

FEDEX CORP  
Form 10-Q  
March 21, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF  
1934  
FOR THE QUARTERLY PERIOD ENDED February 28, 2018

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)

62-1721435  
(I.R.S.  
Employer  
Identification  
No.)

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942 South Shady Grove Road Memphis, Tennessee 38120  
(Address of principal executive offices) (ZIP Code)

(901) 818-7500

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Common Stock	Outstanding Shares at March 19, 2018
Common Stock, par value \$0.10 per share	267,215,207



FEDEX CORPORATION

INDEX

PAGE

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Condensed Consolidated Balance Sheets

February 28, 2018 and May 31, 2017

3

Condensed Consolidated Statements of Income

Three and Nine Months Ended February 28, 2018 and 2017

5

Condensed Consolidated Statements of Comprehensive Income

Three and Nine Months Ended February 28, 2018 and 2017

6

Condensed Consolidated Statements of Cash Flows

Nine Months Ended February 28, 2018 and 2017

7

Notes to Condensed Consolidated Financial Statements

8

Report of Independent Registered Public Accounting Firm

27

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

28

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

51

ITEM 4. Controls and Procedures

51

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

52

ITEM 1A. Risk Factors

52

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

54

ITEM 6. Exhibits

55

Signature

57

Exhibit Index

E-1

Exhibit 10.1

Exhibit 10.2

Exhibit 10.3

Exhibit 10.4

Exhibit 10.5

Exhibit 10.6

Exhibit 10.7

Exhibit 10.8

Exhibit 10.9

Exhibit 10.10

Exhibit 12.1

Exhibit 15.1

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Exhibit 101.1 Interactive Data Files

- 2 -

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## FEDEX CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	February 28,	May 31,
	2018	2017
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,789	\$3,969
Receivables, less allowances of \$373 and \$252	8,671	7,599
Spare parts, supplies and fuel, less allowances of \$258 and \$237	523	514
Prepaid expenses and other	1,592	546
Total current assets	13,575	12,628
<b>PROPERTY AND EQUIPMENT, AT COST</b>		
Less accumulated depreciation and amortization	26,680	24,645
Net property and equipment	27,697	25,981
<b>OTHER LONG-TERM ASSETS</b>		
Goodwill	7,464	7,154
Other assets	3,115	2,789
Total other long-term assets	10,579	9,943
	\$ 51,851	\$48,552

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

## FEDEX CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE DATA)

	February 28, 2018	May 31, (Unaudited) 2017
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	\$ 799	\$—
Current portion of long-term debt	764	22
Accrued salaries and employee benefits	1,945	1,914
Accounts payable	3,102	2,752
Accrued expenses	2,893	3,230
Total current liabilities	9,503	7,918
LONG-TERM DEBT, LESS CURRENT PORTION	16,017	14,909
<b>OTHER LONG-TERM LIABILITIES</b>		
Deferred income taxes	2,401	2,485
Pension, postretirement healthcare and other benefit obligations	2,181	4,487
Self-insurance accruals	1,715	1,494
Deferred lease obligations	532	531
Deferred gains, principally related to aircraft transactions	124	137
Other liabilities	484	518
Total other long-term liabilities	7,437	9,652
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>COMMON STOCKHOLDERS' INVESTMENT</b>		
Common stock, \$0.10 par value; 800 million shares authorized; 318 million shares		
issued as of February 28, 2018 and May 31, 2017	32	32
Additional paid-in capital	3,085	3,005
Retained earnings	23,710	20,833
Accumulated other comprehensive loss	(357 )	(415 )
Treasury stock, at cost	(7,576 )	(7,382 )
Total common stockholders' investment	18,894	16,073
	\$ 51,851	\$48,552

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

## FEDEX CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended		Nine Months	
	February 28,		Ended	
	2018	2017	February 28,	2017
REVENUES	\$ 16,526	\$ 14,997	\$ 48,136	\$ 44,591
OPERATING EXPENSES:				
Salaries and employee benefits	5,981	5,395	17,241	16,059
Purchased transportation	3,935	3,498	11,220	10,169
Rentals and landing fees	873	834	2,526	2,426
Depreciation and amortization	786	762	2,293	2,241
Fuel	914	735	2,435	2,043
Maintenance and repairs	628	588	1,968	1,765
Other	2,408	2,160	7,073	6,432
	15,525	13,972	44,756	41,135
OPERATING INCOME	1,001	1,025	3,380	3,456
OTHER INCOME (EXPENSE):				
Interest, net	(125 )	(122 )	(363 )	(354 )
Other, net	(2 )	(4 )	(22 )	17
	(127 )	(126 )	(385 )	(337 )
INCOME BEFORE INCOME TAXES	874	899	2,995	3,119
PROVISION FOR INCOME TAXES	(1,200 )	337	(450 )	1,142
NET INCOME	\$ 2,074	\$ 562	\$ 3,445	\$ 1,977
EARNINGS PER COMMON SHARE:				
Basic	\$ 7.74	\$ 2.11	\$ 12.85	\$ 7.43
Diluted	\$ 7.59	\$ 2.07	\$ 12.63	\$ 7.31
DIVIDENDS DECLARED PER COMMON SHARE	\$ 0.50	\$ 0.40	\$ 2.00	\$ 1.60

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



## FEDEX CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(IN MILLIONS)

	Three Months Ended		Nine Months	
	February 28,		February 28,	
	2018	2017	2018	2017
NET INCOME	\$ 2,074	\$ 562	\$3,445	\$1,977
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments, net of tax of \$9, \$3, \$26, and \$19	100	110	119	(108 )
Amortization of prior service credit, net of tax of \$7, \$12, \$29, and \$34	(23 )	(19 )	(61 )	(57 )
	77	91	58	(165 )
COMPREHENSIVE INCOME	\$ 2,151	\$ 653	\$3,503	\$1,812

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

## FEDEX CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN MILLIONS)

	Nine Months Ended February 28,	
	2018	2017
<b>Operating Activities:</b>		
Net income	\$ 3,445	\$ 1,977
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,293	2,241
Provision for uncollectible accounts	177	115
Stock-based compensation	135	123
Deferred income taxes and other noncash items	(914 )	474
Gain from sale of investment	—	(35 )
Changes in assets and liabilities:		
Receivables	(986 )	(340 )
Other assets	(151 )	(235 )
Accounts payable and other liabilities	(2,781 )	(1,642 )
Other, net	(56 )	(33 )
Cash provided by operating activities	1,162	2,645
<b>Investing Activities:</b>		
Capital expenditures	(3,994 )	(3,790 )
Business acquisitions, net of cash acquired	(44 )	—
Proceeds from asset dispositions and other	21	123
Cash used in investing activities	(4,017 )	(3,667 )

Financing Activities:		
Proceeds from short-term borrowings, net	797	—
Principal payments on debt	(31 )	(49 )
Proceeds from debt issuances	1,481	1,190
Proceeds from stock issuances	284	265
Dividends paid	(402 )	(319 )
Purchase of treasury stock	(558 )	(358 )
Other, net	6	2
Cash provided by financing activities	1,577	731
Effect of exchange rate changes on cash	98	(70 )
Net decrease in cash and cash equivalents	(1,180 )	(361 )
Cash and cash equivalents at beginning of period	3,969	3,534
Cash and cash equivalents at end of period	\$ 2,789	\$ 3,173

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

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) General

**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.** These interim financial statements of FedEx Corporation (“FedEx”) have been prepared in accordance with accounting principles generally accepted in the United States and Securities and Exchange Commission (“SEC”) instructions for interim financial information, and should be read in conjunction with our Annual Report on Form 10-K for the year ended May 31, 2017 (“Annual Report”). Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed in our Annual Report.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary to present fairly our financial position as of February 28, 2018, the results of our operations for the three- and nine-month periods ended February 28, 2018 and 2017, and cash flows for the nine-month periods ended February 28, 2018 and 2017. Operating results for the three- and nine-month periods ended February 28, 2018 are not necessarily indicative of the results that may be expected for the year ending May 31, 2018.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2018 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

**BUSINESS ACQUISITION.** On October 13, 2017, FedEx acquired Northwest Research, Inc., a leader in inventory research and management, for \$50 million in cash from operations. The majority of the purchase price was allocated to property and equipment. The financial results of this acquired business are included in the FedEx Corporate Services, Inc. (“FedEx Services”) segment from the date of acquisition and were not material to our results of operations. Therefore, pro forma financial information has not been provided.

**EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS.** The pilots of Federal Express Corporation (“FedEx Express”), who represent a small number of its 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, FedEx Supply Chain Distribution System, Inc. (“FedEx Supply Chain”) 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.

