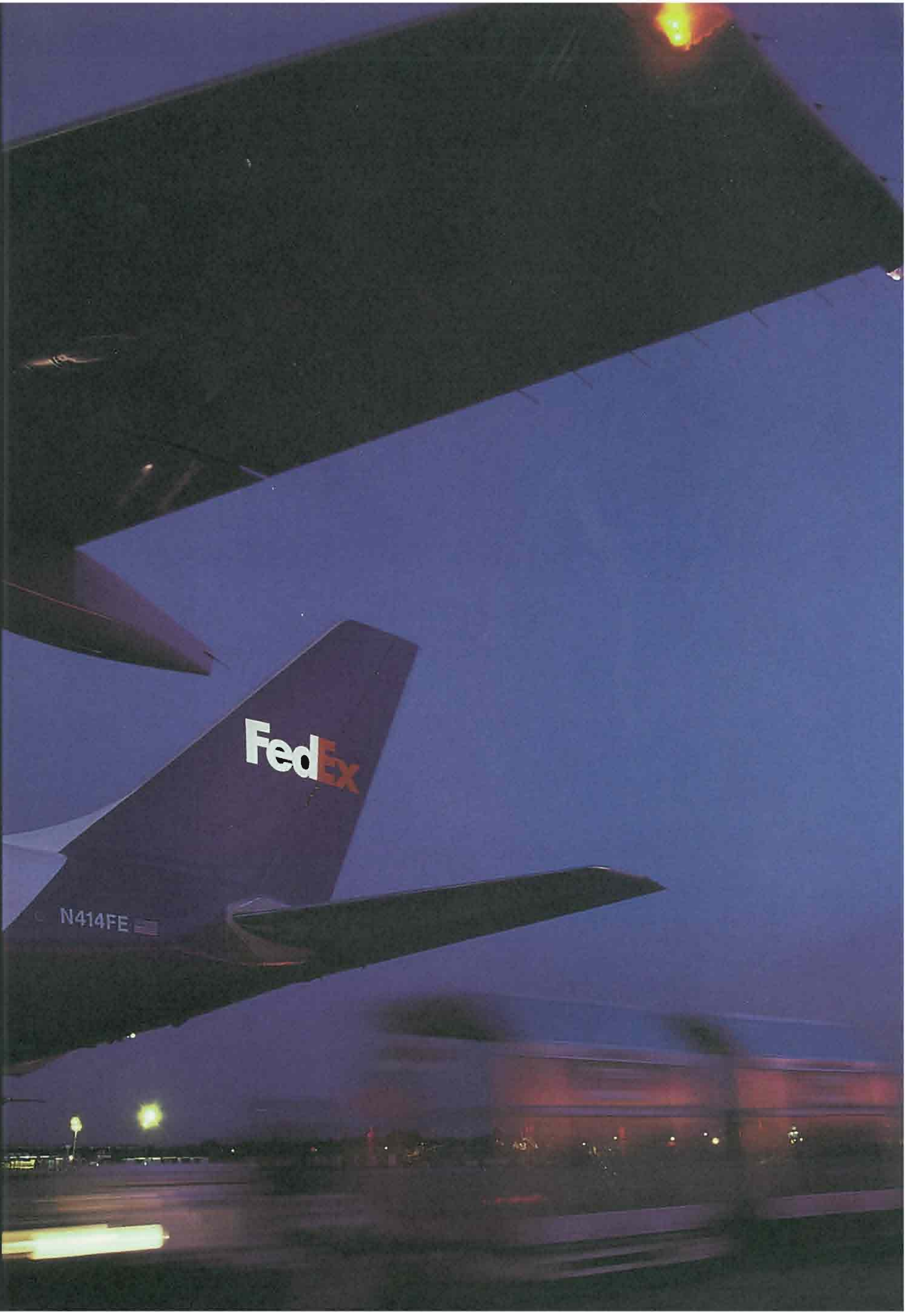
Federal Express Corporation 1995 Annual Report



Federal Express Corporation offers a wide range of express services for the time-definite transportation of documents, packages and freight throughout the world, using an extensive fleet of aircraft and vehicles and leading-edge information technologies.

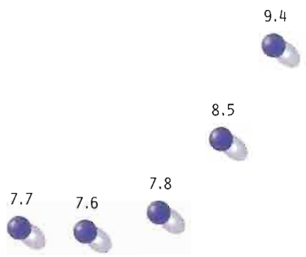
Years Ended May 31

In thousands, except earnings per share and other operating data	1995	1994	Percent change
OPERATING RESULTS			
Revenues	$9,392,073	$8,479,456	+11
Operating income	591,144	530,632	+11
Income before income taxes	522,084	378,462	+38
Net income	297,588	204,370	+46
Earnings per share	$ 5.27	$ 3.65	+44
Average shares outstanding	56,494	56,012	+ 1
FINANCIAL POSITION			
Property and equipment, net	$3,715,244	$3,449,093	+ 8
Total assets	6,433,372	5,992,498	+ 7
Long-term debt	1,324,711	1,632,202	−19
Common stockholders' investment	2,245,569	1,924,705	+17
OTHER OPERATING DATA			
Express package:			
Average daily package volume	2,247,594	1,925,105	+17
Average pounds per package	6.3	6.0	+ 5
Average revenue per pound*	$ 2.31	$ 2.51	− 8
Average revenue per package*	$ 14.62	$ 15.12	− 3
Airfreight:			
Average daily pounds	2,153,041	1,844,270	+17
Average revenue per pound	$ 1.06	$ 1.06	—
Operating weekdays	255	257	
Aircraft fleet	496	458	
Vehicle fleet	35,900	30,900	
Average number of employees (based on a standard full-time workweek)	94,201	88,502	

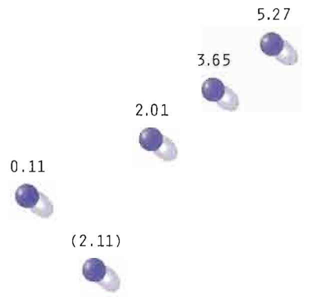
*Beginning in 1995, certain service fee revenues were classified as package-related revenue. Data for 1994 has been restated to conform to this presentation.

1991-1995 Highlights

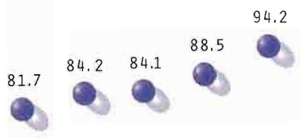
REVENUES
(in billions of dollars)



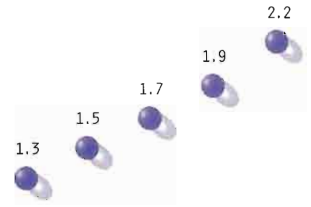
EARNINGS PER SHARE[1]
(in dollars)



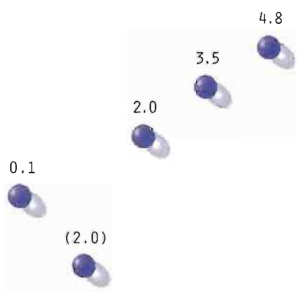
AVERAGE NUMBER OF EMPLOYEES
Based on a standard full-time workweek (in thousands)



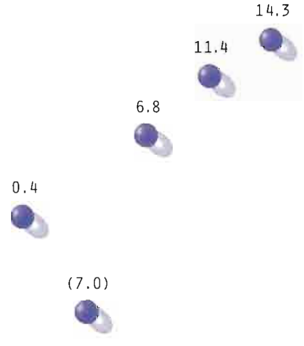
AVERAGE DAILY EXPRESS PACKAGES
(in millions)



RETURN ON ASSETS[1]
(percent)



RETURN ON EQUITY[1]
(percent)



[1] EPS, ROA and ROE results exclude a 1993 after-tax charge of $55.9 million ($1.03 per share) for the cumulative effect of a change in an accounting principle. 1991 and 1992 results include restructuring charges, related to European operations, of $121 million ($1.48 per share after tax) and $254 million ($3.12 per share after tax), respectively. ROA and ROE are calculated using the average of the year's beginning and ending assets or equity.

Fiscal 1995 was a year of accomplishment for Federal Express. We surpassed last year's results to set new standards of performance. For example:

- ☐ Worldwide revenues of $9.4 billion, up $913 million, or 11 percent, over last year.
- ☐ Net income up $94 million to $298 million.
- ☐ Earnings per share of $5.27, up 44 percent over last year's $3.65 per share.
- ☐ Average daily express package volume growth of 17 percent, with daily express package volume averaging 2.3 million per day by year-end.

These results were achieved as FedEx® expanded its customer base, improved service, lowered unit costs and held fast to our leading express market share. We also invested $1 billion expanding and improving our global, air-ground express transportation and information network and signed long-term operating leases to put approximately $300 million of aircraft into service.

After years of aggressively building and carefully refining the world's most far-reaching express distribution infrastructure, FedEx employees, customers and stockholders are well-positioned for future benefits.

Looking ahead, we're convinced that by continuing to strategically reinvest in our network, FedEx can remain the unrivaled leader in the fast-growing global express distribution industry, serving more customers, in more places, more quickly, reliably and cost-effectively.

We call it delivering "The World On Time℠."

A GLOBAL PERSPECTIVE In past annual reports we've described performance at FedEx along international and U.S. domestic lines. We've done so to illustrate clearly for you and the financial community the implications of our long-term, global strategy. We also did it to chart our progress as we passed operational and profitability milestones in the establishment of our base intercontinental delivery network.

Having said that, it's important not to lose focus on the single best measure of the financial performance of Federal Express.

Overall earnings results.

Since fiscal 1992, when we realigned overseas operations to emphasize our intercontinental express services, FedEx has achieved a $411 million improvement in net income, with fiscal 1995 net income surpassing last year's by 46 percent. At the same time, key financial ratios – return on assets (5 percent), return on equity (14 percent), pretax margin (6 percent) and debt to total capital (41 percent) have improved significantly.

Our management team is focused on continuing to deliver consistent earnings improvement across our entire global enterprise.

After all, to serve today's marketplace, FedEx global operations simply must be seamlessly connected. To link trading partners in Bangor, Maine, to Bangkok, Thailand, no aspect of our network can stand alone. In fact, today more than 80 percent of our FedEx International Priority packages are picked up or delivered within the United States. Our success in the United States and abroad comes only when we connect shippers with their customers, no matter what geographic boundaries lie between.

During fiscal year 1995, FedEx made those rapid, seamless, global connections on behalf of customers at a pace unprecedented in company history. Average daily volume for our premium express services grew 17 percent across our entire network, to an average of 2.3 million packages per day by year-end. Clearly, the short-cycle, time-definite express delivery market is strong and expanding on a worldwide scale, and FedEx is strategically focused to earn that business.

Are there challenges remaining? Certainly. U.S. domestic margins continued a recent pattern of decline. Key reasons included intense competition on price within our industry, significant volume growth coming from high-volume customers who receive pricing discounts, and investments in our U.S. domestic system which should provide improved earnings in the years ahead.

FedEx has planned to be – and has become – the world's leading express distribution company. How rapidly and reliably we deliver between any two points on the globe is what matters most to customers. How consistently we maximize income across our global enterprise is the truest measure of the value we deliver for our stockholders.

In fiscal 1995, and consistently since 1992, FedEx performance to these standards has been excellent.

