

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
(State or other jurisdiction of

incorporation or organization)

942 South Shady Grove Road Memphis, Tennessee

(Address of principal executive offices)

62-1721435
(I.R.S. Employer

Identification No.)

38120
(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

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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

Smaller reporting company

(Do not check if a smaller reporting company)

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

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

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

Outstanding Shares at December 20, 2016
266,509,290

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FEDEX CORPORATION

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FEDEX CORPORATION
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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FEDEX CORPORATION
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, | | Six Months Ended November 30, | |
|--|------------------------------------|-----------|----------------------------------|-----------|
| | 2016 | 2015 | 2016 | 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.

Table of Contents**FEDEX CORPORATION****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.

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FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) **General**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. These interim financial statements of FedEx Corporation (FedEx) have been prepared in accordance with accounting principles generally accepted in the United States and Securities and Exchange Commission (SEC) instructions for interim financial information, and should be read in conjunction with our Annual Report on Form 10-K for the year ended May 31, 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.

Table of Contents**(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):

| Pension Plans | Three Months Ended | | Six Months Ended | |
|--|--------------------|--------|------------------|--------|
| | 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 |

| Postretirement Healthcare Plans | Three Months Ended | | Six Months Ended | |
|---------------------------------|--------------------|-------|------------------|-------|
| | 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.

Table of Contents***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 |

Table of Contents**(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 | | Total |
|------------------|--------------------------------------|-------------------------|---------------------|
| | Aircraft and Related Equipment | Facilities and Other | 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.

Table of Contents**(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 |

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| | | | | | |
|------------------------------------|--------|--------|--------|----------|--------|
| 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 |

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| | | | | | |
|------------------------------------|----------|----------|--------|------------|----------|
| 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 Change | Six Months Ended | | Percent Change |
|-----------------------------------|--------------------|-----------|-------------------|------------------|-----------|-------------------|
| | 2016 | 2015 | | 2016 | 2015 | |
| 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.

Table of Contents**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.

Table of Contents**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.

Table of Contents**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.

Table of Contents**FEDEX EXPRESS SEGMENT**

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

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| | | | | | | |
|------------------|------|------|----|------|------|------|
| 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 2016 | Three Months Ended 2015 | Six Months Ended 2016 | Six Months Ended 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 Change | Six Months Ended | | Percent Change |
|--|--------------------|--------------|-------------------|------------------|--------------|-------------------|
| | 2016 | 2015 | | 2016 | 2015 | |
| 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) |

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| | | | | | | |
|------------------------------------|---------|---------|------|---------|---------|------|
| 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.

Table of Contents***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.

Table of Contents**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.

Table of Contents**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 2016 | Three Months Ended 2015 | Six Months Ended 2016 | Six Months Ended 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 |

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| | | | | |
|--------------------------|-------|-------|-------|-------|
| 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.

Table of Contents**FEDEX FREIGHT SEGMENT**

FedEx Freight service offerings include priority services when speed is critical and economy services when time can be traded for savings. The following 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 | | Percent Change | Six Months Ended | | Percent Change |
|--|--------------------|--------------|-------------------|------------------|--------------|-------------------|
| | 2016 | 2015 | | 2016 | 2015 | |
| 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) |
| Composite LTL revenue per shipment | \$ 232.70 | \$ 232.60 | | \$ 230.90 | \$ 235.23 | (2) |
| LTL yield (revenue per hundredweight) | | | | | | |
| Priority | \$ 18.92 | \$ 18.53 | 2 | \$ 18.70 | \$ 18.58 | 1 |
| Economy | 23.48 | 23.09 | 2 | 23.37 | 23.07 | 1 |
| Composite LTL yield | \$ 20.25 | \$ 19.93 | 2 | \$ 20.07 | \$ 19.97 | 1 |