Our stock-based compensation expense was \$32 million for the three-month period ended February 28, 2018 and \$135 million for the nine-month period ended February 28, 2018. Our stock-based compensation expense was \$31 million for the three-month period ended February 28, 2017 and \$123 million for the nine-month period ended February 28, 2017. 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. We believe the following new accounting guidance is relevant to the readers of our financial statements.

In December 2017, the SEC staff issued Staff Accounting Bulletin (“SAB”) 118 to provide guidance to registrants in accounting for income taxes under the Tax Cuts and Jobs Act (“TCJA”). See Note 5 for further discussion related to applying this guidance.

During the first quarter of 2018, we early adopted the Accounting Standards Update issued by the Financial Accounting Standards Board (“FASB”) related to Intra-Entity Transfers of Assets Other Than Inventory. This update requires companies to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs, as opposed to when the assets are ultimately sold to an outside party. This new guidance had an immaterial impact on our accounting and financial reporting for the third quarter and nine months of 2018.

In January 2017, the FASB issued an Accounting Standards Update that simplifies the subsequent measurement of goodwill, eliminating Step 2 from the goodwill impairment test. Under this new guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an

impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance will be applied prospectively and will be effective for us beginning June 1, 2020 (fiscal 2021). Early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We expect to early adopt the guidance during the fourth quarter of 2018.

In 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. This standard will be effective for us beginning June 1, 2018 (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. We are finalizing the assessment of the impact this new standard will have on our consolidated financial statements and related disclosures, including ongoing contract reviews, which will be completed by the end of 2018. We do not anticipate that the new guidance will have a material impact on our revenue recognition policies, practices or systems.

In March 2017, the FASB issued an Accounting Standards Update that changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the income statement. This new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component outside of income from operations. This standard will impact our operating income but will have no impact on our net income or earnings per share. For example, adoption of this guidance would have reduced operating income by \$143 million in the third quarter and \$436 million in the nine months of 2018, and by \$113 million in the third quarter and \$337 million in the nine months of 2017, but would not have impacted our net income in these periods. This new guidance will be effective June 1, 2018 and will be applied retrospectively.

In 2016, the FASB issued a new lease accounting standard which requires lessees to put most leases on their balance sheets but recognize the expenses in 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. Expenses 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. Based on our lease portfolio, we currently anticipate recognizing a lease liability and related right-of-use asset on our balance sheet in excess of \$13 billion, with an immaterial impact on our income statement compared to the current lease accounting model. However, the ultimate impact of the standard will depend on the company's lease portfolio as of the adoption date. We are currently in the process of evaluating our existing lease portfolio, including accumulating all of the necessary information required to properly account for the leases under the new standard. Additionally, we are implementing an enterprise-wide lease management system to assist in the accounting and are evaluating additional changes to our processes and internal controls to ensure we meet the standard's reporting and disclosure requirements. These changes will be effective June 1, 2019 (fiscal 2020).

In February 2018, the FASB issued an Accounting Standards Update that will permit companies to reclassify the income tax effect of the TCJA on items within accumulated other comprehensive income (loss) ("AOCI") to retained earnings. These changes will be effective June 1, 2019 (fiscal 2020).

**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 third quarter of 2018, we repurchased 1.2 million shares of FedEx common stock at an average price of \$248.73 per share for a total of \$288 million. During the nine months of 2018, we repurchased 2.4 million shares of FedEx common stock at an average price of \$232.00 per share for a total of \$558 million. As of February 28, 2018, 13.6 million shares remained under the current share repurchase authorization.

**DIVIDENDS DECLARED PER COMMON SHARE.** On February 16, 2018, our Board of Directors declared a quarterly dividend of \$0.50 per share of common stock. The dividend will be paid on April 2, 2018 to stockholders of record as of the close of business on March 12, 2018. 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 AOCI, net of tax, reported in our unaudited condensed consolidated financial statements for the periods ended February 28 (in millions; amounts in parentheses indicate debits to AOCI):

	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
<b>Foreign currency translation loss:</b>				
Balance at beginning of period	\$ (666 )	\$ (732 )	\$(685)	\$(514)
Translation adjustments	100	110	119	(108)
Balance at end of period	(566 )	(622 )	(566)	(622)
<b>Retirement plans adjustments:</b>				
Balance at beginning of period	232	307	270	345
Reclassifications from AOCI	(23 )	(19 )	(61 )	(57 )
Balance at end of period	209	288	209	288
Accumulated other comprehensive (loss) at end of period	\$ (357 )	\$ (334 )	\$(357)	\$(334)

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

	Amount Reclassified from		Affected Line Item in the		
	AOCI		Income Statement		
	Nine Months Ended				
	Three Months Ended		Three Months Ended		
	2018	2017	2018	2017	
<b>Amortization of retirement plans</b>					
prior service credits, before tax	\$ 30	\$ 31	\$ 90	\$ 91	Salaries and employee benefits
Income tax benefit	(7 )	(12 )	(29 )	(34 )	Provision for income taxes
AOCI reclassifications, net of tax	\$ 23	\$ 19	\$ 61	\$ 57	Net income

## (3) Financing Arrangements

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

During the third quarter of 2018, we issued \$1.5 billion of senior unsecured debt under our current shelf registration statement, comprised of \$500 million of 3.40% fixed-rate notes due in February 2028, and \$1 billion of 4.05% fixed-rate notes due in February 2048. Interest on these notes is paid semi-annually. We used the net proceeds for a voluntary incremental contribution in February 2018 to our tax-qualified U.S. domestic pension plans (“U.S. Pension



Plans”).

During the quarter, we amended our five-year revolving credit facility to increase the aggregate amount available under the facility from \$1.75 billion to \$2.0 billion. The facility, which expires in November 2020 and 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 2.2 to 1.0 at February 28, 2018. 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 this 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.

During the third quarter of 2018, we issued commercial paper which provided us with additional short-term liquidity. The maximum outstanding during the quarter was \$800 million. Our commercial paper program is backed by unused commitments under the revolving credit facility and borrowings under the program reduce the amount available under the credit facility. As of February 28, 2018, \$800 million of commercial paper and \$54 million in letters of credit were outstanding, leaving \$1.146 billion available under the revolving credit facility for future borrowings.

Long-term debt, exclusive of capital leases, had carrying values of \$16.7 billion at February 28, 2018 and \$14.9 billion at May 31, 2017, compared with estimated fair values of \$17.0 billion at February 28, 2018 and \$15.5 billion at May 31, 2017. The annualized

- 10 -

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weighted-average interest rate on long-term debt was 3.6% at February 28, 2018. The estimated fair values were determined based on quoted market prices and the current rates offered for debt with similar terms and maturities. The fair value of our long-term debt is classified as Level 2 within the fair value hierarchy. This classification is defined as a fair value determined using market-based inputs other than quoted prices that are observable for the liability, either directly or indirectly.

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

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

	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
<b>Basic earnings per common share:</b>				
Net earnings allocable to common shares <sup>(1)</sup>	\$ 2,071	\$ 561	\$3,441	\$1,974
Weighted-average common shares	268	266	268	266
Basic earnings per common share	\$ 7.74	\$ 2.11	\$12.85	\$7.43
<b>Diluted earnings per common share:</b>				
Net earnings allocable to common shares <sup>(1)</sup>	\$ 2,071	\$ 561	\$3,441	\$1,974
Weighted-average common shares	268	266	268	266
Dilutive effect of share-based awards	5	5	4	4
Weighted-average diluted shares	273	271	272	270
Diluted earnings per common share	\$ 7.59	\$ 2.07	\$12.63	\$7.31
<b>Anti-dilutive options excluded from diluted earnings per</b>				
common share	1.9	4.0	2.6	4.7

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

## (5) Income Taxes

On December 22, 2017, the United States government enacted comprehensive tax legislation through the TCJA. The TCJA significantly changes the U.S. corporate income tax system including, among other things, lowering the statutory federal income tax rate from 35% to 21%, eliminating or reducing certain income tax deductions, and implementing a modified territorial tax system that includes a one-time transition tax on previously deferred foreign earnings. Due to our May 31 fiscal year end, the lower rate will be phased in, resulting in a U.S. statutory federal rate of 29.2% for 2018 and a 21% statutory federal rate for subsequent years.

In December 2017, the SEC staff issued SAB 118, which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides for a measurement period of up to one year from the enactment date for companies to complete the accounting for the initial income tax effects of the TCJA. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting is complete and provide a provisional estimate (where determinable) of the income tax effects of the TCJA where the accounting is incomplete. The provisional estimate is required to be updated throughout the measurement period.

As of February 28, 2018, we have not completed our initial accounting of the tax effects of the TCJA; however, where determinable, we have made an estimate of the effects on our existing deferred tax balances and the one-time transition tax. During the quarter, we recognized a provisional benefit of \$1.15 billion related to the remeasurement of our net U.S. deferred tax liability and a provisional benefit of \$36 million from foreign tax credits exceeding the one-time transition tax on previously deferred foreign earnings.

