

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)*

(901) 818-7500

**62-1721435**  
*(I.R.S. Employer  
Identification No.)*  
**38120**  
*(ZIP Code)*

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

	November 30, 2016 (Unaudited)	May 31, 2016
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
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
<b>OTHER LONG-TERM ASSETS</b>		
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
<b><u>LIABILITIES AND STOCKHOLDERS' INVESTMENT</u></b>		
<b>CURRENT LIABILITIES</b>		
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
<b>OTHER LONG-TERM LIABILITIES</b>		
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
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>COMMON STOCKHOLDERS' INVESTMENT</b>		
Common stock, \$0.10 par value; 800 million shares authorized; 318 million shares issued as of 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.

**Table of Contents****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
<b>Operating Activities:</b>		
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
<b>Investing Activities:</b>		
Capital expenditures	(2,681)	(2,562)
Proceeds from asset dispositions and other	100	12
Cash used in investing activities	(2,581)	(2,550)
<b>Financing Activities:</b>		
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 <sup>(1)</sup>	\$ 1,920
Property and equipment	993
Goodwill	3,346
Identifiable intangible assets	530
Other non-current assets	295
Current liabilities <sup>(2)</sup>	(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
<b>Foreign currency translation loss:</b>				
Balance at beginning of period	\$ (502)	\$ (391)	\$ (514)	\$ (253)
Translation adjustments	(230)	(33)	(218)	(171)
Balance at end of period	(732)	(424)	(732)	(424)
<b>Retirement plans adjustments:</b>				
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 2016	2015	Six Months Ended 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
<b>Basic earnings per common share:</b>				
Net earnings allocable to common shares <sup>(1)</sup>	\$ 700	\$ 690	\$ 1,414	\$ 1,382
Weighted-average common shares	266	279	266	281
<b>Basic earnings per common share</b>	<b>\$ 2.63</b>	<b>\$ 2.47</b>	<b>\$ 5.32</b>	<b>\$ 4.92</b>
<b>Diluted earnings per common share:</b>				
Net earnings allocable to common shares <sup>(1)</sup>	\$ 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
<b>Diluted earnings per common share</b>	<b>\$ 2.59</b>	<b>\$ 2.44</b>	<b>\$ 5.24</b>	<b>\$ 4.86</b>
Anti-dilutive options excluded from diluted earnings per common share	5.1	3.7	5.1	3.6

<sup>(1)</sup> 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
	<b>\$ 189</b>	<b>\$ 177</b>	<b>\$ 385</b>	<b>\$ 353</b>

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

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

	Three Months Ended		Six Months Ended	
	2016	2015	2016	2015
Postretirement Healthcare Plans				
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:**

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

***FedEx Services Segment***

The 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
<b>Revenues</b>				
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
<b>Operating Income</b>				
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 <sup>(1)</sup>	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

<sup>(1)</sup> 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):

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

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
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
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
<b>PROPERTY AND EQUIPMENT, AT COST</b>	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
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>					
<b>CURRENT LIABILITIES</b>					
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)	
<b>OTHER LONG-TERM LIABILITIES</b>					
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
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
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
<b>PROPERTY AND EQUIPMENT, AT COST</b>	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
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>					
<b>CURRENT LIABILITIES</b>					
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)	
<b>OTHER LONG-TERM LIABILITIES</b>					
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
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>\$ (376)</b>	<b>\$ 2,550</b>	<b>\$ 473</b>	<b>\$ (12)</b>	<b>\$ 2,635</b>
<b>INVESTING ACTIVITIES</b>					
Capital expenditures		(2,455)	(226)		(2,681)
Proceeds from asset dispositions and other	84	13	3		100
<b>CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>84</b>	<b>(2,442)</b>	<b>(223)</b>		<b>(2,581)</b>
<b>FINANCING ACTIVITIES</b>					
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)
<b>CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(347)</b>	<b>(141)</b>	<b>57</b>		<b>(431)</b>
Effect of exchange rate changes on cash	(5)	1	(94)		(98)
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(644)</b>	<b>(32)</b>	<b>213</b>	<b>(12)</b>	<b>(475)</b>
Cash and cash equivalents at beginning of period	1,974	326	1,277		