UNFINISHED BUSINESS Fiscal 1995 offers clear evidence that the FedEx global vision is on target, and that our services and improvement strategies are sound. But I can assure you, no FedEx employee views fiscal 1995 results as reason to rest on our accomplishments. Our aggressive business plans for the coming year and beyond are detailed and demanding.

No financial goal ranks higher than optimizing profit margins across our entire network. We've tested and are adopting several strategies and technologies – particularly in our ground operations – that should continue to drive down our average cost-per-package.

We're also evaluating our revenue-per-package, or yield, on a customer-by-customer, industry-by-industry basis, to ensure we're gaining acceptable return for the value FedEx delivers. We have implemented targeted yield-management actions in the United States to slow the year-over-year yield decline from the 5 percent level in recent years to a level more in line with ongoing unit-cost reductions.

Meanwhile, we continue to pursue marketing and operating strategies that will help FedEx increase not only the total volume of shipments we deliver, but also manage the *kinds* of shipments, ensuring the best balance of yield, cost and overall profitability.

We expect outstanding growth in global express distribution to continue as the world's appetite for rapid, time-certain delivery of goods, materials and information continues to grow. By strategically expanding and positioning our global network to win that business, and by working diligently to reduce costs and manage margins, FedEx fully expects 1996 to be another record-breaking year for our company.

Frederick W. Smith

FREDERICK W. SMITH Chairman, President and Chief Executive Officer

The World On Time℠

Review of Operations

It's 5:30 a.m. Monday. Kuala Lumpur. Inside a still-darkened office, a customer's order arrives via electronic data interchange. Within just a few hours, a high-tech custom manufacturing facility will leap to life.

The computerized order will pass quickly from intake to engineering, then through production planning, and from there to the factory floor. To compete in a global market, managers at this Malaysian factory have committed to a strict, highly compressed cycle time: a scant seven days, from the instant the order arrives to the moment finished goods are delivered to destinations anywhere in the world.

Even when their production process runs smoothly, there's the challenge of distribution: that complex puzzle of time and distance where a company's total product cost, and delivery commitment, hang in the balance.

Thanks to the FedEx global express transportation and information management network, this firm's demanding promises are being kept. And when the factory soon reduces its time to market even further and expands to ever-more-remote locations, FedEx will be there to deliver as well.

FedEx means more than just delivering packages. Our delivery commitment to our customers is 100% satisfaction, 100% of the time.

CONNECTING THE WORLD For this customer, and for so many around the world, FedEx has become an integral, value-adding extension of the total business production cycle. It's one example of what we mean when we say FedEx delivers "The World On Time.SM"

Getting our customers closer to their customers is what the FedEx global network is all about. A network that spans 96 percent of the world's economic activity within 24 to 36 hours. Time-definite. Reliable. Backed by our Money-Back Guarantee.

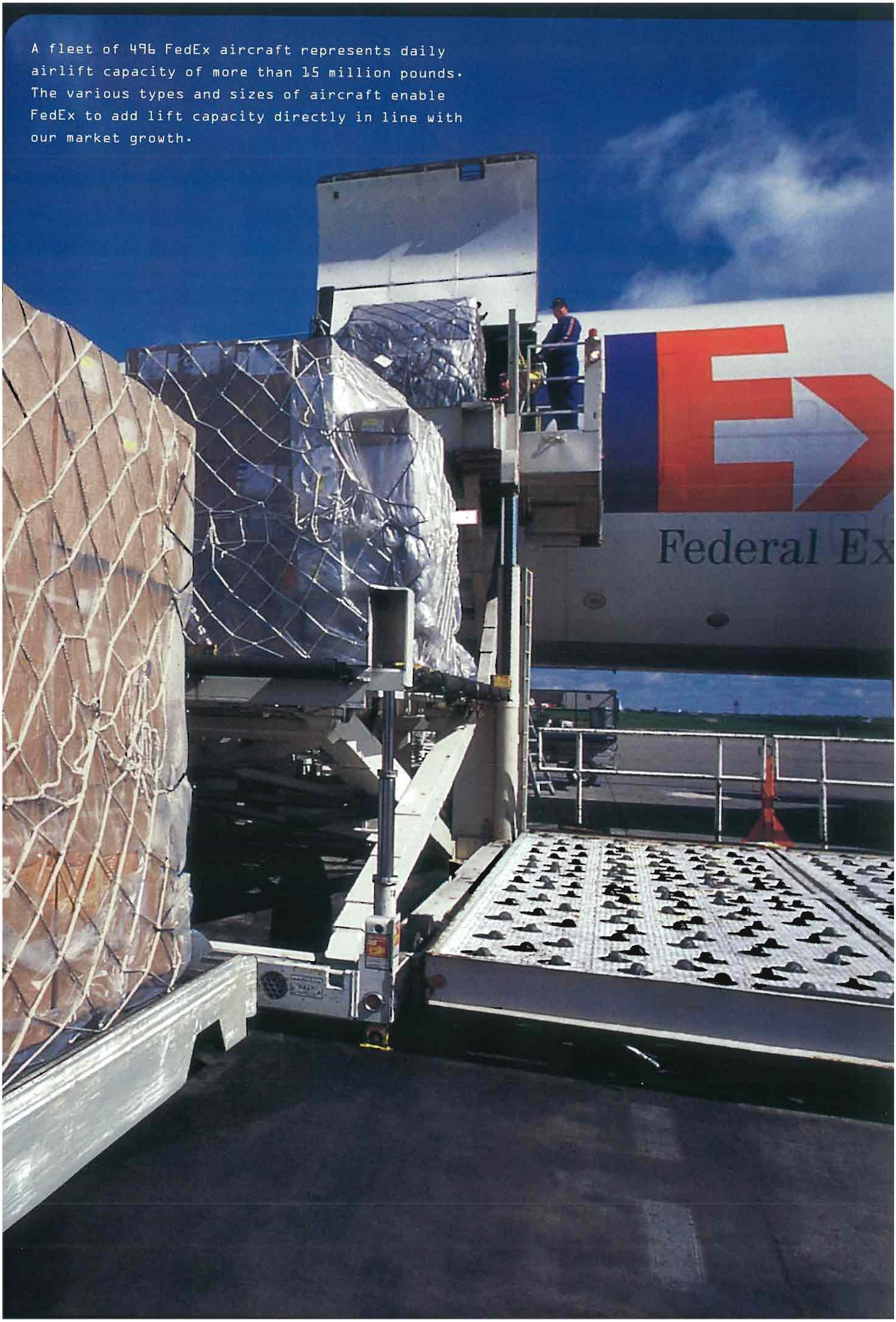
When we say the "FedEx network," we are referring to several integrated, highly sophisticated sub-networks of people and technologies, including:

☐ The world's largest infrastructure of all-cargo aircraft, air route authorities and regional sorting facilities.
☐ Information systems and logistics management solutions that make it easy and smart for customers to choose FedEx as their distribution ally.
☐ A worldwide matrix of package drop-off and customer service locations.
☐ Tens of thousands of ground pick-up and delivery personnel and vehicles.

During fiscal 1995, FedEx made major, strategic improvements in each of these areas to strengthen our vast global distribution system. They are the kinds of enhancements that have made – and are designed to keep – FedEx the world's leading express transportation provider.


FedEx

A fleet of 496 FedEx aircraft represents daily airlift capacity of more than 15 million pounds. The various types and sizes of aircraft enable FedEx to add lift capacity directly in line with our market growth.



EXTENDING OUR GLOBAL LEADERSHIP The geographic reach and connectivity FedEx offers its customers has never been greater, owing to a number of strategic actions during 1995.

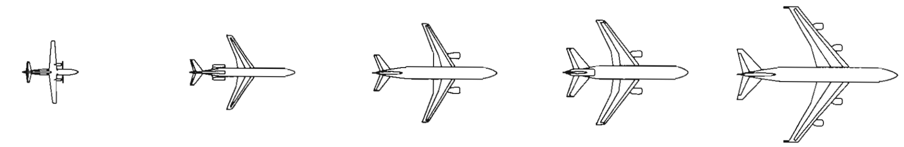
□ FedEx reached an agreement with Evergreen International Airlines to acquire its all-cargo route authorities serving the People's Republic of China. Pending governmental approval, FedEx will become the only U.S.-based cargo carrier with scheduled service to and from China, Asia's fastest-growing economy.

□ We established a new regional transloading facility at Subic Bay in the Philippines, with plans to make it the focal point of a regional "hub-and-spoke" air transportation system analogous to the one we pioneered in North America.

FedEx now offers customers overnight delivery between major Asian cities – and from the heart of Asia to and from the rest of the world. Unlike our competitors, FedEx also can offer Asian shippers "custodial control" over their high-value parts and products.

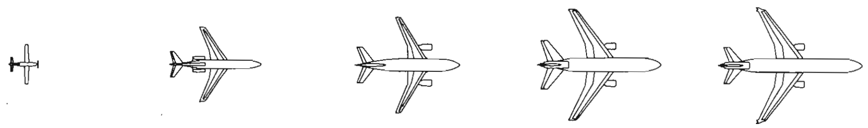
As the pace of intra-Asian trade intensifies, and as Asia continues its emergence as the world's most vibrant regional economy, FedEx has strategically positioned itself as the express distribution gateway linking the Far East and every major market around the globe.

FEDEX AIRCRAFT FLEET
(AT 5-31-95)



QUANTITY/TYPE LBS. PER AIRCRAFT*	32/F-27 14,000	90/B727-200 59,500	9/A300-600 117,700	13/DC-10-10 142,000	5/B747-200 250,000
QUANTITY/TYPE LBS. PER AIRCRAFT*	229/C208 3,500	68/B727-100 38,000	15/A310-200 74,200	22/DC-10-30 172,000	13/MD-11 198,500

*DENOTES MAXIMUM GROSS STRUCTURAL PAYLOAD



□ Bilateral agreements between Canada and the United States – still the world's largest trading partnership – dramatically enhanced our ability to serve Canadian cities faster, with any size aircraft. Among our service enhancements is new FedEx® International Economy service, which lets cost-conscious shippers reach destinations in the United States or Canada within two or three business days.

□ FedEx also announced plans to buy 12 additional MD-11s, aircraft that will give us the flexibility to add capacity, in line with projected market growth, on selected international routes.

□ To better serve destinations and shippers in the southern United States, Mexico and Central America, FedEx broke ground on a new regional sorting facility in Fort Worth, Texas. When operational in 1997, our Fort Worth hub will feature the industry's most advanced computerized scanning and processing equipment.

