FEDEX CORP
Form 10-Q
December 21, 2016
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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 November 30, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM _________ TO _________

Commission File Number: 1-15829

FEDEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**62-1721435**
(State or other jurisdiction of	*(I.R.S. Employer*
incorporation or organization)	*Identification No.)*
942 South Shady Grove Road Memphis, Tennessee	**38120**
(Address of principal executive offices)	*(ZIP Code)*

(901) 818-7500

(Registrant s telephone number, including area code)

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

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

Indicate by check mark 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 (Do not check if a smaller reporting company)	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	Outstanding Shares at December 20, 2016
Common Stock, par value $0.10 per share	266,509,290

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CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	November 30, 2016 (Unaudited)	May 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,059	$ 3,534
Receivables, less allowances of $218 and $178	7,575	7,252
Spare parts, supplies and fuel, less allowances of $225 and $218	517	496
Prepaid expenses and other	901	707
Total current assets	12,052	11,989
PROPERTY AND EQUIPMENT, AT COST	48,918	47,018
Less accumulated depreciation and amortization	23,611	22,734
Net property and equipment	25,307	24,284
OTHER LONG-TERM ASSETS		
Goodwill	6,921	6,747
Other assets	2,068	2,939
Total other long-term assets	8,989	9,686
	$ 46,348	$ 45,959

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

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CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE DATA)

	November 30, 2016 (Unaudited)	May 31, 2016
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 43	$ 29
Accrued salaries and employee benefits	1,765	1,972
Accounts payable	2,954	2,944
Accrued expenses	3,045	3,063
Total current liabilities	7,807	8,008
LONG-TERM DEBT, LESS CURRENT PORTION	13,553	13,733
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	2,148	1,567
Pension, postretirement healthcare and other benefit obligations	5,845	6,227
Self-insurance accruals	1,349	1,314
Deferred lease obligations	547	400
Deferred gains, principally related to aircraft transactions	145	155
Other liabilities	423	771
Total other long-term liabilities	10,457	10,434
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of November 30, 2016 and May 31, 2016	32	32
Additional paid-in capital	2,946	2,892
Retained earnings	19,410	18,371
Accumulated other comprehensive loss	(425)	(169)
Treasury stock, at cost	(7,432)	(7,342)
Total common stockholders investment	14,531	13,784
	$ 46,348	$ 45,959

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 November 30, 2016	Three Months Ended November 30, 2015	Six Months Ended November 30, 2016	Six Months Ended November 30, 2015
REVENUES	$ 14,931	$ 12,453	$ 29,594	$ 24,732
OPERATING EXPENSES:				
Salaries and employee benefits	5,353	4,570	10,664	9,095
Purchased transportation	3,431	2,538	6,671	4,882
Rentals and landing fees	802	682	1,592	1,377
Depreciation and amortization	740	653	1,479	1,301
Fuel	658	615	1,308	1,327
Maintenance and repairs	579	529	1,177	1,077
Other	2,201	1,729	4,272	3,392
	13,764	11,316	27,163	22,451
OPERATING INCOME	1,167	1,137	2,431	2,281
OTHER INCOME (EXPENSE):				
Interest, net	(119)	(74)	(232)	(137)
Other, net	30	(8)	21	(5)
	(89)	(82)	(211)	(142)
INCOME BEFORE INCOME TAXES	1,078	1,055	2,220	2,139
PROVISION FOR INCOME TAXES	378	364	805	756
NET INCOME	$ 700	$ 691	$ 1,415	$ 1,383
EARNINGS PER COMMON SHARE:				
Basic	$ 2.63	$ 2.47	$ 5.32	$ 4.92
Diluted	$ 2.59	$ 2.44	$ 5.24	$ 4.86
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.40	$ 0.25	$ 1.20	$ 0.75

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 November 30,		Six Months Ended November 30,	
	2016	2015	2016	2015
NET INCOME	$ 700	$ 691	$ 1,415	$ 1,383
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments, net of tax of $21, $4, $16 and $17	(230)	(33)	(218)	(171)
Amortization of prior service credit, net of tax of $11, $11, $22, and $18	(19)	(18)	(38)	(42)
	(249)	(51)	(256)	(213)
COMPREHENSIVE INCOME	$ 451	$ 640	$ 1,159	$ 1,170

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN MILLIONS)

	Six Months Ended November 30, 2016	2015
Operating Activities:		
Net income	$ 1,415	$ 1,383
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,479	1,301
Provision for uncollectible accounts	76	57
Stock-based compensation	93	86
Deferred income taxes and other noncash items	320	(48)
Gain from sale of investment	(35)	
Changes in assets and liabilities:		
Receivables	(513)	(263)
Other assets	(250)	(113)
Accounts payable and other liabilities	67	66
Other, net	(17)	(15)
Cash provided by operating activities	2,635	2,454
Investing Activities:		
Capital expenditures	(2,681)	(2,562)
Proceeds from asset dispositions and other	100	12
Cash used in investing activities	(2,581)	(2,550)
Financing Activities:		
Principal payments on debt	(43)	(17)
Proceeds from debt issuance		1,238
Proceeds from stock issuances	164	62
Dividends paid	(213)	(141)
Purchase of treasury stock	(334)	(1,101)
Other, net	(5)	(8)
Cash (used in) provided by financing activities	(431)	33
Effect of exchange rate changes on cash	(98)	(53)
Net decrease in cash and cash equivalents	(475)	(116)
Cash and cash equivalents at beginning of period	3,534	3,763
Cash and cash equivalents at end of period	$ 3,059	$ 3,647

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

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, 2016 (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 November 30, 2016, the results of our operations for the three- and six-month periods ended November 30, 2016 and 2015 and cash flows for the six-month periods ended November 30, 2016 and 2015. Operating results for the three- and six-month periods ended November 30, 2016 are not necessarily indicative of the results that may be expected for the year ending May 31, 2017.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2017 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

RECLASSIFICATIONS. Reclassifications have been made to the May 31, 2016 condensed consolidated balance sheets to conform to the current year s presentation of debt issuance costs. See recent accounting guidance below for additional information.

BUSINESS ACQUISITION. On May 25, 2016, we acquired TNT Express B.V. (TNT Express) for 4.4 billion (approximately $4.9 billion). Cash acquired in the acquisition was approximately 250 million ($280 million). As of November 30, 2016, $26 million of shares associated with the transaction remained untendered, a decrease of $261 million since May 31, 2016. The remaining untendered shares are included in the Other liabilities caption of our consolidated balance sheets. We funded the acquisition with proceeds from our April 2016 debt issuance and existing cash balances. The financial results of this business are included in the FedEx Express group and TNT Express segment from the date of acquisition.

TNT Express collects, transports and delivers documents, parcels and freight to over 200 countries. This strategic acquisition broadens our portfolio of international transportation solutions by combining TNT Express s strong European road platform with FedEx Express s strength in other regions globally.

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This acquisition is included in the accompanying balance sheets based on an allocation of the purchase price (summarized in the table below, in millions), which reflect updates to property and equipment and identifiable intangible assets from the May 31, 2016 and August 31, 2016 estimates, resulting in a net increase to goodwill of $382 million. These updates reflect the valuation work completed to date by third party experts, refinements to cash flow estimates and the receipt of other information. Given the timing and complexity of the acquisition, the presentation of TNT Express in our financial statements, including the allocation of the purchase price, continues to be preliminary and will likely change in future periods, perhaps significantly, as additional information concerning the fair value estimates of the assets acquired and liabilities assumed as of the acquisition date is obtained during the remainder of the fiscal year. Due to the global scope of TNT Express s operations and the decentralized nature of the accounting records, the measurement periods for fixed assets, customer intangibles and certain liabilities are longer than for the other categories noted below. We will complete our purchase price allocation no later than the fourth quarter of 2017.

Current assets[1]	$	1,920
Property and equipment		993
Goodwill		3,346
Identifiable intangible assets		530
Other non-current assets		295
Current liabilities [2]		(1,644)
Long-term liabilities		(546)
Total purchase price	$	4,894

(1) Primarily accounts receivable and cash.
(2) Primarily accounts payable and other accrued expenses.

As a result of this acquisition, we recognized a preliminary value of $3.3 billion of goodwill, which is primarily attributable to the TNT Express workforce and the expected benefits from synergies of the combination with existing businesses and growth opportunities. The majority of the purchase price allocated to goodwill is not deductible for income tax purposes.

The purchase price was preliminarily allocated to the identifiable intangible assets acquired as follows (in millions):

Intangible assets with finite lives		
Customer relationships (12-year useful life)	$	420
Technology (4-year useful life)		30
Trademarks (4-year useful life)		80
Total intangible assets	$	530

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of Federal Express Corporation (FedEx Express), which represent a small number of FedEx Express s total employees, are employed under a collective bargaining agreement that took effect on November 2, 2015. This collective bargaining agreement is scheduled to become amendable in November 2021, after a six-year term. In addition to our pilots at FedEx Express, GENCO Distribution System, Inc. (GENCO) has a small number of employees who are members of unions, and certain non-U.S. employees are unionized.

STOCK-BASED COMPENSATION. We 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.

