

1996 Annual Report

The Facts

In a fast-growing industry, FedEx has revenues

®

of more than **\$10 billion**

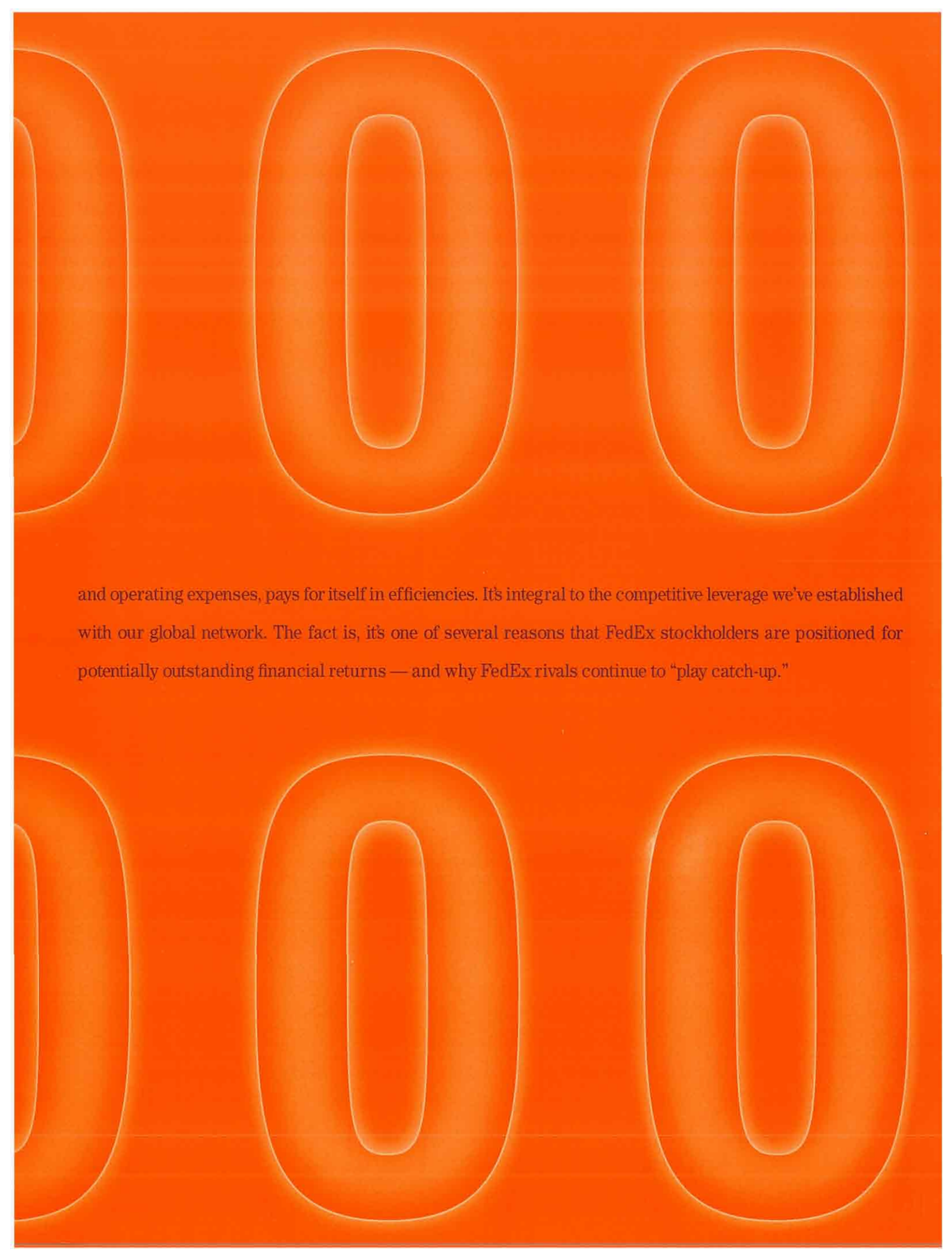
Businesses are rushing to seize market opportunities and meet customer demands on a global scale. Moving products, materials and information rapidly is a top priority. More and more, shippers are using express distribution services to get the job done. Boeing's 1996 World Air Cargo Forecast estimates that the world's air cargo market will grow at a compounded annual rate of nearly 7 percent between 1995 and 2015, with the international express segment averaging 18 percent annual growth during that period. FedEx — the world's largest all-cargo, express airline — is uniquely positioned to profit from that growth.



