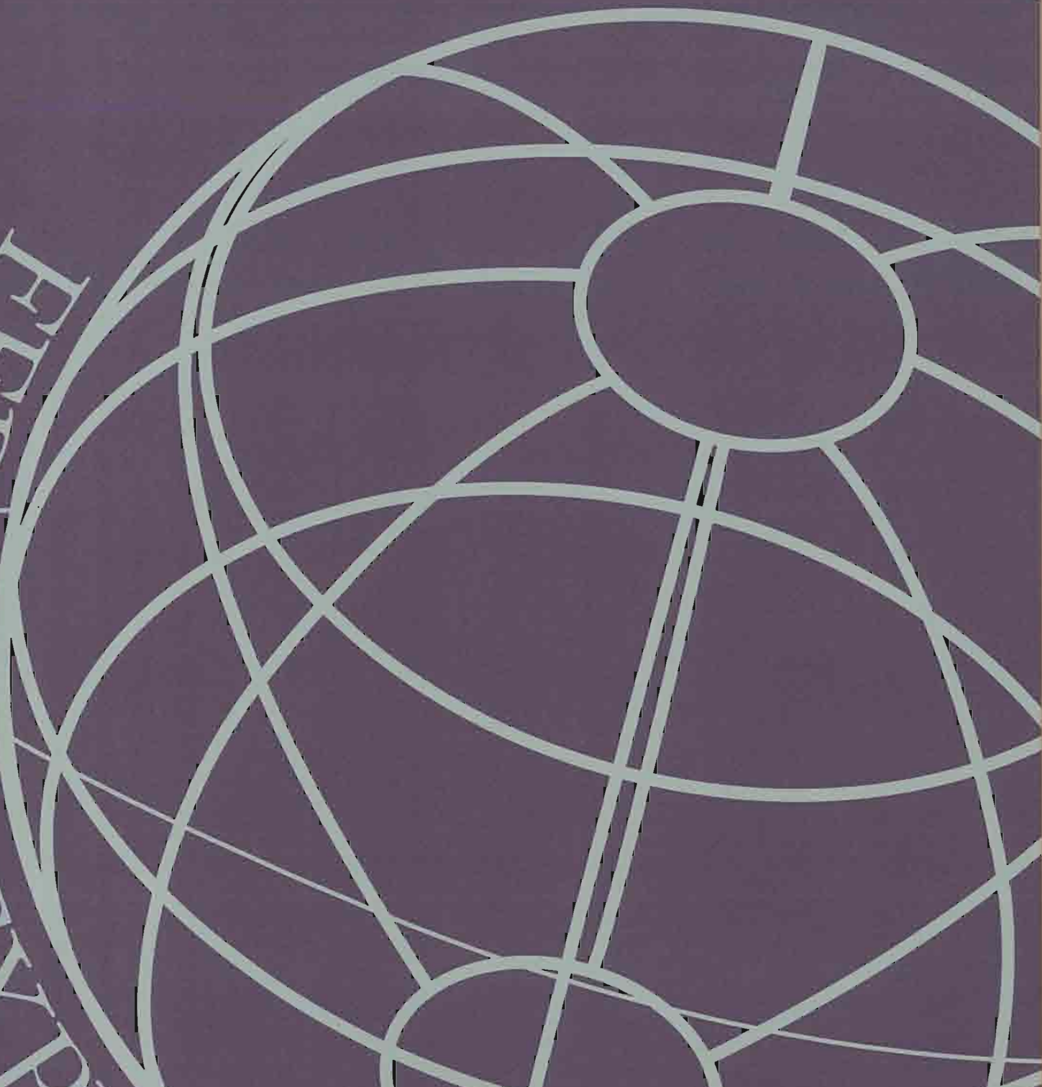
1991 Annual Report



Federal Express Corporation

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.

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Financial Highlights

Consolidated Financial Highlights

Federal Express Corporation and Subsidiaries

Years ended May 31

In thousands, except per share amounts and Other Operating Data	1991	1990	1989
Operating Results			
Revenues	$ 7,688,296	$ 7,015,069	$ 5,166,967
Operating income	279,793	413,579	424,435
Income before income taxes	40,942	218,423	298,332
Income before cumulative effect of change in accounting for income taxes	5,898	115,764	166,451
Net income	5,898	115,764	184,551
Earnings per share:			
Before cumulative effect of change in accounting for income taxes	.11	2.18	3.18
Net earnings per share	$ .11	$ 2.18	$ 3.53
Average shares outstanding	53,350	53,161	52,272
Financial Position			
Working capital (deficit)	$ (210,925)	$ 75,189	$ 10,984
Property and equipment, net	3,624,026	3,566,321	3,431,814
Total assets	5,672,461	5,675,073	5,293,422
Long-term debt	1,826,781	2,148,142	2,138,940
Common stockholders' investment	1,668,620	1,649,187	1,493,524
Other Operating Data			
Express package:			
Average daily package volume	1,309,973	1,233,628	1,059,882
Average pounds per package	5.5	5.3	5.4
Average revenue per pound	$ 3.11	$ 3.14	$ 3.04
Airfreight:			
Average daily pounds	2,880,106	3,310,494	4,019,353
Average revenue per pound	$ 1.17	$ 1.12	$ 1.06
Aircraft fleet at end of year:			
Boeing 747-100s	8	9	8
Boeing 747-200s	10	10	13
McDonnell Douglas MD-11s	1	–	–
McDonnell Douglas DC-10-10s	11	10	8
McDonnell Douglas DC-10-30s	16	16	16
McDonnell Douglas DC-8-73s	–	6	6
Boeing 727-100s	92	89	80
Boeing 727-200s	57	41	26
Cessna 208As	10	37	38
Cessna 208Bs	184	147	109
Fokker F-27s	26	19	7
Vehicle fleet at end of year	32,800	31,000	28,900
Average number of employees (based on a standard full-time workweek)	81,711	75,102	58,136

To Our Stockholders

Federal Express's financial performance was disappointing in fiscal 1991. Although total revenues increased by 10 percent to $7.7 billion, operating income declined by 32 percent to $279.8 million, pretax income by 81 percent to $40.9 million, and net income and earnings per share by 95 percent to $5.9 million and $.11, respectively.

As we reported in our third quarter, several unusual charges were major contributors to these results. In addition, our U.S. domestic profitability was constrained and our international losses increased in response to an economic environment that was difficult for most industries and particularly harsh for transportation companies. The economies on which Federal Express depends, primarily those of North America and Europe, were either in a recession or trending downward for much of the twelve-month period ending in May 1991. Also, international trade – especially on our key Pacific routes – declined in tandem with the U.S. economy. These declines in economic activity affected not only the level of our volumes but also our ability to adjust prices. For example, following Iraq's invasion of Kuwait, our aircraft fuel costs rose sharply and, for the year as a whole, were 29 percent above last year's comparable expense. However, the lack of sufficient demand for air cargo capacity on many routes prevented carriers from recouping the increase in costs through higher prices for transportation services.

Regardless of the causes of our financial performance, we are very dissatisfied with our overall results – as well as our results prior to the unusual items. We are not in a "business as usual" mode at Federal Express, nor have we been for some time. We have pared discretionary spending across a broad front, reduced head count in non-package support areas through attrition and reassignment, and taken steps to strictly limit controllable expenses in fiscal 1992. At the same time, we have strengthened our marketing and sales staffs internationally, particularly in Europe, to coincide with the development of increasingly differentiated services. Suffice it to say that we are intently focused on the hard lessons we've learned, and we fully expect to benefit from the experience as we go forward.

This should not imply, however, that the year was devoid of significant accomplishments. Nothing could be further from the truth, and we will discuss this more fully in the following section of this report.

The most outstanding event for Federal Express during the year was our being chosen as the first company to win the Malcolm Baldrige National Quality Award in the Service Company category. Since our first day of operations, an intense focus on the needs of our customers and an absolute commitment to continuous quality improvement have defined Federal Express. Therefore, we were gratified by the recognition, and in the aftermath, we have rededicated ourselves to achieving our goals of 100 percent on-time deliveries, 100 percent information accuracy, and 100 percent customer satisfaction after every contact with Federal Express.

