FEDEX

1990 Annual Report
Federal Express Corporation

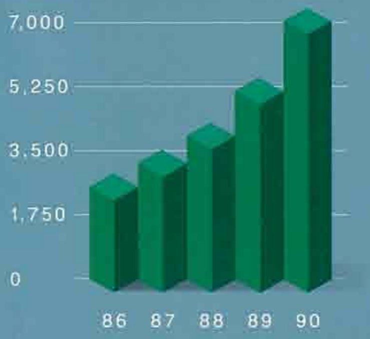
FINANCIAL HIGHLIGHTS

Consolidated Financial Highlights
Federal Express Corporation and Subsidiaries

Years ended May 31 In thousands, except per share amounts and Other Operating Data	1990	1989	1988
Operating Results			
Revenues	$7,015,069	$5,166,967	$3,882,817
Operating income	413,579	424,435	379,452
Income before income taxes	218,423	298,332	302,328
Income before cumulative effect of change in accounting for income taxes	115,764	166,451	187,716
Cumulative effect of change in accounting for income taxes	—	18,100	—
Net income	115,764	184,551	187,716
Earnings per share:			
Before cumulative effect of change in accounting for income taxes	2.18	3.18	3.56
Cumulative effect of change in accounting for income taxes	—	.35	—
Net earnings per share	$ 2.18	$ 3.53	$ 3.56
Average shares outstanding	53,161	52,272	52,670
Financial Position			
Working capital	$ 75,189	$ 10,984	$ 57,953
Property and equipment, net	3,566,321	3,431,814	2,231,875
Long-term debt	2,148,142	2,138,940	838,730
Common stockholders' investment	1,649,187	1,493,524	1,330,679
Other Operating Data			
Express package:			
Average daily package volume	1,246,311	1,059,882	877,543
Average pounds per package	5.3	5.4	5.3
Average revenue per pound	$ 3.12	$ 3.04	$ 3.10
Heavyweight:			
Average daily pounds	3,310	4,019	—
Average revenue per pound	$ 1.12	$ 1.06	—
Aircraft fleet at end of year:			
Boeing 747-100s	9	8	—
Boeing 747-200s	10	13	—
McDonnell Douglas DC-10-10s	10	8	8
McDonnell Douglas DC-10-30s	16	16	13
McDonnell Douglas DC-8-73s	6	6	—
Boeing 727-100s	89	80	47
Boeing 727-200s	41	26	21
Cessna 208As	37	38	38
Cessna 208Bs	147	109	71
Fokker F-27-500s	19	7	5
Vehicle fleet at end of year	31,000	28,900	21,000
Average number of employees (based on a standard full-time workweek)	75,102	58,136	48,556

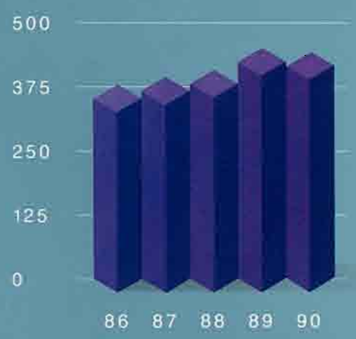
Revenues

Millions of dollars



Operating Income

Millions of dollars

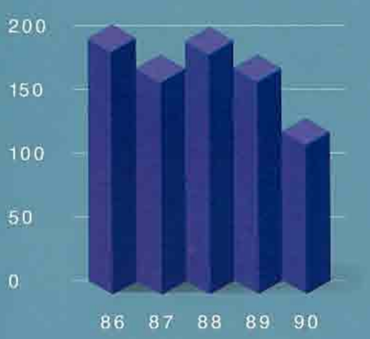


Federal Express Corporation offers a wide range of customized services for the time-definite transportation and distribution of goods and documents throughout the world, using an extensive fleet of aircraft and vehicles.

Table of Contents

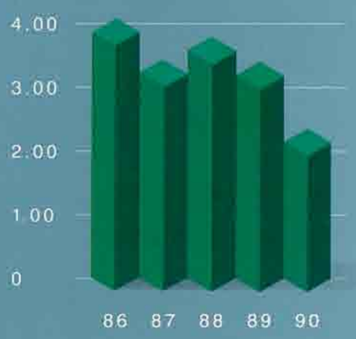
Net Income*

Millions of dollars



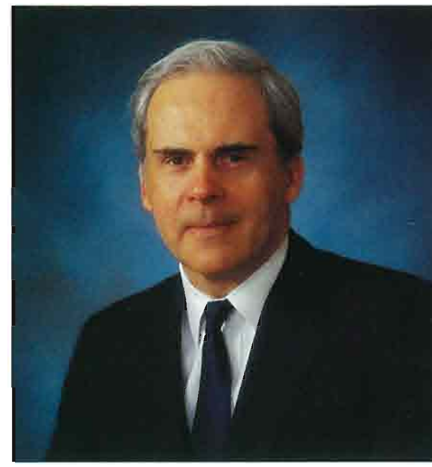
Earnings per Share*

Dollars



*From continuing operations before cumulative effect of accounting change

TO OUR STOCKHOLDERS



Frederick W. Smith

More than any other year in our 17-year history, fiscal 1990 demonstrated our company's absolute commitment to creating the most capable, extensive and reliable express transportation company in the world.

Three significant actions during the year moved us closer to this goal: the integration of Tiger International, Inc. into the Federal Express network, the introduction of several new services and our increased quality improvement efforts.

Although we realized significant strategic gains, fiscal 1990 proved to be an extraordinarily difficult year. Our agenda was ambitious, and we anticipated many obstacles. However, serious challenges—including several unrelated to the Tiger integration —negatively affected our financial performance.

Total revenues increased 36 percent to $7.0 billion from $5.2 billion in the previous year. Operating income fell three percent to $414 million from $424 million. Pretax income declined by 27 percent and was affected by increased interest costs and other non-operating expenses associated with the purchase of Tiger and other international acquisitions. Net income totaled $116 million, or $2.18 per share, compared with $166 million, or $3.18 per share, in fiscal 1989.

Regardless of the rigors of the past 12 months, we remain even more convinced that our strategy to expand globally to meet the need for time-definite international service is sound. This past year's momentous changes in the political and economic systems of Eastern Europe underscore the increasing economic interdependence of all nations. As the globalization of industry proceeds throughout the decade, we believe that the demand for express transportation services will continue apace and that the financial rewards for our investment over the past five years will be realized.

In many respects, the 1990 business plan was on target. However, in specific instances—for example, the cost of upgrading the former Flying Tiger aircraft fleet and of operating under a dual seniority list for our pilots—the plan's forecast was too low. Other unanticipated factors also adversely affected year-end results: disappointing international heavyweight volumes, higher fuel prices, and for the last two months of the year, lower-than-expected domestic U.S. express volume growth rates.

Natural calamities took their toll as well, including the San Francisco earthquake, Hurricane Hugo and the eruption of Mt. Redoubt near Anchorage. Thanks to the dedication and professionalism of Federal Express employees worldwide, we were able to mitigate the debilitating effect these events had on our operations.

To extend our service capabilities outside the U.S., acquisitions have proven more expedient in

James L. Barksdale

entering new markets than creating "de novo" ventures. Our most recent acquisitions include Transports Transvendeems Chronoservice in France and Aeroenvios S.A. de C.V. in Mexico. With transactions such as these, we have been able to add a cadre of experienced, knowledgeable employees to our expanding worldwide operations.

Following the Tiger acquisition, we labored to develop strong working partnerships with freight forwarders and have worked diligently to better understand their business needs. Our actions continue to demonstrate our commitment to strengthening the value of our services to the freight forwarding community.

To enhance our global network, in June 1990 we inaugurated our first around-the-world Boeing 747 flight. The addition of this route provides scheduled service between Asia, the Middle East, and Europe and adds to the available capacity in the Asia-to-Europe and the U.S. markets.

In the United States, our time-definite express volume—still generating the majority of Federal Express' revenue—increased by 16 percent over 1989, and that growth was supported by the conversion of our Indianapolis facility into a second national hub. October brought the inauguration of our Anchorage hub, strategically linking key markets in Europe, Asia, and North America.

Amidst these major changes, we continued to devote substantial resources to refining our quality improvement process. Now we depend even more heavily on employee-based quality action teams to determine causes of problems and to offer solutions. The cumulative efforts of these teams have already yielded impressive results. For example, at year's end, we were consistently achieving the highest service levels in the company's history.

In response to the changing needs of the marketplace, we introduced three new services. Our International Distribution Service offers the fastest, time-definite international service for freight shipments between Asia, Europe and the U.S. and between South America and the U.S. We also introduced a domestic U.S. Heavyweight Service, designed to deliver items above our traditional piece limit of 150 pounds by the second business day. In July 1990 we began offering our new Collect on Delivery Service which provides the fastest payment return in the industry.

While 1990 was a challenging year in many respects, let us reiterate that Federal Express is fully committed to its global vision. The free and fast movement of goods, services and information will continue to replace outdated geographic, political and trade barriers the world over. Federal Express intends to provide the products and services to match these new economic realities.

Frederick W. Smith

Frederick W. Smith
Chairman, President
and Chief Executive Officer

James L. Barksdale

James L. Barksdale
Executive Vice President
and Chief Operating Officer

GLOBAL CONNECTIONS

◀ Please lift

Our Anchorage hub, inaugurated in October 1989, is perfectly positioned to serve intercontinental flights between Asia, Europe, and North America. While aircraft refuel, hub employees sort and redistribute freight to other Federal Express flights to ensure speedy delivery of time-sensitive shipments.