100

FedEx invests \$1 billion annually in customer-serving, productivity-enhancing technologies. FedEx leads the express cargo industry in applying strategic information technologies to connect with customers and reduce operating costs. The investment in technology, including capital spending

000

A large, stylized number '000' is rendered in a light orange color, serving as a background for the text. The zeros are thick and rounded, with a slight gradient effect.

and operating expenses, pays for itself in efficiencies. It's integral to the competitive leverage we've established with our global network. The fact is, it's one of several reasons that FedEx stockholders are positioned for potentially outstanding financial returns — and why FedEx rivals continue to “play catch-up.”

FedEx connects more than 99 percent of the global economy.

The worldwide network of FedEx all-cargo aircraft, vehicles and intercontinental sorting hubs now links 211 countries and territories, representing 99 percent of the world's combined gross domestic product (GDP). In fact, FedEx provides *next-business-day* and *two-business-day* express distribution between cities and nations that account for fully 90 percent of the world's GDP. FedEx express services are fast, trackable and time-certain, with a money-back guarantee, on shipments ranging from basic documents and brown boxes to heavy pallets of freight.

1986

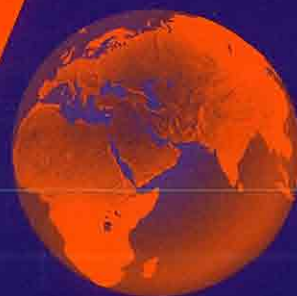
1976

17% 79%



1996

99%



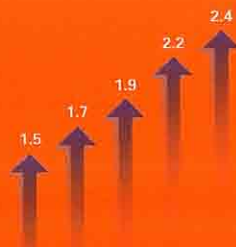
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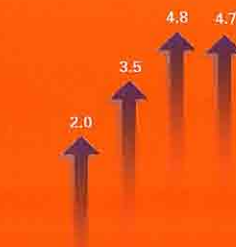
Federal Express Corporation and Subsidiaries			
Years ended May 31			
In thousands, except earnings per share and Other Operating Data	1996	1995	Percent Change
→ Operating Results			
Revenues	\$10,273,619	\$9,392,073	+ 9
Operating income	623,824	591,144	+ 6
Income before income taxes	539,959	522,084	+ 3
Net income	307,777	297,588	+ 3
Earnings per share	\$ 5.39	\$ 5.27	+ 2
Average shares outstanding	57,138	56,494	+ 1
→ Financial Position			
Property and equipment, net	\$ 4,116,601	\$3,715,244	+11
Total assets	6,698,971	6,433,372	+ 4
Long-term debt	1,325,277	1,324,711	—
Common stockholders' investment	2,576,139	2,245,569	+15
→ Other Operating Data			
Express package:			
Average daily package volume	2,437,662	2,247,594	+ 8
Average pounds per package	6.4	6.3	+ 2
Average revenue per pound	\$ 2.31	\$ 2.31	—
Average revenue per package	\$ 14.87	\$ 14.62	+ 2
Airfreight:			
Average daily pounds	2,144,225	2,153,041	—
Average revenue per pound	\$ 1.01	\$ 1.06	- 5
Operating weekdays	256	255	
Aircraft fleet	557	496	
Vehicle fleet	36,900	35,900	
Average number of employees (based on a standard full-time workweek)	99,999	94,201	



Revenues
(in billions of dollars)



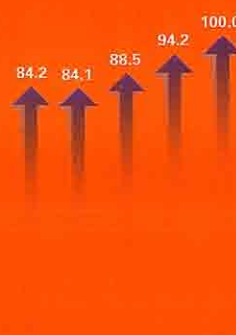
Average daily express packages (in millions)



Return on assets⁽¹⁾
(percent)



Earnings per share⁽¹⁾
(in dollars)



Average number of employees (in thousands)
Based on a standard full-time workweek



Return on equity⁽¹⁾
(percent)

1992–1996 highlights

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

To our stockholders



Fiscal 1996 was a successful year, though challenging in some respects, as FedEx remained focused on its mission of anticipating, then answering, the world's surging demand for rapid, reliable, time-definite express distribution and logistics services. ➡ Worldwide revenues topped \$10 billion, a robust increase of 9 percent versus the prior year. Net income was up 3 percent to \$308 million. This year's operating profit was constrained by costs related to the September 1995 start-up of the new FedEx AsiaOne® network. The earnings impact of that investment was somewhat offset by approximately \$50 million in tax savings from the expiration of the federal excise tax on transportation of property by air. ➡ Overall, earnings — though strong at \$5.39 per share — fell below our expectations primarily because of two factors: a softer-than-expected international airfreight market, and unprecedented harsh winter weather in the United States and its related costs.

