

FEDEX CORP  
Form 10-Q  
March 20, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

**(Mark One)**

**☐ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED February 28, 2014**

**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*

*incorporation or organization)*

**942 South Shady Grove Road Memphis, Tennessee**

*(Address of principal executive offices)*

**(901) 818-7500**

**62-1721435**

*(I.R.S. Employer*

*Identification No.)*

**38120**

*(ZIP Code)*

*(Registrant's telephone number, including area code)*

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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 Web site, 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 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 ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock  
Common Stock, par value \$0.10 per share

Outstanding Shares at March 19, 2014  
295,516,371

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**FEDEX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(IN MILLIONS)**

|                                                                    | February 28,<br>2014<br>(Unaudited) | May 31,<br>2013 |
|--------------------------------------------------------------------|-------------------------------------|-----------------|
| <b><u>ASSETS</u></b>                                               |                                     |                 |
| <b>CURRENT ASSETS</b>                                              |                                     |                 |
| Cash and cash equivalents                                          | \$ 3,042                            | \$ 4,917        |
| Receivables, less allowances of \$155 and \$176                    | 5,197                               | 5,044           |
| Spare parts, supplies and fuel, less allowances of \$207 and \$205 | 462                                 | 457             |
| Deferred income taxes                                              | 624                                 | 533             |
| Prepaid expenses and other                                         | 456                                 | 323             |
| Total current assets                                               | 9,781                               | 11,274          |
| <b>PROPERTY AND EQUIPMENT, AT COST</b>                             | 40,019                              | 38,109          |
| Less accumulated depreciation and amortization                     | 20,734                              | 19,625          |
| Net property and equipment                                         | 19,285                              | 18,484          |
| <b>OTHER LONG-TERM ASSETS</b>                                      |                                     |                 |
| Goodwill                                                           | 2,739                               | 2,755           |
| Other assets                                                       | 924                                 | 1,054           |
| Total other long-term assets                                       | 3,663                               | 3,809           |
|                                                                    | \$ 32,729                           | \$ 33,567       |

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

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**FEDEX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(IN MILLIONS, EXCEPT SHARE DATA)**

|                                                                                                                                   | February 28,<br>2014<br>(Unaudited) | May 31,<br>2013  |
|-----------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|------------------|
| <b><u>LIABILITIES AND STOCKHOLDERS' INVESTMENT</u></b>                                                                            |                                     |                  |
| <b>CURRENT LIABILITIES</b>                                                                                                        |                                     |                  |
| Current portion of long-term debt                                                                                                 | \$ 1                                | \$ 251           |
| Accrued salaries and employee benefits                                                                                            | 1,284                               | 1,688            |
| Accounts payable                                                                                                                  | 1,903                               | 1,879            |
| Accrued expenses                                                                                                                  | 1,831                               | 1,932            |
| <b>Total current liabilities</b>                                                                                                  | <b>5,019</b>                        | <b>5,750</b>     |
| <b>LONG-TERM DEBT, LESS CURRENT PORTION</b>                                                                                       | <b>4,735</b>                        | <b>2,739</b>     |
| <b>OTHER LONG-TERM LIABILITIES</b>                                                                                                |                                     |                  |
| Deferred income taxes                                                                                                             | 2,083                               | 1,652            |
| Pension, postretirement healthcare and other benefit obligations                                                                  | 3,586                               | 3,916            |
| Self-insurance accruals                                                                                                           | 1,028                               | 987              |
| Deferred lease obligations                                                                                                        | 741                                 | 778              |
| Deferred gains, principally related to aircraft transactions                                                                      | 208                                 | 227              |
| Other liabilities                                                                                                                 | 102                                 | 120              |
| <b>Total other long-term liabilities</b>                                                                                          | <b>7,748</b>                        | <b>7,680</b>     |
| <b>COMMITMENTS AND CONTINGENCIES</b>                                                                                              |                                     |                  |
| <b>COMMON STOCKHOLDERS' INVESTMENT</b>                                                                                            |                                     |                  |
| Common stock, \$0.10 par value; 800 million shares authorized; 318 million shares issued as of February 28, 2014 and May 31, 2013 | 32                                  | 32               |
| Additional paid-in capital                                                                                                        | 2,259                               | 2,668            |
| Retained earnings                                                                                                                 | 19,699                              | 18,519           |
| Accumulated other comprehensive loss                                                                                              | (3,754)                             | (3,820)          |
| Treasury stock, at cost                                                                                                           | (3,009)                             | (1)              |
| <b>Total common stockholders' investment</b>                                                                                      | <b>15,227</b>                       | <b>17,398</b>    |
|                                                                                                                                   | <b>\$ 32,729</b>                    | <b>\$ 33,567</b> |

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



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**FEDEX CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(UNAUDITED)**

**(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)**

|                                     | Three Months Ended<br>February 28, |           | Nine Months Ended<br>February 28, |           |
|-------------------------------------|------------------------------------|-----------|-----------------------------------|-----------|
|                                     | 2014                               | 2013      | 2014                              | 2013      |
| REVENUES                            | \$ 11,301                          | \$ 10,953 | \$ 33,728                         | \$ 32,852 |
| OPERATING EXPENSES:                 |                                    |           |                                   |           |
| Salaries and employee benefits      | 4,167                              | 4,150     | 12,392                            | 12,378    |
| Purchased transportation            | 2,063                              | 1,871     | 5,982                             | 5,411     |
| Rentals and landing fees            | 662                                | 640       | 1,950                             | 1,888     |
| Depreciation and amortization       | 652                                | 599       | 1,938                             | 1,764     |
| Fuel                                | 1,163                              | 1,215     | 3,403                             | 3,588     |
| Maintenance and repairs             | 438                                | 424       | 1,397                             | 1,477     |
| Business realignment costs          |                                    | 47        |                                   | 64        |
| Other                               | 1,515                              | 1,418     | 4,403                             | 4,233     |
|                                     | 10,660                             | 10,364    | 31,465                            | 30,803    |
| OPERATING INCOME                    | 641                                | 589       | 2,263                             | 2,049     |
| OTHER INCOME (EXPENSE):             |                                    |           |                                   |           |
| Interest, net                       | (38)                               | (9)       | (95)                              | (37)      |
| Other, net                          | (9)                                | (16)      | (16)                              | (29)      |
|                                     | (47)                               | (25)      | (111)                             | (66)      |
| INCOME BEFORE INCOME TAXES          | 594                                | 564       | 2,152                             | 1,983     |
| PROVISION FOR INCOME TAXES          | 216                                | 203       | 785                               | 725       |
| NET INCOME                          | \$ 378                             | \$ 361    | \$ 1,367                          | \$ 1,258  |
| EARNINGS PER COMMON SHARE:          |                                    |           |                                   |           |
| Basic                               | \$ 1.24                            | \$ 1.14   | \$ 4.38                           | \$ 3.99   |
| Diluted                             | \$ 1.23                            | \$ 1.13   | \$ 4.34                           | \$ 3.97   |
| DIVIDENDS DECLARED PER COMMON SHARE | \$ 0.15                            | \$ 0.14   | \$ 0.60                           | \$ 0.56   |

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





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**FEDEX CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(UNAUDITED)**

**(IN MILLIONS)**

|                                                                                                               | Three Months Ended<br>February 28, |        | Nine Months Ended<br>February 28, |          |
|---------------------------------------------------------------------------------------------------------------|------------------------------------|--------|-----------------------------------|----------|
|                                                                                                               | 2014                               | 2013   | 2014                              | 2013     |
| NET INCOME                                                                                                    | \$ 378                             | \$ 361 | \$ 1,367                          | \$ 1,258 |
| OTHER COMPREHENSIVE INCOME (LOSS):                                                                            |                                    |        |                                   |          |
| Foreign currency translation adjustments, net of tax of \$3, \$0, \$7 and \$6                                 | (30)                               | (3)    | (64)                              | 54       |
| Amortization of unrealized pension actuarial gains/losses and other, net of tax of \$25, \$37, \$75 and \$112 | 45                                 | 63     | 130                               | 189      |
|                                                                                                               | 15                                 | 60     | 66                                | 243      |
| COMPREHENSIVE INCOME                                                                                          | \$ 393                             | \$ 421 | \$ 1,433                          | \$ 1,501 |

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

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**FEDEX CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(UNAUDITED)**

**(IN MILLIONS)**

|                                                                               | Nine Months Ended<br>February 28, |          |
|-------------------------------------------------------------------------------|-----------------------------------|----------|
|                                                                               | 2014                              | 2013     |
| Operating Activities:                                                         |                                   |          |
| Net income                                                                    | \$ 1,367                          | \$ 1,258 |
| Adjustments to reconcile net income to cash provided by operating activities: |                                   |          |
| Depreciation and amortization                                                 | 1,938                             | 1,764    |
| Provision for uncollectible accounts                                          | 95                                | 130      |
| Stock-based compensation                                                      | 94                                | 87       |
| Deferred income taxes and other noncash items                                 | 392                               | 493      |
| Changes in assets and liabilities:                                            |                                   |          |
| Receivables                                                                   | (242)                             | (280)    |
| Other assets                                                                  | (150)                             | 113      |
| Accounts payable and other liabilities                                        | (893)                             | (570)    |
| Other, net                                                                    | (23)                              | (19)     |
| Cash provided by operating activities                                         | 2,578                             | 2,976    |
| Investing Activities:                                                         |                                   |          |
| Capital expenditures                                                          | (2,554)                           | (2,430)  |
| Business acquisitions, net of cash acquired                                   |                                   | (483)    |
| Proceeds from asset dispositions and other                                    | 23                                | 45       |
| Cash used in investing activities                                             | (2,531)                           | (2,868)  |
| Financing Activities:                                                         |                                   |          |
| Principal payments on debt                                                    | (254)                             | (417)    |
| Proceeds from debt issuances                                                  | 1,997                             | 991      |
| Proceeds from stock issuances                                                 | 462                               | 221      |
| Excess tax benefit on the exercise of stock options                           | 27                                | 9        |
| Dividends paid                                                                | (142)                             | (132)    |
| Purchase of treasury stock, including accelerated share repurchase agreements | (3,984)                           | (246)    |
| Other, net                                                                    | (18)                              | (9)      |
| Cash (used in) provided by financing activities                               | (1,912)                           | 417      |
| Effect of exchange rate changes on cash                                       | (10)                              | 4        |
| Net (decrease) increase in cash and cash equivalents                          | (1,875)                           | 529      |

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|                                                  |          |          |
|--------------------------------------------------|----------|----------|
| Cash and cash equivalents at beginning of period | 4,917    | 2,843    |
| Cash and cash equivalents at end of period       | \$ 3,042 | \$ 3,372 |

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

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**FEDEX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**(1) General**

*SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.* These interim financial statements of FedEx Corporation ( FedEx ) have been prepared in accordance with accounting principles generally accepted in the United States and Securities and Exchange Commission ( SEC ) instructions for interim financial information, and should be read in conjunction with our Annual Report on Form 10-K for the year ended May 31, 2013 ( Annual Report ). Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed in our Annual Report.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary to present fairly our financial position as of February 28, 2014, the results of our operations for the three- and nine-month periods ended February 28, 2014 and 2013 and cash flows for the nine-month periods ended February 28, 2014 and 2013. Operating results for the three- and nine-month periods ended February 28, 2014 are not necessarily indicative of the results that may be expected for the year ending May 31, 2014.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2014 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

*BUSINESS ACQUISITIONS.* As discussed in our Annual Report, on June 20, 2013, we signed agreements to acquire the businesses operated by our current service provider Supaswift (Pty) Ltd. in five countries in Southern Africa. In addition, on September 2, 2013, we entered into an agreement to acquire Supaswift's business in two additional countries. This acquisition will be funded with cash from operations and is expected to be completed in the fourth quarter of 2014, subject to customary closing conditions. The financial results of the acquired businesses will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2014 results.

*EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS.* The pilots of FedEx Express, which represent a small number of FedEx Express's total employees, are employed under a collective bargaining agreement. The contract became amendable in March 2013, and the parties are currently in negotiations. In addition to our pilots at FedEx Express, certain non-U.S. employees are unionized.

*STOCK-BASED COMPENSATION.* We have two types of equity-based compensation: stock options and restricted stock. The key terms of the stock option and restricted stock awards granted under our incentive stock plans and all financial disclosures about these programs are set forth in our Annual Report.

Our stock-based compensation expense was \$23 million for the three-month period ended February 28, 2014 and \$94 million for the nine-month period ended February 28, 2014. Our stock-based compensation expense was \$23 million for the three-month period ended February 28, 2013 and \$87 million for the nine-month period ended February 28, 2013. Due to its immateriality, additional disclosures related to stock-based compensation have been excluded from this quarterly report.

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

On June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. We have adopted this guidance by including expanded accumulated other comprehensive income disclosure requirements in Note 2 of our condensed consolidated financial statements.

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**FEDEX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

While no other new accounting guidance was adopted or issued during the nine months of 2014 that is relevant to the readers of our financial statements, there are numerous proposals under development (as discussed in our Annual Report) which, if and when enacted, may have a significant impact on our financial reporting.

*STOCK REPURCHASE PROGRAM AND DIVIDENDS.* In October 2013, our Board of Directors authorized a new share repurchase program of up to 32 million shares of common stock. Shares may be purchased from time to time in the open market or in privately negotiated transactions. Repurchases are made at the company's discretion, based on ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. No time limit was set for the completion of the repurchase program, and the program may be suspended or discontinued at any time.

In January 2014, we entered into accelerated share repurchase (ASR) agreements with two banks to repurchase an aggregate of \$2.0 billion of our common stock. During the third quarter of 2014, 11.4 million shares were initially delivered to us based on then-current market prices. This does not represent the final number of shares to be delivered under the ASR agreements. The final number of shares to be purchased under each ASR agreement will be based on a discount to the volume-weighted average price of our stock during the term of the respective transaction. Purchases under the ASR agreements are expected to be completed prior to the end of 2014.

Each ASR agreement was accounted for as two separate transactions: as shares of reacquired common stock for the shares delivered to us at the onset of the ASR agreements and as a forward contract indexed to our own common stock for the undelivered shares. The initial delivery of shares are included in treasury stock at a cost of \$1.6 billion and resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share. The \$400 million forward contract indexed to our own stock met the criteria for equity classification and this amount was recorded in additional paid-in capital.

During the nine months of 2014, in addition to the ASR transactions, we repurchased 15.6 million shares of FedEx common stock at an average price of \$128 per share for a total of \$2.0 billion. As of February 28, 2014, 15.2 million shares remained under our share repurchase authorization.

