FEDEX CORP
Form 10-Q
March 19, 2019

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, 2019

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.)

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	Smaller reporting company	Emerging growth company

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 15, 2019
Common Stock, par value $0.10 per share	260,574,612

FEDEX CORPORATION

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FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	February 28, 2019 (Unaudited)	May 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,872	$ 3,265
Receivables, less allowances of $318 and $401	9,037	8,481
Spare parts, supplies and fuel, less allowances of $339 and $268	546	525
Prepaid expenses and other	1,045	1,070
Total current assets	13,500	13,341
PROPERTY AND EQUIPMENT, AT COST	58,164	55,121
Less accumulated depreciation and amortization	28,396	26,967
Net property and equipment	29,768	28,154
OTHER LONG-TERM ASSETS		
Goodwill	6,916	6,973
Other assets	4,280	3,862
Total other long-term assets	11,196	10,835
	$ 54,464	$ 52,330

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, 2019 (Unaudited)	May 31, 2018
LIABILITIES AND COMMON STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Short-term borrowings	$ 225	$—
Current portion of long-term debt	973	1,342
Accrued salaries and employee benefits	1,659	2,177
Accounts payable	3,156	2,977
Accrued expenses	3,243	3,131
Total current liabilities	9,256	9,627
LONG-TERM DEBT, LESS CURRENT PORTION	17,218	15,243
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	3,211	2,867
Pension, postretirement healthcare and other benefit obligations	1,847	2,187
Self-insurance accruals	1,861	1,784
Deferred lease obligations	512	551
Deferred gains, principally related to aircraft transactions	118	121
Other liabilities	547	534
Total other long-term liabilities	8,096	8,044
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of February 28, 2019 and May 31, 2018	32	32
Additional paid-in capital	3,209	3,117
Retained earnings	26,650	24,823
Accumulated other comprehensive loss	(737)	(578)
Treasury stock, at cost	(9,260)	(7,978)
Total common stockholders' investment	19,894	19,416
	$ 54,464	$52,330

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 February 28,		Nine Months Ended February 28,	
	2019	2018 As Adjusted	2019	2018 As Adjusted
REVENUES	$ 17,010	$ 16,526	$ 51,886	$ 48,136
OPERATING EXPENSES:				
Salaries and employee benefits	6,069	6,124	18,589	17,677
Purchased transportation	4,253	3,935	12,566	11,220
Rentals and landing fees	874	873	2,533	2,526
Depreciation and amortization	851	786	2,487	2,293
Fuel	907	914	2,945	2,435
Maintenance and repairs	658	628	2,144	1,968
Business realignment costs	4	—	4	—
Other	2,483	2,408	7,468	7,073
	16,099	15,668	48,736	45,192
OPERATING INCOME	911	858	3,150	2,944
OTHER INCOME (EXPENSE):				
Interest, net	(135)	(125)	(393)	(363)
Other retirement plans income	158	143	474	436
Other, net	(3)	(2)	(22)	(22)
	20	16	59	51
INCOME BEFORE INCOME TAXES	931	874	3,209	2,995
PROVISION FOR INCOME TAXES	192	(1,200)	700	(450)
NET INCOME	$ 739	$ 2,074	$ 2,509	$ 3,445
EARNINGS PER COMMON SHARE:				
Basic	$ 2.83	$ 7.74	$ 9.55	$ 12.85
Diluted	$ 2.80	$ 7.59	$ 9.41	$ 12.63
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.65	$ 0.50	$ 2.60	$ 2.00

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 February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
NET INCOME	$ 739	$ 2,074	$2,509	$3,445
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments, net of tax expense of $9 and tax benefit of $22 in 2019 and tax expense of $9 and $26 in 2018	103	100	(90)	119
Amortization of prior service credit, net of tax benefit of $7 and $21 in 2019 and tax benefit of $7 and $29 in 2018	(23)	(23)	(69)	(61)
	80	77	(159)	58
COMPREHENSIVE INCOME	$ 819	$ 2,151	$2,350	$3,503

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, 2019	2018
Operating Activities:		
Net income	$ 2,509	$ 3,445
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	2,487	2,293
Provision for uncollectible accounts	221	177
Stock-based compensation	141	135
Deferred income taxes and other noncash items	250	(914)
Changes in assets and liabilities:		
Receivables	(780)	(986)
Other assets	(96)	(151)
Accounts payable and other liabilities	(1,307)	(2,781)
Other, net	(102)	(56)
Cash provided by operating activities	3,323	1,162
Investing Activities:		
Capital expenditures	(3,757)	(3,994)
Business acquisitions, net of cash acquired	—	(44)
Proceeds from asset dispositions and other	62	21
Cash used in investing activities	(3,695)	(4,017)
Financing Activities:		
	220	797

Proceeds from short-term borrowings, net						
Principal payments on debt		(874	)		(31	)
Proceeds from debt issuances		2,463			1,481	
Proceeds from stock issuances		58			284	
Dividends paid		(514	)		(402	)
Purchase of treasury stock		(1,365	)		(558	)
Other, net		5			6	
Cash (used in) provided by financing activities		(7	)		1,577	
Effect of exchange rate changes on cash		(14	)		98	
Net decrease in cash and cash equivalents		(393	)		(1,180	)
Cash and cash equivalents at beginning of period		3,265			3,969	
Cash and cash equivalents at end of period	$	2,872		$	2,789	

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

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' INVESTMENT

(UNAUDITED)

(IN MILLIONS, EXCEPT SHARE DATA)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Common Stock				
Beginning Balance	$ 32	$ 32	$ 32	$ 32
Ending Balance	32	32	32	32
Additional Paid-in-Capital				
Beginning Balance	3,185	3,055	3,117	3,005
Employee incentive plans and other	24	30	92	80
Ending Balance	3,209	3,085	3,209	3,085
Retained Earnings				
Beginning Balance	26,080	21,785	24,823	20,833
Net Income	739	2,074	2,509	3,445
Cash dividends declared ($0.65, $0.50, $2.60, and $2.00 per share)	(169)	(133)	(683)	(535)
Employee incentive plans and other	—	(16)	1	(33)
Ending Balance	26,650	23,710	26,650	23,710
Accumulated Other Comprehensive Income				
Beginning Balance	(817)	(434)	(578)	(415)
Other comprehensive income, net of tax (expense)/benefit of ($2), ($2), $43, and $3	80	77	(159)	58
Ending Balance	(737)	(357)	(737)	(357)
Treasury Stock				
Beginning Balance	(9,186)	(7,383)	(7,978)	(7,382)
Purchase of treasury stock (0.6, 1.2, 6.0, and 2.4 million shares)	(93)	(288)	(1,365)	(558)
Employee incentive plans and other (0.1, 0.7, 0.6, and 2.7 million shares)	19	95	83	364
Ending Balance	(9,260)	(7,576)	(9,260)	(7,576)
Total Common Stockholders' Investment Balance	$ 19,894	$ 18,894	$ 19,894	$ 18,894

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, 2018 ("Annual Report"). 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, 2019, and the results of our operations for the three- and nine-month periods ended February 28, 2019 and 2018, cash flows for the nine-month periods ended February 28, 2019 and 2018, and changes in common stockholders' investment for the three- and nine-month periods ended February 28, 2019 and 2018. Operating results for the three- and nine-month periods ended February 28, 2019 are not necessarily indicative of the results that may be expected for the year ending May 31, 2019.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2019 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

RECLASSIFICATIONS. Certain reclassifications have been made to the prior years' condensed consolidated financial statements to conform to the current year presentation.

REVENUE RECOGNITION.

Satisfaction of Performance Obligation

We recognize revenue upon delivery of shipments for our transportation businesses and upon completion of services for our business services, logistics and trade services businesses. Transportation services are provided with the use of employees and independent businesses that contract with FedEx. FedEx is the principal to the transaction for most of these services and revenue is recognized on a gross basis based on the transfer of control to the customer. Costs associated with independent businesses providing transportation services are recognized as incurred and included in the caption "Purchased transportation" in the accompanying unaudited condensed consolidated statements of income.

For shipments in transit, revenue is recorded based on the percentage of service completed at the balance sheet date which results in our recognizing revenue over time as we perform the services in the contract because of the continuous transfer of control to the customer. Our customers receive the benefit of our services as the goods are transported from one location to another. If we were unable to complete delivery to the final location, another entity would not need to reperform the transportation service already performed. As control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation.

The vast majority of our contracts include only one performance obligation, which is short in duration and spans only a few days. However, if a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. We frequently sell standard transportation services with observable stand-alone sales prices. In these instances, the observable stand-alone sales are used to determine the stand-alone selling price.