We offered major new services to customers in 1991. For example, we now provide an Overnight Freight Service within the United States for next-day-by-noon delivery for individual packages weighing up to 500 pounds. Actually, we will take packages for overnight delivery of almost any weight. We simply ask the customer to call us to make advance arrangements for any package over 500 pounds. Also, we introduced in the United States a Collect-On-Delivery Service which allows shippers to send a package with payment collected by Federal Express on delivery. The service offers the fastest payment return available – overnight, in most cases.

Internationally, our new EXPRESSfreighter℠ Service – with direct flights into our North American hubs – substantially reduces transit times on intercontinental routes. In the Hong Kong and southern United Kingdom markets, for example, we now offer late afternoon pickups for delivery the next morning by 10:30 to most addresses in the United States and Canada as well as many in Mexico. In the Orient, we accomplish this "miracle" with non-stop flights into our Anchorage hub; from Europe, flights are scheduled non-stop into Memphis. As we expand EXPRESSfreighter in the coming months, we expect to realize the benefits of a truly differentiated international express service for both our International Priority℠ Service and International EXPRESSfreight℠ Service.

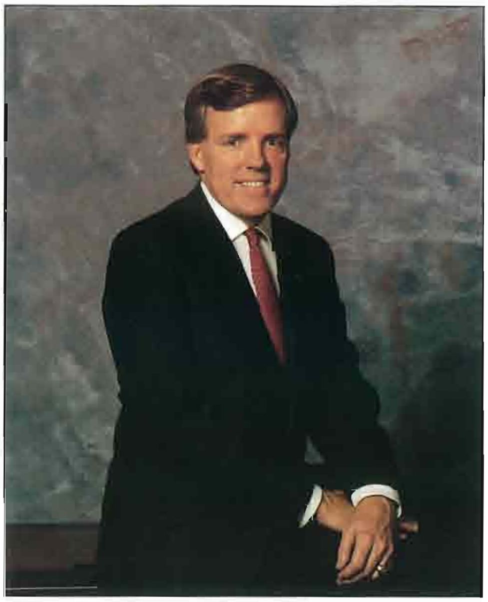
Just as significant as our new services in 1991 were enhancements to existing services. FedEx Standard Overnight℠ Service in the United States (SOS for short), with deliveries to most addresses next business day by 3 p.m., was initially limited to five pounds. In 1990, we offered the service up to 150 pounds in test markets which confirmed both enthusiastic customer acceptance and operational feasibility. So on April 1, we launched SOS up to 150 pounds. Customer acceptance has so far exceeded our expectations.

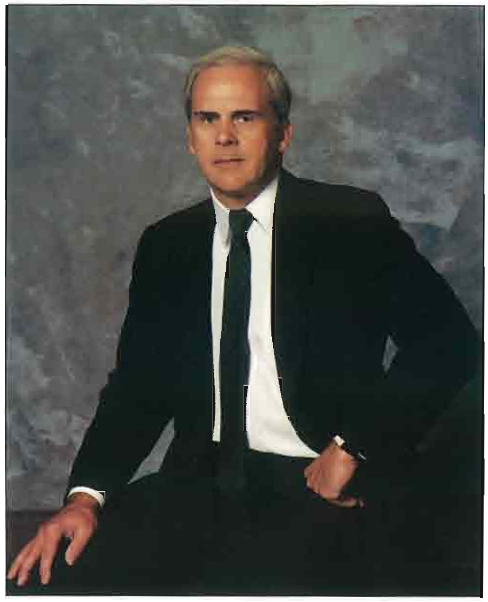
Internationally, we expanded our service to 129 countries, including the USSR and Eastern Europe. By the end of fiscal 1992, Federal Express plans to provide service to 170 countries.

Our international charter services were very active in fiscal 1991, especially with demand from the Department of Defense to transport cargo and personnel in support of Operations Desert Shield and Desert Storm.

Our outlook for fiscal 1992 is very cautious. We do not expect a near-term end to the economic weakness in our major markets, and we expect those markets to become increasingly competitve.

Our strategies are long-term and focused on one mission – to provide our customers with totally reliable, competitively superior global air/ground transportation of high-priority goods and documents that require rapid, time-certain delivery. Through that focus – and strict adherence to our People-Service-Profit philosophy – we will strive to earn the confidence of our customers, employees and stockholders.





James L. Barksdale
Executive Vice President
and Chief Operating Officer

Frederick W. Smith
Chairman, President
and Chief Executive Officer

Review Of Operations

Our License To Practice

It was both an end, and a beginning. On December 16, 1990, President George Bush presented to Federal Express Corporation the 1990 Malcolm Baldrige National Quality Award. Federal Express thus became the first company to receive the award in the service category. Though it might have been tempting to view the award as a culmination of the company's seventeen-year path to service excellence, Chief Executive Officer Frederick W. Smith interpreted the recognition differently.

When he addressed the delegation representing the company in Washington, he called the award "Our License to Practice." In his view, the intense scrutiny of the Baldrige Award examiners, and their ultimate ranking of Federal Express as a world-class practitioner of the quality process, simply meant that we had now made it to the starting gate. The drive toward total quality, in every facet of the company's operation, had really just begun.

Fiscal 1991 was, in fact, a watershed year for the company's quality movement. Aside from the Baldrige Award, the company made dramatic progress in improving quality, as measured from the customer's point of view. The company's internal quality measurement, called Service Quality Indicators, achieved its best performance ever during the year. By year end, the company had achieved new records for daily, weekly and monthly service.

Through Quality Action Teams (QATs) operating in all sectors of the company, operating costs were driven down while quality performance went up. Productivity improvements meant that our head count during the year grew at only half the rate of package volume. These QATs empowered employees — management and non-management alike — to find new answers to pressing business problems. And by training all employees in the quality methods, these teams had the problem-solving tools needed to find new solutions.

The end result of these efforts is customer satisfaction. And during the year, a survey of air express users indicated customer satisfaction with Federal Express up considerably from a year earlier. Overall satisfaction with our service increased 12 percentage points from the previous year, despite major efforts by competitors to enhance their own services and increase customer awareness through advertising.

In many respects, it was this comprehensive commitment to quality management that helped the company weather the effects of global recession, softening worldwide demand, meteoric fuel price increases, and the Persian Gulf War.

Quality and Value — Customers Demand Both

As the express market in the United States has matured, customers are demanding increased value for their shipping dollars. Recognizing this trend, we launched a number of new services and enhanced others during the year.

In April, FedEx Standard Overnight℠ Service (SOS) was expanded from a five-pound limit to 150 pounds. This product offers customers next afternoon delivery at a price that is highly competitive with all other next day services in the marketplace. This lower-cost option provides customers with a choice: early morning delivery with FedEx Priority Overnight℠ Service, or delivery later in the day at a money-saving price. Initial customer response has been very encouraging, with volumes running well ahead of forecast and self-dilution (FedEx® customers shifting from Priority Overnight to SOS) occurring at an acceptably low rate.

In April, we also launched Overnight Freight Service (OFS) in the United States, which provides next-day-by-noon delivery for individual packages weighing up to 500 pounds. And with advance arrangements, we will accept packages of virtually any weight for overnight delivery. We continued to offer a two-day freight service with a delivery commitment of 4:30 p.m., and demand for both services has been running ahead of our pre-launch forecasts.

Our efforts to enhance value to customers meant a 60 percent growth in Powership™ systems, FedEx computers which are installed at customer locations. These computers allow customers to speed up the entire shipping process by eliminating the need for airbills. They also perform numerous shipping tasks — label preparation, on-line package tracking, daily self-invoicing, and even international paperwork preparation — more quickly and easily than with manual methods. We now have a base of more than 11,000 Powership devices installed in our customers' offices and shipping areas. We plan to continue installing several thousand each year, making our service even more responsive to the needs of our customers. Over one-third of our volume and revenue each day is processed through Powerships, saving our customers time and saving us money in the process.