Aligned for the Future, Weathering the Storms To put the year's slow international airfreight market in context, remember that FedEx has developed its global network to deliver time-definite *express* shipments for customers. In fact, FedEx International Priority® express shipments grew by 18 percent this year alone. ➡ However, to optimize our aircraft load factors and profit potential, we fill unused capacity in our aircraft by carrying lower-yielding and less service-sensitive, non-express, international airfreight. This lets

us generate additional revenue as the volume of time-definite, door-to-door express shipments grows into our next increment of capacity. The weaker airfreight market resulted in \$26 million less international airfreight revenue than the previous year, during a time when we were significantly increasing our international express capacity by more than 20 percent. ➡ During fiscal 1996, we dramatically improved our global express distribution capability with the inauguration of the FedEx AsiaOne network. This system includes both intra-Asian and Asia-to-North America daily all-cargo flights centered on our new intercontinental sorting hub at Subic Bay, Philippines. ➡ Given the next-business-day delivery capability FedEx AsiaOne provides — both among Asia's commercial centers and between Asia and North America — FedEx has assumed a clear, competitive advantage within the world's fastest-growing trade region. ➡ Aggressively challenging international regulatory barriers has helped FedEx erect an unmatched network of global route authorities. Going forward, we continue to advocate an "open skies" approach to air cargo, on our customers' behalf, in order to deliver fair and equal access to world markets. ➡ While softness in this year's international airfreight market made the introduction of our intra-Asian service more challenging, FedEx AsiaOne is a long-term investment that, as international express volumes expand, should only enhance our earnings potential for years to come. ➡ Meanwhile, weather dealt the U.S. economy in general, and FedEx

in particular, historic blows during fiscal 1996. Blizzards and ice storms snarled traffic, closed airports, disrupted entire cities and slowed commerce throughout much of the Northeast during our third quarter. ➡ With millions in lost revenue, plus added costs to maintain service levels, these once-in-a-half-century weather events exacted a \$30 million toll on our operating profits for the year. Despite that, operating profits from our U.S. operations increased \$77 million for the year, a 16 percent improvement over the prior year.

Managing Our Profitability Despite bad weather and a weak non-express, international airfreight market, fiscal 1996 included many noteworthy achievements. For example, the year's final two quarters were the first in more than five years in which FedEx was able to reverse declines in our U.S. domestic yield, or average revenue per package. This improvement can be attributed to several factors, including:

- Continued market leadership and excellent volume growth in the high-yielding U.S. express package business;
- A systematic, customer-by-customer assessment of our pricing, bringing each shipper's rates more in line with the cost of servicing that business;
- List price increases on certain services and surcharges; and
- Aggressive expansion of our high-value service offerings to include new, earlier-in-the-day delivery options.

Company-wide cost-containment and productivity initiatives also continued during fiscal 1996. These key trends — improving yields, controlling costs and managing productivity — are the ones we'll look to sustain as we continue to aggressively manage all aspects of our profit equation.

Moving Forward with Leadership, Vision Guiding our organization is a "new" executive management team. In reality, the creation of an Executive Management Committee during fiscal 1996 simply formalizes the long-term strategic decision-making roles of three seasoned, talented individuals: Theodore L. Weise, executive vice

president of worldwide operations; Alan B. Graf, Jr., executive vice president and chief financial officer; and Kenneth R. Masterson, executive vice president, general counsel and secretary. ➡ FedEx and its stockholders have good reason to look ahead with confidence. While fluctuations in weather and market conditions can and will throw an occasional wrinkle in our business plans, the long-term, fundamental facts are clear:

- In a global marketplace, time, distance and information are increasingly at the core of virtually every business transaction. As a result, shippers in ever-growing numbers are relying on rapid, time-definite, information-enhanced express distribution services to move products, parts and materials worldwide.
- FedEx is the world's express distribution leader. We offer shippers more daily cargo capacity than any other air carrier, and an integrated global information and distribution network that continues to evolve strategically. This network is unique and cannot easily be replicated, especially considering international regulatory constraints.
- FedEx understands there is no such thing as a "glide path" to sustained profitability and market leadership in our industry. Instead, we're continually applying new information technologies, strategic management initiatives and aggressive marketing strategies to better connect with customers, reduce operating costs and improve profitability.