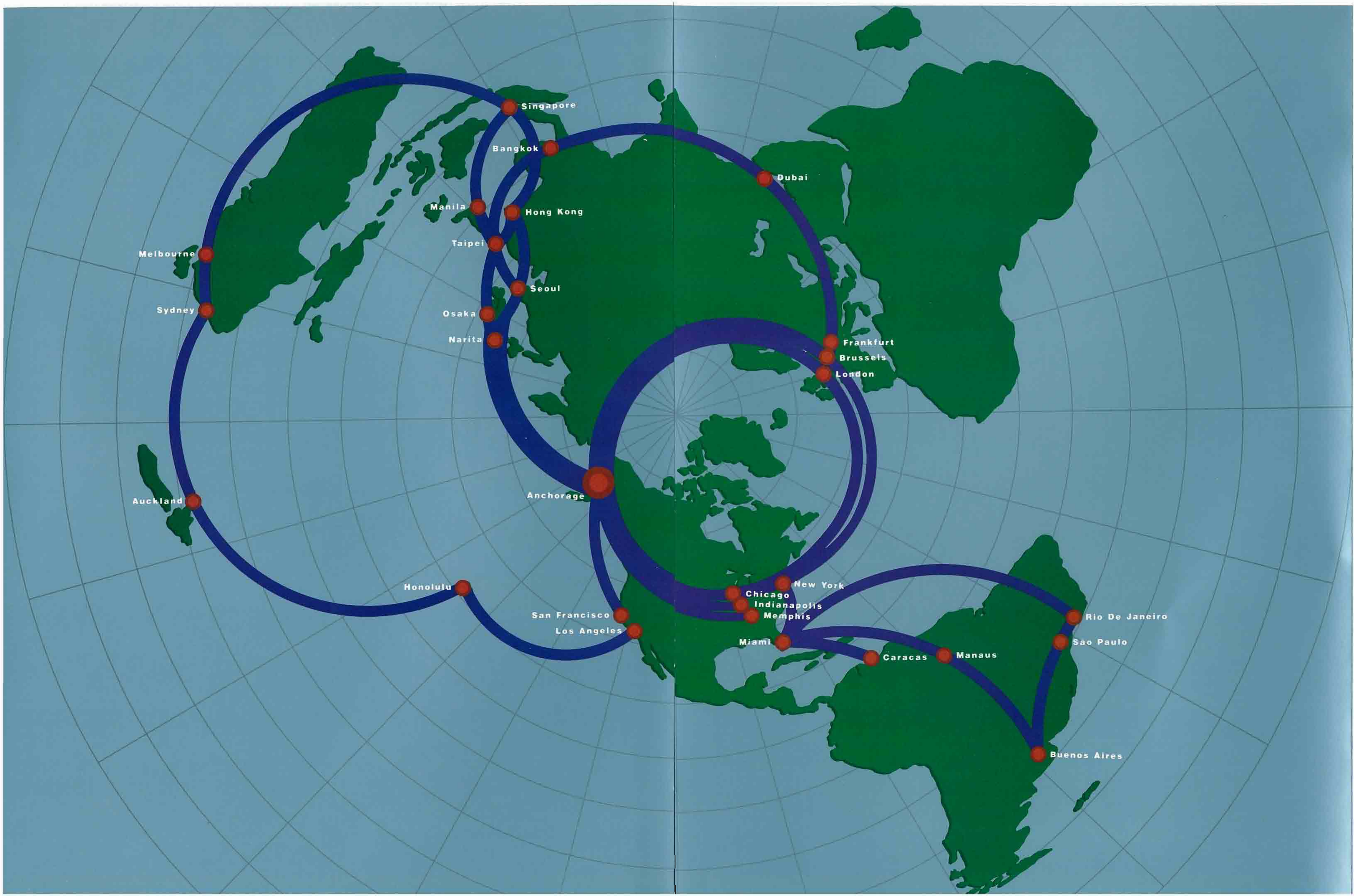
GROWING NETWORK

Our primary objective in 1990 was clearly defined: to continue the expansion of Federal Express' global network linking key markets around the world. That mission had many components —merging dissimilar networks, providing service to additional countries, increasing flight destinations, expanding our fleet of aircraft, opening new hubs and adding U.S. gateways for the distribution of packages and freight.

The integration of Tiger International, Inc., on August 7, 1989, provided Federal Express with strategic air routes, an expanded fleet, additional facilities, and the international distribution experience necessary to build the most extensive transportation network in the world. Our network now links the United States, Canada, Western Europe, Eastern Europe, the Middle East, Latin America, Asia, and the South Pacific; in total, Federal Express now serves 127 countries, the vast majority of the industrialized world.

In the United States, the combination of Federal Express' small package and Tiger's air cargo networks led to the development of a significantly more complex system than the earlier, relatively simple, hub and spokes operation. For example, we converted our Indianapolis hub from a day-time sorting facility for packages shipped via our Economy Two-Day Service to a larger day and night operation capable of handling all types of cargo, including international shipments. By year's end, volume at Indianapolis had grown to 130,000 packages per day, in addition to 535,000 pounds of heavyweight freight per week, as compared to only 35,000 packages per day 12 months earlier. It is now one of five major sorting facilities in our U.S. system, along with Memphis, Newark, Oakland and our newest in Anchorage. Two regional Metroplexes—Chicago and Los Angeles—support these five facilities as additional sites for sorting and distribution.

Our Anchorage facility is particularly significant by virtue of its location at the natural junction of routes linking the "Triad" markets of the Pacific Rim, North America and Europe. The facility serves as a transloading site where large pallets or containers can be transferred from one wide-body aircraft to another, thereby allowing our customers in this megamarket of 700 million consumers to send and receive urgent shipments between continents in the shortest possible time. Polar routes through Anchorage travel eastward from Taipei bound for the United Kingdom and Frankfurt or westward from Brussels or Frankfurt destined for Tokyo or Taipei. In addition to serving as a major transloading site for polar routes, Anchorage is the first destination and customs clearance point for international express packages traveling inbound from the Pacific Rim to cities in the U.S. To accommodate the increased volume, Anchorage is now equipped to handle twice the number of wide-body aircraft as was possible prior to August 1989.



Singapore
Bangkok
Dubai
Manila
Hong Kong
Taipei
Melbourne
Seoul
Sydney
Osaka
Narita
Frankfurt
Brussels
London
Anchorage
Auckland
Honolulu
New York
Chicago
Indianapolis
Memphis
San Francisco
Los Angeles
Rio De Janeiro
Miami
Sao Paulo
Caracas
Manaus
Buenos Aires

For shipments traveling inbound or outbound from the United States, we designated eight cities as international gateways: New York, Boston, Chicago, Miami, Los Angeles, Anchorage, San Francisco and Oakland. Six "Freight Movement Centers" around the world—located in Anchorage, Memphis, Chicago, New York, Brussels and Tokyo—coordinate the movement of all international air cargo traffic. Three major sort and distribution facilities complete our international network: an express hub in Brussels, a freight facility in Frankfurt—both of which serve Europe—and a facility in Narita, Japan, serving the Pacific Region.

Over the past 18 months, Federal Express has gained essential air routes and expanded its total freight capacity to nearly 7,000 tons daily, or twice that of our nearest competitor. We have added a total of 22 airport destinations for our wide-body DC-10 and B747 aircraft: two in the United Kingdom, five in South America, three in Europe, one in the Middle East and 11 in the Asian and Pacific regions. In addition, we introduced our first scheduled around-the-world flight; three times weekly, Flight 27 travels from Taipei to Bangkok, then to Dubai, Frankfurt, and London, finally terminating in New York. Due to this expanded geographic reach and increased capacity, international shippers and freight forwarders can now choose from even more flexible and customized services.

Other key acquisitions over the past two years allowed us to expand our network with intra-European service combining over-the-road trucking, feeder aircraft and some commercial flights. We now offer extensive intra-Canadian services as well.

Another important ingredient of our worldwide service is the COSMOS network, our computerized tracking system. Our tracking was enhanced with Tiger's KIAC (Key Information Air Cargo) computerized system, designed expressly for heavyweight cargo. During the year, Federal Express began the controlled integration of the COSMOS and KIAC systems. Ultimately, by combining these telecommunications and computer systems, Federal Express will benefit from the best of both companies—customs clearance tracking; proactive monitoring to prevent problems before they occur; advance freight reservations; inventory management, including a software system for large cargo containers and pallets; and automated air and ground route scheduling.

Federal Express is committed to building the most expansive and reliable priority logistics system in the world. For a growing number of customers throughout the world who insist on fast, time-definite delivery, this network is not an option, but a necessity.

QUALITY

Employees at the Springfield, Virginia station decided to reduce the number of packages arriving late at their customers' homes and offices. By improving package sorting techniques, couriers were on the road 12 minutes earlier, and late packages dropped from 39 to 17 per day.

"We took a fresh look at the time allotments for the morning sort and wrote procedures and goals for every job. That way each person knew what was expected of them."

Cathy Gentzel
Courier

"Fewer people are sorting more packages in less time and our trucks are leaving the station early enough to reduce late deliveries. Our couriers solved the problem."

Andy McGrorty
Senior Manager

"We had couriers solving courier problems. I felt good about the station management taking our advice seriously and giving us all the support we needed."

Kathy Galvin
Courier

"It proved to me that if you work hard, you can have an impact and get the recognition you deserve. If everyone does their part, we can make vast quality gains."

Monica Malo
Courier

"This was our first Quality Action Team and I'm convinced that planning and thoroughness paid off. We overhauled virtually everything . . . and got results."

Tom Dorsey
Cover Driver

When Federal Express aircraft are delayed leaving the ground anywhere around the world, that can mean late deliveries. Three quality action teams have been dissecting the three key reasons for delay: air traffic congestion, weather, and aircraft maintenance.

"We're unmatched when it comes to capturing information about how and why an aircraft delay occurs. With that knowledge, we can then identify workable solutions."

Jim Tripp

Senior Manager, Aircraft Reliability, Memphis

"We've increased the size of our technical library to ensure that we can diagnose a maintenance problem with absolute accuracy and have the tools and parts to get the job done."

David Parham

Mechanic in Hangar 10, Memphis SuperHub

"Time is critical because many countries have departure curfews. Our planes must leave on time or they're grounded. That means making sure every aspect of the flight plan checks out."

Linda Wolowicz

Senior Manager, International Flight Control

"Our strength is our standby program. If we need a replacement crew for any reason, they're ready to go anywhere Federal Express needs them to go within one hour."

Calvin Janes

Pilot and Boeing 727 Flight Manager

"Because our mechanics have extensive experience in both 727s and DC-10s, we pool that knowledge in problem-solving. By working together, we're more effective . . . and efficient."

Russell Case

Line Mechanic, Memphis

"Quality improvement boils down to detective work. We must fully understand every aspect of aircraft maintenance and movement before we can make changes that will yield positive results."

Charles Derrick

Manager of Planning and Administration, System Control

QUALITY

Packages destined for the new Indianapolis hub were being incorrectly routed to the Memphis Superhub. This team created a communication and education campaign that successfully raised the Indy package "capture rate" from 30 percent to the high 90s in nine months.

"We put our operation under a magnifying glass. Through group brainstorming, we found solutions and achieved results faster than any of us imagined."

Teresa Besst

Manager, Dallas Business Service Center

"We focused on understanding the root cause of the problem, created a realistic action plan, and insisted on complete follow-through. I saw the process work first-hand."

Marco Chan

Managing Director, Central Region

"Now we're meeting our cost-per-package projection because we're receiving the volume we expected. But we're not finished—our goal is still 100 percent."

Ron Stevens

Senior Manager, Indianapolis Hub Operations

"The key ingredient in quality improvement is people and their innate desire to do it right. No amount of engineering sophistication can substitute for that."

Hasan Kazi

Manager, Service Engineering, Central Region

Dramatic growth has made Sharps Individual Bedrooms the single largest manufacturer and installer of bedroom furniture in the United Kingdom. Working together, employees at Sharps and Federal Express Systemline solved a thorny problem: furniture damaged in transit.

