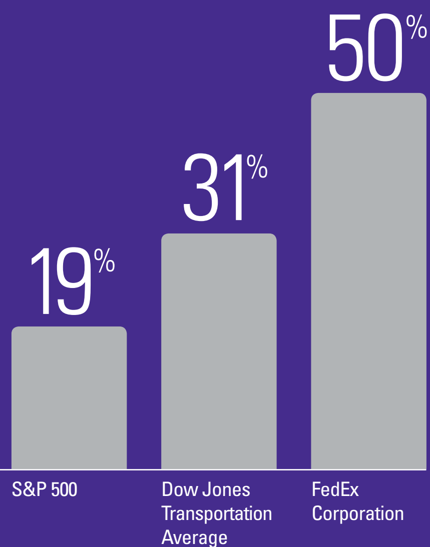
The strength of our **people** powers the strength of our **results.**

FEDEX ANNUAL REPORT 2014

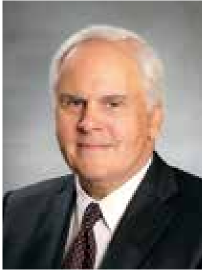
Strength in numbers.

More than 300,000 FedEx team members worldwide work tirelessly to serve our customers and create value for shareowners. Thanks to their extraordinary efforts, FY14 returns to investors outperformed the S&P 500 and the Dow Jones Transportation Average.



FY2014

Decisive actions. Superior returns.



To our shareowners,
In FY14 we acted decisively to boost shareowner value, and we are proud of our accomplishments during the year.

- Returns to investors outperformed the S&P 500 and the Dow Jones Transportation Average, and our market capitalization increased significantly.

- The historic stock buyback we announced in October reaffirmed our confidence in the company's strategy and long-term growth potential. It also demonstrated our ongoing commitment to deliver value to our shareowners.

- We are aggressively managing costs, and our balance sheet remains strong, giving us the flexibility to carry out the stock repurchase program while continuing to execute our strategic initiatives.

These initiatives are designed to ensure the near- and long-term success of FedEx, including superior financial returns for shareowners. As a result, we believe FedEx is well positioned for stronger growth in earnings and cash flow despite a sluggish global economy and dramatic changes in supply chains.

The strength of our people powers the strength of our results. That is embodied in our People-Service-Profit culture and our Purple Promise: "I will make every FedEx experience outstanding." For proof, look no further than our team members' extraordinary efforts this past winter and holiday season. Despite the toughest winter FedEx has ever experienced, team members delivered record volumes, and service metrics were among our best ever for a peak season. In fact, many team members volunteered to work on Christmas Day. It's no coincidence that FedEx was once again recognized by *Fortune* magazine as one of the world's 10 most admired companies and No. 1 in the delivery industry.

CUSTOMERS DEFINE US

As persistently high fuel prices continue to add costs to long-range supply chains, customers are seeking innovative and flexible solutions to stay competitive. We've seen this coming for a long time, which is why we enhanced and diversified our suite of services over the last several years.

FedEx Ground played a leading role in our success during FY14. We again led the industry in revenue-share growth, which has now increased for more than 14 consecutive years. The company's strategic investments in both the network and technology began 16 years ago and continue today. They've led us to gain a significant share of the market growth that's fueled in part by e-commerce. In FY14, FedEx invested nearly $1 billion in FedEx Ground — 90 percent to support growth initiatives by expanding the network's capacity.

FedEx Express continues to align international operations to ensure we exactly match customer needs in terms of service and price. Our global door-to-door priority express network is without peer and was further enhanced in FY14 with hub openings in Osaka and Mexico City. At the same time, expanded FedEx Trade Networks global ocean and air freight forwarding systems are providing customers with more flexibility for their shipping needs. The Express European growth strategy reached a milestone when we opened our 100th new station in fewer than three years. FedEx One Rate℠ — in less than a year after it was launched — is performing impressively, giving U.S. customers simple, predictable flat rate shipping options for their Express packages.

FedEx Freight, the industry leader in market share and volume, is growing by making less-than-truckload (LTL) shipping easier than ever. In an industry where many LTL transactions are manual and pricing is complicated, our newly improved FedEx online shipping tools help customers process more shipments in less time. We're also the only LTL carrier to offer two options — Priority and Economy — and about 87 percent of customers use both. Our increasing use of rail for many FedEx Freight® Economy shipments also lowers our costs while maintaining our service reliability to customers.

FedEx Services excels at building robust technology and solutions that can uniquely meet customers' global transportation and supply chain challenges. The FedEx® portfolio creates significant value, generating about 96 percent of U.S. revenue from customers who use two or more FedEx operating companies. For shippers needing an extra hand packing, we're rolling out Pack Plus services at FedEx Office locations across the United States. Features include a larger selection of boxes, as well as custom packaging.

INNOVATION DRIVES US

As baseball Hall of Famer Yogi Berra put it: "The future ain't what it used to be." Just look at how online shopping has exploded around the world. Forrester Research predicts that worldwide B2C online sales will reach $1.33 trillion in 2017, up from $656 billion in 2012. U.S. e-commerce sales in the 2013 five-day period from Thanksgiving through Cyber Monday jumped 26 percent year over year — truly astounding.

Without question, such volume numbers point to strong opportunities. But as the past peak shipping season showed, residential delivery also poses many challenges. Carriers and retailers alike must agree on new ways of thinking or risk disappointing customers. Residential package recipients have high expectations for service, but FedEx must also carefully manage delivery costs to ensure profitability.

We created our E-commerce Center of Excellence with that in mind. The center orchestrates efforts across FedEx to grow our e-commerce business by giving customers more tools and delivery options. FedEx Delivery Manager℠ is an example of innovation that allows customers to personalize their delivery experience. FedEx Ship&Get® is a new shipping and delivery option we're piloting at select retail locations. Customers can use these stand-alone kiosks and lockers to ship or pick up packages at their convenience.

Today, e-commerce is a bright spot and an important driver of the global economy. For e-commerce to realize its full potential, however, international trade rules must be modernized. For this internet-based economy to grow on a global basis, customs procedures and clearance must be simplified and red tape eliminated.

FLEXIBILITY DIFFERENTIATES US

Despite many political challenges, the world is becoming more connected. Markets, technologies and social trends often shift with little warning. Businesses must navigate rapid change or risk becoming obsolete. At FedEx, flexibility is a core strategic advantage, and we move quickly in response to new

Our independent networks and multiple hubs give FedEx the flexibility we need to serve customers under changing conditions.

customer needs in a dynamic marketplace. We constantly strive to help our customers become more efficient with new FedEx solutions.

The FedEx strategy of Compete Collectively, Operate Independently and Manage Collaboratively is based on maintaining separate FedEx Express, FedEx Ground and FedEx Freight networks. Our Express system, which has multiple hubs, proved to be an especially important advantage for our customers during the severe weather that hit during the peak shipping season. This flexible network allowed us to quickly shift volume to adjust to changing circumstances.

Our strategy above is at the heart of the speed advantage FedEx Ground has over other ground carriers on thousands of U.S. routes. We are continually fine-tuning the Ground network to deliver faster transit times. In the same vein, FedEx Freight® Priority service boasts the fastest published times of any nationwide LTL carrier.
Our ability to quickly adjust international capacity to demand has been key to the FedEx Express profit improvement program. We're successfully transitioning lower-yielding FedEx International Economy® shipments to low-cost passenger aircraft underbellies. We're also building out our freight forwarding capabilities for bulk shipments through FedEx Trade Networks® air and ocean services.

OUR PURPOSE INSPIRES US

At FedEx, we believe that when we connect people and possibilities, innovation soars, businesses create jobs that improve lives, and people thrive in communities rich with opportunity and hope for a better future.

We aspire to connect the world in more environmentally friendly and resourceful ways. This in turn has made us a stronger and more efficient company. We also recognize that being a more responsible corporate citizen is increasingly important to many customers who decide to do business with FedEx based on our sustainability goals and progress. Our efforts are well ahead of plan. For example, we recently revised both our FedEx Express vehicle fuel efficiency and aircraft carbon emissions improvement goals from 20 percent to 30 percent by 2020 from 2005 baselines. Modernizing our aircraft fleet has significantly improved efficiency and reduced emissions while saving millions of dollars annually in fuel and maintenance costs.

FedEx has many competitive advantages, but none more important than the quality and integrity of our team members. I can think of no better examples than two FedEx Express executives who will be retiring in FY15 — 40-year veteran Mike Ducker, Chief Operating Officer and President of FedEx International, and Cathy Ross, Executive Vice President and Chief Financial Officer, who has been with the company 30 years. We thank them for their leadership and countless contributions to FedEx and wish them well in the future.

We also welcome two new Board members — Marvin Ellison, who has extensive operations and logistics experience, and Kimberly Jabal, with a background in information technology, social media, finance and operations.

Each FedEx team member is committed to building value for shareowners, connecting customers to global opportunities, and championing policies that create prosperity.

Based on our progress last year, FY15 should be exciting on all these fronts.

Frederick W. Smith
Chairman, President and CEO

The strength of our global networks.

With 95 percent of the world's consumers living outside the United States, FedEx has been investing in countries where business is growing. FY14 was no exception. Strategic acquisitions, new hubs and enhanced services strengthen the link between emerging economies and the global marketplace. As a result, customers have better access to opportunities than ever, and local economies are enjoying strong growth.

FedEx customers in Mexico can now access local markets and global opportunities faster and easier than ever.

Momentum in Mexico

In April, FedEx opened the most advanced FedEx Express distribution center in Latin America, just outside Mexico City. As the centerpiece of our domestic operations in Mexico, the hub is already infusing vitality into the country's economy by driving trade and creating jobs. A greatly expanded range of solutions and more than 800 shipping locations across Mexico give customers more direct access to markets within their country and faster access to opportunities worldwide.

FedEx now enjoys a strong position in Mexico, thanks to our recent integration of MultiPack. The 2011 acquisition signaled our commitment to the fast-growing region where daily two-way trade between Mexico and the U.S. alone totals $1.35 billion.[1] As a U.S. trading partner, Mexico ranks as the third largest, accounting for 13.5 percent of total trade.[2]

"We are witnessing a key moment in the growth of FedEx in Latin America," said Juan N. Cento, Regional President of FedEx Express, Latin America and the Caribbean. The new Mexico hub will accelerate Latin American domestic revenues, which are already growing substantially.

Open borders boost trade

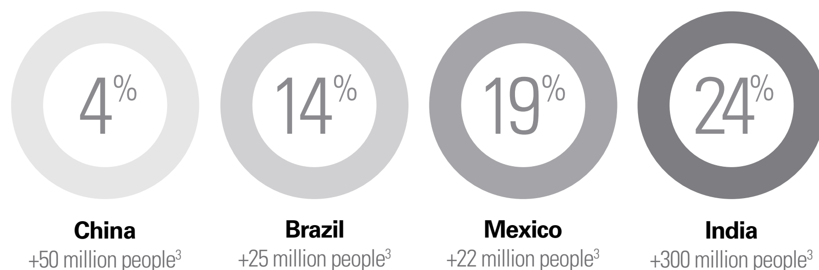
Removing barriers to trade has propelled intraregional trade flows since the North American Free Trade Agreement (NAFTA) was signed two decades ago. In October 2013, U.S. trade with NAFTA partners Canada and Mexico was $103.1 billion, up 4.5 percent from the previous year and exceeding $100 billion per month for the first time, according to Bureau of Transportation Statistics. For perspective, the U.S. trades more in goods and services with Mexico and Canada than it does with Japan, South Korea, Brazil, Russia, India and China combined.

As the near-shoring trend continues, many Latin American countries, including Mexico, stand to benefit from a growing manufacturing industry. Companies also have the opportunity to market their products to the growing consuming class within Mexico by moving their manufacturing closer to U.S. markets.

Focused on growing markets

FedEx strategy to provide domestic service in Mexico is the same driving force behind acquisitions of domestic transportation companies in other key markets around the world, including the United Kingdom, Hungary, India, China, Poland, France, Brazil and Southern Africa. The growth plan is working — international domestic revenue has more than doubled from $653 million in FY11 to about $1.4 billion in FY14.

FedEx is expanding services in key high-growth countries. The chart below reflects projected population growth from 2010 to 2030.



GROW GLOBALLY, OPERATE LOCALLY.

A few years ago, FedEx participated in a $30 billion global export express market. We've worked hard to expand our portfolio to include domestic services in international markets, value-added logistics and freight forwarding. New investments, including those in Mexico, now position us to pursue a much larger logistics and transportation marketplace worth $300 billion.

- **Asia.** The same week the Mexico City hub opened, we celebrated the opening of our Northern Pacific hub in Osaka, Japan. The facility is a consolidation and transshipment point for shipments between Asia and the U.S., giving customers greater access to and from markets in Asia-Pacific, the Americas and Europe.
- **Europe.** FedEx continues to make progress in our plans to expand our footprint in Europe. FedEx Express has opened 100 stations across 11 European countries since 2011.
- **Southern Africa.** FedEx recently finalized the acquisition of its global service provider in seven Southern African countries, directly connecting it with the FedEx international network serving more than 220 countries and territories worldwide.
- **Global freight forwarding.** International customers can find the right balance between speed and service by using FedEx Express and FedEx Trade Networks, our ocean and air freight forwarding arm. Expanding our presence to 27 countries with more than 70 offices outside the U.S. has resulted in strong growth in the $163 billion global freight forwarding market.[4]

1. U.S. Chamber of Commerce, 2014
2. U.S. Census Bureau, Top Trading Partners, March 2014
3. United Nations Population Fund
4. Global Industry Analysts Research Reports

The strength of our portfolio.

When it comes to shoes, FedEx helps Allen Edmonds put its best foot forward with a sophisticated global sourcing and distribution network powered by the FedEx portfolio of solutions.

“The breadth and depth of the FedEx portfolio makes my job easier,” said Terry Howell, Allen Edmonds’ supply chain manager. “It’s hard to think of a supply chain challenge that FedEx can’t help me solve.”

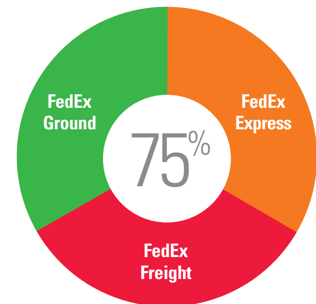
In 2012, the Port Washington, Wisconsin–based manufacturer asked FedEx what it could do to streamline the shoemaker’s supply chain. The company had to get its products to market faster. Through an expanded retail network and aggressive export strategy, demand was surging — especially in China, Europe and South Africa, where Made in America goods are hot.

Enter FedEx District Sales Manager John Whittington and an entire team of FedEx logistics and automation experts. “If Allen Edmonds could source a raw material anywhere in the world, we knew we could get it to Port Washington in two to three days,” Whittington said.

“With our more aggressive growth strategy, we needed a more aggressive shipping strategy,” Howell said. “With our prior carrier, there was a set shipping schedule, and we had to organize our production facility around it,” said Dave Barber, vice president of Systems and Technology at Allen Edmonds. “FedEx created a shipping program to meet our schedule.”

The Allen Edmonds Port Washington factory now echoes with nearly relentless noise and activity. Jobs there are growing at a 50 percent annual clip — since 2010 the company added more than 300 cobblers. Craftspeople carefully inspect leather, fasten shoe uppers to lasts, and attach Allen Edmonds’ famous cork footbed to each Goodyear-welted shoe, all before final packaging and shipping.

The result of this productivity? Twenty percent year-over-year revenue growth. As men around the world continue to dress better, Allen Edmonds is well positioned for the future.



A BUNDLE OF VALUE

Customers using all three FedEx transportation companies account for 75 percent of U.S. revenues. About 96 percent of U.S. revenues is generated by customers who use two or more transportation companies.

Like Allen Edmonds, more customers than ever rely on FedEx for multiple solutions ranging from air to ground to ocean. As a result, our portfolio is a competitive advantage for a customer and adds tremendous value for FedEx.

- By operating independently, our focused networks can fine-tune their operations to deliver the best service and reliability for customers.
- By managing our solutions as a portfolio, we make it easy for customers to meet any global business challenge that comes their way.

Online shoppers can have their Allen Edmonds shoes delivered by FedEx Home Delivery® or FedEx Express.

FEDEX SOLUTIONS AT EVERY STEP OF THE SUPPLY CHAIN

Raw materials
The world's finest leathers and other components arrive from multiple ports around the world, such as Germany, Italy and India, via **FedEx Trade Networks** and **FedEx Freight.**

Manufacturing
Allen Edmonds crafts more than 90 percent of its shoes in Wisconsin in a 212-step process.

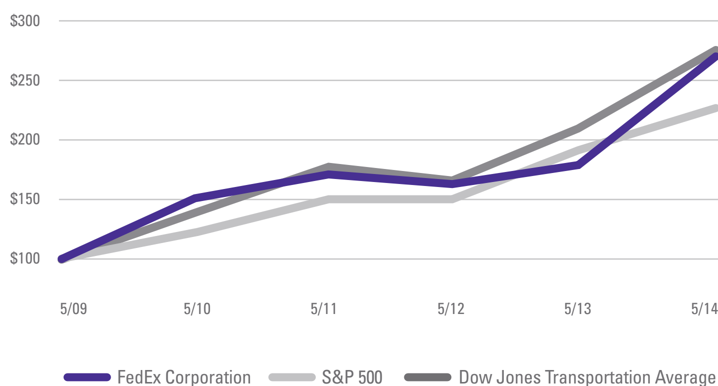
Distribution
Allen Edmonds relies on **FedEx Ground** for weekly merchandise deliveries to its 50 U.S. retail locations.

E-commerce
For its exploding e-commerce business, growing 60 percent year over year, Allen Edmonds uses **FedEx Home Delivery®** and **FedEx Express** — the latter popular with Allen Edmonds' more demanding customers, who frequently want their footwear delivered by the next morning.