For fiscal year 1997 and beyond, these are the facts that will continue to shape our vision and guide our actions, as we deliver exceptional global service for our customers and a world of opportunity for our stockholders.

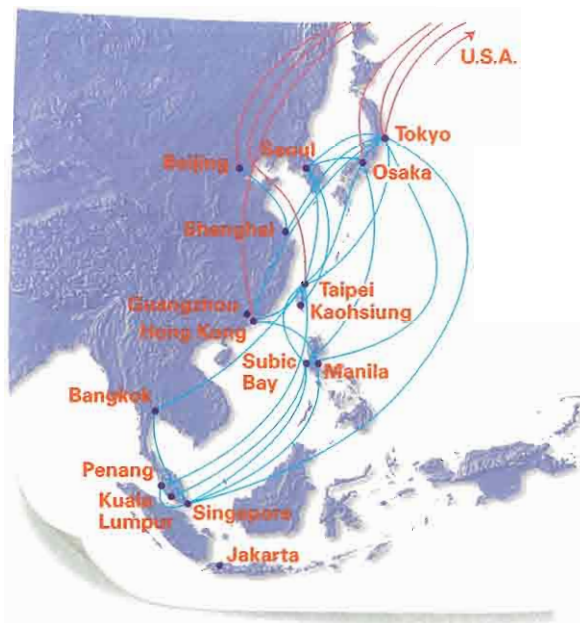


Frederick W. Smith
Chairman, President and Chief Executive Officer





Networked for growth



For as long as there's been a FedEx, there's been a vision: To connect the global marketplace via an integrated, information-rich distribution network that lets shippers transport time-sensitive, high-value cargo to virtually any destination in the world within 24 to 48 hours. ➔ Since 1973, the year FedEx opened for business, that vision has guided our actions and investments while setting the standards for what has become the fast-growing express cargo industry. By summer of 1996, the FedEx global network was serving the 211 countries and territories that represent 99% of the world's combined gross domestic product (GDP). Deliveries are typically completed in 48 hours or less to locations representing 90% of the world's GDP ➔ During fiscal 1996, FedEx made additional strides toward realizing its vision on behalf of customers. We allocated larger aircraft to the three daily flights across the Atlantic, giving cargo shippers greater access to vital European markets. We added a fifth daily trans-Pacific flight connecting Asia with the United States. FedEx also became the only U.S.-based, all-cargo carrier authorized to fly its own aircraft into and out of China, the world's fastest-growing national economy. ➔ Of all our strategic network extensions during 1996, none was more significant than the formal launch of FedEx AsiaOne. By duplicating our revolutionary hub-and-spoke distribution and sorting system in the heart of Asia, FedEx now connects Asia's major cities with late-in-the-day pickups and door-to-door, next-business-day deliveries that previously were rare in this region. ➔ Successful shippers in North America, Europe and elsewhere have grown accustomed to the shorter cycle times, lower inventory costs and enhanced customer service that time-definite, next-business-day FedEx delivery allows. Now shippers in Asia — the world's fastest-growing intra-regional air cargo market — can enjoy those same strategic advantages on a far broader scale than ever before.

FedEx connects the following 211 countries and territories: Albania, Algeria, American Samoa, Andorra, Angola, Anguilla, Antigua, Argentina, Armenia, Aruba, Australia, Austria, Azerbaijan, Bahamas, Bahrain, Bangladesh, Barbados, Belarus, Belize, Belgium, Benin, Bermuda, Bhutan, Bolivia, Botswana, Brazil, Brunei, Bulgaria, Burkina Faso, Burundi, Cambodia, Canada, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Estonia, Ethiopia, Finland, France, French Polynesia, Gabon, Gambia, Germany, Ghana, Greece, Grenada, Guatemala, Guinea, Guyana, Haiti, Honduras, Hong Kong, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Jordan, Kazakhstan, Kenya, Korea, Kuwait, Kyrgyzstan, Laos, Latvia, Lebanon, Lithuania, Luxembourg, Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mali, Mauritania, Mauritius, Mexico, Micronesia, Moldova, Monaco, Mongolia, Montenegro, Morocco, Mozambique, Myanmar, Namibia, Nauru, Netherlands (Aruba), Netherlands (Curaçao), Netherlands (Sint Eustatius), Netherlands (Sint Maarten), Netherlands (Sint Vincent), New Caledonia, New Zealand, Nicaragua, Niger, Nigeria, Norway, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland, Portugal, Puerto Rico, Qatar, Romania, Russia, Rwanda, St. Helena, St. Kitts & Nevis, St. Lucia, St. Maarten/St. Martin, St. Vincent, St. Vincent & the Grenadines, Sudan, Suriname, Swaziland, Sweden, Switzerland, Syria, Taiwan, Tanzania, Thailand, Timor, Trinidad & Tobago, Tunisia, Turkey, Turkmenistan (Republic of), Turks & Caicos Islands, Uganda, Ukraine, United Arab Emirates, United States, Uruguay, Uzbekistan, Vanuatu, Vatican City, Venezuela, Vietnam, Wales, Wallis & Futuna, Yemen, Zambia, Zimbabwe.



