

FEDEX CORP  
Form 10-K  
July 18, 2016  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended May 31, 2016.

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-15829

**FEDEX CORPORATION**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**  
*(State or Other Jurisdiction of*

**62-1721435**  
*(I.R.S. Employer*

*Incorporation or Organization)*

*Identification No.)*

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

**38120**  
*(ZIP Code)*

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

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

Title of each class  
**Common Stock, par value \$0.10 per share**

Name of each exchange on which registered  
**New York Stock Exchange**

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**Floating Rate Notes due 2019**

**0.500% Notes due 2020**

**1.000% Notes due 2023**

**1.625% Notes due 2027**

**New York Stock Exchange**

**New York Stock Exchange**

**New York Stock Exchange**

**New York Stock Exchange**

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

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing price as of the last business day of the Registrant's most recently completed second fiscal quarter, November 30, 2015, was approximately \$40.6 billion. The Registrant has no non-voting stock.

As of July 14, 2016, 265,524,323 shares of the Registrant's common stock were outstanding.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement to be delivered to stockholders in connection with the 2016 annual meeting of stockholders to be held on September 26, 2016 are incorporated by reference in response to Part III of this Report.

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**PART I**

**ITEM 1. BUSINESS**

**Overview**

FedEx Corporation ( FedEx ) provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. These companies are included in the following business segments:

**FedEx Express:** Federal Express Corporation ( FedEx Express ) is the world's largest express transportation company, offering time-definite delivery to more than 220 countries and territories, connecting markets that comprise more than 90% of the world's gross domestic product. The FedEx Express segment also includes FedEx Trade Networks, Inc. ( FedEx Trade Networks ), which provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding, FedEx SupplyChain Systems, Inc. ( FedEx SupplyChain ), which offers a range of supply chain solutions, and FedEx CrossBorder, LLC, formerly Bongo International, LLC ( FedEx CrossBorder ), which is a leader in cross-border enablement technology and solutions.

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

**FedEx Ground:** FedEx Ground Package System, Inc. ( FedEx Ground ) is a leading North American provider of small-package ground delivery services. FedEx Ground provides low-cost, day-certain service to any business address in the U.S. and Canada, as well as residential delivery to 100% of U.S. residences through its FedEx Home Delivery service. On August 31, 2015, our FedEx SmartPost business was merged into FedEx Ground. The FedEx SmartPost service specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the U.S. Postal Service ( USPS ) for final delivery to any residential address or PO Box in the U.S. and remains an important component of our FedEx Ground service offerings. The FedEx Ground segment also includes GENCO Distribution System, Inc. ( GENCO ), which is a leading North American third-party logistics provider.

**FedEx Freight:** FedEx Freight, Inc. ( FedEx Freight ) is a leading U.S. provider of less-than-truckload ( LTL ) freight services across all lengths of haul, offering: FedEx Freight Priority, when speed is critical to meet supply chain needs; and FedEx Freight Economy, when time can be traded for cost savings. The FedEx Freight segment also offers freight delivery service to most points in Canada, Mexico, Puerto Rico and the U.S. Virgin Islands, and includes FedEx Custom Critical, Inc. ( FedEx Custom Critical ), a leading North American provider of time-specific, critical shipment services.

**FedEx Services:** FedEx Corporate Services, Inc. ( FedEx Services ) provides sales, marketing, information technology, communications and back-office functions that support our other companies. The FedEx Services segment includes FedEx Office and Print Services, Inc. ( FedEx Office ), which provides document and business services and retail access to our package transportation businesses. On May 31, 2016, FedEx TechConnect, Inc. ( FedEx TechConnect ) was merged into FedEx Services. Following the merger, the services previously provided by FedEx TechConnect, including customer service and billing and collection services for our U.S. customers and technical support services, are now performed by FedEx Services.

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

Our website is located at *fedex.com*. Detailed information about our services, e-commerce tools and solutions, and citizenship efforts can be found on our website. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our website, as soon as reasonably practicable after they are filed with or furnished to the Securities & Exchange Commission (SEC). The Investor Relations page of our website, <http://investors.fedex.com>, contains a significant amount of information about FedEx, including our SEC filings and financial and other information for investors. The information that we post on our Investor Relations website could be deemed to be material information. We encourage investors, the media and others interested in FedEx to visit this website from time to time, as information is updated and new information is posted. The information on our website, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

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

## **Strategy**

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

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

We manage our business as a portfolio in the long-term best interest of the enterprise, not a particular operating company. As a result, we base decisions on capital investment, expansion of delivery, information technology and retail networks, and service additions or enhancements upon achieving the highest overall long-term return on capital for our business as a whole. For each FedEx company, we focus on making appropriate investments in the technology and assets necessary to optimize our long-term earnings

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performance and cash flow. We are also focused on increasing returns to our stockholders, as evidenced by the recent increase in our quarterly dividend.

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

Our compete collectively, operate independently, manage collaboratively strategy also provides flexibility in sizing our various operating companies to align with varying macro-economic conditions and customer demand for the market segments in which they operate, allowing us to leverage and manage change. Volatility and uncertainty have become the norms in the global transportation market, and we are able to use our flexibility to accommodate changing conditions in the global economy. In 2014, we began replacing some of our retired aircraft with the more efficient, lower-emission Boeing 767-300 Freighter ( B767F ) aircraft. The B767F aircraft is approximately 30% more fuel efficient and has unit operating costs that are more than 20% lower than the MD10 aircraft it is replacing. In 2015, to continue rationalizing capacity and modernizing our aircraft fleet to more effectively serve customers, we retired an additional 15 aircraft and 21 related engines and adjusted the retirement schedule of 23 aircraft and 57 engines.

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

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

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

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

***Globalization:*** As the world's economy has become more fully integrated, companies are sourcing and selling globally. With customers in more than 220 countries and territories, we facilitate this supply chain through our global reach, delivery services and information capabilities. Despite the recent slow-down in global trade growth, we continue to believe that globalization will drive international volume growth over the long term.

***Supply Chain Acceleration:*** While the growth of global trade has slowed, companies of all sizes continue to depend on the delivery of just-in-time inventory to help them compete. We have taken advantage of the move toward more efficient supply chains by helping customers obtain more visibility into their supply chains and near real-time information to manage inventory in motion, thereby reducing overhead and obsolescence and speeding time-to-market.

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





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

These trends have produced an unprecedented expansion of customer access to goods, services and information. Through our global transportation, information technology and retail networks, we help to make this access possible. We continue to position our companies to facilitate and capitalize on this access and to achieve stronger long-term growth, productivity and profitability. To this end, we are investing in long-term strategic projects focused on expanding and modernizing our global networks to accommodate future volume growth and increase customer convenience, such as investments in Boeing 777 Freighter ( B777F ) and B767F aircraft. We also continue to broaden and more effectively bundle our portfolio of services in response to the needs and desires of our customers. For example, during 2016, we:

Made the strategic acquisition of TNT Express, which will allow us to more quickly broaden our portfolio of international transportation solutions to take advantage of market trends, especially the continuing growth in e-commerce.

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

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

Successfully integrated Bongo International, LLC ( Bongo ) and rebranded it as FedEx CrossBorder, a leader in cross-border enablement technologies and solutions, which has capabilities that complement and expand the FedEx portfolio of offerings important to the rapidly growing global e-commerce market.

Enhanced service offerings at FedEx Office through the eBay Valet Drop-Off program, a collaboration with eBay, Inc. ( eBay ) that allows customers to bring items to a FedEx Office location to be packed and shipped to an eBay processing center to be sold. FedEx Office also introduced a faster, cost-effective and streamlined system of delivering professional print services to large, commercial customers.

### *Profit Improvement Initiatives*

During 2013, we saw challenging global economic conditions particularly for FedEx Express as ongoing shifts from priority to deferred shipping services significantly impacted profitability. In response to these trends, in 2013 we announced programs targeting annual profitability improvement of \$1.6 billion at FedEx Express. Our profit improvement programs included multiple initiatives, primarily across FedEx Express and FedEx Services, to reduce our overall cost structure and enhancing the quality of our revenue.

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We exited 2016 having achieved our profit improvement goals with a run rate of \$1.6 billion of additional operating profit from the then 2013 base business. FedEx Express has improved operating income by approximately 170% from 2013, despite lower fuel surcharges and unfavorable exchange rates driving flat to declining revenue during the four-year period. FedEx Services has reduced its total expenses while investing in major information technology transformation projects. In addition, our incentive compensation programs have been gradually reinstated so that 2017 business plan objectives will represent more fully funded compensation targets. While this program is completed, assuming continued modest growth in the U.S. and global economies, our profitability and productivity are expected to continue to increase for years to come as we further leverage the benefits of these initiatives and fully integrate our recent business acquisitions.

