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above. Such purchase orders often represent authorizations to purchase rather than binding agreements. See Note 17 of the accompanying consolidated financial statements for more information on such purchase orders.

Operating Activities

In accordance with accounting principles generally accepted in the United States, future contractual payments under our operating leases (totaling $16 billion on an undiscounted basis) are not recorded in our balance sheet. Credit rating agencies routinely use information concerning minimum lease payments required for our operating leases to calculate our debt capacity. The amounts reflected in the table above for operating leases represent future minimum lease payments under noncancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 2015. Under the proposed new lease accounting rules, the majority of these leases will be required to be recognized on the balance sheet as a liability with an offsetting right-to-use asset.

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

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

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

Investing Activities

The amounts reflected in the table above for capital purchase obligations represent noncancelable agreements to purchase capital-related equipment. Such contracts include those for certain purchases of aircraft, aircraft modifications, vehicles, facilities, computers and other equipment. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport unless we have entered into noncancelable commitments to modify such aircraft.

Financing Activities

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

The amounts reflected in the table above for long-term debt represent future scheduled payments on our long-term debt. In 2016, we have no scheduled debt payments.

CRITICAL ACCOUNTING ESTIMATES

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

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

Retirement Plans

OVERVIEW. We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans and are described in Note 13 of the accompanying consolidated financial statements. The rules for pension accounting are complex and can produce tremendous volatility in our results, financial condition and liquidity.

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

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

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

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

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

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

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

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.

2013

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

Following is a discussion of the key estimates we consider in determining our U.S. Pension Plans cost:

DISCOUNT RATE. This is the interest rate used to discount the estimated future benefit payments that have been accrued to date (the projected benefit obligation, or "PBO") to their net present value and to determine the succeeding year's ongoing pension expense (prior to any year-end MTM adjustment). The discount rate is determined each year at the plan measurement date. The discount rate at each measurement date is as follows:

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

We determine the discount rate with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better). In developing this theoretical portfolio, we select bonds that match cash flows to benefit payments, limit our concentration by industry and issuer, and apply screening criteria to ensure bonds with a call feature have a low probability of being called. To the extent scheduled bond proceeds exceed the estimated benefit payments in a given period, the calculation assumes those excess proceeds are reinvested at one-year forward rates.

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

PLAN ASSETS. The expected average rate of return on plan assets is a long-term, forward-looking assumption. It is required to be the expected future long-term rate of earnings on plan assets. Our pension plan assets are invested primarily in publicly tradeable securities, and our pension plans hold only a minimal investment in FedEx common stock that is entirely at the discretion of third-party pension fund investment managers. As part of our strategy to manage pension costs and funded status volatility, we have transitioned to a liability-driven investment strategy to better align plan assets with liabilities.

Establishing the expected future rate of investment return on our pension assets is a judgmental matter, which we review on an annual basis and revise as appropriate. Management considers the following factors in determining this assumption:

- the duration of our pension plan liabilities, which drives the investment strategy we can employ with our pension plan assets;
- the types of investment classes in which we invest our pension plan assets and the expected compound geometric return we can reasonably expect those investment classes to earn over time; and
- the investment returns we can reasonably expect our investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

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

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

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

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

FUNDING. The funding requirements for our U.S. Pension Plans are governed by the Pension Protection Act of 2006, which has aggressive funding requirements in order to avoid benefit payment restrictions that become effective if the funded status determined under IRS rules falls below 80% at the beginning of a plan year. All of our U.S. Pension Plans have funded status levels in excess of 80% and our plans remain adequately funded to provide benefits to our employees as they come due. Additionally, current benefit payments are nominal compared to our total plan assets (benefit payments for our U.S. Pension Plans for 2015 were approximately $744 million or 3.2% of plan assets).

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

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

Self-Insurance Accruals

We are self-insured up to certain limits for costs associated with workers' compensation claims, vehicle accidents and general business liabilities, and benefits paid under employee healthcare and long-term disability programs. Our reserves are established for estimates of loss on reported claims, including incurred-but-not-reported claims. Self-insurance accruals reflected in our balance sheet were $2.0 billion at May 31, 2015 and $1.8 billion at May 31, 2014. Approximately 41% of these accruals were classified as current liabilities.

Our self-insurance accruals are primarily based on the actuarially estimated, cost of claims incurred as of the balance sheet date. These estimates include consideration of factors such as severity of claims, frequency and volume of claims, healthcare inflation, seasonality and plan designs. Cost trends on material accruals are updated each quarter. We self-insure up to certain limits that vary by operating company and type of risk. Periodically, we evaluate the level of insurance coverage and adjust insurance levels based on risk tolerance and premium expense. Historically, it has been infrequent that incurred claims exceeded our self-insured limits.

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

Long-Lived Assets

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

The depreciation or amortization of our capital assets over their estimated useful lives, and the determination of any salvage values, requires management to make judgments about future events. Because we utilize many of our capital assets over relatively long periods (the majority of aircraft costs are depreciated over 15 to 30 years), we periodically evaluate whether adjustments to our estimated service lives or salvage values are necessary to ensure these estimates properly match the economic use of the asset. This evaluation may result in changes in the estimated lives and residual values used to depreciate our aircraft and other equipment. For our aircraft, we typically assign no residual value due to the utilization of these assets in cargo configuration, which results in little to no value at the end of their useful life. These estimates affect the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on the disposal of the asset. Changes in the estimated lives of assets will result in an increase or decrease in the amount of depreciation recognized in future periods and could have a material impact on our results of operations (as described below). Historically, gains and losses on disposals of operating equipment have not been material. However, such amounts may differ materially in the future due to changes in business levels, technological obsolescence, accident frequency, regulatory changes and other factors beyond our control.

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

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

Because of the lengthy lead times for aircraft manufacture and modifications, we must anticipate volume levels and plan our fleet requirements years in advance, and make commitments for aircraft based on those projections. Furthermore, the timing and availability of certain used aircraft types (particularly those with better fuel efficiency) may create limited opportunities to acquire these aircraft at favorable prices in advance of our capacity needs. These activities create risks that asset capacity may exceed demand. Aircraft purchases (primarily aircraft in passenger configuration) that have not been placed in service totaled $102 million at May 31, 2015 and $82 million at May 31, 2014. We plan to modify these assets in the future and place them into operations.

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

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

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

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

LEASES. We utilize operating leases to finance certain of our aircraft, facilities and equipment. Such arrangements typically shift the risk of loss on the residual value of the assets at the end of the lease period to the lessor. As disclosed in "Contractual Cash Obligations" and Note 7 of the accompanying consolidated financial statements, at May 31, 2015 we had approximately $16 billion (on an undiscounted basis) of future commitments for payments under operating leases. The weighted-average remaining lease term of all operating leases outstanding at May 31, 2015 was approximately six years. The future commitments for operating leases are not reflected as a liability in our balance sheet under current U.S. accounting rules.

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

Under a proposed revision to the accounting standards for leases, we would be required to record an asset and a liability for our outstanding operating leases similar to the current accounting for capital leases. Notably, the amount we record in the future would be the net present value of our future lease commitments at the date of adoption. This proposed guidance has not been issued and has been subjected to numerous revisions, most recently in May 2013. While we are not required to quantify the effects of the proposed rule changes until they are finalized, we believe that a majority of our operating lease obligations reflected in the contractual cash obligations table would be required to be reflected in our balance sheet were the proposed rules to be adopted. Furthermore, our existing financing agreements and the rating agencies that evaluate our creditworthiness already take our operating leases into account.

GOODWILL. As of May 31, 2015, we had $3.8 billion of recorded goodwill from our business acquisitions, representing the excess of the purchase price over the fair value of the net assets we have acquired. During 2015 we recorded $1.1 billion in additional goodwill associated with our GENCO and Bongo acquisitions. Several factors give rise to goodwill in our acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired business.

In our evaluation of goodwill impairment, we perform a qualitative assessment that requires management judgment and the use of estimates to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we proceed to a two-step process to test goodwill for impairment, including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). Fair value is estimated using standard valuation methodologies (principally the income or market approach) incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Estimates used by management can significantly affect the outcome of the impairment test. Changes in forecasted operating results and other assumptions could materially affect these estimates. We perform our annual impairment tests in the fourth quarter unless circumstances indicate the need to accelerate the timing of the tests.

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

Contingencies

We are subject to various loss contingencies, including tax proceedings and litigation, in connection with our operations. Contingent liabilities are difficult to measure, as their measurement is subject to multiple factors that are not easily predicted or projected. Further, additional complexity in measuring these liabilities arises due to the various jurisdictions in which these matters occur, which makes our ability to predict their outcome highly uncertain. Moreover, different accounting rules must be employed to account for these items based on the nature of the contingency. Accordingly, significant management judgment is required to assess these matters and to make determinations about the measurement of a liability, if any. Our material pending loss contingencies are described in Note 18 of the accompanying consolidated financial statements. In the opinion of management, the aggregate liability, if any, of individual matters or groups of matters not specifically described in Note 18 is not expected to be material to our financial position, results of operations or cash flows. The following describes our methods and associated processes for evaluating these matters.

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

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

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

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

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

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

OTHER CONTINGENCIES. Because of the complex environment in which we operate, we are subject to other legal proceedings and claims, including those relating to general commercial matters, governmental enforcement actions, employment-related claims and FedEx Ground's owner-operators. Accounting guidance for contingencies requires an accrual of estimated loss from a contingency, such as a tax or other legal proceeding or claim, when it is probable (i.e., the future event or events are likely to occur) that a loss has been incurred and the amount of the loss can be reasonably estimated. This guidance also requires disclosure of a loss contingency matter when, in management's judgment, a material loss is reasonably possible or probable.

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

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

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

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

> the procedural status of each matter;

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

> the amount of time remaining before a trial date;

> the status of discovery;

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

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

In reaching our conclusions with respect to accrual of a loss or loss contingency disclosure, we take a holistic view of each matter based on these factors and the information available prior to the issuance of our financial statements. Uncertainty with respect to an individual factor or combination of these factors may impact our decisions related to accrual or disclosure of a loss contingency, including a conclusion that we are unable to establish an estimate of possible loss or a meaningful range of possible loss. We update our disclosures to reflect our most current understanding of the contingencies at the time we issue our financial statements. However, events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs materially from our previously estimated liability or range of possible loss.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATES. While we currently have market risk sensitive instruments related to interest rates, we have no significant exposure to changing interest rates on our long-term debt because the interest rates are fixed on all of our long-term debt. As disclosed in Note 6 to the accompanying consolidated financial statements, we had outstanding fixed-rate, long-term debt (exclusive of capital leases) with estimated fair values of $7.4 billion at May 31, 2015 and $5.0 billion at May 31, 2014. Market risk for fixed-rate, long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 10% increase in interest rates and amounts to $208 million as of May 31, 2015 and $165 million as of May 31, 2014. 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 are denominated in U.S. dollars. The principal foreign currency exchange rate risks to which we are exposed are in the Chinese yuan, euro, British pound, Brazilian real, Mexican peso and the Canadian dollar. Historically, our exposure to foreign currency fluctuations is more significant with respect to our revenues than our expenses, as a significant portion of our expenses are denominated in U.S. dollars, such as aircraft and fuel expenses. During 2015, foreign currency fluctuations had a moderately positive impact on operating income. The impact of foreign currency fluctuations was slightly negative in 2014. 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, 2015, 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 an increase in operating income of $36 million for 2016. 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.