FINANCIAL HIGHLIGHTS

(in millions, except earnings per share)	2014	2013[1]	Percent Change
Operating Results			
Revenues	$ 45,567	$ 44,287	3
Operating income	3,446	2,551	35
Operating margin	7.6%	5.8%	180bp
Net income	2,097	1,561	34
Diluted earnings per common share	6.75	4.91	37
Average common and common equivalent shares	310	317	(2)
Capital expenditures	3,533	3,375	17
Financial Position			
Cash and cash equivalents	$ 2,908	$ 4,917	(41)
Total assets	33,070	33,567	(1)
Long-term debt, including current portion	4,737	2,990	58
Common stockholders' investment	15,277	17,398	(12)

Comparison of Five-Year Cumulative Total Return*



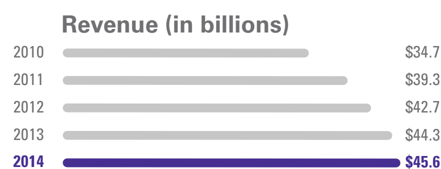
*$100 invested on 5/31/09 in stock or index, including reinvestment of dividends. Fiscal year ending May 31.

(1) 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.

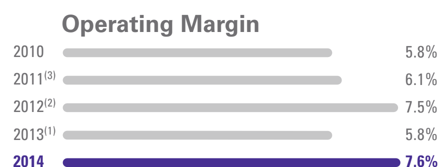
(2) Results for 2012 include a $134 million ($84 million, net of tax or $0.26 per share) impairment charge resulting from the decision to retire 24 aircraft and related engines at FedEx Express and the reversal of a $66 million legal reserve associated with the ATA Airlines lawsuit which was initially recorded in the second quarter of 2011.

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

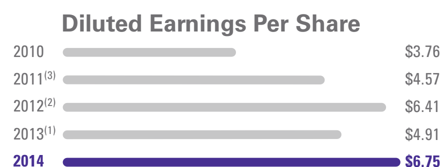
Revenue (in billions)



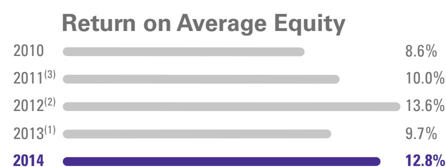
Operating Margin



Diluted Earnings Per Share

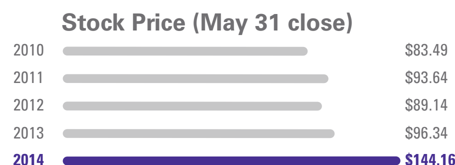


Return on Average Equity



Debt to Total Capitalization

Stock Price (May 31 close)



OVERVIEW OF FINANCIAL SECTION

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

Organization of Information

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

- Results of operations includes an overview of our consolidated 2014 results compared to 2013, and 2013 results compared to 2012. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2015.
- The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2015) for each of our reportable transportation segments.
- Our financial condition is reviewed through an analysis of key elements of our liquidity, capital resources and contractual cash obligations, including a discussion of our cash flows and our financial commitments.
- Critical accounting estimates discusses those financial statement elements that we believe are important to understanding certain of the material judgments and assumptions incorporated in our financial results.
- We conclude with a discussion of risks and uncertainties that may impact our financial and operating results.

Description of Business

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation ("FedEx Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ("FedEx Freight"), a leading 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 the change in revenues and volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than changes in revenues and volume. The line item "Other operating expenses" includes costs predominantly associated with outside service contracts (such as security and facility services), insurance, uniforms, professional fees and advertising.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2014 or ended May 31 of the year referenced and comparisons are to the prior year. References to our transportation segments include, collectively, our FedEx Express, FedEx Ground and FedEx Freight segments.

RESULTS OF OPERATIONS

Consolidated Results

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

				Percent Change	
	2014	2013[1]	2012[2]	2014/2013	2013/2012
Revenues	$ 45,567	$ 44,287	$ 42,680	3	4
Operating income	3,446	2,551	3,186	35	(20)
Operating margin	7.6%	5.8%	7.5%	180bp	(170)bp
Net income	$ 2,097	$ 1,561	$ 2,032	34	(23)
Diluted earnings per share	$ 6.75	$ 4.91	$ 6.41	37	(23)

(1) Operating expenses include $560 million for business realignment costs and a $100 million impairment charge resulting from the decision to retire 10 aircraft and related engines at FedEx Express.

(2) Operating expenses include an impairment charge of $134 million resulting from the decision to retire 24 aircraft and related engines at FedEx Express and the reversal of a $66 million legal reserve that was initially recorded in 2011 at FedEx Express.

The following table shows changes in revenues and operating income by reportable segment for 2014 compared to 2013, and 2013 compared to 2012 (dollars in millions):

	Revenues				Operating Income			
	Dollar Change		Percent Change		Dollar Change		Percent Change	
	2014/2013	2013/2012	2014/2013	2013/2012	2014/2013	2013/2012	2014/2013	2013/2012
FedEx Express segment[1]	$ (50)	$ 656	–	2	$ 617	$ (705)	111	(56)
FedEx Ground segment[2]	1,039	1,005	10	10	167	24	9	1
FedEx Freight segment[3]	356	119	7	2	111	46	53	28
FedEx Services segment	(44)	(91)	(3)	(5)	–	–	–	–
Other and eliminations	(21)	(82)	NM	NM	–	–	–	–
	$ 1,280	$ 1,607	3	4	$ 895	$ (635)	35	(20)

(1) FedEx Express segment 2013 operating expenses 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. Additionally, FedEx Express segment 2012 operating expenses include an impairment charge of $134 million resulting from the decision to retire 24 aircraft and related engines and the reversal of a $66 million legal reserve that was initially recorded in 2011.

(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.

Overview

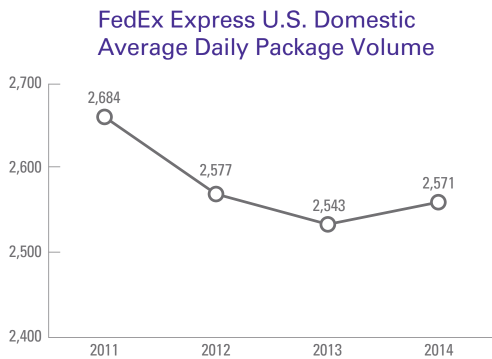
Our revenues and earnings for 2014 increased due to improved performance of all our transportation segments. In addition, our 2014 results benefited from lower pension expense, our voluntary employee severance program and reduced variable incentive compensation, partially offset by the significant negative 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 the prior year results of business realignment costs and an aircraft impairment charge (described below).

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.

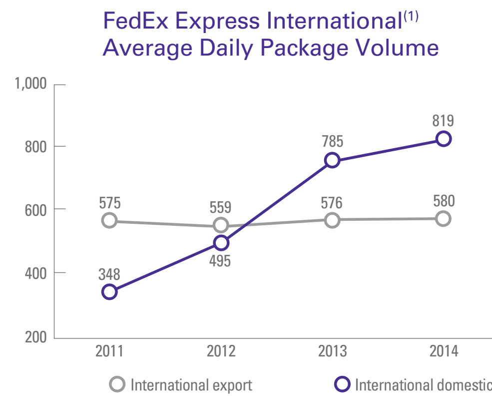
Our 2013 results include business realignment costs of $560 million, primarily related to our voluntary cash buyout program. Furthermore, in 2013, we retired from service 10 aircraft and related engines, which resulted in a noncash asset impairment charge of $100 million. These items negatively impacted our earnings by $1.31 per diluted share. Beyond these factors, our results for 2013 benefited from the strong performance of FedEx Ground, which continued to grow market share, and ongoing profit improvement at FedEx Freight. However, a decline in profitability was experienced at our FedEx Express segment resulting from ongoing shifts in demand from our priority international services to economy international services which could not be fully offset by network cost and capacity reductions in 2013.

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

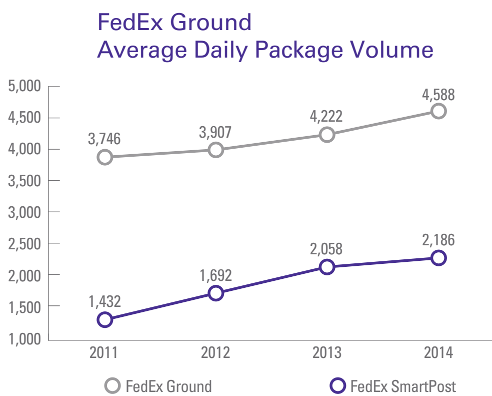
FedEx Express U.S. Domestic Average Daily Package Volume



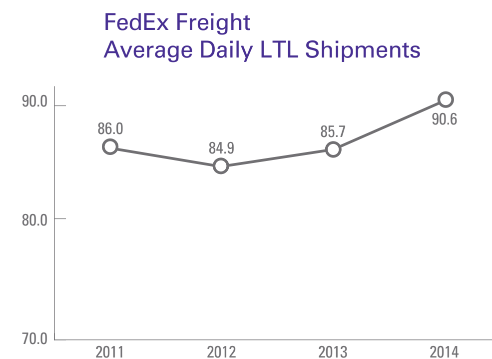
FedEx Express International(1) Average Daily Package Volume



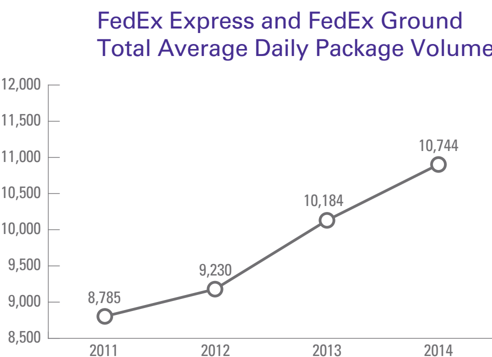
FedEx Ground Average Daily Package Volume



FedEx Freight Average Daily LTL Shipments

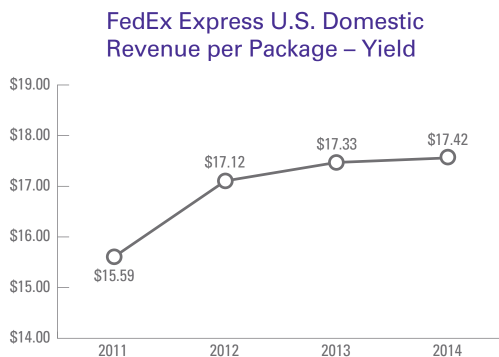


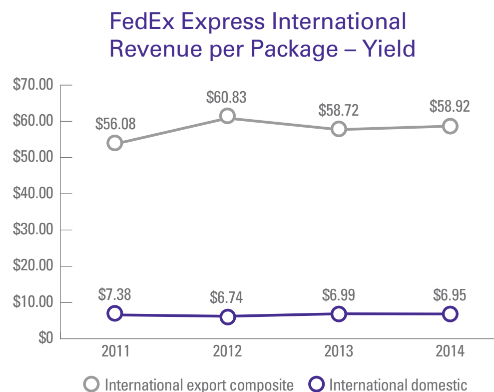
FedEx Express and FedEx Ground Total Average Daily Package Volume

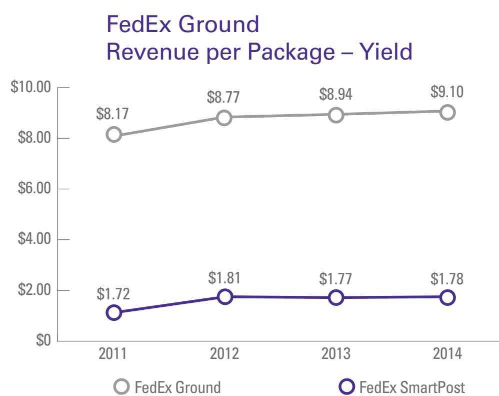


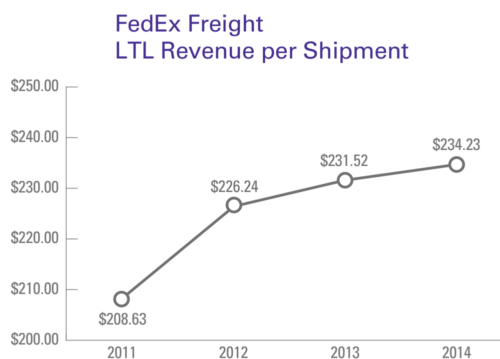
(1) International domestic average daily package volume represents our international intra-country express operations, including countries such as India, Mexico and Brazil.

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









Revenue

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 continuing demand shift from our priority international services to our economy international services dampened revenue growth at FedEx Express.

Revenues increased 4% in 2013 primarily driven by increases in international domestic revenue at FedEx Express and volume growth at FedEx Ground. At FedEx Ground, revenues increased 10% in 2013 primarily due to volume growth from market share gains. At FedEx Express, revenues increased 2% due to increases in international domestic revenues from recent acquisitions and growth in our freight-forwarding business at FedEx Trade Networks. Base revenue growth at FedEx Express in 2013 was constrained by global economic conditions as shifts in demand from our priority international services to our economy international services and lower rates resulted in declines in international export package yields. At FedEx Freight, revenues increased 2% in 2013 as a result of higher yield and average daily LTL shipments.

Operating Income

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

	2014	2013	2012
Operating expenses:			
Salaries and employee benefits	$ 16,555	$ 16,570	$ 16,099
Purchased transportation	8,011	7,272	6,335
Rentals and landing fees	2,622	2,521	2,487
Depreciation and amortization	2,587	2,386	2,113
Fuel	4,557	4,746	4,956
Maintenance and repairs	1,862	1,909	1,980
Business realignment, impairment and other charges	–	660[1]	134[2]
Other	5,927	5,672	5,390
Total operating expenses	$ 42,121	$ 41,736	$ 39,494

	Percent of Revenue		
	2014	2013	2012
Operating expenses:			
Salaries and employee benefits	36.3%	37.4%	37.7%
Purchased transportation	17.6	16.4	14.9
Rentals and landing fees	5.7	5.7	5.8
Depreciation and amortization	5.7	5.4	5.0
Fuel	10.0	10.7	11.6
Maintenance and repairs	4.1	4.3	4.6
Business realignment, impairment and other charges	–	1.5[1]	0.3[2]
Other	13.0	12.8	12.6
Total operating expenses	92.4	94.2	92.5
Operating margin	7.6%	5.8%	7.5%

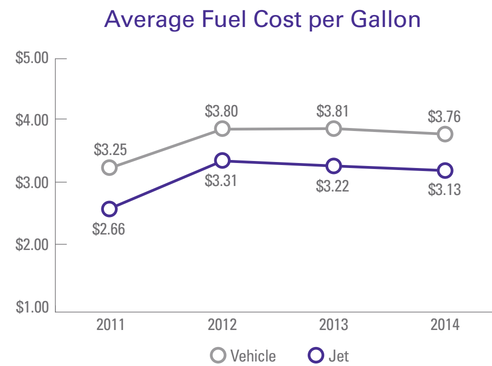
(1) Includes predominantly severance costs associated with our voluntary buyout program and charges resulting from the decision to retire 10 aircraft and related engines at FedEx Express.

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

Operating income increased in 2014 primarily as a result of increased yields and higher volumes at FedEx Ground and FedEx Express and improved volumes, revenue per shipment and operational efficiencies at FedEx Freight. Our results for all our transportation segments were positively impacted by the inclusion in 2013 of costs associated with our business realignment program and an aircraft impairment charge as described below. Operating income in 2014 included a significant negative net impact of fuel, one fewer operating day and year-over-year impact of unusually severe weather.

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 recently placed in service at FedEx Express. Salaries and employee benefits expense in 2014 was flat 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.

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



Fuel expense decreased 4% during 2014 primarily due to lower average price per gallon of jet fuel and lower aircraft fuel usage. Our fuel surcharges, which are more fully described in the "Quantitative and Qualitative Disclosures About Market Risk" section of this MD&A, have a timing lag and are designed to pass through the price of fuel not included in our base shipping rates to our customers. Our results are affected by the net impact of fuel, which is the fuel surcharge timing lag that exists between when fuel prices change and when indexed fuel surcharges automatically adjust. Based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a significant negative impact on operating income in 2014.

Our analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express and FedEx Ground services. However, this analysis does not consider the negative effects that fuel surcharge levels may have on our business, including reduced demand and shifts by our customers to lower-yielding services. While fluctuations in fuel surcharge rates can be significant from period to period, fuel surcharges represent one of the many individual components of our pricing structure that impact our overall revenue and yield. Additional components include the mix of services sold, the base price and extra service charges we obtain for these services and the level of pricing discounts offered. In order to provide information about the impact of fuel surcharges on the trend in revenue and yield growth, we have included the comparative fuel surcharge rates in effect for 2014, 2013 and 2012 in the accompanying discussions of each of our transportation segments.

In 2013, our operating income and operating margin decreased primarily due to the impact of business realignment costs, aircraft impairment charges and accelerated aircraft depreciation. Beyond these factors, operating income was positively impacted in 2013 by higher volumes and increased yields at our FedEx Ground segment and

by increased yields and higher volumes at our FedEx Freight segment. However, the ongoing shifts in demand from priority international services to economy international services and lower rates resulted in a substantial decline in profitability at FedEx Express.

Purchased transportation increased 15% in 2013 due to volume growth at FedEx Ground, international business acquisitions during the year and the expansion of our freight forwarding business at FedEx Trade Networks. Salaries and benefits increased 3% in 2013 primarily due to increases in pension and group health insurance costs, partially offset by lower incentive compensation accruals. Other expenses increased 5% in 2013 primarily due to the impact of international acquisitions and the reversal in 2012 of a legal reserve.

Fuel expense decreased 4% during 2013 primarily due to lower jet fuel prices and lower aircraft fuel usage. Based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a negative impact on operating income in 2013.