Ian Davies	Ray Jones	Hazel Brookes	Roger Coodger	Brian Aram
"Initially, we stored the furniture upright in the back of our trucks. But they're big, heavy pieces and the jarring damaged some of them. The solution: pack them flat."	"I'm confident that our new flat loading and delivery process will work. It took us nine months, but it was nine months well spent . . . because we got it right together."	"Not only can we reduce furniture damage with the flat loading technique, we can make more economical deliveries because we're carrying more in a single trip."	"Along with flat loading, we decided to use larger trucks and designed a special forklift vehicle to reduce the chance of damage even further."	"We deliver approximately 250 bedrooms per week all over England. By working together, we developed a clear, consistent means of tracking every delivery."
Courier, Federal Express Systemline (Seated)	Plant Manager, Sharps Individual Bedrooms (Standing)	Planning Supervisor, Federal Express Systemline	Managing Consultant, Federal Express Systemline	Planning Manager, Sharps Individual Bedrooms

EXPANDED SERVICES

◀ Please lift

In Singapore, Air Express International—a U.S. based international freight forwarder—utilizes the convenient single-carrier, time-definite service of Federal Express to move heavyweight shipments to markets around the globe.

NEW PRODUCTS

Federal Express has ventured beyond the package business by introducing an expanded choice of value-added products and services—all designed to meet the needs of customers who insist on having their documents, package and freight shipments arrive on time, in perfect condition, anywhere in the world.

Two new international air freight services complete a comprehensive array of options for our international customers. With the expansion of our International Distribution Service in April, Federal Express—in conjunction with freight forwarders—now offers fast, time-definite, airport-to-airport service for shipments of virtually any size, shape or weight leaving the United States and bound for the major markets of Asia, Europe and South America. This new outbound service takes between one to three days depending upon the destination, and it complements our International Distribution Service introduced in 1989, which provided inbound air freight transportation from Europe and Asia to the U.S.

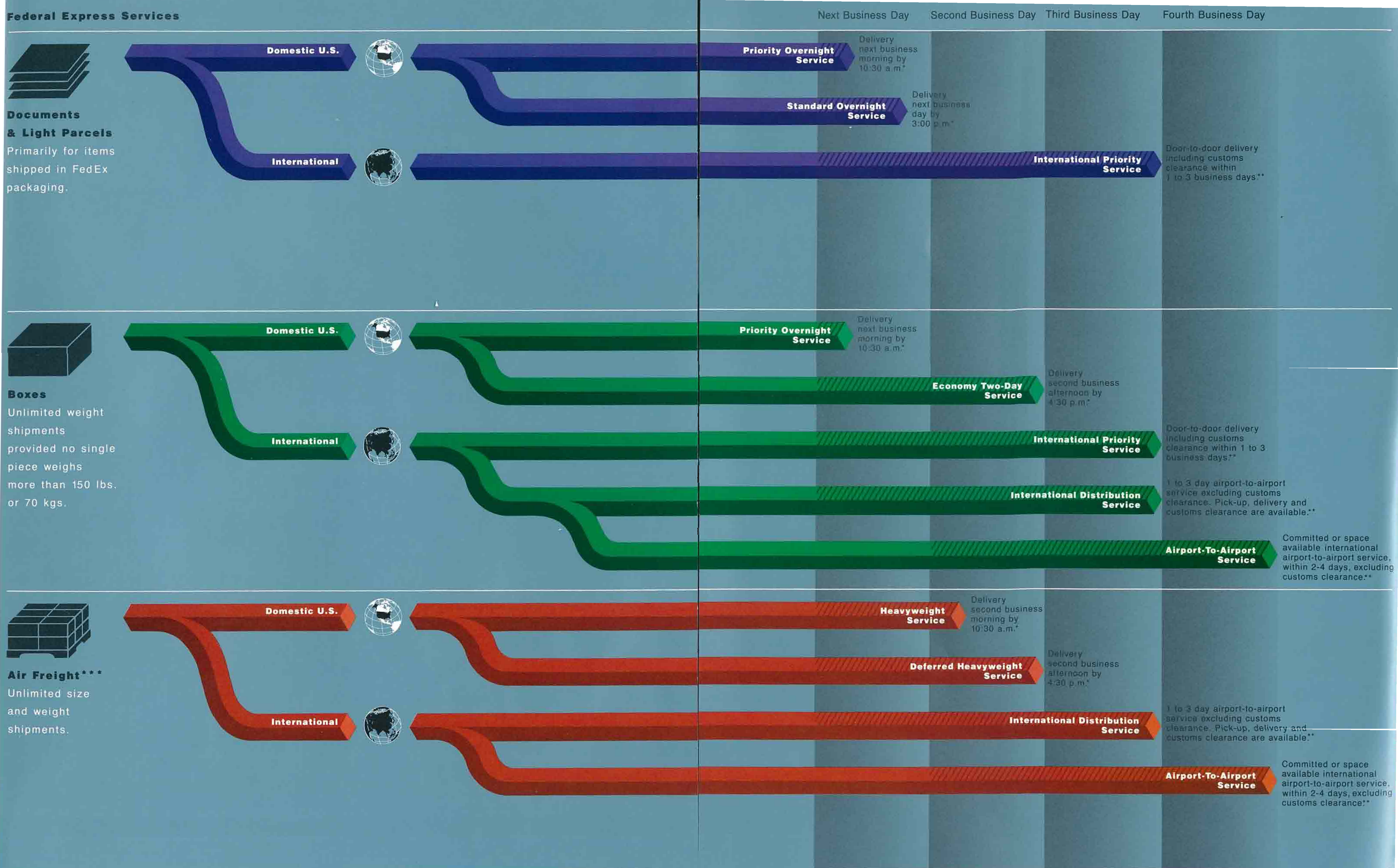
International Distribution Service is designed to appeal to freight agents, forwarders and brokers who can now offer their customers single carrier worldwide service. Packages and cargo shipped via International Distribution Service have confirmed space on all Federal Express flights and benefit from fast recovery at the destination; include notification of brokers within two hours of arrival to expedite customs clearance; and have the advantages of our KIAC (Key Information Air Cargo) computerized system, which tracks and monitors the shipment from departure to destination. Federal Express can handle the often complex customs clearance process when the shipper requests this option.

International Distribution Service complements two other Federal Express international services. International Airport-to-Airport Service (ATA), the second of our new air cargo services, is an option for customers who do not need time-definite service, but insist upon reliable, affordable delivery of freight shipments.

International Priority Service, our time-definite, door-to-door, customs-cleared delivery service for documents and packages weighing 150 pounds or less, is available between the U.S. and 126 countries. It has experienced a 46 percent increase in growth worldwide over 1989.

Federal Express responded quickly to the elimination of political and economic barriers by introducing International Priority Service to Czechoslovakia, East Germany, Hungary, Poland, Romania, Bulgaria, Yugoslavia and the Soviet Union on April 1. The service provides 48-hour delivery of documents and 72-hour delivery of packages requiring customs clearance shipped from anywhere in Europe. Documents from the United States can be delivered within 72 hours, while those requiring customs clearance need an extra 24 hours.

To round out the services offered in the United States market, Federal Express introduced its first high–priority Collect-On-Delivery (C.O.D.) Service on July 2, 1990. This service benefits our shippers by providing the fastest payment return in the business. C.O.D. is available in the continental United States, Alaska and Hawaii. For a $5 fee per package plus the



*Delivery time, coverage and service availability may vary due to origin/destination and other requirements. See current Worldwide Service Guide, and the Federal Express Guide to Heavy-weight Shipments for complete details.

**International transit times vary with time zones and distances. International Services offered with or without customs clearance and hold-for-pick-up or delivery options. All international shipments are subject to possible delays by Customs authorities. For additional information or assistance, call 800 238-5355. International Distribution Services and International Airport-to-Airport Services are offered through forwarders and agents.

***Shipments with one or more pieces above 150 lbs. subject to certain restrictions and advance notification for pick-up by special vehicles. Total shipment weight is also subject to limits. For additional information or assistance, call 800-238-5355.

package transportation costs, Federal Express will return C.O.D. payments to shippers within one or two business days compared to competitors' services that can extend to as long as 45 days. In addition, Federal Express offers money-back guarantees not only on the delivery of both the package and the check return, but also on providing information about package location. C.O.D. Service is a prime example of value-added service in a marketplace that demands speed and reliability.

To further expand our domestic U.S. services, Federal Express inaugurated Heavyweight Service in August, designed to deliver shipments of virtually any size by the second business day morning. Until this service was introduced, Federal Express restricted individual pieces in its system to 150 pounds. A less expensive option, Deferred Heavyweight Service offers delivery by the second business day afternoon. Domestic Heavyweight Service provides an opportunity for Federal Express as businesses turn to Just-in-Time sourcing, manufacturing and distribution as a means of controlling and reducing inventory and operating costs.

In April 1989, we introduced our Standard Overnight Service, designed to address the needs of customers sending documents or small packages up to five pounds who do not require urgent, next-morning delivery. Acceptance of this product has been phenomenal. SOS provides an economical alternative to our Priority Overnight Service and competes directly in the next-day document and small package market. Economy Two-Day Service, offering delivery of parcels up to 150 pounds by the second business afternoon, completes our domestic U.S. services.

Along with providing an expanded line of products and services, we have introduced an increasing number of customers to our automated shipping programs—in fact, we experienced a 20 percent growth in customer automation over the previous year. The Powership 2 system includes the required hardware, plus a wide range of software programs which provide customers with the ability to track their own shipments through COSMOS, our worldwide satellite/computer tracking network; rate their packages; and run management reports to recap daily shipping activity.

Powership Plus is an advanced software program which integrates Federal Express shipping information with the customer's own mainframe. Used mostly by much larger customers and mail order houses, this program can be accessed to quote Federal Express rates and delivery schedules and provide a package tracking number—all while entering the order information into COSMOS. With electronic data interchange (EDI) capability, customers are able to telecommunicate their shipping information directly to the Federal Express mainframe, and in turn receive invoices electronically.

These new additions to the Federal Express inventory of products and services enable our customers to ship time-sensitive goods to their destinations and have them delivered with incredible speed and dependability. Combined with the complete capabilities for handling cargo of any size, almost anywhere, Federal Express is now in position to help companies capitalize on timeliness and reliability—and thus distinguish themselves from the competition.

SENIOR OFFICERS

Thomas R. Oliver   Ron J. Ponder   Carole A. Presley   Jeffrey R. Rodek

Frederick W. Smith
Chairman, President and Chief Executive Officer

James L. Barksdale
Executive Vice President and Chief Operating Officer

David C. Anderson
Senior Vice President and Chief Financial Officer

Kenneth R. Masterson
Senior Vice President and General Counsel

T. Allan McArtor
Senior Vice President
Air Operations

Thomas R. Oliver
Senior Vice President
International

James A. Perkins
Senior Vice President and Chief Personnel Officer

David C. Anderson Theodore L. Weise T. Allan McArtor Kenneth R. Masterson James A. Perkins

Ron J. Ponder
Senior Vice President and Chief Information Officer
Information and Telecommunications Systems

Carole A. Presley
Senior Vice President
Marketing and Customer Service

Jeffrey R. Rodek
Senior Vice President
Central Support Services

Theodore L. Weise
Senior Vice President
U.S. and Canada

W. Jack Roberts
Vice President and Controller

Robert L. Cox
Secretary

BOARD OF DIRECTORS

Robert H. Allen (2)
Investor

Howard H. Baker, Jr. (1)
Partner
Baker, Worthington, Crossley, Stansberry & Woolf
General practice of law in Tennessee and Washington, D.C.