On February 14, 2014, our Board of Directors declared a dividend of \$0.15 per share of common stock. The dividend will be paid on April 1, 2014 to stockholders of record as of the close of business on March 11, 2014. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

[Table of Contents](#)**FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****(2) Accumulated Other Comprehensive Income (Loss)**

The following table provides changes in accumulated other comprehensive income (loss) ( AOCI ), net of tax, reported in our condensed consolidated financial statements for the periods ended February 28 (in millions; amounts in parentheses indicate debits to AOCI):

|                                                       | Three Months Ended |            | Nine Months Ended |            |
|-------------------------------------------------------|--------------------|------------|-------------------|------------|
|                                                       | 2014               | 2013       | 2014              | 2013       |
| Foreign currency translation gain (loss):             |                    |            |                   |            |
| Balance at beginning of period                        | \$ 68              | \$ 118     | \$ 102            | \$ 61      |
| Translation adjustments                               | (30)               | (3)        | (64)              | 54         |
| Balance at end of period                              | 38                 | 115        | 38                | 115        |
| Retirement plans adjustments:                         |                    |            |                   |            |
| Balance at beginning of period                        | (3,837)            | (4,888)    | (3,922)           | (5,014)    |
| Reclassifications from AOCI                           | 45                 | 63         | 130               | 189        |
| Balance at end of period                              | (3,792)            | (4,825)    | (3,792)           | (4,825)    |
| Accumulated other comprehensive loss at end of period | \$ (3,754)         | \$ (4,710) | \$ (3,754)        | \$ (4,710) |

The following table presents details of the reclassifications from AOCI for the periods ended February 28 (in millions; amounts in parentheses indicate debits to earnings):

|                                            | Amount Reclassified from |          |                   |          | Affected Line Item in the      |  |
|--------------------------------------------|--------------------------|----------|-------------------|----------|--------------------------------|--|
|                                            | AOCI                     |          |                   |          | Income                         |  |
|                                            | Three Months Ended       |          | Nine Months Ended |          | Statement                      |  |
|                                            | 2014                     | 2013     | 2014              | 2013     |                                |  |
| Retirement plans:                          |                          |          |                   |          |                                |  |
| Amortization of actuarial losses and other | \$ (98)                  | \$ (129) | \$ (290)          | \$ (387) | Salaries and employee benefits |  |
| Amortization of prior service credits      | 28                       | 29       | 85                | 86       | Salaries and employee benefits |  |



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|                    |      |       |       |       |                            |
|--------------------|------|-------|-------|-------|----------------------------|
| Total before tax   | (70) | (100) | (205) | (301) |                            |
| Income tax benefit | 25   | 37    | 75    | 112   | Provision for income taxes |

AOCI reclassifications, net of tax      \$    (45)    \$    (63)    \$    (130)    \$    (189)    Net income

**(3) Financing Arrangements**

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

During the third quarter of 2014, we repaid our \$250 million 7.38% senior unsecured notes that matured on January 15, 2014. During the quarter, we issued \$2 billion of senior unsecured debt under our current shelf registration statement, comprised of \$750 million of 4.00% fixed-rate notes due in January 2024, \$500 million of 4.90% fixed-rate notes due in January 2034 and \$750 million of 5.10% fixed-rate notes due in January 2044. Interest on these notes is paid semiannually. We utilized the net proceeds to make payments under the ASR agreements discussed in Note 1.

Table of Contents**FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

A \$1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in March 2018. The agreement contains a financial covenant, which requires us to maintain a leverage ratio of adjusted debt (long-term debt, including the current portion of such debt, plus six times our last four fiscal quarters' rentals and landing fees) to capital (adjusted debt plus total common stockholders' investment) that does not exceed 70%. Our leverage ratio of adjusted debt to capital was 57% at February 28, 2014. We believe the leverage ratio covenant is our only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of February 28, 2014, no commercial paper was outstanding, and the entire \$1 billion under the revolving credit facility was available for future borrowings.

Long-term debt, exclusive of capital leases, had a carrying value of \$4.7 billion compared with an estimated fair value of \$4.9 billion at February 28, 2014 and a carrying value of \$3.0 billion compared with an estimated fair value of \$3.2 billion at May 31, 2013. The estimated fair values were determined based on quoted market prices and the current rates offered for debt with similar terms and maturities. The fair value of our long-term debt is classified as Level 2 within the fair value hierarchy. This classification is defined as a fair value determined using market-based inputs other than quoted prices that are observable for the liability, either directly or indirectly.

**(4) Computation of Earnings Per Share**

The calculation of basic and diluted earnings per common share for the periods ended February 28 was as follows (in millions, except per share amounts):

|                                                        | Three Months Ended |                | Nine Months Ended |                |
|--------------------------------------------------------|--------------------|----------------|-------------------|----------------|
|                                                        | 2014               | 2013           | 2014              | 2013           |
| <b>Basic earnings per common share:</b>                |                    |                |                   |                |
| Net earnings allocable to common shares <sup>(1)</sup> | \$ 377             | \$ 360         | \$ 1,365          | \$ 1,255       |
| Weighted-average common shares                         | 303                | 315            | 312               | 314            |
| <b>Basic earnings per common share</b>                 | <b>\$ 1.24</b>     | <b>\$ 1.14</b> | <b>\$ 4.38</b>    | <b>\$ 3.99</b> |
| <b>Diluted earnings per common share:</b>              |                    |                |                   |                |
| Net earnings allocable to common shares <sup>(1)</sup> | \$ 377             | \$ 360         | \$ 1,365          | \$ 1,255       |
| Weighted-average common shares                         | 303                | 315            | 312               | 314            |

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|                                                                       |         |         |         |         |
|-----------------------------------------------------------------------|---------|---------|---------|---------|
| Dilutive effect of share-based awards                                 | 4       | 2       | 3       | 2       |
| Weighted-average diluted shares                                       | 307     | 317     | 315     | 316     |
| <b>Diluted earnings per common share</b>                              | \$ 1.23 | \$ 1.13 | \$ 4.34 | \$ 3.97 |
| Anti-dilutive options excluded from diluted earnings per common share | 0.5     | 7.9     | 4.3     | 12.1    |

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

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We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans. Key terms of our retirement plans are provided in our Annual Report. Our retirement plans costs for the periods ended February 28 were as follows (in millions):

|                                                                 | Three Months Ended |        | Nine Months Ended |        |
|-----------------------------------------------------------------|--------------------|--------|-------------------|--------|
|                                                                 | 2014               | 2013   | 2014              | 2013   |
| U.S. domestic and international pension plans                   | \$ 124             | \$ 169 | \$ 366            | \$ 509 |
| U.S. domestic and international defined contribution plans      | 90                 | 87     | 269               | 262    |
| U.S. domestic and international postretirement healthcare plans | 20                 | 19     | 59                | 58     |
|                                                                 | \$ 234             | \$ 275 | \$ 694            | \$ 829 |

Net periodic benefit cost of the pension and postretirement healthcare plans for the periods ended February 28 included the following components (in millions):

|                                       | Three Months Ended |        | Nine Months Ended |         |
|---------------------------------------|--------------------|--------|-------------------|---------|
|                                       | 2014               | 2013   | 2014              | 2013    |
| <b>Pension Plans</b>                  |                    |        |                   |         |
| Service cost                          | \$ 164             | \$ 173 | \$ 492            | \$ 519  |
| Interest cost                         | 264                | 242    | 790               | 726     |
| Expected return on plan assets        | (374)              | (346)  | (1,121)           | (1,037) |
| Recognized actuarial losses and other | 70                 | 100    | 205               | 301     |
|                                       | \$ 124             | \$ 169 | \$ 366            | \$ 509  |

|                                        | Three Months Ended |       | Nine Months Ended |       |
|----------------------------------------|--------------------|-------|-------------------|-------|
|                                        | 2014               | 2013  | 2014              | 2013  |
| <b>Postretirement Healthcare Plans</b> |                    |       |                   |       |
| Service cost                           | \$ 10              | \$ 10 | \$ 29             | \$ 31 |
| Interest cost                          | 10                 | 9     | 30                | 27    |
|                                        | \$ 20              | \$ 19 | \$ 59             | \$ 58 |

Required contributions to our tax-qualified U.S. domestic pension plans ( U.S. Pension Plans ) for the nine-month periods ended February 28 were \$480 million in 2014 and \$420 million in 2013. In March 2014, we made an additional contribution of \$165 million to our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments.

**(6) Business Segment Information**

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 include FedEx Express, the world's largest express transportation company; FedEx Ground Package System, Inc. ( FedEx Ground ), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ( FedEx Freight ), a leading North American provider of less-than-truckload ( LTL ) freight services.

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**FEDEX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

Our reportable segments include the following businesses:

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

*FedEx Services Segment*

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

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

The operating expenses line item *Intercompany charges* on the accompanying unaudited financial summaries of our transportation segments in Management's Discussion and Analysis of Results of Operations and Financial Condition reflects the allocations from the FedEx Services segment to the respective transportation segments. The *Intercompany charges* caption also includes charges and credits for administrative services provided between operating companies

and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions and our allocation methodologies are refined as necessary to reflect changes in our businesses.

*Other Intersegment Transactions*

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

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**Table of Contents****FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

The following table provides a reconciliation of reportable segment revenues and operating income to our unaudited condensed consolidated financial statement totals for the periods ended February 28 (in millions):

|                         | Three Months Ended |           | Nine Months Ended |           |
|-------------------------|--------------------|-----------|-------------------|-----------|
|                         | 2014               | 2013      | 2014              | 2013      |
| <b>Revenues</b>         |                    |           |                   |           |
| FedEx Express segment   | \$ 6,674           | \$ 6,704  | \$ 20,123         | \$ 20,194 |
| FedEx Ground segment    | 3,031              | 2,747     | 8,610             | 7,802     |
| FedEx Freight segment   | 1,347              | 1,237     | 4,205             | 4,013     |
| FedEx Services segment  | 368                | 380       | 1,134             | 1,174     |
| Other and eliminations  | (119)              | (115)     | (344)             | (331)     |
|                         | \$ 11,301          | \$ 10,953 | \$ 33,728         | \$ 32,852 |
| <b>Operating Income</b> |                    |           |                   |           |
| FedEx Express segment   | \$ 135             | \$ 118    | \$ 697            | \$ 555    |
| FedEx Ground segment    | 477                | 467       | 1,369             | 1,324     |
| FedEx Freight segment   | 29                 | 4         | 197               | 170       |
|                         | \$ 641             | \$ 589    | \$ 2,263          | \$ 2,049  |

**(7) Commitments**

As of February 28, 2014, our purchase commitments under various contracts for the remainder of 2014 and annually thereafter were as follows (in millions):

|                  | Aircraft and<br>Aircraft-Related | Other <sup>(1)</sup> | Total            |
|------------------|----------------------------------|----------------------|------------------|
| 2014 (remainder) | \$ 217                           | \$ 282               | \$ 499           |
| 2015             | 1,155                            | 263                  | 1,418            |
| 2016             | 1,215                            | 179                  | 1,394            |
| 2017             | 955                              | 112                  | 1,067            |
| 2018             | 1,396                            | 48                   | 1,444            |
| Thereafter       | 5,388                            | 116                  | 5,504            |
| <b>Total</b>     | <b>\$ 10,326</b>                 | <b>\$ 1,000</b>      | <b>\$ 11,326</b> |



(1) Primarily vehicles, facilities, advertising contracts, and for the remainder of 2014, a total of \$165 million of quarterly contributions to our U.S. Pension Plans.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of February 28, 2014, our obligation to purchase four Boeing 767-300 Freighter ( B767F ) aircraft and nine Boeing 777 Freighter ( B777F ) aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport unless we have entered into noncancelable commitments to modify such aircraft. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

During the third quarter of 2014, FedEx Express entered into an agreement with The Boeing Company for the purchase of two B767F aircraft, the delivery of which will occur in 2016 and 2017. FedEx Express also deferred 11 existing options to purchase B777F aircraft by two years.

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**Table of Contents****FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

We had \$272 million in deposits and progress payments as of February 28, 2014 on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the Other assets caption of our condensed consolidated balance sheets. In addition to our commitment to purchase B777Fs and B767Fs, our aircraft purchase commitments include the Boeing 757 ( B757 ) aircraft in passenger configuration, which will require additional costs to modify for cargo transport. Aircraft and aircraft-related contracts are subject to price escalations. The following table is a summary of the key aircraft we are committed to purchase as of February 28, 2014, with the year of expected delivery:

|                  | B757      | B767F     | B777F     | Total     |
|------------------|-----------|-----------|-----------|-----------|
| 2014 (remainder) | 6         |           |           | 6         |
| 2015             | 11        | 12        |           | 23        |
| 2016             |           | 11        | 2         | 13        |
| 2017             |           | 11        |           | 11        |
| 2018             |           | 10        | 2         | 12        |
| Thereafter       |           | 4         | 14        | 18        |
| <b>Total</b>     | <b>17</b> | <b>48</b> | <b>18</b> | <b>83</b> |

A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at February 28, 2014 is as follows (in millions):

|                  | Operating Leases                     |                         | Total               |
|------------------|--------------------------------------|-------------------------|---------------------|
|                  | Aircraft<br>and Related<br>Equipment | Facilities<br>and Other | Operating<br>Leases |
| 2014 (remainder) | \$ 100                               | \$ 391                  | \$ 491              |
| 2015             | 448                                  | 1,558                   | 2,006               |
| 2016             | 453                                  | 1,365                   | 1,818               |
| 2017             | 391                                  | 1,462                   | 1,853               |
| 2018             | 326                                  | 1,060                   | 1,386               |
| Thereafter       | 824                                  | 6,678                   | 7,502               |
| <b>Total</b>     | <b>\$ 2,542</b>                      | <b>\$ 12,514</b>        | <b>\$ 15,056</b>    |

Future minimum lease payments under capital leases were immaterial at February 28, 2014. While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of

insurance, none of our lease agreements include material financial covenants or limitations.

**(8) Contingencies**

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

*Independent Contractor Lawsuits and State Administrative Proceedings.* FedEx Ground is involved in numerous class-action lawsuits (including 30 that have been certified as class actions), individual lawsuits and state tax and other administrative proceedings that claim that the company's owner-operators should be treated as employees, rather than independent contractors.

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**FEDEX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

Most of the class-action lawsuits were consolidated for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. The multidistrict litigation court granted class certification in 28 cases and denied it in 14 cases. On December 13, 2010, the court entered an opinion and order addressing all outstanding motions for summary judgment on the status of the owner-operators (*i.e.*, independent contractor vs. employee). In sum, the court has now ruled on our summary judgment motions and entered judgment in favor of FedEx Ground on all claims in 20 of the 28 multidistrict litigation cases that had been certified as class actions, finding that the owner-operators in those cases were contractors as a matter of the law of 20 states. The plaintiffs filed notices of appeal in all of these 20 cases. The Seventh Circuit heard the appeal in the Kansas case in January 2012 and, in July 2012, issued an opinion that did not make a determination with respect to the correctness of the district court's decision and, instead, certified two questions to the Kansas Supreme Court related to the classification of the plaintiffs as independent contractors under the Kansas Wage Payment Act. The Kansas Supreme Court heard oral argument on November 5, 2013. The other 19 cases that are before the Seventh Circuit remain stayed pending a decision of the Kansas Supreme Court.

The multidistrict litigation court remanded the other eight certified class actions back to the district courts where they were originally filed because its summary judgment ruling did not completely dispose of all of the claims in those lawsuits. Three of those cases are now on appeal with the Court of Appeals for the Ninth Circuit, and one is on appeal with the Court of Appeals for the Eleventh Circuit. The other four remain pending in their respective district courts, but two of these four matters have been settled for immaterial amounts. The court granted final approval of one of the two settlements during the second quarter of 2014, while the other settlement remains subject to court approval.

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

In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation, two of which have been certified as class actions. These certified class actions were settled for immaterial amounts in

the first quarter of 2014 and have received final court approval. The other cases are in varying stages of litigation, and we do not expect to incur a material loss in any of these matters.

