

Effective February 6, 2017, FedEx Express fuel surcharges are adjusted on a weekly basis compared to the previous monthly adjustment. On January 2, 2017, FedEx Express implemented a 3.9% average list price increase for U.S. domestic, U.S. export and U.S. import services and a change to the U.S. domestic dimensional weight divisor. On January 4, 2016 and January 5, 2015, FedEx Express implemented a 4.9% average list price increase for FedEx Express U.S. domestic, U.S. export and U.S. import services. In addition, effective November 2, 2015 and February 2, 2015, FedEx Express updated certain tables used to determine fuel surcharges.

FedEx Express Segment Operating Income

FedEx Express continued to increase operating income and operating margin in 2017 due to yield and volume growth and the ongoing benefit of cost management initiatives, which were partially offset by one fewer operating day. Results in 2017 include \$117 million of TNT Express integration expenses. FedEx Express continues to focus on managing network capacity to match customer demand, reducing structural costs, modernizing its fleet and driving productivity increases throughout its operations.

Salaries and employee benefits increased 3% in 2017 primarily due to merit increases. Other expenses increased 5% in 2017 primarily due to TNT Express integration expenses, self-insurance costs and outside service contracts. Maintenance and repairs increased 9% in 2017 primarily due to the timing of aircraft maintenance events. Rentals decreased 4% in 2017 due to a reduction in aircraft leases.

Fuel expense increased 6% in 2017 due to higher fuel prices. The net impact of fuel had a slightly positive impact on operating income in 2017. See the "Fuel" section of this MD&A for a description and additional discussion of the net impact of fuel on our operating results.

In 2016, FedEx Express operating income and operating margin increased despite lower revenues. This increase was primarily driven by profit improvement program initiatives, which continued to constrain expense growth while improving revenue quality, the positive net impact of fuel and lower international expenses due to currency exchange rates. Also, operating income benefited from two additional operating days in 2016. Results for 2015 were negatively impacted by \$276 million (\$175 million, net of tax) of impairment and related charges, of which \$246 million was non-cash, resulting from the decision to permanently retire and adjust the retirement schedule of certain aircraft and related engines.

Salaries and employee benefits increased 1% in 2016 due to merit increases and higher incentive compensation accruals, which were partially offset by a favorable exchange rate impact. Purchased transportation decreased 10% in 2016 driven primarily by a favorable exchange rate impact. Accelerated aircraft retirements during 2015 caused depreciation and amortization expense to decrease 5% in 2016. Maintenance and repairs expense decreased 5% in 2016 primarily due to the timing of aircraft maintenance events.

Fuel expense decreased 37% in 2016 due to lower aircraft fuel prices. The net impact of fuel had a significant benefit to operating income in 2016. See the "Fuel" section of this MD&A for a description and additional discussion of the net impact of fuel on our operating results.

TNT Express Segment

TNT Express collects, transports and delivers documents, parcels and freight on a day-definite or time-definite basis. Services are primarily classified by the speed, distance, weight and size of shipments. While the majority of shipments are between businesses, TNT Express also offers business-to-consumer services to select key customers.

Because TNT Express was acquired near the end of 2016, its financial results were immaterial and were included in "Eliminations, corporate and other" in that period. The following tables present revenues, operating expenses, operating expenses as a percent of revenue, operating income (dollars in millions), operating margin and selected package statistics (in thousands, except yield amounts) for the years ended May 31:

		Percent of Revenue
	2017	2017
Revenues	\$ 7,401	100.0%
Operating expenses:		
Salaries and employee benefits	2,077	28.1
Purchased transportation	3,049	41.2
Rentals	353	4.8
Depreciation and amortization	239	3.2
Fuel	225	3.1
Maintenance and repairs	143	1.9
Intercompany charges	17	0.2
Other	1,214	16.4
Total operating expenses	7,317	98.9%
Operating income	\$ 84	
Operating margin	1.1%	
Package:		
Average daily packages	1,022	
Revenue per package (yield)	\$ 24.77	
Freight:		
Average daily pounds	3,608	
Revenue per pound (yield)	\$ 0.56	