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."

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

RISK FACTORS

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

We are directly affected by the state of the economy. While macro-economic risks apply to most companies, we are particularly vulnerable. The transportation industry is highly cyclical and especially susceptible to trends in economic activity. Our primary business is to transport goods, so our business levels are directly tied to the purchase and production of goods — key macro-economic measurements. When individuals and companies purchase and produce fewer goods, we transport fewer goods, and as companies expand the number of distribution centers and move manufacturing closer to consumer markets, we transport goods shorter distances. In addition, we have a relatively high fixed-cost structure, which is difficult to quickly adjust to match shifting volume levels. Moreover, as we continue to grow our international business, we are increasingly affected by the health of the global economy, the rate of growth of global trade and the typically more volatile economies of emerging markets. In 2015, we saw a continued customer preference for slower, less costly shipping services.

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

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

Any disruption to our complex, global technology infrastructure, including those impacting our computer systems and *fedex.com*, could result in the loss of confidential business or customer information, adversely impact our customer service, volumes and revenues or could lead to litigation or investigations, resulting in significant costs. These types of adverse impacts could also occur in the event the confidentiality, integrity or availability of company and customer information was compromised due to a data loss by FedEx or a trusted third party. While we have invested and continue to invest in technology security initiatives, information technology risk management and disaster recovery plans, these measures cannot fully insulate us from cybersecurity incidents, technology disruptions or data loss, which could adversely impact our competitiveness and results of operations. Additionally, the cost and operational consequences of implementing further data or system protection measures could be significant.

Our transportation businesses are impacted by the price and availability of fuel. We must purchase large quantities of fuel to operate our aircraft and vehicles, and the price and availability of fuel can be unpredictable and beyond our control. To date, we have been mostly successful in mitigating over time the expense impact of higher fuel costs through our indexed fuel surcharges, as the amount of the surcharges is closely linked to the market prices for fuel. If we are unable to maintain or increase our fuel surcharges because of competitive pricing pressures or some other reason, fuel costs could adversely impact our operating results. Additionally, if fuel prices rise sharply, even if we increase our fuel surcharge, we could experience a lag time in implementing the surcharge, which could adversely affect our short-term operating results. Even if we are able to offset the cost of fuel with our surcharges, high fuel surcharges could move our customers away from our higher-yielding express services to our lower-yielding deferred or ground services or even reduce customer demand for our services altogether. In addition, disruptions in the supply of fuel could have a negative impact on our ability to operate our transportation networks.

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

We face intense competition. The transportation and business services markets are both highly competitive and sensitive to price and service, especially in periods of little or no macro-economic growth. Some of our competitors have more financial resources than we do, or they are controlled or subsidized by foreign governments, which enables them to raise capital more easily. We also compete with regional transportation providers that operate smaller and less capital-intensive transportation networks. In addition, some high volume package shippers are developing in-house ground delivery capabilities, which would in turn reduce our revenues and market share. We believe we compete effectively with these companies — for example, by providing more reliable service at compensatory prices. However, an irrational pricing environment can limit our ability not only to maintain or increase our prices (including our fuel surcharges in response to rising fuel costs), but also to maintain or grow our market share. While we believe we compete effectively through our current service offerings, if our current competitors or potential future competitors offer a broader range of services or more effectively bundle their services or our current customers become competitors, it could impede our ability to maintain or grow our market share.

If we do not successfully execute or effectively operate, integrate, leverage and grow acquired businesses, our financial results and reputation may suffer. Our strategy for long-term growth, productivity and profitability depends in part on our ability to make prudent strategic acquisitions and to realize the benefits we expect when we make those acquisitions. In furtherance of this strategy, over the past several years, we have acquired businesses in Europe, Latin America, Africa and the United States. Additionally, in April 2015, we entered into a conditional agreement to acquire TNT Express.

While we expect to successfully execute the TNT Express acquisition, we may not be able to complete the transaction on favorable terms, on a timely basis or at all. Additionally, while we anticipate that our past and future acquisitions will enhance our value proposition to customers and improve our long-term profitability, there can be no assurance that we will realize our expectations within the time frame we have established, if at all, or that we can continue to support the value we allocate to these acquired businesses, including their goodwill or other intangible assets.

Labor organizations attempt to organize groups of our employees from time to time, and potential changes in labor laws could make it easier for them to do so. If we are unable to continue to maintain good relationships with our employees and prevent labor organizations from organizing groups of our employees, our operating costs could significantly increase and our operational flexibility could be significantly reduced. Despite continual organizing attempts by labor unions, other than the pilots of FedEx Express and drivers at four FedEx Freight facilities, our U.S. employees have thus far chosen not to unionize (we acquired GENCO in January 2015, which already had a small number of employees that are members of unions).

The U.S. Congress has, in the past, considered adopting changes in labor laws, however, that would make it easier for unions to organize units of our employees. For example, there is always a possibility that Congress could remove most FedEx Express employees from the purview of the Railway Labor Act of 1926, as amended ("RLA"). 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 contractors. If FedEx Ground is compelled to convert its independent contractors to employees, labor organizations could more easily organize these individuals, our operating costs could increase materially and we could incur significant capital outlays.

FedEx Ground relies on owner-operators to conduct its linehaul and pickup-and-delivery operations, and the status of these owner-operators as independent contractors, rather than employees, is being challenged. FedEx Ground's use of independent contractors is well suited to the needs of the ground delivery business and its customers, as evidenced by the strong growth of this business segment. We are involved in numerous lawsuits and state tax and other administrative proceedings that claim that the company's owner-operators or their drivers should be treated as our employees, rather than independent contractors. We incur certain costs, including legal fees, in defending the status of FedEx Ground's owner-operators as independent contractors.

We believe that FedEx Ground's owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company's independent contractors. However, adverse determinations in these matters could, among other things, entitle certain of our owner-operators and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for FedEx Ground, and could result in changes to the independent contractor status of FedEx Ground's owner-operators. Changes to state laws governing the definition of independent contractors could also impact the status of FedEx Ground's owner-operators.

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

The transportation infrastructure continues to be a target of terrorist activities. Because transportation assets continue to be a target of terrorist activities, governments around the world are adopting or are considering adopting stricter security requirements that will increase operating costs and potentially slow service for businesses, including those in the transportation industry. For example, the U.S. Transportation Security Administration requires FedEx Express to comply with a Full All-Cargo Aircraft Operator Standard Security Plan, which contains evolving and strict security requirements. These requirements are not static, but change periodically as the result of regulatory and legislative requirements, imposing additional security costs and creating a level of uncertainty for our operations. Thus, it is reasonably possible that these rules or other future security requirements could impose material costs on us or slow our service to our customers. Moreover, a terrorist attack directed at FedEx or other aspects of the transportation infrastructure could disrupt our operations and adversely impact demand for our services.

The regulatory environment for global aviation or other transportation rights may impact our operations. Our extensive air network is critical to our success. Our right to serve foreign points is subject to the approval of the Department of Transportation and generally requires a bilateral agreement between the United States and foreign governments. In addition, we must obtain the permission of foreign governments to provide specific flights and services. Our operations outside of the United States, such as FedEx Express's growing international domestic operations, are also subject to current and potential regulations, including certain postal regulations and licensing requirements, that restrict, make difficult and sometimes prohibit, the ability of foreign-owned companies such as FedEx Express to compete effectively in parts of the international domestic transportation and logistics market. Regulatory actions affecting global aviation or transportation rights or a failure to obtain or maintain aviation or other transportation rights in important international markets could impair our ability to operate our networks.

We may be affected by global climate change or by legal, regulatory or market responses to such change. Concern over climate change, including the impact of global warming, has led to significant U.S. and international legislative and regulatory efforts to limit greenhouse gas ("GHG") emissions, including our aircraft and diesel engine emissions. For example, in 2015, the U.S. Environmental Protection Agency (the "EPA") issued a proposed finding on GHG emissions from aircraft and its relationships to air pollution. The final finding is a regulatory prerequisite to the EPA's adoption of a new certification standard for aircraft emissions. Additionally, in 2009, the European Commission approved the extension of the European Union Emissions Trading Scheme ("ETS") for GHG emissions, to the airline industry. Under this decision, all FedEx Express flights that are wholly within the European Union are now covered by the ETS requirements, and each year we are required to submit emission allowances in an amount equal to the carbon dioxide emissions from such flights.

In addition, the U.S. Congress has, in the past, considered bills that would regulate GHG emissions, and some form of federal climate change legislation is possible in the future. Increased regulation regarding GHG emissions, especially aircraft or diesel engine emissions, could impose substantial costs on us, especially at FedEx Express. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our aircraft or vehicles prematurely. Until the timing, scope and extent of such regulation becomes known, we cannot predict its effect on our cost structure or our operating results. It is reasonably possible, however, that it could impose material costs on us.

Moreover, even without such regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the airline and transportation industries could harm our reputation and reduce customer demand for our services, especially our air express services. Finally, given the broad and global scope of our operations and our susceptibility to global macro-economic trends, we are particularly vulnerable to the physical risks of climate change that could affect all of humankind, such as shifts in weather patterns and world ecosystems.

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

Our business may be adversely impacted by disruptions or modifications in service by the USPS. The USPS is a significant customer and vendor of FedEx, and thus, disruptions or modifications in services by the USPS or any resulting structural changes to its operations, network, service offerings or pricing could have an adverse effect on our operations and financial results.

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

- increasing costs, the volatility of costs and funding requirements and other legal mandates for employee benefits, especially pension and healthcare benefits;
- the increasing costs of compliance with federal, state and foreign governmental agency mandates (including the Foreign Corrupt Practices Act and the U.K. Bribery Act) and defending against inappropriate or unjustified enforcement or other actions by such agencies;
- the impact of any international conflicts on the United States and global economies in general, the transportation industry or us in particular, and what effects these events will have on our costs or the demand for our services;
- any impacts on our businesses resulting from new domestic or international government laws and regulation;
- changes in foreign currency exchange rates, especially in the Chinese yuan, euro, British pound, Brazilian real, Mexican peso and the Canadian dollar, which can affect our sales levels and foreign currency sales prices;
- market acceptance of our new service and growth initiatives;
- any liability resulting from and the costs of defending against class-action litigation, such as wage-and-hour and discrimination and retaliation claims, and any other legal or governmental proceedings;
- the outcome of future negotiations to reach new collective bargaining agreements — including with the union that represents the pilots of FedEx Express (the current pilot contract became amendable in March 2013, and the parties are currently in negotiations) and with the union that was elected in 2015 to represent drivers at four FedEx Freight facilities;
- the impact of technology developments on our operations and on demand for our services, and our ability to continue to identify and eliminate unnecessary information technology redundancy and complexity throughout the organization;
- governmental underinvestment in transportation infrastructure, which could increase our costs and adversely impact our service levels due to traffic congestion or sub-optimal routing of our vehicles and aircraft;
- widespread outbreak of an illness or any other communicable disease, or any other public health crisis; and
- availability of financing on terms acceptable to us and our ability to maintain our current credit ratings, especially given the capital intensity of our operations.