*Environmental Matter.* SEC regulations require disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions that management reasonably believes could exceed \$100,000. In February 2014, FedEx Ground received oral communications from District Attorneys' Offices (representing California's county environmental authorities) and the California Attorney General's Office (representing the California Division of Toxic Substances Control) that they were seeking civil penalties for alleged violations of the state's hazardous waste regulations. Specifically, the California environmental authorities are alleging that FedEx Ground improperly generates and/or handles, stores and transports hazardous waste from its stations to its hubs in California. We are currently in negotiations with the District Attorneys' Offices and the California Attorney General's Office in an effort to reach a statewide settlement on this matter. Loss in this matter is possible, however, the amount of any loss is expected to be immaterial.

**Table of Contents****FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)**

*Other Matters.* In August 2010, a third-party consultant who works with shipping customers to negotiate lower rates filed a lawsuit in federal district court in California against FedEx and United Parcel Service, Inc. ( UPS ) alleging violations of U.S. antitrust law. This matter was dismissed in May 2011, but the court granted the plaintiff permission to file an amended complaint, which FedEx received in June 2011. In November 2011, the court granted our motion to dismiss this complaint, but again allowed the plaintiff to file an amended complaint. The plaintiff filed a new complaint in December 2011, and the matter remains pending before the court. In February 2011, shortly after the initial lawsuit was filed, we received a demand for the production of information and documents in connection with a civil investigation by the U.S. Department of Justice ( DOJ ) into the policies and practices of FedEx and UPS for dealing with third-party consultants who work with shipping customers to negotiate lower rates. In November 2012, the DOJ served a civil investigative demand on the third-party consultant seeking all pleadings, depositions and documents produced in the lawsuit. We are cooperating with the investigation, do not believe that we have engaged in any anti-competitive activities and will vigorously defend ourselves in any action that may result from the investigation. While the litigation proceedings and the DOJ investigation move forward, and the amount of loss, if any, is dependent on a number of factors that are not yet fully developed or resolved, we do not believe that a material loss is reasonably possible.

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

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

**(9) Supplemental Cash Flow Information**

Cash paid for interest expense and income taxes for the nine-month periods ended February 28 was as follows (in millions):

|                                        | 2014   | 2013  |
|----------------------------------------|--------|-------|
| Cash payments for:                     |        |       |
| Interest (net of capitalized interest) | \$ 121 | \$ 87 |

|                             |        |        |
|-----------------------------|--------|--------|
| Income taxes                | \$ 716 | \$ 613 |
| Income tax refunds received | (50)   | (205)  |
| Cash tax payments, net      | \$ 666 | \$ 408 |

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**FEDEX CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(UNAUDITED)**

**(10) Condensed Consolidating Financial Statements**

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

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee \$4.5 billion of our debt. The guarantees are full and unconditional and joint and several. Our guarantor subsidiaries were not determined using geographic, service line or other similar criteria, and as a result, the Guarantor Subsidiaries and Non-guarantor Subsidiaries columns each include portions of our domestic and international operations. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting. Condensed consolidating financial statements for our guarantor subsidiaries and non-guarantor subsidiaries are presented in the following tables (in millions):



**Table of Contents****FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****CONDENSED CONSOLIDATING BALANCE SHEETS****(UNAUDITED)**

February 28, 2014

|                                                                             | Parent    | Guarantor<br>Subsidiaries | Non-<br>guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------|-----------|---------------------------|-----------------------------------|--------------|--------------|
| <b>ASSETS</b>                                                               |           |                           |                                   |              |              |
| <b>CURRENT ASSETS</b>                                                       |           |                           |                                   |              |              |
| Cash and cash equivalents                                                   | \$ 2,016  | \$ 380                    | \$ 788                            | \$ (142)     | \$ 3,042     |
| Receivables, less allowances                                                |           | 4,190                     | 1,051                             | (44)         | 5,197        |
| Spare parts, supplies, fuel, prepaid expenses<br>and other, less allowances | 146       | 718                       | 54                                |              | 918          |
| Deferred income taxes                                                       |           | 607                       | 17                                |              | 624          |
| Total current assets                                                        | 2,162     | 5,895                     | 1,910                             | (186)        | 9,781        |
| <b>PROPERTY AND EQUIPMENT, AT<br/>COST</b>                                  |           |                           |                                   |              |              |
|                                                                             | 27        | 37,736                    | 2,256                             |              | 40,019       |
| Less accumulated depreciation and<br>amortization                           | 22        | 19,535                    | 1,177                             |              | 20,734       |
| Net property and equipment                                                  | 5         | 18,201                    | 1,079                             |              | 19,285       |
| INTERCOMPANY RECEIVABLE                                                     |           | 659                       | 1,279                             | (1,938)      |              |
| GOODWILL                                                                    |           | 1,552                     | 1,187                             |              | 2,739        |
| INVESTMENT IN SUBSIDIARIES                                                  | 20,031    | 3,595                     |                                   | (23,626)     |              |
| OTHER ASSETS                                                                | 2,122     | 641                       | 232                               | (2,071)      | 924          |
|                                                                             | \$ 24,320 | \$ 30,543                 | \$ 5,687                          | \$ (27,821)  | \$ 32,729    |

**LIABILITIES AND STOCKHOLDERS  
INVESTMENT****CURRENT LIABILITIES**

|                                        |    |       |     |    |       |
|----------------------------------------|----|-------|-----|----|-------|
| Current portion of long-term debt      | \$ | \$ 1  | \$  | \$ | \$ 1  |
| Accrued salaries and employee benefits | 66 | 1,061 | 157 |    | 1,284 |

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|                                      |           |           |          |             |           |
|--------------------------------------|-----------|-----------|----------|-------------|-----------|
| Accounts payable                     | 45        | 1,447     | 597      | (186)       | 1,903     |
| Accrued expenses                     | 285       | 1,352     | 194      |             | 1,831     |
| Total current liabilities            | 396       | 3,861     | 948      | (186)       | 5,019     |
| LONG-TERM DEBT, LESS CURRENT PORTION | 4,486     | 249       |          |             | 4,735     |
| INTERCOMPANY PAYABLE                 | 1,938     |           |          | (1,938)     |           |
| OTHER LONG-TERM LIABILITIES          |           |           |          |             |           |
| Deferred income taxes                |           | 4,074     | 80       | (2,071)     | 2,083     |
| Other liabilities                    | 2,273     | 3,148     | 244      |             | 5,665     |
| Total other long-term liabilities    | 2,273     | 7,222     | 324      | (2,071)     | 7,748     |
| STOCKHOLDERS INVESTMENT              | 15,227    | 19,211    | 4,415    | (23,626)    | 15,227    |
|                                      | \$ 24,320 | \$ 30,543 | \$ 5,687 | \$ (27,821) | \$ 32,729 |

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Table of Contents**FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****CONDENSED CONSOLIDATING BALANCE SHEETS**

May 31, 2013

|                                                                             | Parent    | Guarantor<br>Subsidiaries | Non-<br>guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------------------------------|-----------|---------------------------|-----------------------------------|--------------|--------------|
| <b>ASSETS</b>                                                               |           |                           |                                   |              |              |
| <b>CURRENT ASSETS</b>                                                       |           |                           |                                   |              |              |
| Cash and cash equivalents                                                   | \$ 3,892  | \$ 405                    | \$ 717                            | \$ (97)      | \$ 4,917     |
| Receivables, less allowances                                                |           | 3,989                     | 1,084                             | (29)         | 5,044        |
| Spare parts, supplies, fuel, prepaid expenses<br>and other, less allowances | 45        | 681                       | 54                                |              | 780          |
| Deferred income taxes                                                       |           | 518                       | 15                                |              | 533          |
| Total current assets                                                        | 3,937     | 5,593                     | 1,870                             | (126)        | 11,274       |
| <b>PROPERTY AND EQUIPMENT, AT<br/>COST</b>                                  |           |                           |                                   |              |              |
|                                                                             | 27        | 35,915                    | 2,167                             |              | 38,109       |
| Less accumulated depreciation and<br>amortization                           | 21        | 18,469                    | 1,135                             |              | 19,625       |
| Net property and equipment                                                  | 6         | 17,446                    | 1,032                             |              | 18,484       |
| INTERCOMPANY RECEIVABLE                                                     |           | 439                       | 1,203                             | (1,642)      |              |
| GOODWILL                                                                    |           | 1,552                     | 1,203                             |              | 2,755        |
| INVESTMENT IN SUBSIDIARIES                                                  | 18,739    | 3,347                     |                                   | (22,086)     |              |
| OTHER ASSETS                                                                | 2,187     | 822                       | 191                               | (2,146)      | 1,054        |
|                                                                             | \$ 24,869 | \$ 29,199                 | \$ 5,499                          | \$ (26,000)  | \$ 33,567    |

**LIABILITIES AND STOCKHOLDERS  
INVESTMENT****CURRENT LIABILITIES**

|                                        |        |       |     |       |        |
|----------------------------------------|--------|-------|-----|-------|--------|
| Current portion of long-term debt      | \$ 250 | \$ 1  | \$  | \$    | \$ 251 |
| Accrued salaries and employee benefits | 82     | 1,402 | 204 |       | 1,688  |
| Accounts payable                       | 4      | 1,392 | 609 | (126) | 1,879  |
| Accrued expenses                       | 355    | 1,366 | 211 |       | 1,932  |

|                                      |           |           |          |             |           |
|--------------------------------------|-----------|-----------|----------|-------------|-----------|
| Total current liabilities            | 691       | 4,161     | 1,024    | (126)       | 5,750     |
| LONG-TERM DEBT, LESS CURRENT PORTION | 2,489     | 250       |          |             | 2,739     |
| INTERCOMPANY PAYABLE                 | 1,642     |           |          | (1,642)     |           |
| OTHER LONG-TERM LIABILITIES          |           |           |          |             |           |
| Deferred income taxes                |           | 3,798     |          | (2,146)     | 1,652     |
| Other liabilities                    | 2,649     | 3,133     | 246      |             | 6,028     |
| Total other long-term liabilities    | 2,649     | 6,931     | 246      | (2,146)     | 7,680     |
| STOCKHOLDERS INVESTMENT              | 17,398    | 17,857    | 4,229    | (22,086)    | 17,398    |
|                                      | \$ 24,869 | \$ 29,199 | \$ 5,499 | \$ (26,000) | \$ 33,567 |

**Table of Contents****FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)**

Three Months Ended February 28, 2014

|                                    | Parent | Guarantor<br>Subsidiaries | Non-<br>guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------|--------|---------------------------|-----------------------------------|--------------|--------------|
| REVENUES                           | \$     | \$ 9,509                  | \$ 1,876                          | \$ (84)      | \$ 11,301    |
| OPERATING EXPENSES:                |        |                           |                                   |              |              |
| Salaries and employee benefits     | 24     | 3,615                     | 528                               |              | 4,167        |
| Purchased transportation           |        | 1,426                     | 680                               | (43)         | 2,063        |
| Rentals and landing fees           | 1      | 576                       | 86                                | (1)          | 662          |
| Depreciation and amortization      |        | 601                       | 51                                |              | 652          |
| Fuel                               |        | 1,138                     | 25                                |              | 1,163        |
| Maintenance and repairs            | 1      | 406                       | 31                                |              | 438          |
| Intercompany charges, net          | (52)   | (17)                      | 69                                |              |              |
| Other                              | 26     | 1,234                     | 295                               | (40)         | 1,515        |
|                                    |        | 8,979                     | 1,765                             | (84)         | 10,660       |
| OPERATING INCOME                   |        | 530                       | 111                               |              | 641          |
| OTHER INCOME (EXPENSE):            |        |                           |                                   |              |              |
| Equity in earnings of subsidiaries | 378    | 80                        |                                   | (458)        |              |
| Interest, net                      | (45)   | 4                         | 3                                 |              | (38)         |
| Intercompany charges, net          | 46     | (52)                      | 6                                 |              |              |
| Other, net                         | (1)    | (9)                       | 1                                 |              | (9)          |
| INCOME BEFORE INCOME TAXES         | 378    | 553                       | 121                               | (458)        | 594          |
| Provision for income taxes         |        | 165                       | 51                                |              | 216          |
| NET INCOME                         | \$ 378 | \$ 388                    | \$ 70                             | \$ (458)     | \$ 378       |
| COMPREHENSIVE INCOME               | \$ 419 | \$ 388                    | \$ 44                             | \$ (458)     | \$ 393       |



[Table of Contents](#)**FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)**

Three Months Ended February 28, 2013

|                                    | Parent | Guarantor<br>Subsidiaries | Non-<br>guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------|--------|---------------------------|-----------------------------------|--------------|--------------|
| REVENUES                           | \$     | \$ 9,182                  | \$ 1,851                          | \$ (80)      | \$ 10,953    |
| OPERATING EXPENSES:                |        |                           |                                   |              |              |
| Salaries and employee benefits     | 26     | 3,594                     | 530                               |              | 4,150        |
| Purchased transportation           |        | 1,261                     | 649                               | (39)         | 1,871        |
| Rentals and landing fees           | 2      | 555                       | 85                                | (2)          | 640          |
| Depreciation and amortization      |        | 551                       | 48                                |              | 599          |
| Fuel                               |        | 1,190                     | 25                                |              | 1,215        |
| Maintenance and repairs            |        | 395                       | 29                                |              | 424          |
| Business realignment costs         | 5      | 42                        |                                   |              | 47           |
| Intercompany charges, net          | (55)   | (71)                      | 126                               |              |              |
| Other                              | 22     | 1,129                     | 306                               | (39)         | 1,418        |
|                                    |        | 8,646                     | 1,798                             | (80)         | 10,364       |
| OPERATING INCOME                   |        | 536                       | 53                                |              | 589          |
| OTHER INCOME (EXPENSE):            |        |                           |                                   |              |              |
| Equity in earnings of subsidiaries | 361    | 53                        |                                   | (414)        |              |
| Interest, net                      | (27)   | 16                        | 2                                 |              | (9)          |
| Intercompany charges, net          | 29     | (33)                      | 4                                 |              |              |
| Other, net                         | (2)    | (13)                      | (1)                               |              | (16)         |
| INCOME BEFORE INCOME TAXES         | 361    | 559                       | 58                                | (414)        | 564          |
| Provision for income taxes         |        | 155                       | 48                                |              | 203          |
| NET INCOME                         | \$ 361 | \$ 404                    | \$ 10                             | \$ (414)     | \$ 361       |
| COMPREHENSIVE INCOME               | \$ 419 | \$ 401                    | \$ 15                             | \$ (414)     | \$ 421       |

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**Table of Contents****FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME****(UNAUDITED)**

Nine Months Ended February 28, 2014

|                                    | Parent   | Guarantor<br>Subsidiaries | Non-<br>guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------|----------|---------------------------|-----------------------------------|--------------|--------------|
| REVENUES                           | \$       | \$ 28,184                 | \$ 5,796                          | \$ (252)     | \$ 33,728    |
| OPERATING EXPENSES:                |          |                           |                                   |              |              |
| Salaries and employee benefits     | 79       | 10,697                    | 1,616                             |              | 12,392       |
| Purchased transportation           |          | 4,008                     | 2,092                             | (118)        | 5,982        |
| Rentals and landing fees           | 4        | 1,697                     | 253                               | (4)          | 1,950        |
| Depreciation and amortization      | 1        | 1,785                     | 152                               |              | 1,938        |
| Fuel                               |          | 3,330                     | 73                                |              | 3,403        |
| Maintenance and repairs            | 1        | 1,302                     | 94                                |              | 1,397        |
| Intercompany charges, net          | (163)    | (47)                      | 210                               |              |              |
| Other                              | 78       | 3,559                     | 896                               | (130)        | 4,403        |
|                                    |          | 26,331                    | 5,386                             | (252)        | 31,465       |
| OPERATING INCOME                   |          | 1,853                     | 410                               |              | 2,263        |
| OTHER INCOME (EXPENSE):            |          |                           |                                   |              |              |
| Equity in earnings of subsidiaries | 1,367    | 323                       |                                   | (1,690)      |              |
| Interest, net                      | (114)    | 14                        | 5                                 |              | (95)         |
| Intercompany charges, net          | 117      | (134)                     | 17                                |              |              |
| Other, net                         | (3)      | (14)                      | 1                                 |              | (16)         |
| INCOME BEFORE INCOME TAXES         | 1,367    | 2,042                     | 433                               | (1,690)      | 2,152        |
| Provision for income taxes         |          | 648                       | 137                               |              | 785          |
| NET INCOME                         | \$ 1,367 | \$ 1,394                  | \$ 296                            | \$ (1,690)   | \$ 1,367     |
| COMPREHENSIVE INCOME               | \$ 1,487 | \$ 1,401                  | \$ 235                            | \$ (1,690)   | \$ 1,433     |



