FedEx 2019 proxy Appendix C

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Appendix C

Reconciliations of Non-GAAP Measures

We report our financial results in accordance with accounting principles generally accepted in the United States ("GAAP" or "reported"). We have supplemented the reporting of our financial information determined in accordance with GAAP with certain non-GAAP (or "adjusted") financial measures.

We believe these adjusted financial measures facilitate analysis and comparisons of our ongoing business operations because they exclude items that may not be indicative of, or are unrelated to, the company's and our business segments' core operating performance, and may assist investors with comparisons to prior periods and assessing trends in our underlying businesses. These adjustments are consistent with how management views our businesses. Management uses these non-GAAP financial measures in making financial, operating, compensation and planning decisions and evaluating the company's and each business segment's ongoing performance.

Our non-GAAP measures are intended to supplement and should be read together with, and are not an alternative or substitute for, and should not be considered superior to, our reported financial results. Accordingly, users of our financial statements should not place undue reliance on these non-GAAP financial measures. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names.

See our earnings releases, which are available in the News & Events section of the Investor Relations page of our website at http://investors.fedex.com, for additional details regarding the reconciliation of GAAP and non-GAAP financial measures below.

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Fiscal 2018 Reconciliations for Fiscal 2018 AIC Plan and FY2016–FY2018 and Active LTI Plans

As described in "Executive Compensation — Compensation Discussion and Analysis," the Board of Directors, upon the recommendation of the Compensation Committee, designed or later adjusted the fiscal 2018 AIC plan and the FY2016–FY2018, FY2017–FY2019, FY2018–FY2020 and FY2019–FY2021 LTI plans to exclude from fiscal 2018 earnings the following items (as applicable to each plan), in order to ensure that payouts under the plans more accurately reflect core financial performance in fiscal 2018: (i) the annual mark-to-market ("MTM") retirement plans accounting and other pension adjustments; (ii) fiscal 2018 TNT Express integration expenses (including any restructuring charges at TNT Express); (iii) expenses in connection with certain pending U.S. Customs Border and Protection matters involving FedEx Trade Networks; (iv) the cost of accelerated 2018 annual pay increases for certain hourly team members to April 2018 from October 2018, following the passage of the Tax Cuts and Jobs Act of 2017 (the "TCJA"); (v) goodwill and other asset impairment charges at FedEx Supply Chain; and (vi) the provisional benefit from the remeasurement of the company's net U.S. deferred tax liability following the passage of the TCJA. The table below presents a reconciliation of our presented fiscal 2018 non-GAAP measures to the most directly comparable GAAP measures.

FISCAL 2018

	FedEx Corporation			
Dollars in millions, except EPS	**Operating Income**	**Income Taxes[1][2]**	**Net Income[2][3]**	**Diluted Earnings Per Share**
GAAP measure	**$4,870**	**$(219)**	**$4,572**	**$16.79**
FedEx Supply Chain goodwill and other asset impairment charges[4]	380	1	379	1.39
TNT Express integration expenses[5]	477	105	372	1.36
FedEx Trade Networks legal matters	8	2	6	0.02
MTM retirement plans accounting and other pension adjustments[6]	(10)	(1)	(9)	(0.03)
Net U.S. deferred tax liability remeasurement	—	1,150	(1,150)	(4.22)
Accelerated 2018 annual pay increases	55	11	44	0.16
Non-GAAP measure for FY16–FY18, FY17–FY19, FY18–FY20 and FY19–FY21 LTI plans and fiscal 2018 AIC plan[7]	*$5,780*	$1,050	$4,213	*$15.47*

(1) Income taxes are based on the company's approximate statutory tax rates applicable to each transaction and give consideration to the effects of the TCJA on the fiscal 2018 rates.
(2) Does not sum to total due to rounding.
(3) Effect of "Total other (expense) income" on net income amount not shown.
(4) Goodwill impairment charges are not deductible for income tax purposes.
(5) These expenses, including restructuring charges at TNT Express, were recognized at FedEx Corporate and FedEx Express.
(6) MTM retirement plans accounting adjustments reflect the year-end adjustment to the valuation of the company's defined benefit pension and other postretirement plans. MTM retirement plans accounting and other pension adjustments include the one-time $210 million charge recognized in the fourth quarter of fiscal 2018 related to the previously announced transfer of approximately $6 billion of FedEx Corporation's tax-qualified U.S. domestic pension plan obligations to Metropolitan Life Insurance Company.
(7) Fiscal 2018 adjusted EPS of $15.47 is used for purposes of calculating actual aggregate EPS under the FY16–FY18, FY17–FY19 and FY18–FY20 LTI plans and is the base-year EPS for the FY19–FY21 LTI plan. Adjusted consolidated operating income of $5,780 is used for purposes of the fiscal 2018 AIC plan.