In a similar vein, we are getting closer to the needs of our customers by adding significant resources to our sales effort. The addition of more than 250 sales professionals will give us a global sales force of 1,700 men and women, handling accounts of all sizes. Our global sales force has now been fully integrated to sell all the services we offer. And customers are contacted in a coordinated fashion by a single account team responsible for understanding and responding to their unique needs.

Our recently announced decision to acquire new Airbus A300 freighters for use in the U.S. network is an indication of our commitment to reliability for years to come. These aircraft also offer greater efficiency than the older aircraft they will replace, thus helping us better manage the costs of the services we provide.

EXPRESSFREIGHTER℠
BUILDING ON OUR STRENGTHS

Fiscal 1991 was a year of refocusing our international operations. The period since August 1989, when the merger with Flying Tigers was completed, has been filled with many challenges and frustrations. As we have integrated two very different businesses, the company's international strategy has gained a clearer focus. Today, our international business covers 129 countries, with 17,000 employees outside the U.S. and an unduplicated set of route authorities around the world.

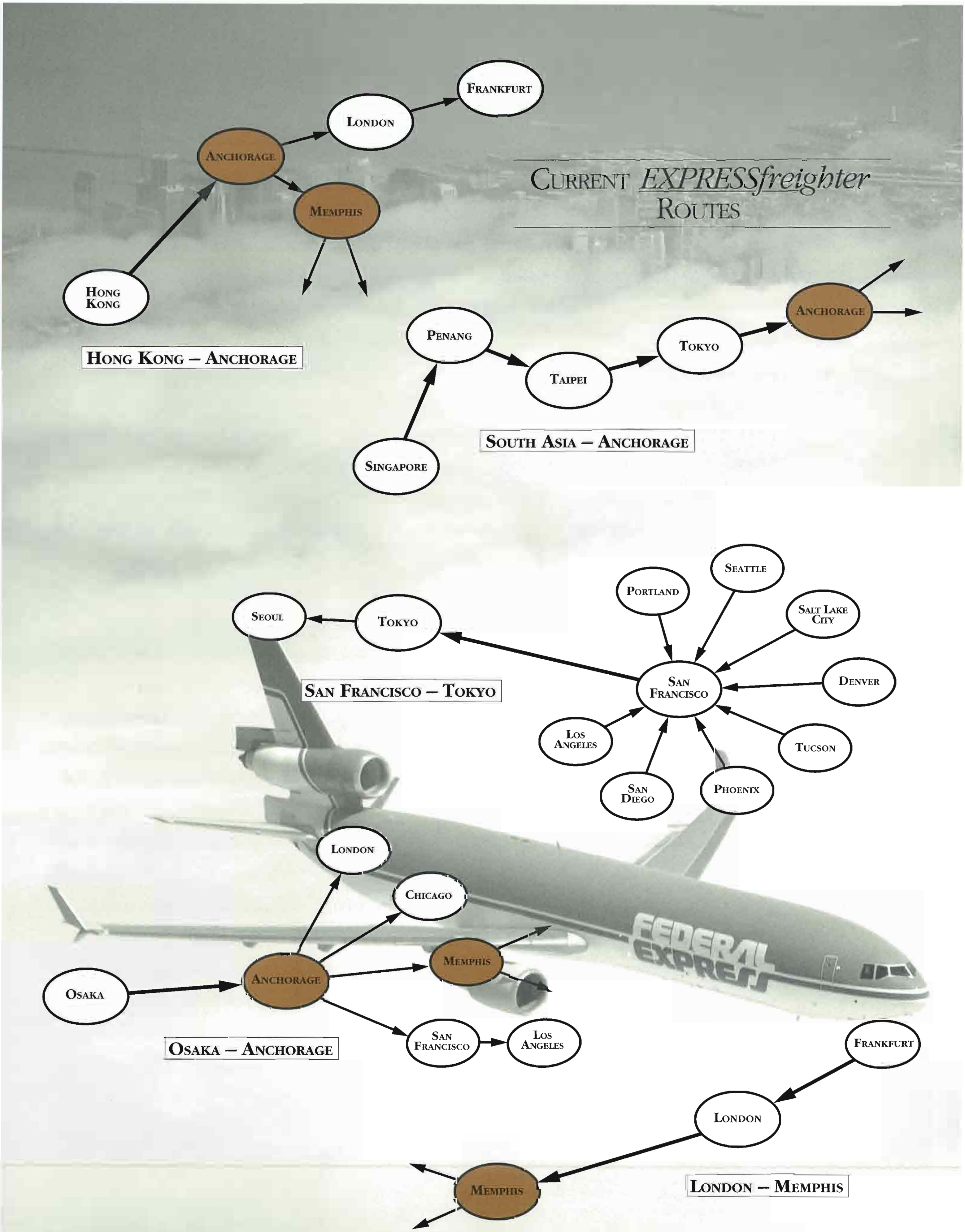
But until recently, the greatest challenge facing our international division has been one of clearly differentiating ourselves from the competitors in the marketplace. The schedule and route structure that Flying Tigers flew and Federal Express utilized after the merger were based on a complicated system of collecting and consolidating heavy freight at key terminals around the world. Central to this system was the concept of allocations, which gave each flight a certain amount of transcontinental space allocated to each terminal it served. While this system worked fairly well in the less time-sensitive markets previously served by Flying Tigers, it proved to be counterproductive in most cases to the time-definite, high-value market we believe has the greatest long-term potential.

Beginning in January, we launched a totally new concept that will change forever the way international shippers look at the airfreight market. It is a concept that plays to our strengths: our global route authorities, our enormous lift capacity, our worldwide integrated information network, and our growing sales and marketing capability throughout the world.

We call the concept...EXPRESSfreighter.

EXPRESSfreighter combines the cargo capacity of our wide-body fleet with the speed and reliability of international express services. Our first EXPRESSfreighter flight linked Hong Kong non-stop to Anchorage, then on to the continental United States and Europe. By using a later departure in the early evening, we can now offer Hong Kong customers late cutoff times, daily frequencies, and overnight service by 10:30 the next morning to the United States, Canada and Mexico. We subsequently added EXPRESSfreighter flights serving Singapore, Penang in Malaysia, Osaka in Japan and beginning in July 1991, Frankfurt and London. These EXPRESSfreighter flights permit customers in these markets to receive the fastest comprehensive service available on their shipments.

Current *EXPRESSfreighter* Routes



Review Of Operations (continued)

We have also added EXPRESSfreighter non-stop service from the San Francisco Bay Area to Tokyo. All customers served by our Western hub, from Denver to Seattle to Houston, can now have packages picked up late in the day and delivered to Tokyo overnight.

Most recently, we have launched EXPRESSfreighter service from Frankfurt and London to the United States. We can now offer London customers a 5 p.m. pickup with 10:30 a.m. delivery the next day throughout the United States and Canada, along with portions of Mexico, and Caracas, Venezuela. Frankfurt customers will receive this same next-day service with a mid-afternoon cutoff time.

We recently announced plans to acquire a total of 13 new MD-11 aircraft, a wide-bodied jet perfectly suited for the EXPRESSfreighter mission. These modern aircraft will give us improved reliability and ample capacity for expansion of this network in the future.

EXPRESSfreighter has given us a powerful competitive advantage which gives customers around the world a strong incentive to ship with Federal Express.

Matching the Product to the System

Along with this shift in our schedule and system, we have realigned our product offerings to capitalize on our strengths. During the year, we renamed our International Distribution Service. We now call it FedEx International EXPRESSfreight℠ Service (IXF), a high-yielding, time-definite service for shipments of virtually any size and weight. This service is available two ways: as a time-definite airport-to-airport service, with freight forwarders, brokers or freight agents handling pickup, delivery and customs clearance; or as a time-definite airport-to-airport service with customs clearance provided by Federal Express.