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Nine Months Ended February 28, 2013

|                                    | Parent   | Guarantor<br>Subsidiaries | Non-<br>guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------|----------|---------------------------|-----------------------------------|--------------|--------------|
| <b>REVENUES</b>                    | \$       | \$ 27,501                 | \$ 5,594                          | \$ (243)     | \$ 32,852    |
| <b>OPERATING EXPENSES:</b>         |          |                           |                                   |              |              |
| Salaries and employee benefits     | 79       | 10,752                    | 1,547                             |              | 12,378       |
| Purchased transportation           |          | 3,613                     | 1,905                             | (107)        | 5,411        |
| Rentals and landing fees           | 4        | 1,648                     | 241                               | (5)          | 1,888        |
| Depreciation and amortization      | 1        | 1,626                     | 137                               |              | 1,764        |
| Fuel                               |          | 3,516                     | 72                                |              | 3,588        |
| Maintenance and repairs            | 1        | 1,391                     | 85                                |              | 1,477        |
| Business realignment costs         | 15       | 49                        |                                   |              | 64           |
| Intercompany charges, net          | (169)    | (276)                     | 445                               |              |              |
| Other                              | 69       | 3,403                     | 892                               | (131)        | 4,233        |
|                                    |          | 25,722                    | 5,324                             | (243)        | 30,803       |
| <b>OPERATING INCOME</b>            |          | 1,779                     | 270                               |              | 2,049        |
| <b>OTHER INCOME (EXPENSE):</b>     |          |                           |                                   |              |              |
| Equity in earnings of subsidiaries | 1,258    | 152                       |                                   | (1,410)      |              |
| Interest, net                      | (77)     | 35                        | 5                                 |              | (37)         |
| Intercompany charges, net          | 82       | (95)                      | 13                                |              |              |
| Other, net                         | (5)      | (18)                      | (6)                               |              | (29)         |
| <b>INCOME BEFORE INCOME TAXES</b>  | 1,258    | 1,853                     | 282                               | (1,410)      | 1,983        |
| Provision for income taxes         |          | 581                       | 144                               |              | 725          |
| <b>NET INCOME</b>                  | \$ 1,258 | \$ 1,272                  | \$ 138                            | \$ (1,410)   | \$ 1,258     |
| <b>COMPREHENSIVE INCOME</b>        | \$ 1,434 | \$ 1,284                  | \$ 193                            | \$ (1,410)   | \$ 1,501     |

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Table of Contents**FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS****(UNAUDITED)**

Nine Months Ended February 28, 2014

|                                                            | Parent   | Guarantor<br>Subsidiaries | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
| <b>CASH PROVIDED BY (USED IN)<br/>OPERATING ACTIVITIES</b> | \$ (104) | \$ 2,386                  | \$ 341                        | \$ (45)      | \$ 2,578     |
| <b>INVESTING ACTIVITIES</b>                                |          |                           |                               |              |              |
| Capital expenditures                                       |          | (2,342)                   | (212)                         |              | (2,554)      |
| Proceeds from asset dispositions and<br>other              |          | 26                        | (3)                           |              | 23           |
| <b>CASH USED IN INVESTING<br/>ACTIVITIES</b>               |          | (2,316)                   | (215)                         |              | (2,531)      |
| <b>FINANCING ACTIVITIES</b>                                |          |                           |                               |              |              |
| Net transfers from (to) Parent                             | 136      | (123)                     | (13)                          |              |              |
| Payment on loan between<br>subsidiaries                    |          | 5                         | (5)                           |              |              |
| Intercompany dividends                                     |          | 36                        | (36)                          |              |              |
| Principal payments on debt                                 | (250)    | (4)                       |                               |              | (254)        |
| Proceeds from debt issuance                                | 1,997    |                           |                               |              | 1,997        |
| Proceeds from stock issuances                              | 462      |                           |                               |              | 462          |
| Excess tax benefit on the exercise of<br>stock options     | 27       |                           |                               |              | 27           |
| Dividends paid                                             | (142)    |                           |                               |              | (142)        |
| Purchase of treasury stock                                 | (3,984)  |                           |                               |              | (3,984)      |
| Other, net                                                 | (18)     |                           |                               |              | (18)         |
| <b>CASH USED IN FINANCING<br/>ACTIVITIES</b>               | (1,772)  | (86)                      | (54)                          |              | (1,912)      |
| Effect of exchange rate changes on<br>cash                 |          | (9)                       | (1)                           |              | (10)         |

|                                                      |          |        |        |          |          |
|------------------------------------------------------|----------|--------|--------|----------|----------|
| Net (decrease) increase in cash and cash equivalents | (1,876)  | (25)   | 71     | (45)     | (1,875)  |
| Cash and cash equivalents at beginning of period     | 3,892    | 405    | 717    | (97)     | 4,917    |
| Cash and cash equivalents at end of period           | \$ 2,016 | \$ 380 | \$ 788 | \$ (142) | \$ 3,042 |

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Table of Contents**FEDEX CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(UNAUDITED)****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS****(UNAUDITED)**

Nine Months Ended February 28, 2013

|                                                            | Parent | Guarantor<br>Subsidiaries | Non-guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------------|--------|---------------------------|-------------------------------|--------------|--------------|
| <b>CASH PROVIDED BY (USED IN)<br/>OPERATING ACTIVITIES</b> | \$ 78  | \$ 2,556                  | \$ 347                        | \$ (5)       | \$ 2,976     |
| <b>INVESTING ACTIVITIES</b>                                |        |                           |                               |              |              |
| Capital expenditures                                       | (3)    | (2,201)                   | (226)                         |              | (2,430)      |
| Business acquisitions, net of cash<br>acquired             |        |                           | (483)                         |              | (483)        |
| Proceeds from asset dispositions and<br>other              |        | 39                        | 6                             |              | 45           |
| <b>CASH USED IN INVESTING<br/>ACTIVITIES</b>               | (3)    | (2,162)                   | (703)                         |              | (2,868)      |
| <b>FINANCING ACTIVITIES</b>                                |        |                           |                               |              |              |
| Net transfers from (to) Parent                             | (453)  | 517                       | (64)                          |              |              |
| Payment on loan between<br>subsidiaries                    |        | (407)                     | 407                           |              |              |
| Intercompany dividends                                     |        | 12                        | (12)                          |              |              |
| Principal payments on debt                                 |        | (417)                     |                               |              | (417)        |
| Proceeds from debt issuance                                | 991    |                           |                               |              | 991          |
| Proceeds from stock issuances                              | 221    |                           |                               |              | 221          |
| Excess tax benefit on the exercise of<br>stock options     | 9      |                           |                               |              | 9            |
| Dividends paid                                             | (132)  |                           |                               |              | (132)        |
| Purchase of treasury stock                                 | (246)  |                           |                               |              | (246)        |
| Other, net                                                 | (9)    | (93)                      | 93                            |              | (9)          |
| <b>CASH PROVIDED BY (USED IN)<br/>FINANCING ACTIVITIES</b> | 381    | (388)                     | 424                           |              | 417          |
|                                                            |        | (4)                       | 8                             |              | 4            |

## Effect of exchange rate changes on cash

|                                                      |          |        |        |          |          |
|------------------------------------------------------|----------|--------|--------|----------|----------|
| Net increase (decrease) in cash and cash equivalents | 456      | 2      | 76     | (5)      | 529      |
| Cash and cash equivalents at beginning of period     | 1,906    | 417    | 636    | (116)    | 2,843    |
| Cash and cash equivalents at end of period           | \$ 2,362 | \$ 419 | \$ 712 | \$ (121) | \$ 3,372 |

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**REPORT OF INDEPENDENT REGISTERED**

**PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

FedEx Corporation

We have reviewed the condensed consolidated balance sheet of FedEx Corporation as of February 28, 2014, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended February 28, 2014 and 2013 and the condensed consolidated statements of cash flows for the nine-month periods ended February 28, 2014 and 2013. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of FedEx Corporation as of May 31, 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' investment, and cash flows for the year then ended not presented herein, and in our report dated July 15, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Memphis, Tennessee

March 20, 2014

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**Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition**

**GENERAL**

The following Management's Discussion and Analysis of Results of Operations and Financial Condition ( "MD&A" ) describes the principal factors affecting the results of operations, liquidity, capital resources, contractual cash obligations and critical accounting estimates of FedEx Corporation ( "FedEx" ). This discussion should be read in conjunction with the accompanying quarterly unaudited condensed consolidated financial statements and our Annual Report on Form 10-K for the year ended May 31, 2013 ( "Annual Report" ). Our Annual Report includes additional information about our significant accounting policies, practices and the transactions that underlie our financial results, as well as a detailed discussion of the most significant risks and uncertainties associated with our financial condition and operating results.

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

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

The key indicators necessary to understand our operating results include:

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

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

the mix of services purchased by our customers;

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

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

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

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

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

**RESULTS OF OPERATIONS*****CONSOLIDATED RESULTS***

The following table compares summary operating results (dollars in millions, except per share amounts) for the periods ended February 28:

|                            | Three Months Ended |           | Percent | Nine Months Ended |           | Percent |
|----------------------------|--------------------|-----------|---------|-------------------|-----------|---------|
|                            | 2014               | 2013      | Change  | 2014              | 2013      | Change  |
| Revenues                   | \$ 11,301          | \$ 10,953 | 3       | \$ 33,728         | \$ 32,852 | 3       |
| Operating income           | 641                | 589       | 9       | 2,263             | 2,049     | 10      |
| Operating margin           | 5.7%               | 5.4%      | 30bp    | 6.7%              | 6.2%      | 50bp    |
| Net income                 | \$ 378             | \$ 361    | 5       | \$ 1,367          | \$ 1,258  | 9       |
| Diluted earnings per share | \$ 1.23            | \$ 1.13   | 9       | \$ 4.34           | \$ 3.97   | 9       |

The following table shows changes in revenues and operating income by reportable segment for the periods ended February 28, 2014 compared to February 28, 2013 (dollars in millions):

|                        | Change in Revenues |                   | Percent Change in Revenue |                   | Change in Operating Income |                   | Percent Change in Operating Income |                   |
|------------------------|--------------------|-------------------|---------------------------|-------------------|----------------------------|-------------------|------------------------------------|-------------------|
|                        | Three Months Ended | Nine Months Ended | Three Months Ended        | Nine Months Ended | Three Months Ended         | Nine Months Ended | Three Months Ended                 | Nine Months Ended |
| FedEx Express segment  | \$ (30)            | \$ (71)           |                           |                   | \$ 17                      | \$ 142            | 14                                 | 26                |
| FedEx Ground segment   | 284                | 808               | 10                        | 10                | 10                         | 45                | 2                                  | 3                 |
| FedEx Freight segment  | 110                | 192               | 9                         | 5                 | 25                         | 27                | NM                                 | 16                |
| FedEx Services segment | (12)               | (40)              | (3)                       | (3)               |                            |                   |                                    |                   |
| Other and eliminations | (4)                | (13)              | NM                        | NM                |                            |                   |                                    |                   |
|                        | \$ 348             | \$ 876            | 3                         | 3                 | \$ 52                      | \$ 214            | 9                                  | 10                |

***Overview***

While our revenues and earnings increased in the third quarter of 2014, our results include a significant negative impact from severe winter weather across all of our transportation segments. Winter weather often impacts our third quarter results, but the impact of multiple severe storms during the third quarter of 2014 was more pronounced,

reducing earnings by an estimated \$125 million year over year. Our results for the third quarter also reflect a negative net impact of fuel (described further below). These headwinds were partially offset by the benefit across all of our transportation segments of one additional operating day. Our results for the third quarter also include benefits from reduced variable incentive compensation, lower pension expense and benefits from the voluntary employee severance program we announced in 2013. In addition, our operating results comparisons to prior year were positively impacted by \$47 million of business realignment costs in the prior year.

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For the nine months of 2014, our revenues and earnings increased due to improved performance of all our transportation segments despite the significant negative net impact of fuel and severe winter weather. Our nine months earnings benefited from lower pension expense and lower maintenance expense due to our profit improvement initiatives, including our fleet modernization programs. Additionally, our nine months results reflect benefits from the voluntary employee severance program and reduced variable incentive compensation.

In the second quarter of 2014, we announced the authorization of a new share repurchase program of up to 32 million shares of common stock. In the third quarter of 2014, we entered into accelerated share repurchase ( ASR ) agreements with two banks to repurchase an aggregate of \$2.0 billion of our common stock and made additional open market purchases of our common stock totaling \$765 million. Share repurchases through the end of the third quarter had a minimal positive impact on earnings per diluted share. See additional information on the share repurchase program in Note 1 of the accompanying unaudited condensed consolidated financial statements.

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The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected volume trends (in thousands) over the five most recent quarters:

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

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The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected yield trends over the five most recent quarters:

***Revenue***

Revenues increased 3% in the third quarter and nine months of 2014, primarily due to higher volumes at FedEx Ground and FedEx Freight and yield increases at FedEx Ground. At our FedEx Ground segment, revenues increased 10% in the third quarter and nine months of 2014 due to higher volume from market share gains and increased yields as a result of rate increases. Revenues at FedEx Freight increased 9% during the third quarter and 5% during the nine months of 2014 primarily due to higher average daily LTL shipments and weight per LTL shipment. At FedEx Express, revenues were flat in the third quarter of 2014 due to lower freight revenues and lower fuel surcharges, partially offset by revenue growth from stronger base U.S. and international export package business. For the nine months of 2014, FedEx Express revenues were flat as lower fuel surcharges and lower freight revenue were offset by revenue growth due to stronger base U.S. and international export package business and our freight-forwarding business at FedEx Trade Networks. Revenues at all of our transportation segments in the third quarter and nine months of 2014 were negatively impacted by unusually severe winter weather while revenues for the third quarter benefited from one additional operating day.