We sell customized customer-specific solutions, such as logistics, through which we provide the service of integrating a complex set of tasks and components into a single capability (even if that single capability results in the delivery of multiple units). Therefore, the entire contract is accounted for as one performance obligation. In these cases, we typically use the expected cost plus a margin approach to estimate the stand-alone selling price of each performance obligation.

Variable Consideration

It is common for our contracts to contain customer incentives, guaranteed service refunds or other provisions that can either increase or decrease the transaction price. These variable amounts are generally awarded based upon certain incentive achievements or performance metrics. We estimate variable consideration as the most likely amount to which we expect to be entitled. Estimates for adjustments to revenue and accounts receivable are recognized at the time of shipment for certain customer initiatives, money-back service guarantees and billing corrections based on our assessment of historical, current and forecasted information available. Delivery costs are accrued as incurred.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Contract Modification

Contracts are often modified to account for changes in the rates we charge our customers or to add additional distinct services. We consider contract modifications to exist when the modification either creates new enforceable rights and obligations or alters the existing arrangement. Contract modifications that add distinct goods or services are treated as separate contracts. Contract modifications that do not add distinct goods or services typically change the price of existing services. These contract modifications are accounted for prospectively as the remaining performance obligations are executed.

Contract Assets and Liabilities

Contract assets include billed and unbilled amounts resulting from in-transit packages, as we have an unconditional right to payment only once all performance obligations have been completed (e.g., packages have been delivered). Contract assets are generally classified as current and the full balance is converted each quarter based on the short-term nature of the transactions. Our contract liabilities consist of advance payments and billings in excess of revenue. The full balance of deferred revenue is converted each quarter based on the short-term nature of the transactions.

Gross contract assets related to in-transit packages totaled $526 million and $542 million at February 28, 2019 and May 31, 2018, respectively. Contract assets net of deferred unearned revenue were $353 million and $363 million at February 28, 2019 and May 31, 2018, respectively. Contract assets are included within current assets in the accompanying unaudited condensed consolidated balance sheets. Contract liabilities related to advance payments from customers were $9 million and $13 million at February 28, 2019 and May 31, 2018, respectively. Contract liabilities are included within current liabilities in the accompanying unaudited condensed consolidated balance sheets.

Our contract logistics, global trade services and certain transportation businesses engage in some transactions wherein they act as agents. Revenue from these transactions is recorded on a net basis. Net revenue includes billings to customers less third-party charges, including transportation or handling costs, fees, commissions and taxes and duties.

Certain of our revenue-producing transactions are subject to taxes, such as sales tax, assessed by governmental authorities. We present these revenues net of tax. Under the typical payment terms of our customer contracts, the customer pays at periodic intervals (e.g., every 15 days, 30 days, 45 days, etc.) for shipments included on invoices received. It is not customary business practice to extend payment terms past 90 days, and as such, we do not have a practice of including a significant financing component within our revenue contracts with customers.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Disaggregation of Revenue

The following table provides revenue by service type (dollars in millions) for the periods ended February 28. This presentation is consistent with how we organize our segments internally for making operating decisions and measuring performance.

	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
REVENUE BY SERVICE TYPE				
FedEx Express segment:				
Package:				
U.S. overnight box	$1,844	$1,836	$5,678	$5,373
U.S. overnight envelope	433	435	1,345	1,317
U.S. deferred	1,119	996	3,131	2,796
Total U.S. domestic package revenue	3,396	3,267	10,154	9,486
International priority	1,738	1,841	5,508	5,469
International economy	806	793	2,541	2,378
Total international export package revenue	2,544	2,634	8,049	7,847
International domestic[1]	1,078	1,140	3,412	3,424
Total package revenue	7,018	7,041	21,615	20,757
Freight:				
U.S.	772	739	2,294	2,040
International priority	477	532	1,574	1,527
International economy	495	492	1,568	1,354
International airfreight	76	93	244	276
Total freight revenue	1,820	1,856	5,680	5,197
Other	167	201	536	620
Total FedEx Express segment	9,005	9,098	27,831	26,574
FedEx Ground segment	5,261	4,828	15,202	13,598
FedEx Freight segment	1,750	1,613	5,627	4,950
FedEx Services segment	402	397	1,248	1,213
Other and eliminations[2]	592	590	1,978	1,801
	$17,010	$16,526	$51,886	$48,136

[1] International domestic revenues relate to our intra-country operations.
[2] Includes the FedEx Logistics, Inc. ("FedEx Logistics" (formerly FedEx Trade Networks, Inc.)) operating segment.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of Federal Express Corporation ("FedEx Express"), who are a small number of its total employees, are employed under a collective bargaining agreement that took effect on November 2, 2015. The collective bargaining agreement is scheduled to become amendable in November 2021. Other than the pilots at FedEx Express and drivers at one FedEx Freight, Inc. facility, our U.S. employees have thus far chosen not to unionize (we acquired FedEx Supply Chain Distribution

System, Inc. ("FedEx Supply Chain" (formerly GENCO Distribution System, Inc.)) in 2015, which already had a small number of employees who are members of unions). Additionally, certain of FedEx Express's non-U.S. employees are unionized, and a union has been certified to represent owner-drivers at a FedEx Freight, Inc. facility in Canada.

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 $33 million for the three-month period ended February 28, 2019 and $141 million for the nine-month period ended February 28, 2019. 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. Due to its immateriality, additional disclosures related to stock-based compensation have been excluded from this quarterly report.

BUSINESS REALIGNMENT COSTS. In December 2018, we announced cost-reduction programs primarily through initiatives at FedEx Express and FedEx Corporate Services, Inc. ("FedEx Services"), including a U.S.-based voluntary employee buyout program.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the third quarter of 2019, we began offering voluntary cash buyouts to eligible U.S.-based employees in certain staff functions. The U.S.-based voluntary employee buyout program includes voluntary severance payments and funding to healthcare reimbursement accounts, with the voluntary severance payment calculated based on four weeks of gross base salary for every year of continuous FedEx service up to a maximum payment of two years of pay. Eligible employees will be scheduled to vacate positions in phases to ensure a smooth transition in the impacted functions so that we maintain service levels to our customers. Costs of the benefits provided under the program will be recognized as special termination benefits in the period employees accept their offers.

We incurred costs of approximately $4 million ($3 million, net of tax, or $0.01 per diluted share) during the third quarter of 2019 associated with our business realignment activities. These costs related to certain employee severance arrangements and other external costs directly attributable to our business realignment activities, such as professional fees. Total costs of the U.S.-based voluntary employee buyout program will depend on acceptance rates and severance payments will be made at the time of departure. The cost of our business realignment activities is included in the caption “Business realignment costs” in our unaudited condensed consolidated statements of income.

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.

Recently Adopted Accounting Standards

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”). SAB 118 was issued to address the application of U.S. generally accepted accounting principles (“GAAP”) in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to finalize the calculations for certain income tax effects of the TCJA. In accordance with SAB 118, we made reasonable estimates and recorded provisional amounts for the TCJA during 2018. Under the transitional provisions of SAB 118, we had a one-year measurement period to complete the accounting for the initial tax effects of the TCJA. As of December 22, 2018, our accounting is complete for the tax effects of the TCJA, including the following elements initially recorded on a provisional basis:

- In 2018, we recognized a provisional benefit related to the revaluation of U.S. deferred tax assets and liabilities. During the second quarter of 2019, we revised the provisional benefit associated with the remeasurement of our net U.S. deferred tax liability. As a result, we recognized a $4 million tax expense, which decreased the $1.15 billion provisional benefit recorded in 2018.
- We previously recognized an immaterial provisional benefit from foreign tax credits exceeding the one-time transition tax on previously deferred foreign earnings. No adjustments were made to the provisional estimate recorded in 2018.
- We have determined to record the taxes for the global intangible low-taxed income (GILTI) as a period cost.

In 2014, the Financial Accounting Standards Board (“FASB”) and International Accounting Standards Board issued a new accounting standard that supersedes virtually all existing revenue recognition guidance under generally accepted accounting principles in the United States. 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 adopted this standard as of June 1, 2018 (fiscal 2019) using the modified retrospective method of adoption as permitted by the standard. The new guidance did not have an impact on our revenue recognition policies, practices or systems; therefore, there was no cumulative-effect adjustment to retained earnings as of June 1, 2018.