FORWARD-LOOKING STATEMENTS

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

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

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Management, with the participation of our principal executive and financial officers, assessed our internal control over financial reporting as of May 31, 2015, the end of our fiscal year. Management based its assessment on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria).

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

The effectiveness of our internal control over financial reporting as of May 31, 2015, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Company's consolidated financial statements included in this Annual Report. Ernst & Young LLP's report on the Company's internal control over financial reporting is included in this Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited FedEx Corporation's internal control over financial reporting as of May 31, 2015, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). FedEx Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, FedEx Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FedEx Corporation as of May 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' investment, and cash flows for each of the three years in the period ended May 31, 2015 of FedEx Corporation and our report dated July 14, 2015 expressed an unqualified opinion thereon.

Memphis, Tennessee
July 14, 2015

Ernst & Young LLP

CONSOLIDATED STATEMENTS OF INCOME

(in millions, except per share amounts)	Years ended May 31, 2015	2014	2013
		As Adjusted	
Revenues	$ 47,453	$ 45,567	$ 44,287
Operating Expenses:			
Salaries and employee benefits	17,110	16,171	16,055
Purchased transportation	8,483	8,011	7,272
Rentals and landing fees	2,682	2,622	2,521
Depreciation and amortization	2,611	2,587	2,386
Fuel	3,720	4,557	4,746
Maintenance and repairs	2,099	1,862	1,909
Business realignment, impairment and other charges	276	–	660
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
Other	6,415	5,927	5,672
	45,586	41,752	39,853
Operating Income	1,867	3,815	4,434
Other Income (Expense):			
Interest expense	(235)	(160)	(82)
Interest income	14	18	21
Other, net	(19)	(15)	(35)
	(240)	(157)	(96)
Income Before Income Taxes	1,627	3,658	4,338
Provision For Income Taxes	577	1,334	1,622
Net Income	$ 1,050	$ 2,324	$ 2,716
Basic Earnings Per Common Share	$ 3.70	$ 7.56	$ 8.61
Diluted Earnings Per Common Share	$ 3.65	$ 7.48	$ 8.55

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended May 31,		
(in millions)	2015	2014	2013
		As Adjusted	
Net Income	$ 1,050	$ 2,324	$ 2,716
Other Comprehensive (Loss) Income:			
Foreign currency translation adjustments, net of tax benefit of $45, $1 and $12	(334)	(25)	41
Amortization of prior service credit and other, net of tax expense of $1 in 2015 and tax benefit of $38 and $51 in 2014 and 2013	–	(76)	(63)
	(334)	(101)	(22)
Comprehensive Income	$ 716	$ 2,223	$ 2,694

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

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)	May 31, 2015	May 31, 2014 As Adjusted
Assets		
Current Assets		
Cash and cash equivalents	$ 3,763	$ 2,908
Receivables, less allowances of $185 and $164	5,719	5,460
Spare parts, supplies and fuel, less allowances of $207 and $212	498	463
Deferred income taxes	606	522
Prepaid expenses and other	355	330
Total current assets	10,941	9,683
Property and Equipment, at Cost		
Aircraft and related equipment	16,186	15,632
Package handling and ground support equipment	6,725	6,082
Computer and electronic equipment	5,208	5,097
Vehicles	5,816	5,514
Facilities and other	8,929	8,366
	42,864	40,691
Less accumulated depreciation and amortization	21,989	21,141
Net property and equipment	20,875	19,550
Other Long-Term Assets		
Goodwill	3,810	2,790
Other assets	1,443	1,047
Total other long-term assets	5,253	3,837
	$ 37,069	$ 33,070
Liabilities and Stockholders' Investment		
Current Liabilities		
Current portion of long-term debt	$ 19	$ 1
Accrued salaries and employee benefits	1,436	1,277
Accounts payable	2,066	1,971
Accrued expenses	2,436	2,063
Total current liabilities	5,957	5,312
Long-Term Debt, Less Current Portion	7,249	4,736
Other Long-Term Liabilities		
Deferred income taxes	1,747	2,114
Pension, postretirement healthcare and other benefit obligations	4,893	3,484
Self-insurance accruals	1,120	1,038
Deferred lease obligations	711	758
Deferred gains, principally related to aircraft transactions	181	206
Other liabilities	218	145
Total other long-term liabilities	8,870	7,745
Commitments and Contingencies		
Common Stockholders' Investment		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of May 31, 2015 and 2014	32	32
Additional paid-in capital	2,786	2,643
Retained earnings	16,900	16,229
Accumulated other comprehensive income	172	506
Treasury stock, at cost	(4,897)	(4,133)
Total common stockholders' investment	14,993	15,277
	$ 37,069	$ 33,070

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended May 31,		
(in millions)	2015	2014	2013
		As Adjusted	
Operating Activities			
Net Income	$ 1,050	$ 2,324	$ 2,716
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	2,611	2,587	2,386
Provision for uncollectible accounts	145	130	167
Deferred income taxes and other noncash items	(572)	339	734
Business realignment, impairment and other charges	246	–	479
Stock-based compensation	133	117	109
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
Changes in assets and liabilities:			
Receivables	(392)	(516)	(451)
Other current assets	25	(22)	257
Pension and postretirement healthcare assets and liabilities, net	(692)	(453)	(335)
Accounts payable and other liabilities	659	(235)	10
Other, net	(37)	(22)	(16)
Cash provided by operating activities	5,366	4,264	4,688
Investing Activities			
Capital expenditures	(4,347)	(3,533)	(3,375)
Business acquisitions, net of cash acquired	(1,429)	(36)	(483)
Proceeds from asset dispositions and other	24	18	55
Cash used in investing activities	(5,752)	(3,551)	(3,803)
Financing Activities			
Principal payments on debt	(5)	(254)	(417)
Proceeds from debt issuances	2,491	1,997	1,739
Proceeds from stock issuances	320	557	280
Excess tax benefit on the exercise of stock options	51	44	23
Dividends paid	(227)	(187)	(177)
Purchase of treasury stock, including accelerated share repurchase agreements	(1,254)	(4,857)	(246)
Other, net	(27)	(19)	(18)
Cash provided by (used in) financing activities	1,349	(2,719)	1,184
Effect of exchange rate changes on cash	(108)	(3)	5
Net increase (decrease) in cash and cash equivalents	855	(2,009)	2,074
Cash and cash equivalents at beginning of period	2,908	4,917	2,843
Cash and cash equivalents at end of period	$ 3,763	$ 2,908	$ 4,917

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' INVESTMENT

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

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

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

DESCRIPTION OF BUSINESS. FedEx Corporation ("FedEx") provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation ("FedEx Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ("FedEx Freight"), a leading U.S. provider of less-than-truckload ("LTL") freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ("FedEx Services"), form the core of our reportable segments. Our FedEx Services segment provides sales, marketing, information technology, communications and certain back-office support to our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. ("FedEx Office") and provides customer service, technical support and billing and collection services through FedEx TechConnect, Inc. ("FedEx TechConnect").

FISCAL YEARS. Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2015 or ended May 31 of the year referenced.

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

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of FedEx and its subsidiaries, substantially all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation. We are not the primary beneficiary of, nor do we have a controlling financial interest in, any variable interest entity. Accordingly, we have not consolidated any variable interest entity.

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

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

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

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

ADVERTISING. Advertising and promotion costs are expensed as incurred and are classified in other operating expenses. Advertising and promotion expenses were $403 million in 2015, $407 million in 2014 and $424 million in 2013.

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

SPARE PARTS, SUPPLIES AND FUEL. Spare parts (principally aircraft-related) are reported at weighted-average cost. Allowances for obsolescence are provided for spare parts currently identified as excess or obsolete as well as expected to be on hand at the date the aircraft are retired from service. These allowances are provided over the estimated useful life of the related aircraft and engines. The majority of our supplies and our fuel are reported at weighted-average cost.

PROPERTY AND EQUIPMENT. Expenditures for major additions, improvements and flight equipment modifications are capitalized when such costs are determined to extend the useful life of the asset or are part of the cost of acquiring the asset. Expenditures for equipment overhaul costs of engines or airframes prior to their operational use are capitalized as part of the cost of such assets as they are costs required to ready the asset for its intended use. Maintenance and repairs costs are charged to expense as incurred, except for certain aircraft engine maintenance costs incurred under third-party service agreements. These agreements, which became effective June 1, 2014, resulted in costs being expensed based on cycles or hours flown and are subject to annual escalation. These service contracts transfer risk to third party service providers and generally fix the amount we pay for maintenance to the service provider as a rate per cycle or flight hour, in exchange for maintenance and repairs under a predefined maintenance program. We capitalize certain direct internal and external costs associated with the development of internal-use software. Gains and losses on sales of property used in operations are classified within operating expenses.

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

The consolidated balance sheet for 2014 reflects the reclassification of $1.1 billion of vehicles that were previously presented in package handling and ground support equipment and $72 million of facilities and other that were previously presented in computer and electronic equipment. The reclassification has no impact on the net book value of property and equipment, total assets, or depreciation expense.

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

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

Substantially all property and equipment have no material residual values. The majority of aircraft costs are depreciated on a straight-line basis over 15 to 30 years. We periodically evaluate the estimated service lives and residual values used to depreciate our property and equipment. In May 2015, we adjusted the depreciable lives of 23 aircraft and 57 engines. These changes will not have a material impact on near-term depreciation expense. In May 2013, FedEx Express made the decision to accelerate the retirement of 76 aircraft and related engines to aid in our fleet modernization and improve our global network. In 2012, we shortened the depreciable lives for 54 aircraft and related engines to accelerate the retirement of these aircraft, resulting in a depreciation expense increase of $69 million in 2013. As a result of these accelerated retirements, we incurred an additional $74 million in year-over-year accelerated depreciation expense in 2014.

Depreciation expense, excluding gains and losses on sales of property and equipment used in operations, was $2.6 billion in 2015 and 2014 and $2.3 billion in 2013. Depreciation and amortization expense includes amortization of assets under capital lease.

CAPITALIZED INTEREST. Interest on funds used to finance the acquisition and modification of aircraft, including purchase deposits, construction of certain facilities, and development of certain software up to the date the asset is ready for its intended use is capitalized and included in the cost of the asset if the asset is actively under construction. Capitalized interest was $37 million in 2015, $29 million in 2014 and $45 million in 2013.

IMPAIRMENT OF LONG-LIVED ASSETS. Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

We operate integrated transportation networks, and accordingly, cash flows for most of our operating assets to be held and used are assessed at a network level, not at an individual asset level, for our analysis of impairment.