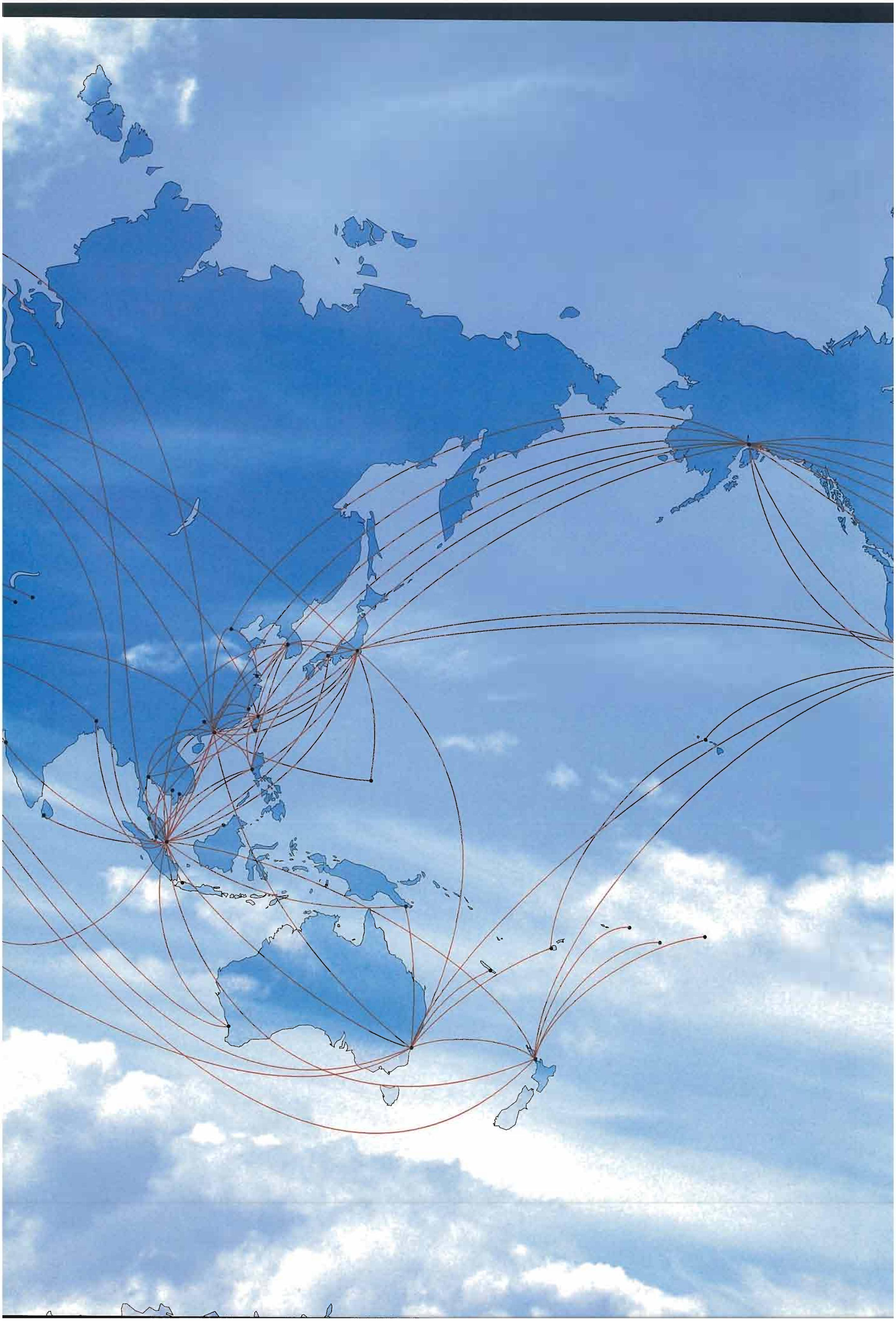
□ Recognizing South America's rapid emergence as a key trading crossroads, we upgraded our non-stop daily flight to a wide-body aircraft linking São Paulo, Brazil, with our Memphis SuperHub.

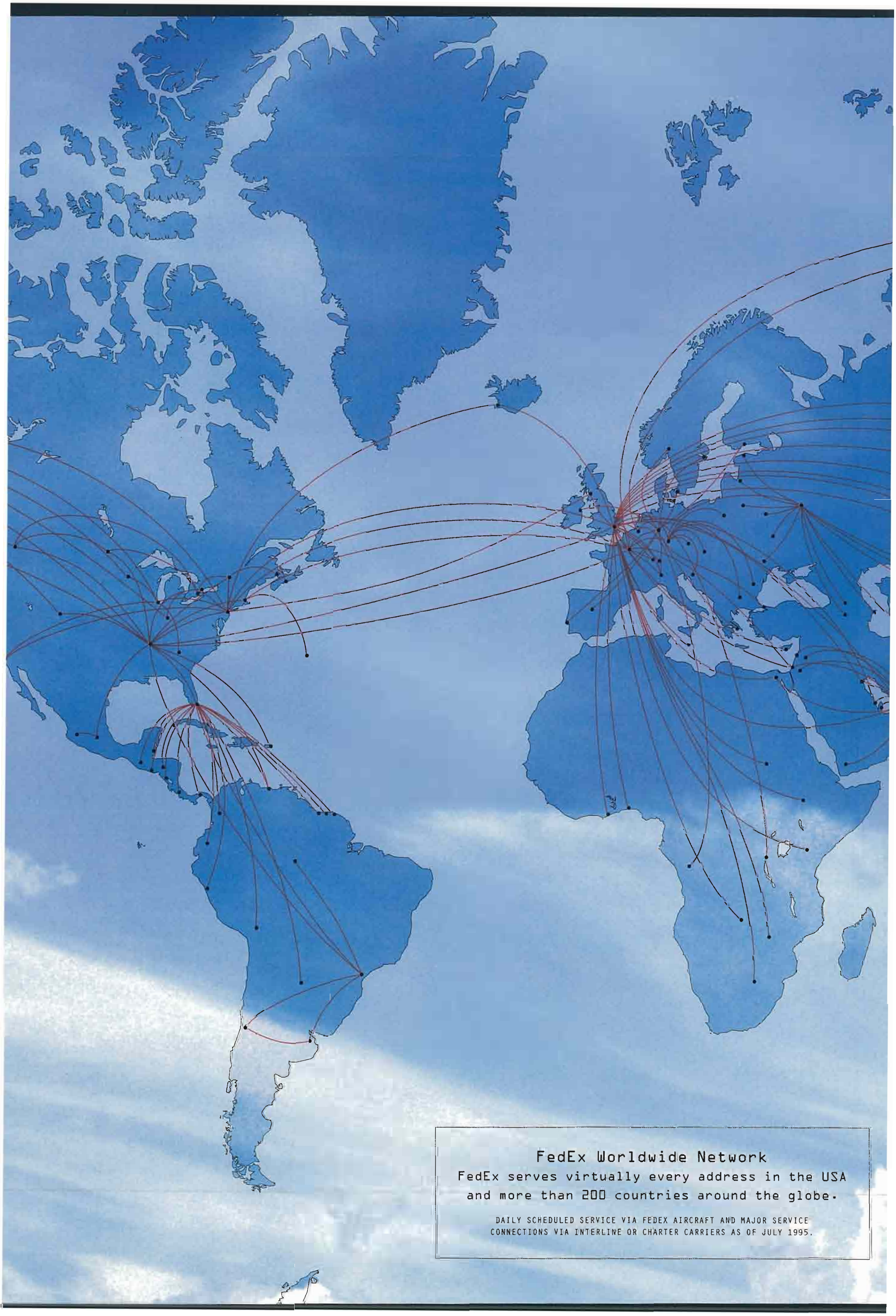
This means FedEx customers gain more lift capacity and more timely connections between North America, Asia, Europe and South America.

□ Finally, to ensure U.S. customers can turn to FedEx to satisfy their most urgent shipping demands, we announced new FedEx SameDay℠ service, which began June 1, 1995.

In the coming year, FedEx will continue to extend the global edge it offers customers. Increasing from four to five the number of scheduled, daily round-trip flights over the Pacific between Asia and North America. We'll also be boosting our daily trans-Atlantic capacity by more than 15 percent and reducing transit times between Europe and points in Canada and America's heartland.

For FedEx, "The World On Time" is more than a slogan. It's our daily call to action. A reminder to each of 110,000 FedEx employees to extend and improve, at every strategic opportunity, the global advantage we offer our customers.




FedEx Worldwide Network
FedEx serves virtually every address in the USA and more than 200 countries around the globe.
DAILY SCHEDULED SERVICE VIA FEDEX AIRCRAFT AND MAJOR SERVICE CONNECTIONS VIA INTERLINE OR CHARTER CARRIERS AS OF JULY 1995.

SERVING CUSTOMERS WITH INFORMATION You might be surprised to learn the single most-traveled route in the FedEx global network is not Tokyo to Anchorage. Not even New York to Washington, D.C.

It's the Information Superhighway.

FedEx is a leader in conducting business electronically, on a global basis. Today, nearly two-thirds of our express package volume comes from customers linked to us via FedEx PowerShip® automated shipping systems. Our aim by the year 2000 is to have 100 percent of our customers on-line. This will help us drive down transaction costs and increase package-handling productivity, while making shipping that much easier and more cost-effective for our customers.

During fiscal 1995 we made considerable progress toward this ambitious goal. For example, we introduced FedEx Ship,™ the first and only express shipping software designed to run on a customer's personal computer. We call it "point, click and ship." FedEx Ship lets a customer generate plain-paper airbills on a laser printer, track shipments, order FedEx pickups, maintain a database of shipping addresses and activity, all with the point and click of a computer mouse.

With FedEx Ship's arrival, we now can offer fast shipment processing to a broader range of customers, even our most infrequent users, and do so with minimal capital investment.

Each time a customer uses FedEx Ship, the software more than pays for itself by reducing the resources required to serve that customer's needs.

Even if your package is halfway around the world, FedEx tracking and customer automation systems let you know the minute it arrives at its destination.

FedEx applied similar "win-win" thinking to create a customer-focused "home page" on the Internet's World Wide Web. There, customers can dial in to discover news about FedEx, check service availability, download FedEx software, even track their package as it moves through our global network. Business Week magazine cited FedEx among the leading-edge companies taking advantage of Web technology to give customers access to meaningful, value-added information and services.

In fact, FedEx Ship and the home page are two of many examples where FedEx continues to innovate while competitors scramble to imitate. Consider: FedEx and a competitor both "announced" versions of PC-based software within the same 24-hour period. Six months later, we'd distributed more than 70,000 copies of FedEx Ship, generating thousands of additional shipments through our network each day. Meanwhile, our competitor had yet to introduce its product.

Yet another example is our new Customer Service Workstation. While a major competitor decided to outsource its customer service capability, we continue to regard it as one of our core competencies. FedEx customer service professionals handle 380,000 customer

Box
ORIG. ID: MICA
THE WELLS GROUP
MINNEAPOLIS
INTERNATIONAL
400-13174346
FedEx
Federal Express
400-13174346
852-999-9999
TO:HSIN-YA CHUNG
CHUNG IMPORT/EXPORT
100 SUNG WONG TOI ROAD
KOW HK
TOKWAWAN
INTL PRIORITY
These commodities Licensed by the U.S. for ultimate destinations to
HONG KONG
Diversion contrary to U.S. Law prohibited.
DESCRIPTION: Accounting Documents
CUSTOM VALUE: NCV
USD


FedEx
FedEx
Federal Express

calls each business day. Our new Customer Service Workstations put customers' shipping histories on-screen as soon as they finish dialing 1-800-Go-FedEx.[SM] That means faster, more responsive service for our customers, with average U.S. call times trimmed substantially.

Also during fiscal 1995, FedEx became the first international company to engineer an electronic data link with customs officials in Shanghai, China. By forging electronic connections throughout the world, we often make it possible for shipments to be precleared through customs while en route. It's one of many ways FedEx blends technology and regulatory expertise on our customers' behalf.