In March 2017, the FASB issued an Accounting Standards Update (ASU 2017-07) 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 impacts our operating income but has no impact on our net income or earnings per share. We adopted this standard effective June 1, 2018 (fiscal 2019) and applied these changes retrospectively. As such, prior year financial results are recast to conform to these new rules upon adoption.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The following table presents our results under our historical method of accounting and as adjusted to reflect our adoption of ASU 2017-07 (in millions):

	Three Months Ended February 28, 2018			Nine Months Ended February 28, 2018		
	Reported	Effect of Adoption of ASU 2017-07	As Adjusted	Reported	Effect of Adoption of ASU 2017-07	As Adjusted
Revenue	$16,526	$ —	$16,526	$48,136	$ —	$48,136
Operating Income	1,001	(143)	858	3,380	(436)	2,944
Other Income (Expense), net	(127)	143	16	(385)	436	51
Net Income	2,074	—	2,074	3,445	—	3,445

In August 2018, the SEC published Release No. 33-10532, Disclosure Update and Simplification (“DUSTR”), which adopted amendments to certain disclosure requirements that have become redundant, duplicative, overlapping, outdated or superseded, in light of other SEC disclosure requirements, GAAP, or changes in the information environment. While most of the DUSTR amendments eliminate outdated or duplicative disclosure requirements, the final rule amends the interim financial statement requirements to include a reconciliation of changes in common stockholders’ investment in the notes or as a separate statement for each period for which a statement of comprehensive income is required to be filed. The new interim reconciliation of changes in common stockholders’ investment is included herein as a separate statement.

New Accounting Standards and Accounting Standards Not Yet Adopted

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 of approximately $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 our lease portfolio as of the adoption date. We are currently 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 (ASU 2018-02) 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). We are continuing to assess the impact of this new standard on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued an Accounting Standards Update (ASU 2018-14) that modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. We expect this new guidance will have minimal impact on our financial reporting. These changes will be effective June 1, 2020 (fiscal 2021) and will be applied retrospectively. We plan to early adopt these new rules in the fourth quarter of 2019.

In August 2018, the FASB issued an Accounting Standards Update (ASU 2018-15) that reduces the complexity for accounting for costs of implementing a cloud computing service arrangement and aligns the accounting for capitalizing implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. These changes will be effective June 1, 2020 (fiscal 2021). We are assessing the impact of this new standard on our consolidated financial statements and related disclosures.

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.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the third quarter of 2019, we repurchased 0.6 million shares of FedEx common stock at an average price of $168.43 per share for a total of $93 million. During the nine months of 2019, we repurchased 6.0 million shares of FedEx common stock at an average price of $227.42 per share for a total of $1.4 billion. As of February 28, 2019, 5.7 million shares remained under the current share repurchase authorization.

DIVIDENDS DECLARED PER COMMON SHARE. On February 15, 2019, our Board of Directors declared a quarterly dividend of $0.65 per share of common stock. The dividend will be paid on April 1, 2019 to stockholders of record as of the close of business on March 11, 2019. 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.

(2) Accumulated Other Comprehensive 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	
	2019	2018	2019	2018
Foreign currency translation loss:				
Balance at beginning of period	$ (952)	$ (666)	$ (759)	$ (685)
Translation adjustments	103	100	(90)	119
Balance at end of period	(849)	(566)	(849)	(566)
Retirement plans adjustments:				
Balance at beginning of period	135	232	181	270
Reclassifications from AOCI	(23)	(23)	(69)	(61)
Balance at end of period	112	209	112	209
Accumulated other comprehensive (loss) at end of period	$ (737)	$ (357)	$ (737)	$ (357)

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 AOCI				Affected Line Item in the Income Statement
	Three Months Ended		Nine Months Ended		
	2019	2018	2019	2018	
Amortization of retirement plans prior service credits, before tax	$ 30	$ 30	$ 90	$ 90	Salaries and employee benefits

Income tax benefit	(7)	(7)	(21)	(29)	Provision for income taxes
AOCI reclassifications, net of tax	$ 23	$ 23	$ 69	$ 61	Net income

(3) Financing Arrangements

We have a shelf registration statement filed 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 2019, we issued $1.2 billion of senior unsecured debt under our current shelf registration statement, comprised of €640 million of 0.7% fixed-rate notes due in May 2022 and $500 million of 3.4% fixed-rate notes due in January 2022. We will use the net proceeds to pay the €500 million aggregate principal amount of floating rate notes due at maturity on April 11, 2019, and for general corporate purposes.

During the second quarter of 2019, we issued $1.25 billion of senior unsecured debt under our current shelf registration statement, comprised of $400 million of 4.20% fixed-rate notes due in October 2028 and $850 million of 4.95% fixed-rate notes due in October 2048. Interest on these notes is paid semi-annually. We used the net proceeds to redeem the $750 million aggregate principal amount of 8.00% notes due January 15, 2019, and for general corporate purposes.

FEDEX CORPORATION

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(UNAUDITED)

We have a five-year $2.0 billion revolving credit facility that expires in November 2020. The facility, which includes a $500 million letter of credit sublimit, is available to finance our operations and other cash flow needs. The agreement contains a financial covenant, which requires us to maintain a ratio of debt to consolidated earnings (excluding non-cash retirement plans 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, 2019. 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 2019, we issued commercial paper to provide us with additional short-term liquidity. The maximum amount outstanding during the quarter was $750 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, 2019, $225 million of commercial paper and $53 million in letters of credit were outstanding, leaving $1.722 billion available under the revolving credit facility for future borrowings.

Long-term debt, including current maturities and exclusive of capital leases, had carrying values of $18.1 billion at February 28, 2019 and $16.5 billion at May 31, 2018, compared with estimated fair values of $17.8 billion at February 28, 2019 and $16.6 billion at May 31, 2018. The annualized weighted-average interest rate on long-term debt was 3.4% at February 28, 2019. 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	
	2019	2018	2019	2018
Basic earnings per common share:				
Net earnings allocable to common shares[(1)]	$ 738	$ 2,071	$2,506	$3,441
Weighted-average common shares	261	268	262	268
Basic earnings per common share	$ 2.83	$ 7.74	$9.55	$12.85
Diluted earnings per common share:				
Net earnings allocable to common shares[(1)]	$ 738	$ 2,071	$2,506	$3,441
Weighted-average common shares	261	268	262	268
Dilutive effect of share-based awards	2	5	4	4

Weighted-average diluted shares	263	273	266	272
Diluted earnings per common share	$ 2.80	$ 7.59	$9.41	$12.63
Anti-dilutive options excluded from diluted earnings per common share	7.2	1.9	5.0	2.6

[1]Net earnings available to participating securities were immaterial in all periods presented.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(5) Income Taxes

Our effective tax rate was 20.6% for the third quarter and 21.8% for the nine months of 2019, compared with (137.3)% for the third quarter and (15.0)% for the nine months of 2018. The 2019 tax rates include a benefit of $90 million from the reduction of a valuation allowance on certain tax loss carryforwards and an expense of $50 million from the impact on our deferred taxes attributable to a recently enacted lower tax rate in the Netherlands. The 2019 tax rates were also favorably impacted by the TCJA, which resulted in benefits of approximately $60 million during the third quarter and $230 million for the nine months of 2019, primarily from the lower statutory tax rate on fiscal 2019 earnings. The tax rate for the nine months of 2019 also benefited by approximately $60 million from accelerated deductions claimed on our 2018 U.S. income tax return. The 2018 tax rates were favorably impacted by a provisional benefit of $1.15 billion from 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 these provisional amounts, we recognized a $204 million benefit from a $1.5 billion contribution to our tax-qualified U.S. domestic pension plans ("U.S. Pension Plans") in February 2018 and $165 million related to the phase-in of a reduced statutory tax rate on 2018 year-to-date earnings, of which approximately $120 million was recorded in the third quarter and attributable to the first half of 2018 earnings.

On January 15, 2019, the U.S. Treasury Department issued final regulations covering the one-time transition tax on unrepatriated foreign earnings, which was enacted as part of the TCJA. Certain guidance included in these final regulations is inconsistent with our interpretation that led to the recognition of a $225 million ($0.94 per diluted share) benefit in 2018 (the "2018 Benefit"). Notwithstanding this inconsistency, we remain confident in our interpretation of the TCJA and intend to defend this position through litigation, if necessary. However, if we are ultimately unsuccessful in defending our position, we may be required to reverse the 2018 Benefit.

During the third quarter of 2019, we completed our accounting for the tax effects of the TCJA. No additional adjustments were made during the quarter. As a result, the only adjustment to the amounts initially recorded on a provisional basis in 2018 was a tax expense of $4 million recognized in the second quarter of 2019 as a revision of the provisional benefit associated with the remeasurement of our net U.S. deferred tax liability.

The TCJA, enacted during the third quarter of fiscal 2018, significantly changed the U.S. corporate income tax system including, among other things, lowering the statutory federal income tax rate from 35% to 21%. Due to our May 31 fiscal year-end, the lower rate was phased in, resulting in a U.S. statutory federal rate of 29.2% for 2018 and a statutory federal rate of 21% for subsequent years.