Number of FedEx Aircraft as of May 31, 1996:

4 B747-200	18 MD11	22 DC10-30	13 DC10-10	16 A300-600
25 A310-200	95 B727-200	68 B727-100	32 F27	264 C208



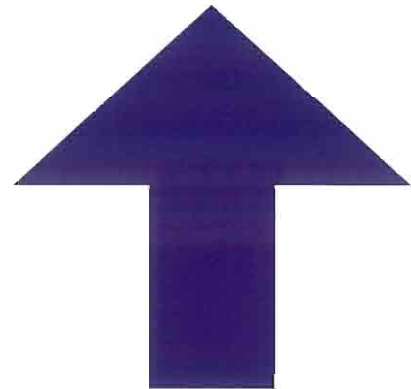
Costs



One thing FedEx has learned in 23 years as the express distribution leader: Customers don't necessarily care how a shipment gets where it's going, they just care that it does, quickly, on time and with full information availability. ➡ Interestingly, transportation industry research reveals that even traditional parcel post and less-than-truckload freight shippers — having grown increasingly dissatisfied with time-*indefinite* delivery services — are converting greater percentages of their shipping volume to *express* mode. ➡ To position itself as the carrier of choice for these shippers, whether their packages are headed across the state or around the world, FedEx has undertaken a strategic expansion of its U.S. domestic integrated air-and-surface distribution network. ➡ This initiative will make it possible to cost-effectively and profitably provide time-specific, one-, two- and three-business-day delivery on both short-haul and long-haul U.S. domestic shipments. In each case, FedEx will use the combination of air and surface transportation that offers optimum unit cost efficiencies while, above all, meeting our delivery commitment. In the process, we'll deliver greater value for customers by meeting a broader spectrum of their shipping needs for documents, packages and skidded freight.

At FedEx we're not just growing, we're growing smarter. With a global distribution infrastructure that spans more than 122,000 employees, 557 aircraft and almost 37,000 vehicles, FedEx simply can't afford to grow without exercising effective controls. ➡ During fiscal 1996, we pursued numerous initiatives to reduce operating costs and boost the quality of our internal processes, thereby improving the overall efficiency and effectiveness of our network. Consider:

- FedEx completed arrangements to sublease the last of the Boeing 747 aircraft out of our fleet. This represents an important milestone in our planned evolution to a more flexible fleet, featuring aircraft that are more fuel-efficient to operate and more cost-effective to maintain.