In the end, such innovations as FedEx Ship and customs preclearance are what connect our customers to their customers using the FedEx global network. Making it their network. For sending goods across town or around the world.

DELIVERING ADDED CONVENIENCE We began the year with nearly 32,000 package drop-off locations worldwide, enabling FedEx to offer a level of customer accessibility no competitor can match. But in fiscal 1995 we didn't stop there. Instead, we added more than 5,000 retail affiliates and packaging stores to our network of FedEx® Drop Boxes and FedEx World Service Centers[SM] – a strategic expansion of customer access points by 15 percent.

These alliances enable customers to access FedEx services through such popular retailers as Target Stores, Sam's Club and Kinko's Copy Centers – so they can ship packages via FedEx at the same time they're buying gifts, filling prescriptions, or creating a business presentation. In fact, average daily package volume at many retail affiliates is running well ahead of our standard FedEx Drop Box locations, helping us reduce our average pick-up cost.

HONING OUR OPERATIONAL EDGE With more than 58,000 package-sorting and pick-up/delivery personnel, driving more than 2.5 million miles each day to satisfy customer needs, FedEx ground operations are a large and critical part of our global distribution system.

During fiscal 1995 we took steps to improve the quality of our service further while reducing operating cost-per-package in ground operations and throughout our entire system.

Case in point: Our new Courier Route Planner (CRP), which was rolled out in the second half of fiscal 1995, uses geographic information technology, linked to our FedEx Cosmos® shipment tracking system, to identify optimal delivery and pick-up route patterns. CRP helps FedEx ground personnel work more productively by reducing miles traveled per package delivered.

CRP not only helps FedEx drive down cost-per-package, it improves our ability to meet time-definite delivery commitments. So, while FedEx remains ready to go the extra mile for customers, we're using tools like CRP to get there via the most direct route possible.

We also tested and are rolling out an extensive reengineering of the package sorting and loading processes in our 650 stations in North America. By turning employee teams loose to identify and replicate the "best practices" in our operations, we're spreading the best dollar-saving, minute-shaving processes and work methods throughout our network. For instance, we surprisingly found that slowing the station conveyor belts that move packages to our courier vans actually improved productivity, resulting in performance gains that get FedEx couriers on the road minutes sooner each morning. Gains that translate into annual savings measurable in the millions of dollars.

As the FedEx air system grows, ground movement capabilities are also being added, providing the flexibility to meet all of our customers' most urgent transportation needs.

With the approval of intrastate trucking deregulation in January 1995, FedEx is free to handle more shipments by the most cost-effective mode. Customers tell us they're less concerned about *how* shipments reach their destination than *when*. Given that feedback, and now freed from intrastate economic regulations, we'll expand trucking operations in cases where service, speed and reliability can be maintained, enabling us to compete more aggressively in the shorter-haul express market.

Consistent with our People-Service-Profit philosophy, we unveiled new performance compensation initiatives during fiscal 1995. These programs raised the incentive for employees to work aggressively at increasing package volume. One such program generated more than 41,000 qualified leads in its first three months. That translated into more than $3 million in revenue, at per-package revenues well above our company average.

CHANGING THE BEST FOR THE BETTER As you can see from a brief overview of our major fiscal 1995 improvements and initiatives, FedEx is a company moving forward – always searching for ways to improve service and connect customers more closely around the globe.

Even as we continuously explore and adopt methods that will improve all levels of our global network, there are still further signs of our progress along the way.

Conscious of our role and responsibilities as a corporate citizen, FedEx also devoted people power, resources and expertise to an array of community-building events and relationships during fiscal 1995. Notable among these was our strategic alliance with the American Red Cross, to provide quick-response equipment distribution to disaster sites, assistance in tracing family members of disaster victims, employee volunteer support, and total quality management training for Red Cross staff.

In fiscal 1995, FedEx earned ISO 9001 certification, worldwide. This distinguished us as the first global express transportation company to satisfy the exacting series of quality and reliability standards simultaneously, across all of our worldwide operations. In a related first – and as testimony to the interconnectivity of FedEx information technology – the ISO certifying agency first validated our global network of management information and communication systems, then leveraged those systems to issue the system-wide certification, without requiring visits to each FedEx site.

Also last year, Asia's leading cargo magazine, Cargonews Asia, voted FedEx the region's best all-cargo airline for the second year running.

Today, FedEx, its customers and stockholders are uniquely well-positioned to profit from the fast-growing market for the time-critical movement of goods and information worldwide.

We plan to maintain our leadership by continuing our focus on the same handful of core business strategies that have guided us over the past few years: *improve service levels: lower unit costs: maintain our position as the world's leading express transportation company; get closer to the customer: and maintain the People-Service-Profit philosophy.*

Simple ideas, yes. But simply powerful in their proven ability to guide our actions and improve our results.

A Message from the Chief Financial Officer

As the world's largest all-cargo airline and the express transportation industry's leader in information technology services, Federal Express continues to invest aggressively to improve our competitive position, profits and profit potential.

FedEx is not only investing to improve existing services and to acquire more customers, but is also investing in very long-lived assets, such as aircraft and sorting facilities, to enhance and expand our service capabilities. Finally, we are investing to reduce our average cost of service, to take advantage of the economies of scale available only to an integrated, information-intensive company with a worldwide network like FedEx.

The financial strategy of the Company must accomplish three things consistently: Receive a superior return on all capital invested, minimize the Company's cost of capital by using the best combination of debt, equity and lease financing, and maintain liquidity.

FedEx's fiscal 1995 financial results were good. We ended the fiscal year with a higher credit rating on our long-term debt, and with better profit, leverage and liquidity ratios. For fiscal 1996, we will be guided by this financial strategy as we work to continue our earnings growth and the expansion of FedEx's unique information and express transportation network.

Alan B. Graf, Jr.

ALAN B. GRAF, JR. Senior Vice President and Chief Financial Officer

Financial Section

RESULTS OF OPERATIONS

In 1995, the Company achieved record-high net income and earnings per share for the second consecutive year. Consolidated net income for 1995 was $298 million ($5.27 per share) compared with net income of $204 million ($3.65 per share) in 1994 and $54 million ($.98 per share) in 1993. Excluding the effect of adopting the new accounting standard for postretirement benefits other than pensions, 1993's net income would have been $110 million ($2.01 per share).

Management has expanded and refined the Company's unparalleled worldwide network of express delivery services, which resulted in exceptional year-over-year increases in net income and earnings per share for the past three years. The Company has strategically invested in programs designed to promote long-term growth and overall profitability and provide the Company with the ability to effectively adapt to a continually changing business environment. Investments in aircraft, advanced technologies and employee productivity have been an integral part of the Company's history of providing competitively superior express delivery services. The Company's customers have increasingly required express services on a worldwide basis. Management recognized this demand and created a global express distribution network. The Company will continue to manage its resources to capture the greatest overall economic benefit in a growing worldwide express market. Consistent with the Company's global approach, management believes that the clearest method for evaluating results is on a consolidated basis.

Revenues

The following table shows a comparison of revenues for the years ended May 31:

In millions				Percent Change	
	1995	1994	1993	1995/ 1994	1994/ 1993
U.S. domestic express	$6,700	$6,142	$5,556	+ 9	+11
International Priority (IP)	1,680	1,339	1,117	+25	+20
International Express Freight (IXF) and Airport-to-Airport (ATA)	580	505	570	+15	-11
Charter	115	113	112	+ 1	+ 1
Logistics services	106	248	263	-57	- 6
Other*	211	132	190	+59	-30
	$9,392	$8,479	$7,808	+11	+ 9

*Includes sales of engine noise reduction kits

The following table shows a comparison of selected express and airfreight (IXF/ATA) statistics for the years ended May 31:

In thousands, except dollar amounts	1995	1994	1993	Percent Change 1995/1994	Percent Change 1994/1993
U.S. domestic express:					
Average daily packages	2,084	1,792	1,596	+16	+12
Revenue per package	$12.61	$13.33	$13.65	− 5	− 2
IP:					
Average daily packages	164	133	115	+23	+16
Revenue per package	$40.28	$39.21	$38.18	+ 3	+ 3
IXF/ATA:					
Average daily pounds	2,153	1,844	2,050	+17	−10
Revenue per pound	$ 1.06	$ 1.06	$ 1.09	—	− 3

Different economic and competitive conditions in the domestic and international express delivery markets have affected the Company during the past three years.

Beginning in 1991 and continuing to the present, the Company has contended with intense competitive pressure in the U.S. domestic express market. Price has become a dominant consideration in choosing express delivery services. In an effort to increase volume, the Company offered new, lower-priced deferred services and increased the level of discounting. As a result, U.S. domestic average daily volumes increased as did express revenues. Revenue on a per package basis (yield) declined significantly.

In contrast, the market for the Company's IP services is comparatively new. The Company benefits from its EXPRESSfreighter system which provides customers with reduced transit times, later drop-off opportunities and daily service on a worldwide basis that is generally unmatched by competitors. The combination of its EXPRESSfreighter system, aggressive marketing efforts and a recent improvement in global economic activity has resulted in significant year-over-year growth in average daily volume, revenue and yield.

Significant growth in the Company's airfreight services played an important role in improving 1995 earnings. This improvement is primarily attributable to a favorable global airfreight market. In markets with high demand but limited capacity, the space-confirmed aspect of IXF (a higher-priced, time-definite service) creates competitive advantages over ATA (a lower-priced, space-available service). Additionally, management actions in 1994 and 1995 narrowed the price difference between IXF and ATA. Customers responded by using IXF rather than ATA, resulting in higher-yielding IXF comprising a greater percentage of airfreight pounds transported by the Company.

The decrease in Logistics services revenue in 1995 is due to the sale, effective May 1994, of the Company's German logistics subsidiary and the January 1995 sale of two dedicated warehousing and contract distribution companies in the United Kingdom. (See additional discussion in Other Income and Expense and Income Taxes below.)

The increase in Other revenues in 1995 is due primarily to increased sales of engine noise reduction kits. The decrease in other revenues in 1994 is due primarily to the sale of a U.S. domestic subsidiary.

Operating Expenses

Operating expenses for the years 1993, 1994 and 1995 have increased primarily because of increasing volumes. Presented below is the detail for the year-over-year percentage change in operating expenses:

	Percent Change	
	1995/ 1994	1994/ 1993
Salaries and employee benefits	+ 8	+ 8
Rentals and landing fees	+16	+ 7
Depreciation and amortization	+ 9	+ 3
Fuel	+ 6	− 5
Maintenance and repairs	+17	+15
Other	+16	+ 8
Total operating expenses	+11	+ 7

The increases in Salaries and employee benefits are primarily due to volume-related growth in the Company's U.S. domestic employment levels. A portion of the increase from 1993 to 1995 is attributable to increased provisions under the Company's variable incentive compensation plans which reflect increased earnings and, in 1995, a significant gain from the sale of certain businesses. (See Revenues above and Other Income and Expense and Income Taxes below for additional information.) Management expects this trend of increasing salaries and employee benefits to continue because of rising U.S. domestic express volumes.

The increases in Rentals and landing fees for 1995 and 1994 are due to the leasing of additional aircraft. In 1995, the Company added, by operating lease, ten Airbus A310 and seven Airbus A300 aircraft. In 1994, the Company added, by operating lease, six MD-11 and two Airbus A300 aircraft. Management expects year-over-year increases in lease expense to continue as the Company enters into additional aircraft rental agreements during 1996 and thereafter.