The following table provides a reconciliation of the 2018 effective tax rates to the 2019 effective tax rates, including the impacts of the TCJA, for the periods ended February 28:

	Three Months Ended	Nine Months Ended
2018 Effective Tax Rate[(a)]	(137.3)%	(15.0)%
Remeasurement of net U.S. deferred tax liability in 2018	131.5	38.5
Effect of February 2018 pension contribution[(b)]	23.3	6.8
Lower statutory tax rate on first-half 2018 earnings (35% to 29.2%)[(c)]	12.5	—
Reduction of valuation allowance on tax loss carryforwards in 2019	(10.3)	(3.0)

Lower statutory tax rate on 2019 earnings (29.2% to 21%)[c]	(7.6)	(7.6)
Remeasurement of net Dutch deferred tax asset in 2019	5.3	1.5
Transition tax provisional benefit in 2018	4.1	1.2
Foreign tax credits on foreign dividends in 2018	1.2	2.9
Accelerated deductions claimed in 2019 on the 2018 U.S. income tax return	—	(1.8)
Other, net[d]	(2.1)	(1.7)
2019 Effective Tax Rate[a]	20.6 %	21.8 %

[a] 2018 includes a blended U.S. statutory federal income tax rate of 29.2% while 2019 includes the fully phased-in rate of 21%.

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

[c] Due to our May 31 fiscal year-end, the TCJA's lower U.S. statutory federal income tax rate that went into effect on December 22, 2017 was phased in resulting in a rate of 29.2% for 2018 and a rate of 21% for subsequent years.

[d] The 2018 tax rates were negatively impacted by the effect of the NotPetya cyberattack, costs incurred in connection with the integration of foreign operations of FedEx Express and TNT Express B.V. ("TNT Express"), changes in uncertain tax positions and tax rate impacts on changes in deferred tax items after the TCJA enactment, and were favorably impacted from tax benefits from share-based payments.

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(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	
	2019	2018	2019	2018
Defined benefit pension plans, net	$ 28	$ 39	$ 85	$ 113
Defined contribution plans	138	135	415	386
Postretirement healthcare plans	19	19	56	56
	$ 185	$ 193	$ 556	$ 555

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	
	2019	2018	2019	2018	2019	2018
Service cost	$ 173	$ 169	$ 23	$ 23	$ 9	$ 9
Other retirement plans (income) expense:						
Interest cost	237	279	13	12	10	10
Expected return on plan assets	(376)	(406)	(12)	(10)	—	—
Amortization of prior service credit and other	(30)	(29)	—	1	—	—
	(169)	(156)	1	3	10	10
	$ 4	$ 13	$ 24	$ 26	$ 19	$ 19

	Nine Months Ended					
	U.S. Pension Plans		International Pension Plans		Postretirement Healthcare Plans	
	2019	2018	2019	2018	2019	2018
Service cost	$ 517	$ 509	$ 72	$ 69	$ 26	$ 27
Other retirement plans (income) expense:						
Interest cost	713	836	38	37	30	29
Expected return on plan assets	(1,129)	(1,218)	(36)	(32)	—	—

Amortization of prior service credit and other	(89)	(88)	(1)	—	—	—
	(505)	(470)	1	5	30	29
	$12	$39	$73	$74	$ 56	$ 56

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

	2019	2018
Required	$—	$22
Voluntary	1,000	2,478
	$1,000	$2,500

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(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, 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 Corporation ("FedEx Freight"), a leading U.S. provider of less-than-truckload ("LTL") freight transportation services. These companies represent our major service lines and, along with FedEx Services, constitute 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 Ground Segment	FedEx Ground (small-package ground delivery)
FedEx Freight Segment	FedEx Freight (LTL freight 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)

References to our transportation segments include, collectively, the FedEx Express segment, the FedEx Ground segment and the FedEx Freight segment.

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information-technology functions in shared services operations 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 by FedEx Express 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.

Corporate, Other and Eliminations

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

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Also included in corporate and other is the FedEx Logistics operating segment, which provides customs brokerage and global ocean and air freight forwarding through FedEx Trade Networks Transport & Brokerage, Inc.; cross-border enablement and technology solutions and e-commerce transportation solutions through FedEx Cross Border Technologies, Inc.; integrated supply chain management solutions through FedEx Supply Chain; time-critical shipment services through FedEx Custom Critical, Inc.; and, effective September 1, 2018, critical inventory and service parts logistics, 3-D printing and technology repair through FedEx Forward Depots, Inc.

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.

The following table provides a reconciliation of reportable segment revenues and operating income (loss) to our unaudited condensed consolidated financial statement totals for the periods ended February 28 (in millions):

	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
Revenues:				
FedEx Express segment	$9,005	$9,098	$27,831	$26,574
FedEx Ground segment	5,261	4,828	15,202	13,598
FedEx Freight segment	1,750	1,613	5,627	4,950
FedEx Services segment	402	397	1,248	1,213
Other and eliminations	592	590	1,978	1,801
	$17,010	$16,526	$51,886	$48,136
Operating income (loss):				
FedEx Express segment	$370	$317	$1,357	$1,238
FedEx Ground segment	577	614	1,830	1,716
FedEx Freight segment	97	49	421	322
Corporate, other and eliminations	(133)	(122)	(458)	(332)
	$911	$858	$3,150	$2,944

(8) Commitments

As of February 28, 2019, our purchase commitments under various contracts for the remainder of 2019 and annually thereafter were as follows (in millions):

Aircraft and Related	Other[1]	Total

2019 (remainder)	$ 421	$ 296	$ 717
2020	1,998	833	2,831
2021	2,276	597	2,873
2022	1,874	433	2,307
2023	1,586	275	1,861
Thereafter	3,079	535	3,614
Total	$ 11,234	$ 2,969	$ 14,203

(1) Primarily equipment and advertising contracts.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of February 28, 2019, our obligation to purchase six Boeing 777 Freighter (“B777F”) aircraft and five Boeing 767-300 Freighter (“B767F”) 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.

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As of February 28, 2019, we had $965 million in deposits and progress payments on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the “Other assets” caption of our accompanying unaudited condensed consolidated balance sheets. Aircraft and 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, 2019 with the year of expected delivery:

	Cessna SkyCourier 408	ATR 72-600F	B767F	B777F	Total
2019 (remainder)	-	-	4	1	5
2020	-	-	17	5	22
2021	12	5	18	2	37
2022	12	6	12	3	33
2023	12	6	6	4	28
Thereafter	14	13	-	6	33
Total	50	30	57	21	158

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, 2019 is as follows (in millions):

	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2019 (remainder)	$ 26	$ 571	$ 597
2020	261	2,083	2,344
2021	203	1,923	2,126
2022	185	1,728	1,913
2023	127	1,555	1,682
Thereafter	48	8,926	8,974
Total	$ 850	$ 16,786	$ 17,636

Future minimum lease payments under capital leases were immaterial at February 28, 2019. 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 operating agreements no longer in place 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 certain wage payments from the owner-operators and FedEx Ground, and result in employment and withholding tax and benefit liability for FedEx Ground. We continue to believe that owner-operators engaged by FedEx Ground are properly classified as independent contractors and that FedEx Ground is not an employer or joint employer of the drivers of these independent contractors.

City and State of New York Cigarette Suit. The City of New York and the State of New York filed two related lawsuits against FedEx Ground in December 2013 and November 2014 arising from FedEx Ground’s alleged shipments of cigarettes to New York residents in contravention of several statutes, including the Racketeer Influenced and Corrupt Organizations Act (“RICO”) and New York’s Public Health Law, as well as common law nuisance claims. The first-filed lawsuit alleged that FedEx Ground provided delivery services on behalf of four shippers, and the second-filed lawsuit alleged that FedEx Ground provided delivery services on behalf of six additional shippers; none of these shippers continue to ship in our network. 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 identified no shippers or shipments, but generally alleged violations of the same laws that were the subject of the other two lawsuits.

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On October 10, 2018, FedEx Ground and the City and State of New York reached an agreement in principle to settle the lawsuits arising from FedEx Ground's and FedEx Freight's alleged shipments of cigarettes to New York residents for $35.4 million. The settlement does not include any admission of liability by FedEx Ground or FedEx Freight. In addition to the settlement amount, we recognized approximately $10 million for certain attorney's fees in connection with this matter. In December 2018, the parties entered into a final settlement agreement and, subsequently, the settlement amount was paid and the lawsuits were dismissed by the court.

Other Matters. FedEx and its subsidiaries are subject to other legal proceedings that arise in the ordinary course of business, including certain lawsuits containing various class-action allegations of wage-and-hour violations in which plaintiffs claim, among other things, that they were forced to work "off the clock," were not paid overtime or were not provided work breaks or other benefits. In the opinion of management, the aggregate liability, if any, with respect to these other actions will not have a material adverse effect on our financial position, results of operations or cash flows.