In addition to the provisional amounts above, we recognized a one-time benefit of \$204 million from a \$1.5 billion contribution to our U.S. Pension Plans in February 2018 and a benefit of \$165 million related to a lower statutory income tax rate on fiscal 2018 year-to-date earnings.

The following table provides a reconciliation of the 2017 effective tax rates to the 2018 effective tax rates, including the impact of the TCJA, for the periods ended February 28:

	Three Months Ended 2018	Nine Months Ended 2018
2017 Effective Tax Rate	37.5 %	36.6 %
Remeasurement of net U.S. deferred tax liability	(131.5 )	(38.4 )
Effect of February 2018 pension contribution (a)	(23.3 )	(6.8 )
Lower statutory tax rate	(18.9 )	(5.5 )
Transition tax	(4.1 )	(1.2 )
Other (b)	3.0	0.3
2018 Effective Tax Rate	(137.3 )%	(15.0 )%

(a) The benefit is from the pension contribution deducted on our 2017 tax return at a tax rate of 35%.

(b) The 2018 tax rates were negatively impacted by the effect of the NotPetya cyberattack, changes in uncertain tax positions and tax rate impacts on changes in deferred tax items after the TCJA enactment and were favorably impacted from foreign tax credits associated with a second quarter dividend from foreign operations.

## (6) 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 February 28 were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Defined benefit pension plans	\$ 39	\$ 57	\$113	\$173
Defined contribution plans	135	117	386	348
Postretirement healthcare plans	19	19	56	57
	\$ 193	\$ 193	\$555	\$578

- 12 -

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

	Three Months Ended					
	U.S. Pension Plans		International Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017	2018	2017
Service cost	\$169	\$160	\$23	\$20	\$9	\$9
Interest cost	279	282	12	11	10	10
Expected return on plan assets	(406 )	(375 )	(10 )	(9 )	—	—
Amortization of prior service credit and other	(29 )	(30 )	1	(2 )	—	—
	\$13	\$37	\$26	\$20	\$19	\$19

  

	Nine Months Ended					
	U.S. Pension Plans		International Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017	2018	2017
Service cost	\$509	\$479	\$69	\$61	\$27	\$27
Interest cost	836	846	37	33	29	30
Expected return on plan assets	(1,218)	(1,126)	(32)	(30)	—	—
Amortization of prior service credit and other	(88 )	(89 )	—	(1 )	—	—
	\$39	\$110	\$74	\$63	\$56	\$57

Contributions to our U.S. Pension Plans for the nine-month periods ended February 28 were as follows (in millions):

	2018	2017
Required	\$22	\$444
Voluntary	2,478	1,306
	\$2,500	\$1,750

During the third quarter of 2018, we made voluntary contributions to our U.S. Pension Plans of \$1.75 billion.

#### (7) 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 are FedEx Express, including TNT Express B.V. (“TNT Express”), the world’s largest express transportation company; FedEx Ground Package System, Inc. (“FedEx Ground”), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. (“FedEx Freight”), a leading U.S. provider of less-than-truckload (“LTL”) freight services. These companies 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

Segment

FedEx Express (express transportation)

TNT Express (international express transportation, small-package ground delivery and freight transportation)

FedEx Trade Networks (air and ocean freight forwarding, customs brokerage and cross-border enablement technology and solutions)

FedEx Ground

Segment

FedEx Ground (small-package ground delivery)

FedEx Supply Chain (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)

As discussed in our Annual Report, in the first quarter of 2018, we began to report TNT Express as part of the FedEx Express segment. Prior year amounts have been revised to conform to the current year presentation.

Effective March 1, 2018, we realigned our specialty logistics and e-commerce solutions in a new organizational structure under FedEx Trade Networks, Inc. in the FedEx Express segment. The realignment allows us to improve our ability to deliver the capabilities of our specialty companies to customers. The new structure includes FedEx Custom Critical, FedEx Cross Border, FedEx Supply Chain, FedEx Trade Networks Transport & Brokerage and, effective June 1, 2018, a new company called FedEx Forward Depots. Prior period segment results will be recast to conform to current year presentation beginning in the fourth quarter of 2018.

#### 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, some of these functions are performed on a regional basis and reported 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 and Print Services, Inc. (“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.

#### 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 February 28 (in millions):

	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
<b>Revenues</b>				
FedEx Express segment	\$9,370	\$8,569	\$27,376	\$25,671
FedEx Ground segment	5,222	4,688	14,790	13,397
FedEx Freight segment	1,694	1,492	5,208	4,747
FedEx Services segment	397	389	1,213	1,198
Eliminations and other	(157 )	(141 )	(451 )	(422 )
	\$16,526	\$14,997	\$48,136	\$44,591
<b>Operating Income</b>				
FedEx Express segment	\$424	\$557	\$1,574	\$1,873
FedEx Ground segment	634	515	1,781	1,590
FedEx Freight segment	55	41	349	264
Eliminations, corporate and other	(112 )	(88 )	(324 )	(271 )
	\$1,001	\$1,025	\$3,380	\$3,456

#### (8) Commitments

As of February 28, 2018, our purchase commitments under various contracts for the remainder of 2018 and annually thereafter were as follows (in millions):

	Aircraft and		
	Aircraft-Related	Other <sup>(1)</sup>	Total
2018 (remainder)	\$ 516	\$ 254	\$ 770
2019	1,789	725	2,514
2020	1,931	621	2,552
2021	1,244	400	1,644
2022	1,364	251	1,615
Thereafter	3,314	508	3,822
Total	\$ 10,158	\$ 2,759	\$ 12,917

<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 February 28, 2018, our obligation to purchase four Boeing 767-300 Freighter (“B767F”) aircraft and three 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.

During the quarter, FedEx Express entered into an agreement to accelerate the delivery of two B777F aircraft from 2021 to 2020, one B777F aircraft from 2021 to 2019, and one B777F aircraft from 2022 to 2020.

- 15 -

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We had \$922 million in deposits and progress payments as of February 28, 2018 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 February 28, 2018 with the year of expected delivery:

	Cessna SkyCourier 408	ATR 72-600F	B767F	B777F	Total
2018 (remainder)	-	-	4	1	5
2019	-	-	15	3	18
2020	-	-	16	6	22
2021	12	5	10	-	27
2022	12	6	10	3	31
Thereafter	26	19	6	-	51
Total	50	30	61	13	154

A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at February 28, 2018 is as follows (in millions):

	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2018 (remainder)	\$ 47	\$ 585	\$ 632
2019	343	2,065	2,408
2020	261	1,854	2,115
2021	203	1,675	1,878
2022	185	1,510	1,695
Thereafter	175	9,018	9,193
Total	\$ 1,214	\$ 16,707	\$ 17,921

Future minimum lease payments under capital leases were immaterial at February 28, 2018. 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.

#### (9) Contingencies

Independent Contractor — Lawsuits and Administrative Proceedings. FedEx Ground is involved in lawsuits and administrative proceedings claiming that owner-operators engaged under a contractor model no longer in use should have been treated as employees of FedEx Ground, rather than independent contractors. In addition, we are defending joint-employer cases where it is alleged that FedEx Ground should be treated as an employer of the drivers employed

by owner-operators engaged by FedEx Ground. These cases are in varying stages of litigation, and we are not currently able to estimate an amount or range of potential loss in all of these matters. However, we do not expect to incur, individually or in the aggregate, a material loss in these matters. Nevertheless, adverse determinations in matters related to owner-operators engaged by FedEx Ground could, among other things, entitle certain owner-operators to the reimbursement of certain expenses, and their drivers to the benefit of wage-and-hour laws, and result in employment and withholding tax and benefit liability for FedEx Ground. We believe that owner-operators engaged by FedEx Ground are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers employed by these owner-operators.

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. Following motions to dismiss filed in both lawsuits, some of the claims were 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 common law nuisance claim was dismissed entirely and the New York Public Health Law claim has been limited to claims arising after September 27, 2013, when an amendment to that law provided enforcement authority to the City of New York and State of New York. Other claims, including the RICO claims, remain in both

lawsuits. The likelihood of loss is reasonably possible, but the amount or range of loss, if any, cannot be estimated at this stage of the litigation. We expect the amount of any loss to be immaterial.

On July 10, 2017, the City of New York and the State of New York filed a third lawsuit against FedEx Ground and included FedEx Freight as a co-defendant. This additional case identifies no shippers or shipments, but generally alleges violations of the same laws that are the subject of the other two lawsuits. The amount or range of loss, if any, cannot be estimated at this stage of the lawsuit.