### **Reputation and Responsibility**

By competing collectively under the FedEx brand, our operating companies benefit from one of the world's most recognized brands. FedEx is one of the most trusted and respected companies in the world, and the FedEx brand name is a powerful sales and marketing tool. Among the many reputation awards we received during 2016, FedEx ranked 8th in *FORTUNE* magazine's World's Most Admired Companies list the 15th consecutive year we have been ranked in the top 20 on the list. Additionally, FedEx ranked in the top 50 on the Reputation Institute's 2016 Most Reputable Companies in the U.S. list, which measures the corporate reputations of the largest U.S. companies based on consumers' trust, esteem, admiration and good feeling towards a company. Lastly, in 2016 FedEx was again listed on *Corporate Responsibility Magazine*'s 100 Best Corporate Citizens list.

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

### ***Our People***

Along with a strong reputation among customers and the general public, FedEx is widely acknowledged as a great place to work. For example, FedEx was once again named to *Black Enterprise* magazine's 2015 list of 40 Best Companies for Diversity. It is our people—our greatest asset—that give us our strong reputation. In addition to superior physical and information networks, FedEx has an exemplary human network, with more than 400,000 team members who are absolutely, positively focused on safety, the highest ethical and professional standards, and the needs of their customers and communities. Through our internal Purple Promise and Humanitarian Award programs, we recognize and reward employees who enhance customer service and promote human welfare. For additional information on our people-first philosophy and workplace initiatives, see <http://csr.fedex.com>.

### ***Our Community***

FedEx is committed to actively supporting the communities we serve worldwide through the strategic investment of our people, resources and network. We provide financial contributions, in-kind charitable shipping services and volunteer efforts by our team members to help a variety of non-profit organizations achieve their goals and make a measurable impact on the world. We have the following five core giving pillars:

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

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

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

***Road Safety:*** Protecting pedestrians and making roads safer worldwide.

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

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

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

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

## ***The Environment***

In furtherance of our commitment to protecting the environment, we initiated an effort to increase FedEx Express vehicle fuel efficiency 30% from a 2005 baseline by 2020, and in 2016, we announced that we had surpassed that goal. We also continue with our goal to reduce aircraft emissions intensity by 30% by 2020 on an emissions per available-ton-mile basis, a goal that we increased from 20% in 2012. We have also established a goal of obtaining 30% of our jet fuel from alternative fuels by the year 2030. These efforts help us continue to reduce our environmental footprint as evidenced in 2015 when we saved more than 100 million gallons of jet fuel at FedEx Express and avoided more than one million metric tons of carbon emissions—all while our shipment volumes were up.

We will continue to expand on-site renewable energy generation in our facilities where feasible. To meet our future operational needs, as discussed above, we are adding more fuel-efficient aircraft to our fleet. The use of newer and more fuel-efficient aircraft is reducing our greenhouse gas emissions and airport noise and increasing our jet fuel efficiency. We have an impressive global alternative fuel fleet with approximately 1,900 alternative fuel vehicles, including hybrid, electric and hydrogen fueled vehicles, among others. We operate 15 solar facilities around the world, which collectively avoided more than 4,600 metric tons of CO<sub>2</sub>e emissions in 2015. In addition, ten FedEx Express facilities in the U.S. have received certification in Leadership in Energy and Environmental Design (LEED®), the U.S. Green Building Council's system for rating the environmental performance of buildings, and more are being reviewed for certification. FedEx Express has made LEED certification the standard for newly built U.S. facilities. In addition, the FedEx India headquarters and the FedEx Office headquarters each received LEED certification in 2015 and 2016, respectively.

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We also continue to evaluate the environmental impacts of our packaging and copy and print services, and minimize waste generation through efforts that include recycling and the use of copy paper with recycled content, among other environmentally-responsible available choices. In 2015, 96% of paper purchased for use by FedEx Office was third-party-certified as responsibly sourced. We also use FedEx-branded cardboard packaging at FedEx Express and FedEx Ground, which is made from approximately 60% recycled content. One example of our environmentally-responsible activities is the Sustainable Purchasing Leadership Council, a U.S. nonprofit organization that supports and recognizes sustainable procurement of which we are a founding member. We continue to support the Council, contributing to discussions on how to improve sustainable purchasing in the areas of transportation and fuels, fiber- and timber-based products and more. For additional information on the ways we are minimizing our impact on the environment, see <http://csr.fedex.com>.

## ***Governance***

FedEx has an independent Board of Directors committed to the highest quality corporate governance. The Board has taken significant steps to enhance its accountability to stockholders in recent years. For example, in March 2016, our Board of Directors adopted a proxy access bylaw that permits up to 20 stockholders owning 3% or more of FedEx's outstanding voting stock continuously for at least three years to nominate and include in FedEx's proxy materials directors constituting up to two individuals or 20% of the Board, whichever is greater, provided that the stockholder(s) and the nominee(s) satisfy the requirements specified in our Bylaws.

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

## **Business Segments**

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

### **FedEx Express Group**

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

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### **FedEx Express Segment**

#### *FedEx Express*

##### *Overview*

FedEx Express invented express distribution over 40 years ago in 1973 and remains the industry leader, providing rapid, reliable, time-definite delivery of packages and freight to more than 220 countries and territories through an integrated global network. FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of package and freight, connecting markets that generate more than 90% of the world's gross domestic product through door-to-door, customs-cleared service, with a money-back guarantee. FedEx Express's unmatched air route authorities and extensive transportation infrastructure, combined with leading-edge information technologies, make it the world's largest express transportation company. FedEx Express employs approximately 168,000 employees and has approximately 60,000 drop-off locations (including FedEx Office centers), 643 aircraft and approximately 57,000 vehicles and trailers in its integrated global network.

##### *Services*

FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of packages and freight. Overnight and deferred package services are backed by money-back guarantees and extend to nearly the entire U.S. population. FedEx Express offers three U.S. overnight package delivery services: FedEx First Overnight, FedEx Priority Overnight and FedEx Standard Overnight. FedEx SameDay service is available for urgent shipments up to 150 pounds to virtually any U.S. destination. FedEx Express also offers U.S. express overnight and deferred freight services backed by money-back guarantees to handle the needs of the time-definite freight market. Additionally, FedEx One Rate gives U.S. customers a simple, predictable flat rate shipping option that is calculated based on the packaging type, service selected and destination.

International express and deferred package delivery with a money-back guarantee is available to more than 220 countries and territories, with a variety of time-definite services to meet distinct customer needs. FedEx International Priority package services provide time-definite delivery within one, two or three business days worldwide. FedEx International Economy package services provide time-definite delivery within five business days worldwide. FedEx International First package services provide time-definite delivery to select postal codes in 20 key global markets, with delivery to select U.S. ZIP Codes as early as 8:00 a.m. from more than 90 countries in one or two business days, delivery by 10 a.m. in one business day to Canada and by 11:00 a.m. in one business day to Mexico. FedEx Express also offers domestic pickup-and-delivery services within certain non-U.S. countries, including the United Kingdom, Canada, China, India, Mexico, Brazil, France, Poland and South Africa. In addition, FedEx Express offers comprehensive international express and deferred freight services, backed by a money-back guarantee, real-time tracking and advanced customs clearance.

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

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

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### *International Expansion*

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

In 2014 we made a strategic move in Southern Africa by acquiring the businesses operated by our service provider in the following seven countries: South Africa, Botswana, Malawi, Mozambique, Namibia, Swaziland and Zambia. These acquisitions, along with our 2013 acquisitions of transportation companies in Poland, France and Brazil and our 2012 acquisition of a Mexican domestic express package delivery company, gives us more robust global transportation networks and added capabilities in important international markets.

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

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

### *U.S. Postal Service Agreement*

In 2013, FedEx Express entered into a new seven-year agreement with the USPS for the provision of domestic air transportation services to the USPS for its First Class, Priority and Express Mail that runs through September 2020. FedEx Express also provides transportation and delivery for the USPS's international delivery service called Global Express Guaranteed under a separate agreement. For more information about our relationship with the USPS, see Item 1A of this Annual Report on Form 10-K ( Risk Factors ).

### *Pricing*

FedEx Express periodically publishes list prices in its Service Guides for the majority of its services. In general, shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account. On January 4, 2016, FedEx Express implemented a 4.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services.