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Fiscal 2017 Reconciliations for FY2016–FY2018, FY2017–FY2019 and FY2018–FY2020 LTI Plans

As described in "Executive Compensation — Compensation Discussion and Analysis," the Board of Directors, upon the recommendation of the Compensation Committee, designed or later adjusted the FY2016–FY2018, FY2017–FY2019 and FY2018–FY2020 LTI plans to exclude from fiscal 2017 earnings the following items, in order to ensure that payouts under the plans more accurately reflect core financial performance in fiscal 2017: (i) the annual mark-to-market ("MTM") retirement plans accounting adjustments; (ii) TNT Express integration expenses (including any restructuring charges at TNT Express); (iii) expenses related to the settlement of and certain expected losses relating to independent contractor litigation matters involving FedEx Ground; and (iv) charges accrued in connection with pending U.S. Customs and Border Protection matters involving FedEx Trade Networks. Additionally, the Board approved adjustments to the FY16–FY18 and FY17–FY19 LTI plans to exclude the impact in fiscal 2017 of stock repurchase activity (net of interest expense on debt issued to fund a portion of the applicable stock repurchase program). The table below presents a reconciliation of our presented fiscal 2017 non-GAAP measures to the most directly comparable GAAP measures.

FISCAL 2017

	FedEx Corporation			
Dollars in millions, except EPS	**Operating Income**	**Income Taxes(1)**	**Net Income(2)(3)**	**Diluted Earnings Per Share(3)**
GAAP measure	**$5,037**	**$1,582**	**$2,997**	**$11.07**
MTM retirement plans accounting adjustments(4)	(24)	(18)	(6)	(0.02)
TNT Express integration expenses(5)	327	82	245	0.91
FedEx Trade Networks legal matters	39	15	24	0.09
FedEx Ground legal matters	22	9	13	0.05
Non-GAAP measure for FY18–FY20 LTI plan(6)	$5,401	$1,670	$3,273	*$12.09*
EPS impact of stock repurchases	—	—	—	(0.40)
Interest expense(7)	—	52	89	0.33
Non-GAAP measure for FY16–FY18 LTI and FY17–FY19 LTI plans(8)	$5,401	$1,722	$3,361	*$12.02*

(1) Income taxes are based on the company's approximate statutory tax rates applicable to each transaction.
(2) Effect of "Total other (expense) income" on net income amount not shown.
(3) Does not sum to total due to rounding.
(4) MTM retirement plans accounting adjustments reflect the year-end adjustment to the valuation of the company's defined benefit pension and other postretirement plans.
(5) These expenses, including restructuring charges at TNT Express, were recognized at FedEx Corporate and FedEx Express.
(6) Fiscal 2017 adjusted EPS of $12.09 is the base-year EPS for the FY18–FY20 LTI plan.
(7) Represents the income tax and net income impact of $141 million of interest expense on debt issued to fund a portion of the applicable stock repurchase program.
(8) Fiscal 2017 adjusted EPS of $12.02 (adjusted to reflect the stock repurchase impact) is used for purposes of calculating actual aggregate EPS under the FY16–FY18 and FY17–FY19 LTI plans.

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Fiscal 2016 Reconciliations for FY2016–FY2018 and FY2017–FY2019 LTI Plans

As described in "Executive Compensation — Compensation Discussion and Analysis," the Board of Directors, upon the recommendation of the Compensation Committee, designed or later adjusted the FY2016–FY2018 and FY2017–FY2019 LTI plans to exclude from fiscal 2016 earnings the following items (as applicable to each plan), in order to ensure that payouts under the plans more accurately reflect core financial performance in fiscal 2016: (i) the annual MTM retirement plans accounting adjustments; (ii) expenses in connection with the settlement of and certain expected losses relating to independent contractor litigation matters involving FedEx Ground, net of recognized immaterial insurance recovery; (iii) expenses related to the settlement of a U.S. Customs and Border Protection matter involving FedEx Trade Networks, net of recognized immaterial insurance recovery; (iv) expenses associated with the acquisition, financing and integration of TNT Express, net of any tax impact, and TNT Express's fiscal 2016 financial results; (v) the favorable tax impact from an internal corporate legal entity restructuring to facilitate the integration of FedEx Express and TNT Express; and (vi) the EPS impact of stock repurchase activity (net of interest expense on debt issued to fund a portion of the applicable stock repurchase program). The table below presents a reconciliation of our presented fiscal 2016 non-GAAP measures to the most directly comparable GAAP measures.