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, FedEx Supply Chain received a written offer from several District Attorneys' Offices in California to settle a civil action that the District Attorneys intend to file against FedEx Supply Chain for alleged violations of the state's hazardous waste regulations. Specifically, the District Attorneys' Offices allege FedEx Supply Chain 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 FedEx Supply Chain 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. In March 2018, we settled this matter for an immaterial amount, and the settlement agreement has been approved by the court. We have been reimbursed by the sellers of GENCO for the amount of the settlement.

Other Matters. During the third quarter of 2017, FedEx Trade Networks informed U.S. Customs and Border Protection ("CBP") that in connection with certain customs entries it may have made improper claims for (i) reduced-duty treatment and (ii) duty-free treatment. In the fourth quarter of 2017 we established accruals totaling \$39.3 million for the then-current estimated probable loss for these matters. In the first quarter of 2018, FedEx Trade Networks tendered payments to CBP in these matters totaling \$46.5 million, and an additional expense of \$7.2 million was recognized. CBP acknowledged receipt of the amounts tendered in these matters, and we are awaiting a response indicating whether these matters are fully resolved.

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.

#### (10) Supplemental Cash Flow Information

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

	2018	2017
Cash payments for:		
Interest (net of capitalized interest)	\$430	\$400
Income taxes	\$707	\$294
Income tax refunds received	(59)	(16)
Cash tax payments, net	\$648	\$278

(11) 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 \$16.6 billion of our long-term 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.

- 18 -

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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)

February 28, 2018

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$957	\$ 375	\$ 1,494	\$ (37 )	\$ 2,789
Receivables, less allowances	1	5,308	3,462	(100 )	8,671
Spare parts, supplies, fuel, prepaid expenses and other,					
less allowances	920	928	267	—	2,115
Total current assets	1,878	6,611	5,223	(137 )	13,575
<b>PROPERTY AND EQUIPMENT, AT COST</b>					
Less accumulated depreciation and amortization	18	24,999	1,663	—	26,680
Net property and equipment	4	25,602	2,091	—	27,697
INTERCOMPANY RECEIVABLE	1,401	2,508	130	(4,039 )	—
GOODWILL	—	1,571	5,893	—	7,464
INVESTMENT IN SUBSIDIARIES	31,295	2,928	—	(34,223 )	—
OTHER ASSETS	2,706	1,566	1,268	(2,425 )	3,115
	\$37,284	\$ 40,786	\$ 14,605	\$ (40,824 )	\$ 51,851
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>					
<b>CURRENT LIABILITIES</b>					
Short-term borrowings	\$799	\$ —	\$ —	\$ —	\$ 799
Current portion of long-term debt	750	6	8	—	764
Accrued salaries and employee benefits	69	1,362	514	—	1,945
Accounts payable	149	1,483	1,607	(137 )	3,102
Accrued expenses	379	1,605	909	—	2,893
Total current liabilities	2,146	4,456	3,038	(137 )	9,503
<b>LONG-TERM DEBT, LESS CURRENT PORTION</b>					
INTERCOMPANY PAYABLE	—	—	4,039	(4,039 )	—
<b>OTHER LONG-TERM LIABILITIES</b>					
Deferred income taxes	—	4,285	541	(2,425 )	2,401
Other liabilities	531	3,605	900	—	5,036
Total other long-term liabilities	531	7,890	1,441	(2,425 )	7,437
STOCKHOLDERS' INVESTMENT	18,894	28,152	6,071	(34,223 )	18,894
	\$37,284	\$ 40,786	\$ 14,605	\$ (40,824 )	\$ 51,851





## CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2017

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 1,884	\$ 325	\$ 1,807	\$ (47 )	\$ 3,969
Receivables, less allowances	3	4,729	2,928	(61 )	7,599
Spare parts, supplies, fuel, prepaid expenses and other,					
less allowances	25	787	248	—	1,060
Total current assets	1,912	5,841	4,983	(108 )	12,628
<b>PROPERTY AND EQUIPMENT, AT COST</b>	22	47,201	3,403	—	50,626
Less accumulated depreciation and amortization	18	23,211	1,416	—	24,645
Net property and equipment	4	23,990	1,987	—	25,981
<b>INTERCOMPANY RECEIVABLE</b>	1,521	2,607	—	(4,128 )	—
<b>GOODWILL</b>	—	1,571	5,583	—	7,154
<b>INVESTMENT IN SUBSIDIARIES</b>	27,712	2,636	—	(30,348 )	—
<b>OTHER ASSETS</b>	3,494	1,271	1,249	(3,225 )	2,789
	\$ 34,643	\$ 37,916	\$ 13,802	\$ (37,809 )	\$ 48,552
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>					
<b>CURRENT LIABILITIES</b>					
Current portion of long-term debt	\$ —	\$ 9	\$ 13	\$ —	\$ 22
Accrued salaries and employee benefits	72	1,335	507	—	1,914
Accounts payable	10	1,411	1,439	(108 )	2,752
Accrued expenses	991	1,522	717	—	3,230
Total current liabilities	1,073	4,277	2,676	(108 )	7,918
<b>LONG-TERM DEBT, LESS CURRENT PORTION</b>	14,641	244	24	—	14,909
<b>INTERCOMPANY PAYABLE</b>	—	—	4,128	(4,128 )	—
<b>OTHER LONG-TERM LIABILITIES</b>					
Deferred income taxes	—	5,472	238	(3,225 )	2,485
Other liabilities	2,856	3,448	863	—	7,167
Total other long-term liabilities	2,856	8,920	1,101	(3,225 )	9,652
<b>STOCKHOLDERS' INVESTMENT</b>	16,073	24,475	5,873	(30,348 )	16,073
	\$ 34,643	\$ 37,916	\$ 13,802	\$ (37,809 )	\$ 48,552

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended February 28, 2018

	Guarantor		Non-guarantor		
	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
REVENUES	\$—	\$ 12,433	\$ 4,229	\$ (136 )	\$ 16,526
OPERATING EXPENSES:					
Salaries and employee benefits	39	4,623	1,319	—	5,981
Purchased transportation	—	2,459	1,560	(84 )	3,935
Rentals and landing fees	2	684	189	(2 )	873
Depreciation and amortization	1	670	115	—	786
Fuel	—	837	77	—	914
Maintenance and repairs	1	543	84	—	628
Intercompany charges, net	(114 )	185	(71 )	—	—
Other	71	1,596	791	(50 )	2,408
	—	11,597	4,064	(136 )	15,525
OPERATING INCOME	—	836	165	—	1,001
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	2,074	2	—	(2,076 )	—
Interest, net	(137 )	11	1	—	(125 )
Intercompany charges, net	140	(78 )	(62 )	—	—
Other, net	(3 )	104	(103 )	—	(2 )
INCOME BEFORE INCOME TAXES	2,074	875	1	(2,076 )	874
Provision for income taxes	—	(1,197 )	(3 )	—	(1,200 )
NET INCOME	\$2,074	\$ 2,072	\$ 4	\$ (2,076 )	\$ 2,074
COMPREHENSIVE INCOME	\$2,051	\$ 2,069	\$ 107	\$ (2,076 )	\$ 2,151

- 21 -

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended February 28, 2017

	Guarantor		Non-guarantor		Consolidated
	Parent	Subsidiaries	Subsidiaries	Eliminations	
REVENUES	\$—	\$ 11,275	\$ 3,794	\$ (72 )	\$ 14,997
OPERATING EXPENSES:					
Salaries and employee benefits	29	4,210	1,156	—	5,395
Purchased transportation	—	2,219	1,306	(27 )	3,498
Rentals and landing fees	1	657	177	(1 )	834
Depreciation and amortization	1	649	112	—	762
Fuel	—	657	78	—	735
Maintenance and repairs	1	514	73	—	588
Intercompany charges, net	(87 )	(33 )	120	—	—
Other	55	1,428	721	(44 )	2,160
	—	10,301	3,743	(72 )	13,972
OPERATING INCOME	—	974	51	—	1,025
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	562	(41 )	—	(521 )	—
Interest, net	(129 )	6	1	—	(122 )
Intercompany charges, net	130	(79 )	(51 )	—	—
Other, net	(1 )	(118 )	115	—	(4 )
INCOME BEFORE INCOME TAXES	562	742	116	(521 )	899
Provision for income taxes	—	280	57	—	337
NET INCOME	\$ 562	\$ 462	\$ 59	\$ (521 )	\$ 562
COMPREHENSIVE INCOME	\$ 543	\$ 444	\$ 187	\$ (521 )	\$ 653

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Nine Months Ended February 28, 2018