FedEx Express has an indexed fuel surcharge for U.S. domestic and U.S. outbound shipments and for shipments originating internationally, where legally and contractually possible. The surcharge percentage is subject to monthly adjustment based on a rounded average of a certain spot price for jet fuel. For example, the fuel surcharge for May 2016 was based on the average spot price for jet fuel published for March 2016. Changes to the FedEx Express fuel surcharge, when calculated according to the average spot price for jet fuel and FedEx Express trigger points, are applied effective from the first Monday of the month. These trigger points

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may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable. We routinely review our fuel surcharges and our fuel surcharge methodology. Effective November 2, 2015, we updated the tables used to determine our fuel surcharges at FedEx Express. The weighted average U.S. domestic and U.S. outbound fuel surcharge as a percentage of the base rates for the past three years was: 2016 2%; 2015 6%; and 2014 9%. See the Fuel section of Item 7 of this Annual Report on Form 10-K ( Management's Discussion and Analysis of Results of Operations and Financial Condition ) for a description and discussion of the net impact of fuel on our operating results.

### *Operations*

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

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

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

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

### *Fuel Supplies and Costs*

During 2016, FedEx Express purchased jet fuel from various suppliers under contracts that vary in length and which provide for estimated amounts of fuel to be delivered. The fuel represented by these contracts is purchased at market prices. Because of our indexed fuel surcharge, we do not have any jet fuel hedging contracts. See FedEx Express Pricing.

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

<b>Fiscal Year</b>	<b>Total Jet Fuel Cost (in millions)</b>	<b>Percentage of Consolidated Revenues</b>
2016	\$ 1,726	3.4%
2015	2,816	5.9
2014	3,506	7.7
2013	3,683	8.3
2012	3,867	9.1

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

### *Competition*

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

Competitors within the U.S. include other package delivery concerns, principally United Parcel Service, Inc. ( UPS ), passenger airlines offering express package services, regional delivery companies, air freight forwarders and the USPS. FedEx Express's principal international competitors are DHL, UPS, foreign postal authorities, freight forwarders, passenger airlines and all-cargo airlines. We also compete with startup companies that combine technology with crowdsourcing to focus on local market needs. Many of FedEx Express's international competitors are government-owned, -controlled or -subsidized carriers, which may have greater resources, lower costs, less profit sensitivity and more favorable operating conditions than FedEx Express.

### *Employees*

David J. Bronczek is the President and Chief Executive Officer of FedEx Express, which is headquartered in Memphis, Tennessee. As of May 31, 2016, FedEx Express employed approximately 115,000 permanent full-time and approximately 53,000 permanent part-time employees, of which 13% are employed in the Memphis area. FedEx Express's international employees represent 37% of all employees.

The pilots at FedEx Express, who represent a small number of our total employees, are represented by the Air Line Pilots Association, International ( ALPA ) and are employed under a collective bargaining agreement that took effect on November 2, 2015. The collective bargaining agreement is scheduled to become amendable in November 2021, after a six-year term. In addition to our pilots at FedEx Express, certain of FedEx Express's non-U.S. employees are unionized.

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

### *FedEx Trade Networks*

FedEx Trade Networks provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding. FedEx Trade Networks also provides international trade advisory services, including assistance with the Customs-Trade Partnership Against Terrorism program, and through its WorldTariff subsidiary, publishes customs duty and tax information for over 180 customs areas worldwide. Additionally, FedEx Trade Networks provides customs clearance services for FedEx Express at its major U.S. hub facilities.

As trade throughout the world grows, so does the FedEx Trade Networks solutions portfolio. Value-added services of FedEx Trade Networks include 120 freight forwarding offices in 26 countries and Global Trade Data, an information tool that allows customers to track and manage imports. FedEx Trade Networks has approximately 5,100 employees and 136 offices in 120 service locations throughout North America and in Africa, Asia-Pacific, Europe, India, Latin America and the Middle East. FedEx Trade Networks maintains a network of air and ocean freight-forwarding service providers and has entered into strategic alliances to provide services in certain countries in which it does not have owned offices.



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In 2016, we completed the integration of Bongo and rebranded it as FedEx CrossBorder. FedEx CrossBorder, a subsidiary of FedEx Trade Networks, is a leader in cross-border enablement technologies and solutions. FedEx CrossBorder's capabilities complement and expand the FedEx portfolio of offerings important to international e-commerce. FedEx CrossBorder's technology and processes provide a comprehensive and integrated end-to-end solution that helps retailers and e-tailers grow by reaching international e-commerce consumers. FedEx CrossBorder's capabilities include export compliance management, Harmonized System classification, currency conversions, international payment options inclusive of language translation, shopping cart management, duty and tax calculations and credit card fraud protection. FedEx CrossBorder is headquartered in St. Petersburg, Florida.

### ***FedEx SupplyChain***

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

### **TNT Express Segment**

#### *Overview*

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

#### *Services*

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

#### *Pricing*

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

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

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

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### *Operations*

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

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

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

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

### **FedEx Ground Segment**

#### ***FedEx Ground***

##### *Overview*

By leveraging the FedEx brand, maintaining a low cost structure and efficiently using information technology and advanced automation systems, FedEx Ground continues to enhance its competitive position as a leading provider of business and residential money-back guaranteed ground package delivery services. FedEx Ground serves customers in the North American small-package market, focusing on business and residential delivery of packages weighing up to 150 pounds. Ground service is provided to 100% of the continental U.S. population and overnight service of up to 400 miles to nearly 100% of the continental U.S. population. Service is also provided to nearly 100% of the Canadian population. In addition, FedEx Ground offers service to Alaska and Hawaii through a ground and air network operation coordinated with other transportation providers.

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

The company offers our FedEx Home Delivery service, which reaches 100% of U.S. residences. FedEx Home Delivery is dedicated to meeting the delivery needs of residential customers and provides routine Saturday and evening delivery and premium options such as day-specific, appointment and signature delivery. FedEx Home Delivery brings unmatched services to residential

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shippers and their customers and is the first residential ground package delivery service to have offered a money-back guarantee. On August 31, 2015, our FedEx SmartPost business was merged into FedEx Ground. The FedEx SmartPost service specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the USPS for final delivery to any residential address or PO Box in the U.S. and remains an important component of our FedEx Ground service offerings.

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

### *Pricing*

FedEx Ground periodically publishes list prices for the majority of its services in its Service Guide. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the customer charged the shipment to a FedEx account. As previously announced, on January 4, 2016, FedEx Ground and FedEx Home Delivery average list prices increased 4.9%. In addition, on November 2, 2015, FedEx Ground increased surcharges for shipments that exceed the published maximum weight or dimensional limits.

FedEx Ground has an indexed fuel surcharge, which is subject to a monthly adjustment. The surcharge percentage is based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel as published monthly by the U.S. Department of Energy. For example, the fuel surcharge for May 2016 was based on the average diesel fuel price published for March 2016. Changes to the FedEx Ground fuel surcharge, when calculated according to the rounded index average and FedEx Ground trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable. On November 2, 2015, we updated the tables used to determine the fuel surcharges at FedEx Ground. See the Fuel section of Item 7 of this Annual Report on Form 10-K ( Management's Discussion and Analysis of Results of Operations and Financial Condition ) for a description and discussion of the net impact of fuel on our operating results.

### *Operations*

FedEx Ground operates a multiple hub-and-spoke sorting and distribution system consisting of 575 facilities, including 33 hubs, in the U.S. and Canada. FedEx Ground conducts its operations primarily with approximately 52,000 owner-operated vehicles and approximately 51,000 company-owned trailers. To provide FedEx Home Delivery service and FedEx SmartPost Service, FedEx Ground leverages its pickup operation and hub and linehaul network. FedEx Home Delivery's operations are often co-located with existing FedEx Ground facilities to achieve further cost efficiencies.

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

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

As of May 31, 2016, FedEx Ground had approximately 81,000 employees. In addition, FedEx Ground relies on independent small businesses to conduct its linehaul and pickup-and-delivery operations, as the use of independent contractors is well suited to the needs of the ground delivery business and its customers. Henry J. Maier is the President and Chief Executive Officer of FedEx Ground. FedEx Ground is headquartered in Pittsburgh, Pennsylvania, and its primary competitors are UPS, the USPS and regional delivery carriers.

### *Independent Contractor Model*

FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax or other administrative challenges) where the classification of its independent contractors is at issue. During the third quarter of 2016, we reached agreements in principle to settle all of the 19 cases on appeal in the multidistrict litigation. These cases involve a contractor model which FedEx Ground has not operated since 2011. In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation. These cases are in varying stages of litigation. We will continue to vigorously defend ourselves in these proceedings and continue to believe that FedEx Ground's owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company's independent contractors. For a description of these proceedings, see Item 1A of this Annual Report on Form 10-K ( Risk Factors ) and Note 18 of the accompanying consolidated financial statements.