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| | Percent of Revenue | | | |
|--------------------------------|----------------------------|----------------------------|--------------------------|--------------------------|
| | Three Months Ended 2016 | Three Months Ended 2015 | Six Months Ended 2016 | Six Months Ended 2015 |
| Operating expenses: | | | | |
| Salaries and employee benefits | 47.6% | 47.3% | 47.1% | 46.1% |
| Purchased transportation | 15.7 | 15.9 | 15.6 | 15.8 |
| Rentals | 2.2 | 2.1 | 2.0 | 2.4 |
| Depreciation and amortization | 4.1 | 4.0 | 4.0 | 3.8 |
| Fuel | 5.8 | 6.1 | 5.6 | 6.3 |
| Maintenance and repairs | 3.4 | 3.4 | 3.3 | 3.4 |
| Intercompany charges | 7.8 | 7.3 | 7.7 | 7.1 |
| Other | 7.9 | 7.4 | 7.8 | 7.7 |
| Total operating expenses | 94.5 | 93.5 | 93.1 | 92.6 |
| Operating margin | 5.5% | 6.5% | 6.9% | 7.4% |

FedEx Freight Segment Revenues

FedEx Freight segment revenues increased 3% in the second quarter and the first half of 2017 due to higher average daily LTL shipments. Average daily LTL shipments increased 4% in the second quarter and 6% in the first half of 2017 due to higher demand for our LTL service offerings. LTL revenue per shipment remained flat in the second quarter and decreased 2% in the first half of 2017 primarily due to lower weight per shipment and lower fuel surcharges.

The indexed LTL fuel surcharge is based on the average of the national U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. The indexed LTL fuel surcharge ranged as follows for the periods ended November 30:

| | Three Months Ended | | Six Months Ended | |
|------------------|--------------------|--------|------------------|--------|
| | 2016 | 2015 | 2016 | 2015 |
| Low | 20.50% | 20.80% | 20.20% | 20.80% |
| High | 21.00 | 21.40 | 21.00 | 23.10 |
| Weighted-average | 20.75 | 21.14 | 20.64 | 21.79 |

On September 19, 2016, FedEx Freight announced a 4.9% average increase in certain U.S. and other shipping rates effective January 2, 2017. On January 4, 2016, FedEx Freight implemented zone-based pricing in certain U.S. and other LTL shipping rates. Also, on January 4, 2016, FedEx Freight implemented a 4.9% average increase in certain U.S. and other shipping rates.

FedEx Freight Segment Operating Income

FedEx Freight segment operating income decreased 13% in the second quarter and 4% in the first half of 2017 due to lower average weight per shipment, increased salaries and employee benefits and higher allocated information technology costs.

Salaries and employee benefits increased 4% in the second quarter and 6% in the first half of 2016 driven by higher staffing levels to support volume growth and merit increases. Intercompany charges increased 11% in the second quarter and the first half of 2017 due to higher allocated information technology costs. Purchased transportation expense increased 2% in the second quarter and the first half of 2017 due to higher volumes. Other expenses increased 10% in the second quarter and 5% in the first half of 2017 due to an adjustment in prior year real estate taxes. Rentals decreased 14% in the first half of 2017 driven primarily by a charge related to a facility closure in the prior year and a credit related to the favorable sublease of the facility in the current year.

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

Cash and cash equivalents totaled \$3.1 billion at November 30, 2016, compared to \$3.5 billion at May 31, 2016. The following table provides a summary of our cash flows for the six-month periods ended November 30 (in millions):

| | 2016 | 2015 |
|---|----------|----------|
| Operating activities: | | |
| Net income | \$ 1,415 | \$ 1,383 |
| Noncash charges and credits | 1,968 | 1,396 |
| Gain from sale of investment | (35) | |
| Changes in assets and liabilities | (713) | (325) |
| 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 | (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 the end of period | \$ 3,059 | \$ 3,647 |

Cash flows from operating activities increased \$181 million in the first half of 2017 primarily due to lower income tax payments offset by higher pension contributions, higher variable compensation payouts and higher interest payments. Capital expenditures during the first half of 2017 were higher primarily due to the inclusion of TNT Express and increased spending at FedEx Ground driven by sort facility expansion. See [Capital Resources](#) for a discussion of capital expenditures during 2016 and 2015.