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**Table of Contents****Operating Income**

The following tables compare operating expenses expressed as dollar amounts (in millions) and as a percent of revenue for the periods ended February 28:

|                                           | Three Months Ended |           | Nine Months Ended |           |
|-------------------------------------------|--------------------|-----------|-------------------|-----------|
|                                           | 2014               | 2013      | 2014              | 2013      |
| Operating expenses:                       |                    |           |                   |           |
| Salaries and employee benefits            | \$ 4,167           | \$ 4,150  | \$ 12,392         | \$ 12,378 |
| Purchased transportation                  | 2,063              | 1,871     | 5,982             | 5,411     |
| Rentals and landing fees                  | 662                | 640       | 1,950             | 1,888     |
| Depreciation and amortization             | 652                | 599       | 1,938             | 1,764     |
| Fuel                                      | 1,163              | 1,215     | 3,403             | 3,588     |
| Maintenance and repairs                   | 438                | 424       | 1,397             | 1,477     |
| Business realignment costs <sup>(1)</sup> |                    | 47        |                   | 64        |
| Other                                     | 1,515              | 1,418     | 4,403             | 4,233     |
| Total operating expenses                  | \$ 10,660          | \$ 10,364 | \$ 31,465         | \$ 30,803 |

|                                           | Percent of Revenue |       |                   |       |
|-------------------------------------------|--------------------|-------|-------------------|-------|
|                                           | Three Months Ended |       | Nine Months Ended |       |
|                                           | 2014               | 2013  | 2014              | 2013  |
| Operating expenses:                       |                    |       |                   |       |
| Salaries and employee benefits            | 36.9%              | 37.9% | 36.7%             | 37.7% |
| Purchased transportation                  | 18.2               | 17.1  | 17.7              | 16.5  |
| Rentals and landing fees                  | 5.8                | 5.8   | 5.8               | 5.7   |
| Depreciation and amortization             | 5.8                | 5.5   | 5.8               | 5.4   |
| Fuel                                      | 10.3               | 11.1  | 10.1              | 10.9  |
| Maintenance and repairs                   | 3.9                | 3.9   | 4.1               | 4.5   |
| Business realignment costs <sup>(1)</sup> |                    | 0.4   |                   | 0.2   |
| Other                                     | 13.4               | 12.9  | 13.1              | 12.9  |
| Total operating expenses                  | 94.3               | 94.6  | 93.3              | 93.8  |
| Operating margin                          | 5.7%               | 5.4%  | 6.7%              | 6.2%  |

<sup>(1)</sup> Includes predominantly severance costs associated with our voluntary employee buyout program. Operating income increased in the third quarter of 2014 as a result of improved performance at all our transportation segments. Operating income increased for the nine months of 2014 primarily as a result of improved profitability at FedEx Express, higher volumes and increased yields at FedEx Ground and improved performance at FedEx Freight. Operating income in the third quarter and nine months of 2014 included a significant negative impact of both unusually severe winter weather and the net impact of fuel. Our results for all our transportation segments in the third quarter of 2014 compared to 2013 were positively impacted by one additional operating day and \$47 million of

business realignment costs incurred in the third quarter of 2013.

Purchased transportation costs increased 10% in the third quarter and 11% in the nine months of 2014 due to volume growth at FedEx Ground, higher utilization of third-party transportation providers at FedEx Freight and FedEx Express and, for the nine months of 2014, costs associated with prior year international acquisitions at FedEx Express and the expansion of our freight-forwarding business at FedEx Trade Networks. Depreciation and amortization expense increased 9% in the third quarter and 10% in the nine months of 2014 primarily due to accelerated depreciation on certain aircraft scheduled for retirement, and aircraft recently placed in service at FedEx Express. Salaries and employee benefits expense in the third quarter and in the nine months of 2014 increased only

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slightly due to the benefits from lower pension expense, benefits from our voluntary employee buyout program, the delayed timing or absence of merit increases for many of our employees and reduced variable incentive compensation. Maintenance and repairs expense increased 3% in the third quarter but decreased 5% in the nine months of 2014 due to the positive impact of continued modernization of our aircraft fleet, offset by the impact of certain maintenance events during the third quarter.

The following graph for our transportation segments shows our average cost of jet and vehicle fuel per gallon for the five most recent quarters:

Fuel costs decreased 4% in the third quarter and 5% in the nine months of 2014 due to lower average price per gallon of jet fuel and lower aircraft fuel usage. Our results are impacted by the timing lag which exists between when fuel prices change and when indexed fuel surcharges automatically adjust, which we describe in the discussion of our results as the net impact of fuel. Based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a significant negative impact on operating income in the third quarter and nine months of 2014.

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

***Income Taxes***

Our effective tax rate was 36.4% for the third quarter and 36.5% for the nine months of 2014, compared with 36.0% for the third quarter and 36.6% for the nine months of 2013. For 2014, we expect an effective tax rate between 36.5% and 37.0%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income.

We are subject to taxation in the United States and various U.S. state, local and foreign jurisdictions. Substantially all U.S. federal income tax matters through fiscal year 2009 are concluded, and we are currently under examination by the Internal Revenue Service for the 2010 and 2011 tax years. It is reasonably possible that certain income tax return proceedings will be completed during the next 12 months and could result in a change in our balance of unrecognized tax benefits. The expected impact of any changes would not be

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material to our consolidated financial statements. As of February 28, 2014, there were no material changes to our liabilities for unrecognized tax benefits from May 31, 2013.

***Business Acquisitions***

As discussed in our Annual Report, on June 20, 2013, we signed agreements to acquire the businesses operated by our current service provider Supaswift (Pty) Ltd. in five countries in Southern Africa. In addition, on September 2, 2013, we entered into an agreement to acquire Supaswift's business in two additional countries. This acquisition will be funded with cash from operations and is expected to be completed in the fourth quarter of 2014, subject to customary closing conditions. The financial results of the acquired businesses will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2014 results.

***Outlook***

We expect earnings growth to continue in the fourth quarter of 2014, driven by ongoing improvements in the results of all of our transportation segments. However, our expected results for the fourth quarter of 2014 will continue to be constrained by moderate growth in the global economy and continued challenges from the demand shift trend from our priority international services to our economy international services at FedEx Express.

As of February 28, 2014, approximately 75% of the 3,600 employees accepting voluntary cash buyouts vacated their positions. The remaining 25% will depart by May 31, 2014. Our third quarter results include a benefit from the voluntary severance program and additional benefits realized from our voluntary severance program will continue as the fiscal year progresses and the remaining scheduled employee departures occur.

During the nine months of 2014, we continued to execute on the profit improvement programs we announced in 2013. These activities are focused primarily at FedEx Express and FedEx Services. As previously noted, the majority of the benefits from our profit improvement programs will not occur until 2015 and 2016. Our ability to achieve the profit improvement target and other benefits from these programs is dependent upon a number of factors, including the health of the global economy and future customer demand, particularly for our priority services.

*Other Outlook Matters.* For details on key 2014 capital projects, refer to the "Liquidity Outlook" section 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. Historically, our fuel surcharges have largely offset incremental fuel costs; however, volatility in fuel costs may impact earnings because adjustments to our fuel surcharges lag changes in actual fuel prices paid. Therefore, the trailing impact of adjustments to our fuel surcharges can significantly affect our earnings either positively or negatively in the short-term.

As described in Note 8 of the accompanying unaudited condensed consolidated financial statements and the "Independent Contractor Model" section of our FedEx Ground segment MD&A, we are involved in a number of lawsuits and other proceedings that challenge the status of FedEx Ground's owner-operators as independent contractors. FedEx Ground anticipates continuing changes to its relationships with its owner-operators. The nature, timing and amount of any changes are dependent on the outcome of numerous future events. We cannot reasonably estimate the potential impact of any such changes or a meaningful range of potential outcomes, although they could be material. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business.

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

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**Table of Contents*****RECENT ACCOUNTING GUIDANCE***

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

On June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. We have adopted this guidance by including expanded accumulated other comprehensive income disclosure requirements in Note 2 of our condensed consolidated financial statements.

While no other new accounting guidance was adopted or issued during the nine months of 2014 that is relevant to the readers of our financial statements, there are numerous proposals under development which, if and when enacted, may have a significant impact on our financial reporting, as described in our Annual Report.

***REPORTABLE SEGMENTS***

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

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

***FEDEX SERVICES SEGMENT***

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

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

transportation segments based on operating income (inclusive of FedEx Services segment allocations). For the FedEx Services segment, performance is evaluated based on the impact of its total allocated net operating costs on our transportation segments.

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The operating expenses line item "Intercompany charges" on the accompanying unaudited financial summaries of our transportation segments reflects the allocations from the FedEx Services segment to the respective transportation segments. The "Intercompany charges" caption also includes charges and credits for administrative services provided between operating companies and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions and our allocation methodologies are refined as necessary to reflect changes in our businesses.

***OTHER INTERSEGMENT TRANSACTIONS***

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



**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 table compares revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) for the periods ended February 28:

|                                            | Three Months Ended |          | Percent | Nine Months Ended |          | Percent |
|--------------------------------------------|--------------------|----------|---------|-------------------|----------|---------|
|                                            | 2014               | 2013     | Change  | 2014              | 2013     | Change  |
| <b>Revenues:</b>                           |                    |          |         |                   |          |         |
| <b>Package:</b>                            |                    |          |         |                   |          |         |
| U.S. overnight box                         | \$ 1,643           | \$ 1,609 | 2       | \$ 4,852          | \$ 4,822 | 1       |
| U.S. overnight envelope                    | 393                | 413      | (5)     | 1,210             | 1,252    | (3)     |
| U.S. deferred                              | 869                | 812      | 7       | 2,369             | 2,246    | 5       |
| Total U.S. domestic package revenue        | 2,905              | 2,834    | 3       | 8,431             | 8,320    | 1       |
| International priority                     | 1,542              | 1,567    | (2)     | 4,760             | 4,906    | (3)     |
| International economy                      | 540                | 491      | 10      | 1,639             | 1,492    | 10      |
| Total international export package revenue | 2,082              | 2,058    | 1       | 6,399             | 6,398    |         |
| International domestic <sup>(1)</sup>      | 347                | 342      | 1       | 1,077             | 1,035    | 4       |
| Total package revenue                      | 5,334              | 5,234    | 2       | 15,907            | 15,753   | 1       |
| <b>Freight:</b>                            |                    |          |         |                   |          |         |
| U.S.                                       | 577                | 668      | (14)    | 1,786             | 1,923    | (7)     |
| International priority                     | 379                | 384      | (1)     | 1,184             | 1,269    | (7)     |
| International airfreight                   | 48                 | 64       | (25)    | 157               | 215      | (27)    |
| Total freight revenue                      | 1,004              | 1,116    | (10)    | 3,127             | 3,407    | (8)     |
| Other <sup>(2)</sup>                       | 336                | 354      | (5)     | 1,089             | 1,034    | 5       |
| Total revenues                             | 6,674              | 6,704    |         | 20,123            | 20,194   |         |
| <b>Operating expenses:</b>                 |                    |          |         |                   |          |         |
| Salaries and employee benefits             | 2,509              | 2,539    | (1)     | 7,418             | 7,500    | (1)     |
| Purchased transportation                   | 608                | 583      | 4       | 1,876             | 1,728    | 9       |
| Rentals and landing fees                   | 432                | 429      | 1       | 1,273             | 1,262    | 1       |
| Depreciation and amortization              | 374                | 334      | 12      | 1,116             | 993      | 12      |
| Fuel                                       | 1,010              | 1,066    | (5)     | 2,952             | 3,126    | (6)     |
| Maintenance and repairs                    | 273                | 262      | 4       | 888               | 983      | (10)    |
| Business realignment costs <sup>(3)</sup>  |                    | 13       | NM      |                   | 14       | NM      |
| Intercompany charges <sup>(4)</sup>        | 507                | 548      | (7)     | 1,514             | 1,620    | (7)     |
| Other <sup>(5)</sup>                       | 826                | 812      | 2       | 2,389             | 2,413    | (1)     |

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|                          |        |        |      |        |        |      |
|--------------------------|--------|--------|------|--------|--------|------|
| Total operating expenses | 6,539  | 6,586  | (1)  | 19,426 | 19,639 | (1)  |
| Operating income         | \$ 135 | \$ 118 | 14   | \$ 697 | \$ 555 | 26   |
| Operating margin         | 2.0%   | 1.8%   | 20bp | 3.5%   | 2.7%   | 80bp |

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|                                           | Percent of Revenue         |       |                           |       |
|-------------------------------------------|----------------------------|-------|---------------------------|-------|
|                                           | Three Months Ended<br>2014 | 2013  | Nine Months Ended<br>2014 | 2013  |
| Operating expenses:                       |                            |       |                           |       |
| Salaries and employee benefits            | 37.6%                      | 37.8% | 36.9%                     | 37.1% |
| Purchased transportation                  | 9.1                        | 8.7   | 9.3                       | 8.6   |
| Rentals and landing fees                  | 6.5                        | 6.4   | 6.3                       | 6.2   |
| Depreciation and amortization             | 5.6                        | 5.0   | 5.5                       | 4.9   |
| Fuel                                      | 15.1                       | 15.9  | 14.7                      | 15.5  |
| Maintenance and repairs                   | 4.1                        | 3.9   | 4.4                       | 4.9   |
| Business realignment costs <sup>(3)</sup> |                            | 0.2   |                           | 0.1   |
| Intercompany charges <sup>(4)</sup>       | 7.6                        | 8.2   | 7.5                       | 8.0   |
| Other <sup>(5)</sup>                      | 12.4                       | 12.1  | 11.9                      | 12.0  |
| Total operating expenses                  | 98.0                       | 98.2  | 96.5                      | 97.3  |
| Operating margin                          | 2.0%                       | 1.8%  | 3.5%                      | 2.7%  |

(1) International domestic revenues represent our international intra-country express operations, including acquisitions in Poland (June 2012), France (July 2012) and Brazil (July 2012).

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

(3) Includes predominantly severance costs associated with our voluntary employee buyout program.

(4) Includes allocations of \$21 million in the third quarter and \$31 million in the nine months of 2013 for business realignment costs.

(5) Includes predominantly costs associated with outside service contracts (such as security, facility services and cargo handling), professional fees, uniforms, insurance and advertising.