Interest Expense

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. Interest expense increased $30 million in 2013 primarily due to a reduction in capitalized interest and increased interest expense from 2013 debt issuances.

Income Taxes

Our effective tax rate was 36.3% in 2014, 36.4% in 2013 and 35.3% in 2012. Our 2012 rate was favorably impacted by the conclusion of the Internal Revenue Service ("IRS") audit of our 2007-2009 consolidated income tax returns. Our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a 1.2% benefit to our 2014 effective tax rate. Our cumulative permanently reinvested foreign earnings were $1.6 billion at the end of 2014 and $1.3 billion at the end of 2013.

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

	2014	2013	2012
Current	$ 624	$ 512	$ (120)
Deferred	238	175	947
Total Federal Provision	$ 862	$ 687	$ 827

Our current federal income tax expenses in 2012, and to a lesser extent 2013 and 2014, were significantly reduced by accelerated depreciation deductions we claimed under provisions of the American Taxpayer Relief Act of 2013 and the Tax Relief and the Small Business Jobs Acts of 2010. Those Acts, designed to stimulate new business investment in the U.S., accelerated our depreciation deductions for qualifying investments, such as our Boeing 777 Freighter ("B777F") aircraft. These were timing benefits only, in that depreciation benefits accelerated into an earlier year are foregone in later years.

For 2015, we expect our effective tax rate to be between 36.0% and 37.0%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income. We also expect our current federal income tax expense to increase in 2015 due to expected higher earnings, along with other items such as lower accelerated depreciation benefits.

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

Business Acquisitions

On May 1, 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. A significant amount of the purchase price was allocated to goodwill, which was entirely attributed to our FedEx Express reporting unit. This acquisition gives us an established regional ground network and extensive knowledge of the Southern African region.

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.

In 2012, we completed our acquisition of Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company, for $128 million.

These acquisitions were completed using cash from operations. The financial results of these acquired businesses are included in the FedEx Express segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations 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. We expect the majority of the benefits from our profit improvement programs to occur in 2015 and 2016 as our various cost reduction and efficiency initiatives gain traction. Our plans position FedEx Express to exit 2016 with a run rate of $1.6 billion in additional operating profit from the 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.

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. Costs of the benefits provided under the voluntary employee severance program were recognized in 2013 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 2013 and 2012.

Outlook

We anticipate revenue and earnings growth in 2015 driven by ongoing improvements in the results of all of our transportation segments as our expectations for moderate global economic growth drive volume and yield improvements. Our results in 2015 will benefit from continued execution of the profit improvement programs noted above, including our voluntary employee severance program. This program provided a modest benefit in 2014 due to the staggered nature of the employee departure dates. However, the full benefit of the voluntary severance program will be realized in 2015. Our earnings per share results for 2015 will also benefit from our share repurchase program announced in 2014 (a benefit of approximately $0.45 per diluted share) and lower pension expense due to strong asset returns in 2014. Our expectations for earnings growth in 2015 are dependent on key external factors including fuel prices and the pace of improvement in the global economy.

Our capital expenditures for 2015 are expected to increase to approximately $4.2 billion for additional aircraft deliveries in 2015 to support our fleet modernization program and continued expansion of the FedEx Ground network. 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 2015 capital projects, refer to the "Capital Resources" and "Liquidity Outlook" sections of this MD&A.

Our outlook assumes no year-over-year net fuel impact and is dependent upon a stable pricing environment for fuel, as volatility in fuel prices impacts our fuel surcharge levels, fuel expense and demand for our services. Historically, our fuel surcharges have largely offset incremental fuel costs; however, volatility in fuel costs may impact earnings because adjustments to our fuel surcharges lag changes in actual fuel prices paid. For example, we purchase jet fuel on a global basis with pricing terms correlated to four primary jet fuel indices. 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 and the "Independent Contractor Model" section of our FedEx Ground segment MD&A, we are involved in a number of lawsuits and other proceedings that challenge the status of FedEx Ground's owner-operators as independent contractors. FedEx Ground anticipates continuing changes to its relationships with its owner-operators. The nature, timing and amount of any changes are dependent on the outcome of numerous future events. We cannot reasonably estimate the potential impact of any such changes or a meaningful range of potential outcomes, although they could be material. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business.

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

Seasonality of Business

Our businesses are cyclical in nature, as seasonal fluctuations affect volumes, revenues and earnings. Historically, the U.S. express package business experiences an increase in volumes in late November and December. International business, particularly in the Asia-to-U.S. market, peaks in October and November in advance of the U.S. holiday sales season. Our first and third fiscal quarters, because they are summer vacation and post winter-holiday seasons, have historically experienced lower volumes relative to other periods. Normally, the fall is the busiest shipping period for FedEx Ground, while late December, June and July are the slowest periods. For FedEx Freight, the spring and fall are the busiest periods and the latter part of December 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 US GAAP (and International Financial Reporting Standards). This standard will be effective for us beginning in fiscal 2018. 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 2014 that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

Reportable Segments

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

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

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to obtain synergies from the combination of these functions. For the international regions of FedEx Express, some of these functions are performed on a regional basis by FedEx Express and reported in the FedEx Express segment in 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.

The operating expenses line item "Intercompany charges" on the accompanying unaudited financial summaries of our transportation segments reflects the allocations from the FedEx Services segment to the respective transportation segments. The "Intercompany charges" caption also includes charges and credits for administrative services provided between operating companies and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. 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 as necessary to reflect changes in our businesses.

Other Intersegment Transactions

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

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:

	2014	2013	2012	Percent Change 2014/2013	Percent Change 2013/2012
Revenues:					
Package:					
U.S. overnight box	$ 6,555	$ 6,513	$ 6,546	1	(1)
U.S. overnight envelope	1,636	1,705	1,747	(4)	(2)
U.S. deferred	3,188	3,020	3,001	6	1
Total U.S. domestic package revenue	11,379	11,238	11,294	1	–
International priority	6,451	6,586	6,849	(2)	(4)
International economy	2,229	2,046	1,859	9	10
Total international export package revenue	8,680	8,632	8,708	1	(1)
International domestic[1]	1,446	1,398	853	3	64
Total package revenue	21,505	21,268	20,855	1	2
Freight:					
U.S.	2,355	2,562	2,498	(8)	3
International priority	1,594	1,678	1,827	(5)	(8)
International airfreight	205	276	307	(26)	(10)
Total freight revenue	4,154	4,516	4,632	(8)	(3)
Other[2]	1,462	1,387	1,028	5	35
Total revenues	27,121	27,171	26,515	–	2
Operating expenses:					
Salaries and employee benefits	9,914	10,045	9,657	(1)	4
Purchased transportation	2,511	2,331	1,828	8	28
Rentals and landing fees	1,705	1,684	1,680	1	–
Depreciation and amortization	1,488	1,350	1,169	10	15
Fuel	3,943	4,130	4,304	(5)	(4)
Maintenance and repairs	1,182	1,244	1,332	(5)	(7)
Business realignment, impairment and other charges[3]	–	243	134	NM	NM
Intercompany charges[4]	2,027	2,379	2,193	(15)	8
Other[5]	3,179	3,210	2,958	(1)	9
Total operating expenses	25,949	26,616	25,255	(3)	5
Operating income	$ 1,172	$ 555	$ 1,260	111	(56)
Operating margin[6]	4.3%	2.0%	4.8%	230bp	(280)bp

	Percent of Revenue 2014	2013	2012
Operating expenses:			
Salaries and employee benefits	36.5%	37.0%	36.4%
Purchased transportation	9.3	8.6	6.9
Rentals and landing fees	6.3	6.2	6.3
Depreciation and amortization	5.5	5.0	4.4
Fuel	14.5	15.2	16.2
Maintenance and repairs	4.4	4.6	5.0
Business realignment, impairment and other charges[3]	–	0.9	0.5
Intercompany charges[4]	7.5	8.7	8.3
Other[5]	11.7	11.8	11.2
Total operating expenses	95.7	98.0	95.2
Operating margin[6]	4.3%	2.0%	4.8%

(1) International domestic revenues represent our international intra-country express operations including countries such as Mexico and Brazil.

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

(3) 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. 2012 represents impairment charges resulting from the decision to retire 24 aircraft and related engines.

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

(5) Includes predominantly costs associated with outside service contracts (such as security, facility services and cargo handling), professional fees, uniforms, insurance and advertising. 2012 includes reversal of a $66 million legal reserve that was initially recorded in 2011.

(6) The direct and indirect charges described in notes (3) and (4) above reduced 2013 operating margin by 190 basis points. The charges and credit described in notes (3) and (5) above reduced 2012 operating margin by 20 basis points.

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

	2014	2013	2012	Percent Change 2014/2013	Percent Change 2013/2012
Package Statistics[(1)]					
Average daily package volume (ADV):					
U.S. overnight box	1,164	1,134	1,146	3	(1)
U.S. overnight envelope	538	574	586	(6)	(2)
U.S. deferred	869	835	845	4	(1)
Total U.S. domestic ADV	2,571	2,543	2,577	1	(1)
International priority	410	421	421	(3)	–
International economy	170	155	138	10	12
Total international export ADV	580	576	559	1	3
International domestic[(2)]	819	785	495	4	59
Total ADV	3,970	3,904	3,631	2	8
Revenue per package (yield):					
U.S. overnight box	$ 22.18	$ 22.52	$ 22.31	(2)	1
U.S. overnight envelope	11.97	11.66	11.65	3	–
U.S. deferred	14.44	14.18	13.87	2	2
U.S. domestic composite	17.42	17.33	17.12	1	1
International priority	61.88	61.28	63.47	1	(3)
International economy	51.75	51.77	52.77	–	(2)
International export composite	58.92	58.72	60.83	–	(3)
International domestic[(2)]	6.95	6.99	6.74	(1)	4
Composite package yield	21.32	21.36	22.44	–	(5)
Freight Statistics[(1)]					
Average daily freight pounds:					
U.S.	7,854	7,612	7,487	3	2
International priority	2,922	3,048	3,303	(4)	(8)
International airfreight	798	1,066	1,171	(25)	(9)
Total average daily freight pounds	11,574	11,726	11,961	(1)	(2)
Revenue per pound (yield):					
U.S.	$ 1.18	$ 1.32	$ 1.30	(11)	2
International priority	2.15	2.16	2.16	–	–
International airfreight	1.01	1.01	1.02	–	(1)
Composite freight yield	1.41	1.51	1.51	(7)	–

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

(2) International domestic statistics represent our international intra-country express operations, including countries such as Mexico and Brazil.

FedEx Express Segment Revenues

FedEx Express segment revenues were flat in 2014. Lower fuel surcharges, lower freight revenue, lower 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 continuing 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.

FedEx Express segment revenues increased 2% in 2013 primarily due to the impact of international acquisitions during the year and growth in our freight-forwarding business at FedEx Trade Networks. Revenue growth was constrained by global economic conditions as revenue growth from higher international export volume was offset by decreased yields due to shifts in demand from our priority international services to our economy international services, as well as lower rates. In 2013, international domestic revenues increased 64% due to acquisitions in Brazil, France and Poland. International export revenues were down in 2013 as revenue per package decreased 3% due to the demand shift to our lower-yielding economy services and lower rates, while volume increased 3% driven by our economy services. A decrease in U.S. domestic package volumes more than offset an increase in U.S. domestic package yield, resulting in slightly lower U.S. domestic package revenues in 2013. Total average daily freight pounds decreased 2% in 2013 due to weakness in economic global conditions.

Our fuel surcharges are indexed to the spot price for jet fuel. Using this index, the U.S. domestic and outbound fuel surcharge and the international fuel surcharges ranged as follows for the years ended May 31:

	2014	2013	2012
U.S. Domestic and Outbound Fuel Surcharge:			
Low	8.00%	10.00%	11.50%
High	10.50	14.50	16.50
Weighted-average	9.47	11.84	14.23
International Fuel Surcharges:			
Low	12.00	12.00	13.50
High	19.00	20.50	23.00
Weighted-average	16.26	17.02	17.45

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. In January 2013, we implemented a 5.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services, while we lowered our fuel surcharge index by two percentage points.

FedEx Express Segment Operating Income

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 below. 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 year-over-year negative impact of severe weather.

In 2014, salaries and employee benefits decreased 1% 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. 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 recently placed into service.

FedEx Express aircraft maintenance and repairs costs are largely driven by aircraft utilization and required periodic maintenance events. When newer aircraft are introduced into our operating fleet, less maintenance costs are incurred. As a part of our fleet modernization program, FedEx Express has retired older, less efficient aircraft prior to required periodic maintenance events and has introduced newer aircraft into the fleet. 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. Maintenance and repairs costs decreased 7% in 2013 due to the benefits from the retirement of aircraft and related engines, as well as the timing of major maintenance events.

Fuel costs decreased 5% in 2014 due to lower aircraft fuel prices and usage. Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a significant negative impact on operating income in 2014. This analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services.

FedEx Express segment operating results in 2013 were negatively impacted by $405 million of costs associated with our business realignment program, both directly and through intercompany allocations. Additionally, results for 2013 were negatively impacted by a $100 million impairment charge as a result of the decision to retire 10 aircraft and related engines from service. FedEx Express incurred $69 million in year-over-year incremental accelerated depreciation costs in 2013 due to the decision in 2012 to shorten the lives of certain aircraft scheduled for retirement. Operating income and operating margin also decreased in 2013 due to the demand shift toward lower-yielding international services. Operating comparisons were also impacted by an aircraft impairment charge in 2012 and a reversal of a legal reserve that was initially recorded in 2011.

Purchased transportation costs increased 28% in 2013 due to international acquisitions during the year and costs associated with the expansion of our freight forwarding business at FedEx Trade Networks. Salaries and benefits increased 4% in 2013 due to international acquisitions and higher pension costs, partially offset by lower incentive compensation accruals. Other operating expenses increased 9% due to the impact of international acquisitions and the negative year-over-year comparison of the legal reserve accrual reversal in 2012. Depreciation and amortization expense increased 15% in 2013 as a result of additional aircraft placed into service and accelerated depreciation due to the shortened life of certain aircraft.

Fuel costs decreased 4% in 2013 due to lower jet fuel prices and lower aircraft fuel usage. Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a slightly positive impact in 2013.

FedEx Express Segment Outlook

We expect revenues and earnings to increase at FedEx Express during 2015 primarily due to improved U.S. domestic and international export package yields, as we continue to focus on revenue quality while managing costs. In addition, we expect operating income to improve through ongoing 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. These benefits will be partially offset by higher maintenance expense due to the timing of engine maintenance events, higher salaries and wages as we reinstate merit increases for many employees, and higher depreciation expense driven by ongoing accelerated depreciation due to fleet modernization.

Capital expenditures at FedEx Express are expected to increase in 2015 driven by our aircraft fleet modernization programs. In connection with our profit improvement program, we will continue to modernize our aircraft fleet at FedEx Express during 2015 by adding newer aircraft that are more reliable, fuel-efficient and technologically advanced, and retiring 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.

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

				Percent Change	
	2014	2013	2012	2014/ 2013	2013/ 2012
Revenues:					
FedEx Ground	$ 10,634	$ 9,652	$ 8,791	10	10
FedEx SmartPost	983	926	782	6	18
Total revenues	11,617	10,578	9,573	10	10
Operating expenses:					
Salaries and employee benefits	1,756	1,586	1,451	11	9
Purchased transportation	4,635	4,191	3,762	11	11
Rentals	402	331	284	21	17
Depreciation and amortization	468	434	389	8	12
Fuel	17	17	14	–	21
Maintenance and repairs	222	190	176	17	8
Intercompany charges[1]	1,154	1,148	978	1	17
Other[2]	1,008	893	755	13	18
Total operating expenses	9,662	8,790	7,809	10	13
Operating income	$ 1,955	$ 1,788	$ 1,764	9	1
Operating margin[1]	16.8%	16.9%	18.4%	(10)bp	(150)bp
Average daily package volume:					
FedEx Ground	4,588	4,222	3,907	9	8
FedEx SmartPost	2,186	2,058	1,692	6	22
Revenue per package (yield):					
FedEx Ground	$ 9.10	$ 8.94	$ 8.77	2	2
FedEx SmartPost	$ 1.78	$ 1.77	$ 1.81	1	(2)

	Percent of Revenue		
	2014	2013	2012
Operating expenses:			
Salaries and employee benefits	15.1%	15.0%	15.2%
Purchased transportation	39.9	39.6	39.3
Rentals	3.5	3.1	3.0
Depreciation and amortization	4.0	4.1	4.1
Fuel	0.2	0.2	0.1
Maintenance and repairs	1.9	1.8	1.8
Intercompany charges[1]	9.9	10.9	10.2
Other[2]	8.7	8.4	7.9
Total operating expenses	83.2	83.1	81.6
Operating margin[1]	16.8%	16.9%	18.4%

(1) Includes allocations of $105 million in 2013 for business realignment costs, which reduced operating margin by 100 basis points.

(2) Includes predominantly costs associated with outside service contracts (such as security and facility services), insurance and professional fees.

FedEx Ground Segment Revenues

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. FedEx SmartPost yield represents the amount charged to customers net of postage paid to the USPS.

During 2013, FedEx Ground segment revenues increased 10% due to volume increases at both FedEx Ground and FedEx SmartPost, as well as yield growth at FedEx Ground.

FedEx Ground average daily package volume increased 8% during 2013 due to market share gains from continued growth in our FedEx Home Delivery service and increases in our commercial business. FedEx Ground yield increased 2% in 2013 primarily due to increased rates and higher residential surcharge revenue, partially offset by lower fuel surcharges and package weights.

FedEx SmartPost average daily volume grew 22% during 2013 primarily as a result of growth in e-commerce. Yields at FedEx SmartPost decreased 2% during 2013 primarily due to higher postage costs, partially offset by increased rates.

