FedEx® Corporation

FedEx Corporation 2001 Annual Report

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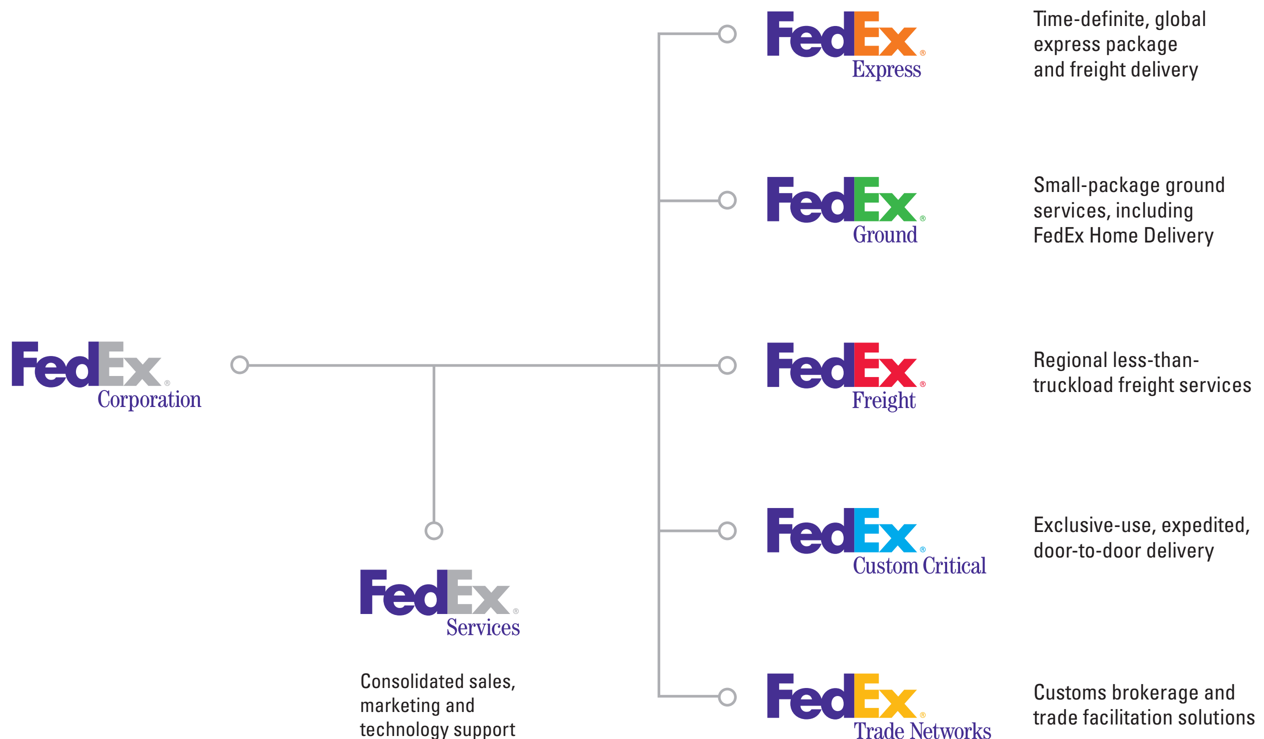


Only FedEx could create an industry, then 28 years later, grow into so much more than an "overnight" success.

Today, only FedEx offers dedicated networks for express, ground, freight, expedited delivery and unique trade services – when customers need greater choice and flexibility in managing their supply chains.

Only FedEx delivers industry-leading, on-time service levels – when time is literally money.

Only FedEx provides the right level of information intensity – when information about the package is still as important as delivery of the package itself.

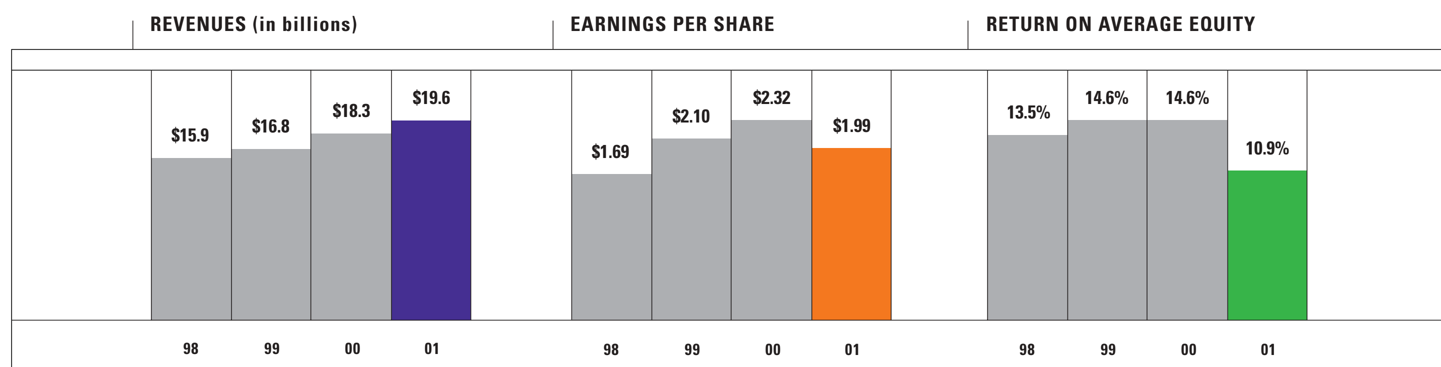
In FY01, only FedEx had the vision to acquire American Freightways – one of the nation's premier regional, less-than-truckload freight carriers. With the acquisition, we formed FedEx Freight to oversee both American Freightways and Viking Freight.

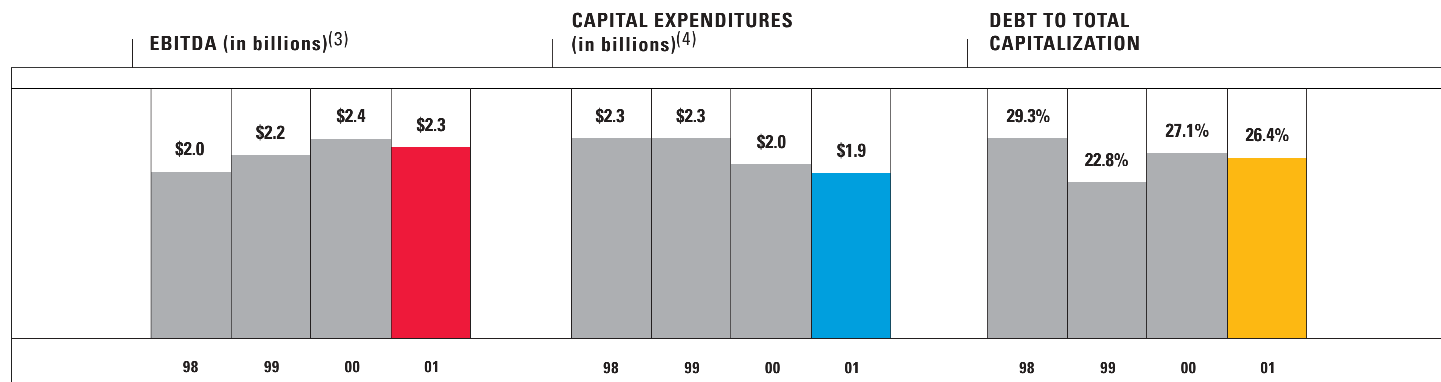
During a period of challenge and change, only FedEx remains focused on a unique business model – to operate each company independently, focused on the distinct needs of each customer segment, but also to compete collectively, leveraging our greatest strengths, the power of the FedEx brand and information technology. That's why FedEx continues to deliver value for our shareowners, meaningful solutions for our customers and continued opportunity for our employees.

FINANCIAL HIGHLIGHTS

In thousands, except earnings per share	2001	2000	Percent Change
OPERATING RESULTS			
Revenues	**$19,629,040**	$18,256,945	+ 8
Operating income	**1,070,890**	1,221,074	–12
Operating margin	**5.5%**	6.7%	
Net income	**584,371**	688,336	–15
Earnings per share, assuming dilution	**$ 1.99**	$ 2.32	–14
Earnings per share, excluding nonrecurring items, assuming dilution(1)	**$ 2.26**	$ 2.32	– 3
Cash earnings per share, assuming dilution(2)	**$ 6.34**	$ 6.22	+ 2
Average common and common equivalent shares	**293,179**	296,326	– 1
EBITDA(3)	**$ 2,347,300**	$ 2,398,663	– 2
Capital expenditures(4)	**$ 1,893,384**	$ 1,991,600	– 5
FINANCIAL POSITION			
Total assets	**$13,340,012**	$11,527,111	+16
Long-term debt	**2,121,511**	1,782,790	+19
Common stockholders' investment	**5,900,420**	4,785,243	+23

(1) Nonrecurring items include primarily noncash charges of $124 million ($78 million after tax or $0.27 per diluted share) associated with the curtailing of certain aircraft modification and development programs and reorganizing operations at FedEx Supply Chain Services, Inc.
(2) Net income plus depreciation and amortization divided by average common equivalent shares.
(3) Represents earnings before interest, taxes, depreciation and amortization.
(4) Represents actual cash expenditures plus the equivalent amount of cash that would have been expended for the acquisition of assets (principally aircraft), whose use was obtained through long-term operating leases entered into during the period.





MESSAGE FROM THE CEO

DEAR FELLOW SHAREOWNERS,

The current economic downturn hit almost without warning, leading experts from Wall Street to Main Street to search for easy explanations. But, at FedEx, we know that a time of great challenge is also a time of great opportunity, a time to step back and take a look at the larger perspective.

In any annual report, the consolidated financial results capture just one snapshot in time. But there's a larger FedEx picture here for fiscal year 2001 – a picture of solid first-half revenue growth, improved cash flows and effective yield management.

FY01 Financial Results

To view this big picture, look behind the numbers for the full year ended May 31, 2001, and examine the breakdowns for the first and second half:

- **Annual revenue** increased 8% to a record $19.6 billion, fueled by first-half revenue growth of 9%. Second-half revenue was also above year-ago levels, but grew at a slower 6% pace.
- **Net income** decreased 15% to $584 million for the year, despite a first-half increase of 10%. In the second half, net income dropped 38%.
- **Earnings per share** of $1.99 included a first-half contribution of $1.25, up 15% over the prior year. The second-half contribution declined 39% causing EPS to fall 14% for the full year.

The question is clear: What happened between the first and second half? Certainly, the second-half numbers include one-time charges associated with curtailing certain aircraft modification and development programs and reorganizing operations at FedEx Supply Chain Services. But larger issues are also at play.

Slowing Consumer Demand

Historically, times of economic slowdown can be traced to a fundamental imbalance between supply and demand. Our current economic situation is no exception.

After strong growth in consumer demand over a number of years – particularly the demand for high-tech goods – many companies ramped up supply only to discover that demand had dropped sharply. In some cases, faulty business models collapsed entirely. But the result was historically familiar – inventory oversupply led to increased obsolescence. For FedEx companies, that translated to softer demand for transportation and, specifically, for express transportation tied to the high-tech and durable goods sectors.

2000

June 5
FedEx Corp. relaunches fedex.com to integrate express and ground functionality.

July 8
FedEx Express and **FedEx Home Delivery** make e-commerce history with first-day delivery of 250,000 Harry Potter books for Amazon.com.

July 31
FedEx Custom Critical acquires Passport Transport.

Aug 28
FedEx Express boosts global network with new Europe and Asia connections.

Sept 12
FedEx Express signs a European operational agreement with La Poste.

Sept 18
FedEx Ground opens Northeast Super Hub in Woodbridge, N.J.

Nov 12
FedEx Corp. agrees to acquire American Freightways, which will be teamed with Viking Freight to form **FedEx Freight**.

In the second half of this fiscal year, the U.S. economy fell harder than we expected, and the domestic downturn had a ripple effect on select international markets, particularly Asia, which is heavily integrated into U.S. high-tech manufacturing.

It was a wild ride on the economic pendulum, swinging from the promise of the new Digital Economy back to an Industrial Economy in a cyclical correction. Now, we find that pendulum moving back toward the center as excess is wrung out of the inventory buildup of last year and as manufacturers begin to come back into balance.

The shakeout in the "dot-com" sector and the rationalization of a number of overbuilt sectors seem largely behind us now.

When the economy picks up – hopefully sooner rather than later – FedEx customers can take advantage of the upturn by selecting the right mode of transportation with the right level of information intensity. By better managing both the supply chain and the demand cycle, we can all manage our way back to growth in a healthy economy.

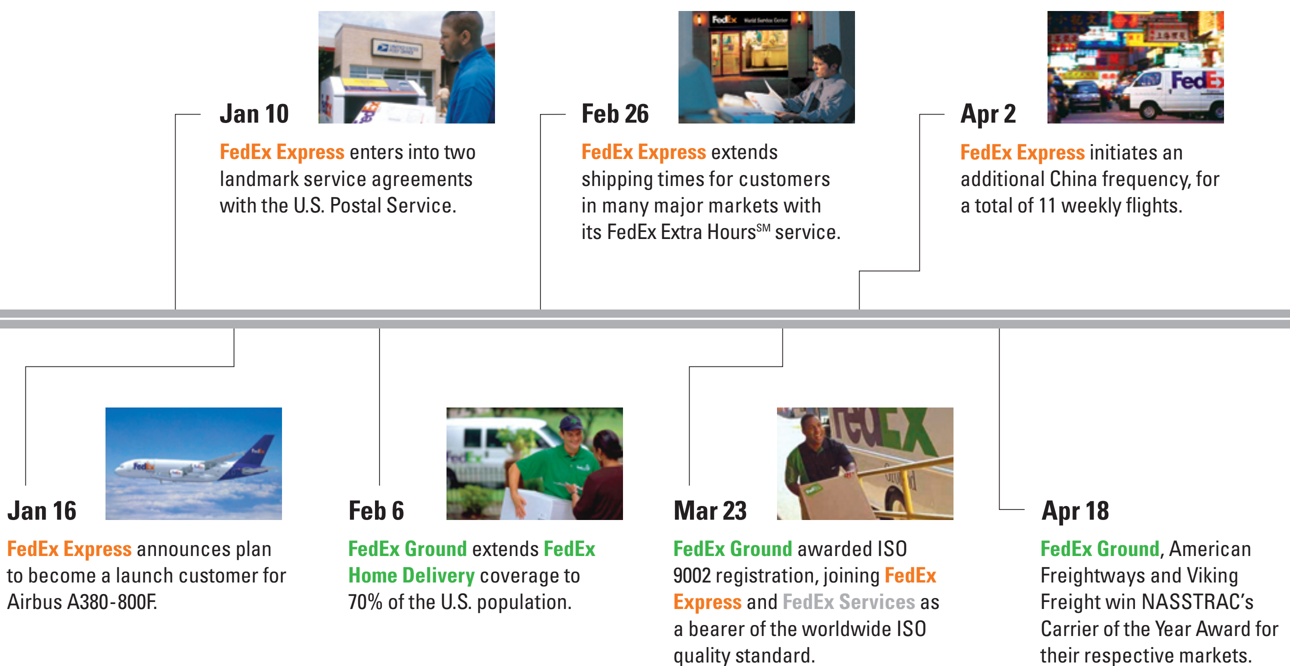
A Fiscally Responsible FedEx

How did FedEx continue to increase revenue and yields in this difficult economy? With prudent financial management through pricing as well as customer and product mix. In addition, we deferred or cut capital spending and imposed very diligent internal cost controls on travel, entertainment, outside services, new hires and other discretionary spending. Given the slowdown in volume, we began to "right-size" our transportation networks, making sure that we don't carry excess capacity any more than our customers carry obsolete inventory.