	Guarantor		Non-guarantor		Consolidated
	Parent	Subsidiaries	Subsidiaries	Eliminations	
REVENUES	\$—	\$ 36,044	\$ 12,445	\$ (353 )	\$ 48,136
OPERATING EXPENSES:					
Salaries and employee benefits	112	13,289	3,840	—	17,241
Purchased transportation	—	6,836	4,600	(216 )	11,220
Rentals and landing fees	4	1,951	577	(6 )	2,526
Depreciation and amortization	1	1,958	334	—	2,293
Fuel	—	2,220	215	—	2,435
Maintenance and repairs	1	1,729	238	—	1,968
Intercompany charges, net	(325 )	298	27	—	—
Other	207	4,664	2,333	(131 )	7,073
	—	32,945	12,164	(353 )	44,756
OPERATING INCOME	—	3,099	281	—	3,380
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	3,445	39	—	(3,484 )	—
Interest, net	(396 )	35	(2 )	—	(363 )
Intercompany charges, net	403	(220 )	(183 )	—	—
Other, net	(7 )	88	(103 )	—	(22 )
INCOME BEFORE INCOME TAXES	3,445	3,041	(7 )	(3,484 )	2,995
Provision for income taxes	—	(573 )	123	—	(450 )
NET INCOME	\$3,445	\$ 3,614	\$ (130 )	\$ (3,484 )	\$ 3,445
COMPREHENSIVE INCOME	\$3,385	\$ 3,605	\$ (3 )	\$ (3,484 )	\$ 3,503

## CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Nine Months Ended February 28, 2017

	Guarantor		Non-guarantor		Consolidated
	Parent	Subsidiaries	Subsidiaries	Eliminations	
REVENUES	\$—	\$ 33,175	\$ 11,628	\$ (212 )	\$ 44,591
OPERATING EXPENSES:					
Salaries and employee benefits	94	12,477	3,488	—	16,059
Purchased transportation	—	6,210	4,040	(81 )	10,169
Rentals and landing fees	4	1,902	524	(4 )	2,426
Depreciation and amortization	1	1,894	346	—	2,241
Fuel	—	1,819	224	—	2,043
Maintenance and repairs	1	1,544	220	—	1,765
Intercompany charges, net	(266 )	67	199	—	—
Other	166	4,230	2,163	(127 )	6,432
	—	30,143	11,204	(212 )	41,135
OPERATING INCOME	—	3,032	424	—	3,456
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,977	69	—	(2,046 )	—
Interest, net	(374 )	19	1	—	(354 )
Intercompany charges, net	376	(224 )	(152 )	—	—
Other, net	(2 )	(128 )	147	—	17
INCOME BEFORE INCOME TAXES	1,977	2,768	420	(2,046 )	3,119
Provision for income taxes	—	951	191	—	1,142
NET INCOME	\$1,977	\$ 1,817	\$ 229	\$ (2,046 )	\$ 1,977
COMPREHENSIVE INCOME	\$1,921	\$ 1,781	\$ 156	\$ (2,046 )	\$ 1,812

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(UNAUDITED)

Nine Months Ended February 28, 2018

	Guarantor		Non-guarantor		Consolidated
	Parent	Subsidiaries	Subsidiaries	Eliminations	
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>					
	\$ (3,537)	\$ 4,664	\$ 25	\$ 10	\$ 1,162
<b>INVESTING ACTIVITIES</b>					
Capital expenditures	—	(3,746 )	(248 )	—	(3,994 )
Business acquisitions, net of cash acquired	—	(44 )	—	—	(44 )
Proceeds from asset dispositions and other	(5 )	23	3	—	21
<b>CASH USED IN INVESTING ACTIVITIES</b>					
	(5 )	(3,767 )	(245 )	—	(4,017 )
<b>FINANCING ACTIVITIES</b>					
Proceeds from short-term borrowings, net	797	—	—	—	797
Net transfers from (to) Parent	807	(895 )	88	—	—
Payment on loan between subsidiaries	210	—	(210 )	—	—
Proceeds from debt issuances	1,481	—	—	—	1,481
Principal payments on debt	—	(17 )	(14 )	—	(31 )
Proceeds from stock issuances	284	—	—	—	284
Dividends paid	(402 )	—	—	—	(402 )
Purchase of treasury stock	(558 )	—	—	—	(558 )
Other, net	2	4	—	—	6
<b>CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b>					
	2,621	(908 )	(136 )	—	1,577
Effect of exchange rate changes on cash	(6 )	61	43	—	98
Net (decrease) increase in cash and cash equivalents	(927 )	50	(313 )	10	(1,180 )
Cash and cash equivalents at beginning of period	1,884	325	1,807	(47 )	3,969
Cash and cash equivalents at end of period	\$ 957	\$ 375	\$ 1,494	\$ (37 )	\$ 2,789

- 25 -

## CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(UNAUDITED)

Nine Months Ended February 28, 2017

	Guarantor		Non-guarantor		
	Parent	Subsidiaries	Subsidiaries	Eliminations	Consolidated
<b>CASH PROVIDED BY (USED IN) OPERATING</b>					
<b>ACTIVITIES</b>	\$ (1,497)	\$ 3,615	\$ 529	\$ (2 )	\$ 2,645
<b>INVESTING ACTIVITIES</b>					
Capital expenditures	—	(3,456 )	(334 )	—	(3,790 )
Proceeds from asset dispositions and other	85	16	22	—	123
<b>CASH (USED IN) PROVIDED BY INVESTING</b>					
<b>ACTIVITIES</b>	85	(3,440 )	(312 )	—	(3,667 )
<b>FINANCING ACTIVITIES</b>					
Net transfers from (to) Parent	117	(148 )	31	—	—
Payment on loan between subsidiaries	36	(15 )	(21 )	—	—
Intercompany dividends	—	1	(1 )	—	—
Principal payments on debt	—	(33 )	(16 )	—	(49 )
Proceeds from debt issuances	1,190	—	—	—	1,190
Proceeds from stock issuances	265	—	—	—	265
Dividends paid	(319 )	—	—	—	(319 )
Purchase of treasury stock	(358 )	—	—	—	(358 )
Other, net	(8 )	(12 )	22	—	2
<b>CASH (USED IN) PROVIDED BY FINANCING</b>					
<b>ACTIVITIES</b>	923	(207 )	15	—	731
Effect of exchange rate changes on cash	(10 )	7	(67 )	—	(70 )
Net (decrease) increase in cash and cash equivalents	(499 )	(25 )	165	(2 )	(361 )
Cash and cash equivalents at beginning of period	1,974	326	1,277	(43 )	3,534
Cash and cash equivalents at end of period	\$ 1,475	\$ 301	\$ 1,442	\$ (45 )	\$ 3,173



REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

FedEx Corporation

We have reviewed the condensed consolidated balance sheet of FedEx Corporation as of February 28, 2018, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended February 28, 2018 and February 28, 2017 and the condensed consolidated statements of cash flows for the nine-month periods ended February 28, 2018 and February 28, 2017. 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, 2017, 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 17, 2017. In our opinion, the accompanying condensed consolidated balance sheet of FedEx Corporation as of May 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Memphis, Tennessee

March 21, 2018

- 27 -

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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, 2017 ("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"), including TNT Express B.V. ("TNT Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ("FedEx Freight"), a leading 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.

As noted in our Annual Report, beginning in the first quarter of 2018, we began to report TNT Express as part of the FedEx Express segment. Prior year amounts have been revised to conform to the current year presentation. See Note 7 of the accompanying unaudited condensed consolidated financial statements for further discussion.

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 facility services and cargo handling, temporary labor and security),

insurance, professional fees, taxes and licenses and uniforms.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2018 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, the FedEx Express segment, the FedEx Ground segment and the FedEx Freight segment.

- 28 -

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## 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 February 28:

	Three Months			Nine Months		
	Ended 2018	2017	Percent Change	Ended 2018	2017	Percent Change
Revenues	\$16,526	\$14,997	10	\$48,136	\$44,591	8
Operating income:						
FedEx Express segment	424	557	(24 )	1,574	1,873	(16 )
FedEx Ground segment	634	515	23	1,781	1,590	12
FedEx Freight segment	55	41	34	349	264	32
Eliminations, corporate and other	(112 )	(88 )	(27 )	(324 )	(271 )	(20 )
Consolidated operating income	1,001	1,025	(2 )	3,380	3,456	(2 )
Operating margin:						
FedEx Express segment	4.5 %	6.5 %	(200 )bp	5.7 %	7.3 %	(160 )bp
FedEx Ground segment	12.1 %	11.0 %	110 bp	12.0 %	11.9 %	10 bp
FedEx Freight segment	3.2 %	2.7 %	50 bp	6.7 %	5.6 %	110 bp
Consolidated operating margin	6.1 %	6.8 %	(70 )bp	7.0 %	7.8 %	(80 )bp
Consolidated net income	\$2,074	\$562	269	\$3,445	\$1,977	74
Diluted earnings per share	\$7.59	\$2.07	267	\$12.63	\$7.31	73

	Change in Revenue		Change in Operating Income	
	Three Months Ended	Three Months Ended	Three Months Ended	Three Months Ended
FedEx Express segment	\$801	\$ 1,705	\$(133)	\$(299)
FedEx Ground segment	534	1,393	119	191
FedEx Freight segment	202	461	14	85
FedEx Services segment	8	15	—	—
Eliminations, corporate and other	(16 )	(29 )	(24 )	(53 )
	\$1,529	\$ 3,545	\$(24 )	\$(76 )

## Overview

Our operating income declined slightly in the third quarter of 2018 primarily due to significantly higher incentive compensation accruals (described below), higher peak-related costs at FedEx Express, increased TNT Express integration expenses and the negative impacts of inclement winter weather at FedEx Express. These factors were partially offset by increased yields and the favorable net impact of fuel at all of our transportation segments and volume growth at FedEx Ground and FedEx Freight. The NotPetya cyberattack (described below) also drove lower results in the nine months of 2018.