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Our stock-based compensation expense was $36 million for the three-month period ended November 30, 2016 and $93 million for the six-month period ended November 30, 2016. Our stock-based compensation expense was $33 million for the three-month period ended November 30, 2015 and $86 million for the six-month period ended November 30, 2015. 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. These matters are described in our Annual Report.

During the first quarter of 2017, we retrospectively adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) to simplify the presentation of debt issuance costs. This new guidance requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, rather than as an asset. This new guidance had a minimal impact on our accounting and financial reporting.

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

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

During the second quarter of 2017, we adopted the Accounting Standards Update issued by the FASB in March 2016 to simplify the accounting for share-based payment transactions. The new guidance requires companies to recognize the income tax effects of awards that vest or are settled as income tax expense or benefit in the income statement as opposed to additional paid-in capital as is current practice. The guidance also provides clarification of the presentation of certain components of share-based awards in the statement of cash flows. Additionally, the guidance allows companies to make a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. We have elected to continue estimating forfeitures expected to occur in order to determine the amount of compensation cost to be recognized each period and to apply the cash flow classification guidance prospectively. Excess tax benefits are now classified as an operating activity rather than a financing activity. The adoption of the new standard had a benefit of $21 million to net income and $0.07 per diluted share for the second quarter of 2017. The first quarter of 2017 has not been recast due to immateriality.

We believe that no other new accounting guidance was adopted or issued during the first half of 2017 that is relevant to the readers of our financial statements.

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TREASURY SHARES. In January 2016, our Board of Directors authorized a share repurchase program of up to 25 million shares. Shares under the current repurchase program may be repurchased from time to time in the open market or in privately negotiated transactions. The timing and volume of repurchases are at the discretion of management, based on the capital needs of the business, the market price of FedEx common stock and general market conditions. No time limit was set for the completion of the program, and the program may be suspended or discontinued at any time.

During the second quarter of 2017, we repurchased 0.7 million shares of FedEx common stock at an average price of $172.25 per share for a total of $112 million. During the first half of 2017, we repurchased 2.0 million shares of FedEx common stock at an average price of $164.04 per share for a total of $334 million. As of November 30, 2016, 16.9 million shares remained under the share repurchase authorization.

DIVIDENDS DECLARED PER COMMON SHARE. On November 18, 2016, our Board of Directors declared a quarterly dividend of $0.40 per share of common stock. The dividend will be paid on January 3, 2017 to stockholders of record as of the close of business on December 12, 2016. 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.

(2) Accumulated Other Comprehensive Income (Loss)

The following table provides changes in accumulated other comprehensive loss (AOCI), net of tax, reported in our unaudited condensed consolidated financial statements for the periods ended November 30 (in millions; amounts in parentheses indicate debits to AOCI):

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Foreign currency translation loss:				
Balance at beginning of period	$ (502)	$ (391)	$ (514)	$ (253)
Translation adjustments	(230)	(33)	(218)	(171)
Balance at end of period	(732)	(424)	(732)	(424)
Retirement plans adjustments:				
Balance at beginning of period	326	401	345	425
Reclassifications from AOCI	(19)	(18)	(38)	(42)
Balance at end of period	307	383	307	383
Accumulated other comprehensive loss at end of period	$ (425)	$ (41)	$ (425)	$ (41)

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The following table presents details of the reclassifications from AOCI for the periods ended November 30 (in millions; amounts in parentheses indicate debits to earnings):

	Amount Reclassified from AOCI				Affected Line Item in the Income Statement
	Three Months Ended		Six Months Ended		
	2016	2015	2016	2015	
Amortization of retirement plans prior service credits, before tax	$ 30	$ 29	$ 60	$ 60	Salaries and employee benefits
Income tax benefit	(11)	(11)	(22)	(18)	Provision for income taxes
AOCI reclassifications, net of tax	$ 19	$ 18	$ 38	$ 42	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.

We have a five-year $1.75 billion revolving credit facility that expires in November 2020. The facility, which includes a $500 million letter of credit sublimit, is available to finance our operations and other cash flow needs. The agreement contains a financial covenant, which requires us to maintain a ratio of debt to consolidated earnings (excluding non-cash pension mark-to-market adjustments and non-cash asset impairment charges) before interest, taxes, depreciation and amortization (adjusted EBITDA) of not more than 3.5 to 1.0, calculated as of the end of the applicable quarter on a rolling four quarters basis. The ratio of our debt to adjusted EBITDA was 1.8 to 1.0 at November 30, 2016. We believe this covenant is the only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the financial 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 November 30, 2016, no commercial paper was outstanding. However, we had a total of $319 million in letters of credit outstanding at November 30, 2016, with $181 million of the letter of credit sublimit unused under our revolving credit facility.

Long-term debt, exclusive of capital leases, had carrying values of $13.5 billion at November 30, 2016 and $13.7 billion at May 31, 2016, compared with estimated fair values of $13.8 billion at November 30, 2016 and $14.3 billion at May 31, 2016. The annualized weighted average interest rate on long-term debt was 3.6% for the six months ended November 30, 2016. 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.

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(4) Computation of Earnings Per Share

The calculation of basic and diluted earnings per common share for the periods ended November 30 was as follows (in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Basic earnings per common share:				
Net earnings allocable to common shares[1]	$ 700	$ 690	$ 1,414	$ 1,382
Weighted-average common shares	266	279	266	281
Basic earnings per common share	$ 2.63	$ 2.47	$ 5.32	$ 4.92
Diluted earnings per common share:				
Net earnings allocable to common shares[1]	$ 700	$ 690	$ 1,414	$ 1,382
Weighted-average common shares	266	279	266	281
Dilutive effect of share-based awards	4	4	4	3
Weighted-average diluted shares	270	283	270	284
Diluted earnings per common share	$ 2.59	$ 2.44	$ 5.24	$ 4.86
Anti-dilutive options excluded from diluted earnings per common share	5.1	3.7	5.1	3.6

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

(5) Retirement Plans

We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans. Key terms of our retirement plans are provided in our Annual Report. Our retirement plans costs for the periods ended November 30 were as follows (in millions):

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Defined benefit pension plans	$ 58	$ 54	$ 116	$ 107
Defined contribution plans	112	103	231	205
Postretirement healthcare plans	19	20	38	41
	$ 189	$ 177	$ 385	$ 353

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Net periodic benefit cost of the pension and postretirement healthcare plans for the periods ended November 30 included the following components (in millions):

	Three Months Ended		Six Months Ended	
Pension Plans	2016	2015	2016	2015
Service cost	$ 180	$ 165	$ 360	$ 331
Interest cost	293	295	586	590
Expected return on plan assets	(386)	(377)	(772)	(754)
Amortization of prior service credit and other	(29)	(29)	(58)	(60)
	$ 58	$ 54	$ 116	$ 107

	Three Months Ended		Six Months Ended	
Postretirement Healthcare Plans	2016	2015	2016	2015
Service cost	$ 9	$ 10	$ 18	$ 20
Interest cost	10	10	20	21
	$ 19	$ 20	$ 38	$ 41

Contributions to our tax qualified U.S. domestic pension plans (U.S. Pension Plans) for the six-month periods ended November 30 were as follows (in millions):

	2016	2015
Required	$ 250	$ 8
Voluntary	250	322
	$ 500	$ 330

In December 2016, we made $250 million in contributions to our U.S. Pension Plans, of which $178 million was required. 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; TNT Express, an international express, small-package ground delivery and freight transportation company that was acquired near the end of our 2016 fourth quarter; FedEx Ground Package System, Inc. (FedEx Ground), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. (FedEx Freight), a leading U.S. provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments.

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Our reportable segments include the following businesses:

FedEx Express Group:

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

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions that support our transportation businesses and allow us to obtain synergies from the combination of these functions. For the international regions of FedEx Express and for TNT Express, some of these functions are performed on a regional basis and reported in the applicable segment in their natural expense line items. The FedEx Services segment includes: FedEx Services, which provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services for U.S. customers of our major business units and certain back-office support to our other companies; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses.

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

Operating expenses for each of our transportation segments include the allocations from the FedEx Services segment to the respective transportation segments. These allocations also include charges and credits for administrative services provided between operating companies. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses.

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Eliminations, Corporate and Other

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

Corporate and other includes corporate headquarters costs for executive officers and certain legal and financial functions, as well as certain other costs and credits not attributed to our core business. These costs are not allocated to the business segments.