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The following table compares selected statistics (in thousands, except yield amounts) for the periods ended February 28:

|                                         | Three Months Ended |          | Percent | Nine Months Ended |          | Percent |
|-----------------------------------------|--------------------|----------|---------|-------------------|----------|---------|
|                                         | 2014               | 2013     | Change  | 2014              | 2013     | Change  |
| <b>Package Statistics<sup>(1)</sup></b> |                    |          |         |                   |          |         |
| Average daily package volume (ADV):     |                    |          |         |                   |          |         |
| U.S. overnight box                      | 1,202              | 1,176    | 2       | 1,153             | 1,135    | 2       |
| U.S. overnight envelope                 | 515                | 569      | (9)     | 538               | 570      | (6)     |
| U.S. deferred                           | 984                | 944      | 4       | 871               | 843      | 3       |
| Total U.S. domestic ADV                 | 2,701              | 2,689    |         | 2,562             | 2,548    | 1       |
| International priority                  | 399                | 420      | (5)     | 409               | 424      | (4)     |
| International economy                   | 168                | 155      | 8       | 168               | 152      | 11      |
| Total international export ADV          | 567                | 575      | (1)     | 577               | 576      |         |
| International domestic <sup>(2)</sup>   | 780                | 781      |         | 822               | 781      | 5       |
| Total ADV                               | 4,048              | 4,045    |         | 3,961             | 3,905    | 1       |
| Revenue per package (yield):            |                    |          |         |                   |          |         |
| U.S. overnight box                      | \$ 21.70           | \$ 22.08 | (2)     | \$ 22.15          | \$ 22.35 | (1)     |
| U.S. overnight envelope                 | 12.09              | 11.69    | 3       | 11.84             | 11.57    | 2       |
| U.S. deferred                           | 14.01              | 13.87    | 1       | 14.31             | 14.02    | 2       |
| U.S. domestic composite                 | 17.07              | 17.00    |         | 17.32             | 17.18    | 1       |
| International priority                  | 61.38              | 60.25    | 2       | 61.30             | 60.93    | 1       |
| International economy                   | 51.01              | 51.03    |         | 51.24             | 51.72    | (1)     |
| International export composite          | 58.30              | 57.76    | 1       | 58.37             | 58.50    |         |
| International domestic <sup>(2)</sup>   | 7.05               | 7.06     |         | 6.90              | 6.98     | (1)     |
| Composite package yield                 | 20.91              | 20.87    |         | 21.14             | 21.23    |         |
| <b>Freight Statistics<sup>(1)</sup></b> |                    |          |         |                   |          |         |
| Average daily freight pounds:           |                    |          |         |                   |          |         |
| U.S.                                    | 8,263              | 8,324    | (1)     | 7,850             | 7,697    | 2       |
| International priority                  | 2,823              | 2,894    | (2)     | 2,917             | 3,098    | (6)     |
| International airfreight                | 757                | 1,035    | (27)    | 839               | 1,102    | (24)    |
| Total average daily freight pounds      | 11,843             | 12,253   | (3)     | 11,606            | 11,897   | (2)     |
| Revenue per pound (yield):              |                    |          |         |                   |          |         |
| U.S.                                    | \$ 1.11            | \$ 1.30  | (15)    | \$ 1.20           | \$ 1.31  | (8)     |
| International priority                  | 2.13               | 2.14     |         | 2.14              | 2.15     |         |
| International airfreight                | 1.00               | 0.99     | 1       | 0.98              | 1.03     | (5)     |
| Composite freight yield                 | 1.35               | 1.47     | (8)     | 1.42              | 1.51     | (6)     |

- (1) Package and freight statistics include only the operations of FedEx Express.
- (2) International domestic statistics represent our international intra-country express operations, including acquisitions in Poland (June 2012), France (July 2012) and Brazil (July 2012).

***FedEx Express Segment Revenues***

FedEx Express segment revenues were flat in the third quarter of 2014 due to the negative impact of lower freight revenue, lower fuel surcharges and unusually severe winter weather, offset by stronger base U.S. and international export package business and one additional operating day. Revenue in the nine months of 2014 was flat due to the negative impact of lower fuel surcharges, lower freight revenue and unusually severe winter weather, offset by stronger base U.S. and international export package business and the growth of our freight-forwarding business at FedEx Trade Networks. The demand shift from our priority international services to our economy international services continued to negatively impact our results.

Freight yields decreased 8% in the third quarter and 6% in the nine months of 2014 due to lower fuel surcharges and lower rates. Freight average daily pounds decreased by 3% in the third quarter and 2% in the nine months of 2014 due to weakness in global economic conditions and capacity reductions. U.S. domestic yields remained flat for the third quarter and increased 1% for the nine months of 2014 primarily due to higher rates and weight per package, partially offset by lower fuel surcharges. International export package revenues increased 1% in the third quarter and remained flat in the nine months of 2014 as base business growth was offset

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by lower fuel surcharges, unfavorable exchange rate impact, and the demand shift to our lower-yielding economy services. International priority yields increased 2% in the third quarter of 2014, while international priority volumes declined 5%. Within this category, volumes for lower-yielding distribution services declined, while international priority volumes, excluding these distribution services, were flat. International domestic average daily volumes remained flat in the third quarter and increased 5% in the nine months of 2014 due to international business acquisitions during the first quarter of 2013.

Our fuel surcharges are indexed to the spot price for jet fuel. Using this index, the U.S. domestic and outbound fuel surcharge and the international fuel surcharges ranged as follows for the periods ended February 28:

|                                                   | Three Months Ended |        | Nine Months Ended |        |
|---------------------------------------------------|--------------------|--------|-------------------|--------|
|                                                   | 2014               | 2013   | 2014              | 2013   |
| <b>U.S. Domestic and Outbound Fuel Surcharge:</b> |                    |        |                   |        |
| Low                                               | 9.00%              | 10.00% | 8.00%             | 10.00% |
| High                                              | 10.00              | 13.50  | 10.50             | 14.50  |
| Weighted-average                                  | 9.49               | 11.29  | 9.34              | 12.14  |
| <b>International Fuel Surcharges:</b>             |                    |        |                   |        |
| Low                                               | 13.00              | 14.00  | 12.00             | 12.00  |
| High                                              | 18.50              | 19.00  | 19.00             | 20.50  |
| Weighted-average                                  | 16.31              | 16.96  | 16.16             | 16.78  |

In January 2014, we implemented a 3.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services. In January 2013, we implemented a 5.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services, while we lowered our fuel surcharge index by two percentage points.

***FedEx Express Segment Operating Income***

FedEx Express operating income and operating margin increased in the third quarter of 2014 due to stronger U.S. and international export package business and lower pension expense, partially offset by lower freight revenues, an estimated \$70 million year over year negative impact of severe winter weather and higher depreciation expense. In addition, operating income in the third quarter of 2014 benefited from one additional operating day and from the inclusion of costs associated with our business realignment program in the prior year results. Operating income in the third quarter of 2014 also reflects a significant negative net impact of fuel. Operating income in the nine months of 2014 improved due to stronger base U.S. and international export package business, lower pension expense and lower maintenance expense, offset by higher depreciation expense, the significant negative net impact of fuel and severe winter weather.

In the third quarter and nine months of 2014, salaries and employee benefits included lower pension expense, the delayed timing or absence of annual merit increases for many of our employees and benefits from our voluntary employee severance program. Intercompany charges decreased 7% in the third quarter and nine months of 2014 due to lower allocated sales and information technology costs, as well as the inclusion in the prior year results of costs associated with the business realignment program at FedEx Services. Depreciation and amortization expense increased 12% during the third quarter and nine months of 2014 as a result of accelerated depreciation due to the shortened life of certain aircraft scheduled for retirement, and aircraft recently placed into service. Purchased transportation costs increased 4% in the third quarter of 2014 due to higher utilization of third-party transportation providers and increased 9% in the nine months of 2014 due to higher utilization of third-party transportation

providers, prior year international acquisitions and costs associated with the expansion of our freight-forwarding business at FedEx Trade Networks.

FedEx Express aircraft maintenance and repairs costs are largely driven by aircraft utilization and required periodic maintenance events. When newer aircraft are introduced into our operating fleet, less maintenance costs are incurred. As a part of our fleet

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modernization program, FedEx Express has retired older, less efficient aircraft prior to required periodic maintenance events and has introduced newly manufactured aircraft into the fleet. FedEx Express aircraft maintenance and repairs costs increased 4% in the third quarter but decreased 10% in the nine months of 2014, as the benefits from the fourth quarter of 2013 retirement of 10 aircraft and related engines due to elimination of maintenance events for certain of these engines were offset by the impact of certain maintenance events during the third quarter.

Fuel costs decreased 5% in the third quarter and 6% in the nine months of 2014 due to lower average price per gallon of jet fuel and lower aircraft fuel usage. Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a significant negative impact on operating income in the third quarter and nine months of 2014. This analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services.



**Table of Contents****FEDEX GROUND SEGMENT**

FedEx Ground service offerings include day-certain service delivery to businesses in the United States and Canada and to nearly 100% of U.S. residences. FedEx SmartPost consolidates high-volume, low-weight, less time-sensitive business-to-consumer packages and utilizes the United States Postal Service ( USPS ) for final delivery. The following table compares revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) and selected package statistics (in thousands, except yield amounts) for the periods ended February 28:

|                                     | Three Months Ended |          | Percent | Nine Months Ended |          | Percent |
|-------------------------------------|--------------------|----------|---------|-------------------|----------|---------|
|                                     | 2014               | 2013     | Change  | 2014              | 2013     | Change  |
| <b>Revenues:</b>                    |                    |          |         |                   |          |         |
| FedEx Ground                        | \$ 2,751           | \$ 2,480 | 11      | \$ 7,858          | \$ 7,112 | 10      |
| FedEx SmartPost                     | 280                | 267      | 5       | 752               | 690      | 9       |
| Total revenues                      | 3,031              | 2,747    | 10      | 8,610             | 7,802    | 10      |
| <b>Operating expenses:</b>          |                    |          |         |                   |          |         |
| Salaries and employee benefits      | 460                | 405      | 14      | 1,319             | 1,178    | 12      |
| Purchased transportation            | 1,253              | 1,121    | 12      | 3,476             | 3,124    | 11      |
| Rentals                             | 105                | 86       | 22      | 299               | 245      | 22      |
| Depreciation and amortization       | 121                | 111      | 9       | 350               | 324      | 8       |
| Fuel                                | 7                  | 6        | 17      | 14                | 13       | 8       |
| Maintenance and repairs             | 57                 | 48       | 19      | 166               | 140      | 19      |
| Intercompany charges                | 287                | 270      | 6       | 864               | 794      | 9       |
| Other <sup>(1)</sup>                | 264                | 233      | 13      | 753               | 660      | 14      |
| Total operating expenses            | 2,554              | 2,280    | 12      | 7,241             | 6,478    | 12      |
| Operating income                    | \$ 477             | \$ 467   | 2       | \$ 1,369          | \$ 1,324 | 3       |
| Operating margin                    | 15.7%              | 17.0%    | (130)bp | 15.9%             | 17.0%    | (110)bp |
| <b>Average daily package volume</b> |                    |          |         |                   |          |         |
| FedEx Ground                        | 4,817              | 4,476    | 8       | 4,584             | 4,214    | 9       |
| FedEx SmartPost                     | 2,529              | 2,477    | 2       | 2,276             | 2,051    | 11      |
| <b>Revenue per package (yield)</b>  |                    |          |         |                   |          |         |
| FedEx Ground                        | \$ 9.04            | \$ 8.92  | 1       | \$ 9.00           | \$ 8.86  | 2       |
| FedEx SmartPost                     | \$ 1.82            | \$ 1.77  | 3       | \$ 1.76           | \$ 1.78  | (1)     |

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|                                | Percent of Revenue         |                            |                           |                           |
|--------------------------------|----------------------------|----------------------------|---------------------------|---------------------------|
|                                | Three Months Ended<br>2014 | Three Months Ended<br>2013 | Nine Months Ended<br>2014 | Nine Months Ended<br>2013 |
| Operating expenses:            |                            |                            |                           |                           |
| Salaries and employee benefits | 15.2%                      | 14.8%                      | 15.3%                     | 15.1%                     |
| Purchased transportation       | 41.3                       | 40.8                       | 40.4                      | 40.0                      |
| Rentals                        | 3.5                        | 3.1                        | 3.5                       | 3.1                       |
| Depreciation and amortization  | 4.0                        | 4.0                        | 4.1                       | 4.1                       |
| Fuel                           | 0.2                        | 0.2                        | 0.2                       | 0.2                       |
| Maintenance and repairs        | 1.9                        | 1.8                        | 1.9                       | 1.8                       |
| Intercompany charges           | 9.5                        | 9.8                        | 10.0                      | 10.2                      |
| Other <sup>(1)</sup>           | 8.7                        | 8.5                        | 8.7                       | 8.5                       |
| Total operating expenses       | 84.3                       | 83.0                       | 84.1                      | 83.0                      |
| Operating margin               | 15.7%                      | 17.0%                      | 15.9%                     | 17.0%                     |

<sup>(1)</sup> Includes predominantly costs associated with outside service contracts (such as security and facility services), insurance and professional fees.

**FedEx Ground Segment Revenues**

FedEx Ground segment revenues increased 10% in the third quarter and nine months of 2014 due to both volume and yield growth at FedEx Ground and volume growth at FedEx SmartPost. In addition, third quarter revenues were negatively impacted by unusually severe winter weather partially offset by one additional operating day.

Average daily volume at FedEx Ground increased 8% during the third quarter and 9% in the nine months of 2014 due to market share gains resulting from continued growth in our FedEx Home Delivery service and commercial business. FedEx Ground yield increased 1% during the third quarter and 2% during the nine months of 2014 primarily due to rate increases and higher residential surcharges, partially offset by lower fuel surcharge revenue.

FedEx SmartPost volumes grew 2% during the third quarter of 2014, primarily due to the delayed start of the holiday shipping season as Cyber Week occurred in December this year versus November last year, and 11% during the nine months of 2014, primarily due to growth in e-commerce. Yields at FedEx SmartPost increased 3% during the third quarter of 2014 primarily due to rate increases and changes in service mix, partially offset by higher postage rates and lower fuel surcharges. Yields decreased 1% during the nine months of 2014 primarily due to higher postage costs and lower fuel surcharges, partially offset by rate increases. FedEx SmartPost yield represents the amount charged to customers net of postage paid to the USPS.

The FedEx Ground fuel surcharge is based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel, as published by the Department of Energy. Our fuel surcharge ranged as follows for the periods ended February 28:

Three Months Ended      Nine Months Ended

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|                  | 2014  | 2013  | 2014  | 2013  |
|------------------|-------|-------|-------|-------|
| Low              | 6.50% | 7.00% | 6.50% | 7.00% |
| High             | 6.50  | 8.50  | 7.00  | 8.50  |
| Weighted-average | 6.50  | 7.56  | 6.61  | 7.75  |

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

***FedEx Ground Segment Operating Income***

FedEx Ground segment operating income increased 2% during the third quarter and 3% during the nine months of 2014 driven by higher volumes and yields. The FedEx Ground segment operating income for the third quarter of 2014 includes an estimated \$40 million year over year negative impact of unusually severe winter weather. In addition, the increase to operating income for the third quarter and nine months of 2014 was partially offset by higher network expansion costs as we continue to invest heavily in the growing FedEx Ground and FedEx SmartPost businesses, the net negative impact of fuel and higher allocated fees. The FedEx Ground segment results for the third quarter of 2014 also benefited from the delayed start of the holiday shipping season this fiscal year and one additional operating day. The decline in operating margin for the third quarter and nine months of 2014 is primarily attributable to the negative impact of unusually severe winter weather and the negative net impact of fuel.

Salaries and employee benefits expense increased 14% during the third quarter and 12% during the nine months of 2014 primarily due to additional staffing to support volume growth. Rentals expense increased 22% in the third quarter and nine months of 2014 due to network expansion. Intercompany charges increased 6% in the third quarter and 9% in the nine months of 2014 primarily due to higher allocated marketing, information technology and sales costs.

***Independent Contractor Model***

Although FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax audits or other administrative challenges) where the classification of its independent contractors is at issue, a number of recent judicial decisions support our classification, and we believe our relationship with the contractors is generally excellent. For a description of these proceedings, see Risk Factors and Note 8 of the accompanying unaudited condensed consolidated financial statements.

For additional information on the FedEx Ground Independent Service Provider model, see Part 1, Item 1 of our Annual Report under the caption Independent Contractor Model.