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

### **GENCO**

On January 30, 2015, we acquired GENCO, a leading North American third-party logistics provider. With a comprehensive portfolio of supply chain services, GENCO's expertise will expand existing FedEx service offerings in the evolving retail and e-commerce markets. GENCO's infrastructure and supply chain capabilities include reverse logistics, providing triage, test and repair, remarketing and product liquidation solutions. Additionally, GENCO's breadth of expertise in targeted vertical markets such as technology, healthcare and retail aligns with our strategic priorities in these areas. With more than 11,000 employees at approximately 119 facilities, GENCO offers a complete range of product lifecycle logistics® services to customers in the technology, consumer, industrial, retail, and healthcare markets. GENCO is headquartered in Pittsburgh, Pennsylvania. The financial results of this business are included in the FedEx Ground segment from the date of acquisition. GENCO has a small number of employees that are members of unions.

### **FedEx Freight Segment**

#### ***FedEx Freight***

FedEx Freight is a leading U.S. provider of LTL freight services, offering choice, simplicity and reliability to meet the needs of LTL shippers FedEx Freight Priority, when speed is critical to meet supply chain needs, and FedEx Freight Economy, when time can be

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traded for cost savings. Through one comprehensive network of service centers and advanced information systems, FedEx Freight provides service to virtually every U.S. ZIP Code (including Alaska and Hawaii) with industry-leading transit times. FedEx Freight Priority, which has the fastest published transit times of any nationwide LTL service, offers a no-fee money-back guarantee on eligible shipments. Internationally, FedEx Freight Canada offers FedEx Freight Priority service, serving most points in Canada, as well as FedEx Freight Priority and FedEx Freight Economy service between Canada and the U.S. In addition, FedEx Freight serves Mexico, Puerto Rico and the U.S. Virgin Islands via alliances.

Through its many service offerings, FedEx Freight can match customers' time-critical needs with industry leading transit times. With the expansion of FedEx electronic solutions, LTL shippers have the convenience of a single shipping and tracking solution for FedEx Freight, FedEx Express and FedEx Ground. These solutions make freight shipping easier and provide customers easy access to their account information. The FedEx Freight Advance Notice feature available on FedEx Freight Priority shipments uses the company's innovative technology systems to proactively notify FedEx Freight customers via the internet, e-mail or fax when a shipment may be delayed beyond its estimated delivery date, providing customers with greater visibility and control of their LTL freight shipments. Customers can also process cross-border LTL shipments to and from Canada and Mexico, as well as intra-Canada and -Mexico shipments, through FedEx Ship Manager at *fedex.com*, FedEx Ship Manager Software, FedEx Ship Manager Server and FedEx Web Services. Additionally, FedEx Freight A.M. Delivery offers freight delivery by 10:30 a.m. within and between the U.S. and Canada, backed by a money-back guarantee.

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

FedEx Freight has an indexed fuel surcharge that applies to certain LTL shipments, which is subject to weekly adjustment based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel. On February 2, 2015, we updated the tables used to determine FedEx Freight fuel surcharges. On January 4, 2016, FedEx Freight implemented zone-based pricing on U.S. and other LTL shipping rates. Also, on January 4, 2016, FedEx Freight implemented a 4.9% average increase in certain U.S. and other shipping rates.

As of May 31, 2016, the FedEx Freight segment was operating approximately 65,000 vehicles and trailers from a network of approximately 370 service centers and had approximately 40,000 employees. Michael L. Ducker is the President and Chief Executive Officer of FedEx Freight, which is based in Memphis, Tennessee. FedEx Freight's primary competitors are YRC Worldwide Inc. (which includes YRC Regional Transportation and YRC Freight), XPO Logistics, Inc., UPS Freight, Old Dominion Freight Line, Inc. and ABF Freight (a subsidiary of ArcBest Corporation).

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

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### ***FedEx Custom Critical***

FedEx Custom Critical provides a range of expedited, time-specific freight-shipping services throughout the U.S., Canada and Mexico. Among its services are Surface Expedite, for exclusive-use and network-based transport of critical shipments and expedited shipments; Air Expedite, which offers an array of air solutions to meet customers' critical delivery times; White Glove Services, for shipments that require extra care in handling, temperature control or specialized security; and ShipmentWatch, an offering through which FedEx Custom Critical manages SenseAware® devices to track customers' shipments by programming the device to the customer's requirements prior to the shipment, sending the device to the shipper and then proactively monitoring the shipment from pickup to delivery. Service from FedEx Custom Critical is available 24 hours a day, 365 days a year. In addition, its subsidiary FedEx Truckload Brokerage provides freight brokerage solutions within the U.S. and into and out of Canada and Mexico. FedEx Custom Critical continuously monitors shipments through an integrated proprietary shipment-control system, including two-way satellite communications on exclusive-use shipments.

### **FedEx Services Segment**

#### ***FedEx Services***

FedEx Services provides our other companies with sales, marketing, information technology, communications, customer service, technical support, billing and collection services, and certain other back-office support. We merged FedEx TechConnect into FedEx Services, effective May 31, 2016. Through FedEx Services, we provide a convenient single point of access for many customer support functions, enabling us to more effectively sell the entire portfolio of transportation services and to help ensure a consistent and outstanding experience for our customers.

T. Michael Glenn is the President and Chief Executive Officer of FedEx Services, which is based in Memphis, Tennessee. As of May 31, 2016, the FedEx Services segment had approximately 30,000 employees (including approximately 15,000 at FedEx Office).

#### ***Customer Driven Technology***

FedEx is a world leader in technology, and FedEx founder Frederick W. Smith's vision that the information about a package is as important as the delivery of the package itself remains at the core of our comprehensive technology strategy. In fact, FedEx ranked No. 1 in the first-ever InformationWeek Elite 100 Decade Award category, recognizing the 10 companies that have ranked the highest on average in the InformationWeek Elite 100, a compilation of the top business technology innovators in the U.S., over the past 10 years. FedEx ranked No. 5 overall on the 2016 InformationWeek Elite 100 list. Additionally, FedEx was named a recipient of the 2015 CIO 100 Award from International Data Group's CIO magazine. The annual award program recognizes organizations around the world that exemplify the highest level of operational and strategic excellence in information technology.

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

The *fedex.com* website was launched over 20 years ago, and during that time, customers have shipped and tracked billions of packages at *fedex.com*. The *fedex.com* website is widely recognized for its speed, ease of use and customer-focused features. At *fedex.com*, our customers ship packages, determine international documentation requirements, track package status, pay invoices and

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access FedEx Office services. The advanced tracking capability within FedEx Tracking provides customers with a consolidated view of inbound and outbound shipments.

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

FedEx Office has its own iPhone®, iPad® and Android apps that allow customers to print directly from their devices to any FedEx Office location in the U.S. or have the order delivered right to their door, while also allowing customers to get account-specific pricing, track print orders or packages, or find the nearest FedEx Office location. FedEx Office self-serve printers give customers even more flexibility by allowing direct USB access to print documents, as well as the ability to retrieve and print documents from customers' cloud accounts. FedEx also uses wireless data collection devices to scan bar codes on shipments, thereby enhancing and accelerating the package information available to our customers.

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

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

### *Marketing*

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

PGA TOUR and the Champions Tour golf organizations, as the Official Shipping Company, and FedExCup, a season-long points competition for PGA TOUR players

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

The National Football League (NFL), as its Official Delivery Service Sponsor and Official Office Services Provider of the NFL

FedExField in Washington, DC

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

The UEFA Europa League, a major European soccer cup competition that spans 192 teams across 54 European nations

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

FedExForum in Memphis, TN  
*Information Security*

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

*Global ISO 9001 Certification*

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

***FedEx Office***

FedEx Office's network of digitally-connected locations offers access to copying and digital printing through retail and web-based platforms, signs and graphics, professional finishing, computer rentals, and the full range of FedEx day-definite ground shipping and time-definite global express shipping services. FedEx Office's network of locations provides convenient access points to FedEx Express and FedEx Ground services for higher margin retail customers. Customers may also have their FedEx Express, FedEx Ground and FedEx Home Delivery packages delivered to any FedEx Office location nationwide by choosing the Hold at FedEx Location option when initiating a shipment or even when a shipment is on its way free of charge. Additionally, FedEx SameDay City has expanded to include 24 markets across the U.S., which allows customers to get their packages across town in the same day with local delivery by FedEx Office uniformed team members in branded FedEx Office delivery vehicles.