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

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

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

GOODWILL. Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. Several factors give rise to goodwill in our acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired business. Goodwill is reviewed at least annually for impairment. In our evaluation of goodwill impairment, we perform a qualitative assessment to determine if it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment is not conclusive, we proceed to a two-step process to test goodwill for impairment, including comparing the fair value of the reporting unit to its carrying value (including attributable goodwill). Fair value for our reporting units is determined using an income or market approach incorporating market participant considerations and management's assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third-party valuations. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter.

PENSION AND POSTRETIREMENT HEALTHCARE PLANS. Our defined benefit plans are measured using actuarial techniques that reflect management's assumptions for discount rate, investment returns on plan assets, salary increases, expected retirement, mortality, employee turnover and future increases in healthcare costs. We determine the discount rate (which is required to be the rate at which the projected benefit obligation could be effectively settled as of the measurement date) with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that are designed to match our expected benefit payments in future years. Our expected rate of return is a judgmental matter which is reviewed on an annual basis and revised as appropriate.

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

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

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

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

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

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

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

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

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

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

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

FOREIGN CURRENCY TRANSLATION. Translation gains and losses of foreign operations that use local currencies as the functional currency are accumulated and reported, net of applicable deferred income taxes, as a component of accumulated other comprehensive income within common stockholders' investment. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local currency are included in the caption "Other, net" in the accompanying consolidated statements of income and were immaterial for each period presented.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of FedEx Express, which represent a small number of FedEx Express's total employees, are employed under a collective bargaining agreement. The contract became amendable in March 2013, and the parties are currently in negotiations. In October 2014, FedEx Express formally requested assistance from the National Mediation Board ("NMB") to mediate the negotiations, and the NMB has been actively mediating the talks since that time. The NMB is the U.S. governmental agency that oversees labor agreements for entities covered by the Railway Labor Act of 1926, as amended. The conduct of mediated negotiations has no impact on our operations. In addition to our pilots at FedEx Express, GENCO Distribution System, Inc. ("GENCO") has a small number of employees who are members of unions, and certain non-U.S. employees are unionized.

STOCK-BASED COMPENSATION. We recognize compensation expense for stock-based awards under the provisions of the accounting guidance related to share-based payments. This guidance requires recognition of compensation expense for stock-based awards using a fair value method. We issue new shares or repurchase shares on the open market to cover employee share option exercises and restricted stock grants.

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

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

DIVIDENDS DECLARED PER COMMON SHARE. On June 8, 2015, our Board of Directors declared a quarterly dividend of $0.25 per share of common stock. The dividend was paid on July 2, 2015 to stockholders of record as of the close of business on June 18, 2015. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

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

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

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

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

NOTE 2: RECENT ACCOUNTING GUIDANCE

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

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

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

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

NOTE 3: BUSINESS COMBINATIONS

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

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

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

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

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

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

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

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

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

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

NOTE 4: GOODWILL AND OTHER INTANGIBLE ASSETS

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

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Total
Goodwill at May 31, 2013	$ 1,715	$ 90	$ 735	$ 1,525	$ 4,065
Accumulated impairment charges	–	–	(133)	(1,177)	(1,310)
Balance as of May 31, 2013	1,715	90	602	348	2,755
Goodwill acquired[1]	24	–	–	–	24
Purchase adjustments and other[2]	11	–	–	–	11
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
Accumulated goodwill impairment charges as of May 31, 2015	$ –	$ –	$ (133)	$ (1,177)	$ (1,310)

(1) Goodwill acquired relates to the acquisitions of transportation companies in Poland, France and Brazil in 2013, the acquisition of transportation companies in Southern Africa in 2014, and the acquisition of e-commerce and supply chain solutions companies in 2015. See Note 3 for related disclosures.

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

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

OTHER INTANGIBLE ASSETS. The net book value of our other intangible assets was $207 million at May 31, 2015 of which $164 million was related to GENCO, and $57 million at May 31, 2014. Amortization expense for intangible assets was $21 million in 2015, $23 million in 2014 and $27 million in 2013. Estimated amortization expense is expected to be $30 million in 2016 and immaterial beyond.

NOTE 5: SELECTED CURRENT LIABILITIES

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

	2015	2014
Accrued Salaries and Employee Benefits		
Salaries	$ 345	$ 267
Employee benefits, including variable compensation	507	434
Compensated absences	584	576
	$ 1,436	$ 1,277
Accrued Expenses		
Self-insurance accruals	$ 865	$ 811
Taxes other than income taxes	328	339
Other	1,243	913
	$ 2,436	$ 2,063

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, 2015, are as follows (in millions):

		May 31, 2015	May 31, 2014
Senior unsecured debt: Interest Rate %	Maturity		
8.00	2019	$ 750	$ 750
2.30	2020	399	–
2.625–2.70	2023	749	748
4.00	2024	749	749
3.20	2025	699	–
4.90	2034	499	499
3.90	2035	498	–
3.875–4.10	2043	992	992
5.10	2044	749	749
4.10	2045	646	–
4.50	2065	248	–
7.60	2098	239	239
Total senior unsecured debt		7,217	4,726
Capital lease obligations		51	11
		7,268	4,737
Less current portion		19	1
		$ 7,249	$ 4,736

Interest on our fixed-rate notes is paid semi-annually. Long-term debt, exclusive of capital leases, had estimated fair values of $7.4 billion at May 31, 2015 and $5.0 billion at May 31, 2014. 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 that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock.

In January 2015, we issued $2.5 billion of senior unsecured debt under our current shelf registration statement, comprised of $400 million of 2.30% fixed-rate notes due in February 2020, $700 million of 3.20% fixed-rate notes due in February 2025, $500 million of 3.90% fixed-rate notes due in February 2035, $650 million of 4.10% fixed-rate notes due in February 2045, and $250 million of 4.50% fixed-rate notes due in February 2065. We utilized $1.4 billion of the net proceeds to fund our acquisition of GENCO and the remaining proceeds for working capital and general corporate purposes.

A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in March 2018. The agreement contains a financial covenant, which requires us to maintain a leverage ratio of adjusted debt (long-term debt, including the current portion of such debt, plus six times our last four fiscal quarters' rentals and landing fees) to capital (adjusted debt plus total common stockholders' investment) that does not exceed 70%. Our leverage ratio of adjusted debt to capital was 61% at May 31, 2015. We believe the leverage ratio covenant is our only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of May 31, 2015, no commercial paper was outstanding, and the entire $1 billion under the revolving credit facility was available for future borrowings.

We issue other financial instruments in the normal course of business to support our operations, including standby letters of credit and surety bonds. We had a total of $481 million in letters of credit outstanding at May 31, 2015, with $182 million unused under our primary $500 million letter of credit facility, and $867 million in outstanding surety bonds placed by third-party insurance providers. These instruments are required under certain U.S. self-insurance programs and are also used in the normal course of international operations. The underlying liabilities insured by these instruments are reflected in our balance sheets, where applicable. Therefore, no additional liability is reflected for the letters of credit and surety bonds themselves.

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, 2015 and May 31, 2014. 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):

	2015	2014	2013
Minimum rentals	$ 2,249	$ 2,154	$ 2,061
Contingent rentals[1]	194	197	192
	$ 2,443	$ 2,351	$ 2,253

(1) Contingent rentals are based on equipment usage.

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, 2015 is as follows (in millions):

	Operating Leases		
	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2016	$ 461	$ 1,667	$ 2,128
2017	400	1,841	2,241
2018	329	1,422	1,751
2019	273	1,238	1,511
2020	190	1,075	1,265
Thereafter	360	7,129	7,489
Total	$ 2,013	$ 14,372	$ 16,385

Property and equipment recorded under capital leases and future minimum lease payments under capital leases were immaterial at May 31, 2015 and 2014. The weighted-average remaining lease term of all operating leases outstanding at May 31, 2015 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, 2015, none of these shares had been issued.

NOTE 9: ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	2015	2014	2013
Foreign currency translation gain (loss):			
Balance at beginning of period	$ 81	$ 106	$ 65
Translation adjustments	(334)	(25)	41
Balance at end of period	(253)	81	106
Retirement plans adjustments:			
Balance at beginning of period	425	501	564
Prior service credit and other arising during period	72	1	–
Reclassifications from AOCI	(72)	(77)	(63)
Balance at end of period	425	425	501
Accumulated other comprehensive income at end of period	$ 172	$ 506	$ 607

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
	2015	2014	2013	
Retirement plans:				
Amortization of prior service credits	$ 115	$ 115	$ 114	Salaries and employee benefits
Total before tax	115	115	114	
Income tax expense	(43)	(38)	(51)	Provision for income taxes
AOCI reclassifications, net of tax	$ 72	$ 77	$ 63	Net income

NOTE 10: STOCK-BASED COMPENSATION

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

	2015	2014	2013
Stock-based compensation expense	$ 133	$ 117	$ 109

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

STOCK OPTIONS. Under the provisions of our incentive stock plans, key employees and non-employee directors may be granted options to purchase shares of our common stock at a price not less than its fair market value on the date of grant. Vesting requirements are determined at the discretion of the Compensation Committee of our Board of Directors. Option-vesting periods range from one to four years, with 83% of our options vesting ratably over four years. Compensation expense associated with these awards is recognized on a straight-line basis over the requisite service period of the award.

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

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

The key assumptions for the Black-Scholes valuation method include the expected life of the option, stock price volatility, a risk-free interest rate and dividend yield. Following is a table of the weighted-average Black-Scholes value of our stock option grants, the intrinsic value of options exercised (in millions) and the key weighted-average assumptions used in the valuation calculations for 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:

	2015	2014	2013
Weighted-average Black-Scholes value	$ 53.33	$ 35.79	$ 29.20
Intrinsic value of options exercised	$ 253	$ 347	$ 107
Black-Scholes Assumptions:			
Expected lives	6.3 years	6.2 years	6.1 years
Expected volatility	34%	35%	35%
Risk-free interest rate	2.02%	1.47%	0.94%
Dividend yield	0.448%	0.561%	0.609%

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.

The following table summarizes information about stock option activity for the year ended May 31, 2015:

	Stock Options			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)[1]
Outstanding at June 1, 2014	15,634,856	$ 91.71		
Granted	2,445,146	150.32		
Exercised	(3,516,512)	91.18		
Forfeited	(341,666)	107.62		
Outstanding at May 31, 2015	14,221,824	$ 101.54	6.1 years	$ 1,031
Exercisable	7,994,368	$ 89.19	4.5 years	$ 678
Expected to vest	5,853,809	$ 117.39	8.2 years	$ 331
Available for future grants	13,157,142			

(1) Only presented for options with market value at May 31, 2015 in excess of the exercise price of the option.

The options granted during the year ended May 31, 2015 are primarily related to our principal annual stock option grant in June 2014.

The following table summarizes information about vested and unvested restricted stock for the year ended May 31, 2015:

	Restricted Stock	
	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 1, 2014	480,157	$ 91.46
Granted	154,115	148.89
Vested	(192,920)	88.33
Forfeited	(2,310)	116.12
Unvested at May 31, 2015	439,042	$ 112.87

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. During the year ended May 31, 2013, there were 220,391 shares of restricted stock granted with a weighted-average fair value of $85.45.