**Table of Contents****FEDEX FREIGHT SEGMENT**

FedEx Freight service offerings include priority services when speed is critical and economy services when time can be traded for savings. The following table compares revenues, operating expenses, operating expenses as a percent of revenue, operating income (dollars in millions), operating margin and selected statistics for the periods ended February 28:

|                                            | Three Months Ended |          | Percent | Nine Months Ended |          | Percent |
|--------------------------------------------|--------------------|----------|---------|-------------------|----------|---------|
|                                            | 2014               | 2013     | Change  | 2014              | 2013     | Change  |
| Revenues                                   | \$ 1,347           | \$ 1,237 | 9       | \$ 4,205          | \$ 4,013 | 5       |
| Operating expenses:                        |                    |          |         |                   |          |         |
| Salaries and employee benefits             | 598                | 562      | 6       | 1,807             | 1,750    | 3       |
| Purchased transportation                   | 231                | 197      | 17      | 715               | 647      | 11      |
| Rentals                                    | 31                 | 30       | 3       | 94                | 88       | 7       |
| Depreciation and amortization              | 58                 | 55       | 5       | 172               | 160      | 8       |
| Fuel                                       | 146                | 142      | 3       | 436               | 447      | (2)     |
| Maintenance and repairs                    | 42                 | 45       | (7)     | 134               | 142      | (6)     |
| Business realignment costs                 |                    | 1        | NM      |                   | 1        | NM      |
| Intercompany charges                       | 111                | 109      | 2       | 349               | 330      | 6       |
| Other <sup>(1)</sup>                       | 101                | 92       | 10      | 301               | 278      | 8       |
| Total operating expenses                   | 1,318              | 1,233    | 7       | 4,008             | 3,843    | 4       |
| Operating income                           | \$ 29              | \$ 4     | NM      | \$ 197            | \$ 170   | 16      |
| Operating margin                           | 2.2%               | 0.3%     | 190bp   | 4.7%              | 4.2%     | 50bp    |
| Average daily LTL shipments (in thousands) |                    |          |         |                   |          |         |
| Priority                                   | 59.5               | 55.3     | 8       | 61.5              | 59.5     | 3       |
| Economy                                    | 26.3               | 25.2     | 4       | 27.3              | 26.2     | 4       |
| Total average daily LTL shipments          | 85.8               | 80.5     | 7       | 88.8              | 85.7     | 4       |
| Weight per LTL shipment (lbs)              |                    |          |         |                   |          |         |
| Priority                                   | 1,280              | 1,250    | 2       | 1,255             | 1,226    | 2       |
| Economy                                    | 1,002              | 989      | 1       | 995               | 993      |         |
| Composite weight per LTL shipment          | 1,195              | 1,168    | 2       | 1,175             | 1,154    | 2       |
| LTL yield (revenue per hundredweight)      |                    |          |         |                   |          |         |
| Priority                                   | \$ 17.54           | \$ 17.87 | (2)     | \$ 17.77          | \$ 17.91 | (1)     |
| Economy                                    | 25.71              | 26.17    | (2)     | 25.83             | 25.92    |         |
| Composite LTL yield                        | \$ 19.67           | \$ 20.10 | (2)     | \$ 19.88          | \$ 20.03 | (1)     |

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|                                 | Percent of Revenue         |                            |                           |                           |
|---------------------------------|----------------------------|----------------------------|---------------------------|---------------------------|
|                                 | Three Months Ended<br>2014 | Three Months Ended<br>2013 | Nine Months Ended<br>2014 | Nine Months Ended<br>2013 |
| Operating expenses:             |                            |                            |                           |                           |
| Salaries and employee benefits  | 44.4%                      | 45.4%                      | 43.0%                     | 43.6%                     |
| Purchased transportation        | 17.2                       | 15.9                       | 17.0                      | 16.1                      |
| Rentals                         | 2.3                        | 2.4                        | 2.2                       | 2.2                       |
| Depreciation and amortization   | 4.3                        | 4.5                        | 4.1                       | 4.0                       |
| Fuel                            | 10.8                       | 11.5                       | 10.4                      | 11.2                      |
| Maintenance and repairs         | 3.1                        | 3.6                        | 3.2                       | 3.6                       |
| Business realignment costs      |                            | 0.1                        |                           |                           |
| Intercompany charges            | 8.2                        | 8.8                        | 8.3                       | 8.2                       |
| Other <sup>(1)</sup>            | 7.5                        | 7.5                        | 7.1                       | 6.9                       |
| <b>Total operating expenses</b> | <b>97.8</b>                | <b>99.7</b>                | <b>95.3</b>               | <b>95.8</b>               |
| Operating margin                | 2.2%                       | 0.3%                       | 4.7%                      | 4.2%                      |

<sup>(1)</sup> Includes predominantly costs associated with insurance, professional fees and outside service contracts (such as security and facility services).

**FedEx Freight Segment Revenues**

FedEx Freight segment revenues increased 9% during the third quarter and 5% during the nine months of 2014 due to higher average daily LTL shipments and weight per LTL shipment. In addition, the third quarter of 2014 was positively impacted by one more operating day, partially offset by the negative impact of unusually severe winter weather.

Average daily LTL shipments increased 7% in the third quarter and 4% in the nine months of 2014 due to higher demand for our FedEx Freight Priority and FedEx Freight Economy service offerings. LTL yield (revenue per hundredweight) decreased 2% during the third quarter and 1% during the nine months of 2014 due to changes in shipment characteristics and lower fuel surcharges.

Revenue per hundredweight is a commonly-used indicator of pricing trends, but this metric can be influenced by many other factors, such as changes in fuel surcharges, weight per shipment, length of haul and the mix of freight. Generally, LTL freight is rated using the National Motor Freight Classification system which assigns classes based on transportation characteristics including density, risk and handling. Under the class system, low-value freight that is easy to handle, unlikely to damage and dense will receive lower class ratings (and lower yields) than expensive, light, bulky freight which is highly susceptible to damage (and produces higher yields). As a result, changes in revenue per hundredweight do not necessarily indicate actual changes in underlying base rates.

The weekly indexed LTL fuel surcharge is based on the average of the U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. The indexed LTL fuel surcharge ranged as follows for the periods ended February 28:

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|                  | Three Months Ended |        | Nine Months Ended |        |
|------------------|--------------------|--------|-------------------|--------|
|                  | 2014               | 2013   | 2014              | 2013   |
| Low              | 23.00%             | 23.10% | 22.70%            | 21.80% |
| High             | 23.70              | 24.40  | 23.70             | 24.40  |
| Weighted-average | 23.20              | 23.60  | 23.10             | 23.28  |

On March 3, 2014, FedEx Freight announced it will increase certain U.S. and other shipping rates by an average of 3.9% effective on March 31, 2014. In July 2013, FedEx Freight increased certain U.S. and other shipping rates by an average of 4.5%. In July 2012, FedEx Freight increased certain U.S. and other shipping rates by an average of 6.9%.

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***FedEx Freight Segment Operating Income***

FedEx Freight segment operating income and operating margin increased in the third quarter and nine months of 2014 due to the positive impacts of higher average daily LTL shipments, higher LTL weight per shipment and greater utilization of rail in the FedEx Freight Economy service offering. FedEx Freight operating income in the third quarter of 2014 includes the year over year negative impact of unusually severe winter weather, partially offset by one additional operating day. In addition, operating income in the nine months of 2014 was negatively impacted by higher allocated intercompany costs.

Purchased transportation expense increased 17% in the third quarter and 11% in the nine months of 2014 due to increased use of rail and road third-party transportation providers and higher rates. Salaries and employee benefits increased 6% in the third quarter and 3% in the nine months of 2014 primarily due to a volume-related increase in labor hours. Other operating expenses increased 10% in the third quarter, primarily due to higher snow removal expense, and 8% in the nine months of 2014 due to higher bad debt expense and real estate taxes. Intercompany charges increased 2% in the third quarter and 6% in the nine months of 2014 primarily due to higher allocated sales costs.

Fuel costs increased 3% during the third quarter of 2014 due to higher average daily LTL shipments. Fuel costs decreased 2% during the nine months of 2014 due to increased use of purchased transportation, lower average price per gallon of diesel fuel and fuel efficiency improvements. Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a minimal impact on operating income in the third quarter and the nine months of 2014.



**Table of Contents****FINANCIAL CONDITION*****LIQUIDITY***

Cash and cash equivalents totaled \$3.0 billion at February 28, 2014, compared to \$4.9 billion at May 31, 2013. The following table provides a summary of our cash flows for the nine-month periods ended February 28 (in millions):

|                                                                               | 2014              | 2013           |
|-------------------------------------------------------------------------------|-------------------|----------------|
| <b>Operating activities:</b>                                                  |                   |                |
| Net income                                                                    | \$ 1,367          | \$ 1,258       |
| Noncash charges and credits                                                   | 2,519             | 2,474          |
| Changes in assets and liabilities                                             | (1,308)           | (756)          |
| <b>Cash provided by operating activities</b>                                  | <b>2,578</b>      | <b>2,976</b>   |
| <b>Investing activities:</b>                                                  |                   |                |
| Capital expenditures                                                          | (2,554)           | (2,430)        |
| Business acquisitions, net of cash acquired                                   |                   | (483)          |
| Proceeds from asset dispositions and other                                    | 23                | 45             |
| <b>Cash used in investing activities</b>                                      | <b>(2,531)</b>    | <b>(2,868)</b> |
| <b>Financing activities:</b>                                                  |                   |                |
| Principal payments on debt                                                    | (254)             | (417)          |
| Proceeds from debt issuances                                                  | 1,997             | 991            |
| Proceeds from stock issuances                                                 | 462               | 221            |
| Dividends paid                                                                | (142)             | (132)          |
| Purchase of treasury stock, including accelerated share repurchase agreements | (3,984)           | (246)          |
| Other                                                                         | 9                 |                |
| <b>Cash (used in) provided by financing activities</b>                        | <b>(1,912)</b>    | <b>417</b>     |
| <b>Effect of exchange rate changes on cash</b>                                | <b>(10)</b>       | <b>4</b>       |
| <b>Net (decrease) increase in cash and cash equivalents</b>                   | <b>\$ (1,875)</b> | <b>\$ 529</b>  |

Cash flows from operating activities decreased \$398 million in the nine months of 2014 primarily due to an income tax refund received in the prior year, voluntary employee severance program payouts and higher income tax payments, partially offset by higher net income. We made contributions of \$495 million to our tax qualified U.S. domestic pension plans ( U.S. Pension Plans ) during the nine months of 2014 and \$420 million in contributions to our U.S. Pension Plans during the nine months of 2013. Capital expenditures during the nine months of 2014 were higher primarily due to increased spending for sort facility expansion at FedEx Ground and aircraft at FedEx Express. See **Capital Resources** for a discussion of capital expenditures during 2014 and 2013.

During the third quarter of 2014, we repaid our \$250 million 7.38% senior unsecured notes that matured on January 15, 2014. During the quarter, we issued \$2.0 billion of senior unsecured debt under our current shelf

registration statement, comprised of \$750 million of 4.00% fixed-rate notes due in January 2024, \$500 million of 4.90% fixed-rate notes due in January 2034 and \$750 million of 5.10% fixed-rate notes due in January 2044. Interest on these notes is paid semiannually. We utilized the net proceeds to finance the ASR agreements as discussed below.

In October 2013, our Board of Directors authorized a new share repurchase program of up to 32 million shares of common stock. Shares may be purchased from time to time in the open market or in privately negotiated transactions. Repurchases are made at the company's discretion, based on ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. No time limit was set for the completion of the repurchase program, and the program may be suspended or discontinued at any time.

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In January 2014, we entered into ASR agreements with two banks to repurchase an aggregate of \$2.0 billion of our common stock. During the third quarter of 2014, 11.4 million shares were initially delivered to us based on then-current market prices. This does not represent the final number of shares to be delivered under the ASR agreements. The final number of shares to be purchased under each ASR agreement will be based on a discount to the volume-weighted average price of our stock during the term of the respective transaction. Purchases under the ASR agreements are expected to be completed prior to the end of 2014. See Note 1 of the accompanying unaudited condensed consolidated financial statements for additional information regarding the ASR agreements.

During the nine months of 2014, in addition to the ASR transactions, we repurchased 15.6 million shares of FedEx common stock at an average price of \$128 per share for a total of \$2.0 billion. As of February 28, 2014, 15.2 million shares remained under our share repurchase authorization.

**CAPITAL RESOURCES**

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

The following table compares capital expenditures by asset category and reportable segment for the periods ended February 28 (in millions):

|                                        | Three Months Ended |        | Nine Months Ended |          | Percent Change<br>2014/2013 |                      |
|----------------------------------------|--------------------|--------|-------------------|----------|-----------------------------|----------------------|
|                                        | 2014               | 2013   | 2014              | 2013     | Three Month<br>Ended        | Nine Months<br>Ended |
| Aircraft and related equipment         | \$ 308             | \$ 95  | \$ 1,001          | \$ 926   | 224                         | 8                    |
| Facilities and sort equipment          | 215                | 169    | 545               | 454      | 27                          | 20                   |
| Vehicles                               | 210                | 106    | 634               | 610      | 98                          | 4                    |
| Information and technology investments | 91                 | 100    | 253               | 272      | (9)                         | (7)                  |
| Other equipment                        | 40                 | 72     | 121               | 168      | (44)                        | (28)                 |
| Total capital expenditures             | \$ 864             | \$ 542 | \$ 2,554          | \$ 2,430 | 59                          | 5                    |
| FedEx Express segment                  | \$ 472             | \$ 260 | \$ 1,467          | \$ 1,526 | 82                          | (4)                  |
| FedEx Ground segment                   | 199                | 102    | 609               | 365      | 95                          | 67                   |
| FedEx Freight segment                  | 110                | 80     | 250               | 263      | 38                          | (5)                  |
| FedEx Services segment                 | 83                 | 100    | 228               | 273      | (17)                        | (16)                 |
| Other                                  |                    |        |                   | 3        |                             | NM                   |
| Total capital expenditures             | \$ 864             | \$ 542 | \$ 2,554          | \$ 2,430 | 59                          | 5                    |

Capital expenditures during the nine months of 2014 were higher than the prior-year period primarily due to increased spending for sort facility expansion at FedEx Ground and aircraft at FedEx Express. Aircraft and related equipment expenditures at FedEx Express during the nine months of 2014 included 13 Boeing 757 ( B757 ) aircraft, four Boeing

767-300 Freighter ( B767F) aircraft and two Boeing 777 Freighter ( B777F ) aircraft, as well as the modification of certain aircraft before being placed into service.

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**Table of Contents*****LIQUIDITY OUTLOOK***

We believe that our existing cash and cash equivalents, cash flow from operations and available financing sources are adequate to meet our liquidity needs, including working capital, capital expenditure requirements and debt payment obligations. Our cash and cash equivalents balance at February 28, 2014 includes \$450 million of cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations. Although we expect higher capital expenditures in 2014, we anticipate that our cash flow from operations will be sufficient to fund these expenditures. Historically, we have been successful in obtaining unsecured financing, from both domestic and international sources, although the marketplace for such investment capital can become restricted depending on a variety of economic factors.

Our capital expenditures are expected to be approximately \$3.8 billion in 2014 and include spending for aircraft and related equipment at FedEx Express, facility projects at FedEx Express and FedEx Ground and vehicle replacement at all our transportation segments. We invested \$1.0 billion in aircraft and aircraft-related equipment in the nine months of 2014 and expect to invest approximately \$399 million for aircraft and aircraft-related equipment during the remainder of 2014.

The FedEx Express global air and ground network includes a fleet of over 640 aircraft (including approximately 300 supplemental aircraft) that provide delivery of packages and freight to more than 220 countries and territories through a wide range of U.S. and international shipping services. While certain aircraft are utilized in primary geographic areas (U.S. versus international), we operate an integrated global network, and utilize our aircraft and other modes of transportation to achieve the lowest cost of delivery while maintaining our service commitments to our customers. Because of the integrated nature of our global network, our aircraft are interchangeable across routes and geographies, giving us flexibility with our fleet planning to meet changing global economic conditions and maintain and modify aircraft as needed.