FedEx Office also offers packing services, and packing supplies and boxes are included in its retail offerings. By allowing customers to have items professionally packed by specially trained FedEx Office team members and then shipped using FedEx Ground day-definite shipping and time-definite global FedEx Express shipping services, FedEx Office offers a complete pack-and-ship solution. In November 2014, FedEx Office rolled out a new packing feature, Pack Plus, which expanded FedEx Office's packing and shipping capabilities. FedEx Pack Plus offerings include new custom box building capabilities and techniques, a more robust assortment of specialty boxes and additional packing supplies, equipment and tools to serve our customers' needs. In May 2016, eBay and FedEx Office announced the eBay Valet Drop-Off Program to make it easier for consumers to sell items online. The eBay Valet Drop-Off Program will allow customers to bring in items to a FedEx Office location, where, backed by the FedEx Office Packing Pledge, a FedEx Office team member will pack and ship the item(s) to an eBay Valet processing center to be listed, sold and shipped to the buyer. Once the item(s) sells, the customer will receive payment via PayPal, and customers will receive updates and notifications throughout the selling process.



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Almost all FedEx Office locations provide local pickup and delivery service for print jobs completed by FedEx Office. A FedEx courier picks up a customer's print job at the customer's location and then returns the finished product to the customer. Options and services vary by location. Additionally, through cloud printing with FedEx Office Print Online, customers can access files from some of the most popular cloud providers including Box, Dropbox, Google Drive and Microsoft OneDrive and then select from a variety of printing options. Customers can choose to pick up their completed order at FedEx Office locations nationwide or have the order delivered right to their door. Customers also have the ability to access these same cloud files through a USB drive or mobile device at self-serve copiers in FedEx Office locations, giving them seamless access to their files across our online and retail channels.

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

As of May 31, 2016, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, and also operated 33 centralized production centers. During 2016, FedEx Office relocated to its new corporate headquarters in Plano, Texas.

## **Trademarks**

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

## **Regulation**

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

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

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In September 2010, the FAA proposed rules that would significantly reduce the maximum number of hours on duty and increase the minimum amount of rest time for our pilots, and thus require us to hire additional pilots and modify certain of our aircraft. When the FAA issued final regulations in December 2011, all-cargo carriers, including FedEx Express, were exempt from these new pilot fatigue requirements, and instead required to continue complying with previously enacted flight and duty time rules. In December 2012, the FAA reaffirmed the exclusion of us from the new rule. It is reasonably possible, however, that future security or flight safety requirements could impose material costs on us.

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

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

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

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

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

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

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

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manner. Additionally, global air cargo carriers, such as FedEx Express, are subject to current and potential additional aviation security regulation by foreign governments.

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

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

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

Concern over climate change, including the impact of global warming, has led to significant U.S. and international legislative and regulatory efforts to limit greenhouse gas (GHG) emissions, including our aircraft and diesel engine emissions. For example, in 2015, the EPA issued a proposed finding on GHG emissions from aircraft and its relationships to air pollution. The final finding is a regulatory prerequisite to the EPA's adoption of a new certification standard for aircraft emissions. Additionally, in 2009, the European Commission approved the extension of the European Union Emissions Trading Scheme (ETS) for GHG emissions, to the airline industry. Under this decision, all FedEx Express flights that are wholly within the European Union are now covered by the ETS requirements, and each year we are required to submit emission allowances in an amount equal to the carbon dioxide emissions from such flights. For a description of such efforts and their potential effect on our cost structure and operating results, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

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

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

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*Labor.* All U.S. employees at FedEx Express are covered by the Railway Labor Act of 1926, as amended (the RLA ), while labor relations within the U.S. at our other companies are governed by the National Labor Relations Act of 1935, as amended (the NLRA ). Under the RLA, groups that wish to unionize must do so across nationwide classes of employees. The RLA also requires mandatory government-led mediation of contract disputes supervised by the National Mediation Board before a union can strike or an employer can replace employees or impose contract terms. This part of the RLA helps minimize the risk of strikes that would shut down large portions of the economy. Under the NLRA, employees can unionize in small localized groups, and government-led mediation is not a required step in the negotiation process.

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

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

**ITEM 1A. RISK FACTORS**

We present information about our risk factors on pages 81 through 87 of this Annual Report on Form 10-K.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

**FedEx Express Group**

*FedEx Express Segment*

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

**Table of Contents***Aircraft and Vehicles*

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

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

<sup>(1)</sup> Maximum gross structural payload includes revenue payload and container weight.

<sup>(2)</sup> Includes seven aircraft not currently in operation and awaiting completion of modification.

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

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

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

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

The B767Fs are two-engine, long-range, wide-bodied cargo aircraft.

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

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

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The ATR and Cessna 208 turbo-prop aircraft are leased to independent operators to support FedEx Express operations in areas where demand does not justify use of a larger aircraft. These operators use the aircraft to move FedEx packages to and from airports served by FedEx Express's larger jet aircraft. The lease agreements generally call for the lessee to provide the flight crews, maintenance, fuel and other supplies required to operate the aircraft, and FedEx Express reimburses the lessee for these items. The lease agreements are for terms not exceeding one year and are generally cancelable upon 30 days' notice.

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

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

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**Table of Contents***Aircraft Purchase Commitments*

The following table is a summary of the number and type of aircraft we were committed to purchase as of May 31, 2016, with the year of expected delivery:

	B767F <sup>(1)</sup>	B777F <sup>(2)</sup>	Total
2017	12		12
2018	16	2	18
2019	13	2	15
2020	12	3	15
2021	10	3	13
Thereafter	16	6	22
<b>Total</b>	<b>79</b>	<b>16</b>	<b>95</b>

<sup>(1)</sup> As of May 31, 2016, our obligation to purchase four of these aircraft was conditioned upon there being no event that causes FedEx Express or its employees to not be covered by the RLA.

<sup>(2)</sup> As of May 31, 2016, our obligation to purchase seven of these aircraft was conditioned upon there being no event that causes FedEx Express or its employees to not be covered by the RLA.

As of May 31, 2016, deposits and progress payments of \$413 million had been made toward aircraft purchases and other planned aircraft-related transactions. Also see Note 17 of the accompanying consolidated financial statements for more information about our purchase commitments.

*Sorting and Handling Facilities*

At May 31, 2016, FedEx Express operated the following major sorting and handling facilities:

<b>Location</b>	<b>Acres</b>	<b>Square Feet</b>	<b>Sorting Capacity (per hour) <sup>(1)</sup></b>	<b>Lessor</b>	<b>Lease Expiration Year</b>
<b>National</b>					
Memphis, Tennessee	784	3,768,345	475,000	Memphis-Shelby County Airport Authority	2036
Indianapolis, Indiana	316	2,509,000	214,000	Indianapolis Airport Authority	2028
<b>Regional</b>					
Fort Worth, Texas	168	948,000	76,000	Fort Worth Alliance Airport Authority	2021
Newark, New Jersey	70	595,000	156,000	Port Authority of New York and New Jersey	2030
Oakland, California	75	448,935	63,000	City of Oakland	2036
Greensboro, N. Carolina	165	593,000	29,000	Piedmont Triad Airport Authority	2031
<b>Metropolitan</b>					

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Chicago, Illinois	66	597,000	23,000	City of Chicago	2018/2028 <sup>(5)</sup>
Los Angeles, California	34	305,300	57,000	City of Los Angeles	2021/2025 <sup>(6)</sup>
<b><u>International</u></b>					
Anchorage, Alaska <sup>(2)</sup>	64	332,000	25,000	State of Alaska, Department of Transportation and Public Facilities	2023
Paris, France <sup>(3)</sup>	111	1,238,000	63,000	Aéroports de Paris	2029
Cologne, Germany <sup>(3)</sup>	11	325,000	20,000	Cologne Bonn Airport	2040
Guangzhou, China <sup>(4)</sup>	155	873,006	64,000	Guangdong Airport Management Corp.	2029
Osaka, Japan <sup>(4)</sup>	17	425,206	9,000	Kansai Airports	2024

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- (1) Documents and packages.
- (2) Handles international express package and freight shipments to and from Asia, Europe and North America.
- (3) Handles intra-Europe express package and freight shipments, as well as international express package and freight shipments to and from Europe.
- (4) Handles intra-Asia express package and freight shipments, as well as international express package and freight shipments to and from Asia.
- (5) Property is held under two separate leases lease for original hub expires in 2018, and lease for new facility expires in 2028.
- (6) Property is held under two separate leases lease for sorting and handling facility expires in 2021, and lease for ramp expansion expires in 2025.