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)
2015	2,611,524	$ 83
2014	2,408,179	65
2013	2,824,757	81

As of May 31, 2015, there was $183 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, 2015 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):

	2015	2014	2013
Basic earnings per common share:			
Net earnings allocable to common shares[1]	$ 1,048	$ 2,320	$ 2,711
Weighted-average common shares	283	307	315
Basic earnings per common share	$ 3.70	$ 7.56	$ 8.61
Diluted earnings per common share:			
Net earnings allocable to common shares[1]	$ 1,048	$ 2,320	$ 2,711
Weighted-average common shares	283	307	315
Dilutive effect of share-based awards	4	3	2
Weighted-average diluted shares	287	310	317
Diluted earnings per common share	$ 3.65	$ 7.48	$ 8.55
Anti-dilutive options excluded from diluted earnings per common share	2.1	3.3	11.1

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

NOTE 12: INCOME TAXES

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

	2015	2014	2013
Current provision (benefit)			
Domestic:			
Federal	$ 795	$ 624	$ 512
State and local	102	56	86
Foreign	214	194	170
	1,111	874	768
Deferred provision (benefit)			
Domestic:			
Federal	(474)	360	802
State and local	(47)	82	93
Foreign	(13)	18	(41)
	(534)	460	854
	$ 577	$ 1,334	$ 1,622

Pre-tax earnings (loss) of foreign operations for 2015, 2014 and 2013 were $773 million, $412 million and $(55) million, respectively. These amounts represent only a portion of total results associated with international shipments and accordingly, do not represent our international results of operations.

A reconciliation of total income tax expense (benefit) 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):

	2015	2014	2013
Taxes computed at federal statutory rate	$ 569	$ 1,280	$ 1,518
Increases (decreases) in income tax from:			
State and local income taxes, net of federal benefit	36	90	117
Foreign operations	(43)	(38)	(21)
Other, net	15	2	8
	$ 577	$ 1,334	$ 1,622
Effective Tax Rate	35.5%	36.5%	37.4%

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

	2015		2014	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment, leases and intangibles	$ 93	$ 3,872	$ 120	$ 3,730
Employee benefits	2,029	13	1,464	11
Self-insurance accruals	607	–	555	–
Other	477	414	368	366
Net operating loss/credit carryforwards	326	–	333	–
Valuation allowances	(224)	–	(245)	–
	$ 3,308	$ 4,299	$ 2,595	$ 4,107

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

	2015	2014
Current deferred tax assets	$ 606	$ 522
Noncurrent deferred tax assets(1)	150	80
Noncurrent deferred tax liabilities	(1,747)	(2,114)
	$ (991)	$ (1,512)

(1) Noncurrent deferred tax assets are included in the line item Other Assets in our Consolidated Balance Sheet.

We have $968 million of net operating loss carryovers in various foreign jurisdictions and $589 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 2016. 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 not likely we will realize our deferred income tax assets. 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 $1.9 billion at the end of 2015 and $1.6 billion at the end of 2014. We have not recognized deferred taxes for U.S. federal income tax purposes on those earnings. In 2015, 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 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 $478 million at the end of 2015 and $471 million at the end of 2014.

In 2015, approximately 75% of our total enterprise-wide income was earned in U.S. companies of FedEx that are taxable in the United States, a reduction from 2014 due to our adoption of MTM accounting. 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. The IRS is currently examining our 2012 and 2013 tax returns. 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):

	2015	2014	2013
Balance at beginning of year	$ 38	$ 47	$ 51
Increases for tax positions taken in the current year	1	1	1
Increases for tax positions taken in prior years	6	3	3
Decreases for tax positions taken in prior years	(2)	(3)	(3)
Settlements	(2)	(6)	(9)
Increases due to acquisitions	–	–	4
Decrease from lapse of statute of limitations	–	(3)	(2)
Changes due to currency translation	(5)	(1)	2
Balance at end of year	$ 36	$ 38	$ 47

Our liabilities recorded for uncertain tax positions include $31 million at May 31, 2015 and $33 million at May 31, 2014 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 $19 million on May 31, 2015 and May 31, 2014. Total interest and penalties included in our consolidated statements of income are immaterial.

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

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.

During the fourth quarter of 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 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. 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, as well as the amounts associated with each component of the pre-tax mark-to-market loss (gain) (in millions):

	2015	2014	2013
Defined benefit pension plans	$ (41)	$ 99	$ 163
Defined contribution plans	385	363	354
Postretirement healthcare plans	81	78	78
Retirement plans mark-to-market adjustment	2,190	15	(1,368)
	$ 2,615	$ 555	$ (773)

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

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

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.

2013

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

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.

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

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

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

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		
	2015	2014	2013	2015	2014	2013
Discount rate used to determine benefit obligation	4.42%	4.60%	4.79%	4.60%	4.70%	4.91%
Discount rate used to determine net periodic benefit cost	4.60	4.79	4.44	4.70	4.91	4.55
Rate of increase in future compensation levels used to determine benefit obligation	4.62	4.56	4.54	–	–	–
Rate of increase in future compensation levels used to determine net periodic benefit cost	4.56	4.54	4.62	–	–	–
Expected long-term rate of return on assets — Consolidated	7.75	7.75	8.00	–	–	–
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 the expected future long-term rate of earnings on plan assets and is a forward-looking assumption that materially affects our pension cost. Establishing the expected future rate of investment return on our pension assets is a judgmental matter. We review the expected long-term rate of return on an annual basis and revise it as appropriate. Management considers the following factors in determining this assumption:

- the duration of our pension plan liabilities, which drives the investment strategy we can employ with our pension plan assets;
- the types of investment classes in which we invest our pension plan assets and the expected compound geometric return we can reasonably expect those investment classes to earn over time; and
- the investment returns we can reasonably expect our investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

Our consolidated expected long-term rate of return on plan assets was 7.75% in 2015 and 2014 and 8% in 2013. Our actual return in each of the past three years exceeded those amounts for our principal U.S. domestic pension plan. However, for 2016, we have lowered our EROA assumption for long-term returns on plan assets to 6.50% as we continue to implement our asset and liability management strategy. In lowering this assumption we considered our historical returns, our current capital markets outlook and our investment strategy for our plan assets, including the impact of the duration of our plan liability.

Our actual return on plan assets has contracted from 2014 as we have increased our asset allocation to lower yielding fixed income investments. For the 15-year period ended May 31, 2015, our actual annual returns were 6.70%.

The investment strategy for pension plan assets is to utilize a diversified mix of global public and private equity portfolios, together with fixed-income portfolios, to earn a long-term investment return that meets our pension plan obligations. Our pension plan assets are invested primarily in publicly tradeable securities, and our pension plans hold only a minimal investment in FedEx common stock that is entirely at the discretion of third-party pension fund investment managers. Our largest holding 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. As part of our strategy to manage pension costs and funded status volatility, we have transitioned to a liability-driven investment strategy to better align plan assets with liabilities. Our investment strategy also includes the limited use of derivative financial instruments on a discretionary basis to improve investment returns and manage exposure to market risk. In all cases, our investment managers are prohibited from using derivatives for speculative purposes and are not permitted to use derivatives to leverage a portfolio.

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

- Cash and cash equivalents. These Level 1 investments include cash, cash equivalents and foreign currency valued using exchange rates. The Level 2 investments include commingled funds valued using the net asset value.
- Domestic, 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. The Level 2 investments are commingled funds valued using the net asset value.
- Private equity. The valuation of these Level 3 investments requires significant judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. Investments are valued based upon recommendations of our investment managers incorporating factors such as contributions and distributions, market transactions, market comparables and performance multiples.
- Fixed income. We determine the fair value of these Level 2 corporate bonds, U.S. 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.

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

	Plan Assets at Measurement Date					
	2015					
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	$ 738	3%	0-5%	$ 36	$ 702	
Equities			35-55			
U.S. large cap equity	4,291	19		302	3,989	
International equities	3,064	14		2,429	635	
Global equities	2,579	11			2,579	
U.S. SMID cap equity	979	4		979		
Private equities	226	1				$ 226
Fixed income securities			45-65			
Corporate	6,455	28			6,455	
Government	4,645	20			4,645	
Mortgage backed and other	213	1			213	
Other	(184)	(1)		(181)	(3)	
	$ 23,006	100%		$ 3,565	$ 19,215	$ 226

	2014					
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	$ 313	2%	0-5%	$ 55	$ 258	
Equities			35-55			
U.S. large cap equity	5,196	24		55	5,141	
International equities	2,652	12		2,206	446	
Global equities	1,367	7			1,367	
U.S. SMID cap equity	886	4		886		
Private equities	276	1				$ 276
Fixed income securities			45-65			
Corporate	5,758	27			5,758	
Government	4,782	22			4,782	
Mortgage backed and other	275	1			275	
Other	(61)	–		(61)		
	$ 21,444	100%		$ 3,141	$ 18,027	$ 276

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

	2015	2014
Balance at beginning of year	$ 276	$ 332
Actual return on plan assets:		
Assets held during current year	(15)	(17)
Assets sold during the year	43	53
Purchases, sales and settlements	(78)	(92)
Balance at end of year	$ 226	$ 276

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, 2015 and a statement of the funded status as of May 31, 2015 and 2014 (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	2015	2014	2015	2014
Accumulated Benefit Obligation ("ABO")	$ 26,793	$ 23,805		
Changes in Projected Benefit Obligation ("PBO") and Accumulated Postretirement Benefit Obligation ("APBO")				
PBO/APBO at the beginning of year	$ 24,578	$ 22,600	$ 883	$ 828
Service cost	653	657	40	38
Interest cost	1,096	1,055	41	40
Actuarial loss	2,231	1,021	6	5
Benefits paid	(815)	(801)	(73)	(62)
Other	(231)	46	32	34
PBO/APBO at the end of year	$ 27,512	$ 24,578	$ 929	$ 883
Change in Plan Assets				
Fair value of plan assets at the beginning of year	$ 21,907	$ 19,433	$ –	$ –
Actual return on plan assets	1,718	2,509	–	–
Company contributions	746	727	37	28
Benefits paid	(815)	(801)	(73)	(62)
Other	(51)	39	36	34
Fair value of plan assets at the end of year	$ 23,505	$ 21,907	$ –	$ –
Funded Status of the Plans	$ (4,007)	$ (2,671)	$ (929)	$ (883)
Amount Recognized in the Balance Sheet at May 31:				
Noncurrent asset	$ 26	$ 5	$ –	$ –
Current pension, postretirement healthcare and other benefit obligations	(34)	(41)	(42)	(41)
Noncurrent pension, postretirement healthcare and other benefit obligations	(3,999)	(2,635)	(887)	(842)
Net amount recognized	$ (4,007)	$ (2,671)	$ (929)	$ (883)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost:				
Prior service (credit) cost and other	$ (668)	$ (670)	$ –	$ 1
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)	$ (115)	$ –	$ –