(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):

	2019	2018
Cash payments for:		
Interest (net of capitalized interest)	$498	$430
Income taxes	$346	$707
Income tax refunds received	(34)	(59)
Cash tax payments, net	$312	$648

(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 $18.1 billion of our public 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.

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, 2019

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$1,413	$ 204	$ 1,296	$ (41)	$ 2,872
Receivables, less allowances	45	5,474	3,600	(82)	9,037
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	313	979	299	—	1,591
Total current assets	1,771	6,657	5,195	(123)	13,500
PROPERTY AND EQUIPMENT, AT COST	23	53,997	4,144	—	58,164
Less accumulated depreciation and amortization	17	26,384	1,995	—	28,396
Net property and equipment	6	27,613	2,149	—	29,768
INTERCOMPANY RECEIVABLE	661	2,157	—	(2,818)	—
GOODWILL	—	1,598	5,318	—	6,916
INVESTMENT IN SUBSIDIARIES	35,803	4,904	—	(40,707)	—
OTHER ASSETS	891	1,670	1,857	(138)	4,280
	$39,132	$ 44,599	$ 14,519	$ (43,786)	$ 54,464
LIABILITIES AND COMMON STOCKHOLDERS' INVESTMENT					
CURRENT LIABILITIES					
Short-term borrowings	$225	$ —	$ —	$ —	$ 225
Current portion of long-term debt	966	2	5	—	973
Accrued salaries and employee benefits	52	1,149	458	—	1,659
Accounts payable	188	1,430	1,656	(118)	3,156
Accrued expenses	510	1,848	890	(5)	3,243
Total current liabilities	1,941	4,429	3,009	(123)	9,256
LONG-TERM DEBT, LESS CURRENT PORTION	16,921	287	10	—	17,218
INTERCOMPANY PAYABLE	—	—	2,818	(2,818)	—
OTHER LONG-TERM LIABILITIES					
Deferred income taxes	—	3,252	97	(138)	3,211
Other liabilities	376	3,502	1,007	—	4,885
Total other long-term liabilities	376	6,754	1,104	(138)	8,096
COMMON STOCKHOLDERS' INVESTMENT	19,894	33,129	7,578	(40,707)	19,894
	$39,132	$ 44,599	$ 14,519	$ (43,786)	$ 54,464

CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2018

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$1,485	$ 257	$ 1,538	$ (15)	$ 3,265
Receivables, less allowances	3	4,970	3,586	(78)	8,481
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	425	878	292	—	1,595
Total current assets	1,913	6,105	5,416	(93)	13,341
PROPERTY AND EQUIPMENT, AT COST	21	51,232	3,868	—	55,121
Less accumulated depreciation and amortization	17	25,111	1,839	—	26,967
Net property and equipment	4	26,121	2,029	—	28,154
INTERCOMPANY RECEIVABLE	1,487	924	—	(2,411)	—
GOODWILL	—	1,709	5,264	—	6,973
INVESTMENT IN SUBSIDIARIES	33,370	4,082	—	(37,452)	—
OTHER ASSETS	75	1,854	1,829	104	3,862
	$36,849	$ 40,795	$ 14,538	$ (39,852)	$ 52,330
LIABILITIES AND COMMON STOCKHOLDERS' INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$1,332	$ 1	$ 9	$ —	$ 1,342
Accrued salaries and employee benefits	65	1,506	606	—	2,177
Accounts payable	16	1,332	1,719	(90)	2,977
Accrued expenses	460	1,778	896	(3)	3,131
Total current liabilities	1,873	4,617	3,230	(93)	9,627
LONG-TERM DEBT, LESS CURRENT PORTION	14,942	288	13	—	15,243
INTERCOMPANY PAYABLE	—	—	2,411	(2,411)	—
OTHER LONG-TERM LIABILITIES					
Deferred income taxes	—	2,626	137	104	2,867
Other liabilities	619	3,432	1,126	—	5,177
Total other long-term liabilities	619	6,058	1,263	104	8,044
COMMON STOCKHOLDERS' INVESTMENT	19,415	29,832	7,621	(37,452)	19,416
	$36,849	$ 40,795	$ 14,538	$ (39,852)	$ 52,330

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CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended February 28, 2019

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 12,443	$ 4,667	$ (100)	$ 17,010
OPERATING EXPENSES:					
Salaries and employee benefits	28	4,720	1,321	—	6,069
Purchased transportation	—	2,749	1,547	(43)	4,253
Rentals and landing fees	1	677	197	(1)	874
Depreciation and amortization	—	731	120	—	851
Fuel	—	838	69	—	907
Maintenance and repairs	—	573	87	(2)	658
Business realignment costs	4	—	—	—	4
Intercompany charges, net	(93)	(397)	490	—	—
Other	60	1,771	698	(46)	2,483
	—	11,662	4,529	(92)	16,099
OPERATING INCOME	—	781	138	(8)	911
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	739	16	—	(755)	—
Interest, net	(109)	(54)	28	—	(135)
Other retirement plans income	—	155	3	—	158
Intercompany charges, net	149	(89)	(60)	—	—
Other, net	(40)	71	(42)	8	(3)
INCOME BEFORE INCOME TAXES	739	880	67	(755)	931
Provision for income taxes	—	147	45	—	192
NET INCOME	$739	$ 733	$ 22	$ (755)	$ 739
COMPREHENSIVE INCOME	$713	$ 732	$ 129	$ (755)	$ 819

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended February 28, 2018

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 12,433	$ 4,229	$ (136)	$ 16,526
OPERATING EXPENSES:					
Salaries and employee benefits	39	4,764	1,321	—	6,124
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
	—	11,738	4,066	(136)	15,668
OPERATING INCOME	—	695	163	—	858
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	2,074	2	—	(2,076)	—
Interest, net	(137)	11	1	—	(125)
Other retirement plans income	—	141	2	—	143
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

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Nine Months Ended February 28, 2019

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 37,685	$ 14,503	$ (302)	$ 51,886
OPERATING EXPENSES:					
Salaries and employee benefits	110	14,300	4,179	—	18,589
Purchased transportation	—	7,780	4,912	(126)	12,566
Rentals and landing fees	4	1,948	585	(4)	2,533
Depreciation and amortization	1	2,133	353	—	2,487
Fuel	—	2,708	237	—	2,945
Maintenance and repairs	1	1,874	271	(2)	2,144
Business realignment costs	4	—	—	—	4
Intercompany charges, net	(357)	(772)	1,129	—	—
Other	238	4,991	2,410	(171)	7,468
	1	34,962	14,076	(303)	48,736
OPERATING INCOME	(1)	2,723	427	1	3,150
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	2,509	145	—	(2,654)	—
Interest, net	(439)	44	2	—	(393)
Other retirement plans income	—	466	8	—	474
Intercompany charges, net	454	(335)	(119)	—	—
Other, net	(14)	18	(26)	—	(22)
INCOME BEFORE INCOME TAXES	2,509	3,061	292	(2,653)	3,209
Provision for income taxes	—	579	121	—	700
NET INCOME	$2,509	$ 2,482	$ 171	$ (2,653)	$ 2,509
COMPREHENSIVE INCOME	$2,443	$ 2,514	$ 46	$ (2,653)	$ 2,350

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Nine Months Ended February 28, 2018

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 36,044	$ 12,445	$ (353)	$ 48,136
OPERATING EXPENSES:					
Salaries and employee benefits	112	13,713	3,852	—	17,677
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
	—	33,369	12,176	(353)	45,192
OPERATING INCOME	—	2,675	269	—	2,944
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	3,445	39	—	(3,484)	—
Interest, net	(396)	35	(2)	—	(363)
Other retirement plans income	—	424	12	—	436
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 CASH FLOWS

(UNAUDITED)

Nine Months Ended February 28, 2019

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(109)	$ 3,136	$ 322	$ (26)	$ 3,323
INVESTING ACTIVITIES					
Capital expenditures	(3)	(3,359)	(395)	—	(3,757)
Proceeds from asset dispositions and other	(45)	86	21	—	62
CASH USED IN INVESTING ACTIVITIES	(48)	(3,273)	(374)	—	(3,695)
FINANCING ACTIVITIES					
Proceeds from short-term borrowings, net	220	—	—	—	220
Net transfers from (to) Parent	2	(31)	29	—	—
Payment on loan between subsidiaries	(29)	—	29	—	—
Intercompany dividends	—	114	(114)	—	—
Proceeds from debt issuances	2,463	—	—	—	2,463
Principal payments on debt	(750)	(117)	(7)	—	(874)
Proceeds from stock issuances	58	—	—	—	58
Dividends paid	(514)	—	—	—	(514)
Purchase of treasury stock	(1,365)	—	—	—	(1,365)
Other, net	—	127	(122)	—	5
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	85	93	(185)	—	(7)
Effect of exchange rate changes on cash	—	(9)	(5)	—	(14)
Net (decrease) increase in cash and cash equivalents	(72)	(53)	(242)	(26)	(393)
Cash and cash equivalents at beginning of period	1,485	257	1,538	(15)	3,265
Cash and cash equivalents at end of period	$1,413	$ 204	$ 1,296	$ (41)	$ 2,872