All the while, we remained focused on the five growth strategies that we presented to employees beginning in September 2000:

- Grow our core transportation business.
- Grow internationally.
- Grow our logistics and supply chain offerings.
- Grow through e-commerce.
- Grow through new services or alliances.

It may sound incongruous to be focused on growth during an economic decline, but our real challenge is to respond to temporary market corrections without sacrificing long-term opportunity. One year of soft results will not change our commitment to growth or deter us from our goals – improving EPS by 10% to 15% per year, increasing cash flow, improving margins and increasing our return on capital. In this regard, we will continue to manage our revenue based not just on volume but on yield as well.



The Diversified FedEx Portfolio

Perhaps the most significant difference in our response to this economic slowdown versus the 1990–91 recession is a simple fact: FedEx is not the same company we were then. In 1991, we were a $7.7 billion business focused exclusively on express transportation. Our international network was incomplete. While we had made significant investments in technology, the Internet as we know it did not exist.

Today, FedEx has expanded and diversified its portfolio to compete across a wide spectrum of the transportation market. FedEx offers the broadest range of transportation, logistics and information services of any company, anywhere – express, ground, freight and even expedited delivery. And we've leveraged the strength of that portfolio over the past year.

When U.S. demand for FedEx Express transportation began to wane in the second half of last year, the FedEx Ground business continued to grow. In February, we completed the acquisition of American Freightways and created FedEx Freight, which oversees our regional less-than-truckload freight services, including Viking Freight in the western United States. No competitor can match the scope and breadth of our transportation services in general and our freight offering in particular.

Our FY01 performance, even during tough economic times, confirms that the FedEx philosophy of operating independently and competing collectively is working, particularly the adjustments we made in January 2000, when we rebranded our major operating companies and reorganized to better meet customer needs. It's clear now that our customers are responding positively to these strategic changes.

Strong Customer Relationships

When the Smithsonian Institution's National Zoological Park needed reliable delivery of two pandas from China, FedEx was the obvious choice. When Ford Motor Company needed around-the-clock, critical-parts support for its commercial truck customers, FedEx won the business. Wal-Mart, Compaq, General Motors and other valued customers have recently honored FedEx companies as "carrier of the year."

In January, we announced major new service agreements between FedEx and the U.S. Postal Service. In one agreement, FedEx Express agreed to provide air transportation for certain Postal Service products, beginning in August 2001. The U.S. Postal Service also agreed to the placement of FedEx Drop Boxes outside U.S. Post Offices nationwide, beginning in March 2001.

These landmark public-private agreements create a winning business alliance. The Postal Service wins with access to reliable, consolidated air transportation service. FedEx was the only transportation company with the capacity and expertise to make that happen. FedEx wins by generating an estimated $7 billion in revenue over the life of the seven-year contract. And the American public wins with greater choice, flexibility and convenience for their shipping needs.

Superior FedEx Technology

One interesting byproduct of the Postal Service business alliance is the advanced technology that will allow FedEx to scan and read postal bar codes. It's in keeping with our customer-focused technology – helping our customers link seamlessly to the FedEx system and use information to help manage their business.

The FedEx Web site (fedex.com) is one of the most renowned and easiest to use, and we have continued to enhance our leading-edge, Internet technology. This year alone, we relaunched the site to integrate express and ground functionality, introduced a powerful suite of international shipping tools called FedEx Global Trade Manager℠, opened the online market to small- and medium-sized businesses with FedEx eCommerce Builder, and announced the development of FedEx InSight℠ to enhance shipment visibility and control for select customers.

For over two decades, FedEx has been the industry leader in customer automation, and now we're moving from the desktop to the wireless environment. FedEx was the first transportation company to be listed on the AT&T Digital PocketNet Service, and in the coming months we plan to expand our wireless capabilities to improve service and productivity.

As we've been saying since the late 1970s, the information about a package is just as important as the delivery of the package itself. That's why FedEx is dedicated to integrated transportation and information services – so we can deliver meaningful solutions for customers in today's complex business environment.

Unsurpassed Global Reach

FedEx entered this economic slowdown as a strong, diversified company – and we will come out even stronger. After all, we emerged from the 1998–99 "Asian Flu" as the leader in Hong Kong, Japan, Taiwan and Malaysia, in addition to our long-standing No. 1 position in China, where we currently serve 190 cities with 11 weekly flights.

Our two strongest international regions – Asia-Pacific and Europe – continued their growth trends during FY01. In Europe,

annual volume growth of 24% held virtually steady from first half to second half. In Asia, however, the economic slowdown was apparent with 21% volume growth in the first half, slowing to just 3% growth in the second half for an overall 12% annual growth rate. But, to stay focused on the larger picture, remember that the operative word internationally is "growth" – and it continues to surpass U.S. domestic volume gains.

As we focus on maximizing our global network and moving our product mix more toward higher-yielding FedEx International Priority® shipments, we are also looking ahead to future international needs. In January, FedEx Express announced it intends to acquire the Airbus A380-800F high-capacity, long-range aircraft, taking delivery beginning in 2008. The A380 will be capable of flying directly between Asia, Europe and U.S. hubs with nearly twice the payload of current MD11 aircraft. Also in FY01, we added our first converted MD10s to the domestic system, with modifications to enhance mechanical reliability and to reconfigure the cockpit for two crew members instead of three. Both changes will help us run our global air system more efficiently while maintaining superior, on-time service for our customers.

What Happens Next?

Over the years, we have carefully diversified across global regions and across transportation sectors to create a strong and growing FedEx. If there's a secret to our success, it lies in our balanced physical, information and human networks.

The FedEx physical network provides unsurpassed global reach, serving 211 countries with the most reliable service in the industry.

The FedEx technology network enables real-time information to help customers manage supply and demand on a global scale.

And, on a personal note, let me add that FedEx has the best human network anywhere – a culture long recognized as a great place to work with a passion for customer service. When I faced heart bypass surgery in late November, I knew that this company would continue under the leadership of the strongest management team we've ever fielded – and that more than 215,000 employees and contractors all around the world would always rise to any challenge. I'd like to say, once more, a public "thank you" for the overwhelming support that hastened my complete recovery.

It's all about perspective. In a year when others faltered, FedEx increased revenue, improved yield-per-package and generated a return for our shareowners. As soon as the imbalance of supply and demand rights itself, FedEx will leverage the strength of our global family of companies – and the strength of our customer relationships – not just to resume our own record of profitable growth, but to help restore growth for our customers.

Frederick W. Smith
Chairman, President and Chief Executive Officer

MESSAGE FROM THE CFO

FedEx Corporation's financial performance improved significantly during the first half of fiscal year 2001 as our new go-to-market strategies generated volume and yield growth at FedEx Express and FedEx Ground. The second half of the year was more financially challenging, however, as our package business was severely impacted by a rapidly slowing economy, particularly in the high-tech and durable goods sectors. Despite these adverse economic conditions, we made considerable progress toward our financial goal of becoming cash flow positive. In fact, excluding the costs associated with our acquisition of American Freightways, we attained net cash flow positive status last year as we pursued the following strategies:

Portfolio Expansion

The acquisition of American Freightways and the formation of FedEx Freight expanded and enhanced our already formidable arsenal of supply chain solutions. Teamed with Viking Freight, the largest Western regional less-than-truckload carrier, American Freightways provides the perfect extension of our increasingly popular less-than-truckload offering to virtually all U.S. ZIP codes.

Yield Improvement

We continued to execute good yield management strategies in FY01 even with a weakening economy and a slowdown in volume growth. Package and freight yields improved as we continued to manage our rate levels, customer diversity and volume and freight mix. Since our yields, especially at FedEx Express, are not quite as high as our primary competitor, we still have substantial opportunity to leverage our industry-leading service offerings and powerful and trusted brand to grow yields, revenues and margins as the economy improves.

Cost Containment

We are proud that we were able to contain costs last year while still providing the best service in the industry. Cost reduction programs included a freeze on most hiring, substantially reducing bonus incentive compensation related to profitability and a comprehensive reduction in discretionary expenses at all operating companies. These steps will remain in place until our profitability returns to acceptable levels.

Capital Discipline

For the third year in a row, we managed to lower our capital expenditures as both a percentage of revenue and on an absolute basis, while at the same time expanding our network and improving service. Because of the sluggish growth of the economy this past year, we thoroughly reviewed our long-term capacity needs. As a result, we adjusted our aircraft programs to better match capacity to customer demand as well as maximize profitability now and in the future.

The outlook for FY02 is certainly challenging, but we will continue our efforts to penetrate the small- and medium-sized customer base, develop our new alliance with the U.S. Postal Service, expand our FedEx Home Delivery service and promote our new FedEx Freight network. All the while, we will remain focused on cost containment and capital expenditure discipline in order to achieve positive cash flow. With the unmatched service of dedicated employees and contractors worldwide, we will continue to successfully overcome the challenges of today's environment and position our company for future growth and superior margins, returns and cash flows as the economy recovers.

Alan B. Graf, Jr.
Executive Vice President and Chief Financial Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table compares revenues, operating income, net income and earnings per diluted share (in millions, except for per share amounts) for the fiscal years ended May 31:

				Percent Change	
	2001	2000	1999	**2001/ 2000**	2000/ 1999
Revenues	**$19,629**	$18,257	$16,773	**+ 8**	+ 9
Operating income	**1,071**	1,221	1,163	**–12**	+ 5
Net income	**584**	688	631	**–15**	+ 9
Earnings per diluted share	**1.99**	2.32	2.10	**–14**	+10

Our results for 2001 reflect strong performance for the first half of the year, which was more than offset by the effects of weakened economic conditions in the second half of the year. Operating results for 2001 also reflect charges of $124 million ($78 million after tax or $0.27 per diluted share) primarily related to noncash asset impairment charges at FedEx Express.

Revenue growth in 2001 included, among other things, the effects of the acquisition of American Freightways, which added approximately $630 million to 2001 revenues. Excluding the effects of business acquisitions in both years, revenues increased 3% for 2001. This increase is largely due to the continued revenue growth of FedEx Express International Priority (IP) packages, although at a lower rate than that experienced in 2000. Despite the negative economic effects on demand in the last half of the year, double-digit volume growth rates during 2001 were experienced in the European and Asian markets. U.S. domestic package volume at FedEx Express declined slightly from 2000. Volume growth was slightly higher than 2000 at FedEx Ground, as this subsidiary continued to grow its core business and expand its FedEx Home Delivery service offering.

Effective February 1, 2001, FedEx Express implemented list rate increases averaging 4.9% for shipments within the U.S. and 2.9% for U.S. export shipments. FedEx Ground also implemented a list rate increase of 3.1% on February 5, 2001. Increased product revenue per package (yield) for 2001 for most services included the effects of these rate increases, the effects of fuel surcharges and other yield-management strategies, including a sales focus on higher yielding business. These revenue increases were partially offset by a decrease in other revenues, primarily decreased sales of engine noise reduction kits (hushkits) at FedEx Express.

As a result of sharply lower domestic volumes at FedEx Express in the second half of 2001 and lowered growth forecasts, management committed to eliminate certain excess aircraft capacity related to our MD10 program. The MD10 program upgrades and modifies our older DC10 aircraft to make them more compatible with our newer MD11 aircraft. By curtailing the MD10 program, we will avoid approximately $1.1 billion of future capital expenditures over the next seven years. In addition, due to the bankruptcy of Ayres Corporation, we expensed deposits and related items in connection with the Ayres ALM 200 aircraft program. We also took actions to reorganize our FedEx Supply Chain Services subsidiary to eliminate certain unprofitable, nonstrategic logistics business and reduce its overhead. Following is a summary of these principally noncash charges (in millions) taken in the fourth quarter of 2001:

Impairment of certain assets related to the MD10 aircraft program	$ 93
Strategic realignment of logistics subsidiary	22
Ayres program	9
Total	$124

In addition to the actions described above, we took other measures during 2001, such as reducing variable compensation programs, limiting staffing additions and lowering discretionary spending, in an effort to better match our cost structure and capacity to current business volumes.

Excluding the above charges and the effect of business acquisitions, operating income decreased 5% in 2001. Incremental losses from the continued expansion of our FedEx Ground Home Delivery service negatively affected operating income by $34 million in 2001.

Operating results also reflect the continuing implementation of the rebranding and reorganization initiatives begun in 2000. The sales, marketing and most of the information technology functions of our two largest subsidiaries are now centralized in FedEx Services. We have substantially completed the expansion and retraining of our sales force, but continue to incur costs associated with the retooling of our automation systems and vehicle and facilities rebranding. These costs were approximately $26 million for 2001.

Increased fuel prices negatively impacted year-over-year expenses by approximately $160 million for 2001, net of the effects of jet fuel hedging contracts. In response to higher fuel costs, fuel surcharges have been implemented at all of our transportation subsidiaries, including a 1.25% fuel surcharge that was

implemented at FedEx Ground on August 7, 2000 and a 4% fuel surcharge, implemented in 2000, that was in place at FedEx Express throughout 2001. These surcharges offset the impact of higher fuel costs in 2001.

We received approximately $92 million in 2001 under jet fuel hedging contracts. Due to slightly moderating fuel prices and the continuation of our fuel surcharge program, we effectively closed our hedge positions by entering into offsetting jet fuel hedging contracts during the fourth quarter of 2001. We may, however, enter into jet fuel hedging contracts in the future.

During 2001, we formed a new segment specializing in the regional less-than-truckload ("LTL") ground transportation of freight. FedEx Freight was formed in the third quarter of 2001 in connection with the acquisition of American Freightways. The acquisition was accounted for as a purchase and resulted in the recognition of approximately $600 million in goodwill. FedEx Freight also includes Viking. The acquisition of American Freightways was slightly accretive to 2001 earnings per diluted share. For further information regarding the acquisition, see "Liquidity" and Note 2 to our financial statements.

Our compensation programs include substantial cash incentive plans, which are based on financial and operating performance. Results for 2001 included a reduction in operating costs related to such plans. Costs for pension and postretirement benefit programs were approximately $70 million lower, due principally to higher discount rates and improved asset performance in 2000.