The following table provides a reconciliation of reportable segment revenues and operating income to our unaudited condensed consolidated financial statement totals for the periods ended November 30 (in millions):

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Revenues				
FedEx Express segment	$ 6,743	$ 6,588	$ 13,399	$ 13,179
TNT Express segment	1,899	N/A	3,703	N/A
FedEx Ground segment	4,419	4,050	8,709	7,880
FedEx Freight segment	1,597	1,547	3,255	3,148
FedEx Services segment	414	403	809	793
Eliminations and other	(141)	(135)	(281)	(268)
	$ 14,931	$ 12,453	$ 29,594	$ 24,732
Operating Income				
FedEx Express segment	$ 636	$ 622	$ 1,260	$ 1,167
TNT Express segment	70	N/A	56	N/A
FedEx Ground segment	465	526	1,075	1,063
FedEx Freight segment	88	101	223	233
Eliminations, corporate and other	(92)	(112)	(183)	(182)
	$ 1,167	$ 1,137	$ 2,431	$ 2,281

(7) Commitments

As of November 30, 2016, our purchase commitments under various contracts for the remainder of 2017 and annually thereafter were as follows (in millions):

	Aircraft and Aircraft-Related	Other[1]	Total
2017 (remainder)	$ 371	$ 524	$ 895
2018	1,767	473	2,240
2019	1,717	335	2,052
2020	1,925	239	2,164
2021	1,460	154	1,614
Thereafter	4,205	119	4,324
Total	$ 11,445	$ 1,844	$ 13,289

(1) Primarily equipment and advertising contracts.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of November 30, 2016, our obligation to purchase four Boeing 767-300 Freighter (B767F) aircraft and seven 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. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

We had $430 million in deposits and progress payments as of November 30, 2016 on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the Other assets caption of our consolidated balance sheets. Aircraft and aircraft-related contracts are subject to price escalations. The following table is a summary of the key aircraft we are committed to purchase as of November 30, 2016 with the year of expected delivery:

	B767F	B777F	Total
2017 (remainder)	2		2
2018	16	2	18
2019	15	2	17
2020	16	3	19
2021	10	3	13
Thereafter	16	6	22
Total	75	16	91

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A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at November 30, 2016 is as follows (in millions):

	Operating Leases		
	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2017 (remainder)	$ 367	$ 1,051	$ 1,418
2018	402	1,928	2,330
2019	345	1,715	2,060
2020	262	1,520	1,782
2021	204	1,372	1,576
Thereafter	376	8,436	8,812
Total	$ 1,956	$ 16,022	$ 17,978

Future minimum lease payments under capital leases were immaterial at November 30, 2016. 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

Independent Contractor Lawsuits and State Administrative Proceedings. FedEx Ground is involved in numerous class-action lawsuits (including 22 that have been certified as class actions), individual lawsuits and state tax and other administrative proceedings that claim that the company s owner-operators under a contractor model no longer in use should have been treated as employees, rather than independent contractors.

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

On October 3, 2014, the Kansas Supreme Court determined that a 20 factor right to control test applies to claims under the Kansas Wage Payment Act and concluded that under that test, the class members were employees, not independent contractors. The case was subsequently transferred back to the Seventh Circuit, where both parties made filings requesting the action necessary to complete the resolution of the appeals. The parties also made recommendations to the court regarding next steps for the other 19 cases that are before the Seventh Circuit. FedEx Ground requested that each of those cases be separately briefed given the potential differences in the applicable state law from that in Kansas. On July 8, 2015, the Seventh Circuit issued an order and opinion confirming the decision of the Kansas Supreme Court, concluding that the class members are employees, not independent contractors. Additionally, the Seventh Circuit referred the other 19 cases to a representative of the court for purposes of setting a case management conference to address briefing and argument for those cases.

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During the second quarter of 2015, we established an accrual for the estimated probable loss in the Kansas case. In the second quarter of 2016 the Kansas case settled, and we increased the accrual to the amount of the settlement. The settlement requires court approval.

During the third quarter of 2016, we reached agreements in principle to settle all of the 19 cases on appeal in the multidistrict independent contractor litigation. All of these settlements require court approval. We recognized a liability for the expected loss (net of recognized insurance recovery) related to these cases and certain other pending independent-contractor-related proceedings of $204 million.

The Kansas case was remanded to the multidistrict litigation court, and the other 19 cases remain at the Seventh Circuit; however, approval proceedings will be conducted primarily by the multidistrict litigation court. Plaintiffs filed motions for preliminary approval between June 15 and June 30, 2016, and on August 3 and 4, 2016, the multidistrict litigation court issued orders indicating that it would grant preliminary approval if the Seventh Circuit would remand the cases on appeal for the purpose of entering approval orders. Upon the parties joint motion, the Seventh Circuit remanded the cases for this purpose on August 10, 2016, and the multidistrict litigation court entered orders preliminarily approving the settlements on August 17, 2016. Fairness hearings are scheduled for January 23 and 24, 2017.

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. Four of these matters settled for immaterial amounts and have received court approval.

The case in Arkansas settled in the second quarter of 2016, and we established an accrual for the amount of the settlement. The court granted preliminary approval on September 15, 2016, and scheduled a final approval hearing for March 1, 2017.

Two cases in Oregon and one in California were appealed to the Ninth Circuit Court of Appeals, where the court reversed the district court decisions and held that the plaintiffs in California and Oregon were employees as a matter of law and remanded the cases to their respective district courts for further proceedings. In the first quarter of 2015, we recognized an accrual for the then-estimated probable loss in those cases.

In June 2015, the parties in the California case reached an agreement to settle the matter for $228 million, and in the fourth quarter of 2015 we increased the accrual to that amount. The court entered final judgment on June 20, 2016, and two objectors to the settlement filed appeals with the Ninth Circuit. One objector has settled with plaintiffs counsel, and we expect the appeal by the second objector to be briefed by the end of the third quarter of 2017 and arguments to be scheduled thereafter. The settlement is not effective until all appeals have been resolved without affecting the court s approval of the settlement.

The two cases in Oregon were consolidated with a non-multidistrict litigation independent contractor case in Oregon. The three cases collectively settled in the second quarter of 2016, and we increased the accrual in these cases to the amount of the settlement. The settlement was preliminarily approved on April 20, 2016 and the court granted final approval after a fairness hearing on October 20, 2016.

In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation. These cases are in varying stages of litigation. We do not expect to incur a material loss in these matters; however, it is reasonably possible that potential loss in some of these lawsuits or changes to the independent contractor status of FedEx Ground s owner-operators could be material. In these cases, we continue to evaluate what facts may arise in the course of discovery and what legal rulings the courts may render and how these facts and rulings might impact FedEx Ground s loss. For a number of reasons, we are not currently able to estimate a range of reasonably possible loss in these cases. The number and identities of plaintiffs in these lawsuits are uncertain, as they are dependent on how the class of drivers is defined and how many individuals will qualify based on whatever criteria may be established. In addition, the parties have conducted only very limited discovery into damages in certain of these cases, which could vary considerably from plaintiff to plaintiff and be dependent on evidence pertaining to individual plaintiffs, which has yet to be produced in the cases. Further, the range of potential loss could be impacted substantially by future rulings by the court, including on the merits of the claims, on FedEx Ground s defenses, and on evidentiary issues. As a consequence of these factors, as well as others that are specific to these cases, we are not currently able to estimate a range of reasonably possible loss. We do not believe that a material loss is probable in these matters.

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

City and State of New York Cigarette Suit. The City of New York and the State of New York filed two related lawsuits against FedEx Ground in December 2013 and November 2014 arising from FedEx Ground s alleged shipments of cigarettes to New York residents in contravention of several statutes, including the Racketeer Influenced and Corrupt Organizations Act (RICO) and New York s Public Health Law, as well as common law nuisance claims. In April 2016, the two lawsuits were consolidated and will now proceed as one lawsuit. The first-filed lawsuit alleges that FedEx Ground provided delivery services on behalf of four shippers, and the second-filed lawsuit alleges that FedEx Ground provided delivery services on behalf of six additional shippers; none of these shippers continue to ship in our network. Pursuant to motions to dismiss filed in both lawsuits, some of the claims have been dismissed entirely or limited. In the first-filed lawsuit, the New York Public Health Law and common law nuisance claims were dismissed and the plaintiffs voluntarily dismissed another claim. In the second-filed lawsuit, the court dismissed, without prejudice to plaintiffs right to refile the claim at a later date, the New York Public Health Law claim. The plaintiffs have refiled the New York Public Health Law claim, and FedEx Ground has filed a motion to dismiss that claim that is pending with the court. Other claims, including the RICO claims, remain in both lawsuits. The likelihood of loss is reasonably possible, but the amount of loss cannot be estimated at this stage of the litigation and we expect the amount of any loss to be immaterial.

Environmental Matters. SEC regulations require disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions that management reasonably believes could exceed $100,000.

On September 9, 2016, GENCO received a written offer from several District Attorneys Offices in California to settle a civil action that the District Attorneys intend to file against GENCO for alleged violations of the state s hazardous waste regulations. Specifically, the District Attorneys Offices allege GENCO unlawfully disposed of hazardous waste at one of its California facilities and caused the illegal transportation and disposal of hazardous waste from the retail stores of a GENCO customer at this same facility. The District Attorneys allege these violations began in 2006 and continued until the facility closed in the spring of 2015. We believe an immaterial loss in this matter is probable. The District Attorneys are also investigating GENCO s hazardous waste activities at eight additional facilities within California. We will pursue all available remedies against the sellers of GENCO to recover any losses in these matters.

FedEx and its subsidiaries are subject to other legal proceedings that arise in the ordinary course of business, including certain lawsuits containing various class-action allegations of wage-and-hour violations in which plaintiffs claim, 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. 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.

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(9) Supplemental Cash Flow Information

Cash paid for interest expense and income taxes for the six-month periods ended November 30 was as follows (in millions):

	2016	2015
Cash payments for:		
Interest (net of capitalized interest)	$ 232	$ 146
Income taxes	$ 216	$ 831
Income tax refunds received	(13)	(3)
Cash tax payments, net	$ 203	$ 828

(10) Condensed Consolidating Financial Statements

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

The guarantor subsidiaries, which are 100% owned by FedEx, guarantee $13.4 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.