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

	PBO	Fair Value of Plan Assets	Funded Status
2015			
Qualified	$ 26,365	$ 23,006	$ (3,359)
Nonqualified	271	–	(271)
International Plans	876	499	(377)
Total	$ 27,512	$ 23,505	$ (4,007)
2014			
Qualified	$ 23,439	$ 21,444	$ (1,995)
Nonqualified	280	–	(280)
International Plans	859	463	(396)
Total	$ 24,578	$ 21,907	$ (2,671)

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. These plans are comprised of our unfunded nonqualified plans, certain international plans and our U.S. Pension Plans. 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	
	2015	2014
Pension Benefits		
Fair value of plan assets	$ 23,099	$ 21,543
PBO	(27,132)	(24,219)
Net funded status	$ (4,033)	$ (2,676)

	ABO Exceeds the Fair Value of Plan Assets	
	2015	2014
Pension Benefits		
ABO[1]	$ (26,413)	$ (23,447)
Fair value of plan assets	23,099	21,542
PBO	(27,132)	(24,218)
Net funded status	$ (4,033)	$ (2,676)

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

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

	2015	2014
Required	$ 388	$ 645
Voluntary	272	15
	$ 660	$ 660

For 2016, we anticipate making contributions to our U.S. Pension Plans totaling $660 million (approximately $500 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		
	2015	2014	2013	2015	2014	2013
Service cost	$ 653	$ 657	$ 692	$ 40	$ 38	$ 42
Interest cost	1,096	1,055	968	41	40	36
Expected return on plan assets	(1,678)	(1,495)	(1,383)	–	–	–
Amortization of prior service credit	(115)	(115)	(114)	–	–	–
Actuarial losses (gains) and other	2,190	7	(1,350)	6	5	(17)
Net periodic benefit cost	$ 2,146	$ 109	$ (1,187)	$ 87	$ 83	$ 61

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

	2015				2014			
	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)	$ –	$ (1)	$ (1)	$ –	$ –
Amortizations:								
Prior services credit	115	72	–	–	115	77	–	–
Total recognized in OCI	$ 2	$ –	$ (1)	$ –	$ 114	$ 76	$ –	$ –

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

	Pension Plans	Postretirement Healthcare Plans
2016	$ 913	$ 42
2017	998	42
2018	1,047	45
2019	1,147	46
2020	1,258	48
2021–2025	8,107	275

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 7.3% during 2016, decreasing to an annual growth rate of 4.5% in 2029 and thereafter. A 1% change in these annual trend rates would not have a significant impact on the APBO at May 31, 2015 or 2015 benefit expense because the level of these benefits is capped.

NOTE 14: BUSINESS SEGMENT INFORMATION

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

FedEx Express Segment	› FedEx Express (express transportation) › FedEx Trade Networks (air and ocean freight forwarding and customs brokerage) › FedEx SupplyChain Systems (logistics services) › Bongo (cross-border enablement technology and solutions)
FedEx Ground Segment	› FedEx Ground (small-package ground delivery) › FedEx SmartPost (small-parcel consolidator) › GENCO (third-party logistics)
FedEx Freight Segment	› FedEx Freight (LTL freight transportation) › FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	› FedEx Services (sales, marketing, information technology, communications and back-office functions) › FedEx TechConnect (customer service, technical support, billings and collections) › FedEx Office (document and business services and package acceptance)

FedEx Services Segment

The 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 and certain back-office support to our other companies; FedEx TechConnect, which is responsible for customer service, technical support, billings and collections for U.S. customers of our major business units; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses.

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

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 and our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses.

During the fourth quarter of 2015, we changed our method of accounting for our defined benefit pension and postretirement healthcare plans to immediately recognize actuarial gains and losses resulting from the remeasurement of these plans in earnings in the fourth quarter of each fiscal year. In addition, for purposes of calculating the EROA, we will no longer use an averaging technique for the market-related value of plan assets but instead will use actual fair value of plan assets. This method of accounting is referred to as MTM accounting as described in Note 1. Our segment operating results follow internal management reporting, which is used for making operating decisions and assessing performance. Historically, net total benefit cost was allocated to each segment. We continue to record service cost, interest cost and EROA at the business segments. Annual recognition of actuarial gains and losses will be reflected in our segment results only at the corporate level. Additionally, although the actual asset returns are recognized in each fiscal year through a MTM adjustment, we continue to recognize an EROA in the determination of net pension cost. At the segment level, we have set our EROA at 6.5% for all periods presented, which will equal our consolidated EROA assumption for 2016. In fiscal years where the consolidated EROA is greater than 6.5%, that difference is reflected as a credit in "Corporate, eliminations and other." We have adjusted prior-period segment information to conform to the current period's presentation to ensure comparability of the segment results across all periods, including comparisons going forward in 2016.

In addition, in 2015, we ceased allocating to our transportation segments the costs associated with our corporate headquarters division. These costs included services related to general oversight functions, including executive officers and certain legal and finance functions. This change allows for additional transparency and improved management of our corporate oversight costs. These costs are included in "Corporate, eliminations and other" in our segment reporting and reconciliations. Prior year amounts have been revised to conform to the current year segment presentation. This change did not impact our condensed consolidated financial statements included in Note 21.

Other Intersegment Transactions

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

The following table provides a reconciliation of reportable segment revenues, depreciation and amortization, operating income 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[2]	FedEx Freight Segment[3]	FedEx Services Segment	Corporate, eliminations and other[5]	Consolidated Total
Revenues						
2015	$ 27,239	$ 12,984	$ 6,191	$ 1,545	$ (506)	$ 47,453
2014	27,121	11,617	5,757	1,536	(464)	45,567
2013	27,171	10,578	5,401	1,580	(443)	44,287
Depreciation and amortization						
2015	$ 1,460	$ 530	$ 230	$ 390	$ 1	$ 2,611
2014	1,488	468	231	399	1	2,587
2013	1,350	434	217	384	1	2,386
Operating income						
2015	$ 1,584	$ 2,172	$ 484	$ –	$ (2,373)	$ 1,867
2014	1,428	2,021	351	–	15	3,815
2013	929	1,859	246	–	1,400	4,434
Segment assets[4]						
2015	$ 20,759	$ 11,764	$ 3,530	$ 5,357	$ (4,341)	$ 37,069
2014	19,901	8,466	3,216	5,186	(3,699)	33,070
2013	18,935	7,353	2,953	4,879	(553)	33,567

(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. FedEx Express segment 2013 operating income includes $405 million of direct and allocated business realignment costs and an impairment charge of $100 million resulting from the decision to retire 10 aircraft and related engines.

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

(3) FedEx Freight segment 2013 operating income includes $50 million in direct and allocated business realignment costs.

(4) Segment assets include intercompany receivables.

(5) Operating income includes a loss of $2.2 billion in 2015, a loss of $15 million in 2014 and a gain of $1.4 billion in 2013 associated with our mark-to-market pension accounting. Operating income in 2015 also includes a $197 million charge in the fourth quarter to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement.

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
2015	$ 2,380	$ 1,248	$ 337	$ 381	$ 1	$ 4,347
2014	1,994	850	325	363	1	3,533
2013	2,067	555	326	424	3	3,375

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

	2015	2014	2013
Revenue by Service Type			
FedEx Express segment:			
Package:			
U.S. overnight box	$ 6,704	$ 6,555	$ 6,513
U.S. overnight envelope	1,629	1,636	1,705
U.S. deferred	3,342	3,188	3,020
Total U.S. domestic package revenue	11,675	11,379	11,238
International priority	6,251	6,451	6,586
International economy	2,301	2,229	2,046
Total international export package revenue	8,552	8,680	8,632
International domestic(1)	1,406	1,446	1,398
Total package revenue	21,633	21,505	21,268
Freight:			
U.S.	2,300	2,355	2,562
International priority	1,588	1,594	1,678
International airfreight	180	205	276
Total freight revenue	4,068	4,154	4,516
Other(2)	1,538	1,462	1,387
Total FedEx Express segment	27,239	27,121	27,171
FedEx Ground segment:			
FedEx Ground	11,563	10,634	9,652
FedEx SmartPost	1,005	983	926
GENCO	416	–	–
Total FedEx Ground segment	12,984	11,617	10,578
FedEx Freight segment	6,191	5,757	5,401
FedEx Services segment	1,545	1,536	1,580
Other and eliminations	(506)	(464)	(443)
	$ 47,453	$ 45,567	$ 44,287
Geographical Information(3)			
Revenues:			
U.S.	$ 34,216	$ 32,259	$ 30,948
International:			
FedEx Express segment	12,772	12,916	12,959
FedEx Ground segment	311	248	234
FedEx Freight segment	142	130	112
FedEx Services segment	12	14	34
Total international revenue	13,237	13,308	13,339
	$ 47,453	$ 45,567	$ 44,287
Noncurrent assets:			
U.S.	$ 23,514	$ 20,658	$ 19,637
International	2,614	2,729	2,656
	$ 26,128	$ 23,387	$ 22,293

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

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

(3) 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.

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):

	2015	2014	2013
Cash payments for:			
Interest (net of capitalized interest)	$ 201	$ 131	$ 80
Income taxes	$ 1,122	$ 820	$ 687
Income tax refunds received	(9)	(54)	(219)
Cash tax payments, net	$ 1,113	$ 766	$ 468

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

Special facility revenue bonds have been issued by certain municipalities primarily to finance the acquisition and construction of various airport facilities and equipment. These facilities were leased to us and are accounted for as operating leases. FedEx Express has unconditionally guaranteed $483 million in principal of these bonds (with total future principal and interest payments of approximately $578 million as of May 31, 2015) through these leases.

NOTE 17: COMMITMENTS

Annual purchase commitments under various contracts as of May 31, 2015 were as follows (in millions):

	Aircraft and Aircraft Related	Other[1]	Total
2016	$ 1,255	$ 1,060	$ 2,315
2017	1,024	235	1,259
2018	1,399	128	1,527
2019	1,017	69	1,086
2020	662	22	684
Thereafter	3,786	89	3,875
Total	$ 9,143	$ 1,603	$ 10,746

(1) Primarily equipment, advertising contracts and in 2016, approximately $500 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, 2015, our obligation to purchase three Boeing 767-300 Freighter ("B767F") aircraft and nine 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. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport unless we have entered into noncancelable commitments to modify such aircraft. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

We have several aircraft modernization programs underway that are supported by the purchase of B777F, B767F and B757 aircraft. These aircraft are significantly more fuel-efficient per unit than the aircraft types previously utilized, and these expenditures are necessary to achieve significant long-term operating savings and to replace older aircraft. Our ability to delay the timing of these aircraft-related expenditures is limited without incurring significant costs to modify existing purchase agreements.

During September 2014, FedEx Express entered into an agreement to purchase four additional B767F aircraft, the delivery of which will begin in 2017 and continue through 2019.