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:

	2014	2013	2012
Low	6.50%	6.50%	7.50%
High	7.00	8.50	9.50
Weighted-average	6.66	7.60	8.46

In January 2014, FedEx Ground and FedEx Home Delivery implemented a 4.9% increase in average list price. FedEx SmartPost rates also increased. In January 2013, FedEx Ground and FedEx Home Delivery implemented a 4.9% increase in average list price. The full average rate increase of 5.9% was partially offset by adjusting the fuel price threshold at which the fuel surcharge begins, reducing the fuel surcharge by one percentage point. FedEx SmartPost rates also increased.

FedEx Ground Segment Operating Income

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 as discussed below. 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 operating income increased 1% during 2013 primarily due to volume growth and higher yields. However, operating margin decreased as the benefit of higher volume and revenue per package was more than offset by intercompany charges of $105 million associated with the business realignment program and a favorable self-insurance adjustment in 2012. Purchased transportation costs increased 11% in 2013 primarily as a result of volume growth and higher rates paid to our independent contractors. Other operating expenses increased 18% primarily due to a favorable self-insurance adjustment in 2012 and higher legal expenses. Salaries and employee benefits expense increased 9% in 2013 primarily due to increased staffing to support volume growth.

Independent Contractor Model

Although FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax or other administrative challenges) where the classification of its independent contractors is at issue, a number of recent judicial decisions support our classification, and we believe our relationship with the contractors is generally excellent. For a description of these proceedings, see "Risk Factors" and Note 18 of the accompanying consolidated financial statements.

FedEx Ground Segment Outlook

FedEx Ground segment revenues and operating income are expected to continue to grow in 2015, led by volume growth across all our major services due to market share gains. We also anticipate yield growth in 2015 through yield management programs including our recently announced dimensional weight rating changes. We will continue to make investments to grow our highly profitable FedEx Ground network through facility expansions and equipment purchases, and the impact of these investments on our cost structure will partially offset earnings growth in 2015.

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

FedEx Freight Segment

FedEx Freight service offerings include priority 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 (dollars in millions), operating margin and selected statistics for the years ended May 31:

	2014	2013	2012	Percent Change 2014/2013	Percent Change 2013/2012
Revenues	$ 5,757	$ 5,401	$ 5,282	7	2
Operating expenses:					
Salaries and employee benefits	2,444	2,342	2,316	4	1
Purchased transportation	981	865	851	13	2
Rentals	131	118	114	11	4
Depreciation and amortization	231	217	185	6	17
Fuel	595	598	636	(1)	(6)
Maintenance and repairs	179	191	192	(6)	(1)
Business realignment, impairment and other charges[1]	–	3	–	NM	NM
Intercompany charges[2]	461	484	433	(5)	12
Other[3]	416	375	393	11	(5)
Total operating expenses	5,438	5,193	5,120	5	1
Operating income	$ 319	$ 208	$ 162	53	28
Operating margin[4]	5.5%	3.9%	3.1%	160bp	80bp
Average daily LTL shipments (in thousands)					
Priority	62.9	59.3	60.4	6	(2)
Economy	27.7	26.4	24.5	5	8
Total average daily LTL shipments	90.6	85.7	84.9	6	1
Weight per LTL shipment					
Priority	1,262	1,237	1,202	2	3
Economy	1,000	990	1,045	1	(5)
Composite weight per LTL shipment	1,182	1,161	1,156	2	–
LTL revenue per shipment					
Priority	$ 223.61	$ 220.32	$ 216.47	1	2
Economy	258.05	256.38	250.30	1	2
Composite LTL revenue per shipment	$ 234.23	$ 231.52	$ 226.24	1	2
LTL revenue per hundredweight					
Priority	$ 17.73	$ 17.80	$ 18.02	–	(1)
Economy	25.80	25.90	23.96	–	8
Composite LTL revenue per hundredweight	$ 19.82	$ 19.94	$ 19.57	(1)	2

	Percent of Revenue 2014	2013	2012
Operating expenses:			
Salaries and employee benefits	42.5%	43.4%	43.9%
Purchased transportation	17.1	16.0	16.1
Rentals	2.3	2.2	2.2
Depreciation and amortization	4.0	4.0	3.5
Fuel	10.3	11.1	12.0
Maintenance and repairs	3.1	3.5	3.6
Business realignment, impairment and other charges[1]	–	–	–
Intercompany charges[2]	8.0	9.0	8.2
Other[3]	7.2	6.9	7.4
Total operating expenses	94.5	96.1	96.9
Operating margin[4]	5.5%	3.9%	3.1%

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

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

(3) Includes predominantly costs associated with insurance, professional fees and outside service contracts (such as security and facility services).

(4) The direct and indirect charges disclosed in notes (1) and (2) above reduced 2013 operating margin by 90 basis points.

FedEx Freight Segment Revenues

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 our FedEx Freight Priority and FedEx Freight Economy service offerings. LTL revenue per shipment increased 1% in 2014 due to changes in shipment characteristics, primarily higher weight per LTL shipment. LTL revenue per hundredweight decreased 1% during 2014 due to changes in shipment characteristics, primarily higher weight per LTL shipment. Changes in weight per shipment generally have an inverse effect on revenue per hundredweight, as an increase in weight per shipment will typically cause a decrease in revenue per hundredweight.

During 2013, FedEx Freight segment revenues increased 2% due to higher LTL revenue per hundredweight and average daily LTL shipments. LTL revenue per hundredweight increased 2% in 2013 due to improvements in FedEx Freight Economy service offerings resulting from higher rates and lower weight per LTL shipment. Average daily LTL shipments increased 1% in 2013 driven by our FedEx Freight Economy services offering, partially offset by transitional challenges encountered by some customers in the second half of 2013 while migrating FedEx Freight functionality to the FedEx enterprise automated platform.

The weekly indexed LTL fuel surcharge is based on the average of the U.S. on-highway average 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:

	2014	2013	2012
Low	22.70%	21.80%	19.80%
High	23.70	24.40	24.30
Weighted-average	23.20	23.38	22.90

In March 2014, FedEx Freight increased certain U.S. and other shipping rates by an average of 3.9%. In July 2013, FedEx Freight increased certain U.S. and other shipping rates by an average of 4.5%. In July 2012, FedEx Freight increased certain U.S. and other shipping rates by an average of 6.9%.

FedEx Freight Segment Operating Income

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 4% 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.

Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a minimal impact on operating income in 2014.

During 2013, the FedEx Freight segment operating results improved as a result of LTL revenue per hundredweight growth and increased average daily LTL shipments, along with ongoing improvement in operational efficiencies in our integrated network. However, operating results for 2013 were negatively impacted by $50 million of costs associated with our business realignment program both directly and through intercompany allocations.

Depreciation and amortization expense increased 17% due to continued investment in replacement transportation equipment. Salaries and employee benefits increased 1% in 2013 primarily due to increases in volume and higher healthcare, workers' compensation and pension costs, partially offset by operational efficiencies and lower incentive compensation. Purchased transportation costs increased 2% in 2013 due to increased utilization of rail and higher rates, partially offset by a lower cost per mile due to our ability to optimize mode of transportation.

Fuel costs decreased 6% in 2013 due to increased utilization of rail and fuel efficiency improvements. Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a minimal impact on operating income in 2013.

FedEx Freight Segment Outlook

We expect continued revenue and operating income growth at the FedEx Freight segment in 2015 driven by volume and revenue per shipment increases from our differentiated LTL services, as well as continued improvement in network and operational optimization. The recently announced increase to our fuel surcharge rates for certain LTL shipments will benefit yields in 2015. Capital expenditures in 2015 are expected to increase, with the majority of our spending for replacement of vehicles.

FINANCIAL CONDITION

Liquidity

Cash and cash equivalents totaled $2.9 billion at May 31, 2014, compared to $4.9 billion at May 31, 2013. The following table provides a summary of our cash flows for the periods ended May 31 (in millions):

	2014	2013	2012
Operating activities:			
Net income	$ 2,097	$ 1,561	$ 2,032
Business realignment, impairment and other charges	–	479	134
Other noncash charges and credits	3,415	3,183	3,504
Changes in assets and liabilities	(1,248)	(535)	(835)
Cash provided by operating activities	4,264	4,688	4,835
Investing activities:			
Capital expenditures	(3,533)	(3,375)	(4,007)
Business acquisitions, net of cash acquired	(36)	(483)	(116)
Proceeds from asset dispositions and other	18	55	74
Cash used in investing activities	(3,551)	(3,803)	(4,049)
Financing activities:			
Purchase of treasury stock, including ASRs	(4,857)	(246)	(197)
Principal payments on debt	(254)	(417)	(29)
Proceeds from debt issuances	1,997	1,739	–
Dividends paid	(187)	(177)	(164)
Other	582	285	146
Cash (used in) provided by financing activities	(2,719)	1,184	(244)
Effect of exchange rate changes on cash	(3)	5	(27)
Net (decrease) increase in cash and cash equivalents	$ (2,009)	$ 2,074	$ 515

CASH PROVIDED BY OPERATING ACTIVITIES. 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 net income. Cash flows from operating activities decreased $147 million in 2013 primarily due to decreased earnings and higher tax, variable compensation and voluntary buyout payments, partially offset by a decrease in pension contributions. We made contributions of $660 million to our tax-qualified U.S. domestic pension plans ("U.S. Pension Plans") during 2014 and contributions of $560 million in 2013 and $722 million in 2012.

CASH USED IN INVESTING ACTIVITIES. Capital expenditures were 5% higher in 2014 largely due to increased spending at FedEx Ground and FedEx Express and 16% lower in 2013 largely due to decreased spending at FedEx Express. See "Capital Resources" for a discussion of capital expenditures during 2014 and 2013.

FINANCING ACTIVITIES. The following table provides a summary of our senior unsecured debt issuances for the periods ended May 31 (in millions):

			2014	2013
Senior unsecured debt issued:				
Interest Rate %	Issuance Date	Maturity		
4.00	January 2014	2024	$ 750	$ –
4.90	January 2014	2034	500	–
5.10	January 2014	2044	750	–
2.70	April 2013	2023	–	250
4.10	April 2013	2043	–	500
2.625	July 2012	2023	–	500
3.875	July 2012	2043	–	500
Total senior unsecured debt issued			$ 2,000	$ 1,750

The senior unsecured debt was issued under shelf registration statements current at the time of issuance. Interest on these notes is paid semiannually. 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.

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.

In October 2013, our Board of Directors authorized a new share repurchase program of up to 32 million shares of common stock. These shares augmented the 10.2 million shares remaining on our previous share repurchase authorizations at May 31, 2013. 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 January 2014, we entered into ASR agreements with two banks to repurchase an aggregate of $2.0 billion of our common stock. During the third quarter of 2014, 11.4 million shares were initially delivered to us based on then-current market prices. During the fourth quarter of 2014, the ASR transactions were completed and we received 3.4 million additional shares. The final number of shares delivered upon settlement of each ASR agreement was determined based on a discount to the volume-weighted average price of our stock during the term of the respective transaction. In total, 14.8 million shares were delivered under the ASR agreements. See Note 1 of the accompanying consolidated financial statements for additional information regarding the ASR agreements. In addition, in 2014 and 2013, we repurchased shares of our common stock in the open market.

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):

	2014			2013		
	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	36,845,590	$ 131.83	$ 4,857	2,700,000	$ 90.96	$ 246

As of May 31, 2014, 5.3 million shares remained under our share repurchase authorizations.

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	
	2014	2013	2012	2014/ 2013	2013/ 2012
Aircraft and related equipment	$ 1,327	$ 1,190	$ 1,875	12	(37)
Facilities and sort equipment	819	727	638	13	14
Vehicles	784	734	723	7	2
Information and technology investments	403	452	541	(11)	(16)
Other equipment	200	272	230	(26)	18
Total capital expenditures	$ 3,533	$ 3,375	$ 4,007	5	(16)
FedEx Express segment	$ 1,994	$ 2,067	$ 2,689	(4)	(23)
FedEx Ground segment	850	555	536	53	4
FedEx Freight segment	325	326	340	–	(4)
FedEx Services segment	363	424	437	(14)	(3)
Other	1	3	5	NM	NM
Total capital expenditures	$ 3,533	$ 3,375	$ 4,007	5	(16)

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 Boeing 757 ("B757") aircraft, four Boeing 767-300 Freighter ("B767F") aircraft and two Boeing 777 Freighter ("B777F") aircraft, as well as the modification of certain aircraft before being placed into service. Capital expenditures during 2013 were lower than the prior year primarily due to decreased spending for aircraft and related equipment at FedEx Express. Aircraft and aircraft-related equipment purchases at FedEx Express during 2013 included the delivery of 16 B757s to be modified for cargo transport and four B777Fs.

Liquidity Outlook

We believe that our cash and cash equivalents, which totaled $2.9 billion at May 31, 2014, cash flow from operations and available financing sources will be adequate to meet our liquidity needs, including working capital, capital expenditure requirements and debt payment obligations. Our cash and cash equivalents balance at May 31, 2014 includes $471 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 $4.2 billion in 2015. We anticipate that our cash flow from operations will be sufficient to fund our increased capital expenditures in 2015, which will include spending for aircraft modernization and re-fleeting at FedEx Express and network expansion at FedEx Ground. We expect approximately 40% of capital expenditures in 2015 to be designated for growth initiatives, predominantly at FedEx Ground, and 60% dedicated to maintaining our existing operations. Our expected capital expenditures for 2015 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 2014, FedEx Express entered into an agreement to purchase two B767F aircraft, the delivery of which will occur in 2016 and 2017. FedEx Express also deferred 11 existing options to purchase B777F aircraft by two years. Additionally in 2014, we entered into supplemental agreements to purchase 16 B757 option aircraft pursuant to an agreement originally entered into in March 2013, the delivery of which began in 2014 and will continue through 2015.

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.

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 57% at May 31, 2014. 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, 2014, no commercial paper was outstanding, and the entire $1 billion under the revolving credit facility was available for future borrowings.

For 2015, we anticipate making required contributions totaling approximately $580 million to our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments.

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 "stable." If our credit ratings drop, our interest expense may increase. If our commercial paper ratings drop below current levels, we may have difficulty utilizing the commercial paper market. If our senior unsecured debt credit ratings drop below investment grade, our access to financing may become limited.

Contractual Cash Obligations and Off-Balance Sheet Arrangements

The following table sets forth a summary of our contractual cash obligations as of May 31, 2014. 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, 2014. We have certain contingent liabilities that are not accrued in our balance sheet in accordance with accounting principles generally accepted in the United States. These contingent liabilities are not included in the table below. We have other long-term liabilities reflected in our balance sheet, including deferred income taxes, qualified and nonqualified pension and postretirement healthcare plan liabilities, and other self-insurance accruals. The payment obligations associated with these liabilities are not reflected in the table below due to the absence of scheduled maturities. Accordingly, this table is not meant to represent a forecast of our total cash expenditures for any of the periods presented.

	Payments Due by Fiscal Year (Undiscounted)						
(in millions)	2015	2016	2017	2018	2019	Thereafter	Total
Operating activities:							
Operating leases	$ 2,062	$ 1,903	$ 1,932	$ 1,455	$ 1,228	$ 6,814	$ 15,394
Non-capital purchase obligations and other	433	274	123	58	19	101	1,008
Interest on long-term debt	232	231	231	231	231	3,925	5,081
Contributions to our U.S. Pension Plans	580	–	–	–	–	–	580
Investing activities:							
Aircraft and aircraft-related capital commitments	1,147	1,248	956	1,368	859	4,498	10,076
Other capital purchase obligations	185	–	–	–	–	–	185
Financing activities:							
Debt	–	–	–	–	750	3,990	4,740
Total	$ 4,639	$ 3,656	$ 3,242	$ 3,112	$ 3,087	$ 19,328	$ 37,064

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.

Operating Activities

In accordance with accounting principles generally accepted in the United States, future contractual payments under our operating leases (totaling $15 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, 2014. 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. In the past, we financed a significant portion of our aircraft needs (and certain other equipment needs) using operating leases (a type of "off-balance sheet financing"). At the time that the decision to lease was made, we determined that these operating leases would provide economic benefits favorable to ownership with respect to market values, liquidity or after-tax cash flows.

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

Included in the table above within the caption entitled "Non-capital purchase obligations and other" is our estimate of the current portion of the liability ($1 million) for uncertain tax positions. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the liability ($37 million) is excluded from the table. See Note 12 of the accompanying consolidated financial statements for further information.

The amounts reflected in the table above for interest on long-term debt represent future interest payments due on our long-term debt, all of which are fixed rate.

We had $396 million in deposits and progress payments as of May 31, 2014 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 2015, 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 current rules for pension accounting are complex and can produce tremendous volatility in our results, financial condition and liquidity. Our pension expense is primarily a function of the value of our plan assets and the discount rate used to measure our pension liabilities at a single point in time. These factors are significantly influenced by the financial markets, which in recent years have experienced substantial volatility.

In addition to expense volatility, we are required to record year-end adjustments to our balance sheet on an annual basis for the net funded status of our pension and postretirement healthcare plans. These adjustments have fluctuated significantly over the past several years and like our pension expense, are a result of the discount rate and value of our plan assets at the measurement date. The funded status of our plans also impacts our liquidity, and 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.

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

	2014	2013	2012
U.S. domestic and international pension plans	$ 484	$ 679	$ 524
U.S. domestic and international defined contribution plans	363	354	338
U.S. domestic and international postretirement healthcare plans	78	78	70
	$ 925	$ 1,111	$ 932

Total retirement plans cost decreased $186 million in 2014 due to the favorable impact of higher discount rates at our May 31, 2013 measurement date and higher returns on plan assets. Total retirement plans cost increased $179 million in 2013 driven by lower discount rates used to measure our benefit obligations at our May 31, 2012 measurement date.