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

CONDENSED CONSOLIDATING BALANCE SHEETS

(UNAUDITED)

November 30, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,330	$ 294	$ 1,490	$ (55)	$ 3,059
Receivables, less allowances	1	4,753	2,872	(51)	7,575
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	370	822	226		1,418
Total current assets	1,701	5,869	4,588	(106)	12,052
PROPERTY AND EQUIPMENT, AT COST	22	45,735	3,161		48,918
Less accumulated depreciation and amortization	17	22,360	1,234		23,611
Net property and equipment	5	23,375	1,927		25,307
INTERCOMPANY RECEIVABLE	2,359	1,602		(3,961)	
GOODWILL		1,571	5,350		6,921
INVESTMENT IN SUBSIDIARIES	25,967	3,558		(29,525)	
OTHER ASSETS	3,041	867	1,052	(2,892)	2,068
	$ 33,073	$ 36,842	$ 12,917	$ (36,484)	$ 46,348
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$	$ 26	$ 17	$	$ 43
Accrued salaries and employee benefits	43	1,247	475		1,765
Accounts payable	112	1,441	1,507	(106)	2,954
Accrued expenses	887	1,434	724		3,045
Total current liabilities	1,042	4,148	2,723	(106)	7,807
LONG-TERM DEBT, LESS CURRENT PORTION	13,281	245	27		13,553
INTERCOMPANY PAYABLE			3,961	(3,961)	
OTHER LONG-TERM LIABILITIES					
Deferred income taxes		4,792	248	(2,892)	2,148
Other liabilities	4,219	3,501	589		8,309
Total other long-term liabilities	4,219	8,293	837	(2,892)	10,457
STOCKHOLDERS INVESTMENT	14,531	24,156	5,369	(29,525)	14,531
	$ 33,073	$ 36,842	$ 12,917	$ (36,484)	$ 46,348

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CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,974	$ 326	$ 1,277	$ (43)	$ 3,534
Receivables, less allowances	1	4,461	2,831	(41)	7,252
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	233	724	246		1,203
Total current assets	2,208	5,511	4,354	(84)	11,989
PROPERTY AND EQUIPMENT, AT COST	22	43,760	3,236		47,018
Less accumulated depreciation and amortization	17	21,566	1,151		22,734
Net property and equipment	5	22,194	2,085		24,284
INTERCOMPANY RECEIVABLE	2,437	1,284		(3,721)	
GOODWILL		1,571	5,176		6,747
INVESTMENT IN SUBSIDIARIES	24,766	3,697		(28,463)	
OTHER ASSETS	3,359	967	1,851	(3,238)	2,939
	$ 32,775	$ 35,224	$ 13,466	$ (35,506)	$ 45,959
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$	$ 13	$ 16	$	$ 29
Accrued salaries and employee benefits	54	1,377	541		1,972
Accounts payable	8	1,501	1,519	(84)	2,944
Accrued expenses	883	1,411	769		3,063
Total current liabilities	945	4,302	2,845	(84)	8,008
LONG-TERM DEBT, LESS CURRENT PORTION	13,451	245	37		13,733
INTERCOMPANY PAYABLE			3,721	(3,721)	
OTHER LONG-TERM LIABILITIES					
Deferred income taxes		4,436	369	(3,238)	1,567
Other liabilities	4,595	3,375	897		8,867
Total other long-term liabilities	4,595	7,811	1,266	(3,238)	10,434
STOCKHOLDERS INVESTMENT	13,784	22,866	5,597	(28,463)	13,784
	$ 32,775	$ 35,224	$ 13,466	$ (35,506)	$ 45,959

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended November 30, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 10,997	$ 4,004	$ (70)	$ 14,931
OPERATING EXPENSES:					
Salaries and employee benefits	29	4,161	1,163		5,353
Purchased transportation		2,074	1,383	(26)	3,431
Rentals and landing fees	2	625	177	(2)	802
Depreciation and amortization		634	106		740
Fuel		584	74		658
Maintenance and repairs		504	75		579
Intercompany charges, net	(89)	38	51		
Other	58	1,429	756	(42)	2,201
		10,049	3,785	(70)	13,764
OPERATING INCOME		948	219		1,167
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	700	54		(754)	
Interest, net	(123)	4			(119)
Intercompany charges, net	124	(64)	(60)		
Other, net	(1)	(5)	36		30
INCOME BEFORE INCOME TAXES	700	937	195	(754)	1,078
Provision for income taxes		291	87		378
NET INCOME	$ 700	$ 646	$ 108	$ (754)	$ 700
COMPREHENSIVE INCOME	$ 682	$ 635	$ (112)	$ (754)	$ 451

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended November 30, 2015

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 10,479	$ 2,048	$ (74)	$ 12,453
OPERATING EXPENSES:					
Salaries and employee benefits	26	3,926	618		4,570
Purchased transportation		1,941	622	(25)	2,538

Rentals and landing fees	2	596	86	(2)	682
Depreciation and amortization	1	601	51		653
Fuel		597	18		615
Maintenance and repairs		497	32		529
Intercompany charges, net	(112)	84	28		
Other	83	1,293	400	(47)	1,729
		9,535	1,855	(74)	11,316
OPERATING INCOME		944	193		1,137
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	691	73		(764)	
Interest, net	(81)	6	1		(74)
Intercompany charges, net	84	(83)	(1)		
Other, net	(3)	(6)	1		(8)
INCOME BEFORE INCOME TAXES	691	934	194	(764)	1,055
Provision for income taxes		309	55		364
NET INCOME	$ 691	$ 625	$ 139	$ (764)	$ 691
COMPREHENSIVE INCOME	$ 672	$ 620	$ 112	$ (764)	$ 640

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Six Months Ended November 30, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 21,900	$ 7,834	$ (140)	$ 29,594
OPERATING EXPENSES:					
Salaries and employee benefits	65	8,267	2,332		10,664
Purchased transportation		3,991	2,734	(54)	6,671
Rentals and landing fees	3	1,245	347	(3)	1,592
Depreciation and amortization		1,245	234		1,479
Fuel		1,162	146		1,308
Maintenance and repairs		1,030	147		1,177
Intercompany charges, net	(179)	100	79		
Other	111	2,802	1,442	(83)	4,272
		19,842	7,461	(140)	27,163
OPERATING INCOME		2,058	373		2,431
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,415	110		(1,525)	
Interest, net	(245)	13			(232)
Intercompany charges, net	246	(145)	(101)		
Other, net	(1)	(10)	32		21
INCOME BEFORE INCOME TAXES	1,415	2,026	304	(1,525)	2,220
Provision for income taxes		671	134		805
NET INCOME	$ 1,415	$ 1,355	$ 170	$ (1,525)	$ 1,415
COMPREHENSIVE INCOME	$ 1,378	$ 1,337	$ (31)	$ (1,525)	$ 1,159

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Six Months Ended November 30, 2015

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 20,352	$ 4,557	$ (177)	$ 24,732
OPERATING EXPENSES:					
Salaries and employee benefits	60	7,739	1,296		9,095
Purchased transportation		3,375	1,587	(80)	4,882

Rentals and landing fees	3	1,183	194	(3)	1,377
Depreciation and amortization	1	1,184	116		1,301
Fuel		1,288	39		1,327
Maintenance and repairs		1,005	72		1,077
Intercompany charges, net	(181)	44	137		
Other	117	2,557	812	(94)	3,392
		18,375	4,253	(177)	22,451
OPERATING INCOME		1,977	304		2,281
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,383	134		(1,517)	
Interest, net	(156)	14	5		(137)
Intercompany charges, net	162	(159)	(3)		
Other, net	(6)	(9)	10		(5)
INCOME BEFORE INCOME TAXES	1,383	1,957	316	(1,517)	2,139
Provision for income taxes		666	90		756
NET INCOME	$ 1,383	$ 1,291	$ 226	$ (1,517)	$ 1,383
COMPREHENSIVE INCOME	$ 1,346	$ 1,271	$ 70	$ (1,517)	$ 1,170

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(UNAUDITED)

Six Months Ended November 30, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (376)	$ 2,550	$ 473	$ (12)	$ 2,635
INVESTING ACTIVITIES					
Capital expenditures		(2,455)	(226)		(2,681)
Proceeds from asset dispositions and other	84	13	3		100
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	84	(2,442)	(223)		(2,581)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	24	(94)	70		
Payment on loan between subsidiaries	8	(15)	7		
Intercompany dividends		1	(1)		
Principal payments on debt		(31)	(12)		(43)
Proceeds from stock issuances	164				164
Dividends paid	(213)				(213)
Purchase of treasury stock	(334)				(334)
Other, net	4	(2)	(7)		(5)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(347)	(141)	57		(431)
Effect of exchange rate changes on cash	(5)	1	(94)		(98)
Net (decrease) increase in cash and cash equivalents	(644)	(32)	213	(12)	(475)
Cash and cash equivalents at beginning of period	1,974	326	1,277	(43)	3,534
Cash and cash equivalents at end of period	$ 1,330	$ 294	$ 1,490	$ (55)	$ 3,059

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(UNAUDITED)