Net income for the third quarter and nine months of 2018 was positively impacted by a provisional benefit of \$1.15 billion (\$4.21 per diluted share) attributable to the enactment of the Tax Cuts and Jobs Act (“TCJA”), specifically related to the remeasurement of our net U.S. deferred tax liability. In addition, we recognized a one-time benefit of \$204 million (\$0.75 per diluted share) from a \$1.5 billion contribution to our tax-qualified U.S. domestic pension plans (“U.S. Pension Plans”) in February 2018 and a benefit of \$165 million (\$0.60 per diluted share) related to a lower statutory income tax rate on fiscal 2018 year- to-date earnings. See the “Income Taxes” section below for further information.

During the third quarter of 2018 we announced more than \$3.2 billion in wage increases, bonuses, pension funding and expanded U.S. capital investment following the passage of the TCJA. In connection with this, during the third quarter of 2018 we made a pension funding contribution (noted above) and funded increases in performance-based incentive compensation plans. The incentive compensation adjustments made in the third quarter of 2018 include the year-to-date impact of the announced changes. Expenses related to wage increases will start to be recognized during the fourth quarter of 2018.

We incurred TNT Express integration expenses totaling an aggregate of \$106 million (\$92 million, net of tax, or \$0.34 per diluted share) in the third quarter of 2018, a \$28 million increase from the third quarter of 2017. TNT Express integration expenses were an aggregate \$341 million (\$265 million, net of tax, or \$0.97 per diluted share) in the nine months of 2018, a \$137 million increase from

the nine months of 2017. The integration expenses are incremental costs directly associated with the integration of TNT Express, including professional and legal fees, salaries and wages, advertising expenses and travel, and include any restructuring charges at TNT Express. Internal salaries and wages are included only to the extent the individuals are assigned full time to integration activities. These costs were incurred at FedEx Express and FedEx Corporation. The identification of these costs as integration-related expenditures is subject to our disclosure controls and procedures.

As previously announced, on June 27, 2017, the worldwide operations of TNT Express were significantly affected by the cyberattack known as NotPetya. Immediately following the attack, contingency plans were implemented to recover TNT Express operations and communications systems, and substantially all TNT Express services were fully restored during the first quarter of 2018. As of the second quarter of 2018, all of TNT Express's critical operational systems were fully restored, critical business data was recovered and shipping services and solutions were back in place.

Our results for the first half of 2018 were negatively impacted by the NotPetya cyberattack by an estimated \$400 million (\$1.14 per diluted share for the nine months of 2018), primarily from loss of revenue due to decreased shipments in the TNT Express network, as well as incremental costs to restore information technology systems. In addition, we continued to experience lingering revenue impacts from the NotPetya cyberattack in the third quarter of 2018 in the form of lower volumes at TNT Express.

- 30 -

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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:

<sup>(1)</sup>International domestic average daily package volume represents our international intra-country operations.

- 31 -

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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:

<sup>(1)</sup>International domestic revenue per package represents our international intra-country operations.

#### Revenue

Revenues increased 10% in the third quarter and 8% in the nine months of 2018 due to improved performance at all of our transportation segments. Revenues at FedEx Express increased 9% in the third quarter and 7% in the nine months of 2018 due to improved base yields and favorable exchange rates, despite impacts from the NotPetya cyberattack discussed above. At FedEx Ground, revenues increased 11% in the third quarter and 10% in the nine months of 2018 due to volume growth and increased yields. FedEx Freight revenues increased 14% in the third quarter and 10% in the nine months of 2018 due to higher LTL revenue per shipment and average daily LTL shipments. Higher fuel surcharges had a positive impact on revenues at all of our transportation segments in the third quarter and nine months of 2018.

- 32 -

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## Operating Expenses

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

	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Operating expenses:				
Salaries and employee benefits	\$5,981	\$5,395	\$17,241	\$16,059
Purchased transportation	3,935	3,498	11,220	10,169
Rentals and landing fees	873	834	2,526	2,426
Depreciation and amortization	786	762	2,293	2,241
Fuel	914	735	2,435	2,043
Maintenance and repairs	628	588	1,968	1,765
Other	2,408	2,160	7,073	6,432
Total operating expenses	\$15,525	\$13,972	\$44,756	\$41,135
Operating income	\$1,001	\$1,025	\$3,380	\$3,456

	Percent of Revenue			
	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
Operating expenses:				
Salaries and employee benefits	36.2 %	36.0 %	35.8 %	36.0 %
Purchased transportation	23.8	23.3	23.3	22.8
Rentals and landing fees	5.3	5.6	5.2	5.4
Depreciation and amortization	4.7	5.1	4.8	5.0
Fuel	5.5	4.9	5.1	4.6
Maintenance and repairs	3.8	3.9	4.1	4.0
Other	14.6	14.4	14.7	14.4
Total operating expenses	93.9	93.2	93.0	92.2
Operating margin	6.1 %	6.8 %	7.0 %	7.8 %

Operating margin declined in the third quarter of 2018 primarily as a result of significantly higher incentive compensation accruals, higher peak-related costs at FedEx Express, the negative impacts of inclement winter weather at FedEx Express and increased TNT Express integration expenses. The impacts of the NotPetya cyberattack discussed above also drove the operating margin decline in the nine months of 2018.

Salaries and employee benefits expense increased 11% in the third quarter and 7% in the nine months of 2018 primarily due to merit increases and significantly higher incentive compensation accruals at all of our transportation segments, unfavorable exchange rates at FedEx Express and higher staffing at FedEx Ground and FedEx Freight. Purchased transportation costs increased 12% in the third quarter and 10% in the nine months of 2018 primarily due to higher volumes at all of our transportation segments, unfavorable exchange rates at FedEx Express and increased rates and higher fuel expenses at FedEx Ground. Other expenses increased 11% in the third quarter of 2018 primarily due

to unfavorable exchange rates, increased outside service contracts at FedEx Express and TNT Express integration expenses. Other expenses increased 10% in the nine months of 2018 due to these same factors as well as higher self-insurance reserves at FedEx Ground. Maintenance and repairs expense increased 12% in the nine months of 2018 primarily due to the timing of aircraft engine maintenance events at FedEx Express.

- 33 -

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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 24% in the third quarter and 19% in the nine months of 2018 primarily due to increased fuel prices. 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 third quarter of 2018 and 2017 in the accompanying discussions of each of our transportation segments.

Effective February 6, 2017, FedEx Express and FedEx Ground fuel surcharges are adjusted on a weekly basis. The fuel surcharge is based on a weekly fuel price from two weeks prior to the week in which it is assessed. The index used to determine the fuel surcharge percentage for our FedEx Freight business continues to adjust weekly. Some FedEx Express international fuel surcharges continue to incorporate a timing lag of approximately six to eight weeks.

Prior to February 6, 2017, our fuel surcharges for the FedEx Express and FedEx Ground businesses incorporated a timing lag of approximately six to eight weeks before they were adjusted for changes in fuel prices. For example, the fuel surcharge index in effect at FedEx Express in January 2017 was set based on November 2016 fuel prices.

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 70% 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.

The net impact of fuel had a significant benefit to operating income in the third quarter and nine months of 2018 as higher fuel surcharges more than offset increased fuel prices.

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.



## Income Taxes

On December 22, 2017, the United States government enacted comprehensive tax legislation through the TCJA. The TCJA significantly changes the U.S. corporate income tax system including, among other things, lowering the statutory federal income tax rate from 35% to 21%, eliminating or reducing certain income tax deductions, and implementing a modified territorial tax system that includes a one-time transition tax on previously deferred foreign earnings. Due to our May 31 fiscal year end, the lower rate will be phased in, resulting in a U.S. statutory federal rate of 29.2% for 2018 and a 21% statutory federal rate for subsequent years.