We also offer to customers using both our International Priority℠ Service and International EXPRESSfreight Service the advantage of a sophisticated worldwide electronic customs clearance system that speeds up the process of clearing dutiable goods. This FSTCLEAR℠ system is revolutionizing the way in which declared items are cleared through customs. The process starts almost immediately after the package leaves the origin station, and most shipments have been pre-cleared before they reach the destination clearance point. Through electronic manifesting, customs agents are able to "see" the shipments electronically before they ever arrive, deciding which can be cleared and which need additional examination. This system acknowledges the critical aspect of customs clearance in the timely movement of packages and freight between countries.

During the year, we revised our sales policies to make our international services more appealing to freight forwarders and agents. We have also expanded the range of services provided, adding special products that respond to specific customers' needs.

We have refocused our sales and marketing resources to sell these advantages to customers throughout the world. We have added executives in France, Italy, the United Kingdom, and Germany with local sales and marketing expertise and accountability.

We are also expanding our use of customer automation devices with the deployment of Powership computers internationally. We expect to significantly expand the number of Powerships in use outside the United States as we deliver the benefits of automation to our worldwide customer base.

A Worldwide Emphasis on Time-Definite Service

We have taken important steps this year to concentrate squarely on the segments of the market that we feel hold the greatest potential for long-term growth and meaningful returns on our investment. Our restructuring of operations in the United Kingdom is but one example of our commitment to pare away businesses with which we have limited synergies or no competitive advantage.

Throughout our worldwide network, we are realigning our people, our facilities, our aircraft schedules, our vehicle fleets, and our sales and marketing efforts to concentrate on the market that we feel holds the greatest opportunity for future growth, the express market. We believe that as the world grows more closely aligned—politically, economically and culturally—the demand for time-definite, reliable, cost-efficient transportation of high-value goods and documents will grow at a quickening pace. Our ability to meet this growing demand with a worldwide network of services, linked with modern aircraft and vehicle fleets, a comprehensive information network, and a highly motivated group of employees will position us well as we move into the next century.

Senior Officers

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 and President, FEDEX Aeronautics Corporation

Thomas R. Oliver
Senior Vice President–
International

James A. Perkins
Senior Vice President and Chief Personnel Officer

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

Carole A. Presley
Senior Vice President–
Marketing and Customer Service

William J. Razzouk
Senior Vice President–
Sales and Customer Information

Jeffrey R. Rodek
Senior Vice President–
United States and Canada

Theodore L. Weise
Senior Vice President–
Air Operations

Graham R. Smith
Vice President and Controller

Robert L. Cox
Secretary

Financial Section

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Results of Operations

In 1991, Federal Express continued to develop and refine its global air express network. Resources from the February 1989 Tiger International, Inc. ("Tiger") acquisition were refocused to promote a variety of air express services to expanded locations worldwide. In an effort to mitigate the effects of a recessionary economy, the Company implemented programs to reduce or curtail discretionary spending. However, a softening of the global economy, competitive pressures abroad and higher international losses contributed to a significant earnings decrease. Earnings for 1991 were $6 million compared with $116 million and $185 million in 1990 and 1989, respectively. Two unusual events, a restructuring of United Kingdom operations and a loss associated with the failure of a firm engaged by the Company to remit payroll taxes to various authorities, further contributed to the decline in profitability. Earnings for the year, excluding these two unusual events, would have been approximately $104 million.

Worldwide revenues grew 10% compared with 36% and 33% for 1990 and 1989, respectively. Operating expenses grew 12% compared with 39% and 35% in 1990 and 1989, respectively. The decline in operating expense growth was largely the result of cost containment programs which slowed the rate of increase for most operating expenses on a quarter-by-quarter basis. Fuel costs, however, rose significantly in 1991. The average cost per gallon of aircraft fuel, spurred by the Persian Gulf crisis, increased approximately 25% in 1991 compared with a 19% increase in 1990 and a 6% decrease in 1989. Although fuel prices have declined since the end of the Persian Gulf crisis, they have not returned to pre-crisis levels.

U.S. DOMESTIC OPERATIONS. Domestic operating income was $671 million compared with $608 million in 1990 and $467 million in 1989. This increase, though tempered by higher fuel costs and sluggish volume growth, was attributable to productivity gains and cost containment programs, particularly those affecting salaries and wages. Express revenues increased 7% in 1991 compared with 15% and 16% in 1990 and 1989, respectively. Express volumes, hindered by a lagging domestic economy, increased 5% in 1991 compared with 16% and 19% in 1990 and 1989, respectively.

Composite yield (total express package revenue per package), though favorably impacted by pricing actions in April and July 1990, indicates a steady shift in volume growth from higher-yielding FedEx Priority Overnight Service to the lower-priced FedEx Standard Overnight Service and Economy Two-Day Service. Composite yield increased 2% in 1991, remained unchanged in 1990 and decreased 2% in 1989. The shift in growth to lower-yielding products is expected to continue due to service enhancements, effective April 1, 1991, for FedEx Standard Overnight Service.

Domestic operating expenses grew 5% compared with 14% and 21% in 1990 and 1989, respectively. Key expenses responsible for the increase were employee benefits, fuel and maintenance and repairs.

	FY 91	FY 90	FY 89
EXPRESS PACKAGE VOLUME			
Priority Overnight	**58%**	63%	73%
Economy Two-Day	**18%**	17%	21%
Standard Overnight	**17%**	13%	1%
International Priority	**7%**	7%	5%

INTERNATIONAL OPERATIONS. The international operating loss worsened significantly in 1991 compared with 1990 and 1989 as the cost of expanding, developing and operating a global transportation and distribution network has not yet generated a corresponding growth in revenue. Operating losses were $391 million, $194 million and $43 million in 1991, 1990 and 1989, respectively. The current year loss includes a $121 million charge related to the restructuring of United Kingdom operations. The restructured operations are focusing on high-priority services and are functioning with reduced facilities and staff. For additional information concerning the restructuring, refer to Note 13 of Notes to Consolidated Financial Statements.

An international revenue increase of 18% for the year, compared with increases of 118% in 1990 and 141% in 1989, was driven primarily by growth in International Priority Service and increased charter business. International Priority Service volumes increased 17% compared with 40% and 50% in 1990 and 1989, respectively. The associated revenues increased 27% compared with 44% and 57% in 1990 and 1989, respectively. International Priority Service yield increased 8% in 1991, reflecting positive pricing actions, compared with 3% and 5% in 1990 and 1989, respectively. Charter revenues more than doubled to $372 million in 1991 as several wide-body aircraft were utilized on behalf of the Military Airlift Command to fly passenger and cargo missions in support of Operations Desert Shield and Desert Storm. Military charter activity has declined as U.S. involvement in the Persian Gulf has diminished. A soft U.S. import-export market coupled with increased competitor capacity contributed to a reduction in airfreight revenues and volumes of 6% and 10%, respectively, compared with 1990.

International operating expenses, exclusive of the U.K. restructuring provision, grew 20% compared with 128% in 1990 and 135% in 1989. Expansion and operation of the Company's global network resulted in increased employee head count and higher salaries and benefits. For further information relating to the Company's business 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's strategy is to boost volumes through a comprehensive plan to form closer customer alliances as well as continue with cost containment and productivity measures. Efforts are underway to build more effective sales and marketing forces on a country-by-country basis. Furthermore, flight scheduling has been modified in certain markets in an effort to capture higher-yielding express business. Cost containment and other efficiency measures include new automated systems to monitor package routing, replacement of aging wide-body aircraft with new, more efficient MD-11s, revising salary and benefit programs and a company-wide emphasis on quality enhancement.

Other income and expense and income taxes. Other income and expense was primarily affected by a $32 million provision for the payroll tax loss contingency. Higher average borrowings have resulted in higher interest expense; however, the impact has been offset by higher amounts of capitalized interest resulting from increased aircraft deposits and modifications in process compared with the prior year.