Six Months Ended November 30, 2015

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (847)	$ 3,054	$ 213	$ 34	$ 2,454
INVESTING ACTIVITIES					
Capital expenditures		(2,482)	(80)		(2,562)
Proceeds from asset dispositions and other	(5)	21	(4)		12
CASH USED IN INVESTING ACTIVITIES	(5)	(2,461)	(84)		(2,550)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	648	(691)	43		
Payment on loan between subsidiaries		106	(106)		
Intercompany dividends		20	(20)		
Principal payments on debt		(2)	(15)		(17)
Proceeds from debt issuance	1,238				1,238
Proceeds from stock issuances	62				62
Dividends paid	(141)				(141)
Purchase of treasury stock	(1,101)				(1,101)
Other, net	(8)	(27)	27		(8)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	698	(594)	(71)		33
Effect of exchange rate changes on cash		(12)	(41)		(53)
Net (decrease) increase in cash and cash equivalents	(154)	(13)	17	34	(116)
Cash and cash equivalents at beginning of period	2,383	487	971	(78)	3,763
Cash and cash equivalents at end of period	$ 2,229	$ 474	$ 988	$ (44)	$ 3,647

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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 November 30, 2016, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended November 30, 2016 and 2015 and the condensed consolidated statements of cash flows for the six-month periods ended November 30, 2016 and 2015. 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 (United States), 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, 2016, 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 we expressed an unqualified audit opinion on those consolidated financial statements in our report dated July 18, 2016. In our opinion, the accompanying condensed consolidated balance sheet of FedEx Corporation as of May 31, 2016, 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

December 21, 2016

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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, 2016 (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; TNT Express B.V. (TNT Express), an international express, small-package ground delivery and freight transportation company; FedEx Ground Package System, Inc. (FedEx Ground), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. (FedEx Freight), a leading U.S. provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services, and certain back-office support functions that support our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. (FedEx Office). See Reportable Segments for further discussion. 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 and size;
- the mix of services purchased by our customers;
- the prices we obtain for our services, primarily measured by yield (revenue per package or pound or revenue per shipment or hundredweight for LTL freight shipments);
- our ability to manage our network capacity and 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, professional fees, and uniforms.

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Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2017 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 group, which includes the FedEx Express and TNT Express segments, the FedEx Ground segment and the FedEx Freight segment.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following tables compare summary operating results and changes in revenue and operating income (dollars in millions, except per share amounts) for the periods ended November 30:

	Three Months Ended		Percent	Six Months Ended		Percent
	2016	2015	Change	2016	2015	Change
Revenues	$ 14,931	$ 12,453	20	$ 29,594	$ 24,732	20
Operating income:						
FedEx Express segment	636	622	2	1,260	1,167	8
TNT Express segment	70		NM	56		NM
FedEx Ground segment	465	526	(12)	1,075	1,063	1
FedEx Freight segment	88	101	(13)	223	233	(4)
Eliminations, corporate and other	(92)	(112)	(18)	(183)	(182)	1
Consolidated operating income	1,167	1,137	3	2,431	2,281	7
Operating margin:						
FedEx Express segment	9.4%	9.4%	bp	9.4%	8.9%	50 bp
TNT Express segment	3.7%		NM	1.5%		NM
FedEx Ground segment	10.5%	13.0%	(250)bp	12.3%	13.5%	(120)bp
FedEx Freight segment	5.5%	6.5%	(100)bp	6.9%	7.4%	(50)bp
Consolidated operating margin	7.8%	9.1%	(130)bp	8.2%	9.2%	(100)bp
Consolidated net income	$ 700	$ 691	1	$ 1,415	$ 1,383	2
Diluted earnings per share	$ 2.59	$ 2.44	6	$ 5.24	$ 4.86	8

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	Change in Revenue		Change in Operating Income	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
FedEx Express segment	$ 155	$ 220	$ 14	$ 93
TNT Express segment	1,899	3,703	70	56
FedEx Ground segment	369	829	(61)	12
FedEx Freight segment	50	107	(13)	(10)
FedEx Services segment	11	16		
Eliminations, corporate and other	(6)	(13)	20	(1)
	$ 2,478	$ 4,862	$ 30	$ 150

Overview

In addition to the inclusion of TNT Express, which has impacted the year-over-year comparability of our results, operating income increased in the second quarter and first half of 2017 due to improved results at FedEx Express, as we continue to grow base yields and constrain expense growth. Operating income also improved in the first half of 2017 due to volume and yield growth at FedEx Ground.

However, increased rent, depreciation and staffing as a result of network expansion, as well as increased purchased transportation rates, resulted in a decline in FedEx Ground s second quarter results. Lower operating income at FedEx Freight negatively impacted our results in the second quarter and first half of 2017.

We incurred an aggregate $58 million ($50 million, net of tax, or $0.18 per diluted share) in the second quarter and $126 million ($94 million, net of tax, or $0.35 per diluted share) in the first half of 2017 of integration expenses for TNT Express and charges associated with TNT Express s restructuring program called Outlook. The integration expenses are predominantly incremental costs directly associated with the integration of TNT Express, including professional and legal fees, salaries and wages, advertising expenses and travel. Internal salaries and wages are included only to the extent the individuals are assigned full time to integration activities. These costs were incurred primarily at FedEx Corporation and FedEx Express. The identification of these costs as integration-related expenditures is subject to our disclosure controls and procedures. In addition, we incurred $10 million ($7 million, net of tax, or $0.03 per diluted share) in the second quarter and $38 million ($28 million, net of tax, or $0.10 per diluted share) in the first half of 2017 of increased intangible asset amortization as a result of this acquisition.

In the second quarter of 2016 we incurred expenses related to the settlement of independent contractor litigation matters involving FedEx Ground for $41 million ($25 million, net of tax, or $0.09 per diluted share).

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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 (TNT Express volume trends are not presented, as it was acquired on May 25, 2016):

(1) International domestic average daily package volume represents our international intra-country operations in the FedEx Express segment.

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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 (TNT Express yield trends are not presented, as it was acquired on May 25, 2016):

Revenue

Revenues increased 20% in the second quarter and the first half of 2017 due to the inclusion of TNT Express and improvements at our other transportation segments. At FedEx Ground, revenues increased 9% in the second quarter and 11% in the first half of 2017 due to volume growth in our residential services and commercial business and yield growth. Revenues at FedEx Express increased 2% in the second quarter and the first half of 2017 due to yield and package volume growth. FedEx Freight revenues increased 3% in the second quarter and the first half of 2017 due to higher average daily LTL shipments. Lower fuel surcharges had a negative impact on revenues at all of our transportation segments in the second quarter and first half of 2017.

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Operating Expenses

The following tables compare operating expenses expressed as dollar amounts (in millions) and as a percent of revenue for the periods ended November 30:

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Operating expenses:				
Salaries and employee benefits	$ 5,353	$ 4,570	$ 10,664	$ 9,095
Purchased transportation	3,431	2,538	6,671	4,882
Rentals and landing fees	802	682	1,592	1,377
Depreciation and amortization	740	653	1,479	1,301
Fuel	658	615	1,308	1,327
Maintenance and repairs	579	529	1,177	1,077
Other	2,201	1,729	4,272	3,392
Total operating expenses	$ 13,764	$ 11,316	$ 27,163	$ 22,451
Operating income	$ 1,167	$ 1,137	$ 2,431	$ 2,281

	Percent of Revenue			
	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Operating expenses:				
Salaries and employee benefits	35.8%	36.7%	36.1%	36.8%
Purchased transportation	23.0	20.4	22.5	19.7
Rentals and landing fees	5.4	5.5	5.4	5.6
Depreciation and amortization	5.0	5.2	5.0	5.3
Fuel	4.4	4.9	4.4	5.4
Maintenance and repairs	3.9	4.3	4.0	4.3
Other	14.7	13.9	14.4	13.7
Total operating expenses	92.2	90.9	91.8	90.8
Operating margin	7.8%	9.1%	8.2%	9.2%

Operating margin declined during the second quarter and first half of 2017 due to the inclusion of TNT Express, increased depreciation, rent and staffing as a result of network expansion and increased purchased transportation rates at FedEx Ground and lower operating income at FedEx Freight. These impacts were partially offset by the continued benefits from cost management initiatives at FedEx Express.

The inclusion of the TNT Express segment in our results has impacted the year-over-year comparability of our operating expenses. Purchased transportation costs increased 35% in the second quarter and 37% in the first half of 2017 due to the inclusion of TNT Express and higher volumes, as well as increased service provider and U.S. Postal Service rates at FedEx Ground. Salaries and employee benefits expense increased 17% in the second quarter and first half of 2017. These increases were due to the inclusion of TNT Express, volume growth and staffing to support network expansion at FedEx Ground, merit increases at FedEx Express and increased staffing and merit increases at FedEx Freight. Other expenses were 27% higher in the second quarter and 26% in the first half of 2017 primarily due to the inclusion of TNT Express results driven by outside service contracts.