In December 2017, the Securities and Exchange Commission (“SEC”) staff issued Staff Accounting Bulletin (“SAB”) 118, which provides guidance on accounting for the tax effects of the TCJA. SAB 118 provides for a measurement period of up to one year from the enactment date for companies to complete the accounting for the initial income tax effects of the TCJA. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the TCJA for which the accounting is complete and provide a provisional estimate (where determinable) of the income tax effects of the TCJA where the accounting is incomplete. The provisional estimate is required to be updated throughout the measurement period.

As of February 28, 2018, we have not completed our initial accounting of the tax effects of the TCJA; however, where determinable, we have made an estimate of the effects on our existing deferred tax balances and the one-time transition tax. During the quarter, we recognized a provisional benefit of \$1.15 billion related to the remeasurement of our net U.S. deferred tax liability and a provisional benefit of \$36 million from foreign tax credits exceeding the one-time transition tax on previously deferred foreign earnings.

In addition to the provisional amounts above, we recognized a one-time benefit of \$204 million from a \$1.5 billion contribution to our U.S. Pension Plans in February 2018 and a benefit of \$165 million related to a lower statutory income tax rate on fiscal 2018 year-to-date earnings.

The following table provides a reconciliation of the 2017 effective tax rates to the 2018 effective tax rates, including the impact of the TCJA, for the periods ended February 28:

	Three Months Ended 2018		Nine Months Ended 2018	
2017 Effective Tax Rate	37.5	%	36.6	%
Remeasurement of net U.S. deferred tax liability	(131.5)	)	(38.4)	)
Effect of February 2018 pension contribution (a)	(23.3)	)	(6.8)	)
Lower statutory tax rate	(18.9)	)	(5.5)	)
Transition tax	(4.1)	)	(1.2)	)
Other (b)	3.0	)	0.3	)
2018 Effective Tax Rate	(137.3)	)%	(15.0)	)%

(a) The benefit is from the pension contribution deducted on our 2017 tax return at a tax rate of 35%.

(b) The 2018 tax rates were negatively impacted by the effect of the NotPetya cyberattack, changes in uncertain tax positions and tax rate impacts on changes in deferred tax items after the TCJA enactment and were favorably impacted from foreign tax credits associated with a second quarter dividend from foreign operations.

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 (“IRS”) 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 February 28, 2018, there were no material changes to our liabilities for unrecognized tax benefits subsequent to May 31, 2017.

See Note 5 of the accompanying unaudited condensed consolidated financial statements for further discussion related to income taxes.

#### Business Acquisition

On October 13, 2017, FedEx acquired Northwest Research, Inc., a leader in inventory research and management, for \$50 million in cash from operations. The majority of the purchase price was allocated to property and equipment. The financial results of this acquired business are included in the FedEx Services segment from the date of acquisition and were not material to our results of operations.

- 35 -

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## Outlook

We expect yield and volume growth at all of our transportation segments to support revenue and earnings growth in the fourth quarter and full year of 2018, prior to any mark-to-market benefit plans adjustment. We expect to continue implementing various cost management plans at FedEx Ground for the remainder of 2018. Our fourth quarter and full-year 2018 results will be negatively affected by our TNT Express integration activities as well as increased compensation for certain of our hourly team members and higher incentive compensation for our salaried personnel. Our expectations for earnings growth in 2018 assumes moderate economic growth.

During the remainder of 2018, we will continue to execute our TNT Express integration plans. We expect the aggregate integration program expense, including restructuring charges at TNT Express, over the four years to be approximately \$1.4 billion and expect to incur approximately \$450 million of these costs during 2018. The timing and amount of integration expenses and capital investments in any future period may change as we implement our 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 information technology systems. In addition, a portion of our integration expenses relate to the ongoing establishment of our new international corporate structure which will leverage synergies to maximize our international profitability, ultimately benefiting our effective tax rate. The integration is expected to be substantially complete by the end of 2020. We are targeting operating income improvement at the FedEx Express segment of \$1.2 billion to \$1.5 billion in 2020 from 2017 assuming moderate economic growth and current accounting rules and tax laws. This target includes TNT Express synergies as well as base business and other operational improvements across the global FedEx Express network. Although we are targeting to complete our integration program by the end of 2020, we are investing in opportunities to improve the capabilities of the integrated business for future profitability, including periods beyond 2020.

As noted above, we recorded a provisional reduction to our net U.S. deferred tax liability during the third quarter of 2018 in connection with the recently enacted TCJA. The final impact of the TCJA on our reported results for fiscal year 2018 and beyond may differ from the estimates recorded, possibly materially, due to changes in interpretations and assumptions we have made, future guidance that may be issued, and other changes that may occur as we complete our analysis of the TCJA.

Other Outlook Matters. For details on key 2018 capital projects, refer to the “Liquidity Outlook” section of this MD&A.

FedEx Ground previously announced plans to implement the Independent Service Provider (“ISP”) model throughout its entire U.S. pickup and delivery network. The transition to the ISP model is being accomplished on a district-by-district basis and is expected to be completed in the second half of calendar 2020. As of February 28, 2018, 64% 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” and Part II, Item 1A “Risk Factors” for a discussion of these and other potential risks and uncertainties that could materially affect our future performance.

## RECENT ACCOUNTING GUIDANCE

See Note 1 of the accompanying unaudited condensed consolidated financial statements for a discussion of recent accounting guidance.





## 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

Segment FedEx Express (express transportation)  
 TNT Express (international express transportation, small-package ground delivery and freight transportation)  
 FedEx Trade Networks (air and ocean freight forwarding, customs brokerage and cross-border enablement technology and solutions)

### FedEx Ground

Segment FedEx Ground (small-package ground delivery)  
 FedEx Supply Chain (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)

Effective March 1, 2018, we realigned our specialty logistics and e-commerce solutions in a new organizational structure under FedEx Trade Networks, Inc. in the FedEx Express segment. The realignment allows us to improve our ability to deliver the capabilities of our specialty companies to customers. The new structure includes FedEx Custom Critical, FedEx Cross Border, FedEx Supply Chain, FedEx Trade Networks Transport & Brokerage and, effective June 1, 2018, a new company called FedEx Forward Depots. Prior period segment results will be recast to conform to current year presentation beginning in the fourth quarter of 2018.

## 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.

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.

## 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, deferred or economy services, which provide delivery on a time-definite or day-definite basis. As discussed in our Annual Report, we are reporting TNT Express as part of the FedEx Express segment. Prior year amounts have been revised to conform to the current year presentation, including revised statistical information. The following tables compare revenues, operating expenses, operating income (dollars in millions), operating margin and operating expenses as a percent of revenue for the periods ended February 28:

	Three Months			Nine Months Ended		
	Ended 2018	2017	Percent Change	2018	2017	Percent Change
<b>Revenues:</b>						
<b>Package:</b>						
U.S. overnight box	\$1,836	\$1,742	5	\$5,373	\$5,173	4
U.S. overnight envelope	435	422	3	1,317	1,287	2
U.S. deferred	996	954	4	2,796	2,598	8
Total U.S. domestic package revenue	3,267	3,118	5	9,486	9,058	5
International priority	1,813	1,667	9	5,393	5,144	5
International economy	793	692	15	2,378	2,101	13
Total international export package revenue	2,606	2,359	10	7,771	7,245	7
International domestic <sup>(1)</sup>	1,128	1,033	9	3,386	3,136	8
Total package revenue	7,001	6,510	8	20,643	19,439	6
<b>Freight:</b>						
U.S.	739	667	11	2,040	1,895	8
International priority	551	471	17	1,581	1,396	13
International economy	492	437	13	1,354	1,265	7
International airfreight	86	84	2	259	270	(4 )
Total freight revenue	1,868	1,659	13	5,234	4,826	8
Other <sup>(2)</sup>	501	400	25	1,499	1,406	7
Total revenues	9,370	8,569	9	27,376	25,671	7
<b>Operating expenses:</b>						
Salaries and employee benefits	3,484	3,170	10	10,001	9,393	6
Purchased transportation	1,478	1,286	15	4,346	3,963	10
Rentals and landing fees	532	511	4	1,520	1,483	2
Depreciation and amortization	425	420	1	1,254	1,252	—
Fuel	782	633	24	2,088	1,753	19
Maintenance and repairs	420	386	9	1,327	1,158	15
Intercompany charges	528	473	12	1,521	1,403	8
Other	1,297	1,133	14	3,745	3,393	10
Total operating expenses	8,946	8,012	12	25,802	23,798	8
Operating income	\$424	\$557	(24 )	\$1,574	\$1,873	(16 )
Operating margin	4.5 %	6.5 %	(200 )bp	5.7 %	7.3 %	(160 )bp

<sup>(1)</sup>International domestic revenues represent our international intra-country operations.

<sup>(2)</sup>Includes FedEx Trade Networks.