The increase in Fuel for 1995 is primarily attributable to increases in total flight hours (9%) and gallons consumed (10%), partially offset by a decline in average jet fuel price per gallon (5%). The decrease in fuel expense for 1994 reflects a reduction in gallons consumed (1%) and a decline in average jet fuel price per gallon (7%). Under the Omnibus Budget Reconciliation Act of 1993, a 4.3 cents per gallon increase in the excise tax on aviation fuel will become effective beginning in October 1995. Based upon 1995 consumption levels, this increase in excise tax would have increased the Company's annual aircraft fuel expense by approximately $27 million.

Maintenance and repairs expense increased due to engine maintenance on B-727 and MD-11 aircraft. During 1994, regulatory directives required the Company to assess the engines of both aircraft types and, where applicable, take corrective action. The initial cycle of scheduled engine maintenance on the Company's MD-11 fleet, which began in 1994, also contributed to increased maintenance and repairs expense. As of the end of 1995, the Company had fully complied with the maintenance directive on the B-727 engines. Management expects to address the maintenance directive on the MD-11 engines concurrently with scheduled maintenance. Management believes the recent trend of increasing maintenance expense will subside in 1996 and then rise in 1997 as DC-10 aircraft begin a new cycle of scheduled engine maintenance.

The increase in Other operating expenses for 1995 and 1994 is generally due to year-over-year volume growth. Advertising expense, temporary manpower, and expenses related to the transportation of packages by outside vendors comprise the most significant portion of these expenses. The cost of sales for engine noise reduction kits also caused an increase in other operating expenses in 1995.

Operating Income

The Company's operating income increased 11% in 1995 and 41% in 1994. U.S. domestic results were essentially flat in 1994 and declined significantly in 1995 because of lower margins attributable to the decrease in U.S. domestic express yields. In contrast, the Company's international results improved markedly in 1994 and 1995 because of growing IP and airfreight services. In 1995, the Company's international operations achieved the first full year of profitability. For additional information on the Company's U.S. domestic and international operations, see Note 10 of Notes to Consolidated Financial Statements.

Other Income and Expense and Income Taxes

Decreases in net interest expense of 19% and 12% in 1995 and 1994, respectively, are due to lower debt levels and reduced interest rates on borrowings.

Other, net for 1995 includes a pre-tax gain of $35.7 million from the sale of two dedicated warehousing and distribution companies in the United Kingdom. This transaction resulted in an after-tax impact of $.27 per share, including the effect of additional variable compensation expenses. Other, net also includes $9.7 million received in 1995 from the bankruptcy estate of a firm engaged by the Company in 1990 to remit employee payroll taxes to appropriate authorities. These payments are a partial recovery of a $32 million loss recorded by the Company in 1991 caused by the failure of this firm to remit certain taxes. The Company may receive additional distributions from the firm's bankruptcy estate depending on the outcome of preference litigation and other pending bankruptcy matters against the firm.

The Company's effective tax rate for 1995 was 43.0% compared with 46.0% and 46.1% for 1994 and 1993, respectively. In each year, the effective tax rate was greater than the statutory U.S. federal tax rate primarily because of state income taxes and the impact of foreign operations. During 1995, the Company changed the structure of its foreign entity in Mexico. This change permitted the one-time deduction in 1995 of certain items for U.S. federal income tax purposes that were not deductible in prior years and contributed to the lower 1995 tax rate. Based upon anticipated levels of income, capital acquisitions and other factors, the Company's effective tax rate for 1996 is expected to remain at a level similar to the 1995 rate, and the Company does not expect to be subject to the alternative minimum tax in future years.

Outlook

Management believes the competitive nature of the U.S. domestic express delivery market limits the Company's near-term ability to increase prices generally. Nonetheless, the Company continues to work to slow the rate of decline in its U.S. domestic yield through actions which include targeting selected customers for review and realignment of their discount levels, seeking higher yielding customers and promoting heavier package weights. However, reducing unit costs at a rate greater than the rate of yield decline continues to be the Company's primary focus for improving operating margins. Management intends to further reduce unit costs by applying information technologies that better coordinate the processing and delivery of packages. These technologies map courier routes, streamline station operations and balance flight schedules with expected demand. In addition, the Company is undertaking a comprehensive review of its procurement practices in order to optimize the value of goods and services purchased.

The Airport Improvements Act, effective January 1995, eliminated many of the intrastate transportation regulations that restricted the use of the Company's lower-cost ground transportation system. Management believes that an expanded and well-directed use of trucking, which includes investments in hub automation and larger load carrying vehicles, will provide long-term cost savings. The Company is also developing regional hubs that will serve as distribution points for expanded trucking operations.

Management believes that continued growth in the Company's international operations is a pivotal factor in improving overall earnings. As discussed above, the Company's international express business benefits from competitive advantages in certain markets. The Company has established an intra-Asian transloading facility at Subic Bay, Philippines. This facility will position the Company to capture more of the growing Far East express market. In addition to the Subic Bay facility, the Company plans to add new EXPRESSfreighter flights to locations in Europe and the Far East. These expansions will entail start-up costs which may restrain short-term profitability. In addition, from time to time, the regulatory environment for global aviation rights may impair the ability of the Company to operate its air network in the most efficient manner. With respect to airfreight, the

Company believes that a forecasted increase in overall market capacity in 1996 for airfreight may slow the volume growth in IXF but provide additional opportunities for ATA.

The Company manages its aircraft fleet to achieve improving efficiencies in unit costs for fuel consumption, maintenance and crew manning. MD-11 and Airbus A300 and A310 aircraft acquisitions are designed to support this improvement. These aircraft are expected to produce long-term benefits, despite their higher ownership cost.

FINANCIAL CONDITION

Liquidity

Cash and cash equivalents totaled $358 million, a decrease of $35 million during 1995 compared with increases of $237 million and $77 million in 1994 and 1993, respectively. Cash provided from operations during 1995 was $1.0 billion compared with $767 million in 1994 and $725 million in 1993. The increase in cash provided from operations in 1995 is primarily due to higher net income in 1995 compared to 1994 and 1993. The Company currently has available a $1 billion revolving bank credit facility that is generally used to finance temporary operating cash requirements and to provide support for the issuance of commercial paper. Management believes that cash flow from operations, its commercial paper program and the revolving bank credit facility will adequately meet its working capital needs for the foreseeable future.

Capital Resources

The Company's operations are capital intensive, characterized by significant investments in aircraft, package handling facilities, sort equipment, vehicles, and computer and telecommunication equipment. The amount and timing of capital additions are dependent on various factors including volume growth, new or enhanced services, geographical expansion of services, competition and availability of satisfactory financing.

Capital expenditures for 1995 totaled $1.1 billion and included four A310-200 aircraft, 15 Cessna 208 aircraft, deposits on future Airbus A300 aircraft, vehicles and ground support equipment, and customer automation and computer equipment. In comparison, prior year expenditures also totaled $1.1 billion and included five MD-11 aircraft, three B-727-200 aircraft, deposits on future Airbus A300 aircraft, vehicle and ground support equipment, and customer automation and computer equipment. All of the MD-11 aircraft acquired in 1994, along with a sixth aircraft acquired in 1993, were subsequently sold and leased back. For information on the Company's purchase commitments, see Note 11 of Notes to Consolidated Financial Statements.

The Company has historically financed its capital investments through the use of lease, debt and equity financing in addition to the use of internally generated cash from operations. Management's practice in recent years with respect to funding aircraft acquisitions has been to finance such aircraft through long-term lease transactions that qualify as off balance sheet operating leases under applicable accounting rules. Management has determined that these operating leases have provided economic benefits favorable to ownership with respect to market values, liquidity and after-tax cash flows. In the future, alternative approaches to financing the Company's aircraft acquisitions, such as capitalized leases or other forms of secured financing, may be pursued when management determines that such financing best meets the Company's needs. The Company has been successful in obtaining investment capital, both domestic and international, for long-term leases on terms acceptable to it, although the marketplace for such capital can become restricted depending on a variety of economic factors beyond the control of the Company. See Note 3 of Notes to Consolidated Financial Statements for additional information concerning the Company's debt and credit facilities.

In November 1994, the Company filed a shelf registration statement with the Securities and Exchange Commission relating to $465 million of equipment trust and pass through certificates. The Company can use these certificates to finance the purchase of aircraft or to finance the acquisition of aircraft in leveraged lease transactions.

The Company believes its capital resources provide access to the most efficient capital markets with respect to any particular aircraft acquisition and are adequate for its future capital needs. These resources include backstop financing for 16 Airbus A300 aircraft, $465 million of equipment trust and pass through certificates, $210 million under an interim loan facility, $100 million of unsecured notes available under a June 1992 shelf registration and the public and private debt markets for leveraged lease financing.

OTHER MATTERS

Deferred Tax Assets

At May 31, 1995, the Company had a net cumulative deferred tax asset of $60 million consisting of $440 million of deferred tax assets and $380 million of deferred tax liabilities. The reversals of deferred tax liabilities in future periods will offset similar amounts of deferred tax assets. Based upon historical levels of taxable income, the Company believes that it is more likely than not that sufficient levels of future taxable income will be generated to realize the remaining deferred tax asset.

Years ended May 31

In thousands, except per share amounts	1995	1994	1993
REVENUES	$9,392,073	$8,479,456	$7,808,043
OPERATING EXPENSES:			
Salaries and employee benefits (Notes 8 and 9)	4,425,202	4,104,800	3,807,493
Rentals and landing fees (Note 4)	818,599	703,028	658,138
Depreciation and amortization	652,287	599,357	579,896
Fuel	502,417	472,786	495,384
Maintenance and repairs	544,170	464,557	404,639
Other	1,858,254	1,604,296	1,485,320
	8,800,929	7,948,824	7,430,870
OPERATING INCOME	591,144	530,632	377,173
OTHER INCOME (EXPENSE):			
Interest, net (Note 1)	(114,687)	(142,392)	(160,923)
Other, net (Note 13)	45,627	(9,778)	(12,674)
	(69,060)	(152,170)	(173,597)
INCOME BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	522,084	378,462	203,576
PROVISION FOR INCOME TAXES (Note 7)	224,496	174,092	93,767
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	297,588	204,370	109,809
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF TAX BENEFIT OF $34,287 (Note 9)	—	—	(55,943)
NET INCOME	$ 297,588	$ 204,370	$ 53,866
EARNINGS PER SHARE (Note 6):			
Before cumulative effect of change in accounting principle	$ 5.27	$ 3.65	$ 2.01
Cumulative effect of change in accounting principle (Note 9)	—	—	(1.03)
	$ 5.27	$ 3.65	$ .98
AVERAGE SHARES OUTSTANDING (Note 6)	56,494	56,012	54,719