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(UNAUDITED)

Nine Months Ended February 28, 2018

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$(3,537)	$ 4,664	$ 25	$ 10	$ 1,162
INVESTING ACTIVITIES					
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
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(5)	(3,767)	(245)	—	(4,017)
FINANCING ACTIVITIES					
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
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	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

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

FedEx Corporation

Results of Review of Interim Financial Statements

We have reviewed the accompanying condensed consolidated balance sheet of FedEx Corporation as of February 28, 2019, and the related condensed consolidated statements of income and comprehensive income for the three-month and nine-month periods ended February 28, 2019 and February 28, 2018, the condensed consolidated statements of cash flows for the nine-month periods ended February 28, 2019 and February 28, 2018, and the consolidated statements of changes in common stockholders' investment for the three-month and nine-month periods ended February 28, 2019 and February 28, 2018, and the related notes (collectively referred to as the "condensed consolidated interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements 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) (PCAOB), the consolidated balance sheet of FedEx Corporation as of May 31, 2018, and the related consolidated statements of income, comprehensive income, changes in stockholders' investment, and cash flows for the year then ended, and the related notes and schedules (not presented herein); and in our report dated July 16, 2018, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements 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 PCAOB, 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.

/s/ Ernst & Young LLP

Memphis, Tennessee

March 19, 2019

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, 2018 ("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 Corporation ("FedEx Freight"), a leading U.S. provider of less-than-truckload ("LTL") freight transportation services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ("FedEx Services"), constitute our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services, and certain back-office functions that support our transportation segments. The FedEx Services segment also 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 be found in our Annual Report.

As discussed in our Annual Report, the FedEx Logistics, Inc. ("FedEx Logistics" (formerly FedEx Trade Networks, Inc.)) operating segment results are included in "Corporate, other and eliminations" in our segment reporting. Prior year amounts have been revised to conform to the current year presentation.

The key indicators necessary to understand our operating results include:

- the overall customer demand for our various services based on macroeconomic 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 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.

Many of our operating expenses are directly impacted by revenue and volume levels, and we expect these operating expenses to fluctuate on a year-over-year basis consistent with changes in revenues and volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than those factors strictly related to changes in revenues and volumes. The line item "Other operating expenses" includes costs associated with outside service contracts (such as facility services and cargo handling, temporary labor and security), professional fees, insurance, uniforms and taxes and licenses.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2019 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.

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 Ended 2019	Three Months Ended 2018	Percent Change	Nine Months Ended 2019	Nine Months Ended 2018	Percent Change
Revenues	$17,010	$16,526	3	$51,886	$48,136	8
Operating income (loss):						
FedEx Express segment	370	317	17	1,357	1,238	10
FedEx Ground segment	577	614	(6)	1,830	1,716	7
FedEx Freight segment	97	49	98	421	322	31
Corporate, other and eliminations	(133)	(122)	(9)	(458)	(332)	(38)
Consolidated operating income	911	858	6	3,150	2,944	7
Operating margin:						
FedEx Express segment	4.1 %	3.5 %	60 bp	4.9 %	4.7 %	20 bp
FedEx Ground segment	11.0 %	12.7 %	(170) bp	12.0 %	12.6 %	(60) bp
FedEx Freight segment	5.5 %	3.0 %	250 bp	7.5 %	6.5 %	100 bp
Consolidated operating margin	5.4 %	5.2 %	20 bp	6.1 %	6.1 %	— bp
Consolidated net income	$739	$2,074	(64)	$2,509	$3,445	(27)
Diluted earnings per share	$2.80	$7.59	(63)	$9.41	$12.63	(25)

	Change in Revenue: Three Months Ended	Change in Revenue: Nine Months Ended	Change in Operating Income: Three Months Ended	Change in Operating Income: Nine Months Ended
FedEx Express segment	$(93)	$ 1,257	$ 53	$ 119
FedEx Ground segment	433	1,604	(37)	114
FedEx Freight segment	137	677	48	99
FedEx Services segment	5	35	—	—
Corporate, other and eliminations	2	177	(11)	(126)
	$484	$ 3,750	$ 53	$ 206

Pension Accounting Change

As of June 1, 2018, we adopted new accounting guidance that changes how employers that sponsor defined benefit pension or other postretirement benefit plans present net periodic benefit cost in their income statement. This new guidance requires us to report only the service cost component in the salaries and employee benefits line item. The other components of net benefit cost are required to be presented in the income statement in other income, outside of income from operations. This new guidance impacts operating income and margin but has no impact on net income or earnings per share. We have applied these changes retrospectively.

Overview

Consolidated operating income improved during the third quarter and nine months of 2019 primarily due to lower variable incentive compensation expenses, volume growth, the favorable net impact of fuel at all of our transportation segments and increased yields at FedEx Freight and FedEx Ground. Lower variable incentive compensation expenses benefited our results by approximately $350 million in the third quarter and the nine months of 2019. During the third quarter and nine months of 2019, softening global economic conditions negatively impacted international package volumes at FedEx Express. Lower weights in U.S. domestic package shipments at FedEx Express also negatively impacted our results. Compounding these factors, we also experienced a product mix shift to lower yielding services due in part to an increase in e-commerce traffic at FedEx Express. In addition, higher purchased transportation costs, resulting from increased contractor settlement rates at FedEx Ground and expanding the FedEx Ground network operations to six days year-round, starting in January 2019, negatively affected our results. Comparables for the nine months of 2019 are affected by the impact of the NotPetya cyberattack, which reduced earnings in the first half of 2018 by approximately $400 million ($1.14 per diluted share). Winter weather conditions in 2019 did not have a material effect on comparisons to 2018 for either the third-quarter or nine-month periods.

The comparison of net income between 2019 and 2018 is significantly affected 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") recognized during the third quarter of 2018, specifically related to the remeasurement of our net U.S. deferred tax liability. Net income for the third quarter of 2019 includes tax benefits of $90 million ($0.34 per diluted share) from the reduction of a valuation allowance on certain tax loss carryforwards and $60 million ($0.23 per diluted share) primarily related to a lower statutory income tax rate under the TCJA. These items were partially offset by tax expense of $50 million ($0.19 per diluted share) related to a recently enacted lower tax rate in the Netherlands applied to our deferred tax balances. Additionally, we recognized an income tax benefit of approximately $230 million ($0.86 per diluted share) in the nine months of 2019, primarily related to a lower statutory income tax rate under the TCJA. Our results for the third quarter of 2018 included tax benefits 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 $165 million ($0.60 per diluted share) related to the phase-in of a reduced statutory tax rate on 2018 year-to-date earnings, of which approximately $120 million ($0.44 per diluted share) was recorded in the third quarter and attributable to the first half of 2018 earnings. See the "Income Taxes" section below for further information.

We incurred TNT Express integration expenses totaling $69 million ($55 million, net of tax, or $0.21 per diluted share) in the third quarter of 2019, a $37 million decrease from the third quarter of 2018. TNT Express integration expenses were $304 million ($243 million, net of tax, or $0.92 per diluted share) in the nine months of 2019, a $37 million decrease from the nine months of 2018. The integration expenses are predominantly incremental costs directly associated with the integration of TNT Express, including professional and legal fees, salaries and employee benefits, travel and advertising expenses, and include any restructuring charges at TNT Express. Internal salaries and employee benefits are included only to the extent the individuals are assigned full-time to integration activities. These costs were incurred at FedEx Express and FedEx Corporate. The identification of these costs as integration-related expenditures is subject to our disclosure controls and procedures.

The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected volume trends (in thousands) over the five most recent quarters:

[1] International domestic average daily package volume relates to our international intra-country operations.

The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected yield trends over the five most recent quarters:

[1] International domestic revenue per package relates to our international intra-country operations.