The Company's effective tax rate for 1991, excluding the tax benefit associated with the U.K. restructuring charge, was 47.8% compared with 47.0% and 44.2% in 1990 and 1989, respectively. In each year, the effective tax rate exceeded the statutory tax rate primarily because of losses of international subsidiaries that are not deductible for U.S. Federal income tax purposes and non-deductible amortization of the excess of cost over net assets acquired. For additional information related to income taxes, refer to Note 8 of Notes to Consolidated Financial Statements.

See Note 9 of Notes to Consolidated Financial Statements for the potential effects of adoption of Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions."

Financial Condition

Capital expenditures. Capital expenditures totaled approximately $1.0 billion in 1991 compared with $1.2 billion in 1990 and $749 million in 1989. Significant purchases during 1991 include 10 B727-100, 16 B727-200, one DC-10-10, one MD-11, seven F-27 and 35 Cessna 208B aircraft. In addition, the Company made capital expenditures to acquire and develop sorting facilities, vehicles and computer equipment. The Company's aircraft acquisition program emphasizes replacement of certain aircraft with technologically advanced, cost-effective MD-11s and A300s. The Company is committed to acquire 12 additional MD-11s within the next three years and 25 A300s by 1999.

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 position continues to be impacted by efforts to develop and refine its global air express network. Total debt as a percentage of total capitalization at year end was 55% compared with 58% and 60% at the end of 1990 and 1989, respectively. Cash and cash equivalents increased approximately $19 million in 1991 compared with a decrease of $59 million in 1990 and an increase of $102 million in 1989. Cash was provided primarily from operations, debt proceeds and sale-leaseback transactions. Cash from operations increased $271 million reflecting decreases in domestic express and international freight receivables and the receipt of a Federal income tax refund classified as a receivable at May 31, 1990. Cash from operations and proceeds from commercial paper issuances, revolving credit facilities, public debt offerings and $267 million from the sale-leaseback of B727-200 and MD-11 aircraft were used mainly to acquire property and equipment and retire outstanding debt.

For further information relating to the Company's leasing activities, refer to Note 5 of Notes to Consolidated Financial Statements.

The Company maintains credit facilities with banking institutions in the U.S. and abroad. The Company's revolving credit agreements aggregate approximately $900 million. At May 31, 1991, the Company had $484 million outstanding under these facilities. In addition to credit facilities and commercial paper, the Company has registered $500 million of debt securities with the Securities and Exchange Commission, of which $300 million has been offered and $50 million had been issued as of May 31, 1991.

In April 1991, Moody's and Standard & Poor's downgraded the Company's long-term debt from Baa2 to Baa3 and from BBB+ to BBB, respectively. Additionally Moody's downgraded the Company's rating for commercial paper from Prime-2 to Prime-3. The Company's debt remains investment grade, but as a consequence of the downgrades, borrowings may be more costly. Management expects cash from operations, lease financing arrangements, borrowings under existing credit facilities and debt offerings to adequately meet the Company's future cash requirements. Refer to Note 4 of Notes to Consolidated Financial Statements for additional information concerning the Company's debt and credit facilities.

Inflation and Changing Prices

Except for higher fuel costs during 1991 and 1990, the effect of inflation during the last three years has been minimal. 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.

	FY91	FY90	FY89
Return on Assets	0.1%	2.2%	4.4%
Return on Equity	0.4%	7.3%	11.9%

Consolidated Statements of Income
Federal Express Corporation and Subsidiaries

Years ended May 31 In thousands, except per share amounts	1991	1990	1989
Revenues	$ 7,688,296	$ 7,015,069	$ 5,166,967
Operating Expenses:			
Salaries and employee benefits (Note 9)	3,438,391	3,045,250	2,308,969
Equipment and facility rentals (Note 5)	755,068	717,443	467,221
Fuel	663,327	521,256	269,803
Depreciation and amortization	534,540	479,188	387,318
Maintenance and repairs	449,394	424,923	279,121
U.K. restructuring charge (Note 13)	121,000	–	–
Other	1,446,783	1,413,430	1,030,100
	7,408,503	6,601,490	4,742,532
Operating Income	279,793	413,579	424,435
Other Income (Expense):			
Interest, net (Note 1)	(181,880)	(188,109)	(115,260)
Gain on disposition of aircraft and related equipment	11,375	13,791	4,709
Payroll tax loss contingency (Note 13)	(32,000)	–	–
Other, net	(36,346)	(20,838)	(15,552)
	(238,851)	(195,156)	(126,103)
Income before Income Taxes and Cumulative Effect of Change in Accounting for Income Taxes	40,942	218,423	298,332
Provision for Income Taxes (Note 8)	35,044	102,659	131,881
Income before Cumulative Effect of Change in Accounting for Income Taxes	5,898	115,764	166,451
Cumulative Effect on Years Prior to 1989 of Change in Accounting for Income Taxes (Notes 1 and 8)	–	–	18,100
Net Income	$ 5,898	$ 115,764	$ 184,551
Earnings per Share (Note 7):			
Before cumulative effect of change in accounting for income taxes	$ .11	$ 2.18	$ 3.18
Cumulative effect on years prior to 1989 of change in accounting for income taxes	–	–	.35
	$ .11	$ 2.18	$ 3.53
Average Shares Outstanding (Note 7)	53,350	53,161	52,272

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	1991	1990
Assets		
Current Assets:		
Cash, including short-term investments of $42,292 and $67,738	$ 117,692	$ 98,499
Receivables, less allowance for doubtful accounts of $37,694 and $31,455	924,773	997,808
Spare parts, supplies and fuel	154,941	110,573
Prepaid expenses and other	85,441	108,523
Total current assets	1,282,847	1,315,403
Property and Equipment, at cost (Notes 4, 5 and 11):		
Flight equipment	2,394,326	2,310,764
Package handling and ground support equipment	1,296,706	1,130,131
Computer and electronic equipment	756,638	671,207
Other	1,447,501	1,356,724
	5,895,171	5,468,826
Less accumulated depreciation and amortization	2,271,145	1,902,505
Net property and equipment	3,624,026	3,566,321
Other Assets:		
Excess of cost over net assets acquired (Notes 1 and 2)	521,079	588,874
Other	244,509	204,475
Total other assets	765,588	793,349
	$ 5,672,461	$ 5,675,073

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

In thousands, except common shares	1991	1990
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Current portion of long-term debt (NOTE 4)	$ 202,653	$ 70,082
Accounts payable	466,621	454,445
Accrued expenses (NOTE 3)	824,498	715,687
Total current liabilities	1,493,772	1,240,214
LONG-TERM DEBT, LESS CURRENT PORTION (NOTE 4)	1,826,781	2,148,142
DEFERRED INCOME TAXES (NOTE 8)	217,436	298,187
OTHER LIABILITIES	465,852	339,343
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, 53,632,301 and 53,145,748 shares issued	5,363	5,315
Additional paid-in capital	652,045	639,676
Retained earnings	1,015,205	1,010,090
	1,672,613	1,655,081
Less deferred compensation related to stock plans and treasury stock	3,993	5,894
Total common stockholders' investment	1,668,620	1,649,187
	$ 5,672,461	$ 5,675,073