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Fuel

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

Fuel expense increased 7% in the second quarter of 2017 due to the inclusion of TNT Express. However, fuel expense decreased 1% in the first half of 2017 due to lower fuel prices, which was mostly offset by the inclusion of TNT Express. Fuel prices represent only one component of the two factors we consider meaningful in understanding the impact of fuel on our business. Consideration must also be given to the fuel surcharge revenue we collect. Accordingly, we believe discussion of the net impact of fuel on our results, which is a comparison of the year-over-year change in these two factors, is important to understand the impact of fuel on our business. In order to provide information about the impact of fuel surcharges on the trend in revenue and yield growth, we have included the comparative weighted-average fuel surcharge percentages in effect for the second quarter and first half of 2017 and 2016 in the accompanying discussions of each of our transportation segments.

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

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

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

We routinely review our fuel surcharges and our fuel surcharge methodology. As announced on September 19, 2016, FedEx Express and FedEx Ground fuel surcharges will be adjusted on a weekly basis compared to the current monthly adjustment, effective February 6, 2017. On November 2, 2015, we updated the tables used to determine our fuel surcharges at FedEx Express, FedEx Ground and FedEx Freight.

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The net impact of fuel had a minimal impact in the second quarter and first half of 2017 to operating income.

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

Other Income and Expense

Interest expense increased $95 million in the first half of 2017 primarily due to our U.S. and European debt issuances in fiscal 2016, which was partially offset by a gain of $35 million from the sale of an investment during the second quarter of 2017. The annualized weighted average interest rate on our long-term debt was 3.6% for the six months ended November 30, 2016, reflecting the favorable interest rates obtained in recent debt offerings.

Income Taxes

Our effective tax rate was 35.1% for the second quarter and 36.3% for the first half of 2017, compared with 34.5% in the second quarter and 35.3% in the first half of 2016. The first half tax rate in 2017 has been negatively impacted by local country losses in some entities within TNT Express, for which no tax benefit was recognized due to uncertainty as to the utilization of these losses. This year-to-date negative impact was partially offset by the benefit of early adopting the Accounting Standards Update for share-based payments in the second quarter of 2017. Longer term, as the synergies from the TNT Express acquisition result in greater international profits, we expect our effective tax rate to be lower than the rate in recent years. The tax rates in 2016 were favorably impacted by the resolution of a state tax matter.

We are subject to taxation in the United States and various U.S. state, local and foreign jurisdictions. We are currently under examination by the Internal Revenue Service for the 2014 and 2015 tax years. It is reasonably possible that certain income tax return proceedings will be completed during the next twelve months and could result in a change in our balance of unrecognized tax benefits. The expected impact of any changes would not be material to our consolidated financial statements. As of November 30, 2016, there were no material changes to our liabilities for unrecognized tax benefits from May 31, 2016.

Business Acquisition

On May 25, 2016, we acquired TNT Express for 4.4 billion (approximately $4.9 billion). Cash acquired in the acquisition was approximately 250 million ($280 million). As of November 30, 2016, $26 million of shares associated with the transaction remained untendered, a decrease of $261 million since May 31, 2016. The remaining untendered shares are included in the Other liabilities caption of our consolidated balance sheets. We funded the acquisition with proceeds from our April 2016 debt issuance and existing cash balances. The financial results of this business are included in the FedEx Express group and TNT Express segment from the date of acquisition.

TNT Express collects, transports and delivers documents, parcels and freight to over 200 countries. This strategic acquisition broadens our portfolio of international transportation solutions by combining TNT Express s strong European road platform with FedEx Express s strength in other regions globally.

Given the timing and complexity of the acquisition, the presentation of TNT Express in our financial statements, including the allocation of the purchase price, continues to be preliminary and will likely change in future periods, perhaps significantly, as additional information concerning the fair value estimates of the assets acquired and liabilities assumed as of the acquisition date is obtained during the remainder of the fiscal year. We will complete our purchase price allocation no later than the fourth quarter of 2017.

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See Note 1 of the accompanying unaudited condensed consolidated financial statements for further discussion of this acquisition.

Outlook

We expect volume and yield growth at FedEx Express and FedEx Ground and the inclusion of TNT Express to drive our continued earnings growth in 2017 prior to any mark-to-market (MTM) benefit plans adjustment. At FedEx Ground, we are focused on balancing capacity and volume growth with yield management. These actions contributed to the second quarter volume results and are also expected to mute third quarter volume growth. Our results in 2017 will continue to be negatively impacted by our TNT Express integration and restructuring activities. Our expectations for earnings growth in the third quarter and the remainder of 2017 are dependent on key external factors, including fuel prices and the pace of improvement of the global economy.

During the second half of 2017, we will continue to execute our TNT Express integration plans. The integration process is complex as it spans over 200 countries and involves combining our pickup and delivery operations at a local level, our global and regional air and ground networks, and our extensive operations, customs clearance, sales and back-office IT systems, and is expected to take four years to complete.

As a result of updates to the TNT Express purchase price allocation during the second quarter of 2017, the intangible asset amortization is now estimated to be $38 million in the second half and $75 million for 2017. See Note 1 of the accompanying unaudited condensed consolidated financial statements and the TNT Express discussion in this MD&A for additional information.

In addition, as discussed in our Annual Report, TNT Express is undergoing a large restructuring program called Outlook, which includes incurring certain restructuring costs. We estimate incurring costs of approximately $250 million in 2017 as a result of the TNT Express integration and Outlook restructuring programs. We currently expect the aggregate integration program expense over the four years to be in the range of $700 million to $800 million. The timing and amount of integration-related expenses in any future period is subject to change as we implement our plans. Therefore, we cannot currently predict if TNT Express will be accretive under accounting principles generally accepted in the United States in 2018. We believe that this acquisition presents significant opportunities for material synergies in pickup and delivery costs, air and ground network optimization, selling, general and administrative expenses, as well as revenue growth, and the benefit of a lower tax rate. We are currently anticipating annual pre-tax synergies following the completion of the integration program in fiscal 2020 of $750 million. Given that the integration is complex and spans several years, how we achieve our target may evolve over time as market conditions and other factors change.

Other Outlook Matters. For details on key 2017 capital projects, refer to the Liquidity Outlook section of this 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. For a description of these proceedings, see Note 8 of the accompanying unaudited condensed consolidated financial statements and the Independent Contractor Model section of our FedEx Ground segment MD&A.

FedEx Ground previously announced plans to implement the Independent Service Provider (ISP) model throughout its entire U.S. pickup and delivery network, including the 29 states that had not yet begun transitioning to the ISP model. The transition to the ISP model in these 29 states is being accomplished on a district-by-district basis and is expected to be completed by the end of 2020. As of November 30, 2016, 43% of FedEx Ground volume was being delivered by small businesses operating under the ISP model. The costs associated with these transitions will be recognized in the periods incurred and are not expected to be material to any future quarter.

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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RECENT ACCOUNTING GUIDANCE

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. These matters are described in our Annual Report.

During the first quarter of 2017, we retrospectively adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) to simplify the presentation of debt issuance costs. This new guidance requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, rather than as an asset. This new guidance had a minimal impact on our accounting and financial reporting.

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

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

During the second quarter of 2017, we adopted the Accounting Standards Update issued by the FASB in March 2016 to simplify the accounting for share-based payment transactions. The new guidance requires companies to recognize the income tax effects of awards that vest or are settled as income tax expense or benefit in the income statement as opposed to additional paid-in capital as is current practice. The guidance also provides clarification of the presentation of certain components of share-based awards in the statement of cash flows. Additionally, the guidance allows companies to make a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. We have elected to continue estimating forfeitures expected to occur in order to determine the amount of compensation cost to be recognized each period and to apply the cash flow classification guidance prospectively. Excess tax benefits are now classified as an operating activity rather than a financing activity. The adoption of the new standard had a benefit of $21 million to net income and $0.07 per diluted share for the second quarter of 2017. The first quarter of 2017 has not been recast due to immateriality.

We believe that no other new accounting guidance was adopted or issued during the first half of 2017 that is relevant to the readers of our financial statements.

REPORTABLE SEGMENTS

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

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

FEDEX SERVICES SEGMENT

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

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

ELIMINATIONS, CORPORATE AND OTHER

Certain FedEx operating companies provide transportation and related services for other FedEx companies outside their reportable segment. Billings for such services are based on negotiated rates, which we believe approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues 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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Corporate and other includes corporate headquarters costs for executive officers and certain legal and financial functions, as well as certain other costs and credits not attributed to our core business. These costs are not allocated to the business segments. The year-over-year decrease in these costs in the second quarter and first half of 2017 was driven by a prior year expense related to the settlement of independent contractor litigation matters involving FedEx Ground, partially offset by the TNT Express integration expenses discussed above.