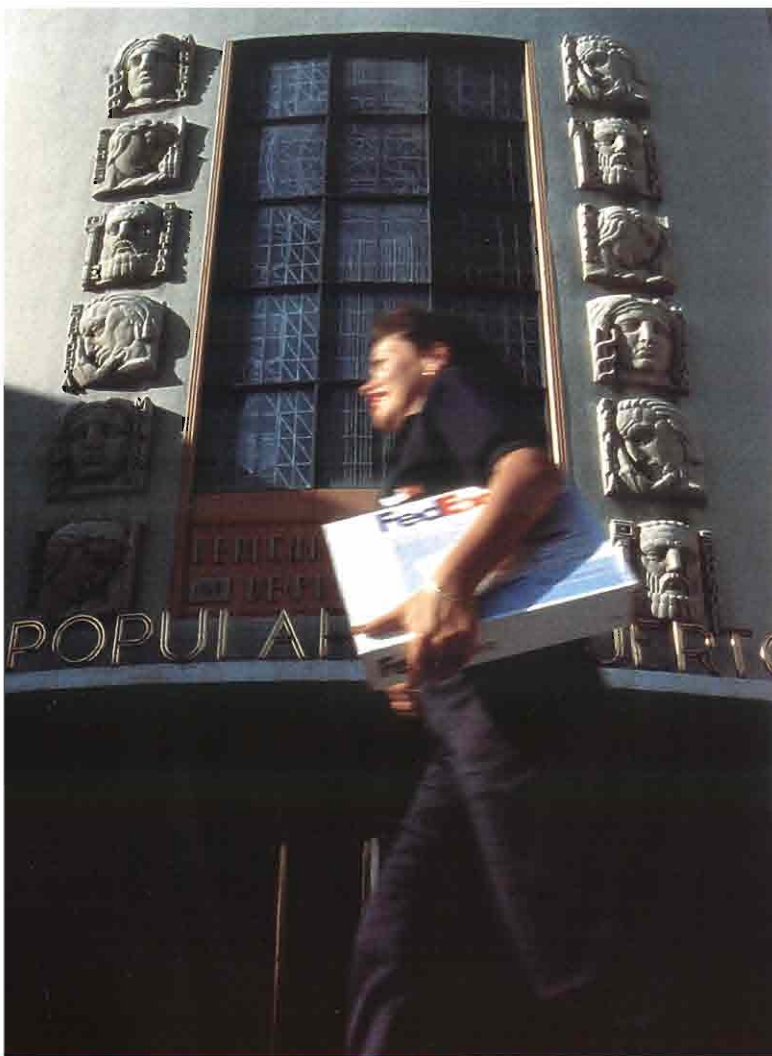


Revenues

Positioned for opportunity



- While expanding our integrated air-and-surface distribution capability, FedEx developed a Core Carrier Program that creates price and service advantages by consolidating from 80 to only nine the number of long-haul trucking contractors we use to supplement our surface fleet.
 - Using a systemwide Station Review Process to identify and communicate operational "best practices" at our top-performing stations, FedEx realized more than \$150 million in annualized cost savings.
 - Employing a unique Courier Route Planner information system to plot and identify routing inefficiencies, FedEx stations are generating the mapping data they need to streamline pickup and delivery routes.
- We're not just growing, we're planning ahead and enhancing our services to meet customer needs. In fiscal 1996, we acquired \$2.0 billion in assets, including \$600 million financed by operating leases. More than one third of this \$2.0 billion in capital spending was solely for expanding our capabilities and laying the groundwork for future growth. The remainder was split between replacement capital and capital to support this year's average daily express volume growth of 8%.



Whether it's on-line or at the next intersection, FedEx is there for its customers. That's because more and more, businesses and consumers value convenient, around-the-clock access to products and services. ➡ In fiscal 1996, FedEx established the latest in a series of electronic breakthroughs in shipping by introducing shipment status tracking on our World Wide Web page (<http://www.fedex.com>). Today, given a few seconds and even fewer keystrokes, shippers and consignees can retrieve precise details on the status of their FedEx® shipments any time of day, anywhere in the world. ➡ By year's end, our Web site was averaging nearly 1.4 million hits per month, including 360,000 tracking requests. These self-generated queries allow customers greater convenience and control over their shipping, while helping FedEx manage its customer service and other resources more effectively. ➡ For FedEx, leveraging information technology to add value, reduce operating costs and build brand loyalty has been, and will remain, a competitive strength. In addition to the customer relationships we're building via our Web site, you'll find almost 350,000 FedEx customers using free FedEx shipping automation tools, including FedEx Ship™ and FedEx PowerShip® personal computer-based shipping systems. ➡ These virtual connections contribute to more than 45 million electronic transmissions at FedEx each business day. Next year, we expect those numbers to grow substantially with our recent introduction of yet another industry first: FedEx interNetShip™ — shipment processing capability on the World Wide Web.