Consolidated Statements of Cash Flows

Federal Express Corporation and Subsidiaries

Years ended May 31 In thousands	1991	1990	1989
Operating Activities			
Income before cumulative effect of change in accounting for income taxes	$ 5,898	$ 115,764	$ 166,451
Adjustments to reconcile income to net cash provided by operating activities:			
Depreciation and amortization	534,540	479,188	387,318
Provision for uncollectible accounts	59,721	55,147	31,388
Provision for deferred income taxes and other	64,602	101,057	56,730
Gains from disposals of property and equipment	(1,621)	(8,084)	(4,160)
Changes in operating assets and liabilities, net of effects from purchases of businesses:			
Decrease (increase) in receivables	20,431	(279,596)	(149,531)
Increase in spare parts, supplies and fuel and prepaid expenses	(21,904)	(51,404)	(46,400)
Increase in accounts payable and accrued expenses	110,768	119,838	243,792
Other, net	14,964	(15,580)	(18,839)
Net cash provided by operating activities	787,399	516,330	666,749
Investing Activities			
Purchases of property and equipment	(1,027,736)	(1,164,061)	(749,099)
Proceeds from disposition of property and equipment:			
Sale-leaseback transactions	275,347	583,744	111,472
Other	5,699	19,722	61,351
Purchases of businesses, net of cash acquired	(24,322)	(30,975)	(625,005)
Other, net	–	(4,568)	(6,219)
Net cash used in investing activities	(771,012)	(596,138)	(1,207,500)
Financing Activities			
Proceeds from debt issuances	910,703	1,039,568	1,529,611
Principal payments on debt	(916,430)	(1,044,159)	(849,012)
Proceeds from stock issuances (includes treasury)	31,241	44,855	37,916
Purchases of treasury stock	(23,565)	(17,742)	(70,201)
Other, net	857	(1,523)	(5,200)
Net cash provided by financing activities	2,806	20,999	643,114
Net increase (decrease) in cash and cash equivalents	19,193	(58,809)	102,363
Cash and cash equivalents at beginning of period	98,499	157,308	54,945
Cash and cash equivalents at end of period	$ 117,692	$ 98,499	$ 157,308
Supplemental Disclosure of Cash Flow Information			
Cash paid for: Interest (net of capitalized interest)	$ 190,054	$ 195,006	$ 102,676
Income taxes	$ 36,500	$ 130,000	$ 81,058
Supplemental Schedule of Noncash Investing and Financing Activities			
Capital lease obligations and other debt incurred to acquire property and equipment	$ –	$ 2,700	$ 19,010
Exchanges of property and equipment	$ 33,222	$ –	$ –

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, 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)
Purchase of treasury stock	–	–	–	(23,565)	–
Issuance of common and treasury stock under employee incentive plans (1,141,283 shares)	48	12,369	(4,483)	23,572	642
Amortization of deferred compensation	–	–	–	–	1,252
Foreign currency translation adjustment	–	–	3,700	–	–
Net income	–	–	5,898	–	–
Balance at May 31, 1991	$ 5,363	$ 652,045	$1,015,205	$ (14)	$ (3,979)

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, flight equipment modifications and overhaul costs are capitalized. Maintenance and repairs are charged to expense as incurred, except for B747 aircraft airframe and engine overhaul maintenance which is accrued and charged to expense on the basis of hours flown. 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	2 to 30 years

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

CAPITALIZED INTEREST. Interest on funds used to finance the acquisition and modification 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 $35,442,000, $16,986,000 and $8,798,000 for 1991, 1990 and 1989, 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 $15,102,000 in 1991, $11,128,000 in 1990 and $16,368,000 in 1989.

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 of businesses acquired is amortized on a straight-line basis over periods ranging up to 40 years. Accumulated amortization was $45,400,000 and $40,200,000 at May 31, 1991 and 1990, 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 reported 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 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 in accounting principle was to increase net income for 1989 by $18,100,000 or $.35 per share; however, the impact on the 1989 income tax provision was not material.

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.

Cash equivalents. 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.

Reclassifications. Certain amounts for 1990 and 1989 have been reclassified to conform to the 1991 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 1989. 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 period presented, or of future results of the combined companies.

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

The excess of cost over net assets acquired may be reduced by up to $138,000,000 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	1991	1990
Employee benefits	$ 153,061	$ 164,844
Insurance	187,624	139,132
Compensated absences	119,025	103,231
Taxes other than income taxes	79,751	58,911
Salaries	33,753	56,758
Interest	34,861	33,382
Other	216,423	159,429
	$ 824,498	$ 715,687

NOTE 4: LONG-TERM DEBT

May 31 In thousands	1991	1990
Unsecured notes payable, interest rates of 8 1/8% to 12 1/8%, due through 2001	$ 1,078,587	$ 776,446
Unsecured sinking fund debentures, interest rate of 9 5/8%, due through 2020	98,048	97,979
Revolving credit agreements and commercial paper, effective rate of 7 1/2%	484,343	709,106
Capital lease obligations:		
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	26,485	26,491
	218,585	218,579
Other, effective rates of 7 3/4% to 15%	18,911	247,023
Other debt, effective rates of 5 1/2% to 13 3/4%	130,960	169,091
	2,029,434	2,218,224
Less current portion	202,653	70,082
	$ 1,826,781	$ 2,148,142

The Company's credit facilities with domestic and foreign banks provide for a commitment of approximately $900,000,000. 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.

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, 1991, are as follows: $202,700,000 in 1992; $152,800,000 in 1993; $138,200,000 in 1994; $190,500,000 in 1995 and $350,300,000 in 1996.

NOTE 5: LEASE COMMITMENTS

The Company utilizes certain aircraft, land, facilities and equipment under capital and operating leases which expire at various dates through 2021. 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	1991	1990
Flight equipment	$ –	$ 228,608
Package handling and ground support equipment	370,963	365,901
Computer and electronic equipment	57,922	58,006
Other	134,085	134,085
	562,970	786,600
Less accumulated amortization	336,669	331,581
	$ 226,301	$ 455,019

Effective May 1991, modifications to the lease terms for flight equipment under capital leases resulted in their conversion to operating leases.

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

In thousands	1991	1990	1989
Minimum rentals	$ 611,023	$ 586,834	$ 374,193
Contingent rentals	144,045	130,609	93,028
	$ 755,068	$ 717,443	$ 467,221

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, 1991 follows:

In thousands	Capital Leases	Operating Leases
1992	$ 36,811	$ 411,006
1993	29,784	338,409
1994	25,013	304,702
1995	25,838	285,909
1996	25,309	271,773
Thereafter	532,349	2,586,669
	$ 675,104	$ 4,198,468

At May 31, 1991, the present value of future minimum lease payments for capital lease obligations, including the Special Facilities Revenue Bonds, was $239,254,000.

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, 1991, 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, 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
Granted	546,000	\$ 30.56 - \$ 43.63
Exercised	(46,246)	\$ 16.19 - \$ 42.41
Cancelled	(319,075)	\$ 33.50 - \$ 62.00
Outstanding at May 31, 1991	3,856,930	\$ 23.59 - \$ 70.19
Exercisable at May 31, 1991	2,047,472	\$ 23.59 - \$ 70.19

At May 31, 1991, there were 582,840 shares available for future grants under the above plans.

Prior to March 1991, the Company administered an employee stock purchase plan which provided its non-officer employees the opportunity to purchase common stock at a price which approximated 85% of market. During 1991, 1,076,157 shares were issued under this plan at prices ranging from \$25.75 to \$39.68 per share. Effective March 1, 1991, this plan was replaced by a new plan which provides for the open market purchase of common stock at current market prices.

Under the terms of the Company's 1986 Restricted Stock Plan, shares of the Company's common stock are granted to key employees. Restrictions on the shares expire at a rate of 20% of such shares on the anniversary of their date of grant. Deferred compensation expense related to this plan is recorded as a reduction of common stockholders' investment and is being amortized as restrictions on such shares expire. During 1991 and 1990, 6,250 and 162,500 shares, respectively, were granted, and in 1991, 20,000 shares were forfeited. At May 31, 1991, there were 101,250 shares available for future grants under this plan.

At May 31, 1991, there were 4,521,020 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, 1991, a total of 2,664,200 shares at an average cost of \$41.85 per share had been purchased and reissued under the above-mentioned plans.