FISCAL 2016

	FedEx Corporation			
Dollars in millions, except EPS	**Operating Income(1)**	**Income Taxes(1)(2)**	**Net Income(3)**	**Diluted Earnings Per Share**
GAAP measure	**$3,077**	**$920**	**$1,820**	**$6.51**
MTM retirement plans accounting adjustments(4)	1,498	552	946	3.39
TNT expenses and financial results(5)	115	6	125	0.45
Tax impact — legal entity restructuring for TNT integration	—	76	(76)	(0.27)
FedEx Ground legal matters(6)	256	97	158	0.57
FedEx Trade Networks legal matter(6)	69	26	43	0.15
Non-GAAP measure for FY17–FY19 LTI plan(7)	$5,014	$1,678	$3,016	*$10.80*
EPS impact of stock repurchases	—	—	—	(0.32)
Interest expense(8)	—	19	32	*0.12*
Non-GAAP measure for FY16–FY18 LTI plan(9)	$5,014	$1,697	$3,048	*$10.60*

(1) Does not sum to total due to rounding.
(2) Income taxes are based on the company's approximate statutory tax rates applicable to each transaction.
(3) Effect of "Total other (expense) income" on net income amount not shown.
(4) MTM retirement plans accounting adjustments reflect the year-end adjustment to the valuation of the company's defined benefit pension and other postretirement plans.
(5) TNT Express's financial results are immaterial from the time of acquisition (May 25, 2016).
(6) Net of recognized immaterial insurance recovery.
(7) Fiscal 2016 adjusted EPS of $10.80 is the base-year EPS for the FY17–FY19 LTI plan.
(8) Represents the income tax and net income impact of $51 million of interest expense on debt issued to fund a portion of the applicable stock repurchase program.
(9) Fiscal 2016 adjusted EPS of $10.60 (adjusted to reflect the stock repurchase impact) is used for purposes of calculating actual aggregate EPS under the FY16–FY18 LTI plan.

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Fiscal 2015 Reconciliations for FY2016–FY2018 LTI Plan

As described in "Executive Compensation — Compensation Discussion and Analysis," the Board of Directors, upon the recommendation of the Compensation Committee, designed or later adjusted the FY2016–FY2018 LTI plan to exclude from fiscal 2015 earnings the following items, in order to ensure that payouts under the plan more accurately reflect core financial performance in fiscal 2015: (i) the net impact of the company's adoption of MTM accounting for its defined benefit pension and other postretirement plans, including the impact of lowering the expected return on plan assets ("EROA") assumption from 7.75% to 6.5% in the presentation of segment results for all prior periods; (ii) aircraft impairment and related charges; and (iii) a charge to increase the legal reserve associated with the settlement of a legal matter at FedEx Ground to the amount of the settlement. The table below presents a reconciliation of our presented fiscal 2015 non-GAAP measures to the most directly comparable GAAP measures.

FISCAL 2015

	FedEx Corporation			
Dollars in millions, except EPS	**Operating Income**	**Income Taxes(1)(2)**	**Net Income(3)**	**Diluted Earnings Per Share**
GAAP measure	**$1,867**	**$577**	**$1,050**	**$3.65**
Segment reporting change(4)	(266)	(98)	(168)	(0.58)
MTM retirement plans accounting adjustments(5)	2,190	808	1,382	4.81
Aircraft impairment and related charges	276	101	175	0.61
FedEx Ground legal matter	197	64	133	0.46
Non-GAAP measure	$4,264	$1,451	$2,572	$8.95
Segment elimination of pension amortization expense and recast of EROA, net	(36)	(13)	(23)	(0.08)
Non-GAAP measure for FY16–FY18 LTI plan(6)	$4,228	$1,438	$2,549	*$8.87*

(1) Does not sum to total due to rounding.
(2) Income taxes are based on the company's approximate statutory tax rates applicable to each transaction.
(3) Effect of "Total other (expense) income" on net income amount not shown.
(4) Represents the adjustment in "Corporate, other and eliminations" resulting from the change in recognizing EROA for our defined benefit pension and other postretirement plans at the segment level associated with the adoption of MTM accounting.
(5) MTM retirement plans accounting adjustments reflect the year-end adjustment to the valuation of the company's defined benefit pension and other postretirement plans.
(6) Fiscal 2015 adjusted EPS of $8.87 is the base-year EPS for the FY16–FY18 LTI plan.