FedEx Express's primary sorting facility, which serves as the center of its multiple hub-and-spoke system, is located at the Memphis International Airport. FedEx Express's facilities at the Memphis International Airport also include aircraft hangars, aircraft ramp areas, vehicle parking areas, flight training and fuel facilities, administrative offices and warehouse space. In May 2016, FedEx Express opened the FedEx Cold Chain Center at its Memphis hub. Designed to protect the integrity of temperature-sensitive healthcare and perishable shipments, the facility added approximately 83,000 square feet to FedEx Express's facilities at Memphis International Airport and forms an integral part of the FedEx global cold chain network.

FedEx Express leases these facilities from the Memphis-Shelby County Airport Authority (the Authority). The lease obligates FedEx Express to maintain and insure the leased property and to pay all related taxes, assessments and other charges. The lease is subordinate to, and FedEx Express's rights thereunder could be affected by, any future lease or agreement between the Authority and the U.S. government.

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

*Administrative and Other Properties and Facilities*

The World Headquarters of FedEx Express is located in southeastern Shelby County, Tennessee. FedEx Express owns or leases 636 facilities for city station operations in the United States. In addition, 588 city stations are owned or leased throughout FedEx Express's international network. The majority of these leases are for terms of five to ten years. City stations serve as a sorting and distribution center for a particular city or region. We believe that suitable alternative facilities are available in each locale on satisfactory terms, if necessary.

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

### ***TNT Express Segment***

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

### **FedEx Ground Segment**

FedEx Ground's corporate offices are located in the Pittsburgh, Pennsylvania area. As of May 31, 2016, FedEx Ground had approximately 51,000 company-owned trailers and owned or leased 575 facilities, including 33 hubs. In addition, approximately 52,000 owner-operated vehicles support FedEx Ground's business. Of the 373 facilities that support FedEx Home Delivery, 303 are co-located with existing FedEx Ground facilities. Leased facilities generally have terms of five years or less. The 33 hub facilities are strategically located to cover the geographic area served by FedEx Ground. The hub facilities average approximately 388,000 square feet and range in size from approximately 107,000 to 825,500 square feet.

### **FedEx Freight Segment**

FedEx Freight's corporate headquarters are located in Memphis, Tennessee, with some administrative offices for the FedEx Freight business in Harrison, Arkansas. As of May 31, 2016, the FedEx Freight segment operated approximately 65,000 vehicles and trailers and approximately 370 service centers, which are strategically located to provide service throughout North America. These facilities range in size from approximately 860 to 220,000 square feet of office and dock space. FedEx Custom Critical's headquarters are located in Green, Ohio.

### **FedEx Services Segment**

FedEx Services' corporate headquarters are located in Memphis, Tennessee. FedEx Services leases state-of-the-art technology centers in Collierville, Tennessee and Colorado Springs, Colorado. These facilities house personnel responsible for strategic software development and other functions that support FedEx's technology and e-commerce solutions.

FedEx Office's corporate headquarters are located in Plano, Texas in leased facilities. As of May 31, 2016, FedEx Office operated approximately 1,800 customer facing centers, including 25 locations in Canada, and also operated 33 centralized production centers. Substantially all FedEx Office centers are leased, generally for terms of five to ten years with varying renewal options. FedEx Office centers are generally located in strip malls, office buildings or stand-alone structures and customer facing centers average 3,900 square feet in size.

FedEx Services has an agreement with OfficeMax North America, Inc. to offer FedEx Express and FedEx Ground shipping services at OfficeMax retail locations (approximately 640 locations). Additionally, the FedEx Authorized Ship Center program offers U.S. domestic and international FedEx Express and FedEx Ground shipping and drop-off services through a network of approximately 5,500 franchised and independent pack and ship retail locations.

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**ITEM 3. LEGAL PROCEEDINGS**

FedEx and its subsidiaries are subject to legal proceedings and claims that arise in the ordinary course of their business. For a description of material pending legal proceedings, see Note 18 of the accompanying consolidated financial statements.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**EXECUTIVE OFFICERS OF THE REGISTRANT**

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

<b>Name and Office</b>	<b>Age</b>	<b>Positions and Offices Held and Business Experience</b>
<b>Frederick W. Smith</b>  Chairman, President and Chief Executive Officer	71	Chairman, President and Chief Executive Officer of FedEx since January 1998; Chairman of FedEx Express since 1975; Chairman, President and Chief Executive Officer of FedEx Express from April 1983 to January 1998; Chief Executive Officer of FedEx Express from 1977 to January 1998; and President of FedEx Express from June 1971 to February 1975.
<b>David J. Bronczek</b>  President and Chief Executive Officer, FedEx Express	62	President and Chief Executive Officer of FedEx Express since January 2000; Executive Vice President and Chief Operating Officer of FedEx Express from January 1998 to January 2000; Senior Vice President Europe, Middle East and Africa of FedEx Express from June 1995 to January 1998; Senior Vice President Europe, Africa and Mediterranean of FedEx Express from June 1993 to June 1995; Vice President Canadian Operations of FedEx Express from February 1987 to March 1993; and several sales and operations managerial positions at FedEx Express from 1976 to 1987. Mr. Bronczek serves as a director of International Paper Company, an uncoated paper and packaging company.

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<b>Name and Office</b>	<b>Age</b>	<b>Positions and Offices Held and Business Experience</b>
<b>Robert B. Carter</b> Executive Vice President FedEx Information Services and Chief Information Officer	57	Executive Vice President FedEx Information Services and Chief Information Officer of FedEx since January 2007; Executive Vice President and Chief Information Officer of FedEx from June 2000 to January 2007; Corporate Vice President and Chief Technology Officer of FedEx from February 1998 to June 2000; Vice President Corporate Systems Development of FedEx Express from September 1993 to February 1998; Managing Director Systems Development of FedEx Express from April 1993 to September 1993. Mr. Carter serves as a director of New York Life Insurance Company, a mutual life insurance company.
<b>Michael L. Ducker</b> President and Chief Executive Officer, FedEx Freight Corporation	62	President and Chief Executive Officer of FedEx Freight Corporation since January 2015; Executive Vice President and Chief Operating Officer and President of International for FedEx Express from December 2009 to January 2015; Executive Vice President and President of International of FedEx Express from December 1999 to December 2009; Senior Vice President of Asia/Pacific of FedEx Express from September 1995 to December 1999; and various management positions in operations at FedEx Express from 1978 to 1995. Mr. Ducker serves as a director of International Flavors & Fragrances Inc., a global creator of flavors and fragrances used in consumer products.
<b>T. Michael Glenn</b> Executive Vice President Market Development and Corporate Communications	60	Executive Vice President Market Development and Corporate Communications of FedEx since January 1998; Senior Vice President Marketing, Customer Service and Corporate Communications of FedEx Express from June 1994 to January 1998; Senior Vice President Marketing and Corporate Communications of FedEx Express from December 1993 to June 1994; Senior Vice President Worldwide Marketing Catalog Services and Corporate Communications of FedEx Express from June 1993 to December 1993; Senior Vice President Catalog and Remail Services of FedEx Express from September 1992 to June 1993; Vice President Marketing of FedEx Express from August 1985 to September 1992; and various management positions in sales and marketing and senior sales specialist of FedEx Express from 1981 to 1985. Mr. Glenn serves as a director of Pentair plc, a diversified industrial manufacturing company operating in water and technical products business segments, and as a director of Level 3 Communications, Inc., a global communications services company.

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<b>Name and Office</b>	<b>Age</b>	<b>Positions and Offices Held and Business Experience</b>
<b>Alan B. Graf, Jr.</b>  Executive Vice President and Chief Financial Officer	62	Executive Vice President and Chief Financial Officer of FedEx since January 1998; Executive Vice President and Chief Financial Officer of FedEx Express from February 1996 to January 1998; Senior Vice President and Chief Financial Officer of FedEx Express from December 1991 to February 1996; Vice President and Treasurer of FedEx Express from August 1987 to December 1991; and various management positions in finance and a senior financial analyst of FedEx Express from 1980 to 1987. Mr. Graf serves as a director of Mid-America Apartment Communities, Inc., a real estate investment trust that focuses on acquiring, constructing, developing, owning and operating apartment communities, and as a director of NIKE, Inc., a designer and marketer of athletic footwear, apparel, equipment and accessories for sports and fitness activities.
<b>Henry J. Maier</b>  President and Chief Executive Officer, FedEx Ground	62	President and Chief Executive Officer of FedEx Ground since June 2013; Executive Vice President Strategic Planning and Communications of FedEx Ground from September 2009 to June 2013; Senior Vice President Strategic Planning and Communications of FedEx Ground from December 2006 to September 2009; Vice President Marketing of FedEx Services from March 2000 to December 2006; Vice President Marketing and Communications of FedEx Ground from June 1999 to March 2000; and various management positions in logistics, sales, marketing and communications with RPS, Inc. and Caliber Logistics, Inc. from 1986 to 1999.
<b>Christine P. Richards</b>  Executive Vice President, General Counsel and Secretary	61	Executive Vice President, General Counsel and Secretary of FedEx since June 2005; Corporate Vice President Customer and Business Transactions of FedEx from March 2001 to June 2005; Senior Vice President and General Counsel of FedEx Services from March 2000 to June 2005; Staff Vice President Customer and Business Transactions of FedEx from November 1999 to March 2001; Vice President Customer and Business Transactions of FedEx Express from 1998 to November 1999; and various legal positions with FedEx Express from 1984 to 1998.