NOTE 8: INCOME TAXES

Year ended May 31 In thousands	1991	1990	1989
Current Provision:			
Federal	$ 77,877	$ 21,947	$ 85,508
State	11,165	7,903	9,618
Total current provision	89,042	29,850	95,126
Deferred Provision:			
Federal	(49,358)	69,310	27,241
State	(4,640)	3,499	9,514
Total deferred provision	(53,998)	72,809	36,755
	$ 35,044	$ 102,659	$ 131,881

In 1991, the Company recorded foreign income tax expense of approximately $10,000,000 on income from foreign subsidiaries of approximately $31,000,000. Foreign income taxes prior to 1991 were not significant. Non-deductible foreign subsidiary losses were approximately $35,000,000 in 1991 and net foreign losses were $64,600,000 and $25,900,000 in 1990 and 1989, respectively.

A reconciliation of the statutory Federal income tax rate to the Company's effective income tax rate follows:

Year ended May 31	1991	1990	1989
Statutory rate	34.0%	34.0%	34.0%
Increase resulting from:			
Foreign operating losses, net of branch conversion benefits	6.2	1.6	2.9
Amortization of excess of cost over net assets acquired	15.4	2.8	1.0
Foreign income taxes	11.8	1.1	.8
State income taxes, net of Federal benefit	10.5	3.4	4.2
Other, net	7.7	4.1	1.3
Effective rate	85.6%	47.0%	44.2%

The 85.6% effective tax rate for 1991 is due primarily to lower pretax income increasing the effect of non-deductible charges. The effective tax rate, excluding the U.K. restructuring charge tax-benefitted at the U.S. statutory rate, was 47.8%.

At May 31, 1991, the Company had general business credit carryforwards for income tax reporting purposes of approximately $6,000,000 expiring in 1992 through 1999, and alternative minimum tax credit carryforwards of approximately $26,000,000 which have no expiration date.

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

Year ended May 31 In thousands	1991	1990	1989
Depreciation	$ 26,184	$ 15,116	$ 30,431
Gains on sales of property and equipment	(58,238)	(160,258)	(22,543)
Alternative minimum tax	(4,888)	–	–
U.K. restructuring charge	(28,257)	–	–
Tax credit carryover	15,585	37,745	38,198
Net operating loss carryforward	–	153,000	–
Employee benefits	1,602	26,147	(9,336)
Self-insurance reserves	(16,062)	(19,354)	(5,903)
Other	14,716	16,914	(3,606)
	$ (49,358)	$ 69,310	$ 27,241

Note 9: Postretirement Benefit Plans

The Company sponsors pension plans covering substantially all employees. The largest plan, the Federal Express plan, covers domestic employees 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 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	1991	1990
Actuarial present value of the projected benefit obligation for service rendered to date	$ 1,288,625	$ 1,092,510
Less plan assets at fair value	898,298	729,355
Projected benefit obligation in excess of plan assets	390,327	363,155
Unrecognized net losses from past experience different from that assumed and effects of changes in assumptions	(158,005)	(96,672)
Prior service cost not yet recognized in net periodic cost	(32,428)	(34,299)
Unrecognized transition amount	(2,742)	(1,223)
Pension liability	$ 197,152	$ 230,961
Accumulated benefit obligation	$ 777,295	$ 699,352
Vested benefit obligation	$ 701,543	$ 633,478

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

In thousands	1991	1990	1989
Service cost – benefits earned during the period	$ 128,868	$ 103,051	$ 66,617
Interest cost on projected benefit obligation	88,163	75,691	41,308
Actual return on plan assets	(52,673)	(73,015)	(56,206)
Net amortization and deferral	(15,366)	13,856	26,710
Net periodic pension cost	$ 148,992	$ 119,583	$ 78,429

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 obligation were 8.2% and 6.5% in 1991, 8.6% and 7.0% in 1990, and 9.0% and 7.0% in 1989, respectively. The expected long-term rate of return on assets was 9.5% in 1991, 1990 and 1989. 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 have been made by the Company to the ESOP sufficient to pay principal and interest on the loan through the final payment in 1991. Deferred compensation related to this plan was recorded as a reduction of common stockholders' investment and 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 $35,400,000 in 1991, $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 70,000 active employees are expensed at the time claims are incurred. The annual cost of providing benefits for retired employees is not significant. Total health care benefit costs were $162,000,000 in 1991, $127,000,000 in 1990 and $104,000,000 in 1989.

In December 1990, a new accounting standard on postretirement benefits other than pensions was issued. The new standard requires that the expected costs of these benefits be charged to expense during the years that employees render service. Provisions of the standard must be adopted by the Company by fiscal year 1994. Management has not determined when the new standard will be adopted or if it will be adopted prospectively or by recording a cumulative catch-up adjustment. Because of the complexities of the new standard, its effect on the Company's financial position and results of operations has not yet been determined. However, management expects annual postretirement benefit expense computed in accordance with the new standard will be significantly greater than amounts recognized using the Company's current accounting policy.

Note 10: Business Segment Information

The Company is in a single line of business - the worldwide transportation and distribution of goods and documents. For reporting purposes, operations are classified into two services, U.S. domestic and international. International services are defined as shipments which either originate in or are destined to foreign (non-U.S.) locations. A summary of financial information for domestic and international operations for the years ended May 31, 1991, 1990 and 1989, follows:

In thousands	U.S. Domestic	International	Total Worldwide
Revenues:			
1991	**$ 5,057,831**	**$ 2,630,465**	**$ 7,688,296**
1990	4,784,887	2,230,182	7,015,069
1989	4,144,827	1,022,140	5,166,967
Operating Income (Loss):			
1991	**$ 671,186**	**$ (391,393)***	**$ 279,793**
1990	608,069	(194,490)	413,579
1989	467,143	(42,708)	424,435
Identifiable Assets:			
1991	**$ 4,032,361**	**$ 1,640,100**	**$ 5,672,461**
1990	3,798,364	1,876,709	5,675,073
1989	3,007,348	2,286,074	5,293,422

* Includes a $121 million charge related to restructuring the U.K. operations. See Note 13.

Identifiable assets used jointly in U.S. domestic and international operations (principally aircraft) have been allocated based on estimated usage. International revenues related to services originating in the U.S. totaled $1,028,800,000, $770,600,000 and $328,900,000 for the years ended May 31, 1991, 1990 and 1989, respectively.

Note 11: Commitments

Under various contracts, the Company is committed to purchase 12 MD-11, two B727-100, 22 B727-200, 25 A300 and 24 C208B aircraft to be delivered through 1999. At May 31, 1991, deposits and progress payments of approximately $127,000,000 had been made toward these purchases. Further deposits and payments for aircraft acquisitions are expected to approximate $447,500,000, $504,700,000, $597,300,000, $397,000,000 and $404,700,000 in 1992 through 1996, respectively, and $664,000,000 thereafter. The Company also has options to purchase additional MD-11 and A300 aircraft.

During 1992, the Company anticipates capital expenditures will be approximately $870,000,000. In addition to the commitments discussed above, other substantial commitments have been made as of May 31, 1991. 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 was served on the defendants. In response to the consolidated complaint, the defendants have moved that the court dismiss the complaint on the basis that it does not allege a claim upon which any relief may be granted by the court. The matter is pending a ruling on this motion. Because no specified amount of damages is sought, no estimate of the range of possible loss, if any, can be made.

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 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: UNUSUAL EVENTS

A $121,000,000 charge to operating expenses was recorded during the third quarter resulting from a restructuring of the Company's operations in the United Kingdom. The primary components of the restructuring charge were redundancy programs, write-off of unamortized excess of cost over net assets acquired, expected future operating losses related to contractual commitments to a major customer, facility closures and disposal of equipment. The restructuring charge reduced earnings per share by $1.48 for the year.

The Company also recorded a $32,000,000 charge during the third quarter in other income and expense for an estimated probable loss due to the failure of a firm engaged by the Company to remit payments of employees' withholding taxes to the appropriate authorities. The Company is pursuing available legal remedies. The charge reduced earnings per share by $.37 for the year.