Amounts recognized in our balance sheet reflect a snapshot of the state of our long-term pension liabilities at the plan measurement date and the effect of year-end accounting on plan assets. Cumulative unrecognized actuarial losses were $6.6 billion through May 31, 2014, compared to $7.0 billion through May 31, 2013. These unrecognized losses reflect changes in the discount rates and other assumptions and differences between expected and actual asset returns, which are being amortized over future periods. These unrecognized losses may be recovered in future periods through actuarial gains. However, unless they are below a corridor amount, these unrecognized actuarial losses are required to be amortized and recognized in future periods. Our U.S. Pension Plans expense includes amortization of these actuarial losses of $363 million in 2014, $496 million in 2013 and $291 million in 2012.

PENSION COST. The accounting for pension and postretirement healthcare plans includes numerous assumptions, including the discount rate and expected long-term investment returns on plan assets. These assumptions most significantly impact our U.S. Pension Plans.

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 pension expense. The discount rate is determined each year at the plan measurement date. A decrease in the discount rate increases pension expense. The discount rate affects the PBO and pension expense based on the measurement dates, as described below.

Measurement Date	Discount Rate	Amounts Determined by Measurement Date and Discount Rate
5/31/2014	4.60%	2014 PBO and 2015 expense
5/31/2013	4.79	2013 PBO and 2014 expense
5/31/2012	4.44	2012 PBO and 2013 expense
5/31/2011	5.76	2011 PBO and 2012 expense

We determine the discount rate with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better). 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. A one-basis-point change in the discount rate for our largest pension plan would have a $2.1 million effect on 2015 and 2014 pension expense.

At our May 31, 2014 measurement date, a 50-basis-point increase in the discount rate would have decreased our 2014 PBO by approximately $1.5 billion and a 50-basis-point decrease in the discount rate would have increased our 2014 PBO by approximately $1.7 billion. From 2010 to 2014, the discount rate used to value our liabilities has declined by over 170 basis points, which increased the valuation of our liabilities by over $4.6 billion.

PLAN ASSETS. The estimated average rate of return on plan assets is a long-term, forward-looking assumption that also materially affects our pension cost. It is required to be the expected future long-term rate of earnings on plan assets. Our pension plan assets are invested primarily in 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.

We assumed a 7.75% expected long-term rate of return on our U.S. Pension Plan assets in 2014 and 8% in 2013 and 2012. The actual returns during each of the last three fiscal years have exceeded those long-term assumptions. For 2014, we lowered our expected return on plan assets assumption for long-term returns on plan assets to 7.75% as we refined our asset and liability management strategy. In lowering this assumption we considered our historical returns, our investment strategy for our plan assets, including the impacts of the duration of our plan liability, and the relatively low annual draw on plan assets on that investment strategy. A one-basis-point change in our expected return on plan assets impacts our pension expense by $2.1 million. The actual historical annual return on our U.S. Pension Plan assets, calculated on a compound geometric basis, was 7.0%, net of investment manager fees and administrative expenses, for the 15-year period ended May 31, 2014, and 6.9%, net of investment manager fees and administrative expenses, for the 15-year period ended May 31, 2013.

Pension expense is also affected by the accounting policy used to determine the value of plan assets at the measurement date. We use a calculated-value method to determine the value of plan assets, which helps mitigate short-term volatility in market performance (both increases and decreases) by amortizing certain actuarial gains or losses over a period no longer than four years. Another method used in practice applies the market value of plan assets at the measurement date. For purposes of valuing plan assets for determining 2015 pension expense, the calculated value method resulted in the same value as the market value.

Our retirement plans costs are expected to decrease approximately $215 million in 2015 as strong returns on our pension plan assets more than offset the negative impact of a decrease in our discount rate at our May 31, 2014 measurement date.

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

	2014	2013
Funded Status of Plans:		
Projected benefit obligation (PBO)	$ 24,578	$ 22,600
Fair value of plan assets	21,907	19,433
Funded status of the plans	$ (2,671)	$ (3,167)
Cash Amounts:		
Cash contributions during the year	$ 727	$ 615
Benefit payments during the year	$ 801	$ 589

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 2014 were approximately $749 million or 3.5% of plan assets).

During 2014, we made $645 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 $2.5 billion at May 31, 2014. For 2015, we anticipate making required contributions to our U.S. Pension Plans totaling approximately $580 million.

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 $1.8 billion at May 31, 2014 and $1.7 billion at May 31, 2013. 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 59% 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 650 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 and that an impairment of our assets may occur. Aircraft purchases (primarily aircraft in passenger configuration) that have not been placed in service totaled $82 million at May 31, 2014 and $129 million at May 31, 2013. 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; or changes to planned service expansion activities. At May 31, 2014, we had 10 aircraft temporarily idled, one of which was fully depreciated. These aircraft have been idled for an average of three months and are expected to return to revenue service.

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, 2014 we had approximately $15 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, 2014 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, 2014, we had $2.8 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. 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 Freight and FedEx Office (reported in the FedEx Services segment). We evaluated these reporting units during the fourth quarters of 2014 and 2013. The estimated fair value of each of these reporting units exceeded their carrying values in 2014 and 2013, and we do not believe that any of these reporting units were at risk as of May 31, 2014.

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 the 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 $5.0 billion at May 31, 2014 and $3.2 billion at May 31, 2013. 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 $165 million as of May 31, 2014 and $77 million as of May 31, 2013. The underlying fair values of our long-term debt were estimated based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

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

FOREIGN CURRENCY. While we are a global provider of transportation, e-commerce and business services, the substantial majority of our transactions are denominated in U.S. dollars. The principal foreign currency exchange rate risks to which we are exposed are in the Chinese yuan, euro, Brazilian real, British pound 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 2014, foreign currency fluctuations had a slightly negative impact on operating income. The impact of foreign currency fluctuations was slightly positive in 2013. 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, 2014, the result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which our transactions are denominated would result in a decrease in operating income of $23 million for 2015. 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 variable fuel surcharges because our fuel surcharges are closely linked to market prices for fuel. Therefore, a hypothetical 10% change in the price of fuel would not be expected to materially affect our earnings over the long term.

However, our fuel surcharges for FedEx Express and FedEx Ground have a timing lag of approximately six to eight weeks before they are adjusted for changes in fuel prices. Our fuel surcharge index also allows fuel prices to fluctuate approximately 2% for FedEx Express and approximately 4% for FedEx Ground before an adjustment to the fuel surcharge occurs. Therefore, our operating income may be affected should the spot price of fuel suddenly change by a significant amount or change by amounts that do not result in an adjustment in our fuel surcharges.

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

RISK FACTORS

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

We are directly affected by the state of the economy. While macro-economic risks apply to most companies, we are particularly vulnerable. The transportation industry is highly cyclical and especially susceptible to trends in economic activity. 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 and the typically more volatile economies of emerging markets. In 2014, we saw a continued customer preference for slower, less costly shipping services — particularly for international shipments — which had a negative impact on profitability at FedEx Express.

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 disruption to our technology infrastructure or the Internet could harm our operations and our reputation among customers. Our ability to attract and retain customers and to compete effectively depends in part upon the sophistication and reliability of our technology network, including our ability to provide features of service that are important to our customers. External and internal risks, such as malware, code anomalies, "Acts of God," attempts to penetrate our networks, 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 the Internet or our complex, global technology infrastructure, including those impacting our computer systems and fedex.com, could adversely impact our customer service, volumes and revenues and result in increased costs. These types of adverse impacts could also occur in the event the confidentiality, integrity or availability of company and customer information was compromised due to a data loss by FedEx or a trusted third party. While we have invested and continue to invest in technology security initiatives, information technology risk management and disaster recovery plans, these measures cannot fully insulate us from technology disruptions or data loss and the resulting adverse effect on our operations and financial results. 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. 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. For example, in 2013, we made a decision to retire from service certain aircraft and excess aircraft engines and thus recorded a noncash impairment charge of $100 million.

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

Labor organizations attempt to organize groups of our employees from time to time, and potential changes in labor laws could make it easier for them to do so. If we are unable to continue to maintain good relationships with our employees and prevent labor organizations from organizing groups of our employees, our operating costs could significantly increase and our operational flexibility could be significantly reduced. Despite continual organizing attempts by labor unions, other than the pilots of FedEx Express, all of our U.S. employees have thus far chosen not to unionize. The U.S. Congress has, in the past, considered adopting changes in labor laws, however, that would make it easier for unions to organize units of our employees. For example, there is always a possibility that Congress could remove most FedEx Express employees from the purview of the Railway Labor Act of 1926, as amended (the "RLA"). Such legislation could expose our customers to the type of service disruptions that the RLA was designed to prevent — local work stoppages in key areas that interrupt the timely flow of shipments of time-sensitive, high-value goods throughout our global network. Such disruptions could threaten our ability to provide competitively priced shipping options and ready access to global markets. There is also the possibility that Congress could pass other labor legislation that could adversely affect our companies, such as FedEx Ground and FedEx Freight, whose employees are governed by the National Labor Relations Act of 1935, as amended (the "NLRA"). In addition, federal and state governmental agencies, such as the National Labor Relations Board, have and may continue to take actions that could make it easier for our employees to organize under the RLA or NLRA. Finally, changes to federal or state laws governing employee classification could impact the status of FedEx Ground's owner-operators as independent contractors. If 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, we retired from service 10 aircraft and related engines, and we shortened the depreciable lives of an additional 76 aircraft and related engines, in an effort to modernize our aircraft fleet and improve our global network. 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 continues to require FedEx Express to comply with a Full All-Cargo Aircraft Operator Standard Security Plan, which contains evolving and strict security requirements. These requirements are not static, but change periodically as the result of regulatory and legislative requirements, imposing additional security costs and creating a level of uncertainty for our operations. Thus, it is reasonably possible that these rules or other future security requirements could impose material costs on us. Moreover, a terrorist attack directed at FedEx or other aspects of the transportation infrastructure could disrupt our operations and adversely impact demand for our services.

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

We may be affected by global climate change or by legal, regulatory or market responses to such change. Concern over climate change, including the impact of global warming, has led to significant U.S. and international legislative and regulatory efforts to limit greenhouse gas ("GHG") emissions, including our aircraft and diesel engine emissions. For example, during 2009, the European Commission approved the extension of the European Union Emissions Trading Scheme ("ETS") for GHG emissions, to the airline industry. Under this decision, all FedEx Express flights 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 localized risks from natural or manmade disasters such as tornados, floods, earthquakes or terrorist attacks. The loss of a key location such as our Memphis super hub or one of our information technology centers could cause a significant disruption to our operations and cause us to incur significant costs to reestablish or relocate these functions. Moreover, resulting economic dislocations, including supply chain and fuel disruptions, could adversely impact demand for our services.

Our business may be adversely impacted by disruptions or modifications in service by the USPS. The USPS is a significant customer and vendor of FedEx, and thus, disruptions or modifications in services by the USPS as a consequence of the USPS's current financial difficulties or any resulting structural changes to its operations, network, service offerings or pricing could have an 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, Brazilian real, British pound 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);
- 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, 2014, 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 (1992 framework) (the COSO criteria).

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of May 31, 2014.

The effectiveness of our internal control over financial reporting as of May 31, 2014, 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, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 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, 2014, 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, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' investment, and cash flows for each of the three years in the period ended May 31, 2014 of FedEx Corporation and our report dated July 14, 2014 expressed an unqualified opinion thereon.

Memphis, Tennessee
July 14, 2014

CONSOLIDATED STATEMENTS OF INCOME

	Years ended May 31,		
(in millions, except per share amounts)	2014	2013	2012
Revenues	$ 45,567	$ 44,287	$ 42,680
Operating Expenses:			
Salaries and employee benefits	16,555	16,570	16,099
Purchased transportation	8,011	7,272	6,335
Rentals and landing fees	2,622	2,521	2,487
Depreciation and amortization	2,587	2,386	2,113
Fuel	4,557	4,746	4,956
Maintenance and repairs	1,862	1,909	1,980
Business realignment, impairment and other charges	–	660	134
Other	5,927	5,672	5,390
	42,121	41,736	39,494
Operating Income	3,446	2,551	3,186
Other Income (Expense):			
Interest expense	(160)	(82)	(52)
Interest income	18	21	13
Other, net	(15)	(35)	(6)
	(157)	(96)	(45)
Income Before Income Taxes	3,289	2,455	3,141
Provision For Income Taxes	1,192	894	1,109
Net Income	$ 2,097	$ 1,561	$ 2,032
Basic Earnings Per Common Share	$ 6.82	$ 4.95	$ 6.44
Diluted Earnings Per Common Share	$ 6.75	$ 4.91	$ 6.41

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years ended May 31,		
(in millions)	2014	2013	2012
Net Income	$ 2,097	$ 1,561	$ 2,032
Other Comprehensive Income (Loss):			
Foreign currency translation adjustments, net of tax benefit of $1, $12 and $26	(25)	41	(95)
Amortization of unrealized pension actuarial gains (losses) and other, net of tax expense of $104 and $677 in 2014 and 2013 and tax benefit of $1,369 in 2012	151	1,092	(2,308)
	126	1,133	(2,403)
Comprehensive Income (Loss)	$ 2,223	$ 2,694	$ (371)

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

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)	May 31, 2014	May 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	$ 2,908	$ 4,917
Receivables, less allowances of $164 and $176	5,460	5,044
Spare parts, supplies and fuel, less allowances of $212 and $205	463	457
Deferred income taxes	522	533
Prepaid expenses and other	330	323
Total current assets	9,683	11,274
Property and Equipment, at Cost		
Aircraft and related equipment	15,632	14,716
Package handling and ground support equipment	7,196	6,452
Computer and electronic equipment	5,169	4,958
Vehicles	4,400	4,080
Facilities and other	8,294	7,903
	40,691	38,109
Less accumulated depreciation and amortization	21,141	19,625
Net property and equipment	19,550	18,484
Other Long-Term Assets		
Goodwill	2,790	2,755
Other assets	1,047	1,054
Total other long-term assets	3,837	3,809
	$ 33,070	$ 33,567
Liabilities and Stockholders' Investment		
Current Liabilities		
Current portion of long-term debt	$ 1	$ 251
Accrued salaries and employee benefits	1,277	1,688
Accounts payable	1,971	1,879
Accrued expenses	2,063	1,932
Total current liabilities	5,312	5,750
Long-Term Debt, Less Current Portion	4,736	2,739
Other Long-Term Liabilities		
Deferred income taxes	2,114	1,652
Pension, postretirement healthcare and other benefit obligations	3,484	3,916
Self-insurance accruals	1,038	987
Deferred lease obligations	758	778
Deferred gains, principally related to aircraft transactions	206	227
Other liabilities	145	120
Total other long-term liabilities	7,745	7,680
Commitments and Contingencies		
Common Stockholders' Investment		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of May 31, 2014 and 2013	32	32
Additional paid-in capital	2,643	2,668
Retained earnings	20,429	18,519
Accumulated other comprehensive loss	(3,694)	(3,820)
Treasury stock, at cost	(4,133)	(1)
Total common stockholders' investment	15,277	17,398
	$ 33,070	$ 33,567

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended May 31,		
(in millions)	2014	2013	2012
Operating Activities			
Net Income	$ 2,097	$ 1,561	$ 2,032
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	2,587	2,386	2,113
Provision for uncollectible accounts	130	167	160
Deferred income taxes and other noncash items	581	521	1,126
Business realignment, impairment and other charges	–	479	134
Stock-based compensation	117	109	105
Changes in assets and liabilities:			
Receivables	(516)	(451)	(254)
Other current assets	(22)	257	(231)
Pension and postretirement healthcare assets and liabilities, net	(453)	(335)	(453)
Accounts payable and other liabilities	(235)	10	144
Other, net	(22)	(16)	(41)
Cash provided by operating activities	4,264	4,688	4,835
Investing Activities			
Capital expenditures	(3,533)	(3,375)	(4,007)
Business acquisitions, net of cash acquired	(36)	(483)	(116)
Proceeds from asset dispositions and other	18	55	74
Cash used in investing activities	(3,551)	(3,803)	(4,049)
Financing Activities			
Principal payments on debt	(254)	(417)	(29)
Proceeds from debt issuances	1,997	1,739	–
Proceeds from stock issuances	557	280	128
Excess tax benefit on the exercise of stock options	44	23	18
Dividends paid	(187)	(177)	(164)
Purchase of treasury stock, including accelerated share repurchase agreements	(4,857)	(246)	(197)
Other, net	(19)	(18)	–
Cash (used in) provided by financing activities	(2,719)	1,184	(244)
Effect of exchange rate changes on cash	(3)	5	(27)
Net (decrease) increase in cash and cash equivalents	(2,009)	2,074	515
Cash and cash equivalents at beginning of period	4,917	2,843	2,328
Cash and cash equivalents at end of period	$ 2,908	$ 4,917	$ 2,843

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 (Loss)	Treasury Stock	Total
Balance at May 31, 2011	$ 32	$ 2,484	$ 15,266	$ (2,550)	$ (12)	$ 15,220
Net income	–	–	2,032	–	–	2,032
Other comprehensive loss, net of tax of $1,395	–	–	–	(2,403)	–	(2,403)
Purchase of treasury stock (2.8 million shares)	–	–	–	–	(197)	(197)
Cash dividends declared ($0.52 per share)	–	–	(164)	–	–	(164)
Employee incentive plans and other (2.4 million shares issued)	–	111	–	–	128	239
Balance at May 31, 2012	32	2,595	17,134	(4,953)	(81)	14,727
Net income	–	–	1,561	–	–	1,561
Other comprehensive gain, net of tax of $665	–	–	–	1,133	–	1,133
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	32	2,668	18,519	(3,820)	(1)	17,398
Net income	–	–	2,097	–	–	2,097
Other comprehensive gain, net of tax of $103	–	–	–	126	–	126
Purchase of treasury stock (36.8 million shares)	–	–	–	–	(4,857)	(4,857)
Cash dividends declared ($0.60 per share)	–	–	(187)	–	–	(187)
Employee incentive plans and other (6.7 million shares issued)	–	(25)	–	–	725	700
Balance at May 31, 2014	$ 32	$ 2,643	$ 20,429	$ (3,694)	$ (4,133)	$ 15,277

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, 2014 or ended May 31 of the year referenced.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of FedEx and its subsidiaries, substantially all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation. 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, such as FedEx SmartPost, engage in some transactions wherein they act as agents. Revenue from these transactions is recorded on a net basis. Net revenue includes billings to customers less third-party charges, including transportation or handling costs, fees, commissions and taxes and duties.