We had $472 million in deposits and progress payments as of May 31, 2015 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, 2015, with the year of expected delivery:

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

NOTE 18: CONTINGENCIES

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

INDEPENDENT CONTRACTOR — LAWSUITS AND STATE ADMINISTRATIVE PROCEEDINGS. FedEx Ground is involved in numerous class-action lawsuits (including 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 should be treated as employees, rather than independent contractors.

Most of the class-action lawsuits were consolidated for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. The multidistrict litigation court granted class certification in 28 cases and denied it in 14 cases. On December 13, 2010, the court entered an opinion and order addressing all outstanding motions for summary judgment on the status of the owner-operators (i.e., independent contractor vs. employee). In sum, the court 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 pending a decision of the Kansas Supreme Court.

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 has requested that each of those cases be separately briefed given the potential differences in the applicable state law from that in Kansas. During the second quarter of 2015, we established an accrual for the estimated probable loss in the Kansas case that was required to be recognized pursuant to applicable accounting standards. This amount was immaterial.

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.

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. One of the cases is currently pending in the Eastern District of Arkansas. Another case was appealed to the Eleventh Circuit Court of Appeals where the court reversed the class-wide summary judgment decision on May 28, 2015 and remanded the case for trial, holding that there are disputed issues of fact as to whether the class members are employees or independent contractors. 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 that was required to be recognized pursuant to applicable accounting standards. This amount was immaterial.

In June 2015, the parties in the California case engaged in mediation and reached an agreement to settle the matter for $228 million, and we have increased the accrual to that amount. The settlement agreement has been filed with the court for approval.

In the Oregon cases, material exposure above the accrued amount is reasonably possible. 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 excess of the amount accrued. The number and identities of plaintiffs in these lawsuits are uncertain, as they are dependent on how the class of full-time 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, 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.

With respect to the matters that are pending outside of Oregon, 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. Similar to our analysis of loss contingency in the Oregon 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. As a consequence of many of the same factors described above, 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.

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, and we do not expect to incur a material loss in any of these matters.

Adverse determinations in matters related to FedEx Ground's independent contractors, 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 in certain jurisdictions. We believe that FedEx Ground's owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company's independent contractors.

CITY AND STATE OF NEW YORK CIGARETTE SUIT. On December 30, 2013, the City of New York filed suit against FedEx Express and FedEx Ground arising from our alleged shipments of cigarettes to New York City residents. The claims against FedEx Express were subsequently dismissed. On March 30, 2014, the complaint was amended adding the State of New York as a plaintiff. Beyond the addition of the State as a plaintiff, the amended complaint contains several amplifications of the previous claims. First, the claims now relate to four shippers, none of which continues to ship in our network. Second, the amended complaint contains a count for violation of the Assurance of Compliance ("AOC") we had previously entered into with the State of New York, claiming that since 2006, FedEx has made shipments of cigarettes to residences in New York in violation of the AOC. Lastly, the amendment contains new theories of Racketeer Influenced and Corrupt Organizations Act ("RICO") violations. In May 2014, we filed a motion to dismiss almost all of the claims. On November 12, 2014 the City and State of New York filed a separate but almost identical lawsuit that includes two additional shippers. This complaint was amended in May 2015 to include additional shippers. On March 9, the court ruled on our motion to dismiss in the first case, granting our motions to limit the applicable statute of limitations to four years and to dismiss a portion of the claims. The court, however, denied our motion to dismiss some of the claims, including the RICO claims. Loss in these lawsuits is reasonably possible, but the amount of any loss is expected 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 Division of Toxic Substances Control and the county District Attorneys with whom we have been negotiating. In June 2014, the California Attorney General filed a complaint against FedEx Ground in Sacramento County Superior Court alleging violations of 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. Loss is probable as to the enforcement action commenced by the county authorities, and we have established an accrual for the estimated probable loss. This amount was immaterial. Loss is reasonably possible as to the action commenced by the DTSC; however, the amount of any loss is expected to be 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. We continue to believe that our employees have acted in good faith at all times and that we have not engaged in any illegal activities.

Accordingly, we will vigorously defend ourselves in this matter. If we are convicted, remedies could include fines, penalties, forfeiture and compliance conditions. Given the early stage of this proceeding, we cannot estimate the amount or range of loss, if any; however, it is reasonably possible that it could be material if we are convicted.

OTHER MATTERS. In August 2010, a third-party consultant who works with shipping customers to negotiate lower rates filed a lawsuit in federal district court in California against FedEx and United Parcel Service, Inc. ("UPS") alleging violations of U.S. antitrust law. This matter was dismissed in May 2011, but the court granted the plaintiff permission to file an amended complaint, which FedEx received in June 2011. In November 2011, the court granted our motion to dismiss this complaint, but again allowed the plaintiff to file an amended complaint. The plaintiff filed a new complaint in December 2011. On April 30, 2015, the court dismissed the case, finding that the plaintiff failed to provide certain evidence necessary to allow the case to proceed. The plaintiff filed a notice of appeal on May 26, 2015.

In February 2011, shortly after the initial lawsuit was filed, we received a demand for the production of information and documents in connection with a civil investigation by the DOJ into the policies and practices of FedEx and UPS for dealing with third-party consultants who work with shipping customers to negotiate lower rates. In November 2012, the DOJ served a civil investigative demand on the third-party consultant seeking all pleadings, depositions and documents produced in the lawsuit. We are cooperating with the investigation, do not believe that we have engaged in any anti-competitive activities and will vigorously defend ourselves in any action that may result from the investigation. While the litigation proceedings and the DOJ investigation move forward, and the amount of loss, if any, is dependent on a number of factors that are not yet fully developed or resolved, the amount of any loss is expected to be immaterial.

On June 30, 2014, we received a Statement of Objections from the French Competition Authority ("FCA") addressed to FedEx Express France, formerly known as TATEX, regarding an investigation by the FCA into anticompetitive behavior that is alleged to have occurred primarily in the framework of trade association meetings that included the former general managers of TATEX prior to our acquisition of that company in July 2012. In September 2014, FedEx Express France submitted its observations in response to the Statement of Objections to the FCA. In April 2015, the FCA issued a report responding to the observations submitted by all companies involved in the investigation. We submitted an answer to the FCA's report in early July. Loss in this matter is probable, and we established an accrual for the estimated probable loss. This amount was immaterial.

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."

NOTE 20: SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

(in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2015(1)				
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(2)	2.29	2.34	2.21	(3.16)
Diluted earnings (loss) per common share(2)	2.26	2.31	2.18	(3.16)
2014(1)				
Revenues	$ 11,024	$ 11,403	$ 11,301	$ 11,839
Operating income	891	923	737	1,264
Net income	548	559	437	780
Basic earnings per common share(2)	1.73	1.77	1.44	2.66
Diluted earnings per common share(2)	1.72	1.75	1.42	2.62

(1) 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. In addition, the first, second and third quarters of 2015 and all quarters of 2014 have been recast to conform to the current year presentation reflecting the retirement plans accounting changes discussed further in Note 1 and Note 13 and that were included in our June 12, 2015, Form 8-K filing with the Securities and Exchange Commission.

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

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. FedEx Express, however, currently files reports under such act.

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee $7.0 billion of our debt. The guarantees are full and unconditional and joint and several. Our guarantor subsidiaries were not determined using geographic, service line or other similar criteria, and as a result, the "Guarantor Subsidiaries" and "Non-guarantor Subsidiaries" columns each include portions of our domestic and international operations. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting.

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

Condensed Consolidating Balance Sheets

	May 31, 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
Deferred income taxes	–	571	35	–	606
Total current assets	2,427	6,130	2,514	(130)	10,941
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	–	686	1,563	(2,249)	–
Goodwill	–	1,552	2,258	–	3,810
Investment in Subsidiaries	23,173	3,800	–	(26,973)	–
Other Assets	2,752	898	477	(2,684)	1,443
	$ 28,358	$ 32,745	$ 8,002	$ (32,036)	$ 37,069
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	275	–	2,436
Total current liabilities	643	4,205	1,239	(130)	5,957
Long-Term Debt, Less Current Portion	6,978	248	23	–	7,249
Intercompany Payable	2,249	–	–	(2,249)	–
Other Long-Term Liabilities					
Deferred income taxes	–	4,206	225	(2,684)	1,747
Other liabilities	3,495	3,367	261	–	7,123
Total other long-term liabilities	3,495	7,573	486	(2,684)	8,870
Stockholders' Investment	14,993	20,719	6,254	(26,973)	14,993
	$ 28,358	$ 32,745	$ 8,002	$ (32,036)	$ 37,069

Condensed Consolidating Balance Sheets

	May 31, 2014 (As Adjusted)				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 1,756	$ 441	$ 861	$ (150)	$ 2,908
Receivables, less allowances	2	4,338	1,151	(31)	5,460
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	59	674	60	–	793
Deferred income taxes	–	501	21	–	522
Total current assets	1,817	5,954	2,093	(181)	9,683
Property and Equipment, at Cost	28	38,303	2,360	–	40,691
Less accumulated depreciation and amortization	22	19,899	1,220	–	21,141
Net property and equipment	6	18,404	1,140	–	19,550
Intercompany Receivable	–	2,366	1,320	(3,686)	–
Goodwill	–	1,552	1,238	–	2,790
Investment in Subsidiaries	22,148	3,745	–	(25,893)	–
Other Assets	2,088	747	250	(2,038)	1,047
	$ 26,059	$ 32,768	$ 6,041	$ (31,798)	$ 33,070
Liabilities and Stockholders' Investment					
Current Liabilities					
Current portion of long-term debt	$ –	$ 1	$ –	$ –	$ 1
Accrued salaries and employee benefits	55	1,042	180	–	1,277
Accounts payable	2	1,530	620	(181)	1,971
Accrued expenses	405	1,444	214	–	2,063
Total current liabilities	462	4,017	1,014	(181)	5,312
Long-Term Debt, Less Current Portion	4,487	249	–	–	4,736
Intercompany Payable	3,686	–	–	(3,686)	–
Other Long-Term Liabilities					
Deferred income taxes	–	4,059	93	(2,038)	2,114
Other liabilities	2,147	3,230	254	–	5,631
Total other long-term liabilities	2,147	7,289	347	(2,038)	7,745
Stockholders' Investment	15,277	21,213	4,680	(25,893)	15,277
	$ 26,059	$ 32,768	$ 6,041	$ (31,798)	$ 33,070

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

Condensed Consolidating Statements of Comprehensive Income

	Year Ended May 31, 2014 (As Adjusted)				
	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