As expected, operating profit from the sale of hushkits declined $40 million in 2001 to $8 million, following a decline of $50 million in 2000.

For 2000, operating results reflected strong international volume and yield growth. However, U.S. domestic package volume growth was below that experienced in 1999. Significantly higher fuel prices resulted in an increase in fuel expense of $273 million, net of $18 million received under jet fuel hedging contracts. On February 1, 2000, management implemented a 3% fuel surcharge at FedEx Express in response to the higher fuel costs. Effective April 1, 2000, the surcharge was increased to 4%. In the last half of 2000, we began the major rebranding and reorganization initiative of centralizing certain functions in order to enhance revenue growth and improve financial returns. FedEx Home Delivery also was launched in March 2000. The rebranding and reorganization actions and FedEx Home Delivery negatively affected 2000 operating income by approximately $21 million and $19 million, respectively.

Operating results for 1999 included $81 million in operating expenses associated with strike contingency planning during contract negotiations between FedEx Express and the Fedex Pilots Association ("FPA"). To avoid service interruptions related to a threatened strike, we began strike contingency planning, including entering into agreements for additional third-party air and ground transportation and establishing special financing arrangements. Negotiations with the FPA ultimately resulted in a five-year collective bargaining agreement that took effect on May 31, 1999.

Other Income and Expense and Income Taxes

For 2001, net interest expense increased 36% due to higher borrowings that were primarily incurred as a result of the prior year stock repurchase program and additional debt incurred for the American Freightways acquisition. Net interest expense increased 8% for 2000, due to higher average debt levels, primarily incurred as a result of our stock repurchase program, business acquisitions and bond redemptions.

Other, net in 2000 included gains of approximately $12 million from an insurance settlement for a destroyed MD11 aircraft and approximately $11 million from the sale of securities.

Our effective tax rate was 37.0% in 2001, 39.5% in 2000 and 40.5% in 1999. The 37.0% effective tax rate in 2001 was lower than the 2000 effective rate primarily due to the utilization of excess foreign tax credits. Generally, the effective tax rate exceeds the statutory U.S. federal tax rate because of state income taxes and other factors as identified in Note 9 to our financial statements. For 2002, we expect the effective tax rate to be in the approximate range of 38.0% to 39.0%.

Outlook

Although management believes that the current economic downturn is largely cyclical, we expect it to persist at least through the first half of 2002. We plan to align capital spending with operating

cash flow, continue strict controls over discretionary spending and implement other measures to reduce commitments for lift capacity in excess of our needs (see "FedEx Express – Outlook").

Cash incentive programs for 2002 have been substantially reduced for most employees, including all members of senior management, and these programs will begin to pay out only if we exceed our 2002 financial targets. However, anticipated reductions in 2002 incentive costs are expected to be offset by higher pension expense resulting from changes in discount rates and unrealized market declines in pension assets.

Despite the near-term economic outlook, we continue to believe that we are well positioned for long-term growth. In January 2001, FedEx Express entered into a business alliance with the U.S. Postal Service, which is expected to generate revenue of approximately $7 billion over seven years and is consistent with our goals of improving margins, cash flows and returns. The alliance consists of two service agreements. In the first nonexclusive agreement, FedEx Express will install drop boxes at U.S. Post Offices, and in the second agreement, FedEx Express will provide airport-to-airport transportation of Priority, Express and First Class Mail. On June 18, 2001, we officially launched the national rollout of FedEx Drop Boxes at post offices throughout the country, implementing the first of these service agreements. FedEx Express is scheduled to begin the agreement for air transportation in late August 2001. In 2002, we will also continue the business alliance in Europe with La Poste, established in 2001.

The acquisition of American Freightways substantially enhanced our overall transportation portfolio by enabling us to offer a regional LTL service virtually everywhere in the United States. During 2002, we will focus on increasing volumes and yields in our core high-quality next- and second-day regional freight services. In addition, we will continue to expand our FedEx Home Delivery network and will continue to pursue new service and business opportunities, such as those mentioned above, in support of our long-term growth goals.

Actual results for 2002 will depend upon a number of factors, including the extent and duration of the current economic downturn, our ability to match capacity with volume levels and our ability to effectively implement our new service and growth initiatives. See "Forward-Looking Statements" for a more complete description of potential risks and uncertainties that could affect our future performance.

Recent Accounting Pronouncements

We adopted Statement of Financial Accounting Standards No. ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS 137 and SFAS 138) at the beginning of 2002. The adoption of this Statement will not have a material effect on our financial position or results of operations for 2002. Because of our previously mentioned fourth quarter 2001 actions regarding jet fuel hedging contracts, none of the jet fuel hedging contracts held at May 31, 2001 qualify for hedge accounting treatment. However, our usual jet fuel hedging program does qualify for cash flow hedge accounting treatment under which changes in the fair market value of these contracts are recorded to Accumulated Other Comprehensive Income.

During July 2001, SFAS 142, "Goodwill and Other Intangible Assets" was issued by the Financial Accounting Standards Board. Under SFAS 142, goodwill amortization ceases when the new standard is adopted. The new rules also require an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. We are permitted under the rules to adopt this Statement effective June 1, 2001 or defer adoption until June 1, 2002. Once adopted, goodwill amortization of approximately $36 million on an annualized basis will cease. We have not yet determined if any impairment charges will result from the adoption of this Statement. At this time, we anticipate the adoption of these rules, effective as of June 1, 2001.

REPORTABLE SEGMENTS

The formation of FedEx Services, effective June 1, 2000, changed the way certain costs are captured and allocated between our operating segments. For example, salaries, wages and benefits, depreciation and other costs for the sales, marketing and information technology departments previously incurred at FedEx Express and FedEx Ground are now allocated to these operating segments and are included in the line item "Intercompany charges" on the accompanying financial summaries of our reportable segments. Consequently, certain segment expense data presented is not comparable to prior periods. We believe the total amounts allocated to the business segments reasonably reflect the cost of providing such services.

FEDEX EXPRESS

The following table compares revenues and operating income (in millions) and selected statistics (in thousands, except dollar amounts) for the years ended May 31:

	2001	2000[1]	1999[1]	Percent Change 2001/2000	Percent Change 2000/1999
Revenues:					
Package:					
U.S. overnight box[2]	**$ 5,830**	$ 5,684	$ 5,409	**+ 3**	+ 5
U.S. overnight envelope[3]	**1,871**	1,854	1,776	**+ 1**	+ 4
U.S. deferred	**2,492**	2,428	2,271	**+ 3**	+ 7
Total domestic package revenue	**10,193**	9,966	9,456	**+ 2**	+ 5
International Priority (IP)	**3,940**	3,552	3,019	**+11**	+18
Total package revenue	**14,133**	13,518	12,475	**+ 5**	+ 8
Freight:					
U.S.	**651**	566	440	**+15**	+29
International	**424**	492	531	**–14**	– 7
Total freight revenue	**1,075**	1,058	971	**+ 2**	+ 9
Other	**326**	492	533	**–34**	– 8
Total revenues	**$15,534**	$15,068	$13,979	**+ 3**	+ 8
Operating expenses:					
Salaries and employee benefits	**6,301**				
Purchased transportation	**584**				
Rentals and landing fees	**1,419**				
Depreciation and amortization	**797**				
Fuel	**1,063**				
Maintenance and repairs	**968**				
Intercompany charges	**1,317**				
Other[4]	**2,238**				
Total operating expenses	**14,687**	14,168	13,108	**+ 4**	+ 8
Operating income	**$ 847**	$ 900	$ 871	**– 6**	+ 3

	2001	2000	1999	Percent Change 2001/2000	Percent Change 2000/1999
Package:					
Average daily packages:					
U.S. overnight box	**1,264**	1,249	1,207	**+ 1**	+ 3
U.S. overnight envelope	**757**	771	750	**– 2**	+ 3
U.S. deferred	**899**	916	894	**– 2**	+ 3
Total domestic packages	**2,920**	2,936	2,851	**– 1**	+ 3
IP	**346**	319	282	**+ 8**	+13
Total packages	**3,266**	3,255	3,133	**–**	+ 4
Revenue per package (yield):					
U.S. overnight box	**$18.09**	$17.70	$17.51	**+ 2**	+ 1
U.S. overnight envelope	**9.69**	9.36	9.24	**+ 4**	+ 1
U.S. deferred	**10.87**	10.31	9.93	**+ 5**	+ 4
Domestic composite	**13.69**	13.21	12.96	**+ 4**	+ 2
IP	**44.70**	43.36	41.87	**+ 3**	+ 4
Composite	**16.97**	16.16	15.56	**+ 5**	+ 4
Freight:					
Average daily pounds:					
U.S.	**4,337**	4,693	4,332	**– 8**	+ 8
International	**2,208**	2,420	2,633	**– 9**	– 8
Total freight	**6,545**	7,113	6,965	**– 8**	+ 2
Revenue per pound (yield):					
U.S.	**$ .59**	$ .47	$ .40	**+26**	+18
International	**.75**	.79	.79	**– 5**	–
Composite	**.64**	.58	.54	**+10**	+ 7

(1) Operating expense detail for 2000 and 1999 has been omitted, as this data is not comparable to 2001. See "Reportable Segments" above.

(2) The U.S. overnight box category includes packages exceeding 8 ounces in weight.

(3) The U.S. overnight envelope category includes envelopes weighing 8 ounces or less.

(4) Includes $93 million charge for impairment of certain assets related to the MD10 aircraft program and $9 million charge related to the Ayres aircraft program.

Revenues

Total package revenue increased 5% for 2001, principally due to increases in yields and IP volumes, partially offset by a decrease in other revenue. Total package yield increased 5% as a result of our continued yield management strategy, which includes limiting growth of less profitable business and recovering the higher cost of fuel through a fuel surcharge. The February 2001 domestic rate increases also contributed to the higher yield.

While the IP volume growth rate was 8% for 2001, this rate was significantly impacted by weakness in the Asian economy in the last half of the year. Average daily volumes for that region have slowed from a 26% year-over-year growth rate in the first quarter of 2001 to a 1% year-over-year decline in the fourth quarter of 2001. For the year, FedEx Express experienced IP average daily volume growth rates of 24% and 12% in the European and Asian markets, respectively. In the U.S., average daily domestic package volume declined 1% year over year due to the economic softness experienced in the last half of 2001.

Total freight revenue increased slightly in 2001 due to significantly improved yields in U.S. freight, partially offset by declines in domestic freight volume and international freight volume and yield.

Other revenue included Canadian domestic revenue, charter services, logistics services, sales of hushkits and other. As expected, revenue from hushkit sales, which has continued to decline over the past few years, was negligible in 2001.

In 2000, total package revenue for FedEx Express increased 8%, principally due to increases in international package volume and yield. List price increases, including an average 2.8% domestic rate increase in March 1999, the fuel surcharges implemented in the second half of the year, an ongoing yield management program and a slight increase in average weight per package, all contributed to the increases in yields in 2000. While growth in U.S. domestic package volume was lower than anticipated, the higher-yielding IP services experienced strong growth, particularly in Asia and Europe. Total freight revenue increased in 2000 due to higher average daily pounds and improved yields in U.S. freight, offset by declines in international freight pounds.

Operating Income

Excluding the fourth quarter charges related to aircraft, FedEx Express operating income increased 6% in 2001, despite the slowdown in revenue growth. Increased fuel expense reflects a 17% increase in average jet fuel price per gallon, which contributed to a negative impact of approximately $150 million, including the results of jet fuel hedging contracts entered into to mitigate some of the increased jet fuel costs. The effect of higher fuel costs on operating income was fully offset by a 4% fuel surcharge, in effect since April 1, 2000. Operating income was favorably affected by reduced variable compensation and pension costs, coupled with intensified cost controls over discretionary spending. The decrease in maintenance and repairs expense primarily reflects fewer aircraft engine maintenance events due to the timing of scheduled maintenance and favorable negotiated rates with vendors.

Operating income increased 3% in 2000 despite higher fuel costs and costs associated with the corporate realignment and reorganization of the sales, marketing and information technology functions. A 48% increase in average fuel price per gallon had a negative impact of approximately $260 million on 2000 fuel costs, including the results of jet fuel hedging contracts entered into to mitigate some of the increased jet fuel costs. Fuel surcharges implemented during 2000 partially offset the increase in 2000 fuel costs. Maintenance and repairs increased in 2000 due to the timing of scheduled maintenance and a greater number of routine cycle checks resulting from fleet usage and certain Federal Aviation Administration directives.

Operating income in 1999 was negatively impacted by $81 million in strike contingency costs and weakness in Asian markets.

Year-over-year comparisons were also affected by declining contributions from sales of hushkits. Operating profit from these sales declined $40 million in 2001 and $50 million in 2000.

Outlook

For 2002, U.S. domestic package volumes are expected to decline slightly. We believe that IP package volumes will grow at approximately the same rate as 2001. New services, including the U.S. Postal Service agreements, are expected to increase revenues in 2002.

Operating margin for this segment is expected to decrease in 2002 (excluding the 2001 charges related to aircraft programs), as increased pension and health care costs, costs associated with new services and annual wage increases are not expected to be completely offset by suspension of variable compensation programs and reductions in discretionary spending.

Because of substantial lead times associated with the manufacture or modification of aircraft, we must generally plan our aircraft orders or modifications three to eight years in advance. Therefore, we must make projections regarding our needed airlift capacity many years before the aircraft is actually needed. Our past projections included assumptions of volume growth that have not materialized and, in light of current economic projections, are not expected to do so in the near future. Therefore, we will continue to evaluate further reductions in aircraft programs in order to rationalize available capacity with current and anticipated business volumes where it is economically practicable to do so.

FEDEX GROUND

The following table compares revenues and operating income (in millions) and selected package statistics (in thousands, except dollar amounts) for the years ended May 31:

				Percent Change	
	2001	2000[(1)]	1999[(1)]	**2001/ 2000**	2000/ 1999
Revenues	**$2,237**	$2,033	$1,878	**+10**	+ 8
Operating expenses:					
Salaries and employee benefits	**450**				
Purchased transportation	**881**				
Rentals and landing fees	**67**				
Depreciation and amortization	**111**				
Fuel	**8**				
Maintenance and repairs	**63**				
Intercompany charges	**215**				
Other	**267**				
Total operating expenses	**2,062**	1,807	1,647	**+14**	+10
Operating income	**$ 175**	$ 226	$ 231	**–23**	– 2
Average daily packages	**1,520**	1,442	1,385	**+ 5**	+ 4
Revenue per package (yield)	**$ 5.79**	$ 5.55	$ 5.36	**+ 4**	+ 4

(1) Operating expense detail for 2000 and 1999 has been omitted, as this data is not comparable to 2001. See "Reportable Segments" above.