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

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

ADVERTISING. Advertising and promotion costs are expensed as incurred and are classified in other operating expenses. Advertising and promotion expenses were $407 million in 2014, $424 million in 2013 and $421 million in 2012.

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

SPARE PARTS, SUPPLIES AND FUEL. Spare parts (principally aircraft-related) are reported at weighted-average cost. Allowances for obsolescence are provided for spare parts expected to be on hand at the date the aircraft are retired from service. These allowances are provided over the estimated useful life of the related aircraft and engines. Additionally, allowances for obsolescence are provided for spare parts currently identified as excess or obsolete. These allowances are based on management estimates, which are subject to change, although historically changes in these estimates have been minimal. 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, will result 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 depreciable lives and net book value of our property and equipment are as follows (dollars in millions):

		Net Book Value at May 31,	
	Range	2014	2013
Wide-body aircraft and related equipment	15 to 30 years	$ 7,223	$ 7,191
Narrow-body and feeder aircraft and related equipment	5 to 18 years	2,639	2,284
Package handling and ground support equipment	3 to 30 years	2,676	2,311
Vehicles	3 to 15 years	1,963	1,748
Computer and electronic equipment	2 to 10 years	940	993
Facilities and other	2 to 40 years	4,109	3,957

Substantially all property and equipment have no material residual values. The majority of aircraft costs are depreciated on a straight-line basis over 15 to 30 years. We periodically evaluate the estimated service lives and residual values used to depreciate our property and equipment. This evaluation may result in changes in the estimated lives and residual values as it did in 2013 and 2012 with certain aircraft. 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 May 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 depreciation expense in 2014.

Depreciation expense, excluding gains and losses on sales of property and equipment used in operations, was $2.6 billion in 2014, $2.3 billion in 2013 and $2.1 billion in 2012. 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 $29 million in 2014, $45 million in 2013 and $85 million in 2012.

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

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

In 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; or changes to planned service expansion activities. At May 31, 2014, we had 10 aircraft temporarily idled, one of which was fully depreciated. These aircraft have been idled for an average of three months and are expected to return to revenue service.

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.

In 2012, we retired from service 18 Airbus A310-200 aircraft and 26 related engines, as well as six Boeing MD10-10 aircraft and 17 related engines. As a consequence of this decision, a noncash impairment charge of $134 million ($84 million, net of tax, or $0.26 per diluted share) was recorded in 2012.

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, expected long-term investment returns on plan assets, salary increases, expected retirement, mortality, employee turnover and future increases in healthcare costs. We determine the discount rate (which is required to be the rate at which the projected benefit obligation could be effectively settled as of the measurement date) with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that are designed to match our expected benefit payments in future years. A calculated-value method is employed for purposes of determining the asset values for our tax-qualified U.S. domestic pension plans ("U.S. Pension Plans"). Our expected rate of return is a judgmental matter which is reviewed on an annual basis and revised as appropriate.

The accounting guidance related to employers' accounting for defined benefit pension and other postretirement plans requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in other comprehensive income ("OCI") of unrecognized gains or losses and prior service costs or credits.

We recorded a decrease to equity through OCI of $11 million (net of tax) at our May 31, 2014 measurement date. We recorded an increase to equity through OCI of $861 million (net of tax) at our May 31, 2013 measurement date.

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 addition to our pilots at FedEx Express, 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 October 2013, our Board of Directors authorized a new share repurchase program of up to 32 million shares of common stock. These shares augmented the 10.2 million shares remaining on our previous share repurchase authorizations at May 31, 2013. 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 January 2014, we entered into accelerated share repurchase ("ASR") agreements with two banks to repurchase an aggregate of $2.0 billion of our common stock. During the third quarter of 2014, 11.4 million shares were initially delivered to us based on then-current market prices. During the fourth quarter of 2014, the ASR transactions were completed and we received 3.4 million additional shares. The final number of shares delivered upon settlement of each ASR agreement was determined based on a discount to the volume-weighted average price of our stock during the term of the respective transaction. In total, 14.8 million shares were delivered under the ASR agreements. The repurchased shares were accounted for as a reduction to common stockholders' investment in the accompanying consolidated balance sheet and resulted in a reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

During 2014, including the ASR transactions, 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. As of May 31, 2014, 5.3 million shares remained under our share repurchase authorizations.

DIVIDENDS DECLARED PER COMMON SHARE. On June 9, 2014, our Board of Directors declared a quarterly dividend of $0.20 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 3, 2014 to stockholders of record as of the close of business on June 19, 2014. 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 had 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 US GAAP (and International Financial Reporting Standards). This standard will be effective for us beginning in fiscal 2018. 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 2014 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 May 1, 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. A significant amount of the purchase price was allocated to goodwill, which was entirely attributed to our FedEx Express reporting unit. This acquisition gives us an established regional ground network and extensive knowledge of the Southern African region.

During 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.

In 2012, we completed our acquisition of Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company, for $128 million.

These acquisitions were completed using cash from operations. The financial results of these acquired businesses are included in the FedEx Express segment from the date of acquisition and were not material, individually or in the aggregate, to our results of operations 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, 2012	$ 1,344	$ 90	$ 735	$ 1,528	$ 3,697
Accumulated impairment charges	–	–	(133)	(1,177)	(1,310)
Balance as of May 31, 2012	1,344	90	602	351	2,387
Goodwill acquired[(1)]	351	–	–	–	351
Purchase adjustments and other[(2)]	20	–	–	(3)	17
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
Accumulated goodwill impairment charges as of May 31, 2014	$ –	$ –	$ (133)	$ (1,177)	$ (1,310)

(1) Goodwill acquired relates to the acquisitions of transportation companies in Poland, France and Brazil in 2013 and the acquisition of transportation companies in Southern Africa in 2014. 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 Freight and FedEx Office (reported in the FedEx Services segment). We evaluated reporting units for impairment during the fourth quarter of 2014. The estimated fair value of each of these reporting units exceeded their carrying values in 2014 and 2013, and we do not believe that any of these reporting units were at risk as of May 31, 2014.

OTHER INTANGIBLE ASSETS. The net book value of our other intangible assets was $57 million at May 31, 2014 and $72 million at May 31, 2013. Amortization expense for intangible assets was $23 million in 2014, $27 million in 2013 and $18 million in 2012. Estimated amortization expense is expected to be immaterial in 2015 and beyond.

NOTE 5: SELECTED CURRENT LIABILITIES

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

	2014	2013
Accrued Salaries and Employee Benefits		
Salaries	$ 267	$ 489
Employee benefits, including variable compensation	434	615
Compensated absences	576	584
	$ 1,277	$ 1,688
Accrued Expenses		
Self-insurance accruals	$ 811	$ 796
Taxes other than income taxes	339	368
Other	913	768
	$ 2,063	$ 1,932

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, 2014, are as follows (in millions):

		May 31, 2014	May 31, 2013
Senior unsecured debt:			
Interest Rate %	Maturity		
7.38	2014	$ –	$ 250
8.00	2019	750	750
2.625	2023	499	499
2.70	2023	249	249
4.00	2024	749	–
4.90	2034	499	–
3.875	2043	493	493
4.10	2043	499	499
5.10	2044	749	–
7.60	2098	239	239
Total senior unsecured debt		4,726	2,979
Capital lease obligations		11	11
		4,737	2,990
Less current portion		1	251
		$ 4,736	$ 2,739

Interest on our fixed-rate notes is paid semi-annually. Long-term debt, exclusive of capital leases, had estimated fair values of $5.0 billion at May 31, 2014 and $3.2 billion at May 31, 2013. 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 2014, we issued $2 billion of senior unsecured debt under our current shelf registration statement, comprised of $750 million of 4.00% fixed-rate notes due in January 2024, $500 million of 4.90% fixed-rate notes due in January 2034 and $750 million of 5.10% fixed-rate notes due in January 2044. Interest on these notes is paid semiannually. We utilized the net proceeds to make payments under the ASR agreements discussed in Note 1. During 2014, we repaid our $250 million 7.38% senior unsecured notes that matured on January 15, 2014.

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 57% at May 31, 2014. 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, 2014, 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 $538 million in letters of credit outstanding at May 31, 2014, with $149 million unused under our primary $500 million letter of credit facility, and $531 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, 2014 and May 31, 2013. 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):

	2014	2013	2012
Minimum rentals	$ 2,154	$ 2,061	$ 2,018
Contingent rentals[1]	197	192	210
	$ 2,351	$ 2,253	$ 2,228

(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, 2014 is as follows (in millions):

	Operating Leases		
	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2015	$ 448	$ 1,614	$ 2,062
2016	453	1,450	1,903
2017	392	1,540	1,932
2018	326	1,129	1,455
2019	273	955	1,228
Thereafter	550	6,264	6,814
Total	$ 2,442	$ 12,952	$ 15,394

Property and equipment recorded under capital leases and future minimum lease payments under capital leases were immaterial at May 31, 2014 and 2013. The weighted-average remaining lease term of all operating leases outstanding at May 31, 2014 was approximately six years. While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of insurance, none of our lease agreements include material financial covenants or limitations.

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

We are the lessee in a series of operating leases covering a portion of our leased aircraft. The lessors are trusts established specifically to purchase, finance and lease aircraft to us. These leasing entities meet the criteria for variable interest entities. We are not the primary beneficiary of the leasing entities, as the lease terms are consistent with market terms at the inception of the lease and do not include a residual value guarantee, fixed-price purchase option or similar

feature that obligates us to absorb decreases in value or entitles us to participate in increases in the value of the aircraft. As such, we are not required to consolidate the entity as the primary beneficiary. Our maximum exposure under these leases is included in the summary of future minimum lease payments shown above.

NOTE 8: PREFERRED STOCK

Our Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 4,000,000 shares of preferred stock. The stock is issuable in series, which may vary as to certain rights and preferences, and has no par value. As of May 31, 2014, none of these shares had been issued.

NOTE 9: ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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):

	2014	2013	2012
Foreign currency translation gain (loss):			
Balance at beginning of period	$ 102	$ 61	$ 156
Translation adjustments	(25)	41	(95)
Balance at end of period	77	102	61
Retirement plans adjustments:			
Balance at beginning of period	(3,922)	(5,014)	(2,706)
Net (loss) gain and other arising during period	(11)	861	(2,432)
Reclassifications from AOCI	162	231	124
Balance at end of period	(3,771)	(3,922)	(5,014)
Accumulated other comprehensive loss at end of period	$ (3,694)	$ (3,820)	$ (4,953)

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
	2014	2013	2012	
Retirement plans:				
Amortization of actuarial losses and other	$ (382)	$ (516)	$ (310)	Salaries and employee benefits
Amortization of prior service credits	115	114	113	Salaries and employee benefits
Total before tax	(267)	(402)	(197)	
Income tax benefit	105	171	73	Provision for income taxes
AOCI reclassifications, net of tax	$ (162)	$ (231)	$ (124)	Net income

NOTE 10: STOCK-BASED COMPENSATION

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

	2014	2013	2012
Stock-based compensation expense	$ 117	$ 109	$ 105

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

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

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

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

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

	2014	2013	2012
Weighted-average Black-Scholes value	$ 35.79	$ 29.20	$ 29.92
Intrinsic value of options exercised	$ 347	$ 107	$ 67
Black-Scholes Assumptions:			
Expected lives	6.2 years	6.1 years	6.0 years
Expected volatility	35%	35%	34%
Risk-free interest rate	1.47%	0.94%	1.79%
Dividend yield	0.561%	0.609%	0.563%

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, 2014:

	Stock Options			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)[1]
Outstanding at June 1, 2013	19,135,434	$ 87.62		
Granted	3,482,179	103.83		
Exercised	(6,468,517)	86.15		
Forfeited	(514,240)	91.61		
Outstanding at May 31, 2014	15,634,856	$ 91.71	6.0 years	$ 820
Exercisable	8,913,173	$ 88.81	4.3 years	$ 493
Expected to vest	6,318,382	$ 95.56	8.3 years	$ 307
Available for future grants	13,108,873			

(1) Only presented for options with market value at May 31, 2014 in excess of the exercise price of the option.

The options granted during the year ended May 31, 2014 are primarily related to our principal annual stock option grant in June 2013.

The following table summarizes information about vested and unvested restricted stock for the year ended May 31, 2014:

	Restricted Stock	
	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 1, 2013	529,334	$ 80.86
Granted	191,964	100.80
Vested	(239,716)	75.48
Forfeited	(1,425)	100.46
Unvested at May 31, 2014	480,157	$ 91.46

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. During the year ended May 31, 2012, there were 214,435 shares of restricted stock granted with a weighted-average fair value of $88.95.

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)
2014	2,408,179	$ 65
2013	2,824,757	81
2012	2,807,809	70

As of May 31, 2014, there was $159 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, 2014 represented 8% 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):

	2014	2013	2012
Basic earnings per common share:			
Net earnings allocable to common shares[1]	$ 2,093	$ 1,558	$ 2,029
Weighted-average common shares	307	315	315
Basic earnings per common share	$ 6.82	$ 4.95	$ 6.44
Diluted earnings per common share:			
Net earnings allocable to common shares[1]	$ 2,093	$ 1,558	$ 2,029
Weighted-average common shares	307	315	315
Dilutive effect of share-based awards	3	2	2
Weighted-average diluted shares	310	317	317
Diluted earnings per common share	$ 6.75	$ 4.91	$ 6.41
Anti-dilutive options excluded from diluted earnings per common share	3.3	11.1	12.6

(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):

	2014	2013	2012
Current provision (benefit)			
Domestic:			
Federal	$ 624	$ 512	$ (120)
State and local	56	86	80
Foreign	194	170	181
	874	768	141
Deferred provision (benefit)			
Domestic:			
Federal	238	175	947
State and local	62	(7)	21
Foreign	18	(42)	–
	318	126	968
	$ 1,192	$ 894	$ 1,109

Our current federal income tax expenses in 2012, and to a lesser extent, 2013 and 2014, were significantly reduced by accelerated depreciation deductions we claimed under provisions of the American Taxpayer Relief Act of 2013 and the Tax Relief and the Small Business Jobs Acts of 2010. Those Acts, designed to stimulate new business investment in the U.S., accelerated our depreciation deductions for new qualifying investments, such as our Boeing 777 Freighter ("B777F") aircraft. These were timing benefits only, in that depreciation accelerated into an earlier year is foregone in later years.

Pre-tax earnings (loss) of foreign operations for 2014, 2013 and 2012 were $412 million, $(55) million and $358 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 the statutory federal income tax rate to the effective income tax rate for the years ended May 31 was as follows:

	2014	2013	2012
Statutory U.S. income tax rate	35.0%	35.0%	35.0%
Increase (decrease) resulting from:			
State and local income taxes, net of federal benefit	2.3	2.1	2.1
Other, net	(1.0)	(0.7)	(1.8)
Effective tax rate	36.3%	36.4%	35.3%

Our 2012 rate was favorably impacted by the conclusion of the Internal Revenue Service ("IRS") audit of our 2007-2009 consolidated income tax returns.

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

	2014		2013	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment, leases and intangibles	$ 120	$ 3,730	$ 157	$ 3,676
Employee benefits	1,464	11	1,771	11
Self-insurance accruals	555	–	533	–
Other	292	290	251	238
Net operating loss/credit carryforwards	333	–	298	–
Valuation allowances	(245)	–	(204)	–
	$ 2,519	$ 4,031	$ 2,806	$ 3,925

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

	2014	2013
Current deferred tax assets	$ 522	$ 533
Noncurrent deferred tax assets[1]	80	–
Noncurrent deferred tax liabilities	(2,114)	(1,652)
	$ (1,512)	$ (1,119)

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

We have $1.0 billion of net operating loss carryovers in various foreign jurisdictions and $515 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 2015. 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 $1.6 billion at the end of 2014 and $1.3 billion at the end of 2013. We have not recognized deferred taxes for U.S. federal income tax purposes on those earnings. In 2014, our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a 1.2% benefit to our effective tax rate. Were the earnings to be distributed, in the form of dividends or otherwise, these earnings could be subject to U.S. federal income tax and non-U.S. withholding taxes. Unrecognized foreign tax credits potentially could be available to reduce a portion of any U.S. tax liability. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable due to uncertainties related to the timing and source of any potential distribution of such funds, along with other important factors such as the amount of associated foreign tax credits. Cash in offshore jurisdictions associated with our permanent reinvestment strategy totaled $471 million at the end of 2014 and $420 million at the end of 2013.

In 2014, approximately 90% of our total enterprise-wide income was earned in U.S. companies of FedEx that are taxable in the United States. As a U.S. airline, our FedEx Express unit is required by Federal Aviation Administration and other rules to conduct its air operations, domestic and international, through a U.S. company. However, we serve more than 220 countries and territories around the world, and are required to establish legal entities in many of them. Most of our entities in those countries are operating entities, engaged in picking up and delivering packages and performing other transportation services. We are continually expanding our global network to meet our customers' needs, which requires increasing investment outside the U.S. We typically use cash generated overseas to fund these investments and have a foreign holding company which manages our investments in several foreign operating companies.