James L. Barksdale
Executive Vice President and Chief Operating Officer
Federal Express Corporation

Anthony J. A. Bryan (1)
Chairman and Chief Executive Officer
Oceonics Group, PLC.
Ocean survey positioning
and defense security products and services

Ralph D. DeNunzio (2)
President
Harbor Point Associates, Inc.
Private investment and consulting firm

Judith L. Estrin
Executive Vice President
Network Computing Devices
Display stations for network computing environments

Philip Greer (1*)
General Partner
Weiss, Peck & Greer Investments
Diversified investment management and securities firm

J.R. Hyde, III (2)
Chairman of the Board and Chief Executive Officer
AutoZone, Inc.
Auto parts

Charles T. Manatt
Senior Partner
Manatt, Phelps, Rothenberg & Phillips
Full service law firm located in Los Angeles, CA
and Washington, D.C.

Jackson W. Smart, Jr. (2*)
Chairman and Chief Executive Officer
MSP Communications, Inc.
Radio broadcasting

Frederick W. Smith (2)
Chairman, President and Chief Executive Officer
Federal Express Corporation

Joshua I. Smith
Chairman and Chief Executive Officer
The MAXIMA Corporation
Information and data processing firm with full
computer service to federal
government and private sector

John Burton Tigrett
Financial Consultant

Peter S. Willmott (1)
Chairman and Chief Executive Officer
Willmott Services, Inc.
Investment management

(1) Audit Committee
(2) Compensation Committee
(*) Committee Chairman

FINANCIAL SECTION

Management's Discussion and Analysis of Results of Operations and Financial Condition

Federal Express Corporation and Subsidiaries

Results of Operations

Fiscal year 1990 presented Federal Express with one of the most significant operational and strategic challenges in its history as it concentrated effort and resources on integrating the operations of Tiger International, Inc. ("Tiger") into its worldwide network. Through several acquisitions, principally Tiger, the Company's strategy has been to penetrate international markets and expand its services. Air routes and assets acquired with Tiger have enabled the Company to provide express delivery services to previously unserved areas and offer heavyweight air cargo service worldwide. Management believes that this has positioned the Company strategically to serve the needs of international businesses and increasingly integrated international economies.

Consolidated revenues were up 36% in 1990 compared with 33% and 22% in 1989 and 1988, respectively. Domestic U.S. revenues increased 15% in 1990, while increases were 20% in 1989 and 18% in 1988. International revenues, affected by the acquisition of Tiger in February 1989 and, to a lesser extent, by several other international acquisitions, grew 118% in 1990, 141% in 1989 and 67% in 1988.

Domestic U.S. revenue growth has been driven by express delivery volume increases of 16%, 19% and 25% in 1990, 1989 and 1988, respectively. The composite yield (total express package revenue per package) for 1990 was unchanged from 1989 compared with decreases of two percent in 1989 and six percent in 1988. The introduction in April 1989 of Standard Overnight Service, a lower-priced, next-afternoon product, adversely affected the 1990 yield, but this effect was largely offset by price increases in 1990 and 1989. Industry competition continues to exert pressure on both prices and volume growth for domestic express services. The Company's volume reports for April and May 1990 showed a significant slowing of the year-over-year domestic volume growth rate. Early indications are that this trend is continuing into 1991.

International Priority Service volumes grew 46% and 50% in 1990 and 1989, respectively. However, international heavyweight volumes during 1990 were adversely affected by, among other factors, the curtailed buying of imports by major U.S. retailers and significant increases in air cargo capacity by competitors in key Asian markets. Volumes from airfreight forwarders and agents have been disappointing despite the Company's efforts to form working partnerships with them. The Company believes that its substantial service improvements since the Tiger merger have enhanced its ability to sell to these shippers and is aggressively pursuing this market.

The consolidated operating margin has declined over the past three years, primarily reflecting the significant costs of global expansion. Development of a worldwide transportation and distribution network has required a major investment in recent years, including the costs of integrating Tiger and numerous other companies. International revenues have not kept pace with these costs, contributing to increased

Results of Operations (continued)

international operating losses. Operating expenses for 1990 were adversely affected by inefficiencies in crew scheduling caused by the lack of an integrated pilot seniority list, higher aircraft maintenance costs and substantially higher fuel prices. Due to recent events in the Persian Gulf, fuel prices may rise again during 1991. Arbitration proceedings, concluded in May 1990, produced an integrated pilot seniority list which is expected to improve efficiencies after crew training and flight schedule integration are accomplished.

For further information relating to the Company's geographic segments, refer to Note 10 of Notes to Consolidated Financial Statements. For additional information on consolidated volumes, refer to Other Operating Data in ''Selected Consolidated Financial Data.''

Management continues to focus on improving the productivity of the worldwide system through the application of advanced computer technology in package routing and tracking as well as management information systems, increased automation of shipping and billing systems and use of more efficient aircraft. Efforts to improve domestic U.S. productivity include information system enhancements and increased use of regional sort facilities and regional trucking. Substantial capital investments in property and equipment have been made over the years based on historical volume growth patterns which form the basis for planning system capacity needs. Typically, long lead times are required for adding capacity. If the trends, discussed above, toward declining domestic volume growth rates and weak heavyweight volumes persist, significant system overcapacity may result. However, management believes that through pricing actions, management of system capacity and adjustments to flight and crew scheduling, the adverse effects of these trends can be mitigated.

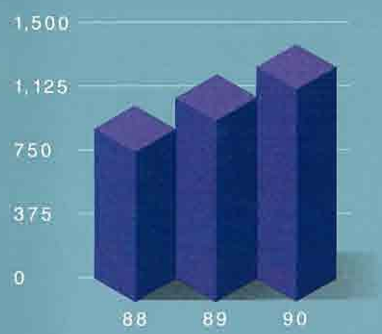
Other income and expense was mainly affected by greater interest costs from higher average borrowings to support capital spending and business acquisitions, principally Tiger, and higher amortization of excess of cost over net assets of businesses acquired.

The Company's effective tax rate for 1990 was 47.0% compared with 44.2% in 1989 and 37.9% in 1988. Increases in the income tax rates are primarily due to higher losses of international subsidiaries that are not deductible for U.S. Federal income tax reporting purposes. However, the impact has been reduced as a result of a corporate restructuring of certain international subsidiaries which enables the Company to utilize losses from these operations for U.S. income tax purposes. The Company intends to effect similar restructurings in 1991. For additional information related to income taxes, refer to Note 8 of Notes to Consolidated Financial Statements.

Consolidated results for 1989 also include the cumulative effect on years prior to 1989 of the adoption of Statement of Financial Accounting Standards No. 96, ''Accounting for Income Taxes,'' which increased net income by $18.1 million or $.35 per share.

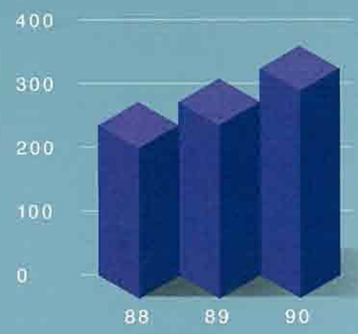
Average Daily Express Package Volume

Thousands



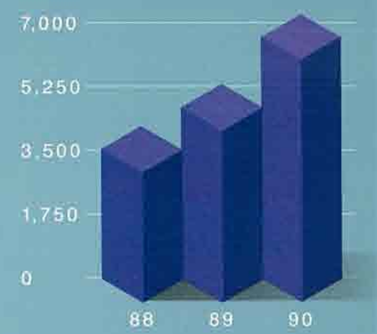
Express Package Volume

Millions



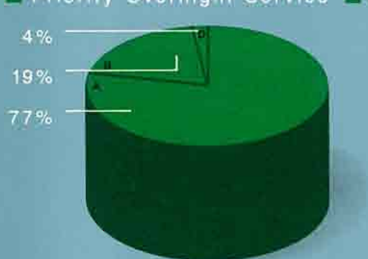
Operating Expenses

Millions of dollars

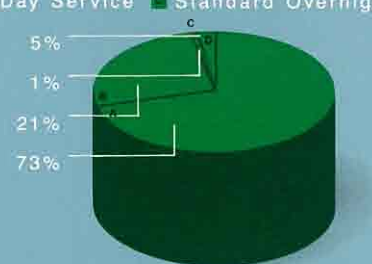


Express Package Volume (Percent to total)

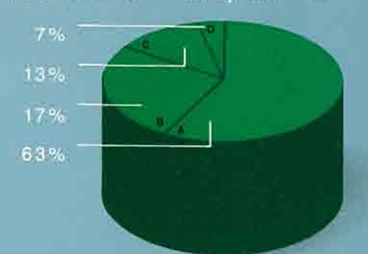
A Priority Overnight Service B Economy Two-Day Service C Standard Overnight Service D International Priority Service



1988



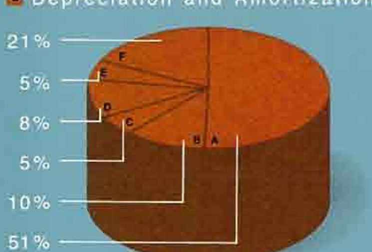
1989



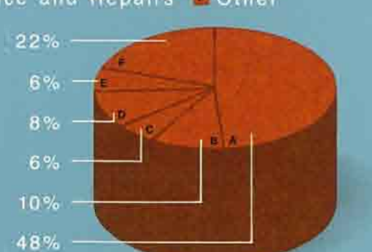
1990

Operating Expense Distribution (Percent to total)

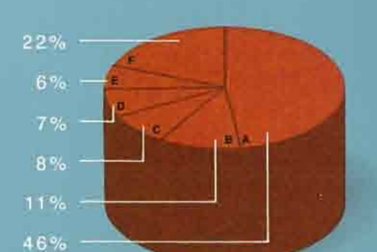
A Salaries and Employee Benefits B Equipment and Facility Rentals C Fuel
D Depreciation and Amortization E Maintenance and Repairs F Other