Condensed Consolidating Statements of Comprehensive Income

	Year Ended May 31, 2013 (As Adjusted)				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ –	$ 37,073	$ 7,543	$ (329)	$ 44,287
Operating Expenses:					
Salaries and employee benefits	103	13,877	2,075	–	16,055
Purchased transportation	–	4,839	2,574	(141)	7,272
Rentals and landing fees	5	2,198	324	(6)	2,521
Depreciation and amortization	1	2,200	185	–	2,386
Fuel	–	4,650	96	–	4,746
Maintenance and repairs	1	1,791	117	–	1,909
Business realignment, impairment and other charges	21	639	–	–	660
Retirement plans mark-to-market adjustment	–	(1,335)	(33)	–	(1,368)
Intercompany charges, net	(227)	(329)	556	–	–
Other	96	4,565	1,193	(182)	5,672
	–	33,095	7,087	(329)	39,853
Operating Income	–	3,978	456	–	4,434
Other Income (Expense):					
Equity in earnings of subsidiaries	2,716	245	–	(2,961)	–
Interest, net	(108)	42	5	–	(61)
Intercompany charges, net	113	(131)	18	–	–
Other, net	(5)	(20)	(10)	–	(35)
Income Before Income Taxes	2,716	4,114	469	(2,961)	4,338
Provision for income taxes	–	1,416	206	–	1,622
Net Income	$ 2,716	$ 2,698	$ 263	$ (2,961)	$ 2,716
Comprehensive Income	$ 2,644	$ 2,697	$ 314	$ (2,961)	$ 2,694

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 issuance	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

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 issuances	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

Condensed Consolidating Statements of Cash Flows

	Year Ended May 31, 2013				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by operating activities	$ 247	$ 3,936	$ 486	$ 19	$ 4,688
Investing activities					
Capital expenditures	(3)	(3,029)	(343)	–	(3,375)
Business acquisitions, net of cash acquired	–	–	(483)	–	(483)
Proceeds from asset dispositions and other	–	49	6	–	55
Cash used in investing activities	(3)	(2,980)	(820)	–	(3,803)
Financing activities					
Net transfers from (to) Parent	141	(58)	(83)	–	–
Payment on loan between subsidiaries	–	(385)	385	–	–
Intercompany dividends	–	21	(21)	–	–
Principal payments on debt	–	(417)	–	–	(417)
Proceeds from debt issuance	1,739	–	–	–	1,739
Proceeds from stock issuances	280	–	–	–	280
Excess tax benefit on the exercise of stock options	23	–	–	–	23
Dividends paid	(177)	–	–	–	(177)
Purchase of treasury stock	(246)	–	–	–	(246)
Other, net	(18)	(119)	119	–	(18)
Cash provided by (used in) financing activities	1,742	(958)	400	–	1,184
Effect of exchange rate changes on cash	–	(10)	15	–	5
Net increase (decrease) in cash and cash equivalents	1,986	(12)	81	19	2,074
Cash and cash equivalents at beginning of period	1,906	417	636	(116)	2,843
Cash and cash equivalents at end of period	$ 3,892	$ 405	$ 717	$ (97)	$ 4,917

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited the accompanying consolidated balance sheets of FedEx Corporation as of May 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' investment and cash flows for each of the three years in the period ended May 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FedEx Corporation at May 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2015, in conformity with U.S. generally accepted accounting principles.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FedEx Corporation's internal control over financial reporting as of May 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated July 14, 2015 expressed an unqualified opinion thereon.

Memphis, Tennessee
July 14, 2015

Ernst & Young LLP

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, 2015. This information should be read in conjunction with the Consolidated Financial Statements, MD&A and other financial data appearing elsewhere in this Annual Report.

	2015(1) (5)	2014(5)	2013(2) (5)	2012(3) (5)	2011(4) (5)
		As Adjusted			
Operating Results					
Revenues	$ 47,453	$ 45,567	$ 44,287	$ 42,680	$ 39,304
Operating income (loss)	1,867	3,815	4,434	(399)	2,115
Income (loss) before income taxes	1,627	3,658	4,338	(444)	2,002
Net income (loss)	1,050	2,324	2,716	(220)	1,289
Per Share Data					
Earnings (loss) per share:					
Basic	$ 3.70	$ 7.56	$ 8.61	$ (0.70)	$ 4.09
Diluted	$ 3.65	$ 7.48	$ 8.55	$ (0.70)	$ 4.06
Average shares of common stock outstanding	283	307	315	315	315
Average common and common equivalent shares outstanding	287	310	317	317	317
Cash dividends declared	$ 0.80	$ 0.60	$ 0.56	$ 0.52	$ 0.48
Financial Position					
Property and equipment, net	$ 20,875	$ 19,550	$ 18,484	$ 17,248	$ 15,543
Total assets	37,069	33,070	33,567	29,903	27,385
Long-term debt, less current portion	7,249	4,736	2,739	1,250	1,667
Common stockholders' investment	14,993	15,277	17,398	14,727	15,220
Other Operating Data					
FedEx Express aircraft fleet	647	650	647	660	688

(1) 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.

(2) 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. See Note 1 to the accompanying consolidated financial statements.

(3) 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.

(4) Results for 2011 include charges of approximately $199 million ($104 million, net of tax and applicable variable incentive compensation impacts, or $0.33 per diluted share) for the combination of our FedEx Freight and FedEx National LTL operations and a $66 million reserve associated with a legal matter at FedEx Express.

(5) Results include mark-to-market 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 and $555 million ($344 million, net of tax, or $1.09 per diluted share) in 2011 from actuarial adjustments to pension and postretirement healthcare plans related to the measurement of plan assets and liabilities. See Note 1 and Note 13 of the accompanying consolidated financial statements.

BOARD OF DIRECTORS

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

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

Marvin R. Ellison[2][4]
President and Chief Executive Officer
J. C. Penney Company, Inc.
Apparel and home furnishings retailer

Kimberly A. Jabal[1][3]
Chief Financial Officer
Path, Inc.
Social networking company

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

Gary W. Loveman[1][4]
Chairman
Caesars Entertainment Corporation
Branded gaming entertainment company

R. Brad Martin[1][3]
Chairman
RBM Venture Company
Private investment company

Joshua Cooper Ramo[1][3]
Vice Chairman
Kissinger Associates, Inc.
Strategic advisory firm

Susan C. Schwab[2][3]
Professor
University of Maryland
School of Public Policy

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

David P. Steiner[4*][5]
Chief Executive Officer
Waste Management, Inc.
Integrated waste management services company

Paul S. Walsh[2*]
Chairman
Compass Group PLC
Food service and support services company

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

EXECUTIVE OFFICERS AND SENIOR MANAGEMENT

FedEx Corporation

Frederick W. Smith
Chairman, President and Chief Executive Officer

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

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

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

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

John L. Merino
Corporate Vice President and Principal Accounting Officer

FedEx Express Segment

David J. Bronczek
President and Chief Executive Officer
FedEx Express

David L. Cunningham, Jr.
Executive Vice President and Chief Operating Officer
FedEx Express

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

James R. Muhs, Sr.
President and Chief Executive Officer
FedEx Trade Networks

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

FedEx Ground Segment

Henry J. Maier
President and Chief Executive Officer
FedEx Ground

Ward B. Strang
Executive Vice President and Chief Operating Officer
FedEx Ground

Barbara B. Wallander
President and Chief Executive Officer
FedEx SmartPost

Todd R. Peters
President and Chief Executive Officer
GENCO

FedEx Freight Segment

Michael L. Ducker
President and Chief Executive Officer
FedEx Freight

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

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

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

FedEx Services Segment

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

Rajesh Subramaniam
Executive Vice President, Global Marketing
FedEx Services

Brian D. Philips
President and Chief Executive Officer
FedEx Office

Cary C. Pappas
President and Chief Executive Officer
FedEx TechConnect

CORPORATE INFORMATION

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

ANNUAL MEETING OF SHAREOWNERS: Monday, September 28, 2015, 8:00 a.m. local time, FedEx Express World Headquarters, 3670 Hacks Cross Road, Building G, Memphis, Tennessee 38125.

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

SHAREOWNERS: As of July 10, 2015, there were 12,601 shareowners of record.

MARKET INFORMATION: Following are high and low sale prices and cash dividends paid, by quarter, for FedEx Corporation's common stock in 2015 and 2014:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY2015				
High	$ 155.31	$ 179.79	$ 183.51	$ 178.79
Low	138.30	148.37	163.57	163.60
Dividend	0.20	0.20	0.20	0.20
FY2014				
High	$ 113.34	$ 140.55	$ 144.39	$ 144.85
Low	94.60	106.38	128.17	130.64
Dividend	0.15	0.15	0.15	0.15

FINANCIAL INFORMATION: Copies of FedEx Corporation's Annual Report on Form 10-K, other documents filed with the Securities and Exchange Commission (SEC) and other financial and statistical information are available through the Investor Relations page of our website at http://investors.fedex.com. The information FedEx posts on its Investor Relations website could be deemed to be material information. FedEx encourages investors, the media and others interested in the company to visit this website from time to time, as information is updated and new information is posted. Company documents filed electronically with the SEC can also be found at the SEC's website at www.sec.gov. You will be mailed a copy of the Form 10-K upon request to: FedEx Corporation Investor Relations, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7200, e-mail: ir@fedex.com.

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

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

MEDIA INQUIRIES: Jess Bunn, Manager, Investor Relations, FedEx Corporation, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7463, e-mail: mediarelations@fedex.com

SHAREOWNER ACCOUNT SERVICES: Computershare Investor Services, 211 Quality Circle, Suite 210, College Station, Texas 77845, (800) 446-2617, www.computershare.com

DIRECT STOCK PURCHASE AND DIVIDEND REINVESTMENT: For information on the direct stock purchase and dividend reinvestment plan for FedEx Corporation common stock, call Computershare at (800) 446-2617 or visit their direct stock purchase plan website at www.computershare.com. This plan provides an alternative to traditional retail brokerage methods of purchasing, holding and selling FedEx common stock. This plan also permits shareowners to automatically reinvest their dividends to purchase additional shares of FedEx common stock.

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

EQUAL EMPLOYMENT OPPORTUNITY: Our greatest asset is our people. We are committed to providing a workplace where our employees and contractors feel respected, satisfied and appreciated. Our policies are designed to promote fairness and respect for everyone. We hire, evaluate and promote employees, and engage contractors, based on their skills and performance. With this in mind, we will not tolerate certain behaviors. These include harassment, retaliation, violence, intimidation and discrimination of any kind involving race, color, religion, national origin, gender, sexual orientation, gender identity, gender expression, age, disability, veteran status or any other characteristic protected by federal, state or local law.

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

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

FSC www.fsc.org MIX Paper from responsible sources FSC® C018101

In line with FedEx's commitment to sustainability, our Annual Report was produced using environmentally and socially responsible procurement and manufacturing practices to ensure a minimized environmental impact. This report was printed at EarthColor on FSC® certified paper containing 10% recycled PCW fiber. Printing plant utilized 100% renewable wind power (RECs) and lean manufacturing principles, including green chemistry principles, the recycling of residual materials as well as the use of low VOC inks and coatings. In addition, carbon and VOC reduction strategies were employed to destroy residual VOCs via bio-oxidation. Carbon offsets were purchased where carbon could not be eliminated rendering this report carbon-balanced.

> 141 trees preserved for the future
> 63 million BTUs of energy conserved
> 6,481 kWh of electricity offset
> 12,068 pounds of greenhouse gas reduced
> 65,454 gallons of water waste eliminated
> 4,382 pounds of solid waste eliminated

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

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