Revenues

FedEx Ground revenues increased 10% in 2001 due to increases in volume and yield. The year-over-year increase in average daily packages of 5% represents positive volume growth experienced in all major sectors served by FedEx Ground, including our FedEx Home Delivery service. The 4% year-over-year yield increase was primarily due to the February 2001 list rate increase of 3.1%, the 1.25% fuel surcharge imposed in August 2000 and ongoing yield management efforts.

Revenues for FedEx Ground increased 8% in 2000, while average daily packages increased 4% and yields increased 4%. The increase in yields was due to a 2.3% price increase, which was effective in February 1999, and a slight increase in the mix of higher yielding packages.

Operating Income

The 2001 year-over-year decrease in operating income of 23% was primarily due to incremental FedEx Home Delivery operating losses and rebranding and reorganization expenses, which totaled $45 million. Excluding the negative effect of this amount, operating income decreased 2% from 2000. Facility openings and expansions, as well as increased investments in information systems, resulted in increased depreciation, rental and other property-related expenses.

Operating income for 2000 reflected higher operating costs than 1999, due primarily to increases in capacity and technology, as well as the effects of FedEx Home Delivery and the rebranding and reorganization initiatives. Depreciation expense increased 20% in 2000 as new terminal facilities were opened late in 1999 and throughout the first half of 2000. The FedEx Home Delivery service, dedicated to meeting the needs of business-to-consumer shippers, was launched in March 2000. An operating loss of $19 million was incurred by the home delivery service in 2000.

Outlook

FedEx Ground will continue expansion of the FedEx Home Delivery network to serve an estimated 80% of the U.S. population by September 2001. Revenues and volumes for this service are expected to continue to grow as the network is expanded and the service becomes available in additional markets. In addition to utilizing 2002 capital for expansion, FedEx Ground will also implement and improve information systems in order to increase productivity.

We expect to incur an operating loss for the home delivery service in 2002 that is approximately the same as that experienced in 2001, primarily due to continued network expansion costs and inclusion of a full year for the terminals that opened during 2001. FedEx Ground will also continue to incur vehicle rebranding costs, although these expenses are expected to be slightly lower than the 2001 level.

FEDEX FREIGHT

The FedEx Freight segment, formed in the third quarter of 2001, includes the financial results of Viking from December 1, 2000, and the financial results of American Freightways from January 1, 2001 (the date of acquisition for financial reporting purposes).

The following table shows revenues and operating income (in millions) and selected statistics for the year ended May 31:

	2001
Revenues	**$ 835**
Operating expenses:	
Salaries and employee benefits	**489**
Purchased transportation	**23**
Rentals and landing fees	**27**
Depreciation and amortization	**44**
Fuel	**41**
Maintenance and repairs	**39**
Intercompany charges	**1**
Other	**116**
Total operating expenses	**780**
Operating income	**$ 55**
Shipments per day(1)	**56,012**
Weight per shipment (lbs)(1)	**1,132**
Revenue per hundredweight(1)	**$11.83**

(1) Based on portion of the year including both American Freightways and Viking (January through May).

Operating Results

FedEx Freight has experienced lower than expected volumes since formation of the segment in third quarter 2001, due to the economic slowdown. The lower than expected volumes were partially offset by strong yields. The complementary geographic regions served by American Freightways and Viking are expected to have a positive impact on results of operations for this segment. Both companies will continue to focus on day-definite regional LTL service, but will also collaborate as partners to serve customers who have multiregional LTL needs. On July 10, 2001, FedEx Freight announced a general rate increase of 5.9% to be effective August 6, 2001.

Fuel surcharges for this segment included the following at May 31, 2001:

Operating Subsidiary	Shipments Under 20,000 pounds	Shipments Equal to or Over 20,000 pounds
American Freightways	3%	7%
Viking	3%	6%

The American Freightways fuel surcharge, which was in effect at the time of the acquisition, is tied to the "Retail on Highway Diesel Fuel Price" as published by the U.S. Department of Energy and changes weekly based on changes in the index. A fuel surcharge has been in effect at Viking since August 16, 1999. The Viking fuel surcharge on shipments equal to or over 20,000 pounds was increased to 7% effective June 4, 2001.

Outlook

In 2002, FedEx Freight will seek to improve yield, volume and margins by capitalizing on its excellent geographic coverage and by providing superior on-time performance. FedEx Freight will continue to pursue synergies, such as leveraging information technology capabilities between American Freightways and Viking in order to improve cost structure, service and customer satisfaction levels.

OTHER OPERATIONS

Other operations include FedEx Custom Critical, a critical-shipment carrier; FedEx Trade Networks, a global trade services company; FedEx Supply Chain Services, a contract logistics provider; and certain unallocated corporate items. The operating results of Viking prior to December 1, 2000, are also included in this category.

Revenues

Revenues from other operations were $1 billion, $1.2 billion and $.9 billion in 2001, 2000 and 1999, respectively. Excluding the effects of businesses acquired during the comparable periods and the revenues of Viking, revenues from other operations decreased 11% in 2001, principally due to lower year-over-year revenues at FedEx Custom Critical. The demand for services provided by this operating subsidiary (critical shipments) is highly elastic and tied to key economic indicators, principally in the automotive industry, where volumes have continued to decline since the beginning of 2001.

The increase in other revenues from 1999 to 2000 was 15%, excluding the effects of businesses acquired in 2000, due to substantially higher revenues at FedEx Custom Critical combined with double-digit revenue growth at Viking.

Operating Income

Operating income (loss) from other operations was ($6.7) million, $95.7 million and $60.6 million in 2001, 2000 and 1999, respectively. Operating income in 2001 decreased 150%, excluding the effects of businesses acquired during the comparable periods and the operations of Viking. The decrease reflects the effect of the economic slowdown on FedEx Custom Critical and FedEx Supply Chain Services and costs associated with the reorganization of FedEx Supply Chain Services.

Increased operating income for 2000 was due to strong earnings at Viking and continued earnings growth at FedEx Custom Critical. Results for 2000 also included a $10 million favorable adjustment related to estimated future lease costs from the 1997 Viking restructuring.

Outlook

In 2002, we will continue the strategic realignment of FedEx Supply Chain Services. The new FedEx Supply Chain Services business model includes substantially less emphasis on warehousing activities and an increased focus on alliance-based and information technology-sensitive business. The new business model is more consistent with management's strategy for this operating subsidiary, which is to pursue business that enhances the services offered by other operating companies in the FedEx family.

FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $121 million at May 31, 2001, compared to $68 million at May 31, 2000. Cash flows from operating activities during 2001 totaled $2.0 billion, compared to $1.6 billion for 2000 and $1.8 billion for 1999.

Because we incur significant noncash charges, including depreciation and amortization, related to the material capital assets utilized in our business, we believe that the following cash-based measures are useful to us and to our investors as an additional means of evaluating our financial condition. These measures should not be considered as a superior alternative to net income, operating income or cash from operations, or to any other operating or liquidity performance measure as defined by generally accepted accounting principles.

FedEx's operations have generated increased cash earnings per share over the past three years. The following table compares cash earnings (in billions, except per share amounts) for the years ended May 31:

	2001	2000	1999
EBITDA (earnings before interest, taxes, depreciation and amortization)	**$ 2.3**	$ 2.4	$ 2.2
Cash earnings per share (net income plus depreciation and amortization divided by average common and common equivalent shares)	**$6.34**	$6.22	$5.54

We have a $1.0 billion revolving credit facility that is generally used to finance temporary operating cash requirements and to provide support for the issuance of commercial paper. As of May 31, 2001, the entire credit facility remained available and no commercial paper was outstanding. For more information regarding the credit facility, see Note 4 to our financial statements.

During 2001, we acquired American Freightways in a transaction accounted for as a purchase. The $978 million purchase price was a combination of cash and FedEx common stock (11.0 million shares of treasury stock were utilized). We also assumed approximately $240 million in American Freightways debt.

On February 12, 2001, we issued $750 million of senior unsecured notes in three maturity tranches: three, five and ten years, at $250 million each. Net proceeds from the borrowings were used to repay indebtedness, principally borrowings under our commercial paper program, and for general corporate purposes. These notes are guaranteed by all of our subsidiaries that are not considered minor under Securities and Exchange Commission ("SEC") regulations. For more information regarding debt instruments, see Notes 1 and 4 to our financial statements.

During 2002, certain existing debt at FedEx Express will mature, principally $175 million of 9.875% Senior Notes due April 1, 2002. These notes and the other scheduled 2002 debt payments are reflected in the current portion of long-term debt at May 31, 2001.

In 1999, we filed a $1 billion shelf registration statement with the SEC, indicating that we may issue up to that amount in one or more offerings of either unsecured debt securities, preferred stock or common stock, or a combination of such instruments. We may, at our option, direct FedEx Express to issue guarantees of the debt securities.

We believe that cash flow from operations, our commercial paper program and revolving bank credit facility will adequately meet our working capital needs for the foreseeable future.

CAPITAL RESOURCES

As mentioned previously, our operations are capital intensive, characterized by significant investments in aircraft, vehicles, computer and telecommunications equipment, package-handling facilities and sort equipment. The amount and timing of capital additions depend on various factors, including volume growth, domestic and international economic conditions, new or enhanced services, geographical expansion of services, competition, availability of satisfactory financing and actions of regulatory authorities.

The following table compares capital expenditures (including equivalent capital, which is defined below) for the years ended May 31 (in millions):

	2001	2000	1999
Aircraft and related equipment	**$ 756**	$ 469	$ 606
Facilities and sort equipment	**353**	437	466
Information and technology equipment	**406**	378	366
Other equipment	**378**	343	332
Total capital expenditures	**1,893**	1,627	1,770
Equivalent capital, principally aircraft-related	**–**	365	561
Total	**$1,893**	$1,992	$2,331

We finance a significant amount of aircraft and certain other equipment needs using long-term operating leases. We believe the determination to lease versus buy equipment is a financing decision, and both forms of financing are considered when evaluating the resources committed for capital. The amount we would have expended to purchase these assets had we not chosen to obtain their use through operating leases is considered equivalent capital in the table above. Capital expenditures (including equivalent capital) over the past two years have been reduced in response to lower U.S. domestic volume growth at FedEx Express. This trend of lower U.S. domestic volume growth, along with the current year economic slowdown and its effects on IP volume growth, has resulted in future excess airlift capacity. During the fourth quarter of 2001, we began the process of reducing certain planned aircraft programs, which is expected to result in lower capital expenditures in future periods (see Note 15 to our financial statements). For 2002, we expect capital spending, including equivalent capital, to approximate the level of 2001 capital expenditures. We plan to continue to make strategic capital investments, particularly in information technology and ground network expansion, in support of our long-term growth goals. For information on our purchase commitments, see Note 13 to our financial statements.

We have historically financed our capital investments through the use of lease, debt and equity financing in addition to the use of internally generated cash from operations. Generally, our practice in recent years with respect to funding new wide-bodied 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. We have 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, other forms of secured financing may be pursued to finance aircraft acquisitions when we determine that it best meets our needs. Historically, we have been successful in obtaining investment capital, both domestic and international, for long-term leases on acceptable terms, although the marketplace for such capital can become restricted depending on a variety of economic factors beyond our control. See Note 4 to our financial statements for additional information concerning our debt facilities.

We believe the capital resources available to us provide flexibility to access the most efficient markets for financing capital acquisitions, including aircraft, and are adequate for our future capital needs.

MARKET RISK SENSITIVE INSTRUMENTS AND POSITIONS

While we currently have market risk sensitive instruments related to interest rates, we have no significant exposure to changing interest rates on our long-term debt because the interest rates are fixed. As disclosed in Note 4 to our financial statements, we have outstanding long-term debt (exclusive of capital leases) of $1.9 billion and $1.1 billion at May 31, 2001 and 2000, respectively. Market risk for fixed-rate, long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 10% increase in interest rates and amounts to approximately $55 million as of May 31, 2001 ($54 million as of May 31, 2000). The underlying fair values of our long-term debt were estimated based on quoted market prices or on the current rates offered for debt with similar terms and maturities. Presently, derivative instruments are not used to manage interest rate risk.

Our earnings are affected by fluctuations in the value of the U.S. dollar compared to foreign currencies as a result of transactions in foreign markets. At May 31, 2001, the result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which our transactions are denominated would result in a decrease in operating income of approximately $70 million for the year ending May 31, 2002 (the comparable amount in the prior year was approximately $50 million). This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. In practice, our experience is that exchange rates in the principal foreign markets where we have foreign currency denominated transactions tend to have offsetting fluctuations. Therefore, the calculation above is not indicative of our actual experience in foreign currency transactions. In addition to the direct effects of changes in exchange rates, which are a changed dollar value of the resulting reported operating results, changes in exchange rates also affect the volume of sales or the

foreign currency sales price as competitors' services become more or less attractive. The sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

Our earnings are also affected by fluctuations in jet fuel prices. Market risk for jet fuel is estimated as the potential decrease in earnings resulting from a hypothetical 10% increase in projected jet fuel prices applied to projected 2002 usage and amounts to approximately $100 million as of May 31, 2001, compared with approximately $50 million, net of hedging settlements, as of May 31, 2000. Because we also use fuel surcharges to adjust our pricing in response to changes in fuel costs, the calculations above are not necessarily indicative of the impact of changing fuel prices on our earnings. As of May 31, 2001, all outstanding jet fuel hedging contracts were effectively closed by entering into offsetting jet fuel hedging contracts. See Notes 1 and 13 to our financial statements for accounting policy and additional information regarding jet fuel hedging contracts.

We do not purchase or hold any material derivative financial instruments for trading purposes.

EURO CURRENCY CONVERSION

Since the beginning of the European Union's transition to the euro on January 1, 1999, our subsidiaries have been prepared to quote rates to customers, generate billings and accept payments in both euro and legacy currencies. The legacy currencies will remain legal tender through December 31, 2001. We believe the introduction of the euro, any price transparency brought about by its introduction and the phasing out of the legacy currencies will not have a material impact on our consolidated financial position, results of operations or cash flows. Costs associated with the euro project are being expensed as incurred and are being funded entirely by internal cash flows.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to management's views with respect to future events and financial performance. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from historical experience or from future results expressed or implied by such forward-looking statements. Accordingly, a forward-looking statement is not a prediction of future events or circumstances, and those future events or circumstances may not occur. A forward-looking statement is usually identified by our use of certain terminology, including "believes," "expects," "may," "will," "should," "seeks," "pro forma," "anticipates," "intends" or "plans" or by discussions of strategies, intentions or outlook. Potential risks and uncertainties include, but are not limited to

- Economic conditions in the markets in which we operate, which can affect demand for our services.
- Our ability to match aircraft, vehicle and sort capacity with customer volume levels.
- The costs and complexities associated with the integration of certain of our sales, marketing, customer service and information technology functions.
- Market acceptance of our new sales, marketing and branding strategies, as well as our residential home delivery service.
- Competition from other providers of transportation and logistics services, including competitive responses to our new initiatives.
- Our ability to adapt to technological change and to compete with new or improved services offered by our competitors.
- Changes in customer demand patterns, including the impact of technology developments on demand for our services.
- Increases in aviation and motor fuel prices.
- Work stoppages, strikes or slowdowns by our employees.
- Our ability, and that of our principal competitors, to obtain and maintain aviation rights in important international markets.
- Changes in government regulation.
- Changes in weather.
- Availability of financing on terms acceptable to us.
- Other uncertainties detailed herein and from time to time in our Securities and Exchange Commission filings and press releases.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Except as otherwise indicated, any reference to a year means our fiscal year ended May 31 of the year referenced.