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

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

FedEx's common stock is listed on the New York Stock Exchange under the symbol FDX. As of July 14, 2016, there were 12,453 holders of record of our common stock. The following table sets forth, for the periods indicated, the high and low sale prices, as reported on the NYSE, and the cash dividends paid per share of common stock.

	Sale Prices		Dividend
	High	Low	
Fiscal Year Ended May 31, 2016			
Fourth Quarter	\$ 169.30	\$ 137.30	\$ 0.25
Third Quarter	160.67	119.71	0.25
Second Quarter	164.94	140.01	0.25
First Quarter	185.19	130.13	0.25
Fiscal Year Ended May 31, 2015			
Fourth Quarter	\$ 178.79	\$ 163.60	\$ 0.20
Third Quarter	183.51	163.57	0.20
Second Quarter	179.79	148.37	0.20
First Quarter	155.31	138.30	0.20

FedEx also paid a cash dividend on July 1, 2016 (\$0.40 per share). We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by our Board of Directors. We evaluate the dividend payment amount on an annual basis at the end of each fiscal year. There are no material restrictions on our ability to declare dividends, nor are there any material restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

The following table provides information on FedEx's repurchases of our common stock during the fourth quarter of 2016.

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Purchased Under the Programs
Mar. 1-31, 2016	1,570,000	\$ 146.02	1,570,000	21,180,000
Apr. 1-30, 2016	1,043,000	164.68	1,043,000	20,137,000
May 1-31, 2016	1,162,000	162.36	1,162,000	18,975,000
Total	3,775,000	\$ 156.21	3,775,000	

The repurchases were made under the stock repurchase program approved by our Board of Directors and announced on January 26, 2016 and through which we are authorized to purchase, in the open market or in the privately negotiated transactions, up to an aggregate of 25 million shares of our common stock. As of July 14, 2016, 17.6 million shares remained authorized for purchase under the January 2016 stock repurchase program, which is the only such program that currently exists. The program does not have an expiration date.

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### **ITEM 6. SELECTED FINANCIAL DATA**

Selected financial data as of and for the five years ended May 31, 2016 is presented on page 148 of this Annual Report on Form 10-K.

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

Management's discussion and analysis of results of operations and financial condition is presented on pages 41 through 88 of this Annual Report on Form 10-K.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative and qualitative information about market risk is presented on page 147 of this Annual Report on Form 10-K.

### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

FedEx's consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 18, 2016 thereon, are presented on pages 91 through 146 of this Annual Report on Form 10-K.

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

None.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Management's Evaluation of Disclosure Controls and Procedures**

The management of FedEx, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to FedEx management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of May 31, 2016 (the end of the period covered by this Annual Report on Form 10-K).

#### **Assessment of Internal Control Over Financial Reporting**

Management's report on our internal control over financial reporting is presented on page 89 of this Annual Report on Form 10-K. The report of Ernst & Young LLP with respect to our internal control over financial reporting is presented on page 90 of this Annual Report on Form 10-K.

#### **Changes in Internal Control Over Financial Reporting**

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

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

### **ITEM 9B. OTHER INFORMATION**

None.





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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information regarding members of the Board of Directors, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, FedEx's Code of Business Conduct and Ethics and certain other aspects of FedEx's corporate governance (such as the procedures by which FedEx's stockholders may recommend nominees to the Board of Directors and information about the Audit Committee, including its members and our audit committee financial expert) will be presented in FedEx's definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference. Information regarding executive officers of FedEx is included above in Part I of this Annual Report on Form 10-K under the caption "Executive Officers of the Registrant" pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K. Information regarding FedEx's Code of Business Conduct and Ethics is included above in Part I, Item 1 of this Annual Report on Form 10-K under the caption "Reputation and Responsibility Governance".

**ITEM 11. EXECUTIVE COMPENSATION**

Information regarding director and executive compensation will be presented in FedEx's definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

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

Information regarding security ownership of certain beneficial owners and management and related stockholder matters, as well as equity compensation plan information, will be presented in FedEx's definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

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

Information regarding certain relationships and transactions with related persons (including FedEx's policies and procedures for the review and preapproval of related person transactions) and director independence will be presented in FedEx's definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information regarding the fees for services provided by Ernst & Young LLP during 2016 and 2015 and the Audit Committee's administration of the engagement of Ernst & Young LLP, including the Committee's preapproval policies and procedures (such as FedEx's Policy on Engagement of Independent Auditor), will be presented in FedEx's definitive proxy statement for its 2016 annual meeting of stockholders, which will be held on September 26, 2016, and is incorporated herein by reference.

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**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

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

FedEx's consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 18, 2016 thereon, are listed on pages 39 through 40 and presented on pages 91 through 146 of this Annual Report on Form 10-K. FedEx's Schedule II Valuation and Qualifying Accounts, together with the report of Ernst & Young LLP dated July 18, 2016 thereon, is presented on pages 150 through 151 of this Annual Report on Form 10-K. All other financial statement schedules have been omitted because they are not applicable or the required information is included in FedEx's consolidated financial statements or the notes thereto.

**(a)(3) Exhibits**

See the Exhibit Index on pages E-1 through E-15 for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

**ITEM 16. FORM 10-K SUMMARY**

None.

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**SIGNATURES**

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

FEDEX CORPORATION

Dated: July 18, 2016

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

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

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

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

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

**OVERVIEW OF FINANCIAL SECTION**

The financial section of the FedEx Corporation ( FedEx ) Annual Report on Form 10-K ( Annual Report ) consists of the following Management's Discussion and Analysis of Results of Operations and Financial Condition ( MD&A ), the Consolidated Financial Statements and the notes to the Consolidated Financial Statements, and Other Financial Information, all of which include information about our significant accounting policies and practices and the transactions that underlie our financial results. The following MD&A describes the principal factors affecting the results of operations, liquidity, capital resources, contractual cash obligations and critical accounting estimates of FedEx. The discussion in the financial section should be read in conjunction with the other sections of this Annual Report, particularly Item 1: Business and our detailed discussion of risk factors included in this MD&A.

**ORGANIZATION OF INFORMATION**

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

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

The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2017) for each of our transportation segments.

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

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

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

**DESCRIPTION OF BUSINESS**

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation ( FedEx Express ), the world's largest express transportation company; TNT Express B.V., formerly TNT Express N.V. ( TNT Express ), an international express, small-package ground delivery and freight transportation company that was acquired near the end of our 2016 fourth quarter; FedEx Ground Package System, Inc. ( FedEx Ground ), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ( FedEx Freight ), a leading U.S. provider of less-than-truckload ( LTL ) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ( FedEx Services ), form the core of our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services, and certain back-office functions that support our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. ( FedEx Office ). See Reportable Segments for further discussion and refer to Item 1: Business for a more detailed description of each of our operating companies.





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The key indicators necessary to understand our operating results include:

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

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

the mix of services purchased by our customers;

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

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

the timing and amount of fluctuations in fuel prices and our ability to recover incremental fuel costs through our fuel surcharges. Many of our operating expenses are directly impacted by revenue and volume levels. Accordingly, we expect these operating expenses to fluctuate on a year-over-year basis consistent with changes in revenues and volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than changes in revenues and volumes. The line item Other operating expenses predominantly includes costs associated with outside service contracts (such as security, facility services and cargo handling), insurance, legal reserves, professional fees and uniforms.

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

**Table of Contents****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.

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

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

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

(1) FedEx Express segment 2015 expenses include impairment and related charges of \$276 million resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines.