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	Percent of Revenue			
	Three Months		Nine Months	
	Ended		Ended	
	2018	2017	2018	2017
<b>Operating expenses:</b>				
Salaries and employee benefits	37.2 %	37.0 %	36.5 %	36.6 %
Purchased transportation	15.8	15.0	15.9	15.4
Rentals and landing fees	5.7	6.0	5.6	5.8
Depreciation and amortization	4.5	4.9	4.6	4.9
Fuel	8.4	7.4	7.6	6.8
Maintenance and repairs	4.5	4.5	4.8	4.5
Intercompany charges	5.6	5.5	5.6	5.5
Other	13.8	13.2	13.7	13.2
Total operating expenses	95.5	93.5	94.3	92.7
Operating margin	4.5 %	6.5 %	5.7 %	7.3 %

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

	Three Months			Nine Months		
	Ended		Percent	Ended		Percent
	2018	2017	Change	2018	2017	Change
<b>Package Statistics<sup>(1)</sup></b>						
<b>Average daily package volume (ADV):</b>						
U.S. overnight box	1,315	1,322	(1 )	1,249	1,286	(3 )
U.S. overnight envelope	541	549	(1 )	548	559	(2 )
U.S. deferred	1,026	1,025	—	946	904	5
Total U.S. domestic ADV	2,882	2,896	—	2,743	2,749	—
International priority	529	535	(1 )	525	522	1
International economy	266	253	5	265	250	6
Total international export ADV	795	788	1	790	772	2
International domestic <sup>(2)</sup>	2,445	2,471	(1 )	2,447	2,391	2
Total ADV	6,122	6,155	(1 )	5,980	5,912	1
<b>Revenue per package (yield):</b>						
U.S. overnight box	\$22.53	\$21.24	6	\$22.64	\$21.17	7
U.S. overnight envelope	12.97	12.41	5	12.64	12.12	4
U.S. deferred	15.66	15.00	4	15.56	15.13	3
U.S. domestic composite	18.29	17.36	5	18.20	17.34	5
International priority	55.26	50.28	10	54.06	51.82	4
International economy	48.01	44.05	9	47.24	44.24	7
International export composite	52.83	48.27	9	51.77	49.37	5
International domestic <sup>(2)</sup>	7.44	6.74	10	7.29	6.90	6
Composite package yield	18.45	17.06	8	18.17	17.31	5
<b>Freight Statistics<sup>(1)</sup></b>						
<b>Average daily freight pounds:</b>						
U.S.	8,757	8,458	4	8,311	8,231	1
International priority	5,430	5,238	4	5,342	5,145	4
International economy	13,209	12,578	5	12,215	12,095	1

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International airfreight	1,757	1,995	(12 )	1,850	1,941	(5 )
Total average daily freight pounds	29,153	28,269	3	27,718	27,412	1
Revenue per pound (yield):						
U.S.	\$1.36	\$1.27	7	\$1.29	\$1.21	7
International priority	1.64	1.45	13	1.56	1.43	9
International economy	0.60	0.56	7	0.58	0.55	5
International airfreight	0.78	0.68	15	0.74	0.73	1
Composite freight yield	1.02	0.95	7	0.99	0.93	6

<sup>(1)</sup>Package and freight statistics include only the operations of FedEx Express and TNT Express.

<sup>(2)</sup>International domestic statistics represent our international intra-country operations.

- 39 -

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## FedEx Express Segment Revenues

FedEx Express segment revenues increased 9% in the third quarter and 7% in the nine months of 2018 primarily due to improved base yields, favorable exchange rates and higher fuel surcharges, despite impacts from the NotPetya cyberattack discussed above.

International export package yields increased 9% in the third quarter of 2018 due to higher fuel surcharges, favorable exchange rates and higher base rates. International export package yields increased 5% in the nine months of 2018 due to higher fuel surcharges and favorable exchange rates. International export average daily volumes increased 1% in the third quarter and 2% in the nine months of 2018 primarily due to increased international economy shipments. This benefit was partially offset by the decrease in volume due to the NotPetya cyberattack. U.S. domestic package yields increased 5% in the third quarter and nine months of 2018 primarily due to higher base rates and fuel surcharges. Freight yields increased 7% in the third quarter and 6% in the nine months of 2018 primarily due to higher base rates, favorable exchange rates and higher fuel surcharges. Average daily freight pounds increased 3% in the third quarter of 2018 primarily due to higher volume in international and U.S. freight services.

Our U.S. domestic and outbound fuel surcharge and the international fuel surcharges ranged as follows for the periods ended February 28:

	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
<b>U.S. Domestic and Outbound Fuel Surcharge:</b>				
Low	5.05 %	2.50 %	2.21 %	0.96 %
High	5.91	3.40	5.91	3.40
Weighted-average	5.56	2.97	4.31	2.30
<b>International Fuel Surcharges:</b>				
Low	6.25	2.60	3.38	1.16
High	15.87	11.25	15.87	11.25
Weighted-average	12.24	8.21	10.53	7.48

Effective January 1, 2018, FedEx Express implemented a 4.9% average list price increase for U.S. domestic, U.S. export and U.S. import services. Effective February 6, 2017, FedEx Express fuel surcharges are adjusted on a weekly basis compared to the previous monthly adjustment. On January 2, 2017, FedEx Express implemented 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.

## FedEx Express Segment Operating Income

FedEx Express operating income and margin decreased in the third quarter of 2018 due to higher incentive compensation accruals, higher peak-related costs, increased TNT Express integration expenses, the negative impacts of inclement winter weather and unfavorable exchange rates, partially offset by yield growth and positive net impact of fuel. The NotPetya cyberattack discussed above also drove declining results in the nine months of 2018.

The NotPetya cyberattack had an estimated \$400 million negative impact for the first half of 2018 with lingering impacts in the third quarter of 2018. Results also included \$86 million of TNT Express integration expenses in the

third quarter and \$270 million in the nine months of 2018, a \$33 million increase from the third quarter and \$148 million increase from the nine months of 2017.

Salaries and employee benefits increased 10% in the third quarter and 6% in the nine months of 2018 primarily due to merit increases, unfavorable exchange rates and higher incentive compensation accruals. Purchased transportation increased 15% in the third quarter and 10% in the nine months of 2018 due to unfavorable exchange rates and increased international volume. Other expenses increased 14% in the third quarter and 10% in the nine months of 2018 primarily due to unfavorable exchange rates, increased outside service contracts and TNT Express integration expenses. Intercompany charges increased 12% in the third quarter of 2018 primarily due to higher incentive compensation accruals. Maintenance and repairs increased 15% in the nine months of 2018 primarily due to the timing of aircraft engine maintenance events.

Fuel expense increased 24% in the third quarter and 19% in the nine months of 2018 due to increased fuel prices. However, the net impact of fuel had a moderate benefit to operating income in the third quarter of 2018 and a significant benefit to operating income in the nine months of 2018 as higher fuel surcharges more than offset increased 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.

- 40 -

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## FEDEX GROUND SEGMENT

FedEx Ground service offerings include day-certain delivery to businesses in the U.S. and Canada and to 100% of U.S. residences. The following tables compare revenues, operating expenses, operating income (dollars in millions), operating margin, selected package statistics (in thousands, except yield amounts) and operating expenses as a percent of revenue for the periods ended February 28:

	Three Months		Percent Change	Nine Months Ended		Percent Change
	Ended 2018	2017		2018	2017	
<b>Revenues:</b>						
FedEx Ground	\$4,824	\$4,296	12	\$13,586	\$12,202	11
FedEx Supply Chain	398	392	2	1,204	1,195	1
Total revenues	5,222	4,688	11	14,790	13,397	10
<b>Operating expenses:</b>						
Salaries and employee benefits	956	834	15	2,711	2,420	12
Purchased transportation	2,235	2,015	11	6,194	5,568	11
Rentals	209	197	6	617	567	9
Depreciation and amortization	187	177	6	537	508	6
Fuel	4	3	33	10	8	25
Maintenance and repairs	82	83	(1 )	249	237	5
Intercompany charges	371	330	12	1,087	983	11
Other	544	534	2	1,604	1,516	6
Total operating expenses	4,588	4,173	10	13,009	11,807	10
Operating income	\$634	\$515	23	\$1,781	\$1,590	12
Operating margin	12.1 %	11.0 %	110 bp	12.0 %	11.9 %	10 bp
<b>Average daily package volume</b>						
FedEx Ground	8,993	8,522	6	8,408	7,963	6
<b>Revenue per package (yield)</b>						
FedEx Ground	\$8.64	\$8.12	6	\$8.49	\$8.05	5

	Percent of Revenue			
	Three Months Ended		Nine Months Ended	
	2018	2017	2018	2017
<b>Operating expenses:</b>				
Salaries and employee benefits	18.3 %	17.8 %	18.3 %	18.1 %
Purchased transportation	42.8	43.0	41.9	41.5
Rentals	4.0	4.2		