CONSOLIDATED STATEMENTS OF INCOME

Years ended May 31 In thousands, except per share amounts	**2001**	2000	1999
REVENUES	**$19,629,040**	$18,256,945	$16,773,470
OPERATING EXPENSES			
Salaries and employee benefits	**8,263,413**	7,597,964	7,087,728
Purchased transportation	**1,713,027**	1,674,854	1,537,785
Rentals and landing fees	**1,650,048**	1,538,713	1,396,694
Depreciation and amortization	**1,275,774**	1,154,863	1,035,118
Fuel	**1,142,741**	918,513	604,929
Maintenance and repairs	**1,170,103**	1,101,424	958,873
Other	**3,343,044**	3,049,540	2,989,257
	18,558,150	17,035,871	15,610,384
OPERATING INCOME	**1,070,890**	1,221,074	1,163,086
OTHER INCOME (EXPENSE)			
Interest, net	**(143,953)**	(106,060)	(98,191)
Other, net	**636**	22,726	(3,831)
	(143,317)	(83,334)	(102,022)
INCOME BEFORE INCOME TAXES	**927,573**	1,137,740	1,061,064
PROVISION FOR INCOME TAXES	**343,202**	449,404	429,731
NET INCOME	**$ 584,371**	$ 688,336	$ 631,333
EARNINGS PER COMMON SHARE			
Basic	**$ 2.02**	$ 2.36	$ 2.13
Assuming dilution	**$ 1.99**	$ 2.32	$ 2.10

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

May 31 In thousands, except shares	2001	2000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 121,302**	$ 67,959
Receivables, less allowances of $95,815 and $85,972	**2,506,044**	2,547,043
Spare parts, supplies and fuel	**269,269**	255,291
Deferred income taxes	**435,406**	317,784
Prepaid expenses and other	**117,040**	96,667
Total current assets	**3,449,061**	3,284,744
PROPERTY AND EQUIPMENT, AT COST		
Flight equipment	**5,312,853**	4,960,204
Package handling and ground support equipment and vehicles	**4,620,894**	4,203,927
Computer and electronic equipment	**2,637,350**	2,416,666
Other	**3,840,899**	3,161,746
	16,411,996	14,742,543
Less accumulated depreciation and amortization	**8,311,941**	7,659,016
Net property and equipment	**8,100,055**	7,083,527
OTHER ASSETS		
Goodwill	**1,082,223**	500,547
Equipment deposits and other assets	**708,673**	658,293
Total other assets	**1,790,896**	1,158,840
	$13,340,012	$11,527,111
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	**$ 221,392**	$ 6,537
Accrued salaries and employee benefits	**699,906**	755,747
Accounts payable	**1,255,298**	1,120,855
Accrued expenses	**1,072,920**	1,007,887
Total current liabilities	**3,249,516**	2,891,026
LONG-TERM DEBT, LESS CURRENT PORTION	**1,900,119**	1,776,253
DEFERRED INCOME TAXES	**455,591**	344,613
OTHER LIABILITIES	**1,834,366**	1,729,976
COMMITMENTS AND CONTINGENCIES (Notes 5, 13 and 14)		
COMMON STOCKHOLDERS' INVESTMENT		
Common stock, $.10 par value; 800,000,000 shares authorized; 298,573,387 shares issued	**29,857**	29,857
Additional paid-in capital	**1,120,627**	1,079,462
Retained earnings	**4,879,647**	4,295,041
Accumulated other comprehensive income	**(55,833)**	(36,074)
	5,974,298	5,368,286
Less treasury stock, at cost and deferred compensation	**73,878**	583,043
Total common stockholders' investment	**5,900,420**	4,785,243
	$13,340,012	$11,527,111

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended May 31 In thousands	**2001**	2000	1999
OPERATING ACTIVITIES			
Net income	**$ 584,371**	$ 688,336	$ 631,333
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	**1,275,774**	1,154,863	1,035,118
Provision for uncollectible accounts	**112,264**	71,107	55,649
Aircraft related impairment charges	**102,000**	–	–
Deferred income taxes and other noncash items	**(16,024)**	(7,363)	(34,037)
Gain from disposals of property and equipment	**(4,440)**	(17,068)	(2,330)
Changes in operating assets and liabilities, net of the effects of businesses acquired:			
Decrease (increase) in receivables	**61,702**	(404,511)	(294,121)
(Increase) decrease in other current assets	**(112,476)**	70,720	(155,720)
Increase in accounts payable and other operating liabilities	**102,390**	107,543	555,565
Other, net	**(61,755)**	(38,385)	(19,337)
Cash provided by operating activities	**2,043,806**	1,625,242	1,772,120
INVESTING ACTIVITIES			
Purchases of property and equipment, including deposits on aircraft of $7,900, $1,500 and $1,200	**(1,893,384)**	(1,627,418)	(1,769,946)
Proceeds from dispositions of property and equipment:			
Sale-leaseback transactions	**237,000**	–	80,995
Reimbursements of A300 and MD11 deposits	**–**	24,377	67,269
Other dispositions	**37,444**	165,397	195,641
Business acquisitions, net of cash acquired	**(476,992)**	(257,095)	–
Other, net	**(16,783)**	(13,378)	(22,716)
Cash used in investing activities	**(2,112,715)**	(1,708,117)	(1,448,757)
FINANCING ACTIVITIES			
Principal payments on debt	**(650,280)**	(115,090)	(269,367)
Proceeds from debt issuances	**743,522**	517,664	–
Proceeds from stock issuances	**28,654**	15,523	49,932
Purchase of treasury stock	**–**	(606,506)	(8,168)
Other, net	**356**	13,920	(2)
Cash provided by (used in) financing activities	**122,252**	(174,489)	(227,605)
CASH AND CASH EQUIVALENTS			
Net increase (decrease) in cash and cash equivalents	**53,343**	(257,364)	95,758
Balance at beginning of year	**67,959**	325,323	229,565
Balance at end of year	**$ 121,302**	$ 67,959	$ 325,323

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' INVESTMENT AND COMPREHENSIVE INCOME

In thousands, except shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Deferred Compensation	Total
BALANCE AT MAY 31, 1998	$14,741	$ 992,821	$2,999,354	$(27,277)	$ –	$(18,409)	$3,961,230
Net income	–	–	631,333	–	–	–	631,333
Foreign currency translation adjustment, net of deferred tax benefit of $959	–	–	–	(611)	–	–	(611)
Unrealized gain on available-for-sale securities, net of deferred taxes of $2,100	–	–	–	3,200	–	–	3,200
Total comprehensive income							**633,922**
Purchase of treasury stock	–	–	–	–	(8,168)	–	(8,168)
Two-for-one stock split by FedEx Corporation in the form of a 100% stock dividend (148,931,996 shares)	14,890	–	(14,890)	–	–	–	–
Employee incentive plans and other (1,770,626 shares issued)	168	68,491	–	–	6,887	(7,766)	67,780
Amortization of deferred compensation	–	–	–	–	–	8,928	8,928
BALANCE AT MAY 31, 1999	29,799	1,061,312	3,615,797	(24,688)	(1,281)	(17,247)	4,663,692
Net income	–	–	688,336	–	–	–	688,336
Foreign currency translation adjustment, net of deferred tax benefit of $1,881	–	–	–	(9,021)	–	–	(9,021)
Unrealized loss on available-for-sale securities, net of deferred tax benefit of $1,513	–	–	–	(2,365)	–	–	(2,365)
Total comprehensive income							**676,950**
Shares issued for acquisition (175,644 shares)	–	–	191	–	6,626	–	6,817
Purchase of treasury stock	–	–	–	–	(606,506)	–	(606,506)
Employee incentive plans and other (1,539,941 shares issued)	58	18,150	(9,283)	–	37,067	(13,880)	32,112
Amortization of deferred compensation	–	–	–	–	–	12,178	12,178
BALANCE AT MAY 31, 2000	29,857	1,079,462	4,295,041	(36,074)	(564,094)	(18,949)	4,785,243
Net income	–	–	584,371	–	–	–	584,371
Foreign currency translation adjustment, net of deferred tax benefit of $6,849	–	–	–	(18,944)	–	–	(18,944)
Unrealized loss on available-for-sale securities, net of deferred tax benefit of $574	–	–	–	(815)	–	–	(815)
Total comprehensive income							**564,612**
Shares issued for acquisition (11,042,965 shares)	–	41,675	27,131	–	437,584	–	506,390
Employee incentive plans and other (1,841,543 shares issued)	–	(510)	(26,896)	–	73,020	(12,865)	32,749
Amortization of deferred compensation	–	–	–	–	–	11,426	11,426
BALANCE AT MAY 31, 2001	**$29,857**	**$1,120,627**	**$4,879,647**	**$(55,833)**	**$ (53,490)**	**$(20,388)**	**$5,900,420**

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS. FedEx Corporation ("FedEx") is a premier global provider of transportation, e-commerce and supply chain management services, whose operations are primarily represented by Federal Express Corporation ("FedEx Express"), the world's largest express transportation company; FedEx Ground Package System, Inc. ("FedEx Ground"), North America's second largest provider of small-package ground delivery service; and FedEx Freight System, Inc. ("FedEx Freight"), a leading provider of regional less-than-truckload ("LTL") freight services. Other operating companies included in the FedEx portfolio are FedEx Custom Critical, Inc. ("FedEx Custom Critical"), a critical-shipment carrier; FedEx Trade Networks, Inc. ("FedEx Trade Networks"), a global trade services company; and FedEx Supply Chain Services, Inc. ("FedEx Supply Chain Services"), a contract logistics provider.

FedEx Freight was formed in the third quarter of 2001 in conjunction with our acquisition of American Freightways, Inc. ("American Freightways"). FedEx Freight includes the results of operations of American Freightways, a multiregional LTL carrier, from January 1, 2001 and Viking Freight, Inc. ("Viking"), an LTL carrier operating principally in the western United States, from December 1, 2000.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of FedEx and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

SUBSIDIARY GUARANTORS. Certain long-term debt contains subsidiary guarantees. The guarantees provided by our subsidiaries are full and unconditional, joint and several, and any subsidiaries which are not guarantors are minor as defined by Securities and Exchange Commission ("SEC") regulations. FedEx, as the parent company issuer of this debt, has no independent assets or operations. There are no significant restrictions on our ability or the ability of any guarantor to obtain funds from its subsidiaries by means of dividend or loan.

CREDIT RISK. Credit risk in trade receivables is substantially mitigated by our credit evaluation process, short collection terms, and sales to a large number of customers, as well as the low revenue per transaction for most of our transportation services. Allowances for potential credit losses are determined based on historical experience, current evaluation of the composition of accounts receivable and expected credit trends.

REVENUE RECOGNITION. Revenue is recognized upon delivery of shipments. For shipments in transit, revenue is recorded based on the percentage of service completed at the balance sheet date.

ADVERTISING. Generally, advertising costs are expensed as incurred and are classified in other operating expenses. Advertising expenses were $236,559,000, $221,511,000 and $202,104,000 in 2001, 2000 and 1999, respectively.

CASH EQUIVALENTS. Cash equivalents in excess of current operating requirements are 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 $11,197,000, $15,116,000 and $12,399,000 in 2001, 2000 and 1999, respectively.

MARKETABLE SECURITIES. Marketable securities are classified as available-for-sale securities and are reported at fair value. Unrealized gains and losses are reported, net of related deferred income taxes, as a component of accumulated other comprehensive income.

SPARE PARTS, SUPPLIES AND FUEL. Spare parts are stated principally at weighted-average cost. Supplies and fuel are stated principally at standard cost, which approximates actual cost on a first-in, first-out basis. Neither method values inventory in excess of current replacement cost.

PROPERTY AND EQUIPMENT. Expenditures for major additions, improvements, flight equipment modifications and certain equipment overhaul costs are capitalized. Maintenance and repairs are charged to expense as incurred. The cost and accumulated depreciation of property and equipment disposed of are removed from the related accounts, and any gain or loss is 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	5 to 20 years
Package handling and ground support equipment and vehicles	3 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 up to 20% of asset cost. All other property and equipment have no material residual values. Vehicles are depreciated on a straight-line basis over five to 10 years. Depreciation expense was $1,241,493,000, $1,132,129,000, and $1,017,950,000 in 2001, 2000 and 1999, respectively.

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, construction of certain facilities, and development of certain software up to the date the asset is placed in service is capitalized and included in the cost of the asset. Capitalized interest was $26,536,000, $34,823,000 and $38,880,000 for 2001, 2000 and 1999, respectively.

IMPAIRMENT OF LONG-LIVED ASSETS. Long-lived assets including goodwill are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. See Notes 15 and 16 for information concerning the impairment charges recognized in 2001.

GOODWILL. Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. It is amortized over the estimated period of benefit on a straight-line basis over periods generally ranging from 15 to 40 years. Accumulated amortization was $201,766,000 and $165,624,000 at May 31, 2001 and 2000, respectively.

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 liability method is used 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.

We have not provided for U.S. federal income taxes on foreign subsidiaries' earnings deemed to be permanently reinvested and any related taxes associated with such earnings are not material.

SELF-INSURANCE ACCRUALS. We are self-insured up to certain levels for workers' compensation, employee health care and vehicle liabilities. Accruals are based on the actuarially estimated undiscounted cost of claims. Included in other liabilities at May 31, 2001 and 2000, were $363,664,000 and $324,869,000, respectively, representing the long-term portion of self-insurance accruals for workers' compensation and vehicle liabilities.

DEFERRED LEASE OBLIGATIONS. While certain 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, 2001 and 2000, were $398,298,000 and $354,566,000, respectively, representing the cumulative difference between rent expense and rent payments.

DEFERRED GAINS. Gains on the sale and leaseback of aircraft and other property and equipment are deferred and amortized ratably over the life of the lease as a reduction of rent expense. Included in other liabilities at May 31, 2001 and 2000 were deferred gains of $511,932,000 and $533,371,000, respectively.