We are subject to taxation in the U.S. and various U.S. state, local and foreign jurisdictions. The IRS has completed its examination of our 2010 and 2011 federal income tax returns with insignificant adjustments taken to appeals. 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):

	2014	2013	2012
Balance at beginning of year	$ 47	$ 51	$ 69
Increases for tax positions taken in the current year	1	1	2
Increases for tax positions taken in prior years	3	3	4
Decreases for tax positions taken in prior years	(3)	(3)	(35)
Settlements	(6)	(9)	(3)
Increases due to acquisitions	–	4	15
Decrease from lapse of statute of limitations	(3)	(2)	–
Changes due to currency translation	(1)	2	(1)
Balance at end of year	$ 38	$ 47	$ 51

Our liabilities recorded for uncertain tax positions include $33 million at May 31, 2014 and $42 million at May 31, 2013 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, 2014 and $29 million on May 31, 2013. 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. These assumptions most significantly impact our U.S. Pension Plans.

The accounting guidance related to postretirement benefits requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in accumulated other comprehensive income ("AOCI") of unrecognized gains or losses and prior service costs or credits. The funded status is measured as the difference between the fair value of the plan's assets and the projected benefit obligation ("PBO") of the plan. We recorded a decrease to equity of $11 million (net of tax) at May 31, 2014, and an increase to equity of $861 million (net of tax) at May 31, 2013, attributable to changes in the funded status of our plans.

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

	2014	2013	2012
U.S. domestic and international pension plans	$ 484	$ 679	$ 524
U.S. domestic and international defined contribution plans	363	354	338
U.S. domestic and international postretirement healthcare plans	78	78	70
	$ 925	$ 1,111	$ 932

Total retirement plans costs in 2014 were lower than 2013 due to the favorable impact of a higher discount rate at our May 31, 2013 measurement date and higher returns on plan assets.

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

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

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

We use a measurement date of May 31 for our pension and postretirement healthcare plans. Management reviews the assumptions used to measure pension costs on an annual basis. Economic and market conditions at the measurement date impact these assumptions from year to year. Actuarial gains or losses are generated for changes in assumptions and to the extent that actual results differ from those assumed. These actuarial gains and losses are amortized over the remaining average service lives of our active employees if they exceed a corridor amount in the aggregate.

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		
	2014	2013	2012	2014	2013	2012
Discount rate used to determine benefit obligation	4.60%	4.79%	4.44%	4.70%	4.91%	4.55%
Discount rate used to determine net periodic benefit cost	4.79	4.44	5.76	4.91	4.55	5.67
Rate of increase in future compensation levels used to determine benefit obligation	4.56	4.54	4.62	–	–	–
Rate of increase in future compensation levels used to determine net periodic benefit cost	4.54	4.62	4.58	–	–	–
Expected long-term rate of return on assets	7.75	8.00	8.00	–	–	–

The estimated average rate of return on plan assets is the expected future long-term rate of earnings on plan assets and is a forward-looking assumption that materially affects our pension cost. Establishing the expected future rate of investment return on our pension assets is a judgmental matter. We review the expected long-term rate of return on an annual basis and revise it as appropriate. Management considers the following factors in determining this assumption:

> the duration of our pension plan liabilities, which drives the investment strategy we can employ with our pension plan assets;

> the types of investment classes in which we invest our pension plan assets and the expected compound geometric return we can reasonably expect those investment classes to earn over time; and

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

Our expected long-term rate of return on plan assets was 7.75% in 2014 and 8% in 2013 and 2012. Our actual return in each of the past three years exceeded those amounts for our principal U.S. domestic pension plan. For 2014, we lowered our expected return on plan assets assumption for long-term returns on plan assets to 7.75% as we refined our asset and liability management strategy. In lowering this assumption we considered our historical returns, our investment strategy for our plan assets, including the impacts of the duration of our plan liability and the relatively low annual draw on plan assets on that investment strategy. For the 15-year period ended May 31, 2014, our actual annual returns were 7%.

Pension expense is also affected by the accounting policy used to determine the value of plan assets at the measurement date. We use a calculated-value method to determine the value of plan assets, which helps mitigate short-term volatility in market performance (both increases and decreases) by amortizing certain actuarial gains or losses over a period no longer than four years. Another method used in practice applies the market value of plan assets at the measurement date. For purposes of valuing plan assets for determining 2015 pension expense, the calculated value method resulted in the same value as the market value, as it did in 2014 and 2013.

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. Large Cap Equities (which are mainly indexed to the S&P 500 Index). 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					
	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

	2013					
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	$ 456	2%	0-5%	$ 15	$ 441	
Equities			35-55			
U.S. large cap equity	5,264	28		37	5,227	
International equities	2,271	12		1,904	367	
U.S. SMID cap equity	1,741	9		1,741		
Private equities	332	2				$ 332
Fixed income securities			45-65			
Corporate	4,972	26			4,972	
Government	3,888	20			3,888	
Mortgage backed and other	200	1			200	
Other	(77)	–		(83)	6	
	$ 19,047	100%		$ 3,614	$ 15,101	$ 332

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

	2014	2013
Balance at beginning of year	$ 332	$ 402
Actual return on plan assets:		
Assets held during current year	(17)	(29)
Assets sold during the year	53	55
Purchases, sales and settlements	(92)	(96)
Balance at end of year	$ 276	$ 332

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, 2014 and a statement of the funded status as of May 31, 2014 and 2013 (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	2014	2013	2014	2013
Accumulated Benefit Obligation ("ABO")	$ 23,805	$ 21,958		
Changes in Projected Benefit Obligation ("PBO") and Accumulated Postretirement Benefit Obligation ("APBO")				
PBO/APBO at the beginning of year	$ 22,600	$ 22,187	$ 828	$ 790
Service cost	657	692	38	42
Interest cost	1,055	968	40	36
Actuarial loss (gain)	1,021	(652)	5	(17)
Benefits paid	(801)	(589)	(62)	(54)
Other	46	(6)	34	31
PBO/APBO at the end of year	$ 24,578	$ 22,600	$ 883	$ 828
Change in Plan Assets				
Fair value of plan assets at the beginning of year	$ 19,433	$ 17,334	$ –	$ –
Actual return on plan assets	2,509	2,081	–	–
Company contributions	727	615	28	27
Benefits paid	(801)	(589)	(62)	(54)
Other	39	(8)	34	27
Fair value of plan assets at the end of year	$ 21,907	$ 19,433	$ –	$ –
Funded Status of the Plans	$ (2,671)	$ (3,167)	$ (883)	$ (828)
Amount Recognized in the Balance Sheet at May 31:				
Noncurrent asset	$ 5			
Current pension, postretirement healthcare and other benefit obligations	(41)	$ (48)	$ (41)	$ (39)
Noncurrent pension, postretirement healthcare and other benefit obligations	(2,635)	(3,119)	(842)	(789)
Net amount recognized	$ (2,671)	$ (3,167)	$ (883)	$ (828)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost:				
Net actuarial loss (gain)	$ 6,633	$ 6,993	$ 2	$ (4)
Prior service (credit) cost and other	(670)	(781)	1	2
Total	$ 5,963	$ 6,212	$ 3	$ (2)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost expected to be amortized in next year's Net Periodic Benefit Cost:				
Net actuarial loss	$ 300	$ 378	$ –	$ –
Prior service credit and other	(115)	(114)	–	–
Total	$ 185	$ 264	$ –	$ –

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

	PBO	Fair Value of Plan Assets	Funded Status
2014			
Qualified	$ 23,439	$ 21,444	$ (1,995)
Nonqualified	280	–	(280)
International Plans	859	463	(396)
Total	$ 24,578	$ 21,907	$ (2,671)
2013			
Qualified	$ 21,532	$ 19,047	$ (2,485)
Nonqualified	322	–	(322)
International Plans	746	386	(360)
Total	$ 22,600	$ 19,433	$ (3,167)

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	
	2014	2013
Pension Benefits		
Fair value of plan assets	$ 21,543	$ 19,433
PBO	(24,219)	(22,600)
Net funded status	$ (2,676)	$ (3,167)

	ABO Exceeds the Fair Value of Plan Assets	
	2014	2013
Pension Benefits		
ABO[(1)]	$ (23,447)	$ (21,930)
Fair value of plan assets	21,542	19,404
PBO	(24,218)	(22,570)
Net funded status	$ (2,676)	$ (3,166)

(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):

	2014	2013
Required	$ 645	$ 560
Voluntary	15	–
	$ 660	$ 560

For 2015, we anticipate making required contributions to our U.S. Pension Plans totaling approximately $580 million.

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

	Pension Plans			Postretirement Healthcare Plans		
	2014	2013	2012	2014	2013	2012
Service cost	$ 657	$ 692	$ 593	$ 38	$ 42	$ 35
Interest cost	1,055	968	976	40	36	36
Expected return on plan assets	(1,495)	(1,383)	(1,240)	–	–	–
Recognized actuarial losses (gains) and other	267	402	195	–	–	(1)
Net periodic benefit cost	$ 484	$ 679	$ 524	$ 78	$ 78	$ 70

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

	2014				2013			
	Pension Plans		Postretirement Healthcare Plans		Pension Plans		Postretirement Healthcare Plans	
	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount
Net (gain) loss and other arising during period	$ 7	$ 8	$ 5	$ 3	$ (1,350)	$ (840)	$ (17)	$ (21)
Amortizations:								
Prior services credit	115	69	–	–	114	66	–	–
Actuarial losses and other	(382)	(231)	–	–	(516)	(297)	–	–
Total recognized in OCI	$ (260)	$ (154)	$ 5	$ 3	$ (1,752)	$ (1,071)	$ (17)	$ (21)

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
2015	$ 912	$ 41
2016	870	42
2017	954	44
2018	1,015	45
2019	1,120	46
2020–2024	7,398	267

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 7.5% during 2015, 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, 2014 or 2014 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)
FedEx Ground Segment	> FedEx Ground (small-package ground delivery) > FedEx SmartPost (small-parcel consolidator)
FedEx Freight Segment	> FedEx Freight (LTL freight transportation) > FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	> FedEx Services (sales, marketing, information technology, communications and back-office functions) > FedEx TechConnect (customer service, technical support, billings and collections) > FedEx Office (document and business services and package acceptance)

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to obtain synergies from the combination of these functions. For the international regions of FedEx Express, some of these functions are performed on a regional basis by FedEx Express and reported in the FedEx Express segment in 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 and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. 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 as necessary to reflect changes in our businesses.

Other Intersegment Transactions

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

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

	FedEx Express Segment[(1)]	FedEx Ground Segment[(2)]	FedEx Freight Segment[(3)]	FedEx Services Segment	Other and Eliminations	Consolidated Total
Revenues						
2014	$ 27,121	$ 11,617	$ 5,757	$ 1,536	$ (464)	$ 45,567
2013	27,171	10,578	5,401	1,580	(443)	44,287
2012	26,515	9,573	5,282	1,671	(361)	42,680
Depreciation and amortization						
2014	$ 1,488	$ 468	$ 231	$ 399	$ 1	$ 2,587
2013	1,350	434	217	384	1	2,386
2012	1,169	389	185	369	1	2,113
Operating income						
2014	$ 1,172	$ 1,955	$ 319	$ –	$ –	$ 3,446
2013	555	1,788	208	–	–	2,551
2012	1,260	1,764	162	–	–	3,186
Segment assets[(4)]						
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
2012	17,981	6,154	2,807	4,546	(1,585)	29,903

(1) FedEx Express segment 2013 operating expenses 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. FedEx Express segment 2012 operating expenses include an impairment charge of $134 million resulting from the decision to retire 24 aircraft and related engines and a reversal of a $66 million legal reserve that was initially recorded in 2011.

(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 in direct and allocated business realignment costs.

(4) Segment assets include intercompany receivables.

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

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Other	Consolidated Total
2014	$ 1,994	$ 850	$ 325	$ 363	$ 1	$ 3,533
2013	2,067	555	326	424	3	3,375
2012	2,689	536	340	437	5	4,007

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

	2014	2013	2012
Revenue by Service Type			
FedEx Express segment:			
Package:			
U.S. overnight box	$ 6,555	$ 6,513	$ 6,546
U.S. overnight envelope	1,636	1,705	1,747
U.S. deferred	3,188	3,020	3,001
Total U.S. domestic package revenue	11,379	11,238	11,294
International priority	6,451	6,586	6,849
International economy	2,229	2,046	1,859
Total international export package revenue	8,680	8,632	8,708
International domestic[(1)]	1,446	1,398	853
Total package revenue	21,505	21,268	20,855
Freight:			
U.S.	2,355	2,562	2,498
International priority	1,594	1,678	1,827
International airfreight	205	276	307
Total freight revenue	4,154	4,516	4,632
Other[(2)]	1,462	1,387	1,028
Total FedEx Express segment	27,121	27,171	26,515
FedEx Ground segment:			
FedEx Ground	10,634	9,652	8,791
FedEx SmartPost	983	926	782
Total FedEx Ground segment	11,617	10,578	9,573
FedEx Freight segment	5,757	5,401	5,282
FedEx Services segment	1,536	1,580	1,671
Other and eliminations	(464)	(443)	(361)
	$ 45,567	$ 44,287	$ 42,680
Geographical Information[(3)]			
Revenues:			
U.S.	$ 32,901	$ 31,550	$ 29,837
International:			
FedEx Express segment	12,274	12,357	12,370
FedEx Ground segment	248	234	216
FedEx Freight segment	130	112	101
FedEx Services segment	14	34	156
Total international revenue	12,666	12,737	12,843
	$ 45,567	$ 44,287	$ 42,680
Noncurrent assets:			
U.S.	$ 20,658	$ 19,637	$ 18,874
International	2,729	2,656	1,973
	$ 23,387	$ 22,293	$ 20,847

(1) International domestic revenues represent our international intra-country express operations, including countries such as Mexico and Brazil.

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

(3) International revenue includes shipments that either originate in or are destined to locations outside the United States. Noncurrent assets include property and equipment, goodwill and other long-term assets. Our flight equipment 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):

	2014	2013	2012
Cash payments for:			
Interest (net of capitalized interest)	$ 131	$ 80	$ 52
Income taxes	$ 820	$ 687	$ 403
Income tax refunds received	(54)	(219)	(146)
Cash tax payments, net	$ 766	$ 468	$ 257

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 $528 million in principal of these bonds (with total future principal and interest payments of approximately $649 million as of May 31, 2014) through these leases.

NOTE 17: COMMITMENTS

Annual purchase commitments under various contracts as of May 31, 2014 were as follows (in millions):

	Aircraft and Aircraft Related	Other[(1)]	Total
2015	$ 1,147	$ 1,197	$ 2,344
2016	1,248	274	1,522
2017	956	123	1,079
2018	1,368	58	1,426
2019	859	19	878
Thereafter	4,498	101	4,599
Total	$ 10,076	$ 1,772	$ 11,848

(1) Primarily equipment, advertising contracts and in 2015, approximately $580 million of quarterly contributions to our U.S. Pension Plans.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of May 31, 2014, our obligation to purchase four Boeing 767-300 Freighter ("B767F") aircraft and nine 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 which are supported by the purchase of B777F, B767F and Boeing 757 ("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 2014, FedEx Express entered into an agreement with The Boeing Company for the purchase of two B767F aircraft, the delivery of which will occur in 2016 and 2017. FedEx Express also deferred 11 existing options to purchase B777F aircraft by two years. Additionally in 2014, we entered into supplemental agreements to purchase 16 B757 option aircraft pursuant to an agreement originally entered into in March 2013, the delivery of which began in 2014 and will continue through 2015.

We had $396 million in deposits and progress payments as of May 31, 2014 on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the "Other assets" caption of our consolidated balance sheets. In addition to our commitment to purchase B777Fs and B767Fs, our aircraft purchase commitments include the B757 aircraft in passenger configuration, which will require additional costs to modify for cargo transport. Aircraft and aircraft-related contracts are subject to price escalations.

The following table is a summary of the key aircraft we are committed to purchase as of May 31, 2014, with the year of expected delivery:

	B757	B767F	B777F	Total
2015	13	12	–	25
2016	–	11	2	13
2017	–	11	–	11
2018	–	10	2	12
2019	–	4	2	6
Thereafter	–	–	12	12
Total	13	48	18	79

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 26 that have been certified as class actions), individual lawsuits and state tax and other administrative proceedings that claim that the company's owner-operators should be treated as employees, rather than independent contractors.

Most of the class-action lawsuits were consolidated for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. The multidistrict litigation court granted class certification in 28 cases and denied it in 14 cases. On December 13, 2010, the court entered an opinion and order addressing all outstanding motions for summary judgment on the status of the owner-operators (i.e., independent contractor vs. employee). In sum, the court has now ruled on our summary judgment motions and entered judgment in favor of FedEx Ground on all claims in 20 of the 28 multidistrict litigation cases that had been certified as class actions, finding that the owner-operators in those cases were contractors as a matter of the law of 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 Kansas Supreme Court heard oral argument on November 5, 2013. The other 19 cases that are before the Seventh Circuit remain stayed pending a decision of the Kansas Supreme Court.

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 those cases are now on appeal with the Court of Appeals for the Ninth Circuit, and one is on appeal with the Court of Appeals for the Eleventh Circuit. The other four remain pending in their respective district courts, but three of these four matters have been settled for immaterial amounts. The courts have granted final approval of two of the three settlements, while the other settlement remains subject to court approval.

While the granting of summary judgment in favor of FedEx Ground by the multidistrict litigation court in 20 of the 28 cases that had been certified as class actions remains subject to appeal, we believe that it significantly improves the likelihood that our independent contractor model will be upheld. Adverse determinations in matters related to FedEx Ground's independent contractors, however, 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. While it is reasonably possible that potential loss in some of these lawsuits or such changes to the independent contractor status of FedEx Ground's owner-operators could be material, we cannot yet determine the amount or reasonable range of potential loss. A number of factors contribute to this. The number of plaintiffs in these lawsuits continues to change, with some being dismissed and others being added and, as to new plaintiffs, discovery is still ongoing. In addition, the parties have conducted only very limited discovery into damages, which could vary considerably from plaintiff to plaintiff. Further, the range of potential loss could be impacted considerably by future rulings on the merits of certain claims and FedEx Ground's various defenses, and on evidentiary issues. In any event, we do not believe that a material loss is probable in these matters.