On January 26, 2016, our Board of Directors approved a share repurchase program of up to 25 million shares. 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. 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.

Table of Contents**CAPITAL RESOURCES**

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

The following table compares capital expenditures by asset category and reportable segment for the periods ended November 30 (in millions):

| | Three Months Ended | | Six Months Ended | | Percent Change 2016/2015 | |
|---|--------------------------------|-----------------|------------------|-----------------|-----------------------------|---------------------|
| | 2016 | 2015 | 2016 | 2015 | Three Months Ended | Six Months Ended |
| | Aircraft and related equipment | \$ 443 | \$ 535 | \$ 1,035 | \$ 1,158 | (17) |
| Package handling and ground support equipment | 326 | 301 | 524 | 486 | 8 | 8 |
| Vehicles | 369 | 257 | 518 | 475 | 44 | 9 |
| Information technology investments | 119 | 99 | 278 | 173 | 20 | 61 |
| Facilities and other | 209 | 161 | 326 | 270 | 30 | 21 |
| Total capital expenditures | \$ 1,466 | \$ 1,353 | \$ 2,681 | \$ 2,562 | 8 | 5 |
| FedEx Express segment | \$ 664 | \$ 686 | \$ 1,440 | \$ 1,520 | (3) | (5) |
| TNT Express segment | 59 | | 115 | | NM | NM |
| FedEx Ground segment | 504 | 425 | 740 | 646 | 19 | 15 |
| FedEx Freight segment | 162 | 144 | 208 | 207 | 13 | |
| FedEx Services segment | 77 | 98 | 178 | 189 | (21) | (6) |
| Total capital expenditures | \$ 1,466 | \$ 1,353 | \$ 2,681 | \$ 2,562 | 8 | 5 |

Capital expenditures during the first half of 2017 were higher than the prior-year period primarily due to the inclusion of TNT Express and increased spending at FedEx Ground driven by sort facility expansion. Aircraft and related equipment purchases at FedEx Express during the first half of 2017 included the delivery of ten Boeing 767-300 Freighter aircraft, as well as the modification of certain aircraft before being placed into service.

LIQUIDITY OUTLOOK

We believe that our cash and cash equivalents, cash flow from operations and available financing sources are adequate to meet our liquidity needs, including working capital, capital expenditure requirements and debt payment obligations. Our cash and cash equivalents balance at November 30, 2016 includes \$775 million of cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations. Although we expect higher capital expenditures in 2017, we anticipate that our cash flow from operations will be sufficient to fund these expenditures. Historically, we have been successful in obtaining unsecured financing, from both domestic and international sources, although the marketplace for such investment capital can become restricted depending on a variety of economic factors.

Our capital expenditures are expected to be approximately \$5.6 billion in 2017 and include spending for sort facility expansion, primarily at FedEx Ground, aircraft and aircraft-related equipment at FedEx Express, and vehicle replacement at all our transportation segments. This capital expenditure forecast includes TNT Express. We invested \$1.0 billion in aircraft and aircraft-related equipment in the first half of 2017 and expect to invest an additional \$600 million for aircraft and aircraft-related equipment during the remainder of 2017.

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

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We have a five-year \$1.75 billion revolving credit facility that expires in November 2020. See Note 3 of the accompanying unaudited condensed consolidated financial statements for a description of the term and significant covenants of our revolving credit facility.

In 2017, we anticipate making contributions totaling \$2.0 billion (\$443 million of which are required) to our tax-qualified U.S. domestic pension plans (U.S. Pension Plans). In December 2016, we made \$250 million in contributions to our U.S. Pension Plans, of which \$178 million was required. We plan to make \$1 billion in voluntary contributions to these plans in January of 2017, which we expect to fund with proceeds from a debt offering. These additional contributions are being made to improve the funded status of our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments. For the remainder of 2017, we have \$15 million in required contributions to our U.S. Pension Plans.