1988



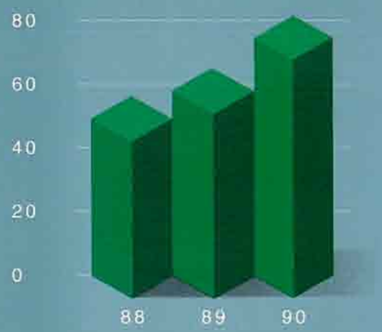
1989



1990

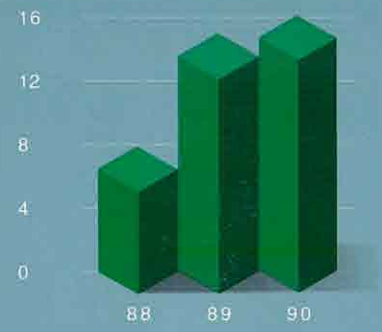
Employees (Full-time equivalents)

Thousands



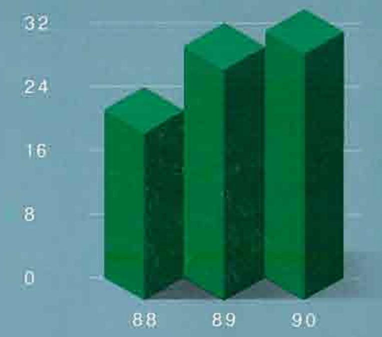
Aircraft Capacity

Millions of pounds



Vehicles

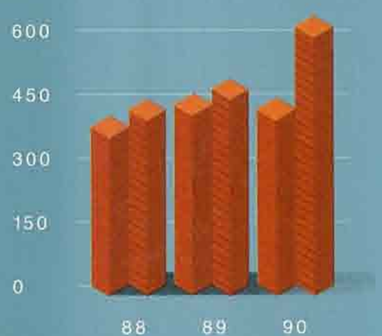
Thousands



Operating Income

Millions of dollars

- As Reported
- Domestic Operations



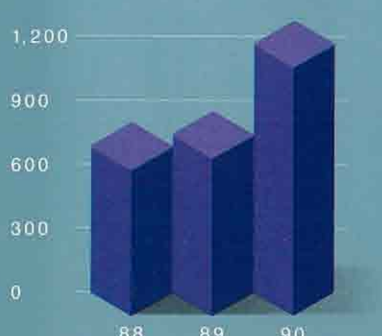
Interest Expense and Average Debt Levels

Millions of dollars

- Interest Expense
- Average Debt Levels

Capital Expenditures

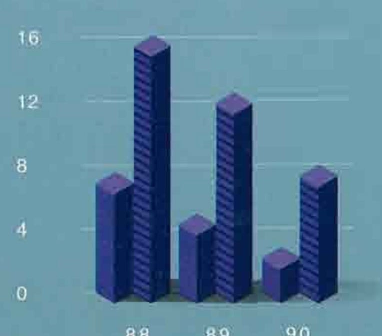
Millions of dollars



Return on Assets and Equity

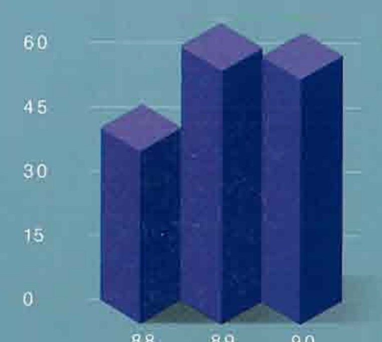
Percent

- Assets
- Equity



Debt Ratio

Percent



Financial Condition

Capital Expenditures. Capital expenditures in 1990 totaled $1.2 billion compared with $749 million in the prior year and $694 million in 1988, largely due to the Company's continued aggressive expansion of its global network.

The Company continually seeks opportunities to improve the cost effectiveness of its aircraft fleet and to balance capacity with market conditions through the acquisition and disposal of used aircraft at attractive prices and the addition to its fleet of new, technologically advanced aircraft. The Company acquired during 1990 two DC-10-10, 12 B727-100, 15 B727-200, 40 Cessna 208B and 12 F-27 aircraft. Also, deposits were made toward eight MD-11 aircraft that have an advanced three-engine design and are earmarked for use on the Company's international routes. Replacement of certain B747s with the MD-11s, deliveries of which begin in 1992, is expected to reduce operating costs in markets currently served by these B747s.

In addition to outlays for aircraft, capital expenditures are also being made to expand and improve sorting facilities. These expenditures have been necessitated primarily by domestic U.S. express volume growth and the Company's efforts to reduce costs through expanded automation of its package handling and routing systems.

The Company expects significant capital expenditures to continue in the future. For information on the Company's purchase commitments, refer to Note 11 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources. The Company's financial and liquidity position has been substantially altered by the Tiger acquisition and an aggressive capital expenditure program. Total debt as a percentage of total capitalization at year end was 58% versus 60% and 41% at the end of 1989 and 1988, respectively. Proceeds of $583 million from the sale-leaseback of B747 aircraft during 1990 were used primarily to reduce long-term borrowings. Borrowings from commercial paper, revolving credit facilities and public debt offerings were used, in addition to cash from operations, to fund capital expenditures. For information on the Company's future lease commitments, refer to Note 5 of Notes to Consolidated Financial Statements.

Cash provided by operating activities totaled approximately $516 million, $667 million and $545 million in 1990, 1989 and 1988, respectively. Growth in operations has directly affected changes in operating assets and liabilities, which resulted in a net cash outlay of $225 million in 1990 and a net cash inflow of $34 million in 1989. Contributing to the increase in receivables were overpayments of estimated Federal income taxes during 1990 that were received subsequent to year end.

Credit facilities are maintained with banking institutions in the U.S. and other countries where the Company conducts business. At year end, revolving credit facilities aggregated approximately $1.3 billion, of which $559 million was not being used. Commercial paper (rated A-2 by Standard & Poor's and P-2 by Moody's), supported by a portion of revolving credit facilities, is used to fund capital requirements when favorable rates are available. In addition to these sources, the Company has a $350 million shelf registration of an offering of debt securities filed with the Securities and Exchange Commission.

Financial Condition (continued)

In March 1990, Standard & Poor's placed the Company on "CreditWatch." In June 1990, Standard & Poor's confirmed the Company's previous long-term (BBB+) and short-term (A-2) debt ratings. Moody's downgraded the Company's long-term debt from Baa1 to Baa2, but confirmed its commercial paper rating at P-2. The Company's debt remains investment grade, but as a consequence of the Moody's downgrade, long-term borrowings may be slightly more costly.

Management expects cash from operations, borrowings under existing credit facilities, public debt offerings and lease financing arrangements to adequately meet the Company's future cash requirements. For further information concerning the Company's debt, including maturities over the next five years, refer to Note 4 of Notes to Consolidated Financial Statements.

Inflation and Changing Prices

Except for higher fuel costs during 1990, the effect of inflation has been minimal during the past three years. The Company's operations are capital intensive, and generally, the effect of inflation is to understate depreciation expense and overstate net income to the extent that current costs exceed original costs. The Company attempts to minimize the effect of inflation through methods such as securing significant long-term agreements for aircraft purchases.

Consolidated Statements of Income

Federal Express Corporation and Subsidiaries

Years ended May 31 In thousands, except per share amounts	1990	1989	1988
Revenues	$7,015,069	$5,166,967	$3,882,817
Operating Expenses:			
Salaries and employee benefits (Note 9)	3,045,250	2,308,969	1,799,584
Equipment and facility rentals (Note 5)	717,443	467,221	332,435
Fuel	521,256	269,803	176,938
Depreciation and amortization	479,188	387,318	289,578
Maintenance and repairs	424,923	279,121	187,542
Other	1,413,430	1,030,100	717,288
	6,601,490	4,742,532	3,503,365
Operating Income	413,579	424,435	379,452
Other Income (Expense):			
Interest, net (Note 1)	(188,109)	(115,260)	(67,108)
Gain on disposition of aircraft and related equipment	13,791	4,709	457
Other, net	(20,838)	(15,552)	(10,473)
	(195,156)	(126,103)	(77,124)
Income before Income Taxes and Cumulative Effect of Change in Accounting for Income Taxes	218,423	298,332	302,328
Provision for Income Taxes (Note 8)	102,659	131,881	114,612
Income before Cumulative Effect of Change in Accounting for Income Taxes	115,764	166,451	187,716
Cumulative Effect on Years Prior to 1989 of Change in Accounting for Income Taxes (Notes 1 and 8)	—	18,100	—
Net Income	$ 115,764	$ 184,551	$ 187,716
Earnings per Share (Note 7):			
Before cumulative effect of change in accounting for income taxes	$ 2.18	$ 3.18	$ 3.56
Cumulative effect on years prior to 1989 of change in accounting for income taxes	—	.35	—
	$ 2.18	$ 3.53	$ 3.56
Average Shares Outstanding (Note 7)	53,161	52,272	52,670

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

Federal Express Corporation and Subsidiaries

May 31 In thousands	1990	1989
Assets		
Current Assets:		
Cash, including short-term investments of $67,738 and $79,645	$ 98,499	$ 157,308
Receivables, less allowance for doubtful accounts of $36,800 and $38,225	997,808	767,278
Spare parts, supplies and fuel	110,573	83,563
Prepaid expenses and other	108,523	91,931
Total current assets	1,315,403	1,100,080
Property and Equipment, at cost (Notes 4, 5 and 11):		
Flight equipment	2,310,764	2,313,082
Package handling and ground support equipment	1,130,131	934,426
Computer and electronic equipment	671,207	553,204
Other	1,356,724	1,100,657
	5,468,826	4,901,369
Less accumulated depreciation and amortization	1,902,505	1,469,555
Net property and equipment	3,566,321	3,431,814
Other Assets:		
Excess of cost over net assets acquired (Notes 1 and 2)	588,874	593,938
Other	204,475	167,590
	793,349	761,528
	$5,675,073	$5,293,422

The accompanying Notes to Consolidated Financial Statements are an integral part of these balance sheets.