Conveniently Accessible to Customers Besides extending convenience electronically to our customers, FedEx continues to expand its network of service center and retail affiliate locations. During fiscal 1996, we placed self-service FedEx ShipSite® Drop Boxes in more than 470 OfficeMax Superstores and over 390 Staples The Office Superstore locations nationwide. The worldwide FedEx Convenience Network now spans more than 34,700 Drop Box locations, approximately 7,000 retail outlets and more than 1,400 FedEx World Service Centers.®

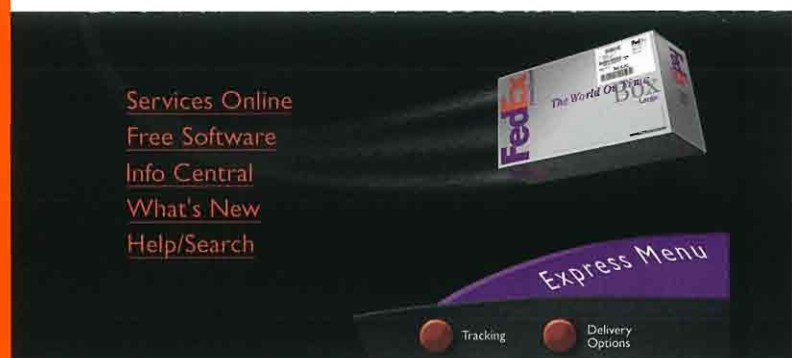


Virtually connected to shippers

FedEx recently expanded time-of-day delivery flexibility with three new services:

- FedEx First Overnight,SM offering delivery by 8 a.m. the next business day from almost anywhere in the U.S. to more than 90 major U.S. markets;
- FedEx International First,SM featuring customs-cleared, door-to-door delivery from 17 countries and Puerto Rico to more than 5,000 U.S. ZIP Codes by 8 a.m.; and
- FedEx SameDay,SM available 24 hours a day, 365 days a year to and from virtually any city in the U.S.

These high-value distribution options reinforce the FedEx brand as our industry's leading service provider and pioneer, a reputation we've maintained for 23 years running.



<http://www.fedex.com>

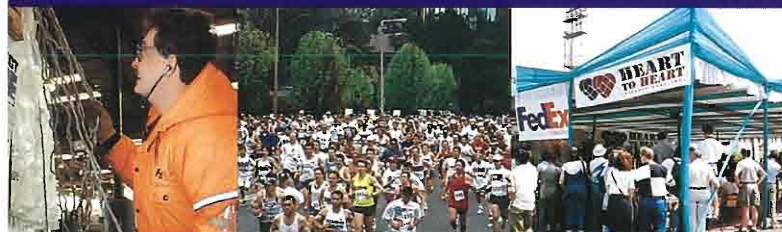


A commitment to corporate citizenship

Everything FedEx attempts and accomplishes is premised on our People-Service-Profit (P-S-P) philosophy. P-S-P maintains that by taking excellent care of our employees, they in turn will deliver impeccable service to our customers, who will reward us with the profitability necessary to secure our future. ➔ Given that P-S-P is fundamental to FedEx as a business enterprise, it's only natural that people are at the heart of our contributions as a corporate citizen. ➔ FedEx employees contribute more than 100,000 volunteer hours each year, through employee-managed Corporate Neighbor Teams, plus dozens of other initiatives throughout the communities we serve. As a result, The Points of Light Foundation recognized FedEx with one of its 1996 Awards for Excellence in Corporate Community Service. ➔ In addition to the powerful contributions of our people, FedEx donates its logistics and distribution capabilities in support of a host of causes throughout the world. Fiscal 1996 initiatives included:

- FedEx joined hands with Heart to Heart International to airlift \$12 million of pharmaceuticals and medical supplies — more than 60 tons — to Calcutta, India.
- Through a unique alliance with the American Red Cross, FedEx donates approximately \$1 million annually in free distribution, logistics services and other support, helping warehouse and distribute Red Cross supplies and emergency equipment to disaster relief sites.
- FedEx ranked in the top 15 nationally among organizations that participated in the March of Dimes TeamWalk campaign.
- FedEx employees logged on to a new automated system this year, pledging more than \$4 million to the United Way.

FedEx believes investing time and resources in our communities is good business, because our communities and our people share equally in the rewards.



A Message from the Chief Financial Officer

Most investors seek answers to at least three questions before electing to invest in a particular enterprise: Does the company operate in a growth industry? Does it enjoy leadership leverage within its industry? Do its people demonstrate both the vision and vigor not only to defend, but to extend, their company's leadership advantage? ➡ As you've seen in this and recent years' annual reports, FedEx operates and clearly excels within a rapidly growing, forward-moving industry. FedEx revenues have grown by nearly \$1 billion annually, and our net income has nearly tripled since fiscal 1993. Looking ahead, the global express transportation market is expected to exhibit consistently exceptional growth over the next two decades. ➡ With 16 million pounds of daily cargo capacity and an unmatched portfolio of exclusive air cargo route authorities, the FedEx integrated global distribution network affords us tremendous economies of scale and competitive leverage as we grow. ➡ On the third question, the company's ability to extend its competitive advantage, FedEx entered fiscal 1996 from a position of strength, as the express distribution industry leader. Rather than rest on that advantage, we elected to strategically invest \$2.0 billion in overall network enhancements and information technologies. These investments will help us continue to expand our network to handle increasing customer demand as well as extend it to reach new markets. ➡ In fiscal 1997, we will remain committed to making similar investments to improve our financial performance, continue our strong revenue growth and solidify our leadership position.