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

Consolidated Balance Sheets

May 31 In thousands	1995	1994
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 357,548	$ 392,923
Receivables, less allowance for doubtful accounts of $31,173 and $33,933	1,130,254	1,020,511
Spare parts, supplies and fuel	193,251	173,993
Deferred income taxes (Note 7)	115,801	113,035
Prepaid expenses and other	72,228	61,234
Total current assets	1,869,082	1,761,696
PROPERTY AND EQUIPMENT, AT COST. (Notes 1, 3, 4 and 11):		
Flight equipment	3,006,693	2,828,021
Package handling and ground support equipment	1,841,108	1,583,428
Computer and electronic equipment	1,224,050	966,906
Other	1,625,860	1,511,870
	7,697,711	6,890,225
Less accumulated depreciation and amortization	3,982,467	3,441,132
Net property and equipment	3,715,244	3,449,093
OTHER ASSETS:		
Goodwill (Note 1)	397,272	415,178
Equipment deposits and other assets (Note 11)	451,774	366,531
Total other assets	849,046	781,709
	$6,433,372	$5,992,498

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

	1995	1994
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Current portion of long-term debt (Note 3)	$ 255,448	$ 198,180
Accounts payable	618,621	518,849
Accrued expenses (Note 2)	904,466	819,399
Total current liabilities	1,778,535	1,536,428
LONG-TERM DEBT, LESS CURRENT PORTION (Note 3)	1,324,711	1,632,202
DEFERRED INCOME TAXES (Note 7)	55,956	3,563
OTHER LIABILITIES (Note 1)	1,028,601	895,600
COMMITMENTS AND CONTINGENCIES (Notes 4, 11 and 12)		
COMMON STOCKHOLDERS' INVESTMENT (Note 6):		
Common Stock, $.10 par value; 200,000 shares authorized; 56,174 and 55,885 shares issued	5,617	5,589
Additional paid-in capital	775,255	759,229
Retained earnings	1,466,427	1,162,160
	2,247,299	1,926,978
Less treasury stock and deferred compensation	1,730	2,273
Total common stockholders' investment	2,245,569	1,924,705
	$6,433,372	$5,992,498

Years ended May 31

In thousands	1995	1994	1993
OPERATING ACTIVITIES			
Net income	$ 297,588	$ 204,370	$ 53,866
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	652,287	599,357	579,896
Provision for uncollectible accounts	36,334	45,763	33,552
Provision for deferred income taxes and other	25,976	3,810	19,910
Gain from disposals of property and equipment	(39,997)	(11,897)	(5,648)
Cumulative effect of accounting change	—	—	55,943
Changes in assets and liabilities, net of effects from purchases and dispositions of businesses:			
Increase in receivables	(167,319)	(173,902)	(41,535)
Increase in other current assets	(24,101)	(7,826)	(5,813)
Increase in accounts payable, accrued expenses and other liabilities	258,373	110,508	13,651
Other, net	(8,424)	(2,905)	21,259
Cash provided by operating activities	1,030,717	767,278	725,081
INVESTING ACTIVITIES			
Purchases of property and equipment, including deposits on aircraft of $113,073, $112,138 and $177,564	(1,060,761)	(1,087,708)	(1,023,723)
Proceeds from dispositions of property and equipment:			
Sale-leaseback transactions	—	581,400	216,444
Reimbursements of A300 deposits	138,203	38,794	—
Other dispositions	59,523	46,148	5,984
Other, net	87,925	27,843	1,992
Cash used in investing activities	(775,110)	(393,523)	(799,303)
FINANCING ACTIVITIES			
Proceeds from debt issuances	45,460	10,777	878,499
Principal payments on debt	(349,523)	(198,243)	(737,334)
Proceeds from stock issuances	13,081	53,759	24,512
Other, net	—	(2,581)	(14,176)
Cash provided by (used in) financing activities	(290,982)	(136,288)	151,501
CASH AND CASH EQUIVALENTS			
Increase (decrease) during the year	(35,375)	237,467	77,279
Balance at beginning of year	392,923	155,456	78,177
Balance at end of year	$ 357,548	$ 392,923	$ 155,456
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for:			
Interest (net of capitalized interest)	$ 138,833	$ 158,149	$ 162,648
Income taxes	185,964	167,209	188,943

Non-cash investing and financing activities:

In November 1992, approximately $73,000,000 of secured debt related to a portion of the purchase price of one MD-11 aircraft acquired by the Company was assumed by a third party in a sale-leaseback of the aircraft. In March 1995, the Company issued three series of loan certificates totaling $50,300,000 in exchange for a leased B-747 aircraft. (See Note 3 Long-Term Debt for additional information.)

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

Consolidated Statements of Changes in Common Stockholders' Investment

In thousands, except shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Deferred Compensation
BALANCE AT MAY 31, 1992	$5,410	$672,727	$ 906,555	$ (32)	$(4,938)
Purchase of treasury stock	—	—	—	(472)	—
Forfeiture of restricted stock	—	—	—	(63)	—
Issuance of common and treasury stock under employee incentive plans (655,938 shares)	64	26,658	(85)	531	(393)
Amortization of deferred compensation	—	—	—	—	2,374
Foreign currency translation adjustment	—	—	9,179	—	—
Net income	—	—	53,866	—	—
BALANCE AT MAY 31, 1993	5,474	699,385	969,515	(36)	(2,957)
Purchase of treasury stock	—	—	—	(185)	—
Forfeiture of restricted stock	—	—	—	(1,224)	—
Issuance of common and treasury stock under employee incentive plans (1,153,248 shares)	115	59,844	—	670	(8)
Amortization of deferred compensation	—	—	—	—	1,467
Foreign currency translation adjustment	—	—	(11,725)	—	—
Net income	—	—	204,370	—	—
BALANCE AT MAY 31, 1994	5,589	759,229	1,162,160	(775)	(1,498)
Forfeiture of restricted stock	—	—	—	(231)	—
Issuance of common stock under employee incentive plans (288,724 shares)	28	16,026	—	—	—
Amortization of deferred compensation	—	—	—	—	774
Foreign currency translation adjustment	—	—	6,679	—	—
Net income	—	—	297,588	—	—
BALANCE AT MAY 31, 1995	$5,617	$775,255	$1,466,427	$(1,006)	$ (724)

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 certain overhaul costs are capitalized. Maintenance and repairs are charged to expense as incurred, except for B-747 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 the results of operations.

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

Aircraft airframes and engines are assigned residual values ranging from 10% to 20% of asset cost. All other property and equipment have no assigned residual values. Vehicles, which are included in Package handling and ground support equipment, are depreciated on a straight-line basis over 5 to 10 years.

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

Deferred gains. Gains on the sale and leaseback of aircraft and other property and equipment are deferred and amortized over the life of the lease as a reduction of rent expense. Included in Other Liabilities at May 31, 1995 and 1994 were deferred gains of $293,000,000 and $230,234,000, respectively.

Deferred lease obligations. While certain of the Company's aircraft and facility leases contain fluctuating or escalating payments, the related rent expense is recorded on a straight-line basis over the lease term. Included in Other Liabilities at May 31, 1995 and 1994 were $216,683,000 and $185,508,000, respectively, representing the cumulative difference between rent expense and rent payments.

Self-insurance reserves. The Company is self-insured up to certain levels for workers' compensation, employee health care and vehicle liabilities. Reserves are based on the actuarially estimated cost of claims. Included in Other Liabilities at May 31, 1995 and 1994, were $294,000,000 and $270,000,000, respectively, representing self-insurance reserves for the Company's workers' compensation and vehicle liabilities.

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 $27,381,000, $29,738,000 and $31,256,000, for 1995, 1994 and 1993, respectively.

Cash equivalents. Cash equivalents are cash in excess of current operating requirements invested in short-term, interest-bearing instruments with maturities of three months or less at the date of purchase and are stated at cost, which approximates market value. Interest income was $16,236,000 in 1995, $9,778,000 in 1994, and $7,839,000 in 1993.

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.

Goodwill. Goodwill is the excess of purchase price over the fair value of net assets of businesses acquired. It is amortized on a straight-line basis over periods ranging up to 40 years. Accumulated amortization was $100,527,000 and $87,202,000 at May 31, 1995 and 1994, 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 denominated in a currency other than the local functional currency are included in the results of operations.

Income taxes. Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The Company uses the liability method to account for income taxes, which requires deferred taxes to be recorded at the statutory rate expected to be in effect when the taxes are paid.

The Company has not provided taxes on its foreign subsidiaries' earnings that are deemed to be permanently reinvested. Quantification of the deferred tax liability, if any, associated with permanently reinvested earnings is not practicable.

Revenue recognition. Revenue is generally recognized upon delivery of shipments. For shipments in transit, revenue is recorded based on the percentage of service completed.

Earnings per share. Earnings per share is computed based on the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares are the shares of common stock that would be issued upon the exercise of all dilutive outstanding stock options, less the assumed repurchase of treasury shares. 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 1994 and 1993 have been reclassified to conform to the 1995 presentation.

NOTE 2: ACCRUED EXPENSES

May 31 In thousands	1995	1994
Compensated absences	$192,785	$180,105
Insurance	176,806	156,906
Taxes other than income taxes	137,037	130,801
Employee benefits	127,870	86,352
Salaries	100,024	82,563
Aircraft overhaul	53,540	50,933
Other	116,404	131,739
	$904,466	$819,399

NOTE 3: LONG-TERM DEBT

May 31 In thousands	1995	1994
Unsecured notes payable, interest rates of 6.25% to 10.57%, due through 2013	$1,187,413	$1,384,942
Unsecured sinking fund debentures, interest rate of 9.63%, due through 2020	98,323	98,254
Capital lease obligations and tax exempt bonds, due through 2017, interest rates of 6.75% to 8.30%	255,100	255,100
Less bond reserve funds	11,096	11,096
	244,004	244,004
Other debt, interest rates of 9.68% to 9.98%	50,419	103,182
	1,580,159	1,830,382
Less current portion	255,448	198,180
	$1,324,711	$1,632,202

The Company has a revolving credit agreement with domestic and foreign banks that provides for a commitment of $1,000,000,000 through May 31, 2000, all of which was available at May 31, 1995. Interest rates on borrowings under this agreement are generally determined by maturities selected and prevailing market conditions. The agreement contains certain covenants and restrictions, none of which are expected to significantly affect operations or the ability to pay dividends. As of May 31, 1995, approximately $692,000,000 was available for the payment of dividends. Commercial paper borrowings are backed by unused commitments under the revolving credit agreement and reduce the amount available under the agreement.

Tax exempt bonds were issued by the Memphis-Shelby County Airport Authority ("MSCAA") and the City of Indianapolis. A lease agreement with the MSCAA and a loan agreement with the City of Indianapolis covering the facilities and equipment financed with the bond proceeds obligate the Company to pay rentals and loan payments, respectively, equal to principal and interest due on the bonds.

In connection with the acquisition of four Airbus A310 aircraft, the Company issued, in March 1995, three series of loan certificates totaling $50,300,000 at rates of 9.68% to 9.98% with maturity dates from March 2002 to September 2007. These certificates relate to the buyout of a lease on a B-747 aircraft and are secured by a DC-10-30 aircraft.

Scheduled annual principal maturities of long-term debt for the five years subsequent to May 31, 1995, are as follows: $255,400,000 in 1996; $26,200,000 in 1997; $126,600,000 in 1998; $257,400,000 in 1999 and $14,900,000 in 2000.