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

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

A \$1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in March 2018. The agreement contains a financial covenant, which requires us to maintain a leverage ratio of adjusted debt (long-term debt, including the current portion of such debt, plus six times our last four fiscal quarters' rentals and landing fees) to capital (adjusted debt plus total common stockholders' investment) that does not exceed 70%. Our leverage ratio of adjusted debt to capital was 57% at February 28, 2014. We believe the leverage ratio covenant is our only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of February 28, 2014, no commercial paper was outstanding and the entire \$1 billion under the revolving credit facility was available for future borrowings.

In March 2014, we made \$165 million in required contributions to our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments. We have no additional required contributions to our U.S. Pension Plans for the remainder of 2014.

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

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On December 10, 2013, FedEx Express entered into an agreement with The Boeing Company for the purchase of two B767F aircraft, the delivery of which will occur in 2016 and 2017. FedEx Express also deferred 11 existing options to purchase B777F aircraft by two years.

**CONTRACTUAL CASH OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS**

The following table sets forth a summary of our contractual cash obligations as of February 28, 2014. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States. Except for the current portion of interest on long-term debt, this table does not include amounts already recorded in our balance sheet as current liabilities at February 28, 2014. We have certain contingent liabilities that are not accrued in our balance sheet in accordance with accounting principles generally accepted in the United States. These contingent liabilities are not included in the table below. We have other long-term liabilities reflected in our balance sheet, including deferred income taxes, qualified and nonqualified pension and postretirement healthcare plan liabilities and other self-insurance accruals. The payment obligations associated with these liabilities are not reflected in the table below due to the absence of scheduled maturities. Accordingly, this table is not meant to represent a forecast of our total cash expenditures for any of the periods presented.

|                                                   | Payments Due by Fiscal Year (Undiscounted) |          |          |          |          |            |           |
|---------------------------------------------------|--------------------------------------------|----------|----------|----------|----------|------------|-----------|
|                                                   | (in millions)                              |          |          |          |          |            |           |
|                                                   | 2014 <sup>(1)</sup>                        | 2015     | 2016     | 2017     | 2018     | Thereafter | Total     |
| Operating activities:                             |                                            |          |          |          |          |            |           |
| Operating leases                                  | \$ 491                                     | \$ 2,006 | \$ 1,818 | \$ 1,853 | \$ 1,386 | \$ 7,502   | \$ 15,056 |
| Non-capital purchase obligations and other        | 96                                         | 260      | 178      | 112      | 48       | 116        | 810       |
| Interest on long-term debt                        | 14                                         | 232      | 231      | 231      | 231      | 4,156      | 5,095     |
| Quarterly contributions to our U.S. Pension Plans | 165                                        |          |          |          |          |            | 165       |
| Investing activities:                             |                                            |          |          |          |          |            |           |
| Aircraft and aircraft-related capital commitments | 217                                        | 1,155    | 1,215    | 955      | 1,396    | 5,388      | 10,326    |
| Other capital purchase obligations                | 22                                         | 3        | 1        |          |          |            | 26        |
| Financing activities:                             |                                            |          |          |          |          |            |           |
| Debt                                              |                                            |          |          |          |          | 4,740      | 4,740     |
| Total                                             | \$ 1,005                                   | \$ 3,656 | \$ 3,443 | \$ 3,151 | \$ 3,061 | \$ 21,902  | \$ 36,218 |

<sup>(1)</sup> Cash obligations for the remainder of 2014.

Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above. Such purchase orders often represent authorizations to purchase rather than binding agreements. See Note 7 of the accompanying unaudited condensed consolidated financial statements for more information.

*Operating Activities*

The amounts reflected in the table above for operating leases represent future minimum lease payments under noncancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at February 28, 2014.

Included in the table above within the caption entitled "Non-capital purchase obligations and other" is our estimate of the current portion of the liability (\$1 million) for uncertain tax positions and amounts for purchase obligations that represent noncancelable agreements to purchase goods or services that are not capital related. Such contracts include those for printing and advertising and

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promotions contracts. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability for uncertain tax positions will increase or decrease over time; therefore, the long-term portion of the liability for uncertain tax positions (\$36 million) is excluded from the table.

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

We had \$272 million in deposits and progress payments as of February 28, 2014 on aircraft purchases and other planned aircraft-related transactions.

### *Investing Activities*

The amounts reflected in the table above for capital purchase obligations represent noncancelable agreements to purchase capital-related equipment. Such contracts include those for certain purchases of aircraft, aircraft modifications, vehicles, facilities, computers and other equipment.

### *Financing Activities*

The amounts reflected in the table above for long-term debt represent future scheduled payments on our long-term debt. For the remainder of 2014, we have no scheduled principal debt payments.

Additional information on amounts included within the operating, investing and financing activities captions in the table above can be found in our Annual Report.

## **CRITICAL ACCOUNTING ESTIMATES**

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

**GOODWILL.** Goodwill is tested for impairment between annual tests whenever events or circumstances make it more likely than not that the fair value of a reporting unit has fallen below its carrying value. We do not believe there has been any change of events or circumstances that would indicate that a reevaluation of the goodwill of our reporting units is required as of February 28, 2014, nor do we believe the goodwill of our reporting units is at risk of failing impairment testing. For additional details on goodwill impairment testing, refer to Note 1 of our Annual Report.

Information regarding our critical accounting estimates can be found in our Annual Report, including Note 1 to the financial statements therein. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm.

## **FORWARD-LOOKING STATEMENTS**

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Certain statements in this report, including (but not limited to) those contained in Outlook, Liquidity, Capital Resources, Liquidity Outlook, Contractual Cash Obligations and Critical Accounting Estimates, and the General, Retirement Plans, and Contingencies notes to the consolidated financial statements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations, cash flows,

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plans, objectives, future performance and business. Forward-looking statements include those preceded by, followed by or that include the words may, could, would, should, believes, expects, anticipates, plans, estimates, projects, intends or similar expressions. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements, because of, among other things, potential risks and uncertainties, such as:

economic conditions in the global markets in which we operate;

significant changes in the volumes of shipments transported through our networks, customer demand for our various services or the prices we obtain for our services;

damage to our reputation or loss of brand equity;

disruptions to the Internet or our technology infrastructure, including those impacting our computer systems and Web site, which can adversely affect our operations and reputation among customers;

the price and availability of jet and vehicle fuel;

our ability to manage our cost structure for capital expenditures and operating expenses, and match it to shifting and future customer volume levels;

the impact of intense competition on our ability to maintain or increase our prices (including our fuel surcharges in response to rising fuel costs) or to maintain or grow our market share;

our ability to effectively operate, integrate, leverage and grow acquired businesses, and to continue to support the value we allocate to these acquired businesses, including their goodwill;

our ability to maintain good relationships with our employees and prevent attempts by labor organizations to organize groups of our employees, which could significantly increase our operating costs and reduce our operational flexibility;

the impact of costs related to (i) challenges to the status of FedEx Ground's owner-operators as independent contractors, rather than employees, and (ii) any related changes to our relationship with these owner-operators;

our ability to execute on our business realignment program;

the impact of any international conflicts or terrorist activities on the United States and global economies in general, the transportation industry or us in particular, and what effects these events will have on our costs or the demand for our services;

any impacts on our businesses resulting from new domestic or international government laws and regulation, including regulatory actions affecting global aviation or other transportation rights, increased air cargo and other security or safety requirements, and tax, accounting, trade (such as protectionist measures enacted in response to weak economic conditions), labor (such as card-check legislation or changes to the Railway Labor Act affecting FedEx Express employees), environmental (such as global climate change legislation) or postal rules;

adverse weather conditions or localized natural disasters in key geographic areas, such as earthquakes, volcanoes, and hurricanes, which can disrupt our electrical service, damage our property, disrupt our operations, increase our fuel costs and adversely affect our shipment levels;

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any impact on our business from disruptions or modifications in service by the USPS, which is a significant customer and vendor of FedEx, as a consequence of the USPS' s current financial difficulties or any resulting structural changes to its operations, network, service offerings or pricing;

increasing costs, the volatility of costs and funding requirements and other legal mandates for employee benefits, especially pension and healthcare benefits;

the increasing costs of compliance with federal and state governmental agency mandates, including those related to healthcare benefits, and defending against inappropriate or unjustified enforcement of other actions by such agencies;

changes in foreign currency exchange rates, especially in the Chinese yuan, euro, Brazilian real, Canadian dollar and the British pound, which can affect our sales levels and foreign currency sales prices;

market acceptance of our new service and growth initiatives;

any liability resulting from and the costs of defending against class-action litigation, such as wage-and-hour and discrimination and retaliation claims, and any other legal or governmental proceedings;

the outcome of future negotiations to reach new collective bargaining agreements including with the union that represents the pilots of FedEx Express (the current pilot contract became amendable in March 2013, and the parties are currently in negotiations);

the impact of technology developments on our operations and on demand for our services, and our ability to continue to identify and eliminate unnecessary information technology redundancy and complexity throughout the organization;

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

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

other risks and uncertainties you can find in our press releases and SEC filings, including the risk factors identified under the heading "Risk Factors" in "Management's Discussion and Analysis of Results of Operations and Financial Condition" in our Annual Report, as updated by our quarterly reports on Form 10-Q.

As a result of these and other factors, no assurance can be given as to our future results and achievements.

Accordingly, a forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking

statements, which speak only as of the date on which they are made. We undertake no obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

As of February 28, 2014, there had been no material changes in our market risk sensitive instruments and positions since our disclosures in our Annual Report.

The principal foreign currency exchange rate risks to which we are exposed are in the Chinese yuan, euro, Brazilian real, Canadian dollar and the British pound. Historically, our exposure to foreign currency fluctuations is more significant with respect to our revenues than our expenses, as a significant portion of our expenses are denominated in U.S. dollars, such as aircraft and fuel expenses. During the nine months of 2014, the U.S. dollar strengthened relative to the currencies of the foreign countries in which we operate, as compared to May 31, 2013; however, this strengthening did not have a material effect on our results.

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

**Item 4. 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 SEC'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 February 28, 2014 (the end of the period covered by this Quarterly Report on Form 10-Q).

During our fiscal quarter ended February 28, 2014, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

For a description of all material pending legal proceedings, see Note 8 of the accompanying unaudited condensed consolidated financial statements.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors disclosed in our Annual Report (under the heading "Risk Factors" in Management's Discussion and Analysis of Results of Operations and Financial Condition) in response to Part I, Item 1A of Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table provides information on FedEx's repurchases of our common stock during the third quarter of 2014:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>         | <b>Total Number of<br/>Shares Purchased</b> | <b>Average Price<br/>Paid per Share</b> | <b>Total Number of<br/>Shares Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Programs</b> | <b>Maximum<br/>Number of<br/>Shares That May<br/>Yet Be Purchased<br/>Under the<br/>Programs</b> |
|-----------------------|---------------------------------------------|-----------------------------------------|----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------|
| Dec. 1-31, 2013:      |                                             |                                         |                                                                                                    |                                                                                                  |
| Open Market Purchases | 916,700                                     | \$ 141.57                               | 916,700                                                                                            | 31,271,300                                                                                       |
| Jan. 1-31, 2014:      |                                             |                                         |                                                                                                    |                                                                                                  |
| January 2014 ASRs     | 11,424,492(a)                               | (a)                                     | 11,424,492(a)                                                                                      | 19,846,808                                                                                       |
| Open Market Purchases | 2,536,700                                   | \$ 140.57                               | 2,536,700                                                                                          | 17,310,108                                                                                       |
| Feb. 1-28, 2014:      |                                             |                                         |                                                                                                    |                                                                                                  |
| Open Market Purchases | 2,101,948                                   | \$ 132.50                               | 2,101,948                                                                                          | 15,208,160                                                                                       |
| Total                 | 16,979,840                                  |                                         | 16,979,840                                                                                         |                                                                                                  |

(a) In January 2014, we entered into ASR agreements with two banks to repurchase an aggregate of \$2.0 billion of our common stock. During the third quarter of 2014, 11.4 million shares were initially delivered to us based on then-current market prices. This does not represent the final number of shares to be delivered under the ASR agreements. The final number of shares to be purchased under each ASR agreement will be based on a discount to the volume-weighted average price of our stock during the term of the respective transaction. Purchases under the ASR agreements are expected to be completed prior to the end of 2014.

The repurchases above were made under two share repurchase programs that were approved by our Board of Directors in March 2013 and October 2013. The March 2013 repurchase program authorized us to purchase in the open market up to an aggregate of 10 million shares of our common stock. There are now no shares remaining authorized for



purchase under this program. The October 2013 repurchase program authorized us to purchase, in the open market or in privately negotiated transactions up to an aggregate of 32 million shares of our common stock. There are 15,208,160 shares remaining authorized for purchase under the October 2013 share repurchase program (from which any additional shares under the ASR agreements would be repurchased), which is the only such program that currently exists. This program does not have an expiration date.

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**Table of Contents****Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1                   | Indenture, dated as of August 8, 2006, between FedEx Corporation, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A. (formerly, The Bank of New York Trust Company, N.A.), as trustee. (Filed as Exhibit 4.3 to FedEx Corporation's Registration Statement on Form S-3 filed with the Securities and Exchange Commission on September 19, 2012, and incorporated herein by reference). |
| 4.2                   | Supplemental Indenture No. 5, dated as of January 9, 2014, between FedEx Corporation, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as trustee. (Filed as Exhibit 4.1 to FedEx Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2014, and incorporated herein by reference).                                             |
| 4.3                   | Form of 4.000% Note due 2024. (Included in Exhibit 4.1 to FedEx Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2014, and incorporated herein by reference).                                                                                                                                                                                                |
| 4.4                   | Form of 4.900% Note due 2034. (Included in Exhibit 4.1 to FedEx Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2014, and incorporated herein by reference).                                                                                                                                                                                                |
| 4.5                   | Form of 5.100% Note due 2044. (Included in Exhibit 4.1 to FedEx Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 9, 2014, and incorporated herein by reference).                                                                                                                                                                                                |
| 10.1                  | Amendment dated December 16, 2013 (but effective as of November 4, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.                        |
| 10.2                  | Amendment dated December 16, 2013 (but effective as of December 2, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.                        |
| 10.3                  | Supplemental Agreement No. 4 (and related side letter) dated as December 10, 2013, amending the Boeing 767-3S2 Freighter Purchase Agreement dated as of December 14, 2011 between The Boeing Company and Federal Express Corporation. Confidential treatment has been requested for confidential and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.            |
| 10.4                  | Supplemental Agreement No. 23 (and related side letters) dated as December 10, 2013, amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and Federal Express Corporation. Confidential treatment has been requested for confidential and financial information, pursuant to Rule 24b-2 under the                                                            |



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|       |                                                                                                                                                                                                         |
|-------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12.1  | Computation of Ratio of Earnings to Fixed Charges.                                                                                                                                                      |
| 15.1  | Letter re: Unaudited Interim Financial Statements.                                                                                                                                                      |
| 31.1  | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2  | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1  | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                  |
| 32.2  | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                  |
| 101.1 | Interactive Data Files.                                                                                                                                                                                 |

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**SIGNATURE**

Pursuant to the requirements 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.

Date: March 20, 2014

FEDEX CORPORATION

/s/ JOHN L. MERINO  
JOHN L. MERINO

CORPORATE VICE PRESIDENT AND

PRINCIPAL ACCOUNTING OFFICER

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**Table of Contents****EXHIBIT INDEX**

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the Securities Exchange Act of 1934, as amended.

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