Standard & Poor's has assigned us a senior unsecured debt credit rating of BBB and commercial paper rating of A-2 and a ratings outlook of stable. Moody's Investors Service has assigned our unsecured debt credit rating at Baa2 and commercial paper rating of P-2 and a ratings outlook of stable. If our credit ratings drop, our interest expense may increase. If our commercial paper ratings drop below current levels, we may have difficulty utilizing the commercial paper market. If our senior unsecured debt credit ratings drop below investment grade, our access to financing may become limited.

CONTRACTUAL CASH OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth a summary of our contractual cash obligations as of November 30, 2016. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States. Except for the current portion of interest on long-term debt, this table does not include amounts already recorded in our balance sheet as current liabilities at November 30, 2016. We have certain contingent liabilities that are not accrued in our balance sheet in accordance with accounting principles generally accepted in the United States. These contingent liabilities are not included in the table below. We have other long-term liabilities reflected in our balance sheet, including deferred income taxes, qualified and nonqualified pension and postretirement healthcare plan liabilities and other self-insurance accruals. The payment obligations associated with these liabilities are not reflected in the table below due to the absence of scheduled maturities. Accordingly, this table is not meant to represent a forecast of our total cash expenditures for any of the periods presented.

| | Payments Due by Fiscal Year (Undiscounted) | | | | | | Total |
|---|--|-----------------|-----------------|-----------------|-----------------|------------------|------------------|
| | 2017 ⁽¹⁾ | 2018 | 2019 | 2020 | 2021 | Thereafter | |
| (in millions) | | | | | | | |
| Operating activities: | | | | | | | |
| Operating leases | \$ 1,418 | \$ 2,330 | \$ 2,060 | \$ 1,782 | \$ 1,576 | \$ 8,812 | \$ 17,978 |
| Non-capital purchase obligations and other | 302 | 470 | 332 | 238 | 153 | 111 | 1,606 |
| Interest on long-term debt | 256 | 494 | 494 | 433 | 421 | 8,225 | 10,323 |
| Quarterly contributions to our U.S. Pension Plans | 193 | | | | | | 193 |
| Investing activities: | | | | | | | |
| Aircraft and aircraft-related capital commitments | 371 | 1,767 | 1,717 | 1,925 | 1,460 | 4,205 | 11,445 |
| Other capital purchase obligations | 30 | 3 | 3 | 1 | 1 | 8 | 46 |
| Financing activities: | | | | | | | |
| Debt | 5 | 3 | 1,283 | 931 | | 11,459 | 13,681 |
| Total | \$ 2,575 | \$ 5,067 | \$ 5,889 | \$ 5,310 | \$ 3,611 | \$ 32,820 | \$ 55,272 |

⁽¹⁾ Cash obligations for the remainder of 2017.

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

Operating Activities

The amounts reflected in the table above for operating leases represent future minimum lease payments under noncancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at November 30, 2016.

Included in the table above within the caption entitled "Non-capital purchase obligations and other" is our estimate of the current portion of the liability (\$1 million) for uncertain tax positions and amounts for purchase obligations that represent noncancelable agreements to purchase goods or services that are not capital related. Such contracts include those for printing and advertising and promotions contracts. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability for uncertain tax positions will increase or decrease over time; therefore, the long-term portion of the liability for uncertain tax positions (\$45 million) is excluded from the table.

The amounts reflected in the table above for interest on long-term debt represent future interest payments due on our long-term debt.

We had \$430 million in deposits and progress payments as of November 30, 2016 on aircraft purchases and other planned aircraft-related transactions.

Investing Activities

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

Financing Activities

The amounts reflected in the table above for long-term debt represent future scheduled payments on our long-term debt. For the remainder of 2017, we have no scheduled principal debt payments.