In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation, two of which have been certified as class actions. These certified class actions were settled for immaterial amounts in the first quarter of 2014 and have received final court approval. The other cases are in varying stages of litigation, and we do not expect to incur a material loss in any of these matters.

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 violations. In May 2014, we filed a motion to dismiss almost all of the claims. Loss in this matter 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) 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. Loss in this matter is reasonably possible, 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.

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, and the matter remains pending before the court. In February 2011, shortly after the initial lawsuit was filed, we received a demand for the production of information and documents in connection with a civil investigation by the 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.

We have received requests for information from the DOJ in the Northern District of California in connection with a criminal investigation relating to the transportation of packages for online pharmacies that may have shipped pharmaceuticals in violation of federal law. We responded to grand jury subpoenas issued in June 2008 and August 2009 and to periodic subsequent requests for additional information related to those subpoenas, and we continue to respond and cooperate with the investigation. We believe that our employees have acted in good faith at all times. We do not believe that we have engaged in any illegal activities and will vigorously defend ourselves in any action that may result from the investigation. The investigation may lead to a criminal indictment and, if we are convicted, remedies could include fines, penalties, financial forfeiture and compliance conditions. We cannot estimate the amount or range of loss, if any, as such analysis would depend on facts and law that are not yet fully developed or resolved.

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. Given the early stage of this matter, we cannot yet determine the amount or range of potential loss; however, it is reasonably possible that it could be material.

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
2014				
Revenues	**$ 11,024**	**$ 11,403**	**$ 11,301**	**$ 11,839**
Operating income	**795**	**827**	**641**	**1,183**
Net income	**489**	**500**	**378**	**730**
Basic earnings per common share(1)	**1.54**	**1.58**	**1.24**	**2.49**
Diluted earnings per common share(1)	**1.53**	**1.57**	**1.23**	**2.46**
2013(2)				
Revenues	$ 10,792	$ 11,107	$ 10,953	$ 11,435
Operating income	742	718	589	502
Net income	459	438	361	303
Basic earnings per common share(1)	1.46	1.39	1.14	0.96
Diluted earnings per common share(1)	1.45	1.39	1.13	0.95

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

(2) The fourth quarter of 2013 includes $496 million of business realignment costs and an impairment charge of $100 million resulting from the decision to retire 10 aircraft and related engines at FedEx Express. The third quarter of 2013 includes $47 million of business realignment costs. The second quarter of 2013 includes $13 million of business realignment costs.

NOTE 21: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee $4.5 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, 2014				
	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	–	1,058	1,265	(2.323)	–
Goodwill	–	1,552	1,238	–	2,790
Investment in Subsidiaries	20,785	3,754	–	(24,539)	–
Other Assets	2,088	747	250	(2,038)	1,047
	$ 24,696	$ 31,469	$ 5,986	$ (29,081)	$ 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	2,323	–	–	(2,323)	–
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	19,914	4,625	(24,539)	15,277
	$ 24,696	$ 31,469	$ 5,986	$ (29,081)	$ 33,070

Condensed Consolidating Balance Sheets

	May 31, 2013				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current Assets					
Cash and cash equivalents	$ 3,892	$ 405	$ 717	$ (97)	$ 4,917
Receivables, less allowances	–	3,989	1,084	(29)	5,044
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	45	681	54	–	780
Deferred income taxes	–	518	15	–	533
Total current assets	3,937	5,593	1,870	(126)	11,274
Property and Equipment, at Cost	27	35,915	2,167	–	38,109
Less accumulated depreciation and amortization	21	18,469	1,135	–	19,625
Net property and equipment	6	17,446	1,032	–	18,484
Intercompany Receivable	–	439	1,203	(1,642)	–
Goodwill	–	1,552	1,203	–	2,755
Investment in Subsidiaries	18,739	3,347	–	(22,086)	–
Other Assets	2,187	822	191	(2,146)	1,054
	$ 24,869	$ 29,199	$ 5,499	$ (26,000)	$ 33,567
Liabilities and Stockholders' Investment					
Current Liabilities					
Current portion of long-term debt	$ 250	$ 1	$ –	$ –	$ 251
Accrued salaries and employee benefits	82	1,402	204	–	1,688
Accounts payable	4	1,392	609	(126)	1,879
Accrued expenses	355	1,366	211	–	1,932
Total current liabilities	691	4,161	1,024	(126)	5,750
Long-Term Debt, Less Current Portion	2,489	250	–	–	2,739
Intercompany Payable	1,642	–	–	(1,642)	–
Other Long-Term Liabilities					
Deferred income taxes	–	3,798	–	(2,146)	1,652
Other liabilities	2,649	3,133	246	–	6,028
Total other long-term liabilities	2,649	6,931	246	(2,146)	7,680
Stockholders' Investment	17,398	17,857	4,229	(22,086)	17,398
	$ 24,869	$ 29,199	$ 5,499	$ (26,000)	$ 33,567

Condensed Consolidating Statements of Comprehensive Income

	Year Ended May 31, 2014				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ –	$ 38,088	$ 7,820	$ (341)	$ 45,567
Operating Expenses:					
Salaries and employee benefits	99	14,303	2,153	–	16,555
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
Intercompany charges, net	(209)	(125)	334	–	–
Other	103	4,823	1,178	(177)	5,927
	–	35,230	7,232	(341)	42,121
Operating Income	–	2,858	588	–	3,446
Other Income (Expense):					
Equity in earnings of subsidiaries	2,097	411	–	(2,508)	–
Interest, net	(167)	16	9	–	(142)
Intercompany charges, net	172	(194)	22	–	–
Other, net	(5)	(14)	4	–	(15)
Income Before Income Taxes	2,097	3,077	623	(2,508)	3,289
Provision for income taxes	–	1,004	188	–	1,192
Net Income	$ 2,097	$ 2,073	$ 435	$ (2,508)	$ 2,097
Comprehensive Income	$ 2,251	$ 2,072	$ 408	$ (2,508)	$ 2,223

Condensed Consolidating Statements of Comprehensive Income

	Year Ended May 31, 2013				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ –	$ 37,073	$ 7,543	$ (329)	$ 44,287
Operating Expenses:					
Salaries and employee benefits	103	14,375	2,092	–	16,570
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
Intercompany charges, net	(227)	(329)	556	–	–
Other	96	4,565	1,193	(182)	5,672
	–	34,928	7,137	(329)	41,736
Operating Income	–	2,145	406	–	2,551
Other Income (Expense):					
Equity in earnings of subsidiaries	1,561	253	–	(1,814)	–
Interest, net	(108)	42	5	–	(61)
Intercompany charges, net	113	(131)	18	–	–
Other, net	(5)	(20)	(10)	–	(35)
Income Before Income Taxes	1,561	2,289	419	(1,814)	2,455
Provision for income taxes	–	710	184	–	894
Net Income	$ 1,561	$ 1,579	$ 235	$ (1,814)	$ 1,561
Comprehensive Income	$ 2,622	$ 1,618	$ 268	$ (1,814)	$ 2,694

Condensed Consolidating Statements of Comprehensive Income (Loss)

	Year Ended May 31, 2012				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Revenues	$ –	$ 36,412	$ 6,569	$ (301)	$ 42,680
Operating Expenses:					
Salaries and employee benefits	114	14,153	1,832	–	16,099
Purchased transportation	–	4,509	1,944	(118)	6,335
Rentals and landing fees	5	2,221	267	(6)	2,487
Depreciation and amortization	1	1,962	150	–	2,113
Fuel	–	4,877	79	–	4,956
Maintenance and repairs	1	1,882	97	–	1,980
Business realignment, impairment and other charges	–	134	–	–	134
Intercompany charges, net	(218)	(323)	541	–	–
Other	97	4,482	988	(177)	5,390
	–	33,897	5,898	(301)	39,494
Operating Income	–	2,515	671	–	3,186
Other Income (Expense):					
Equity in earnings of subsidiaries	2,032	395	–	(2,427)	–
Interest, net	(75)	31	5	–	(39)
Intercompany charges, net	80	(102)	22	–	–
Other, net	(5)	(10)	9	–	(6)
Income Before Income Taxes	2,032	2,829	707	(2,427)	3,141
Provision for income taxes	–	875	234	–	1,109
Net Income	$ 2,032	$ 1,954	$ 473	$ (2,427)	$ 2,032
Comprehensive (Loss) Income	$ (120)	$ 1,796	$ 380	$ (2,427)	$ (371)

Condensed Consolidating Statements of Cash Flows

	Year Ended May 31, 2014				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	$ (8)	$ 3,790	$ 535	$ (53)	$ 4,264
Investing activities					
Capital expenditures	(1)	(3,230)	(302)	–	(3,533)
Business acquisitions, net of cash acquired	–	(36)	–	–	(36)
Proceeds from asset dispositions and other	–	37	(19)	–	18
Cash used in investing activities	(1)	(3,229)	(321)	–	(3,551)
Financing activities					
Net transfers from (to) Parent	588	(546)	(42)	–	–
Payment on loan between subsidiaries	–	(4)	4	–	–
Intercompany dividends	–	54	(54)	–	–
Principal payments on debt	(250)	(4)	–	–	(254)
Proceeds from debt issuance	1,997	–	–	–	1,997
Proceeds from stock issuances	557	–	–	–	557
Excess tax benefit on the exercise of stock options	44	–	–	–	44
Dividends paid	(187)	–	–	–	(187)
Purchase of treasury stock	(4,857)	–	–	–	(4,857)
Other, net	(19)	(16)	16	–	(19)
Cash used in financing activities	(2,127)	(516)	(76)	–	(2,719)
Effect of exchange rate changes on cash	–	(9)	6	–	(3)
Net (decrease) increase in cash and cash equivalents	(2,136)	36	144	(53)	(2,009)
Cash and cash equivalents at beginning of period	3,892	405	717	(97)	4,917
Cash and cash equivalents at end of period	$ 1,756	$ 441	$ 861	$ (150)	$ 2,908

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 issuances	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

Condensed Consolidating Statements of Cash Flows

	Year Ended May 31, 2012				
	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used in) operating activities	$ (88)	$ 4,383	$ 570	$ (30)	$ 4,835
Investing activities					
Capital expenditures	(5)	(3,792)	(210)	–	(4,007)
Business acquisition, net of cash acquired	–	–	(116)	–	(116)
Proceeds from asset dispositions and other	–	74	–	–	74
Cash used in investing activities	(5)	(3,718)	(326)	–	(4,049)
Financing activities					
Net transfers from (to) Parent	625	(550)	(75)	–	–
Intercompany dividends	–	76	(76)	–	–
Principal payments on debt	–	(29)	–	–	(29)
Proceeds from stock issuances	128	–	–	–	128
Excess tax benefit on the exercise of stock options	18	–	–	–	18
Dividends paid	(164)	–	–	–	(164)
Purchase of treasury stock	(197)	–	–	–	(197)
Other, net	–	(19)	19	–	–
Cash (used in) provided by financing activities	410	(522)	(132)	–	(244)
Effect of exchange rate changes on cash	–	(5)	(22)	–	(27)
Net increase (decrease) in cash and cash equivalents	317	138	90	(30)	515
Cash and cash equivalents at beginning of period	1,589	279	546	(86)	2,328
Cash and cash equivalents at end of period	$ 1,906	$ 417	$ 636	$ (116)	$ 2,843

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, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' investment, and cash flows for each of the three years in the period ended May 31, 2014. 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, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FedEx Corporation's internal control over financial reporting as of May 31, 2014, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated July 14, 2014 expressed an unqualified opinion thereon.

Memphis, Tennessee
July 14, 2014

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, 2014. This information should be read in conjunction with the Consolidated Financial Statements, MD&A and other financial data appearing elsewhere in this Annual Report.

	2014[(1)]	2013[(2)]	2012[(3)]	2011[(4)]	2010[(5)]
Operating Results					
Revenues	$ 45,567	$ 44,287	$ 42,680	$ 39,304	$ 34,734
Operating income	3,446	2,551	3,186	2,378	1,998
Income before income taxes	3,289	2,455	3,141	2,265	1,894
Net income	2,097	1,561	2,032	1,452	1,184
Per Share Data					
Earnings per share:					
Basic	$ 6.82	$ 4.95	$ 6.44	$ 4.61	$ 3.78
Diluted	$ 6.75	$ 4.91	$ 6.41	$ 4.57	$ 3.76
Average shares of common stock outstanding	307	315	315	315	312
Average common and common equivalent shares outstanding	310	317	317	317	314
Cash dividends declared	$ 0.60	$ 0.56	$ 0.52	$ 0.48	$ 0.44
Financial Position					
Property and equipment, net	$ 19,550	$ 18,484	$ 17,248	$ 15,543	$ 14,385
Total assets	33,070	33,567	29,903	27,385	24,902
Long-term debt, less current portion	4,736	2,739	1,250	1,667	1,668
Common stockholders' investment	15,277	17,398	14,727	15,220	13,811
Other Operating Data					
FedEx Express aircraft fleet	650	647	660	688	667

(1) Common stockholders' investment includes an other comprehensive income decrease of $11 million, net of tax, for the funded status of our retirement plans at May 31, 2014.

(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. Additionally, common stockholders' investment includes an other comprehensive income increase of $861 million, net of tax, for the funded status of our retirement plans at May 31, 2013.

(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. See Note 1 to the accompanying consolidated financial statements. Additionally, common stockholders' investment includes an other comprehensive income charge of $2.4 billion, net of tax, for the funded status of our retirement plans at May 31, 2012.

(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. Additionally, common stockholders' investment includes an other comprehensive income charge of $350 million, net of tax, for the funded status of our retirement plans at May 31, 2011.

(5) Common stockholders' investment includes an other comprehensive income charge of $1.0 billion, net of tax, for the funded status of our retirement plans at May 31, 2010.

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]
Executive Vice President — U.S. Stores
The Home Depot, Inc.
Home improvement specialty retailer

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

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

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Former Chairman, President and Chief Executive Officer
ITT Corporation
Water technology company

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

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

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Vice Chairman
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Strategic advisory firm

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University of Maryland
School of Public Policy
Former U.S. Trade Representative

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

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

Paul S. Walsh[2] [4]
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

Michael L. Ducker
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

FedEx Freight Segment

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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 29, 2014, 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 11, 2014, there were 12,877 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 2014 and 2013:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
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
FY2013				
High	$ 93.17	$ 94.26	$ 107.50	$ 109.66
Low	83.80	83.92	87.99	90.61
Dividend	0.14	0.14	0.14	0.14

FINANCIAL INFORMATION: Copies of FedEx Corporation's Annual Report on Form 10-K, other documents filed with the Securities and Exchange Commission (SEC) and other financial and statistical information are available through our Web site at fedex.com. Company documents filed electronically with the SEC can also be found at the SEC's Web site at www.sec.gov. You will be mailed a copy of the Form 10-K upon request to: FedEx Corporation Investor Relations, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7200, e-mail: ir@fedex.com.

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

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

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

SHAREOWNER ACCOUNT SERVICES: Computershare Investor Services, 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 Web site at www.computershare.com. This plan provides an alternative to traditional retail brokerage methods of purchasing, holding and selling FedEx common stock. This plan also permits shareowners to automatically reinvest their dividends to purchase additional shares of FedEx common stock.

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

EQUAL EMPLOYMENT OPPORTUNITY: Our greatest asset is our people. We are committed to providing a workplace where our employees and contractors feel respected, satisfied and appreciated. Our policies are designed to promote fairness and respect for everyone. We hire, evaluate and promote employees, and engage contractors, based on their skills and performance. With this in mind, we will not tolerate certain behaviors. These include harassment, 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.

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.

> 114 trees preserved for the future
> 50 million BTUs of energy conserved
> 4,734 kWh of electricity offset
> 9,771 pounds of greenhouse gas reduced
> 52,994 gallons of water waste eliminated
> 3,548 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.

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

The strength of our purpose.

Good things happen when FedEx connects people and possibilities. Our customers find opportunity in new markets and, in turn, give back to their communities. In the West African nation of Togo, more children are graduating because they can get to school, thanks to 5,700 bikes donated by Alaffia, an Olympia, Wash.–based company that depends on FedEx for global supply chain solutions.

More than a decade ago, Alaffia started a business with Togolese women to traditionally harvest and process shea tree nuts. It's the key ingredient used in the fair trade body care products Alaffia sells through major retailers. Since 2003, the company has created hundreds of new jobs — and a growing community of kids on wheels. **fedex.com/access**

Solutions

for a more sustainable world.

Our commitment to connect the world in responsible and resourceful ways is getting results.
In 2013, we efficiently reduced CO_2 emissions intensity while increasing business revenue.

GOAL

30%

Reduction in aircraft emissions intensity by 2020 from a 2005 baseline.

PROGRESS

22.3%

since 2005

GOAL

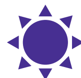
30%

Increase in FedEx Express vehicle fuel efficiency by 2020 from a 2005 baseline.

PROGRESS

27.0%

since 2005



GOAL

Expand on-site generation and continuing procurement of renewable energy for our facilities.

PROGRESS

27 gigawatt hours

since 2005

GOAL

Seek Leadership in Energy & Environmental Design (LEED) certification on all new U.S. FedEx Express buildings.

PROGRESS

10 LEED

certified buildings

To learn more, read the 2013 FedEx Global Citizenship Report at **csr.fedex.com**.

FEDEX CORPORATION
942 South Shady Grove Road
Memphis, Tennessee 38120
fedex.com

In line with our commitment to sustainability, the FedEx Annual Report was produced using environmentally and socially responsible procurement and manufacturing practices to ensure a minimized environmental impact. See page 80 for more details.