DERIVATIVE INSTRUMENTS. Through the period ending May 31, 2001, jet fuel forward contracts were accounted for as hedges under Statement of Financial Accounting Standards No. ("SFAS") 80, "Accounting for Futures Contracts." At June 1, 2001, we adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities." See Recent Pronouncements.

FOREIGN CURRENCY TRANSLATION. Translation gains and losses of foreign operations that use local currencies as the functional currency are accumulated and reported, net of applicable deferred income taxes, as a component of accumulated other comprehensive income within 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. Balances for foreign currency translation in accumulated other comprehensive income were ($55,853,000), ($36,909,000) and ($27,888,000) at May 31, 2001, 2000 and 1999, respectively.

RECENT PRONOUNCEMENTS. We adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS 137 and SFAS 138) at the beginning of 2002. The adoption of this Statement will not have a material effect on our financial position or results of operations for 2002.

RECLASSIFICATIONS. Certain prior year amounts have been reclassified to conform to the 2001 presentation.

USE OF ESTIMATES. The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: BUSINESS COMBINATIONS

On February 9, 2001, we completed the acquisition of American Freightways, a multiregional less-than-truckload motor carrier, for approximately $978,000,000, including $471,000,000 in cash, 11.0 million shares of FedEx common stock and options to purchase 1.5 million shares of FedEx common stock. The acquisition was completed in a two-step transaction that included a cash tender offer and a merger that resulted in the acquisition of all outstanding shares of American Freightways. The first step of the transaction was completed on December 21, 2000 by acquiring for cash 50.1% of the outstanding shares of American Freightways, or 16,380,038 shares at a price of $28.13 per share. On February 9, 2001, American Freightways was merged into a newly-created subsidiary of FedEx and each remaining outstanding share of American Freightways common stock was converted into 0.6639 shares of common stock of FedEx. The excess purchase price over the estimated fair value of the net assets acquired (approximately $600 million) has been recorded as goodwill and is being amortized ratably over 40 years.

The following unaudited pro forma consolidated results of operations are presented as if the acquisition of American Freightways had been made at the beginning of the periods presented:

May 31, In thousands, except per share amounts	**2001**	2000
Revenues	**$20,493,991**	$19,541,425
Net income	**601,825**	710,119
Basic earnings per share	**2.03**	2.35
Diluted earnings per share	**2.00**	2.31

The pro forma consolidated results of operations include adjustments to give effect to the amortization of goodwill, interest expense on acquisition-related debt and certain other purchase accounting adjustments. The pro forma information is not necessarily indicative of the results of operations that would have occurred had the purchase been made at the beginning of the periods presented or the future results of the combined operations.

On March 31, 2000, the common stock of World Tariff, Limited ("World Tariff") was acquired for approximately $8,400,000 in cash and stock. World Tariff is a source of customs duty and tax information around the globe. This business is operating as a subsidiary of FedEx Trade Networks. The excess of purchase price over the estimated fair value of the net assets acquired ($8,300,000) has been recorded as goodwill and is being amortized ratably over 25 years.

On February 29, 2000, the common stock of Tower Group International, Inc. ("Tower") was acquired for approximately $140,000,000 in cash. Tower primarily provides international customs clearance services. This business is operating as a subsidiary of FedEx Trade Networks. The excess of purchase price over the estimated fair value of the net assets acquired ($30,000,000) has been recorded as goodwill and is being amortized ratably over 25 years.

On September 10, 1999, the assets of GeoLogistics Air Services, Inc. were acquired for approximately $116,000,000 in cash. This business operates under the name Caribbean Transportation Services, Inc. ("CTS"), and is a subsidiary of FedEx Trade Networks. CTS is an airfreight forwarder servicing freight shipments primarily between the United States and Puerto Rico. The excess of purchase price over the estimated fair value of the net assets acquired ($103,000,000) has been recorded as goodwill and is being amortized ratably over 15 years.

The operating results of these acquired companies are included in consolidated operations from the date of acquisition. For American Freightways, the results of operations are included from January 1, 2001, which was the date of acquisition for financial reporting purposes. Pro forma results including these acquisitions, except American Freightways, would not differ materially from reported results in any of the periods presented.

NOTE 3: ACCRUED SALARIES AND EMPLOYEE BENEFITS AND ACCRUED EXPENSES

The components of accrued salaries and employee benefits and accrued expenses were as follows:

May 31 In thousands	**2001**	2000
Salaries	**$ 192,892**	$ 168,582
Employee benefits	**152,979**	260,063
Compensated absences	**354,035**	327,102
Total accrued salaries and employee benefits	**$ 699,906**	$ 755,747
Insurance	**$ 427,685**	$ 363,899
Taxes other than income taxes	**239,718**	237,342
Other	**405,517**	406,646
Total accrued expenses	**$1,072,920**	$1,007,887

NOTE 4: LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

May 31 In thousands	2001	2000
Unsecured debt	**$1,836,616**	$ 975,862
Commercial paper, weighted-average interest rate of 6.73%	–	521,031
Capital lease obligations and tax exempt bonds, interest rates of 5.35% to 7.88%, due through 2017, less bond reserves of $9,024	**247,227**	244,545
Other debt, interest rates of 9.68% to 11.12%	**37,668**	41,352
	2,121,511	1,782,790
Less current portion	**221,392**	6,537
	$1,900,119	$1,776,253

We have a $1,000,000,000 revolving credit agreement with domestic and foreign banks. The revolving credit agreement comprises two parts. The first part provides for a commitment of $800,000,000 through January 27, 2003. The second part provides for a 364-day commitment for $200,000,000 through September 30, 2001. Interest rates on borrowings under this agreement are generally determined by maturities selected and prevailing market conditions. The revolving credit agreement contains certain covenants and restrictions, none of which are expected to significantly affect our operations or ability to pay dividends.

As of May 31, 2001, approximately $2,655,000,000 was available for the payment of dividends under the restrictive covenant of the revolving credit agreement. Commercial paper borrowings are backed by unused commitments under the revolving credit agreement and reduce the amount available under the agreement. As of May 31, 2001, no commercial paper borrowings were outstanding and the entire credit facility was available.

The components of unsecured debt (net of discounts) were as follows:

May 31 In thousands	2001	2000
Senior debt:		
Interest rates of 6.63% to 7.25%, due through 2011	**$ 745,844**	$ –
Interest rates of 9.65% to 9.88%, due through 2013	**474,161**	473,970
Interest rate of 7.80%, due 2007	**200,000**	200,000
Interest rates of 6.92% to 8.91%, due through 2012	**117,701**	–
Bonds, interest rate of 7.60%, due in 2098	**239,389**	239,382
Medium term notes:		
Interest rates of 9.95% to 10.57%, due through 2007	**59,054**	62,510
Other	**467**	–
	$1,836,616	$975,862

On February 12, 2001, senior unsecured notes were issued in the amount of $750,000,000. These notes are guaranteed by all of our subsidiaries that are not considered minor as defined by SEC regulations. Net proceeds from the borrowings were used to repay indebtedness, principally borrowings under the commercial paper program, and for general corporate purposes. The notes were issued in three tranches, with the following terms and interest rates:

Amount	Maturity	Rate
$250,000,000	2004	6.625%
$250,000,000	2006	6.875%
$250,000,000	2011	7.250%

In conjunction with the American Freightways acquisition on February 9, 2001, debt of $240,000,000 was assumed, a portion of which was refinanced subsequent to the acquisition. As of May 31, 2001, $117,701,000 of the assumed debt had not been refinanced and remained outstanding. This debt matures through 2012 and bears interest at rates of 6.92% to 8.91%.

Scheduled annual principal maturities of long-term debt for the five years subsequent to May 31, 2001, are as follows: $221,400,000 in 2002; $18,400,000 in 2003; $287,300,000 in 2004; $17,600,000 in 2005; and $273,400,000 in 2006.

Long-term debt, exclusive of capital leases, had carrying values of $1,919,000,000 and $1,063,000,000 at May 31, 2001 and 2000, respectively, compared with fair values of approximately $1,999,000,000 and $1,055,000,000 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 5: LEASE COMMITMENTS

We utilize certain aircraft, land, facilities and equipment under capital and operating leases that expire at various dates through 2038. In addition, supplemental aircraft are leased under agreements that generally provide for cancellation upon 30 days' notice.

The components of property and equipment recorded under capital leases were as follows:

May 31 In thousands	2001	2000
Package handling and ground support equipment and vehicles	**$196,900**	$226,580
Facilities	**136,178**	134,442
Computer and electronic equipment and other	**2,858**	6,852
	335,936	367,874
Less accumulated amortization	**236,921**	260,526
	$ 99,015	$107,348

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

In thousands	**2001**	2000	1999
Minimum rentals	**$1,398,620**	$1,298,821	$1,246,259
Contingent rentals	**91,230**	98,755	59,839
	$1,489,850	$1,397,576	$1,306,098

Contingent rentals are based on hours flown under supplemental aircraft leases.

A summary of future minimum lease payments under capital leases and noncancellable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 2001 is as follows:

In thousands	Capital Leases	Operating Leases
2002	$ 15,416	$ 1,246,936
2003	15,279	1,134,413
2004	15,132	1,043,549
2005	15,044	981,777
2006	15,040	916,084
Thereafter	274,665	9,040,570
	$350,576	$14,363,329

At May 31, 2001, the present value of future minimum lease payments for capital lease obligations, including certain tax-exempt bonds, was $202,107,000.

FedEx Express makes payments under certain leveraged operating leases that are sufficient to pay principal and interest on certain pass-through certificates. The pass-through certificates are not direct obligations of, or guaranteed by, us or FedEx Express.

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, 2001, none of these shares had been issued.

NOTE 7: COMMON STOCKHOLDERS' INVESTMENT

Treasury Shares

During 2000, we purchased 15,208,356 treasury shares. Of these shares, 15,000,000, or approximately 5% of our outstanding shares of common stock, were purchased under a stock repurchase program at an average cost of $39.75 per share. Approximately 11,000,000 of the shares held in treasury were reissued February 9, 2001, for the acquisition of American Freightways. During 2001 and 2000, treasury shares were also utilized for issuances under the stock compensation plans discussed below. At May 31, 2001, and 2000, respectively, 1,244,490 and 14,128,998 shares remained in treasury.

Stock Compensation Plans

Options and awards outstanding under stock-based compensation plans at May 31, 2001 are described below. As of May 31, 2001, 25,880,128 shares of common stock were reserved for issuance under these plans. The Board of Directors has authorized the repurchase of common stock necessary for grants or option exercises under these stock plans.

Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations is applied to measure compensation expense for stock-based compensation plans. If compensation cost for stock-based compensation plans had been determined under SFAS 123, "Accounting for Stock-Based Compensation," net income and earnings per share would have been the pro forma amounts indicated below:

In thousands, except per share amounts	**2001**	2000	1999
Net income:			
As reported	**$584,371**	$688,336	$631,333
Pro forma	**553,033**	659,601	609,960
Earnings per share, assuming dilution:			
As reported	**$ 1.99**	$ 2.32	$ 2.10
Pro forma	**1.89**	2.23	2.03

Fixed Stock Option Plans

Under the provisions of our stock incentive plans, options may be granted to certain key employees (and, under the 1997 plan, to directors who are not employees) to purchase shares of common stock at a price not less than its fair market value at the date of grant. Options granted have a maximum term of 10 years. Vesting requirements are determined at the discretion of the Compensation Committee of the Board of Directors. Presently, option vesting periods range from one to eight years. At May 31, 2001, there were 7,218,032 shares available for future grants under these plans.

Beginning with the grants made on or after June 1, 1995, the fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions for each option grant:

	2001	2000	1999
Dividend yield	**0%**	0%	0%
Expected volatility	**35%**	30%	25%
Risk-free interest rate	**4.3%–6.5%**	5.6%–6.8%	4.2%–5.6%
Expected lives	**2.5–5.5 years**	2.5–9.5 years	2.5–5.5 years

The following table summarizes information about our fixed stock option plans for the years ended May 31:

	2001		2000		1999	
	Shares	**Weighted-Average Exercise Price**	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	**15,010,651**	**$29.12**	13,399,532	$23.11	13,388,452	$19.74
Granted and assumed	**4,267,753**(1)	**31.19**	3,218,450	50.79	3,377,500	31.80
Exercised	**(1,465,684)**	**20.02**	(1,232,699)	18.81	(3,135,640)	17.86
Forfeited	**(314,162)**	**37.25**	(374,632)	33.81	(230,780)	26.59
Outstanding at end of year	**17,498,558**	**30.24**	15,010,651	29.12	13,399,532	23.11
Exercisable at end of year	**8,704,009**	**25.09**	5,781,855	21.44	4,404,146	18.57

(1) Includes 1,479,016 options assumed upon acquisition of American Freightways in 2001.

The weighted-average fair value of options granted during the year was $13.19, $16.63 and $9.12 for the years ended May 31, 2001, 2000 and 1999, respectively.

The following table summarizes information about fixed stock options outstanding at May 31, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 8.63–$12.00	157,274	0.6 years	$10.13	157,274	$10.13
12.19– 17.70	2,261,561	3.9 years	15.69	1,899,134	15.59
18.45– 25.19	4,687,294	4.8 years	20.44	3,023,630	20.48
26.44– 37.25	7,018,067	7.4 years	32.41	2,860,491	30.24
38.69– 55.94	3,374,362	8.3 years	50.04	763,480	50.75
8.63– 55.94	17,498,558	6.4 years	30.24	8,704,009	25.09

Restricted Stock Plans

Under the terms of our Restricted Stock Plans, shares of common stock are awarded to key employees. All restrictions on the shares expire over periods varying from two to five years from their date of award. Shares are valued at the market price at the date of award. Compensation related to these plans is recorded as a reduction of common stockholders' investment and is being amortized to expense as restrictions on such shares expire. In March 2001, the Board of Directors approved an additional restricted stock plan, which authorized the issuance of up to 1,000,000 common shares. The following table summarizes information about restricted stock awards for the years ended May 31:

	2001		2000		1999	
	Shares	**Weighted-Average Fair Value**	Shares	Weighted-Average Fair Value	Shares	Weighted-Average Fair Value
Awarded	**330,250**	**$39.89**	283,750	$51.90	252,000	$32.71
Forfeited	**8,438**	**40.92**	20,000	37.71	16,900	44.38

At May 31, 2001, there were 1,163,538 shares available for future awards under these plans. Compensation cost for the restricted stock plans was $11,426,000, $12,178,000 and $8,928,000 for 2001, 2000 and 1999, respectively.