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

CRITICAL ACCOUNTING ESTIMATES

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

GOODWILL. Goodwill is tested for impairment between annual tests whenever events or circumstances make it more likely than not that the fair value of a reporting unit has fallen below its carrying value. We do not believe there has been any change of events or circumstances that would indicate that a reevaluation of the goodwill of our reporting units is required as of November 30, 2016, nor do we believe the goodwill of our reporting units is at risk of failing impairment testing. For additional details on goodwill impairment testing, refer to Note 1 of our Annual Report.

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

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in General, Income Taxes, Outlook, TNT Express Segment Results, Liquidity, Capital Resources, Liquidity Outlook, Contractual Cash Obligations and Off-Balance Sheet Arrangements and Critical Accounting Estimates, and the General, Financing Arrangements, Retirement Plans, Commitments and Contingencies notes to the consolidated financial statements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations, cash flows, plans, objectives, future performance and business. Forward-looking statements include those preceded by, followed by or that include the words may, could, would, should, will, believes, expects, anticipates, plans, projects, intends or similar expressions. These forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements because of, among other things, potential risks and uncertainties, such as:

economic conditions in the global markets in which we operate;

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

damage to our reputation or loss of brand equity;

our ability to successfully integrate the businesses and operations of FedEx Express and TNT Express in the expected time frame;

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

a significant data breach or other disruption to our technology infrastructure, which can adversely affect our reputation, business or results of operations;

the price and availability of jet and vehicle fuel;

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

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

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

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the impact of costs related to (i) challenges to the status of FedEx Ground's owner-operators as independent contractors and direct employers of drivers providing services on their behalf, and (ii) any related changes to our relationship with these owner-operators and their drivers;

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the impact of the United Kingdom's vote to leave the European Union;

any impact on our business from disruptions or modifications in service by, or changes in the business of, the U.S. Postal Service, which is a significant customer and vendor of FedEx;

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

any impacts on our businesses resulting from new domestic or international government laws and regulation, including regulatory actions affecting global aviation or other transportation rights, increased air cargo and other security or safety requirements, and tax, accounting, trade (such as protectionist measures enacted in response to weak economic conditions), labor (such as card-check legislation, joint employment standards or changes to the Railway Labor Act of 1926, as amended affecting FedEx Express employees), environmental (such as global climate change legislation) or postal rules;

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

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

the increasing costs of compliance with federal, state and foreign governmental agency mandates (including the Foreign Corrupt Practices Act and the U.K. Bribery Act) and defending against inappropriate or unjustified enforcement or other actions by such agencies;

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

market acceptance of our new service and growth initiatives;

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

our ability to achieve the benefits of any ongoing or future profit improvement initiatives;

the outcome of future negotiations to reach new collective bargaining agreements including with the union that represents the pilots of FedEx Express (the current pilot agreement is scheduled to become amendable in November 2021) and with the unions elected in 2015 to represent drivers at four FedEx Freight facilities;

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

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governmental underinvestment in transportation infrastructure, which could increase our costs and adversely impact our service levels due to traffic congestion or sub-optimal routing of our vehicles and aircraft;

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

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

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

As a result of these and other factors, no assurance can be given as to our future results and achievements. Accordingly, a forward-looking statement is neither a prediction nor a guarantee of future events or circumstances and those future events or circumstances may not occur. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. We are under no obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of November 30, 2016, there had been no material changes in our market risk sensitive instruments and positions since our disclosures in our Annual Report.

The principal foreign currency exchange rate risks to which we are exposed are in the euro, Chinese yuan, British pound, Brazilian real, Canadian dollar and Mexican peso. Historically, our exposure to foreign currency fluctuations is more significant with respect to our revenues than our expenses, as a significant portion of our expenses are denominated in U.S. dollars, such as aircraft and fuel expenses. During the first half of 2017, the U.S. dollar strengthened relative to the currencies of the foreign countries in which we operate, as compared to May 31, 2016, and this strengthening had a slightly negative impact on our results.