In thousands, except common shares	1990	1989
Liabilities and Stockholders' Investment		
Current Liabilities:		
Current portion of long-term debt (Note 4)	$ 70,082	$ 69,249
Accounts payable	454,445	398,502
Accrued expenses (Note 3)	715,687	621,345
Total current liabilities	1,240,214	1,089,096
Long-Term Debt, less current portion (Note 4)	2,148,142	2,138,940
Deferred Income Taxes and Other (Note 8)	637,530	571,862
Commitments and Contingencies (Notes 4, 5, 9, 11 and 12)		
Common Stockholders' Investment (Notes 7 and 9):		
Common Stock, $.10 par value; 100,000,000 shares authorized, 53,145,748 and 52,862,124 shares issued	5,315	5,286
Additional paid-in capital	639,676	625,828
Retained earnings	1,010,090	901,429
	1,655,081	1,532,543
Less treasury stock, at cost	21	26,619
Less deferred compensation related to stock plans	5,873	12,400
Total common stockholders' investment	1,649,187	1,493,524
	$5,675,073	$5,293,422

Consolidated Statements of Cash Flows

Federal Express Corporation and Subsidiaries

Years ended May 31 In thousands	1990	1989	1988
Operating Activities			
Income before cumulative effect of change in accounting for income taxes	$ 115,764	$ 166,451	$ 187,716
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization	479,188	387,318	289,578
Provision for uncollectible accounts	55,147	31,388	23,081
Provision for deferred income taxes and other	101,057	56,730	42,661
(Gain) loss from disposals of property and equipment	(8,084)	(4,160)	2,322
Changes in operating assets and liabilities, net of effects from purchases of businesses:			
Increase in receivables	(279,596)	(149,531)	(106,357)
Increase in spare parts, supplies and fuel and prepaid expenses	(51,404)	(46,400)	(10,899)
Increase in accounts payable and accrued expenses	119,838	243,792	98,020
Other, net	(14,261)	(13,523)	(6,994)
	517,649	672,065	519,128
Discontinued operations, net	(1,319)	(5,316)	26,336
Net cash provided by operating activities	516,330	666,749	545,464
Investing Activities			
Purchases of property and equipment	(1,164,061)	(749,099)	(693,564)
Proceeds from disposition of property and equipment:			
Sale-leaseback transactions	583,744	111,472	117,848
Other	19,722	61,351	13,378
Purchase of businesses, net of cash acquired	(30,975)	(625,005)	(19,765)
Other, net	(4,568)	(6,219)	(6,568)
Net cash used in investing activities	(596,138)	(1,207,500)	(588,671)
Financing Activities			
Proceeds from debt issuances	1,039,568	1,529,611	172,141
Principal payments on debt	(1,044,159)	(849,012)	(147,029)
Proceeds from stock issuances (includes treasury)	44,855	37,916	50,925
Purchases of treasury stock	(17,742)	(70,201)	—
Other, net	(1,523)	(5,200)	430
Net cash provided by financing activities	20,999	643,114	76,467
Net increase (decrease) in cash and cash equivalents	(58,809)	102,363	33,260
Cash and cash equivalents at beginning of period	157,308	54,945	21,685
Cash and cash equivalents at end of period	$ 98,499	$ 157,308	$ 54,945
Supplemental Disclosure of Cash Flow Information			
Cash paid for:			
Interest (net of capitalized interest)	$ 195,006	$ 102,676	$ 79,533
Income taxes	$ 130,000	$ 81,058	$ 28,250
Supplemental Schedule of Noncash Investing and Financing Activities			
Capital lease obligations and other debt incurred to acquire property and equipment	$ 2,700	$ 19,010	$ 78,224

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Common Stockholders' Investment

Federal Express Corporation and Subsidiaries

In thousands, except common shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Deferred Compen-sation
Balance at May 31, 1987	$5,163	$571,071	$ 536,386	$ —	$(33,700)
Dividends paid on preferred stock	—	—	(144)	—	—
Issuance of common stock under employee incentive plans (1,231,808 shares)	123	51,986	—	—	—
Amortization of deferred compensation	—	—	—	—	10,000
Foreign currency translation adjustment	—	—	2,078	—	—
Net income	—	—	187,716	—	—
Balance at May 31, 1988	5,286	623,057	726,036	—	(23,700)
Purchase of treasury stock	—	—	—	(70,201)	—
Issuance of treasury stock under employee incentive plans (1,009,876 shares)	—	2,771	(6,385)	43,582	—
Amortization of deferred compensation	—	—	—	—	11,300
Foreign currency translation adjustment	—	—	(2,773)	—	—
Net income	—	—	184,551	—	—
Balance at May 31, 1989	5,286	625,828	901,429	(26,619)	(12,400)
Purchase of treasury stock	—	—	—	(17,742)	—
Issuance of common and treasury stock under employee incentive plans (1,283,493 shares)	29	13,848	(5,270)	44,340	(7,109)
Amortization of deferred compensation	—	—	—	—	13,636
Foreign currency translation adjustment	—	—	(1,833)	—	—
Net income	—	—	115,764	—	—
Balance at May 31, 1990	$5,315	$639,676	$1,010,090	$ (21)	$ (5,873)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Note 1: Summary of Significant Accounting Policies

Principles of consolidation. The consolidated financial statements include the accounts of Federal Express Corporation and its wholly-owned subsidiaries (the ''Company''). All significant intercompany accounts and transactions have been eliminated.

Property and equipment. Expenditures for major additions, improvements and flight equipment modifications are capitalized. Maintenance and repairs are charged to expense as incurred, except for B747 aircraft overhaul maintenance which is accrued and charged to expense on the basis of hours flown; the actual overhaul cost is subsequently charged against the liability. The cost and accumulated depreciation of property and equipment disposed of are removed from the related accounts and any gain or loss reflected in income. However, gains on sale-leaseback transactions are deferred and amortized over the lease term.

For financial reporting purposes, depreciation and amortization of property and equipment is provided on a straight-line basis over the asset's service life or related lease term as follows:

Flight equipment	7 to 20 years
Package handling and ground support equipment	5 to 30 years
Computer and electronic equipment	3 to 10 years
Other	3 to 30 years

For income tax purposes, depreciation is generally computed using accelerated methods.

Capitalized interest. Interest on funds used to finance the acquisition of aircraft and construction of certain facilities up to the date the asset is placed in service is capitalized and included in the cost of the asset. Capitalized interest was $16,986,000, $8,798,000 and $11,436,000, for 1990, 1989 and 1988, respectively.

For income tax purposes, generally, capitalized interest on property placed in service prior to 1988 is deducted currently for personal property (primarily aircraft and sort equipment) and amortized over a 10-year period for real property (primarily facilities). For property placed in service on or after January 1, 1988, capitalized interest on property acquired under contract (principally aircraft) is depreciated over the life of the asset, and on all other property is deducted currently.

Short-term investments. Short-term investments are carried at cost, which approximates market, and consist of commercial paper, collateralized repurchase agreements, certificates of deposit, time deposits and other money-market instruments. Interest income earned on short-term investments was $11,128,000 in 1990, $16,368,000 in 1989, and $4,905,000 in 1988. The Company considers all of its short-term interest bearing investments, which are highly liquid and purchased with a term of three months or less, to be cash equivalents.

Spare parts, supplies and fuel. Spare parts, supplies and fuel are stated principally at standard cost (approximates actual cost on a first-in, first-out basis) which is not in excess of current replacement cost.

Excess of cost over net assets acquired. The excess of cost over net assets acquired is amortized on a straight-line basis over periods ranging up to 40 years. Accumulated amortization was $40,200,000 and $12,000,000 at May 31, 1990 and 1989, respectively.

Foreign currency translation. The Company conducts a significant amount of its business and has a number of operating facilities in countries outside the United States. Translation gains and losses of foreign operations that use local currencies as the functional currency are accumulated and recorded as a separate component of common stockholders' investment. Transaction gains and losses that arise from exchange rate fluctuations on transactions of foreign operations that use a functional currency other than the local currency are included in the Consolidated Statements of Income.

Income taxes. Effective June 1, 1988, the Company adopted Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," thereby changing the method of accounting for income taxes from the deferred method to the liability method, which requires deferred taxes to be recorded at the rate expected to be in effect when the deferred taxes are paid. The result of this change was to increase net income for 1989 by $18,100,000, or $.35 per share.

Deferred income taxes are provided for the tax effect of timing differences which occur in the recognition of certain expenses for tax and financial reporting purposes. Investment tax credits are accounted for using the flow-through method as a reduction of Federal income taxes in the year in which the related assets are placed in service.

Earnings per share. Earnings per share is computed based on net income and on the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are the number of shares of common stock that would be issued upon the exercise of all dilutive outstanding stock options.

Earnings per share assuming full dilution is substantially the same as earnings per share as stated and, accordingly, is not shown separately.

Reclassifications. Certain amounts for 1989 and 1988 have been reclassified to conform to the 1990 presentation.

Note 2: Acquisition of Tiger International, Inc.

On February 1, 1989, the Company acquired Tiger International, Inc. ("Tiger"). The Consolidated Statements of Income include Tiger's results of operations from that date.

The following presents pro forma results of operations, assuming the acquisition of Tiger had occurred at the beginning of 1988. These pro forma results of operations are not necessarily indicative of what would have occurred had the acquisition actually been consummated at the beginning of the periods presented, or of future results of the combined companies.

Year ended May 31 (Unaudited) In thousands, except per share amounts	1989	1988
Revenues	$6,097,914	$5,195,945
Income from continuing operations before cumulative effect of change in accounting for income taxes	157,067	172,289
Net income	175,167	157,289
Earnings per share:		
From continuing operations before cumulative effect of change in accounting for income taxes	3.00	3.27
Net earnings per share	$ 3.35	$ 2.99

The excess of cost over net assets acquired may be reduced by up to $146,000,000 in future years to the extent that tax benefits relating to Tiger net operating loss and credit carryforwards acquired are recognized for financial reporting purposes.

Note 3: Accrued Expenses

May 31 In thousands	1990	1989
Employee benefits	$164,844	$119,010
Insurance	139,132	80,731
Compensated absences	103,231	84,371
Taxes other than income taxes	58,911	58,889
Salaries	56,758	64,942
Interest	33,382	36,001
Other	159,429	177,401
	$715,687	$621,345

Note 4: Long-Term Debt

May 31 In thousands	1990	1989
Unsecured notes payable, interest rates of 8 1/8% to 12 1/8%, due through 1999	$ 776,446	$ 649,662
Unsecured term loan	—	525,000
Unsecured sinking fund debentures, interest rate of 9 5/8%, due through 2020	97,979	—
Term loan (payable in yen), interest rate of 6%, due through 1994	65,694	87,904
Revolving credit agreements and commercial paper, effective rate of 9.8%	709,106	203,238
Equipment trust certificates	—	103,593
Memphis-Shelby County Airport Authority Special Facilities Revenue Bonds, due through 2013, interest rates of 7 1/2% to 13 1/4%	245,070	245,070
Less bond reserve funds and unamortized discount	26,491	26,497
	218,579	218,573
Capital lease obligations and other debt, effective rates of 5 1/2% to 14 3/4%	350,420	420,219
	2,218,224	2,208,189
Less current portion	70,082	69,249
	$2,148,142	$2,138,940

The Company's credit facilities with domestic and foreign banks provide for a commitment of approximately $1,270,000,000. Interest rates for borrowings under these agreements are generally determined by maturities selected and prevailing market conditions. Of the total commitment, a portion supports the issuance of commercial paper. The agreements are subject to commitment and facility fees which are not material. The credit agreements contain certain covenants and restrictions, none of which is expected to significantly affect operations or the ability to pay dividends.

The Company has $100,000,000 Senior Notes due in 1991 and amounts outstanding under revolving credit agreements which have been classified as long-term debt, since the Company has the ability and the intent to refinance these borrowings on a long-term basis.

To minimize foreign exchange risk on the term loan (payable in yen), the Company has non-cancelable commitments from certain Japanese customers to purchase freight services through 1994. As a result, exchange rate gains and losses on the term loan are deferred and amortized over the remaining life of the loan as an adjustment to the related hedged revenue. As of May 31, 1990, a gain of approximately $9,700,000 has been deferred.