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FEDEX EXPRESS GROUP

The FedEx Express group consists of the combined results of the FedEx Express and TNT Express segments. As discussed in our Annual Report, we have combined these segments for financial reporting discussion purposes into a collective business as a result of their management reporting structure. Furthermore, over time their operations will be integrated, therefore presenting a group view provides a basis for future year-over-year comparison purposes. We acquired TNT Express in the fourth quarter of 2016, which has impacted the year-over-year comparability of revenue and operating income. The following table compares selected performance measures (dollars in millions) for the periods ended November 30:

	Three Months Ended		Percent	Six Months Ended		Percent
	2016	2015	Change	2016	2015	Change
Revenues:						
FedEx Express segment	$ 6,743	$ 6,588	2	$ 13,399	$ 13,179	2
TNT Express segment	1,899		NM	3,703		NM
FedEx Express group	8,642	6,588	31	17,102	13,179	30
Operating income:						
FedEx Express segment	636	622	2	1,260	1,167	8
TNT Express segment	70		NM	56		NM
FedEx Express group	$ 706	$ 622	14	$ 1,316	$ 1,167	13
Operating margin:						
FedEx Express segment	9.4%	9.4%	bp	9.4%	8.9%	50 bp
TNT Express segment	3.7%		NM bp	1.5%		NM bp
FedEx Express group	8.2%	9.4%	(120)bp	7.7%	8.9%	(120)bp

FedEx Express Group Results

FedEx Express group revenues increased 31% in the second quarter and 30% in the first half of 2017. This increase was due to the inclusion of our recently acquired TNT Express segment, as well as improved yields and package volume growth at our FedEx Express segment, which were partially offset by lower fuel surcharges and unfavorable exchange rates.

Operating income increased in the second quarter and first half of 2017 within the FedEx Express group reflecting the continued success of our FedEx Express segment and the inclusion of the TNT Express segment. The TNT Express segment reported an operating profit due to revenue growth, which outpaced costs associated with the Outlook restructuring program and amortization of intangible assets. Operating margin of the group decreased in the second quarter and first half of 2017 due to the inclusion of the TNT Express segment.

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FEDEX EXPRESS SEGMENT

FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of packages and freight including priority services, which provide time-definite delivery within one, two or three business days worldwide, and deferred or economy services, which provide time-definite delivery within five business days worldwide. The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income (dollars in millions) and operating margin for the periods ended November 30:

	Three Months Ended		Percent	Six Months Ended		Percent
	2016	2015	Change	2016	2015	Change
Revenues:						
Package:						
U.S. overnight box	$ 1,709	$ 1,682	2	$ 3,431	$ 3,340	3
U.S. overnight envelope	422	397	6	865	819	6
U.S. deferred	834	826	1	1,644	1,642	
Total U.S. domestic package revenue	2,965	2,905	2	5,940	5,801	2
International priority	1,443	1,433	1	2,877	2,897	(1)
International economy	605	568	7	1,189	1,142	4
Total international export package revenue	2,048	2,001	2	4,066	4,039	1
International domestic(1)	332	336	(1)	652	663	(2)
Total package revenue	5,345	5,242	2	10,658	10,503	1
Freight:						
U.S.	612	578	6	1,228	1,151	7
International priority	378	354	7	738	704	5
International airfreight	27	32	(16)	54	68	(21)
Total freight revenue	1,017	964	5	2,020	1,923	5
Other(2)	381	382		721	753	(4)
Total revenues	6,743	6,588	2	13,399	13,179	2
Operating expenses:						
Salaries and employee benefits	2,604	2,513	4	5,192	5,036	3
Purchased transportation	603	616	(2)	1,160	1,217	(5)
Rentals and landing fees	398	399		799	809	(1)
Depreciation and amortization	360	349	3	708	696	2
Fuel	509	517	(2)	1,010	1,124	(10)
Maintenance and repairs	339	330	3	696	675	3
Intercompany charges	463	462		925	907	2
Other	831	780	7	1,649	1,548	7
Total operating expenses	6,107	5,966	2	12,139	12,012	1
Operating income	$ 636	$ 622	2	$ 1,260	$ 1,167	8

Operating margin	9.4%	9.4%	bp	9.4%	8.9%	50bp

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

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

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	Percent of Revenue			
	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Operating expenses:				
Salaries and employee benefits	38.6%	38.1%	38.7%	38.2%
Purchased transportation	9.0	9.4	8.7	9.2
Rentals and landing fees	5.9	6.1	6.0	6.1
Depreciation and amortization	5.3	5.3	5.3	5.3
Fuel	7.6	7.9	7.5	8.5
Maintenance and repairs	5.0	5.0	5.2	5.1
Intercompany charges	6.9	7.0	6.9	6.9
Other	12.3	11.8	12.3	11.8
Total operating expenses	90.6	90.6	90.6	91.1
Operating margin	9.4%	9.4%	9.4%	8.9%

The following table compares selected statistics (in thousands, except yield amounts) for the periods ended November 30:

	Three Months Ended		Percent	Six Months Ended		Percent
	2016	2015	Change	2016	2015	Change
Package Statistics[1]						
Average daily package volume (ADV):						
U.S. overnight box	1,283	1,290	(1)	1,269	1,250	2
U.S. overnight envelope	557	531	5	563	536	5
U.S. deferred	866	900	(4)	845	882	(4)
Total U.S. domestic ADV	2,706	2,721	(1)	2,677	2,668	
International priority	409	402	2	397	396	
International economy	189	186	2	183	181	1
Total international export ADV	598	588	2	580	577	1
International domestic[2]	982	954	3	928	903	3
Total ADV	4,286	4,263	1	4,185	4,148	1
Revenue per package (yield):						
U.S. overnight box	$ 21.15	$ 20.70	2	$ 21.13	$ 20.89	1
U.S. overnight envelope	12.00	11.87	1	11.98	11.93	
U.S. deferred	15.30	14.55	5	15.21	14.54	5
U.S. domestic composite	17.39	16.94	3	17.33	16.99	2
International priority	56.04	56.52	(1)	56.66	57.19	(1)
International economy	50.75	48.53	5	50.62	49.35	3
International export composite	54.37	54.00	1	54.75	54.73	
International domestic[2]	5.36	5.59	(4)	5.49	5.73	(4)

Composite package yield	19.80	19.52	1	19.90	19.78	1
Freight Statistics[1]						
Average daily freight pounds:						
U.S.	8,177	8,213		8,121	7,738	5
International priority	2,743	2,605	5	2,637	2,547	4
International airfreight	600	678	(12)	592	643	(8)
Total average daily freight pounds	11,520	11,496		11,350	10,928	4
Revenue per pound (yield):						
U.S.	$ 1.19	$ 1.12	6	$ 1.18	$ 1.16	2
International priority	2.18	2.16	1	2.19	2.16	1
International airfreight	0.72	0.75	(4)	0.71	0.83	(14)
Composite freight yield	1.40	1.33	5	1.39	1.37	1

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

(2) International domestic statistics represent our international intra-country operations.

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FedEx Express Segment Revenues

FedEx Express segment revenues increased 2% in the second quarter and the first half of 2017 primarily due to improved yields and package volume growth. These factors were partially offset by lower fuel surcharges and unfavorable exchange rates in the second quarter and first half of 2017.

U.S. domestic yields increased 3% in the second quarter and 2% in the first half of 2017 due to higher base rates. U.S. domestic average daily volumes decreased 1% in the second quarter and remained flat in the first half of 2017 driven by declines in our U.S. deferred service partially offset by growth of our overnight envelope offering. International export average daily volumes increased 2% in the second quarter and 1% in the first half of 2017 due to growth in international export and increased international priority box shipments from Asia. International domestic average daily volumes increased 3% in the second quarter and first half of 2017. Freight average daily pounds increased 4% in the first half of 2017 due to higher U.S. Postal Service volume.

Our U.S. domestic and outbound fuel surcharge and the international fuel surcharges ranged as follows for the periods ended November 30:

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
U.S. Domestic and Outbound Fuel Surcharge:				
Low	2.00%	1.00%	1.00%	1.00%
High	2.25	2.75	2.50	4.00
Weighted-average	2.08	1.89	1.96	2.61
International Fuel Surcharges:				
Low	2.00	0.75	1.00	0.75
High	9.00	10.50	9.50	12.00
Weighted-average	5.99	6.58	5.84	7.69

On September 19, 2016, FedEx Express announced a 3.9% average list price increase for U.S. domestic, U.S. export and U.S. import services and a change to the U.S. domestic dimensional weight divisor effective January 2, 2017. In addition, FedEx Express fuel surcharges will be adjusted on a weekly basis compared to the current monthly adjustment, effective February 6, 2017. On January 4, 2016, FedEx Express implemented a 4.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services. In addition, effective November 2, 2015, FedEx Express updated certain tables used to determine fuel surcharges.

FedEx Express Segment Operating Income

FedEx Express continued to increase operating income in the second quarter and in the first half of 2017 due to base yield improvement, volume growth and the continued benefits of cost management initiatives. In addition, results include $18 million in the second quarter and $40 million in the first half of 2017 of TNT Express integration expenses. FedEx Express continues to manage network capacity to match customer demand, reduce structural costs, modernize its fleet and drive productivity increases throughout its operations.

Salaries and employee benefits increased 4% in the second quarter and 3% in the first half of 2017 due to merit increases. Other expenses increased 7% in the second quarter and the first half of 2017 primarily due to TNT Express integration expenses. Purchased transportation expenses decreased 2% in the second quarter and 5% in the first half of 2017 driven by favorable exchange rates.

Fuel expense decreased 2% in the second quarter and 10% in the first half of 2017 due to lower fuel prices. See the Fuel section of this MD&A for a description and additional discussion of the net impact of fuel on our operating results.