Note 14: Summary of Quarterly Operating Results (Unaudited)

In thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1991				
Revenues	$ 1,916,517	$ 1,993,092	$ 1,864,486	$ 1,914,201
Operating income (loss)	129,235	125,757	(89,486)	114,287
Income (loss) before income taxes	82,515	76,643	(168,715)	50,499
Net income (loss)	43,060	37,474	(105,641)	31,005
Earnings (loss) per share	$ .81	$ .71	$ (1.98)	$ .58
Average shares outstanding	53,353	53,043	53,315	53,714
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

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, 1991 and 1990, and the related consolidated statements of income, common stockholders' investment and cash flows for each of the three years in the period ended May 31, 1991. 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, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 1991, 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.

Memphis, Tennessee,
July 15, 1991.

Arthur Andersen & Co.

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
Hospital Corporation International
Owns, manages and builds hospitals and health-related institutions in South America, the Middle East, Moscow, Europe and other areas of the world.

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 & 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
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
Director of Generale Orientale
Director of Guideposts
Financial Consultant

PETER S. WILLMOTT (1)
Chairman and Chief Executive Officer
Willmott Services, Inc.
Retail and consulting firm

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

Selected Consolidated Financial Data

Federal Express Corporation and Subsidiaries

Years ended May 31 In thousands, except per share amounts and Other Operating Data	1991	1990	1989
Operating Results			
Revenues	$ 7,688,296	$ 7,015,069	$ 5,166,967
Operating expenses	7,408,503	6,601,490	4,742,532
Operating income	279,793	413,579	424,435
Other income (expense)	(238,851)	(195,156)	(126,103)
Income before income taxes	40,942	218,423	298,332
Income taxes	35,044	102,659	131,881
Income from continuing operations	5,898	115,764	166,451
Loss from discontinued operations	–	–	–
Cumulative effect of change in accounting for income taxes	–	–	18,100
Net income (loss)	$ 5,898	$ 115,764	$ 184,551
Earnings Per Share			
Earnings (loss) per share:			
Continuing operations	$ .11	$ 2.18	$ 3.18
Discontinued operations	–	–	–
Cumulative effect of change in accounting for income taxes	–	–	.35
Net earnings (loss) per share	$ .11	$ 2.18	$ 3.53
Average shares outstanding	53,350	53,161	52,272
Financial Position			
Current assets	$ 1,282,847	$ 1,315,403	$ 1,100,080
Property and equipment, net	3,624,026	3,566,321	3,431,814
Total assets	5,672,461	5,675,073	5,293,422
Current liabilities	1,493,772	1,240,214	1,089,096
Long-term debt	1,826,781	2,148,142	2,138,940
Common stockholders' investment	1,668,620	1,649,187	1,493,524
Other Operating Data			
Express package:			
Average daily package volume	1,309,973	1,233,628	1,059,882
Average pounds per package	5.5	5.3	5.4
Average revenue per pound	$ 3.11	$ 3.14	$ 3.04
Average revenue per package	$ 17.08	$ 16.53	$ 16.28
Airfreight:			
Average daily pounds	2,880,106	3,310,494	4,019,353
Average revenue per pound	$ 1.17	$ 1.12	$ 1.06
Average number of employees	81,711	75,102	58,136
Aircraft fleet at end of year:			
Boeing 747s	18	19	21
McDonnell Douglas MD-11s	1	–	–
McDonnell Douglas DC-10s	27	26	24
McDonnell Douglas DC-8s	–	6	6
Boeing 727s	149	130	106
Cessna 208s	194	184	147
Fokker F-27s	26	19	7
Dassault Falcons	–	–	–
Vehicle fleet at end of year	32,800	31,000	28,900

	1988	1987	1986	1985	1984	1983	1982
	$ 3,882,817	$ 3,178,308	$ 2,573,229	$ 2,015,920	$ 1,436,305	$ 1,008,087	$ 803,915
	3,503,365	2,813,565	2,229,208	1,757,303	1,247,553	857,350	684,449
	379,452	364,743	344,021	258,617	188,752	150,737	119,466
	(77,124)	(52,858)	(38,936)	(46,345)	(11,948)	(521)	11,614
	302,328	311,885	305,085	212,272	176,804	150,216	131,080
	114,612	144,933	112,414	73,532	51,373	61,283	52,695
	187,716	166,952	192,671	138,740	125,431	88,933	78,385
	–	(232,523)	(60,832)	(62,663)	(10,001)	–	–
	–	–	–	–	–	–	–
	$ 187,716	$ (65,571)	$ 131,839	$ 76,077	$ 115,430	$ 88,933	$ 78,385
	$ 3.56	$ 3.21	$ 3.86	$ 2.94	$ 2.74	$ 2.03	$ 1.85
	–	(4.48)	(1.22)	(1.33)	(.22)	–	–
	–	–	–	–	–	–	–
	$ 3.56	$ (1.27)	$ 2.64	$ 1.61	$ 2.52	$ 2.03	$ 1.85
	52,670	51,905	49,840	46,970	45,448	43,316	41,788
	$ 630,005	$ 507,480	$ 613,290	$ 423,144	$ 328,136	$ 265,171	$ 194,265
	2,231,875	1,861,432	1,551,845	1,346,023	1,112,639	596,392	457,572
	3,008,549	2,499,511	2,276,362	1,899,506	1,525,805	991,717	730,291
	572,052	503,725	431,910	316,878	255,910	175,293	114,596
	838,730	744,914	561,716	607,508	435,158	247,424	223,856
	1,330,679	1,078,920	1,091,714	812,267	717,721	503,794	350,319
	877,543	704,392	550,306	406,049	263,385	166,428	125,881
	5.3	5.1	5.3	5.6	5.5	5.8	6.5
	$ 3.10	$ 3.33	$ 3.40	$ 3.45	$ 3.80	$ 4.02	$ 3.81
	$ 16.32	$ 16.97	$ 17.92	$ 19.19	$ 21.03	$ 23.42	$ 24.79
	–	–	–	–	–	–	–
	$ –	$ –	$ –	$ –	$ –	$ –	$ –
	48,556	41,047	31,582	26,495	18,368	12,507	10,092
	–	–	–	–	–	–	–
	–	–	–	–	–	–	–
	21	19	15	11	10	6	4
	–	–	–	–	–	–	–
	68	60	53	53	47	38	31
	109	66	34	9	–	–	–
	5	–	–	–	–	–	–
	–	–	–	–	–	32	32
	21,000	18,700	14,500	12,300	9,000	5,000	4,000

CORPORATE INFORMATION

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 July 15, 1991, there were 7,776 stockholders of record.

MARKET INFORMATION: Following are high and low closing prices, by quarters, for Federal Express stock in fiscal 1990 and 1991. No cash dividends have been declared.

Closing Prices of Common Stock		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 1990	High	$ 57.00	$ 58.88	$ 51.50	$ 57.25
	Low	42.88	46.88	43.88	45.75
FY 1991	**High**	**$ 48.75**	**$ 40.25**	**$ 44.50**	**$ 41.63**
	Low	**34.38**	**29.88**	**30.50**	**32.50**

ANNUAL MEETING: The annual meeting of stockholders will be held at the Omni Memphis Hotel, 939 Ridge Lake Boulevard, Memphis, Tennessee, on Monday, September 23, 1991, at 10:00 a.m., 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
151 Front Street West
Toronto, Ontario M5J 2N1
(416) 981-9500

CORPORATE HEADQUARTERS:

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

INQUIRIES: For financial information, contact Thomas L. Holland, Manager of Investor Relations, Federal Express Corporation, Box 727, Dept. 1854, Memphis, Tennessee 38194, (901) 395-3478. For general information, contact Armand Schneider, Manager of Media Relations, Federal Express Corporation, Box 727, Dept. 1850, Memphis, Tennessee 38194, (901) 395-3464.

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, and 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 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

This annual report was written and designed entirely by employees of Federal Express Corporation.

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FEDERAL EXPRESS CORPORATION
2005 CORPORATE AVENUE
MEMPHIS, TENNESSEE 38132

U.S. MAIL: BOX 727
MEMPHIS, TENNESSEE 38194

Malcolm Baldrige
National
Quality
Award
1990
Winner