While we have market risk for changes in the price of jet and vehicle fuel, this risk is largely mitigated by our indexed fuel surcharges. For additional discussion of our indexed fuel surcharges see the Fuel section of Management's Discussion and Analysis of Results of Operations and Financial Condition.

Item 4. Controls and Procedures

The management of FedEx, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, including ensuring that such information is accumulated and communicated to FedEx management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of November 30, 2016 (the end of the period covered by this Quarterly Report on Form 10-Q).

On May 25, 2016, we acquired TNT Express. We have begun the TNT Express integration process including the integration of policies, processes, people, technology and operations, and we will continue to evaluate the impact of any related changes to internal control over financial reporting. During our fiscal quarter ended November 30, 2016, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

The following table provides information on FedEx's repurchases of our common stock during the second quarter of 2017:

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Maximum Number of Shares That May Yet Be Purchased Under the Program |
|-----------------|--|------------------------------------|--|---|
| Sep. 1-30, 2016 | 50,000 | \$ 159.34 | 50,000 | 17,540,000 |
| Oct. 1-31, 2016 | 350,000 | 171.63 | 350,000 | 17,190,000 |
| Nov. 1-30, 2016 | 250,000 | 175.71 | 250,000 | 16,940,000 |
| Total | 650,000 | \$ 172.25 | 650,000 | |

The repurchases were made under the stock repurchase program approved by our Board of Directors and announced on January 26, 2016 and through which we are authorized to purchase, in the open market or in privately negotiated transactions, up to an aggregate of 25 million shares of our common stock. As of December 20, 2016, 16.9 million shares remained authorized for purchase under the January 2016 stock repurchase program, which is the only such program that currently exists. The program does not have an expiration date.

Item 6. Exhibits

| Exhibit Number | Description of Exhibit |
|-------------------|--|
| 10.1 | Amendment dated September 8, 2016 (but effective as of August 23, 2016) amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation (the "USPS Transportation Agreement"). Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). |
| 10.2 | Amendment dated September 8, 2016 (but effective as of August 19, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |

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|-------|--|
| 10.3 | Amendment dated September 8, 2016 (but effective as of August 29, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.4 | Amendment dated September 15, 2016 (but effective as of August 18, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.5 | Amendment dated September 15, 2016 (but effective as of September 6, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.6 | Amendment dated October 6, 2016 (but effective as of October 3, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.7 | Amendment dated October 24, 2016 (but effective as of September 21, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.8 | Amendment dated October 24, 2016 (but effective as of October 17, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.9 | Amendment dated October 24, 2016 (but effective as of October 4, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.10 | Amendment dated November 8, 2016 (but effective as of October 31, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges. |
| 15.1 | Letter re: Unaudited Interim Financial Statements |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.1 | Interactive Data Files. |

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 21, 2016

FEDEX CORPORATION

/s/ JOHN L. MERINO
JOHN L. MERINO
CORPORATE VICE PRESIDENT AND
PRINCIPAL ACCOUNTING OFFICER

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| Exhibit Number | Description of Exhibit |
|---------------------------|--|
| 10.1 | Amendment dated September 8, 2016 (but effective as of August 23, 2016) amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation (the "USPS Transportation Agreement"). Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). |
| 10.2 | Amendment dated September 8, 2016 (but effective as of August 19, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.3 | Amendment dated September 8, 2016 (but effective as of August 29, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.4 | Amendment dated September 15, 2016 (but effective as of August 18, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.5 | Amendment dated September 15, 2016 (but effective as of September 6, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.6 | Amendment dated October 6, 2016 (but effective as of October 3, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.7 | Amendment dated October 24, 2016 (but effective as of September 21, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.8 | Amendment dated October 24, 2016 (but effective as of October 17, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.9 | Amendment dated October 24, 2016 (but effective as of October 4, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 10.10 | Amendment dated November 8, 2016 (but effective as of October 31, 2016) amending the USPS Transportation Agreement. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Exchange Act. |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges. |
| 15.1 | Letter re: Unaudited Interim Financial Statements. |
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| 31.2 | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
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