The Company's long-term debt, exclusive of capital leases, had carrying values of $1,390,000,000 and $1,630,000,000 at May 31, 1995 and 1994, respectively, compared with fair values of approximately $1,470,000,000 and $1,740,000,000 at those dates. The estimated fair values were determined based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

NOTE 4: LEASE COMMITMENTS

The Company utilizes certain aircraft, land, facilities and equipment under capital and operating leases which expire at various dates through 2024. In addition, supplemental aircraft are leased under agreements which generally provide for cancellation upon 30 days' notice.

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

In thousands	1995	1994
Package handling and ground support equipment	$378,438	$372,194
Facilities	133,435	133,435
Computer and electronic equipment and other	7,175	7,152
	519,048	512,781
Less accumulated amortization	347,738	330,155
	$171,310	$182,626

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

In thousands	1995	1994	1993
Minimum rentals	$707,182	$621,174	$563,646
Contingent rentals	43,005	21,540	35,353
	$750,187	$642,714	$598,999

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, 1995 follows:

In thousands	Capital Leases	Operating Leases
1996	$ 15,561	$ 645,572
1997	15,561	649,557
1998	15,561	609,832
1999	15,561	578,107
2000	15,561	540,459
Thereafter	371,643	6,287,674
	$449,448	$9,311,201

At May 31, 1995, the present value of future minimum lease payments for capital lease obligations was $199,004,000.

NOTE 5: 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, 1995, none of these shares had been issued.

NOTE 6: COMMON STOCKHOLDERS' INVESTMENT

Under the provisions of the Company's stock incentive plans, options may be granted to certain key employees (and, under the 1993 plan, to directors who are not employees of the Company) 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, 1992	3,653,803	$23.59–$70.19
Granted	260,750	36.88– 56.25
Exercised	(643,563)	23.59– 56.63
Canceled	(123,947)	34.31– 70.19
Outstanding at May 31, 1993	3,147,043	$30.56–$70.19
Granted	982,750	54.31– 70.81
Exercised	(1,142,249)	30.56– 70.19
Canceled	(111,758)	34.31– 62.94
Outstanding at May 31, 1994	2,875,786	$30.56–$70.81
Granted	671,800	56.13– 75.88
Exercised	(288,724)	30.56– 62.94
Canceled	(89,997)	30.56– 75.88
Outstanding at May 31, 1995	3,168,865	$30.56–$75.88
Exercisable at May 31, 1995	1,478,089	$30.56–$70.81

At May 31, 1995, there were 198,005 shares available for future grants under the above-mentioned stock incentive plans.

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 over a period of two to five years from their date of grant. The value of shares issued related to this plan is recorded as a reduction of common stockholders' investment and is being amortized to compensation expense as restrictions on such shares expire. The shares granted under this plan were 11,000 in 1994 and 12,500 in 1993. There were no shares granted in 1995. During 1995, 1994 and 1993, 3,750, 18,438 and 1,500 shares, respectively, were forfeited. At May 31, 1995, there were 14,688 shares available for future grants under this plan.

At May 31, 1995, there were 3,381,558 shares of common stock reserved for issuance under the above-mentioned plans.

In 1988, the Board of Directors authorized the purchase of up to approximately 5,300,000 shares of the Company's common stock on the open market. As of May 31, 1995, a total of 2,765,243 shares at an average cost of $41.68 per share had been purchased and substantially all reissued under the above-mentioned plans.

NOTE 7: INCOME TAXES

The components of the provision for income taxes for the years ended May 31 were as follows:

In thousands	1995	1994	1993
Current provision:			
Federal	$137,041	$131,724	$64,130
Foreign	29,787	16,387	9,318
State	23,405	26,862	3,170
	190,233	174,973	76,618
Deferred provision (credit):			
Federal	24,058	2,263	6,899
Foreign	9,072	2,524	—
State	1,133	(5,668)	10,250
	34,263	(881)	17,149
	$224,496	$174,092	$93,767

The Company's operations included the following income (loss) with respect to entities in foreign locations for the years ended May 31:

In thousands	1995	1994	1993
Entities with pre-tax income	$ 149,000	$ 127,000	$ 67,000
Entities with pre-tax losses	(173,000)	(210,000)	(247,000)
	$ (24,000)	$ (83,000)	$(180,000)

Income (losses) from entities which are structured as foreign subsidiaries are not included in the U.S. consolidated income tax return. Approximately $29,000,000 and $14,000,000 of net foreign subsidiary income were not taxable for federal income tax purposes in 1995 and 1994, respectively. In 1993, approximately $7,000,000 of net foreign subsidiary losses were not deductible for federal income tax purposes. Income taxes have been provided for foreign operations based upon the various tax laws and rates of the countries in which the Company's operations are conducted. There is no direct relationship between the Company's overall foreign income tax provision and foreign pre-tax book income due to the different methods of taxation used by countries throughout the world.

A reconciliation of the statutory federal income tax rate to the Company's effective income tax rate for the years ended May 31 follows:

	1995	1994	1993
Statutory U.S. income tax rate	35.0%	35.0%	34.0%
Increase resulting from:			
Goodwill amortization	1.0	1.3	2.5
Foreign operations	0.9	3.5	1.3
State income taxes, net of federal benefit	3.1	3.6	4.4
Other, net	3.0	2.6	3.9
	43.0%	46.0%	46.1%

The Omnibus Budget Reconciliation Act of 1993 increased the statutory U.S. income tax rate from 34% to 35% retroactive to January 1, 1993. The adverse impact of the increase in the statutory rate was offset in 1994 by a corresponding revaluation of the Company's deferred tax assets in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." The net impact of these adjustments was immaterial.

At May 31, 1995, the Company had fully utilized the alternative minimum tax credit carryovers from 1991, 1992 and 1993.

The significant components of deferred tax assets and liabilities as of May 31 were as follows:

In thousands	1995		1994	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Depreciation	$ —	$303,088	$ —	$285,524
Deferred gains on sales of assets	67,912	—	45,969	—
Alternative minimum tax credits	—	—	55,844	—
Employee benefits	69,563	—	66,875	—
Self-insurance reserves	165,197	—	148,426	—
Other	137,063	76,802	137,205	59,323
	$439,735	$379,890	$454,319	$344,847

NOTE 8: PENSION AND PROFIT SHARING PLANS

The Company sponsors pension plans covering substantially all employees. The largest plan covers U.S. 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.

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.

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

In thousands	1995	1994
Actuarial present value of the projected benefit obligation for service rendered to date	$1,972,009	$1,800,187
Less plan assets at fair value	2,093,422	1,733,446
Projected benefit obligation in excess of (less than) plan assets	(121,413)	66,741
Unrecognized net gains from past experience different from that assumed and effects of changes in assumptions	123,929	21,555
Prior service cost not yet recognized in net periodic cost	6,449	(31,581)
Unrecognized transition amount	(3,679)	(797)
Pension liability	$ 5,286	$ 55,918
Accumulated benefit obligation	$1,203,126	$1,106,076
Vested benefit obligation	$1,140,545	$ 998,024

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

In thousands	1995	1994	1993
Service cost – benefits earned during the period	$182,617	$ 176,861	$ 161,100
Interest cost on projected benefit obligation	143,408	127,959	117,086
Actual return on plan assets	(192,939)	(82,019)	(160,977)
Net amortization and deferral	19,333	(64,727)	36,055
	$152,419	$ 158,074	$ 153,264

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 8.6% and 6.0%, respectively, in 1995, 8.1% and 6.0%, respectively, in 1994 and 8.0% and 6.0%, respectively, in 1993. The expected long-term rate of return on assets was 9.5% in 1995, 1994 and 1993. Plan assets consist primarily of marketable equity securities and fixed income instruments.

The Company also has a profit sharing plan, which covers substantially all U.S. domestic employees age 21 and over, with at least one year of 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. Profit sharing expense was $52,200,000 in 1995, $36,800,000 in 1994 and $21,900,000 in 1993.

NOTE 9: POSTRETIREMENT BENEFIT PLANS

The Company offers medical and dental coverage to all eligible U.S. domestic retirees and their eligible dependents. Vision coverage is provided for retirees only. Substantially all of the Company's U.S. domestic employees become eligible for these benefits at age 55 and older, if they have permanent, continuous service with the Company of at least 10 years after attainment of age 45 if hired prior to January 1, 1988, or at least 20 years after attainment of age 35, if hired on or after January 1, 1988. Life insurance benefits are provided only to retirees of the former Tiger International, Inc. who retired prior to acquisition.

Effective June 1, 1992, the Company adopted SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." This standard requires that the expected cost of providing postretirement benefits be charged to expense during the years employees render service. Prior to the adoption of SFAS No. 106, the Company charged retiree benefits to expense when paid. These amounts were not significant. The cumulative effect of adopting this standard was $90,230,000 before taxes ($55,943,000 after tax benefit, or $1.03 per share).

The following table sets forth the accrued postretirement benefit cost as of May 31:

In thousands	1995	1994
Accumulated postretirement benefit obligation:		
Retirees	$ 35,816	$ 34,581
Fully eligible active employees	24,400	25,698
Other active employees, not fully eligible	60,769	66,472
	120,985	126,751
Unrecognized net gain (loss)	25,421	(958)
	$146,406	$125,793

Net postretirement benefit expense for the years ended May 31 was as follows:

In thousands	1995	1994	1993
Service cost	$12,870	$12,392	$ 9,161
Interest cost	10,617	10,174	8,434
Transition obligation	—	—	90,230
	$23,487	$22,566	$107,825

Future medical benefit costs were estimated to increase at an annual rate of 11.0% during 1996, decreasing to an annual growth rate of 6.8% in 2005 and thereafter. Future dental benefit costs were estimated to increase at an annual rate of 8.8% during 1996, decreasing to an annual growth rate of 6.8% in 2004 and thereafter. The Company's cost is capped at 150% of 1993 employer cost and, therefore, will not be subject to medical and dental trends after the capped cost is attained, projected to be in 1998. Primarily because of the cap on the Company's cost, a 1% increase in these annual trend rates would not have a significant impact on the accumulated postretirement benefit obligation at May 31, 1995, or 1995 benefit expense. The weighted average discount rates used in estimating the accumulated postretirement obligation were 8.6% and 7.7% at May 31, 1995 and 1994, respectively. The Company pays claims as incurred.

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 geographic areas, U.S. domestic and international. Shipments which either originate in or are destined to locations outside the U.S. are categorized as international.

A summary of selected financial information for U.S. domestic and international operations for the years ended May 31 follows:

In thousands	U.S. Domestic	International	Total Worldwide
Revenues:			
1995	$6,839,418	$2,552,655	$9,392,073
1994	6,199,940	2,279,516	8,479,456
1993	5,667,964	2,140,079	7,808,043
Operating Income (Loss):			
1995	$ 465,527	$ 125,617	$ 591,144
1994	559,629	(28,997)	530,632
1993	559,140	(181,967)	377,173
Identifiable Assets:			
1995	$5,321,811	$1,111,561	$6,433,372
1994	4,883,644	1,108,854	5,992,498
1993	4,432,578	1,360,486	5,793,064

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 $1,201,100,000, $1,020,000,000 and $928,600,000 for the years ended May 31, 1995, 1994 and 1993, respectively.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Company's annual purchase commitments under various contracts as of May 31, 1995 are as follows:

In thousands	Aircraft	Aircraft-Related[1]	Other[2]	Total
1996	$499,500	$135,400	$425,500	$1,060,400
1997	429,800	19,100	43,200	492,100
1998	486,000	15,300	33,700	535,000
1999	242,300	18,100	15,600	276,000
2000	124,200	9,900	—	134,100

[1] Primarily aircraft modifications, rotables, and development and upgrade of aircraft simulators.
[2] Primarily facilities, vehicles, computer and other equipment.