Special Facilities Revenue Bonds were issued by the Memphis-Shelby County Airport Authority to finance the acquisition and construction of various facilities and equipment at the Memphis International Airport. Lease agreements with the Authority covering the facilities and equipment financed with the bond proceeds obligate the Company for rentals equal to principal and interest due on the bonds.

Scheduled annual principal maturities of long-term debt for the five years subsequent to May 31, 1990, are as follows: $70,100,000 in 1991; $42,400,000 in 1992; $134,700,000 in 1993; $111,900,000 in 1994 and $169,800,000 in 1995.

Note 5: Lease Commitments

The Company utilizes certain aircraft, land, facilities, and equipment under capital and operating leases which expire at various dates through 2026. In addition, supplemental aircraft are leased under agreements which generally provide for cancellation upon 60 days' notice.

Property and equipment recorded under capital leases at May 31 was as follows:

In thousands	1990	1989
Flight equipment	$228,608	$234,718
Package handling and ground support equipment	365,901	354,862
Computer and electronic equipment	58,006	57,414
Other	134,085	134,085
	786,600	781,079
Less accumulated amortization	331,581	263,323
	$455,019	$517,756

Rent expense under operating leases for the years ended May 31 was as follows:

In thousands	1990	1989	1988
Minimum rentals	$586,834	$374,193	$265,687
Contingent rentals	130,609	93,028	66,748
	$717,443	$467,221	$332,435

Contingent rentals are based on mileage under supplemental aircraft leases.

A summary of future minimum lease payments under capital leases and non-cancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 1990 follows:

In thousands	Capital Leases	Operating Leases
1991	$ 82,437	$ 403,666
1992	69,224	363,153
1993	59,879	288,980
1994	57,336	261,217
1995	57,810	244,342
Thereafter	735,560	2,143,263
	$1,062,246	$3,704,621

At May 31, 1990, the present value of future minimum lease payments for capital lease obligations, including the Special Facilities Revenue Bonds, was $467,755,000.

Note 6: Preferred Stock

The Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 4,000,000 shares of Series Preferred Stock. The stock is issuable in series which may vary as to certain rights and preferences and has no par value. As of May 31, 1990, none of these shares had been issued.

Note 7: Common Stockholders' Investment

Under the provisions of the Company's stock incentive plans, options may be granted to certain key employees to purchase common stock of the Company at a price not less than its fair market value at the date of grant. The following summarizes information for the past three years with respect to those plans:

	Number of Shares Under Option	Option Price Per Share
Outstanding at May 31, 1987	2,056,137	$ 8.00 - $70.19
Granted	2,242,100	$39.94 - $70.94
Exercised	(244,755)	$ 8.00 - $62.00
Cancelled	(1,044,866)	$23.59 - $70.94
Outstanding at May 31, 1988	3,008,616	$ 8.00 - $70.19
Granted	154,975	$43.63 - $48.50
Exercised	(204,826)	$16.19 - $45.00
Cancelled	(127,220)	$23.59 - $69.25
Outstanding at May 31, 1989	2,831,545	$ 8.00 - $70.19
Granted	1,134,675	$45.13 - $54.63
Exercised	(222,438)	$ 8.00 - $47.50
Cancelled	(67,531)	$33.50 - $70.19
Outstanding at May 31, 1990	3,676,251	$16.19 - $70.19
Exercisable at May 31, 1990	1,663,720	$16.19 - $70.19

At May 31, 1990, there were 903,432 shares available for future grants.

The Company has an employee stock purchase plan which provides for the purchase of common stock by non-officer employees at a price which approximates 85% of market. During 1990, 910,995 shares were issued under this plan at prices ranging from $36.86 to $42.69 per share.

Under the terms of the Company's 1986 Restricted Stock Plan, 162,500 shares of the Company's common stock were granted to key employees during 1990. Restrictions on the shares lapse at a rate of 20% per year on the anniversary of their date of grant. Deferred compensation related to this plan is recorded as a reduction of common stockholders' investment and is being amortized as restrictions on such shares lapse.

At May 31, 1990, there were 5,887,396 shares of common stock reserved for issuance under the above-mentioned plans.

The Board of Directors has authorized the Company to purchase up to 10% of its common shares on the open market. As of May 31, 1990, a total of 2,009,600 shares at an average cost of $43.76 per share had been purchased and reissued under the above-mentioned plans.

Note 8: Income Taxes

Year ended May 31 In thousands	1990	1989	1988
Current Provision:			
Federal	$ 21,947	$ 85,508	$ 81,929
State	7,903	9,618	5,215
Total current provision	29,850	95,126	87,144
Deferred Provision:			
Federal	69,310	27,241	19,378
State	3,499	9,514	8,090
Total deferred provision	72,809	36,755	27,468
	$102,659	$131,881	$114,612

The effective tax rates were 47.0% in 1990, 44.2% in 1989 and 37.9% in 1988. Impacting the effective tax rates were non-deductible foreign losses of approximately $64,600,000, $25,900,000 and $15,700,000, amortization of excess of cost over net assets acquired of $17,900,000, $6,500,000 and $1,200,000 in 1990, 1989 and 1988, respectively, as well as a Federal income tax deduction of approximately $55,000,000 in 1990 related to the corporate restructuring of a foreign subsidiary. Effective tax rates for 1989 and 1988 reflect utilization of investment tax credits of $5,000,000 and $4,900,000, respectively.

The tax effect of items included in the Federal deferred tax provision consisted of:

Year ended May 31 In thousands	1990	1989	1988
Depreciation	$ 15,116	$ 30,431	$ 46,809
Gains on sales of fixed assets	(160,258)	(22,543)	(12,580)
Investment in tax lease	—	—	(3,399)
ITC carryover	37,745	38,198	5,804
Net operating loss carryforward	153,000	—	—
Employee benefits	26,147	(9,336)	(165)
Self insurance reserves	(19,354)	(5,903)	(3,433)
Other	16,914	(3,606)	(13,658)
	$ 69,310	$ 27,241	$ 19,378

The impact on the 1989 tax provision of adopting Statement of Financial Accounting Standards No. 96, "Accounting for Income Taxes," was not material.

Note 9: Postretirement Benefit Plans

The Company sponsors pension plans covering substantially all employees. The largest plan, the Federal Express plan, covers individuals age 21 and over, with at least one year of service and provides benefits based on final average earnings and years of service. Plan funding is actuarially determined, subject to certain tax law limitations. Domestic defined benefit plans covering former Tiger employees were merged into the Federal Express plan during 1990. At the date of merger, benefits accrued under the Tiger plans were generally frozen and benefits began accruing under the terms of the Federal Express plan.

International defined benefit plans provide benefits primarily based on final earnings and years of service and are funded in accordance with local laws and income tax regulations. In 1990 the Company adopted the provisions of Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," for its international defined benefit pension plans. The effect of the change on net periodic pension cost was not material.

The following table sets forth the plans' funded status as of May 31:

In thousands	1990	1989	
		Assets Exceed Accumulated Benefits	Accumulated Benefits Exceed Assets
Actuarial present value of the projected benefit obligation for service rendered to date	$1,092,510	$644,161	$183,467
Less plan assets at fair value	729,355	503,274	119,617
Projected benefit obligation in excess of plan assets	363,155	140,887	63,850
Unrecognized net gains (losses) from past experience different from that assumed and effects of changes in assumptions	(96,672)	7,875	(7,974)
Prior service cost not yet recognized in net periodic cost	(34,299)	(93,418)	—
Unrecognized transition amount	(1,223)	(264)	—
Pension liability	$ 230,961	$ 55,080	$ 55,876
Accumulated benefit obligation	$ 699,352	$367,126	$159,755
Vested benefit obligation	$ 633,478	$338,584	$127,080

Net pension cost for the years ended May 31 included the following components:

In thousands	1990	1989	1988
Service cost–benefits earned during the period	$103,051	$ 66,617	$ 52,749
Interest cost on projected benefit obligation	75,691	41,308	23,587
Actual return on plan assets	(73,015)	(56,206)	2,877
Net amortization and deferral	13,856	26,710	(24,903)
Net periodic pension cost	$119,583	$ 78,429	$ 54,310

Note 9: Postretirement Benefit Plans (continued)

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligations were 8.6% and 7.0% in 1990, 9.0% and 7.0% in 1989 and 8.6% and 7.0% in 1988, respectively. The expected long-term rate of return on assets was 9.5% in 1990 and 1989 and 10.5% in 1988. Plan assets consist primarily of marketable equity securities and fixed income instruments.

In 1986, the Company established an Employee Stock Ownership Plan (ESOP) which borrowed $50,000,000 from the Company and used the proceeds to purchase 992,556 shares of the Company's unissued common stock for the benefit of eligible employees. Contributions are made by the Company to the ESOP sufficient to pay principal and interest on the loan with the final payment due in 1991. Deferred compensation related to this plan is recorded as a reduction of common stockholders' investment and is amortized over the term of the loan.

The Company also has a deferred profit sharing plan, which covers substantially all employees with three months' continuous service with the Company as of the contribution date, as defined. The plan provides for discretionary contributions by the Company which are determined annually by the Board of Directors. Deferred profit sharing expense was $44,900,000 in 1990 and $14,700,000 in 1989.

In addition to the above benefits, the Company provides certain health care benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits at age 55 and older, if they have permanent, continuous service with the Company of at least 10 years if hired prior to January 1, 1988, or at least 20 years if hired on or after January 1, 1988. These and similar benefits for approximately 75,000 active employees are expensed at the time claims are incurred. Total health care benefit costs were $127,000,000 in 1990, $104,000,000 in 1989 and $62,000,000 in 1988. The cost of providing health care benefits for retired employees is not significant.

Note 10: Geographic Information

The Company operates in a single industry—the time-definite transportation and distribution of goods and documents throughout the world. Summarized information for domestic and international operations follows:

Year ended May 31 In thousands	1990	1989	1988
Revenues:			
Domestic	$4,784,887	$4,144,827	$3,459,427
International	2,230,182	1,022,140	423,390
	$7,015,069	$5,166,967	$3,882,817
Operating Income (Loss):			
Domestic	$ 608,069	$ 467,143	$ 409,977
International	(194,490)	(42,708)	(30,525)
	$ 413,579	$ 424,435	$ 379,452

International shipments, for purposes of these disclosures, are defined as those in which either the origin or destination of the shipment is outside the United States. International identifiable assets were $1,877,000,000 and $2,286,100,000 at May 31, 1990 and 1989, respectively. Identifiable assets used jointly by domestic and international operations have been allocated based on estimated usage.

Note 11: Commitments

Under various contracts, the Company is committed to purchase eight MD-11, 12 B727-100, 38 B727-200, one DC-10-10, seven F-27 and 59 C208B aircraft to be delivered through 1994. At May 31, 1990, deposits and progress payments of approximately $85,800,000 had been made toward these purchases. Further deposits and payments for aircraft acquisitions are expected to approximate $279,800,000, $349,700,000, $346,400,000 and $14,400,000 in 1991 through 1994, respectively.