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TNT EXPRESS SEGMENT

TNT Express collects, transports and delivers documents, parcels and freight on a day-definite or time-definite basis. Services are primarily classified by the speed, distance, weight and size of shipments. While the majority of shipments are between businesses, TNT Express also offers business-to-consumer services to select key customers. We acquired TNT Express in the fourth quarter of 2016. The following table presents revenues, operating expenses, operating expenses as a percent of revenue, operating income, operating margin (dollars in millions) and selected package statistics (in thousands, except yield amounts) for the periods ended November 30:

	2016	
	Three Months Ended	Six Months Ended
Revenues	$ 1,899	$ 3,703
Operating expenses:		
Salaries and employee benefits	510	1,031
Purchased transportation	749	1,517
Rentals and landing fees	87	173
Depreciation and amortization	52	124
Fuel	56	110
Maintenance and repairs	40	76
Intercompany charges	5	5
Other	330	611
Total operating expenses	1,829	3,647
Operating income	$ 70	$ 56
Operating margin	3.7%	1.5%
Package:		
Average daily packages	1,071	993
Revenue per package (yield)	$ 24.88	$ 25.40
Freight:		
Average daily pounds	3,484	3,595
Revenue per pound (yield)	$ 0.59	$ 0.61

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	Percent of Revenue 2016	
	Three Months Ended	Six Months Ended
Operating expenses:		
Salaries and employee benefits	26.9%	27.8%
Purchased transportation	39.4	41.0
Rentals and landing fees	4.6	4.7
Depreciation and amortization	2.7	3.3
Fuel	2.9	3.0
Maintenance and repairs	2.1	2.1
Intercompany charges	0.3	0.1
Other	17.4	16.5
Total operating expenses	96.3	98.5
Operating margin	3.7%	1.5%

TNT Express fuel surcharges are indexed to the spot price for jet fuel. Using this index, the international fuel surcharge percentages ranged as follows for the periods ended November 30:

	Three Months Ended 2016	Six Months Ended 2016
International Fuel Surcharges:		
Low	5.75%	5.25%
High	17.75	18.00
Weighted-average	12.12	11.87

TNT Express Segment Results

The TNT Express segment was formed in the fourth quarter of 2016, following the acquisition of TNT Express on May 25, 2016. Since the date of acquisition, TNT Express has focused on maintaining its customer base while beginning integration activities with FedEx Express, as well as continuing to execute the Outlook restructuring program.

TNT Express results included revenues of $1.9 billion for the second quarter and $3.7 billion for the first half of 2017 and operating income of $70 million in the second quarter and $56 million in the first half of 2017. These results include Outlook restructuring program and integration costs of $10 million in the second quarter and $30 million in the first half of 2017. Costs associated with the Outlook restructuring program are expected to continue through calendar year 2018 and integration costs are expected to continue through fiscal year 2020. In addition, operating expenses include intangible asset amortization of $10 million in the second quarter and $38 million in the first half of 2017. As a result of updates to the TNT Express purchase price allocation during the second quarter of 2017, the intangible asset amortization is now estimated to be $38 million in the second half of 2017 and $75 million for the full year.

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FEDEX GROUND SEGMENT

FedEx Ground service offerings include day-certain delivery to businesses in the U.S. and Canada and to 100% of U.S. residences. The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income (dollars in millions), operating margin and selected package statistics (in thousands, except yield amounts) for the periods ended November 30:

	Three Months Ended		Percent	Six Months Ended		Percent
	2016	2015	Change	2016	2015	Change
Revenues:						
FedEx Ground	$ 4,015	$ 3,677	9	$ 7,906	$ 7,137	11
GENCO	404	373	8	803	743	8
Total revenues	4,419	4,050	9	8,709	7,880	11
Operating expenses:						
Salaries and employee benefits	820	696	18	1,586	1,349	18
Purchased transportation	1,861	1,712	9	3,553	3,239	10
Rentals	189	155	22	370	300	23
Depreciation and amortization	168	146	15	331	292	13
Fuel	3	2	50	5	5	
Maintenance and repairs	78	69	13	154	138	12
Intercompany charges	328	301	9	653	598	9
Other	507	443	14	982	896	10
Total operating expenses	3,954	3,524	12	7,634	6,817	12
Operating income	$ 465	$ 526	(12)	$ 1,075	$ 1,063	1
Operating margin	10.5%	13.0%	(250)bp	12.3%	13.5%	(120)bp
Average daily package volume						
FedEx Ground	8,005	7,623	5	7,692	7,163	7
Revenue per package (yield)						
FedEx Ground	$ 7.95	$ 7.64	4	$ 8.02	$ 7.77	3

	Percent of Revenue			
	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Operating expenses:				
Salaries and employee benefits	18.5%	17.2%	18.2%	17.1%
Purchased transportation	42.1	42.3	40.8	41.1
Rentals	4.3	3.8	4.2	3.8
Depreciation and amortization	3.8	3.6	3.8	3.7
Fuel	0.1	0.1	0.1	0.1
Maintenance and repairs	1.8	1.7	1.8	1.7
Intercompany charges	7.4	7.4	7.5	7.6

Other	11.5	10.9	11.3	11.4
Total operating expenses	89.5	87.0	87.7	86.5
Operating margin	10.5%	13.0%	12.3%	13.5%

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 9% in the second quarter and 11% in the first half of 2017 due to volume and yield growth. Average daily volume at FedEx Ground increased 5% in the second quarter and 7% in the first half of 2017 primarily due to continued growth in our residential services driven by e-commerce, as well as our commercial business. FedEx Ground yield increased 4% during the second quarter and 3% in the first half of 2017 primarily due to higher base yields.

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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 November 30:

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Low	3.80%	3.50%	3.30%	3.50%
High	4.00	4.25	4.00	4.50
Weighted-average	3.90	3.92	3.80	4.12

On September 19, 2016, FedEx Ground announced a 4.9% average list price increase and a change to the U.S. domestic dimensional weight divisor effective January 2, 2017. In addition, FedEx Ground fuel surcharges will be adjusted on a weekly basis compared to the current monthly adjustment, effective February 6, 2017. On January 4, 2016, FedEx Ground implemented a 4.9% increase in average list price. In addition, on November 2, 2015, FedEx Ground increased surcharges for shipments that exceed the published maximum weight or dimensional limits and updated certain tables used to determine fuel surcharges.

FedEx Ground Segment Operating Income

During the second quarter of 2017, FedEx Ground segment operating income decreased 12% due to increased rent, depreciation and staffing as a result of network expansion, as well as increased purchased transportation rates. FedEx Ground segment operating income increased 1% in the first half of 2017 due to volume and yield growth, which was partially offset by higher network expansion costs and purchased transportation rates.

Purchased transportation expense increased 9% in the second quarter and 10% in the first half of 2017 due to higher volumes and increased service provider and U.S. Postal Service rates. Salaries and employee benefits expense increased 18% during the second quarter and the first half of 2017 due to volume growth and additional staffing to support network expansion. Other expense increased 14% in the second quarter of 2017 due to higher self-insurance accruals and increased property taxes as a result of network expansion and 10% in the first half of 2017 due to increased property taxes and operating supplies as a result of network expansion. Rent expense and depreciation and amortization expense increased in the second quarter and first half of 2017 due to network expansion.

Independent Contractor Model

FedEx Ground is involved in lawsuits and other proceedings (such as state tax or other administrative challenges) where the classification of its independent contractors is at issue. During the third quarter of 2016, we reached agreements in principle to settle all of the 19 cases on appeal in the multidistrict litigation. These cases involve a contractor model which FedEx Ground has not operated since 2011. In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation. These cases are in varying stages of litigation. We will continue to vigorously defend ourselves in these proceedings and continue to believe that FedEx Ground s owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company s independent contractors. For a description of these proceedings, see 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 and Other Outlook Matters under Consolidated Results of this MD&A.

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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 tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income (dollars in millions), operating margin and selected statistics for the periods ended November 30:

	Three Months Ended 2016	Three Months Ended 2015	Percent Change	Six Months Ended 2016	Six Months Ended 2015	Percent Change
Revenues	$ 1,597	$ 1,547	3	$ 3,255	$ 3,148	3
Operating expenses:						
Salaries and employee benefits	761	731	4	1,533	1,452	6
Purchased transportation	250	246	2	509	497	2
Rentals	35	33	6	65	76	(14)
Depreciation and amortization	66	61	8	130	120	8
Fuel	92	95	(3)	183	197	(7)
Maintenance and repairs	55	53	4	109	106	3
Intercompany charges	124	112	11	250	225	11
Other	126	115	10	253	242	5
Total operating expenses	1,509	1,446	4	3,032	2,915	4
Operating income	$ 88	$ 101	(13)	$ 223	$ 233	(4)
Operating margin	5.5%	6.5%	(100)bp	6.9%	7.4%	(50)bp
Average daily LTL shipments (in thousands)						
Priority	72.7	68.9	6	72.6	67.7	7
Economy	31.4	31.4		31.9	31.0	3
Total average daily LTL shipments	104.1	100.3	4	104.5	98.7	6
Weight per LTL shipment (lbs)						
Priority	1,165	1,179	(1)	1,171	1,189	(2)
Economy	1,113	1,141	(2)	1,105	1,155	(4)
Composite weight per LTL shipment	1,149	1,167	(2)	1,151	1,178	(2)
LTL revenue per shipment						
Priority	$ 220.34	$ 218.52	1	$ 218.89	$ 220.90	(1)
Economy	261.28	263.47	(1)	258.26	266.43	(3)