Revenue

Revenues increased 3% in the third quarter and 8% in the nine months of 2019 due to higher volumes at all of our transportation segments and increased yields at FedEx Ground and FedEx Freight. At FedEx Ground, revenues increased 9% in the third quarter and 12% in the nine months of 2019 due to volume growth and increased yields. FedEx Freight revenues increased 8% in the third quarter and 14% in the nine months of 2019 due to higher revenue per shipment and average daily shipments. Revenues at FedEx Express decreased 1% in the third quarter of 2019 primarily due to lower international priority and international domestic package revenue. At FedEx Express, unfavorable exchange rates, lower base rates and decreased weights contributed to the decline in international revenue in the third quarter of 2019. Currency exchange rates had a negative impact on revenues at FedEx Express but did not have an impact on operating income in the third quarter of 2019. Revenues at FedEx Express increased 5% in the nine months of 2019 primarily due to U.S. domestic package volume growth and international package and freight volume recovery from the NotPetya cyberattack, partially offset by package yield declines. FedEx Express revenue during the third quarter and nine months of 2019 was negatively impacted by continued softness in international package volume growth resulting from weakening global economic conditions. Higher fuel surcharges had a positive impact on revenues at all of our transportation segments in the third quarter and nine months of 2019.

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 2019	2018	Percent Change	Nine Months Ended 2019	2018	Percent Change
Operating expenses:						
Salaries and employee benefits	$6,069	$6,124	(1)	$18,589	$17,677	5
Purchased transportation	4,253	3,935	8	12,566	11,220	12
Rentals and landing fees	874	873	—	2,533	2,526	—
Depreciation and amortization	851	786	8	2,487	2,293	8
Fuel	907	914	(1)	2,945	2,435	21
Maintenance and repairs	658	628	5	2,144	1,968	9
Business realignment costs[1]	4	—	NM	4	—	NM
Other	2,483	2,408	3	7,468	7,073	6
Total operating expenses	$16,099	$15,668	3	$48,736	$45,192	8
Operating income	$911	$858	6	$3,150	$2,944	7

[1] Predominantly costs associated with our U.S.-based voluntary employee buyout program.

	Percent of Revenue Three Months Ended 2019	2018	Nine Months Ended 2019	2018
Operating expenses:				
Salaries and employee benefits	35.7 %	37.1 %	35.8 %	36.7 %
Purchased transportation	25.0	23.8	24.2	23.3
Rentals and landing fees	5.1	5.3	4.9	5.2
Depreciation and amortization	5.0	4.7	4.8	4.8
Fuel	5.3	5.5	5.7	5.1
Maintenance and repairs	3.9	3.8	4.1	4.1
Business realignment costs[1]	0.0	—	0.0	—
Other	14.6	14.6	14.4	14.7
Total operating expenses	94.6	94.8	93.9	93.9
Operating margin	5.4 %	5.2 %	6.1 %	6.1 %

[1] Predominantly costs associated with our U.S.-based voluntary employee buyout program.

Operating margin improved in the third quarter of 2019 primarily due to lower variable incentive compensation expenses, partially offset by higher operating costs in purchased transportation, driven by higher rates at FedEx Ground and FedEx Freight as well as expanding the FedEx Ground network operations to six days year-round, starting in January 2019. In addition, lower yields at FedEx Express negatively affected operating margin in the third quarter of 2019. Operating margin remained flat in the nine months of 2019 primarily due to increased revenue and lower variable incentive compensation expenses, offset by higher operating costs. An overall product mix shift at FedEx Express from international priority volume to international deferred volume, as well as continued softness in international volumes at FedEx Express resulting from weakening global economic conditions, negatively impacted operating margin during the third quarter and nine months of 2019.

Purchased transportation costs increased 8% in the third quarter and 12% in the nine months of 2019 primarily due to higher volumes at all of our transportation segments and increased rates, including fuel costs, at FedEx Ground and FedEx Freight, reflecting the inflationary impact of the tight labor market on our rates. Salaries and employee benefits expense decreased 1% in the third quarter of 2019 primarily due to lower variable incentive compensation expenses, partially offset by higher staffing to support volume growth and annual merit increases. Salaries and employee benefits expense increased 5% in the nine months of 2019 primarily due to higher staffing and merit increases, partially offset by lower variable incentive compensation expenses. Depreciation and amortization expense increased 8% in the third quarter and nine months of 2019 primarily due to continued investment in aircraft and related equipment at FedEx Express. Maintenance and repairs expense increased 5% in the third quarter and 9% in the nine months of 2019 primarily due to increased aircraft engine maintenance expense at FedEx Express.

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 decreased 1% in the third quarter of 2019 primarily due to decreased fuel prices at FedEx Express, offset by higher mileage at FedEx Freight. Fuel expense increased 21% in the nine months of 2019 primarily due to increased fuel prices. However, fuel prices represent only one component of the 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 quarters of 2019 and 2018 in the accompanying discussion of each of our transportation segments.

Most of our 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. Some FedEx Express international fuel surcharges incorporate a timing lag of approximately six to eight weeks.

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.

We routinely review our fuel surcharges. On March 18, 2019, we updated the tables used to determine our fuel surcharges for FedEx Express U.S. domestic services and at FedEx Ground. On September 10, 2018, we updated the tables used to determine our fuel surcharges at FedEx Express and FedEx Ground.

The net impact of fuel had a significant benefit to operating income in the third quarter and nine months of 2019 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. In addition, our purchased transportation expense may be impacted by fuel costs. 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

Our effective tax rate was 20.6% for the third quarter and 21.8% for the nine months of 2019, compared with (137.3)% for the third quarter and (15.0)% for the nine months of 2018. The 2019 tax rates include a benefit of $90 million from the reduction of a valuation allowance on certain tax loss carryforwards and an expense of $50 million from the impact on our deferred taxes attributable to a recently enacted lower tax rate in the Netherlands. The 2019 tax rates were also favorably impacted by the TCJA, which resulted in benefits of approximately $60 million during the third quarter and $230 million for the nine months of 2019, primarily from the lower statutory tax rate on fiscal 2019 earnings. The tax rate for the nine months of 2019 also benefited by approximately $60 million from accelerated deductions claimed on our 2018 U.S. income tax return. The 2018 tax rates were favorably impacted by a provisional benefit of $1.15 billion from 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 these provisional amounts, we recognized a $204 million benefit from a $1.5 billion contribution to our U.S. Pension Plans in February 2018 and $165 million related to the phase-in of a reduced statutory tax rate on 2018 year-to-date earnings, of which approximately $120 million was recorded in the third quarter and attributable to the first half of 2018 earnings.

On January 15, 2019, the U.S. Treasury Department issued final regulations covering the one-time transition tax on unrepatriated foreign earnings, which was enacted as part of the TCJA. Certain guidance included in these final regulations is inconsistent with our interpretation that led to the recognition of a $225 million ($0.94 per diluted share) benefit in 2018 (the "2018 Benefit"). Notwithstanding this inconsistency, we remain confident in our interpretation of the TCJA and intend to defend this position through litigation, if necessary. However, if we are ultimately unsuccessful in defending our position, we may be required to reverse the 2018 Benefit.

During the third quarter of 2019, we completed our accounting for the tax effects of the TCJA. No additional adjustments were made during the quarter. As a result, the only adjustment to the amounts initially recorded on a provisional basis in 2018 was a tax expense of $4 million recognized in the second quarter of 2019 as a revision of the provisional benefit associated with the remeasurement of our net U.S. deferred tax liability. See Note 1 of the accompanying unaudited condensed consolidated financial statements for further discussion.

The TCJA, enacted during the third quarter of fiscal 2018, significantly changed the U.S. corporate income tax system including, among other things, lowering the statutory federal income tax rate from 35% to 21%. Due to our May 31 fiscal year-end, the lower rate was phased in, resulting in a U.S. statutory federal rate of 29.2% for 2018 and a statutory federal rate of 21% for subsequent years.

The following table provides a reconciliation of the 2018 effective tax rates to the 2019 effective tax rates, including the impacts of the TCJA, for the periods ended February 28:

	Three Months Ended	Nine Months Ended
2018 Effective Tax Rate[(a)]	(137.3)%	(15.0)%
Remeasurement of net U.S. deferred tax liability in 2018	131.5	38.5
Effect of February 2018 pension contribution[(b)]	23.3	6.8
Lower statutory tax rate on first-half 2018 earnings (35% to 29.2%)[(c)]	12.5	—
Reduction of valuation allowance on tax loss carryforwards in 2019	(10.3)	(3.0)
Lower statutory tax rate on 2019 earnings (29.2% to 21%)[(c)]	(7.6)	(7.6)
Remeasurement of net Dutch deferred tax asset in 2019	5.3	1.5
Transition tax provisional benefit in 2018	4.1	1.2

Foreign tax credits on foreign dividends in 2018	1.2	2.9
Accelerated deductions claimed in 2019 on the 2018 U.S. income tax return	—	(1.8)
Other, net[d]	(2.1)	(1.7)
2019 Effective Tax Rate[a]	20.6%	21.8%

[a] 2018 includes a blended U.S. statutory federal income tax rate of 29.2% while 2019 includes the fully phased-in rate of 21%.