During 1991, the Company anticipates capital expenditures will approximate $1 billion. In addition to the commitments discussed above, other substantial commitments have been made as of May 31, 1990. With the exception of committed capital expenditures, the amount and timing of expenditures will depend on various factors which cannot be predicted including future volumes, the introduction of new products and services, service area expansion and the availability of satisfactory financing.

Note 12: Legal Proceedings

In May 1990, a shareholder of the Company filed a purported class-action suit in the United States District Court for the Western District of Tennessee against the Company and two of its executive officers (who are also directors of the Company) alleging fraud and violations of Sections 10(b) and 20 of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. Three other shareholders filed separate lawsuits containing substantially similar allegations. An unspecified amount of damages is sought. The separate actions have been consolidated and a consolidated complaint will be served on the defendants in the near future. At this time, the Company is continuing its investigation and intends to vigorously defend the claims.

The Company is subject to other legal proceedings and claims which arise in the ordinary course of its business. In the opinion of management, the aggregate amount of ultimate liability (if any) with respect to these other actions will not materially adversely affect the financial position or results of operations of the Company.

Note 13: Summary of Quarterly Operating Results

Unaudited In thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1990				
Revenues	$1,647,453	$1,724,149	$1,729,257	$1,914,210
Operating income	108,469	127,914	61,674	115,522
Income before income taxes	59,658	80,813	10,859	67,093
Net income	30,422	37,004	5,213	43,125
Earnings per share	$ .58	$ .70	$ .10	$ .81
Average shares outstanding	52,716	53,216	53,107	53,458
1989				
Revenues	$1,078,490	$1,136,139	$1,283,777	$1,668,561
Operating income	100,184	114,459	85,583	124,209
Income before income taxes	82,297	91,296	63,315	61,424
Income before cumulative effect of change in accounting for income taxes	48,226	52,457	24,795	40,973
Cumulative effect on prior years of change in accounting for income taxes	18,100	—	—	—
Net income	66,326	52,457	24,795	40,973
Earnings per share:				
Before cumulative effect of change in accounting for income taxes	.92	1.01	.47	.78
Cumulative effect of change in accounting for income taxes	.34	—	—	—
Net earnings per share	$ 1.26	$ 1.01	$ .47	$ .78
Average shares outstanding	52,437	51,932	52,320	52,398

Report of Independent Public Accountants

To the Stockholders of Federal Express Corporation:

We have audited the accompanying consolidated balance sheets of Federal Express Corporation (a Delaware corporation) and subsidiaries as of May 31, 1990 and 1989, and the related consolidated statements of income, changes in common stockholders' investment and cash flows for each of the three years in the period ended May 31, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Express Corporation and subsidiaries as of May 31, 1990 and 1989, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 1990, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, effective June 1, 1988, the Company changed its method of accounting for income taxes.

Arthur Andersen + Co.

Memphis, Tennessee,
July 12, 1990.

Selected Consolidated Financial Data

Federal Express Corporation and Subsidiaries

Years ended May 31 In thousands, except per share amounts and Other Operating Data	1990	1989	1988
Operating Results			
Revenues	$7,015,069	$5,166,967	$3,882,817
Operating expenses	6,601,490	4,742,532	3,503,365
Operating income	413,579	424,435	379,452
Other income (expense)	(195,156)	(126,103)	(77,124)
Income before income taxes	218,423	298,332	302,328
Income taxes	102,659	131,881	114,612
Income from continuing operations	115,764	166,451	187,716
Loss from discontinued operations	—	—	—
Cumulative effect of change in accounting for income taxes	—	18,100	—
Net income (loss)	$ 115,764	$ 184,551	$ 187,716
Earnings Per Share			
Earnings (loss) per share:			
Continuing operations	$ 2.18	$ 3.18	$ 3.56
Discontinued operations	—	—	—
Cumulative effect of change in accounting for income taxes	—	.35	—
Net earnings (loss) per share	$ 2.18	$ 3.53	$ 3.56
Average shares outstanding	53,161	52,272	52,670
Financial Position			
Current assets	$1,315,403	$1,100,080	$ 630,005
Property and equipment, net	3,566,321	3,431,814	2,231,875
Total assets	5,675,073	5,293,422	3,008,549
Current liabilities	1,240,214	1,089,096	572,052
Long-term debt	2,148,142	2,138,940	838,730
Common stockholders' investment	1,649,187	1,493,524	1,330,679
Other Operating Data			
Express package:			
Average daily package volume	1,246,311	1,059,882	877,543
Average pounds per package	5.3	5.4	5.3
Average revenue per pound	$ 3.12	$ 3.04	$ 3.10
Average revenue per package	$ 16.50	$ 16.28	$ 16.32
Heavyweight:			
Average daily pounds	3,310	4,019	—
Average revenue per pound	$ 1.12	$ 1.06	$ —
Average number of employees	75,102	58,136	48,556
Aircraft fleet at end of year:			
Boeing 747s	19	21	—
McDonnell Douglas DC-10s	26	24	21
McDonnell Douglas DC-8s	6	6	—
Boeing 737s	—	—	—
Boeing 727s	130	106	68
Cessna 208s	184	147	109
Fokker F-27s	19	7	5
Dassault Falcons	—	—	—
Vehicle fleet at end of year	31,000	28,900	21,000

1987	1986	1985	1984	1983	1982	1981
$3,178,308	$2,573,229	$2,015,920	$1,436,305	$1,008,087	$803,915	$589,493
2,813,565	2,229,208	1,757,303	1,247,553	857,350	684,449	489,758
364,743	344,021	258,617	188,752	150,737	119,466	99,735
(52,858)	(38,936)	(46,345)	(11,948)	(521)	11,614	(1,691)
311,885	305,085	212,272	176,804	150,216	131,080	98,044
144,933	112,414	73,532	51,373	61,283	52,695	39,908
166,952	192,671	138,740	125,431	88,933	78,385	58,136
(232,523)	(60,832)	(62,663)	(10,001)	—	—	—
—	—	—	—	—	—	—
$ (65,571)	$ 131,839	$ 76,077	$ 115,430	$ 88,933	$ 78,385	$ 58,136
$ 3.21	$ 3.86	$ 2.94	$ 2.74	$ 2.03	$ 1.85	$ 1.42
(4.48)	(1.22)	(1.33)	(.22)	—	—	—
—	—	—	—	—	—	—
$ (1.27)	$ 2.64	$ 1.61	$ 2.52	$ 2.03	$ 1.85	$ 1.42
51,905	49,840	46,970	45,448	43,316	41,788	40,222
$ 507,480	$ 613,290	$ 423,144	$ 328,136	$ 265,171	$194,265	$166,952
1,861,432	1,551,845	1,346,023	1,112,639	596,392	457,572	373,250
2,499,511	2,276,362	1,899,506	1,525,805	991,717	730,291	570,112
503,725	431,910	316,878	255,910	175,293	114,596	113,846
744,914	561,716	607,508	435,158	247,424	223,856	162,705
1,078,920	1,091,714	812,267	717,721	503,794	350,319	270,875
704,392	550,306	406,049	263,385	166,428	125,881	87,191
5.1	5.3	5.6	5.5	5.8	6.5	8.4
$ 3.33	$ 3.40	$ 3.45	$ 3.80	$ 4.02	$ 3.81	$ 3.15
$ 16.97	$ 17.92	$ 19.19	$ 21.03	$ 23.42	$ 24.79	$ 26.29
—	—	—	—	—	—	—
$ —	$ —	$ —	$ —	$ —	$ —	$ —
41,047	31,582	26,495	18,368	12,507	10,092	8,080
—	—	—	—	—	—	—
19	15	11	10	6	4	4
—	—	—	—	—	—	—
—	—	—	—	—	—	1
60	53	53	47	38	31	25
66	34	9	—	—	—	—
—	—	—	—	—	—	—
—	—	—	—	32	32	32
18,700	14,500	12,300	9,000	5,000	4,000	2,500

Form 10-K: A copy of Federal Express' Form 10-K annual report, filed with the Securities and Exchange Commission, is available free. You will be mailed a copy upon request to Investor Relations Department, Federal Express Corporation, Box 727, Dept. 1854, Memphis, Tennessee 38194, (901) 395-3478.

Stock Listing: The Company's common stock is listed on The New York Stock Exchange and The Toronto Stock Exchange under the ticker symbol FDX.

Stockholders: At June 30, 1990, there were 7,132 stockholders of record.

Market Information: Following are high and low closing prices, by quarters, for Federal Express stock in fiscal 1989 and 1990. No cash dividends have been declared.

Closing Prices of Common Stock		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 1989	High	$45.50	$51.00	$56.13	$51.88
	Low	41.25	42.63	46.38	42.75
FY 1990	High	$57.00	$57.88	$51.50	$57.25
	Low	42.88	46.88	43.88	45.75

Annual Meeting: The annual meeting of stockholders will be held at the Peabody Hotel, 149 Union Avenue, Memphis, Tennessee, on Monday, September 24, 1990, at 10:00 AM, CDT.

Registrars and Transfer Agents

Michael R. Phalen
First National Bank of Chicago
Suite 0123
Chicago, Illinois 60670
(312) 407-4885

Mark Meyers
Montreal Trust
66 Temperance St.
Toronto, Ontario M5H 1Y7
(416) 981-9500

Corporate Headquarters

2005 Corporate Avenue
Memphis, Tennessee 38132
(901) 369-3600

Inquiries: For financial information, contact G. Edmond Clark, Manager of Investor Relations, Federal Express Corporation, Box 727, Dept. 1854, Memphis, Tennessee 38194, (901) 395-3478. For general information, contact Daniel N. Copp, Managing Director of Public Relations, Federal Express Corporation, Box 727, Dept. 1850, Memphis, Tennessee 38194, (901) 395-3460.

Auditors

Arthur Andersen & Co.
Memphis, Tennessee

Equal Employment Opportunity
Federal Express Corporation is firmly committed to afford Equal Employment Opportunity to all individuals regardless of age, sex, race, color, religion, national origin, citizenship, physical handicap, or status as a Vietnam era or special disabled veteran. We are strongly bound to this commitment because adherence to Equal Employment Opportunity principles is the only acceptable American way of life. We adhere to those principles not just because they're the law, but because it's the right thing to do.

Service Marks
Federal Express, the Federal Express logo, PartsBank, COSMOS, FedEx, Heavyweight, Flying Tigers, Tiger, POWERSHIP 2 and POWERSHIP PLUS are service marks of Federal Express Corporation. Reg. U.S. Pat. & Tm. Off.

Design: The Graphic Expression, Inc., New York

Federal Express Corporation
2005 Corporate Avenue
Memphis, Tennessee 38132

U.S. Mail: Box 727
Memphis, Tennessee 38194