The Company is committed to purchase 16 Airbus A300, three Airbus A310, 12 MD-11 and 35 Cessna 208B aircraft to be delivered through 2000. At May 31, 1995, deposits and progress payments of $318,983,000 had been made toward these purchases. At May 31, 1995, the Company had options to purchase up to 44 additional Airbus A300 for delivery beginning in 1999. In addition, the Company may be required to purchase seven MD-11 aircraft for delivery beginning no later than 2000 under a put option agreement.

The Company has entered into contracts which are designed to limit its exposure to fluctuations in jet fuel prices. Under these contracts, the Company makes (or receives) payments based on the difference between a specified upper (or lower) limit and the market price of jet fuel, as determined by an index of spot market prices representing various geographic regions. The difference is recorded as an increase or decrease in fuel expense. At May 31, 1995, the Company had contracts with various financial institutions covering a total notional volume of 97.4 million gallons (approximately 16% of the Company's annual jet fuel consumption), with some contracts extending through August 1996. As of May 31, 1995, the Company had neither received nor made any payments related to these contracts. Based on current market prices, the fair value of these contracts at May 31, 1995, was approximately $141,000.

NOTE 12: LEGAL PROCEEDINGS

The Internal Revenue Service ("IRS") issued an Examination Report on October 31, 1991 asserting the Company underpaid federal excise taxes for the calendar quarters ended December 31, 1983 through March 31, 1987. The Examination Report contains a primary position and a mutually exclusive alternative position asserting the Company underpaid federal excise taxes by $54,000,000 and $26,000,000, respectively. Disagreeing with essentially all of the proposed adjustments contained in the Examination Report, the Company filed a Protest on March 16, 1992, which set forth the Company's defenses to both IRS positions and a claim for refund of overpaid federal excise taxes of $23,500,000. On March 19, 1993, the IRS issued another Examination Report to the Company asserting the Company underpaid federal excise taxes by $105,000,000 for the calendar quarters ended June 30, 1987 through March 31, 1991. On June 17, 1993, the Company filed a Protest contesting the March 19 Examination Report which set forth the Company's defenses to the IRS position and a claim for refund of overpaid federal excise taxes of $46,500,000. Interest would be payable on the amount of any refunds by the

IRS to the Company or underpaid federal excise taxes payable by the Company to the IRS at statutorily determined rates. The interest rates payable by the Company for underpaid taxes are higher than the rates payable by the IRS on refund amounts.

The Company is vigorously pursuing its Protests administratively with the IRS Appeals Division. If it is unsuccessful with the IRS Appeals Division, the Company intends to pursue its position in court. Pending resolution of this matter, the IRS can be expected to take positions similar to those taken in their Examination Reports for periods after March 31, 1991.

Given the inherent uncertainties in the excise tax matter, management is currently unable to predict with certainty the outcome of this matter or the ultimate effect, if any, its resolution would have on the Company's financial condition or results of operations. No amount has been reserved for this contingency.

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

In January 1995, the Company sold two dedicated warehousing and contract distribution companies in the United Kingdom. A gain of $35,700,000 was recorded from the sale.

In 1995, the Company received $9,700,000 from the bankruptcy estate of a firm engaged by the Company in 1990 to remit payments of employee withholding taxes. This amount is a partial recovery of a $32,000,000 loss incurred by the Company in 1991 that resulted from the firm's failure to remit certain of these tax payments to appropriate authorities. The Company may receive additional distributions from the firm's bankruptcy estate depending on the outcome of preference litigation and other pending bankruptcy matters against the firm.

NOTE 14: SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

In thousands, except earnings per share	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1995				
Revenues	$2,231,127	$2,358,765	$2,332,594	$2,469,587
Operating income	142,985	176,376	97,672	174,111
Income before income taxes	107,267	151,120	110,714	152,983
Net income	61,142	86,139	63,107	87,200
Earnings per share	$ 1.08	$ 1.53	$ 1.12	$ 1.54
Average shares outstanding	56,614	56,385	56,374	56,601
1994				
Revenues	$2,015,725	$2,121,525	$2,077,414	$2,264,792
Operating income	101,907	149,718	85,317	193,690
Income before income taxes	60,835	110,539	57,717	149,371
Net income	32,851	59,691	31,167	80,661
Earnings per share	$ .60	$ 1.07	$ .55	$ 1.43
Average shares outstanding	55,186	55,850	56,445	56,569

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, 1995 and 1994, 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, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 1995, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

Memphis, Tennessee
June 29, 1995

Selected Consolidated Financial Data

Years ended May 31

In thousands, except per share data and other operating data	1995	1994	1993
OPERATING RESULTS			
Revenues	$9,392,073	$8,479,456	$7,808,043
Operating income	591,144	530,632	377,173
Income (loss) before income taxes	522,084	378,462	203,576
Income (loss) from continuing operations	297,588	204,370	109,809
Net income (loss)	$ 297,588	$ 204,370	$ 53,866
PER SHARE DATA			
Earnings (loss) per share:			
Continuing operations	$ 5.27	$ 3.65	$ 2.01
Discontinued operations	—	—	—
Cumulative effect of changes in accounting principles	—	—	(1.03)
Net earnings (loss) per share	$ 5.27	$ 3.65	$ .98
Average shares outstanding	56,494	56,012	54,719
Cash dividends	—	—	—
FINANCIAL POSITION			
Property and equipment, net	$3,715,244	$3,449,093	$3,476,268
Total assets	6,433,372	5,992,498	5,793,064
Long-term debt	1,324,711	1,632,202	1,882,279
Common stockholders' investment	2,245,569	1,924,705	1,671,381
OTHER OPERATING DATA			
Express package:			
Average daily package volume	2,247,594	1,925,105	1,710,561
Average pounds per package	6.3	6.0	5.8
Average revenue per pound*	$ 2.31	$ 2.51	$ 2.62
Average revenue per package*	$ 14.62	$ 15.12	$ 15.30
Airfreight:			
Average daily pounds	2,153,041	1,844,270	2,050,033
Average revenue per pound	$ 1.06	$ 1.06	$ 1.09
Operating weekdays	255	257	255
Aircraft fleet:			
Airbus A300-600	9	2	—
Airbus A310-200	15	—	—
Boeing 747-100	—	—	—
Boeing 747-200	5	6	8
McDonnell Douglas MD-11	13	13	8
McDonnell Douglas DC-10-10	13	11	11
McDonnell Douglas DC-10-30	22	19	19
McDonnell Douglas DC-8	—	—	—
Boeing 727-100	68	69	80
Boeing 727-200	90	90	87
Cessna 208A	10	10	10
Cessna 208B	219	206	206
Fokker F-27	32	32	32
Vehicle fleet	35,900	30,900	28,100
Average number of employees (based on a standard full-time workweek)	94,201	88,502	84,104

*Beginning in 1995, certain service fee revenues were classified as package-related revenue. Data for prior periods has been restated where applicable to conform to this presentation.

1992	1991	1990	1989	1988	1987	1986
$7,550,060	$7,688,296	$7,015,069	$5,166,967	$3,882,817	$3,178,308	$2,573,229
22,967	252,126	387,355	414,787	379,452	364,743	344,021
(146,828)	40,942	218,423	298,332	302,328	311,885	305,085
(113,782)	5,898	115,764	166,451	187,716	166,952	192,671
$ (113,782)	$ 5,898	$ 115,764	$ 184,551	$ 187,716	$ (65,571)	$ 131,839
$ (2.11)	$ .11	$ 2.18	$ 3.18	$ 3.56	$ 3.21	$ 3.86
—	—	—	—	—	(4.48)	(1.22)
—	—	—	.35	—	—	—
$ (2.11)	$ .11	$ 2.18	$ 3.53	$ 3.56	$ (1.27)	$ 2.64
53,961	53,350	53,161	52,272	52,670	51,905	49,840
—	—	—	—	—	—	—
$3,411,297	$3,624,026	$3,566,321	$3,431,814	$2,231,875	$1,861,432	$1,551,845
5,463,186	5,672,461	5,675,073	5,293,422	3,008,549	2,499,511	2,276,362
1,797,844	1,826,781	2,148,142	2,138,940	838,730	744,914	561,716
1,579,722	1,668,620	1,649,187	1,493,524	1,330,679	1,078,920	1,091,714
1,472,642	1,310,890	1,234,174	1,059,882	877,543	704,392	550,306
5.7	5.6	5.4	5.4	5.3	5.1	5.3
$ 2.90	$ 3.08	$ 3.13	$ 3.04	$ 3.10	$ 3.33	$ 3.40
$ 16.38	$ 17.33	$ 16.76	$ 16.28	$ 16.32	$ 16.97	$ 17.92
2,258,303	2,650,204	3,148,290	4,019,353	—	—	—
$ 1.22	$ 1.20	$ 1.13	$ 1.06	—	—	—
254	255	255	255	257	254	254
—	—	—	—	—	—	—
—	—	—	—	—	—	—
4	8	9	9	—	—	—
9	10	10	12	—	—	—
4	1	—	—	—	—	—
11	11	10	8	8	8	6
17	16	16	16	13	11	9
—	—	6	6	—	—	—
85	92	89	80	47	39	35
66	57	41	26	21	21	18
10	10	37	38	38	39	34
206	183	147	109	71	27	—
32	26	19	7	5	—	—
30,400	32,800	31,000	28,900	21,000	18,700	14,500
84,162	81,711	75,102	58,136	48,556	41,047	31,582

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(1) Audit Committee
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Frederick W. Smith
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Gilbert D. Mook
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Vice President, Controller and
Chief Accounting Officer

Form 10-K: A copy of the Company's Annual Report on Form 10-K (excluding exhibits), filed with the Securities and Exchange Commission is available free of charge. You will be mailed a copy upon request to Thomas L. Holland, 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 under the ticker symbol FDX.

Stockholders: At July 13, 1995, there were 8,243 stockholders of record.

Market information: Following are high and low closing prices, by quarter, for Federal Express Corporation common stock in fiscal 1995 and 1994. No cash dividends have been declared.

Closing prices of common stock	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 1995				
High	$80.75	$70.75	$65.25	$69.63
Low	64.00	56.50	53.88	59.88
FY 1994				
High	$60.25	$71.50	$77.50	$77.25
Low	44.63	55.25	68.25	64.88

Annual meeting: The annual meeting of stockholders will be held at The Memphis Marriott, 2625 Thousand Oaks Boulevard, Memphis, Tennessee, on Monday, September 25, 1995, at 10:00 a.m., CDT.

Registrar and transfer agent: First Chicago Trust Company of New York, Shareholder Services, P.O. Box 2500, Jersey City, NJ 07303-2500, (800) 446-2617 / Michael Phalen (312) 407-4885.

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 Shirlee M. Clark, Manager of Media Relations, Federal Express Corporation, Box 727, Dept. 1850, Memphis, Tennessee 38194, (901) 395-3463.

Auditors: Arthur Andersen LLP, 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, disability, 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.

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