NOTE 8: COMPUTATION OF EARNINGS PER SHARE

The calculation of basic earnings per share and earnings per share, assuming dilution, for the years ended May 31 was as follows:

In thousands, except per share amounts	**2001**	2000	1999
Net income applicable to common stockholders	**$584,371**	$688,336	$631,333
Weighted-average common shares outstanding	**288,745**	291,727	295,983
Basic earnings per share	**$ 2.02**	$ 2.36	$ 2.13
Weighted-average common shares outstanding	**288,745**	291,727	295,983
Common equivalent shares:			
Assumed exercise of outstanding dilutive options	**14,690**	12,735	13,090
Less shares repurchased from proceeds of assumed exercise of options	**(10,256)**	(8,136)	(8,430)
Weighted-average common and common equivalent shares outstanding	**293,179**	296,326	300,643
Earnings per share, assuming dilution	**$ 1.99**	$ 2.32	$ 2.10

NOTE 9: INCOME TAXES

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

In thousands	**2001**	2000	1999
Current provision:			
Domestic			
Federal	**$310,408**	$365,137	$385,164
State and local	**42,788**	48,837	49,918
Foreign	**36,152**	39,844	22,730
	389,348	453,818	457,812
Deferred provision (credit):			
Domestic			
Federal	**(43,043)**	(3,444)	(21,773)
State and local	**(3,088)**	469	(4,437)
Foreign	**(15)**	(1,439)	(1,871)
	(46,146)	(4,414)	(28,081)
	$343,202	$449,404	$429,731

Income taxes have been provided for foreign operations based upon the various tax laws and rates of the countries in which operations are conducted. There is no direct relationship between our overall foreign income tax provision and foreign pretax 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 effective income tax rate for the years ended May 31 is as follows:

	2001	2000	1999
Statutory U.S. income tax rate	**35.0%**	35.0%	35.0%
Increase resulting from:			
State and local income taxes, net of federal benefit	**2.8**	2.8	2.8
Other, net	**(0.8)**	1.7	2.7
Effective tax rate	**37.0%**	39.5%	40.5%

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

In thousands	**2001**		2000	
	Deferred Tax Assets	**Deferred Tax Liabilities**	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment and leases	**$ 268,696**	**$ 815,504**	$206,239	$686,547
Employee benefits	**225,931**	**118,104**	207,297	127,784
Self-insurance accruals	**276,886**	**–**	245,923	–
Other	**241,587**	**99,677**	224,615	96,572
	$1,013,100	**$1,033,285**	$884,074	$910,903

NOTE 10: EMPLOYEE BENEFIT PLANS

PENSION PLANS. We sponsor defined benefit pension plans covering a majority of employees. The largest plan covers certain U.S. employees age 21 and over, with at least one year of service, and provides benefits based on average earnings and years of service. Plan funding is actuarially determined, and is also subject to certain tax law limitations. International defined benefit pension plans provide benefits primarily based on final earnings and years of service and are funded in accordance with local laws and income tax regulations. Plan assets consist primarily of marketable equity securities and fixed income instruments.

In 2001, we changed the actuarial valuation measurement date for certain of our pension plans from May 31 to February 28 to conform to the measurement date used for our postretirement

health care plans and to facilitate our planning and budgeting process. Additionally, in connection with the 2001 valuation, we changed to the calculated value method of valuing plan assets. These changes had no impact on our 2001 financial position or results of operations.

The Federal Express Corporation Employees' Pension Plan and the FedEx Ground Package System, Inc. and Certain Affiliates Career Reward Pension Plan were merged effective May 31, 2001. The name of the newly merged plan is the FedEx Corporation Employees' Pension Plan. No pension benefit formulas were changed as a result of the merger.

POSTRETIREMENT HEALTH CARE PLANS. FedEx Express and FedEx Corporate Services, Inc. ("FedEx Services") offer medical and dental coverage to eligible U.S. retirees and their eligible dependents. Vision coverage is provided for retirees, but not their dependents. Substantially all FedEx Express and FedEx Services U.S. employees become eligible for these benefits at age 55 and older, if they have permanent, continuous service 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. FedEx Ground offers similar benefits to its eligible retirees.

The following table provides a reconciliation of the changes in the pension and postretirement health care plans' benefit obligations and fair value of assets over the two-year period ended May 31, 2001 and a statement of the funded status as of May 31, 2001 and 2000:

In thousands	Pension Plans		Postretirement Health Care Plans	
	2001	2000	**2001**	2000
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	**$4,493,745**	$ 4,385,519	**$ 257,007**	$ 246,186
Service cost	**325,371**	337,780	**25,021**	26,450
Interest cost	**382,391**	336,143	**22,929**	19,579
Amendments and benefit enhancements	**39,254**	12,853	**371**	1,420
Actuarial loss (gain)	**210,692**	(510,132)	**(12,141)**	(28,607)
Plan participant contributions	**–**	–	**1,722**	1,112
Curtailment gain	**–**	–	**(1,232)**	–
Foreign currency exchange rate changes	**(10,666)**	(618)	**–**	–
Benefits paid	**(56,879)**	(67,800)	**(8,044)**	(9,133)
Benefit obligation at end of year	**$5,383,908**	$ 4,493,745	**$ 285,633**	$ 257,007
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	**$5,727,416**	$ 4,952,431	**$ –**	$ –
Actual return on plan assets	**(142,537)**	630,706	**–**	–
Foreign currency exchange rate changes	**(2,689)**	(5,192)	**–**	–
Company contributions	**96,723**	217,271	**6,322**	8,021
Plan participant contributions	**–**	–	**1,722**	1,112
Benefits paid	**(56,879)**	(67,800)	**(8,044)**	(9,133)
Fair value of plan assets at end of year	**$5,622,034**	$ 5,727,416	**$ –**	$ –
FUNDED STATUS OF THE PLANS	**$ 238,126**	$ 1,233,671	**$(285,633)**	$(257,007)
Unrecognized actuarial gain	**(159,958)**	(1,173,903)	**(60,099)**	(49,286)
Unrecognized prior service cost	**144,003**	121,697	**952**	254
Unrecognized transition amount	**(9,511)**	(10,529)	**–**	–
Prepaid (accrued) benefit cost	**$ 212,660**	$ 170,936	**$(344,780)**	$(306,039)
AMOUNTS RECOGNIZED IN THE BALANCE SHEET AT MAY 31:				
Prepaid benefit cost	**$ 365,340**	$ 302,935	**$ –**	$ –
Accrued benefit liability	**(152,680)**	(131,999)	**(344,780)**	(306,039)
Minimum pension liability	**(19,848)**	(12,662)	**–**	–
Intangible asset	**19,848**	12,662	**–**	–
Prepaid (accrued) benefit cost	**$ 212,660**	$ 170,936	**$(344,780)**	$(306,039)

Net periodic benefit cost for the years ended May 31 was as follows:

In thousands	Pension Plans			Postretirement Health Care Plans		
	2001	2000	1999	**2001**	2000	1999
Service cost	**$ 325,371**	$ 337,780	$ 331,005	**$25,021**	$26,450	$23,676
Interest cost	**382,391**	336,143	288,221	**22,929**	19,579	16,962
Expected return on plan assets	**(623,735)**	(546,169)	(483,709)	**–**	–	–
Net amortization and deferral	**(23,702)**	5,977	(1,948)	**(1,267)**	(93)	(211)
Curtailment gain	**–**	–	–	**(1,620)**	–	–
	$ 60,325	$ 133,731	$ 133,569	**$45,063**	$45,936	$40,427

WEIGHTED-AVERAGE ACTUARIAL ASSUMPTIONS

	Pension Plans			Postretirement Health Care Plans		
	2001	2000	1999	**2001**	2000	1999
Discount rate	**7.7%**	8.5%	7.5%	**8.2%**	8.3%	7.3%
Rate of increase in future compensation levels	**4.0**	5.0	4.6	**–**	–	–
Expected long-term rate of return on assets	**10.9**	10.9	10.9	**–**	–	–

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with benefit obligations in excess of plan assets were $258,700,000, $211,700,000 and $57,100,000, respectively, as of May 31, 2001, and $177,900,000, $126,300,000 and $2,700,000, respectively, as of May 31, 2000.

Future medical benefit costs are estimated to increase at an annual rate of 8.0% during 2002, decreasing to an annual growth rate of 6.0% in 2007 and thereafter. Future dental benefit costs were estimated to increase at an annual rate of 7.3% during 2002, decreasing to an annual growth rate of 6.0% in 2007 and thereafter. Our cost is capped at 150% of the 1993 employer cost and, therefore, is not subject to medical and dental trends after the capped cost is attained. A 1% change in these annual trend rates would not have a significant impact on the accumulated postretirement benefit obligation at May 31, 2001, or 2001 benefit expense. Claims are paid as incurred.

DEFINED CONTRIBUTION PLANS. Profit sharing and other defined contribution plans are in place covering a majority of U.S. employees age 21 and over, with at least one year of service as of the contribution date. Profit sharing plans provide for discretionary employer contributions, which are determined annually by the Board of Directors. Other plans provide matching funds based on employee contributions to 401(k) plans. Expense under these plans was $99,400,000 in 2001, $125,300,000 in 2000 and $137,500,000 in 1999. Included in these expense amounts are cash distributions made directly to employees of $44,800,000, $39,100,000 and $46,800,000 in 2001, 2000 and 1999, respectively.

NOTE 11: BUSINESS SEGMENT INFORMATION

We have determined our reportable operating segments to be FedEx Express, FedEx Ground and FedEx Freight, each of which operates in a single line of business. Segment financial performance is evaluated based on operating income.

Certain segment assets associated with the sales, marketing and information technology departments previously recorded at FedEx Express and FedEx Ground were transferred to FedEx Services in conjunction with its formation effective June 1, 2000. The related depreciation and amortization for those assets is now allocated to these operating segments as "Intercompany charges." Consequently, 2001 depreciation and amortization expense, assets and capital expenditure segment information presented is not comparable to prior periods. We believe the total amounts allocated to the business segments reasonably reflect the cost of providing such services. Our Other segment also includes the operations of Viking through November 30, 2000, certain unallocated corporate items and eliminations.

The following table provides a reconciliation of reportable segment revenues, depreciation and amortization, operating income and segment assets to consolidated financial statement totals:

In thousands	**2001**	2000	1999
Revenues			
FedEx Express	**$15,533,567**	$15,068,338	$13,979,277
FedEx Ground	**2,236,562**	2,032,570	1,878,107
FedEx Freight	**835,298**	–	–
Other	**1,023,613**	1,156,037	916,086
Consolidated Total	**$19,629,040**	$18,256,945	$16,773,470
Depreciation and amortization			
FedEx Express	**$ 796,517**	$ 997,735	$ 912,002
FedEx Ground	**110,934**	99,140	82,640
FedEx Freight	**43,693**	–	–
Other	**324,630**	57,988	40,476
Consolidated Total	**$ 1,275,774**	$ 1,154,863	$ 1,035,118
Operating income (loss)			
FedEx Express	**$ 847,401**[1]	$ 899,610	$ 871,476[3]
FedEx Ground	**175,150**	225,812	231,010
FedEx Freight	**55,032**	–	–
Other	**(6,693)**[2]	95,652	60,600
Consolidated Total	**$ 1,070,890**	$ 1,221,074	$ 1,163,086
Segment assets			
FedEx Express	**$ 9,570,621**	$ 9,740,539	
FedEx Ground	**1,157,988**	1,057,519	
FedEx Freight	**1,703,121**	–	
Other	**908,282**	729,053	
Consolidated Total	**$13,340,012**	$11,527,111	

(1) Includes $93,000,000 charge for impairment of certain assets related to the MD10 aircraft program and $9,000,000 charge related to the Ayres program.
(2) Includes $22,000,000 of FedEx Supply Chain Services reorganization costs.
(3) Includes $81,000,000 of strike contingency costs.

The following table provides a reconciliation of reportable segment capital expenditures to consolidated totals for the years ended May 31:

In thousands	**2001**	2000	1999
FedEx Express	**$1,233,051**	$1,330,904	$1,550,161
FedEx Ground	**212,415**	244,073	179,969
FedEx Freight	**62,276**	–	–
Other	**385,642**	52,441	39,816
Consolidated Total	**$1,893,384**	$1,627,418	$1,769,946

The following table presents revenue by service type and geographic information for the years ended or as of May 31:

In thousands	**2001**	2000	1999
REVENUE BY SERVICE TYPE			
FedEx Express:			
Package:			
U.S. overnight box[1]	**$ 5,829,972**	$ 5,683,663	$ 5,409,036
U.S. overnight envelope[2]	**1,870,881**	1,854,181	1,776,426
U.S. deferred	**2,492,522**	2,428,002	2,271,151
Total domestic package revenue	**10,193,375**	9,965,846	9,456,613
International priority	**3,939,612**	3,551,593	3,018,828
Total package revenue	**14,132,987**	13,517,439	12,475,441
Freight:			
U.S.	**650,779**	566,259	439,855
International	**424,216**	492,280	530,759
Other	**325,585**	492,360	533,222
Total FedEx Express	**15,533,567**	15,068,338	13,979,277
FedEx Ground	**2,236,562**	2,032,570	1,878,107
FedEx Freight	**835,298**	–	–
Other	**1,023,613**	1,156,037	916,086
	$19,629,040	$18,256,945	$16,773,470
GEOGRAPHIC INFORMATION[3]			
Revenues:			
U.S.	**$14,857,625**	$13,804,849	$12,910,107
International	**4,771,415**	4,452,096	3,863,363
	$19,629,040	$18,256,945	$16,773,470
Long-lived assets:			
U.S.	**$ 8,637,458**	$ 7,224,219	
International	**1,253,493**	1,018,148	
	$ 9,890,951	$ 8,242,367	

(1) The U.S. overnight box category includes packages exceeding eight ounces in weight.
(2) The U.S. overnight envelope category includes envelopes weighing eight ounces or less.
(3) International revenue includes shipments that either originate in or are destined to locations outside the United States. Long-lived assets include property and equipment, goodwill and other long-term assets. Flight equipment is allocated between geographic areas based on usage.

NOTE 12: SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest expense and income taxes for the years ended May 31 was as follows:

In thousands	**2001**	2000	1999
Interest (net of capitalized interest)	**$155,860**	$124,964	$114,326
Income taxes	**444,850**	354,614	437,340

Noncash investing and financing activities for the years ended May 31 were as follows:

In thousands	**2001**	2000	1999
Fair value of assets surrendered under exchange agreements (with two airlines)	**$ –**	$ 19,450	$ 48,248
Fair value of assets acquired under exchange agreements	**4,868**	28,018	34,580
Fair value of assets surrendered (under) over fair value of assets acquired	**$ (4,868)**	$ (8,568)	$ 13,668
Fair value of treasury stock and common stock options issued in business acquisition	**$506,390**	$ 6,817	$ –

NOTE 13: COMMITMENTS AND CONTINGENCIES

Annual purchase commitments under various contracts as of May 31, 2001, were as follows:

In thousands	Aircraft	Aircraft-Related(1)	Other(2)	Total
2002	$425,100	$611,200	$359,400	$1,395,700
2003	411,500	610,300	13,200	1,035,000
2004	231,500	525,000	8,000	764,500
2005	261,500	254,300	7,600	523,400
2006	228,700	189,700	7,600	426,000

(1) Primarily aircraft modifications, rotables, spare parts and spare engines.
(2) Primarily facilities, vehicles, computer and other equipment.

