

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 9% in 2017 due to yield and volume growth, partially offset by one fewer operating day. FedEx Ground yield increased 5% in 2017 due to higher base yields for our commercial business and residential services. Average daily volume at FedEx Ground increased 5% in 2017 primarily due to continued growth in our commercial business and residential services.

FedEx Ground segment revenues increased 28% in 2016 due to volume and yield growth at FedEx Ground and the inclusion of FedEx Supply Chain revenue for a full year, which were partially offset by lower fuel surcharges. Revenues increased approximately \$1.2 billion in 2016 as a result of recording FedEx SmartPost revenues on a gross basis, versus our previous net treatment. In addition, revenues benefited from two additional operating days in 2016.

Average daily volume at FedEx Ground increased 9% in 2016 primarily due to continued growth in our residential services driven by e-commerce. FedEx Ground yield increased 9% in 2016 primarily due to the recording of FedEx SmartPost revenues on a gross basis, versus our previous net treatment, and increased base rates, which include additional dimensional weight charges. These factors were partially offset by lower fuel surcharges.

The FedEx Ground fuel surcharge is based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel, as published by the Department of Energy. Our fuel surcharge ranged as follows for the years ended May 31:

	2017	2016	2015
Low	3.25%	2.75%	4.50%
High	4.50	4.50	7.00
Weighted-average	4.03	3.82	5.90

Effective February 6, 2017, FedEx Ground fuel surcharges are adjusted on a weekly basis compared to the previously monthly adjustment. On January 2, 2017, FedEx Ground implemented a 4.9% average list price increase and a change to the U.S. domestic dimensional weight divisor. On January 4, 2016 and January 5, 2015, FedEx Ground implemented a 4.9% increase in average list price. In addition, on November 2, 2015, FedEx Ground increased surcharges for shipments that exceed the published maximum weight or dimensional limits and updated certain tables used to determine fuel surcharges. On February 2, 2015, FedEx Ground updated the tables used to determine fuel surcharges. On January 5, 2015, FedEx Ground began applying dimensional weight pricing to all shipments.

FedEx Ground Segment Operating Income

FedEx Ground segment operating income increased 1% in 2017 due to yield and volume growth partially offset by network expansion and staffing costs. Operating margin declined in 2017 primarily due to network expansion. In addition, FedEx Supply Chain results continue to negatively impact segment margins.

Purchased transportation increased 9% due to higher volumes and increased service provider and U.S. Postal Service rates. Salaries and employee benefits expense increased 14% in 2017 primarily due to volume growth and additional staffing to support network expansion. Rent and depreciation and amortization expense increased in 2017 due to network expansion. Other expenses increased 10% in 2017 due to increased property taxes as a result of network expansion and higher self-insurance costs.

FedEx Ground segment operating income increased 5% in 2016 due to higher volumes and increased yield, as well as the benefit from two additional operating days. These factors were partially offset by network expansion costs, higher self-insurance expenses and increased purchased transportation rates.

Operating margin decreased in 2016 primarily due to the recording of FedEx SmartPost revenues on a gross basis (including postal fees in revenues and expenses), the inclusion of FedEx Supply Chain results for a full year, and higher self-insurance expenses. The change in FedEx SmartPost revenue recognition and the inclusion of FedEx Supply Chain collectively decreased operating margin by 190 basis points in 2016.

FedEx Ground Segment Outlook

We expect FedEx Ground segment revenues and operating income to increase in 2018, driven by continued yield and volume growth in our commercial business and residential services. We are focused on balancing capacity and volume growth with yield management. In addition, we anticipate results in 2018 will continue to be impacted by network expansion, as well as additional staffing costs. Beginning in 2018, FedEx Ground will include safety technology requirements in all linehaul contracts.

Capital expenditures at FedEx Ground are expected to increase in 2018 due to certain network expansion projects that were deferred from 2017 to 2018. We will continue to make investments to grow our highly profitable FedEx Ground network.