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

(3) Operating income in 2016 includes provisions related to independent contractor litigation matters at FedEx Ground for \$256 million and expenses related to the settlement of a U.S. Customs and Border Protection notice of action in the amount of \$69 million, in each case net of recognized immaterial insurance recovery. 2015 operating income includes a \$197 million charge in the fourth quarter to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement, which is further discussed in Note 18 of the accompanying consolidated financial statements.

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

**Overview**

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

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

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

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

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

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

In 2015, we repurchased an aggregate of \$1.3 billion of our common stock through open market purchases.

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

<sup>(1)</sup> International domestic average daily package volume represents our international intra-country operations.

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

***Revenue***

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

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

**Table of Contents****Retirement Plans MTM Adjustments**

We incurred noncash pre-tax mark-to-market losses of \$1.5 billion in 2016 (\$946 million, net of tax, or \$3.39 per diluted share), \$2.2 billion in 2015 (\$1.4 billion, net of tax, or \$4.81 per diluted share) and \$15 million in 2014 (\$9 million, net of tax, or \$0.03 per diluted share) from actuarial adjustments to pension and postretirement healthcare plans related to the measurement of plan assets and liabilities. For more information see further discussion in the *Critical Accounting Estimates* section of this MD&A and Note 1 and Note 13 of the accompanying consolidated financial statements.

**Operating Expenses**

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

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

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



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- (1) Includes charges resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines at FedEx Express.
- (2) Includes provisions for the settlement of and expected losses related to independent contractor litigation matters involving FedEx Ground for \$256 million, and \$69 million in expenses related to the settlement of a CBP notice of action, in each case net of recognized immaterial insurance recovery.
- (3) Includes a \$197 million charge in the fourth quarter to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement.

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

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

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

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

Operating expenses included an increase in salaries and employee benefits expense of 6% in 2015 due to the timing of merit increases for many of our employees at FedEx Express, additional staffing to support volume growth and higher incentive compensation accruals. These factors were partially offset by the positive impact of our voluntary buyout program completed in 2014. Other expenses were driven 8% higher in 2015 due to the legal reserve increase discussed above and the inclusion of GENCO results. Purchased transportation costs increased 6% in 2015 due to volume growth and higher service provider rates at FedEx Ground and volume growth, higher utilization and higher service provider rates at FedEx Freight. The timing of aircraft maintenance events at FedEx Express primarily drove an increase in maintenance and repairs expense of 13% in 2015.

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### ***Fuel***

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

Fuel expense decreased 36% during 2016 primarily due to lower aircraft fuel prices. However, fuel prices represent only one component of the two factors we consider meaningful in understanding the impact of fuel on our business. Consideration must also be given to the fuel surcharge revenue we collect. Accordingly, we believe discussion of the net impact of fuel on our results, which is a comparison of the year-over-year change in these two factors, is important to understand the impact of fuel on our business. In order to provide information about the impact of fuel surcharges on the trend in revenue and yield growth, we have included the comparative weighted-average fuel surcharge percentages in effect for 2016, 2015 and 2014 in the accompanying discussions of each of our transportation segments.

The index used to determine the fuel surcharge percentage for our FedEx Freight business adjusts weekly, while our fuel surcharges for the FedEx Express and FedEx Ground businesses incorporate a timing lag of approximately six to eight weeks before they are adjusted for changes in fuel prices. For example, the fuel surcharge index in effect at FedEx Express in May 2016 was set based on March 2016 fuel prices. In addition, the structure of the table that is used to determine our fuel surcharge at FedEx Express and FedEx Ground does not adjust immediately for changes in fuel price, but allows for the fuel surcharge revenue charged to our customers to remain unchanged as long as fuel prices remain within certain ranges.

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

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

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

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The net impact of fuel had a modest benefit to operating income in 2016. This was driven by decreased fuel prices during 2016 versus the prior year, which was partially offset by the year-over-year decrease in fuel surcharge revenue during these periods.

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

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

### ***Interest Expense***

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

### ***Income Taxes***

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

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

### ***Business Acquisitions***

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

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

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

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

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

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

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

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

### ***Profit Improvement Programs***

During 2013, we announced profit improvement programs primarily through initiatives at FedEx Express and FedEx Services targeting annual profitability improvement of \$1.6 billion at FedEx Express.

During 2014, we completed a program to offer voluntary cash buyouts to eligible U.S.-based employees in certain staff functions. As a result of this program, approximately 3,600 employees left the company. Payments under this program, which were related primarily to employee severance, were made at the time of departure and totaled approximately \$300 million in 2014.

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

We exited 2016 having achieved our profit improvement goals with a run rate of \$1.6 billion of additional operating profit from the then 2013 base business. FedEx Express has improved operating income by approximately 170% from 2013, despite lower fuel surcharges and unfavorable exchange rates driving flat to declining revenue during the four-year period. FedEx Services has reduced

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its total expenses while investing in major information technology transformation projects. In addition, our incentive compensation programs have been gradually reinstated so that 2017 business plan objectives will represent more fully funded compensation targets. While this program is completed, assuming continued modest growth in the U.S. and global economies, profitability and productivity are expected to continue to increase for years to come as we further leverage the benefits of these initiatives and fully integrate our recent business acquisitions.

### ***Outlook***

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

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

Our capital expenditures for 2017 are expected to approximate \$5.6 billion, largely for continued expansion of the FedEx Ground network and additional aircraft deliveries in 2017 to support our fleet modernization program at FedEx Express. This capital expenditure forecast includes TNT Express. We will continue to evaluate our investments in critical long-term strategic projects to ensure our capital expenditures generate high returns on investments and are balanced with our outlook for global economic conditions. For additional details on key 2017 capital projects, refer to the [Capital Resources](#) and [Liquidity Outlook](#) sections of this MD&A.

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

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

See [Risk Factors](#) for a discussion of these and other potential risks and uncertainties that could materially affect our future performance.

### ***Seasonality of Business***

Our businesses are cyclical in nature, as seasonal fluctuations affect volumes, revenues and earnings. Historically, the U.S. express package business experiences an increase in volumes in late November and December. International business, particularly in the Asia-to-U.S. market, peaks in October and November in advance of the U.S. holiday sales season. Our first and third fiscal quarters,

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because they are summer vacation and post winter-holiday seasons, have historically experienced lower volumes relative to other periods. Normally, the fall is the busiest shipping period for FedEx Ground, while late December, June and July are the slowest periods. For FedEx Freight, the spring and fall are the busiest periods and the latter part of December through February is the slowest period. For FedEx Office, the summer months are normally the slowest periods. Shipment levels, operating costs and earnings for each of our companies can also be adversely affected by inclement weather, particularly the impact of severe winter weather in our third fiscal quarter.

***RECENT ACCOUNTING GUIDANCE***

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

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

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

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

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

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

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

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

***REPORTABLE SEGMENTS***

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

**FedEx Express Group:**

<b>FedEx Express Segment</b>	FedEx Express (express transportation) FedEx Trade Networks (air and ocean freight forwarding, customs brokerage and cross-border enablement technology and solutions) FedEx SupplyChain Systems (logistics services)
<b>TNT Express Segment</b>	TNT Express (international express transportation, small-package ground delivery and freight transportation)
<b>FedEx Ground Segment</b>	FedEx Ground (small-package ground delivery) GENCO (third-party logistics)
<b>FedEx Freight Segment</b>	FedEx Freight (LTL freight transportation) FedEx Custom Critical (time-critical transportation)
<b>FedEx Services Segment</b>	FedEx Services (sales, marketing, information technology, communications, customer service, technical support, billing and collection services and back-office functions) FedEx Office (document and business services and package acceptance)

***FEDEX SERVICES SEGMENT***

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

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

***ELIMINATIONS, CORPORATE AND OTHER***

Certain FedEx operating companies provide transportation and related services for other FedEx companies outside their reportable segment. Billings for such services are based on negotiated rates, which we believe approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues



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and expenses are eliminated in our consolidated results and are not separately identified in the following segment information, because the amounts are not material.

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

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

***FEDEX EXPRESS GROUP***

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

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

**Table of Contents****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:

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



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	Percent of Revenue		
	2016	2015	2014
Operating expenses:			
Salaries and employee benefits	38.7%	37.1%	36.1%
Purchased transportation	8.7	9.3	9.3
Rentals and landing fees	6.4	6.2	6.3
Depreciation and amortization	5.2	5.4	5.5
Fuel	7.7	11.7	14.5
Maintenance and repairs	4.9	5.0	4.4
Impairment and other charges <sup>(3)</sup>		1.0	
Intercompany charges	7.0	6.8	6.9
Other	11.9	11.7	11.7