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

[c] Due to our May 31 fiscal year-end, the TCJA's lower U.S. statutory federal income tax rate that went into effect on December 22, 2017 was phased in resulting in a rate of 29.2% for 2018 and a rate of 21% for subsequent years.

[d] The 2018 tax rates were negatively impacted by the effect of the NotPetya cyberattack, costs incurred in connection with the integration of foreign operations of FedEx Express and TNT Express, changes in uncertain tax positions and tax rate impacts on changes in deferred tax items after the TCJA enactment, and were favorably impacted from tax benefits from share-based payments.

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 2016 and 2017 tax years. In addition, we have initiated appeals proceedings with respect to the IRS's proposed audit adjustment 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 impact of any changes is not expected to be material to our consolidated financial statements. As of February 28, 2019, there were no material changes to our liabilities for unrecognized tax benefits subsequent to May 31, 2018.

Business Realignment Costs

In December 2018, we announced cost-reduction programs primarily through initiatives at FedEx Express and FedEx Services in response to current business and economic conditions that include the following:

- A U.S.-based voluntary employee buyout program for eligible employees;
- Limited hiring in staff functions; and
- Reductions in discretionary spending.

During the third quarter of 2019, we began offering voluntary cash buyouts to eligible U.S.-based employees in certain staff functions. The U.S.-based voluntary employee buyout program includes voluntary severance payments and funding to healthcare reimbursement accounts, with the voluntary severance payment calculated based on four weeks of gross base salary for every year of continuous FedEx service up to a maximum payment of two years of pay. Eligible employees will be scheduled to vacate positions in phases to ensure a smooth transition in the impacted functions so that we maintain service levels to our customers. Employees in the first phase will vacate their positions on May 31, 2019, and we expect all employees who accept the buyout to vacate their positions by the end of 2020. Costs of the benefits provided under the program will be recognized as special termination benefits in the period employees accept their offers, which is expected to be predominantly in the fourth quarter of 2019.

We incurred costs of approximately $4 million ($3 million, net of tax, or $0.01 per diluted share) during the third quarter of 2019 associated with our business realignment activities. These costs related to certain employee severance arrangements and other external costs directly attributable to our business realignment activities, such as professional fees. We expect the 2019 pre-tax cost of our business realignment activities, including the U.S.-based voluntary employee buyout program, to range from $450 million to $575 million in pre-tax cash expenditures, but actual costs will depend on acceptance rates. Severance payments will be made at the time of departure. Additional costs are expected to be incurred beyond 2019, primarily related to professional fees. We expect savings from our business realignment activities to be between $225 million to $275 million in 2020.

Outlook

We expect continued revenue and earnings growth at FedEx Freight in the fourth quarter of 2019 to be driven by volume and yield growth. While FedEx Ground revenue growth is expected to remain strong in the fourth quarter of 2019, higher operating costs are expected to continue to negatively impact results, as we continue to focus on growing volumes to fill the capacity of our new six-day network. While the launch of six-day operations will continue to be a modest headwind, we believe it will allow for the more efficient use of our existing assets, which ultimately will drive improved performance and enhance our competitive position. At FedEx Ground and FedEx Freight, we will continue to concentrate on operational improvement programs for the remainder of 2019 that are designed to increase operational efficiency and safety, enhance service offerings to our customers and manage our cost structure. We expect earnings to decrease at FedEx Express in the fourth quarter of 2019 due to lower yields and continued softness in international package volumes resulting from slowing global economic conditions, particularly in Asia and Europe. As a response to these negative business trends, we are implementing revenue-quality enhancement and cost-reduction actions; however, the full benefits of these actions will not be realized immediately.

Our expectations for the remainder of 2019 are dependent on key external factors, including fuel prices, moderate U.S. domestic economic growth and no further weakening in international economic conditions from our current forecast.

We continue to execute our TNT Express integration plans. The integration process is complex as it spans over 200 countries and territories 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. We have completed the operational integration in the U.S., Canada and Middle East, and expect to have the sales forces substantially integrated by the end of 2019. The sales force integration will allow both the FedEx Express and TNT Express sales teams to sell our full suite of services to customers.

A significant milestone in the integration includes key projects that enable the injection of FedEx Express shipments into the TNT Express European road network. This integration milestone will allow FedEx Express customers to benefit from transit time improvements for their intra-European shipments. We began rolling out this service in Europe in February 2019 and expect to have this service improvement completed in June 2019. In addition, by the end of 2020, we expect to complete projects across our European hub and station locations that will allow interoperability between networks for both FedEx Express and TNT Express packages, which will further lower costs as the related FedEx Express linehaul operations are optimized.

In 2019, we have begun the operational network integration process for the key countries in Europe, which represent a significant percentage of international revenue, workforces and facilities. Integration activities in Europe are complex and require consultations with works councils and employee representatives in a number of countries. While we expect to make significant progress on integration activities in 2020, particularly in Europe, integration work will continue into 2021.

We currently estimate integration program expenses to exceed $1.5 billion through 2021 and we may incur additional costs related to investments that will further transform and optimize the combined business. The timing and amount of integration expenses and other investments in any future period may change as we revise and implement our plans. We expect to incur approximately $435 million of integration expenses in 2019, down from our previous estimate of $450 million.

Other Outlook Matters. For details on key 2019 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 we are now targeting the transition to be completed during the second quarter of 2020. As of February 28, 2019, over two-thirds 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, constitute 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 Ground Segment	FedEx Ground (small-package ground delivery)
FedEx Freight Segment	FedEx Freight (LTL freight transportation)
FedEx Services Segment	FedEx Services (sales, marketing, information technology, communications, customer service, technical support, billing and collection services and back-office functions) FedEx Office (document and business services and package acceptance)

FEDEX SERVICES SEGMENT

The operating expense 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.

CORPORATE, OTHER AND ELIMINATIONS

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

Also included in corporate and other is the FedEx Logistics operating segment, which provides customs brokerage and global ocean and air freight forwarding through FedEx Trade Networks Transport & Brokerage, Inc.; cross-border enablement and technology solutions and e-commerce transportation solutions through FedEx Cross Border Technologies, Inc.; integrated supply chain management solutions through FedEx Supply Chain Distribution System, Inc. (“FedEx Supply Chain”); time-critical shipment services through FedEx Custom Critical, Inc.; and, effective September 1, 2018, critical inventory and service parts logistics, 3-D printing and technology repair through FedEx Forward Depots, Inc. (“FedEx Forward Depots”). In the third quarter and nine months of 2019, the operating loss increase in “Corporate, other and eliminations” was driven primarily by FedEx Logistics resulting from operating losses, the inclusion of FedEx Forward Depots following the realignment of FedEx Logistics and lower transportation volumes due to weakness in the global economy. In addition, costs incurred in connection with the settlement of a legal matter involving FedEx Ground, including certain professional fees, negatively impacted our results during the nine months of 2019.

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.

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 and economy services, which provide delivery on a time-definite or day-definite basis. 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 Ended 2019	2018	Percent Change	Nine Months Ended 2019	2018	Percent Change
Revenues:						
Package:						
U.S. overnight box	$1,844	$1,836	—	$5,678	$5,373	6
U.S. overnight envelope	433	435	—	1,345	1,317	2
U.S. deferred	1,119	996	12	3,131	2,796	12
Total U.S. domestic package revenue	3,396	3,267	4	10,154	9,486	7
International priority	1,738	1,841	(6)	5,508	5,469	1
International economy	806	793	2	2,541	2,378	7
Total international export package revenue	2,544	2,634	(3)	8,049	7,847	3
International domestic[1]	1,078	1,140	(5)	3,412	3,424	—
Total package revenue	7,018	7,041	—	21,615	20,757	4
Freight:						
U.S.	772	739	4	2,294	2,040	12
International priority	477	532	(10)	1,574	1,527	3
International economy	495	492	1	1,568	1,354	16
International airfreight	76	93	(18)	244	276	(12)
Total freight revenue	1,820	1,856	(2)	5,680	5,197	9
Other	167	201	(17)	536	620	(14)
Total revenues	9,005	9,098	(1)	27,831	26,574	5
Operating expenses:						
Salaries and employee benefits	3,389	3,493	(3)	10,303	10,046	3
Purchased transportation	1,267	1,285	(1)	3,928	3,773	4
Rentals and landing fees	504	526	(4)	1,448	1,502	(4)
Depreciation and amortization	456	423	8	1,341	1,248	7
Fuel	771	782	(1)	2,515	2,088	20
Maintenance and repairs	433	419	3	1,449	1,323	10
Intercompany charges	505	536	(6)	1,571	1,547	2
Other	1,310	1,317	(1)	3,919	3,809	3
Total operating expenses	8,635	8,781	(2)	26,474	25,336	4
Operating income	$370	$317	17	$1,357		