FedEx Express is committed to purchase 27 MD11s, nine DC10s, seven A300s, seven A310s and 75 Ayres ALM 200s to be delivered through 2007. See Note 15 for additional information regarding the Ayres program. Deposits and progress payments of $8,300,000 have been made toward these purchases and other planned aircraft transactions. Because Ayres Corporation filed for Chapter 11 bankruptcy protection in November 2000, we believe it is unlikely that any of the ALM 200 aircraft will be delivered to FedEx Express. The purchase commitment amounts related to these aircraft are $35,100,000, $96,100,000 and $75,800,000 in 2004, 2005 and 2006, respectively, and are included in the above table.

FedEx Express has entered into agreements with two airlines to acquire 53 DC10 aircraft (49 of which had been received as of May 31, 2001), spare parts, aircraft engines and other equipment, and maintenance services in exchange for a combination of aircraft engine noise reduction kits and cash. Delivery of these aircraft began in 1997 and will continue through 2002. Additionally, these airlines may exercise put options through December 31, 2003, requiring FedEx Express to purchase up to 10 additional DC10s along with additional aircraft engines and equipment.

In January 2001, FedEx Express entered into a memorandum of understanding to acquire 10 A380 aircraft from Airbus Industrie. The acquisition of these aircraft is subject to the execution of a definitive purchase agreement, which is currently under negotiation.

During most of 2001 and 2000, we entered into jet fuel hedging contracts on behalf of our subsidiary FedEx Express, which were designed to limit exposure to fluctuations in jet fuel prices. Under those jet fuel hedging contracts, payments were made (or received) based on the difference between a fixed price and the market price of jet fuel, as determined by an index of spot market prices representing various geographic regions. The difference was recorded as an increase or decrease in fuel expense. Under jet fuel hedging contracts, we received $92,206,000 in 2001 and $18,512,000 in 2000. All outstanding jet fuel hedging contracts were effectively closed at May 31, 2001 by entering into offsetting jet fuel hedging contracts, resulting in a deferred charge of approximately $15,000,000, which will be recognized in 2002 as fuel is purchased. At May 31, 2000, the fair value of jet fuel hedging contracts, which had no carrying value, was an asset of approximately $51,060,000.

NOTE 14: LEGAL PROCEEDINGS

We are subject to legal proceedings and claims that arise in the ordinary course of our business. In our opinion, the aggregate liability, if any, with respect to these actions will not materially adversely affect our financial position or results of operations.

NOTE 15: ASSET IMPAIRMENTS

Asset impairment adjustments of $102,000,000 at FedEx Express were recorded in the fourth quarter of 2001. Impaired assets were adjusted to fair value based on estimated fair market values. All charges relating to asset impairments were reflected as other operating expenses in the Consolidated Statements of Income. The asset impairment charge was comprised of two parts:

Certain assets related to the MD10 aircraft program	$ 93,000,000
Ayres Loadmaster program deposits and other	9,000,000
	$102,000,000

These aircraft procurement programs were in place to ensure adequate aircraft capacity for future volume growth. Due to lowered capacity requirements, it became evident during the fourth quarter of 2001 that FedEx Express had more aircraft capacity commitments than required. Certain aircraft awaiting modification under the MD10 program and the purchase commitments for the Ayres aircraft were evaluated and determined to be impaired.

The MD10 program curtailment charge is comprised primarily of the write down of impaired DC10 airframes, engines and parts to a nominal estimated salvage value. Costs relating to the disposal of the assets were also recorded. These assets are expected to be disposed of primarily during 2002. The Ayres Loadmaster program charge is comprised primarily of the write-off of deposits for aircraft purchases. Capitalized interest and other costs estimated to be unrecoverable in connection with the bankruptcy of Ayres Corporation were also expensed.

NOTE 16: OTHER EVENTS

On April 24, 2001, FedEx Supply Chain Services committed to a plan to reorganize certain of its unprofitable, nonstrategic logistics business and reduce overhead. Total 2001 costs of $22,000,000 were incurred in connection with this plan, primarily comprising costs for estimated contractual settlements ($8,000,000), asset impairment charges ($5,000,000) and severance and employee separation ($5,000,000). Asset impairment charges were recognized to reduce the carrying value of long-lived assets (primarily software) to estimated fair values, and an accrual of $17,000,000 was recorded for the remaining reorganization costs. The accrual had a balance of approximately $12,000,000 remaining at May 31, 2001, reflecting primarily the payment of severance costs and contractual settlements. Approximately 120 principally administrative positions were eliminated under the plan. The reorganization will be completed in 2002.

On January 10, 2001, FedEx Express and the U.S. Postal Service entered into two service contracts: one for domestic air transportation of postal express shipments, and the other for placement of FedEx Drop Boxes at U.S. Post Offices.

In 2000, FedEx Express recorded nonoperating gains of approximately $11,000,000 from the sale of securities and approximately $12,000,000 from the insurance settlement for a leased MD11 aircraft destroyed in October 1999.

NOTE 17: SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

In thousands, except per share amounts	First Quarter	Second Quarter	Third Quarter	Fourth Quarter(1)
2001				
Revenues	**$4,778,736**	**$4,894,921**	**$4,838,780**	**$5,116,603**
Operating income	**310,967**	**345,412**	**191,305**	**223,206**
Income before income taxes	**274,245**	**315,128**	**158,489**	**179,711**
Net income	**168,660**	**193,804**	**108,689**	**113,218**
Earnings per common share	**.59**	**.68**	**.38**	**.38**
Earnings per common share – assuming dilution	**.58**	**.67**	**.37**	**.38**
2000				
Revenues	$4,319,977	$4,570,104	$4,518,057	$4,848,807
Operating income	283,807	304,535	206,472	426,260
Income before income taxes	262,880	282,928	186,998	404,934
Net income	159,034	171,183	113,128	244,991
Earnings per common share	.53	.58	.39	.86
Earnings per common share – assuming dilution	.52	.57	.39	.85

(1) Fourth quarter of 2001 includes a $102,000,000 charge for impairment of certain assets related to aircraft programs at FedEx Express and a $22,000,000 reorganization charge at FedEx Supply Chain Services.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of FedEx Corporation:

We have audited the accompanying consolidated balance sheets of FedEx Corporation (a Delaware corporation) and subsidiaries as of May 31, 2001 and 2000, and the related consolidated statements of income, changes in stockholders' investment and comprehensive income and cash flows for each of the three years in the period ended May 31, 2001. These financial statements are the responsibility of FedEx's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 FedEx Corporation as of May 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended May 31, 2001, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Memphis, Tennessee
June 27, 2001

SELECTED CONSOLIDATED FINANCIAL DATA

Years ended May 31, In thousands, except per share amounts and Other Operating Data	**2001**	2000	1999	1998	1997
OPERATING RESULTS					
Revenues	**$19,629,040**	$18,256,945	$16,773,470	$15,872,810	$14,237,892
Operating income[1]	**1,070,890**	1,221,074	1,163,086	1,010,660	507,002
Income from continuing operations before income taxes	**927,573**	1,137,740	1,061,064	899,518	425,865
Income from continuing operations	**584,371**	688,336	631,333	498,155	196,104
Income from discontinued operations	–	–	–	4,875	–
Net income[1]	**$ 584,371**	$ 688,336	$ 631,333	$ 503,030	$ 196,104
PER SHARE DATA					
Earnings per share:					
Basic:					
Continuing operations	**$ 2.02**	$ 2.36	$ 2.13	$ 1.70	$ .67
Discontinued operations	–	–	–	.02	–
	$ 2.02	$ 2.36	$ 2.13	$ 1.72	$ .67
Assuming dilution:					
Continuing operations	**$ 1.99**	$ 2.32	$ 2.10	$ 1.67	$ .67
Discontinued operations	–	–	–	.02	–
	$ 1.99	$ 2.32	$ 2.10	$ 1.69	$ .67
Average shares of common stock outstanding	**288,745**	291,727	295,983	293,401	291,426
Average common and common equivalent shares outstanding	**293,179**	296,326	300,643	298,408	294,456
Cash dividends[2]	–	–	–	–	–
FINANCIAL POSITION					
Property and equipment, net	**$ 8,100,055**	$ 7,083,527	$ 6,559,217	$ 5,935,050	$ 5,470,399
Total assets	**13,340,012**	11,527,111	10,648,211	9,686,060	9,044,316
Long-term debt, less current portion	**1,900,119**	1,776,253	1,359,668	1,385,180	1,597,954
Common stockholders' investment	**5,900,420**	4,785,243	4,663,692	3,961,230	3,501,161
OTHER OPERATING DATA					
FedEx Express:					
Operating weekdays	**255**	257	256	254	254
Aircraft fleet	**640**	663	634	613	584
FedEx Ground:					
Operating weekdays	**254**	254	253	256	254
FedEx Freight:[3]					
Operating weekdays	**107**	–	–	–	–
Average full-time equivalent employees	**176,960**	163,324	156,386	150,823	145,995

(1) Asset impairment charges of $102,000,000 ($64,770,000, net of tax) at FedEx Express and reorganization costs of $22,000,000 ($13,530,000, net of tax) at FedEx Supply Chain Services were recorded in 2001. See Notes 15 and 16 of Notes to Consolidated Financial Statements included elsewhere herein. In connection with its 1997 restructuring, Viking recorded a pretax asset impairment charge of $225,000,000 ($175,000,000, net of tax).

(2) Caliber declared dividends of $3,899,000 and $28,184,000 for 1998 and 1997, respectively. Caliber declared additional dividends of $10,833,000 from January 1, 1997 to May 25, 1997 that are not included in the preceding amounts. FedEx has never paid cash dividends on its common stock.

(3) FedEx Freight results for 2001 include the operations of Viking from December 1, 2000 and American Freightways from January 1, 2001. FedEx Freight statistics for 2001 include the operations of both Viking and American Freightways from January 1, 2001.

BOARD OF DIRECTORS

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Senior Managing Director
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Investment management firm

J.R. Hyde, III[(2)]
Chairman
Pittco Management, LLC
Investment management firm

Dr. Shirley A. Jackson[(3)]
President
Rensselaer Polytechnic Institute
Technological university

George J. Mitchell[(1)]
Special Counsel
Verner, Liipfert, Bernhard, McPherson and Hand
Law firm

Frederick W. Smith
Chairman, President and
Chief Executive Officer
FedEx Corporation

Dr. Joshua I. Smith[(1)]
Chairman and Managing Partner
Coaching Group, LLC
Consulting firm

Paul S. Walsh[(2)]
Group Chief Executive Officer
Diageo plc
Consumer food and beverage company

Peter S. Willmott[(1)]
Chairman and Chief Executive Officer
Willmott Services, Inc.
Retail and consulting firm

(1) Audit Committee
(2) Compensation Committee
(3) Information Technology Oversight Committee
(*) Committee Chair

EXECUTIVE OFFICERS

FEDEX CORPORATION

Frederick W. Smith
Chairman, President and
Chief Executive Officer

Alan B. Graf, Jr.
Executive Vice President and
Chief Financial Officer

Robert B. Carter
Executive Vice President and
Chief Information Officer

Kenneth R. Masterson
Executive Vice President,
General Counsel and Secretary

T. Michael Glenn
Executive Vice President,
Market Development and Corporate Communications

James S. Hudson
Corporate Vice President and
Chief Accounting Officer

FEDEX EXPRESS

David J. Bronczek
President and Chief Executive Officer

David F. Rebholz
Executive Vice President,
Operations and Systems Support

Michael L. Ducker
Executive Vice President,
International

FEDEX FREIGHT

Douglas G. Duncan
President and Chief Executive Officer

Thomas R. Garrison
President and Chief Executive Officer,
American Freightways, Inc.

Tilton G. Gore
President and Chief Executive Officer,
Viking Freight, Inc.

FEDEX GROUND

Daniel J. Sullivan
President and Chief Executive Officer

Ivan T. Hofmann
Executive Vice President and
Chief Operating Officer

Rodger G. Marticke
Executive Vice President,
Administration

FEDEX CUSTOM CRITICAL

John G. Pickard
President and Chief Executive Officer

FEDEX TRADE NETWORKS

G. Edmond Clark
President and Chief Executive Officer

CORPORATE INFORMATION

STOCK LISTING: FedEx Corporation's common stock is listed on the New York Stock Exchange under the ticker symbol FDX.

STOCKHOLDERS: At July 10, 2001, there were 17,778 stockholders of record.

MARKET INFORMATION: Following are high and low sale prices, by quarter, for FedEx Corporation common stock in 2001 and 2000. We have not declared any cash dividends.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 2001				
High	**$43.44**	**$49.85**	**$48.40**	**$44.24**
Low	**33.38**	**38.04**	**36.35**	**35.50**
FY 2000				
High	$57.13	$47.31	$47.94	$42.44
Low	38.50	34.88	33.19	30.56

CORPORATE HEADQUARTERS: 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7500.

ANNUAL MEETING: The annual meeting of stockholders will be held at the Peabody Hotel, 149 Union Avenue, Memphis, Tennessee on Monday, September 24, 2001, at 10:00 a.m. Central time.

GENERAL AND MEDIA INQUIRIES: Contact Shirlee M. Clark, Director, Public Relations, FedEx Corporation, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 434-8400.

STOCKHOLDER ACCOUNT INQUIRIES: Contact EquiServe Trust Company, N.A., P.O. Box 2500, Jersey City, New Jersey 07303-2500, (800) 446-2617/John H. Ruocco (312) 499-7033.

DIRECT STOCK PURCHASE INQUIRIES: For information on The DirectService™ Investment Program for FedEx Corporation, call (800) 524-3120. This program provides an alternative to traditional retail brokerage methods of purchasing, holding, and selling FedEx common stock.

FINANCIAL INFORMATION, INCLUDING FORM 10-K: Copies of FedEx Corporation's Annual Report on Form 10-K (excluding exhibits), other documents filed with the Securities and Exchange Commission (SEC) and other financial and statistical information are available on our Internet Web site at fedex.com. You will be mailed a copy of the Form 10-K upon request to Investor Relations, FedEx Corporation, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7200. Documents filed electronically with the SEC can also be found on the Internet at the SEC's Web site at www.sec.gov.

INVESTMENT COMMUNITY INQUIRIES: Contact J. H. Clippard, Jr., Vice President, Investor Relations, FedEx Corporation, 942 South Shady Grove Road, Memphis, Tennessee 38120, (901) 818-7200, or visit the Company's Web site at fedex.com.

AUDITORS: Arthur Andersen LLP, Memphis, Tennessee.

EQUAL EMPLOYMENT OPPORTUNITY: FedEx 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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