Alan B. Graf, Jr.

Executive Vice President and Chief Financial Officer

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

→ Results of Operations

In 1996, the Company achieved record net income and earnings per share for the third consecutive year. Consolidated net income for 1996 was \$308 million (\$5.39 per share) compared with \$298 million (\$5.27 per share) and \$204 million (\$3.65 per share) for 1995 and 1994, respectively.

Over the past three years, the Company's consolidated financial results improved considerably. The majority of the Company's earnings growth during this period was attributable to the development of its international express delivery services and a growing demand for those services. In 1996, however, weakness in the global airfreight market and costs associated with implementing the Company's intra-Asian network resulted in much lower international operating income than in 1995. The Company's U.S. domestic operations over the same period have been subject to an express delivery market characterized by intense competition and generally declining prices. Consequently, from 1992 to 1995, U.S. domestic operating profits declined. In 1996, despite the impact of unusually severe winter weather in the eastern United States, management actions to control prices and expenses contributed to a significant year-over-year improvement in U.S. domestic operating profits.

Revenues

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

In millions	1996	1995	1994	Percent Change	
				1996/ 1995	1995/ 1994
U.S. domestic express	\$ 7,284	\$6,700	\$6,142	+ 9	+ 9
FedEx International Priority® (IP)	1,997	1,680	1,339	+19	+25
FedEx International Express Freight® (IXF) and FedEx International Airport-to-Airport SM (ATA)	554	580	505	- 5	+15
FedEx® Air Charter	92	115	113	-20	+ 1
Logistics services	94	106	248	-11	-57
Other*	253	211	132	+20	+59
	\$10,274	\$9,392	\$8,479	+ 9	+11

*Includes the sale of engine noise reduction kits.

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

In thousands, except dollar amounts	1996	1995	1994	Percent Change	
				1996/ 1995	1995/ 1994
U.S. domestic express:					
Average daily packages	2,246	2,084	1,792	+ 8	+16
Revenue per package	\$12.67	\$12.61	\$13.33	—	- 5
IP:					
Average daily packages	192	164	133	+17	+23
Revenue per package	\$40.58	\$40.28	\$39.21	+ 1	+ 3
IXF/ATA:					
Average daily pounds	2,144	2,153	1,844	—	+17
Revenue per pound	\$ 1.01	\$ 1.06	\$ 1.06	- 5	—

In 1996, revenue per package (yield) associated with the Company's U.S. domestic express service improved on a year-over-year basis for the first time in five years. This improvement was partially attributable to an ongoing program of systematic review and revision of customer pricing and discounts. The goal of this program is to ensure a balance between revenues generated and the cost of providing express services. This program particularly impacted FedEx 2DaySM volumes and yields. In 1995, FedEx 2Day yields declined 4%, while average daily volumes increased 22%. In 1996, however, FedEx 2Day yields increased 5%, but average daily volumes increased only 1%. Additionally, the Company raised the list price for FedEx Standard Overnight[®] service in June 1995 and April 1996.

Also impacting U.S. domestic revenue per package in 1996 was the expiration of the air cargo transportation excise tax on December 31, 1995. The expiration of this tax added approximately \$50 million and 1% to U.S. domestic revenues and yields, respectively. This benefit will continue until such time as Congress reenacts the excise tax.

Over the past three years, the Company's IP service benefited from its EXPRESSfreighter[®] network which provides customers with reduced transit times, later drop-off opportunities and daily service on a global basis that is generally unmatched by competitors. Year-over-year increases in average daily volumes and revenues equaled or exceeded 16% during this three-year period. Yields remained relatively constant.

In 1995 and 1996, the Company's airfreight revenues were a significant factor in determining overall profitability. The Company uses its ATA airfreight service (a lower-priced, space-available service) to fill space on its international flights not utilized by express services such as IP or IXF. In 1995, the demand for global airfreight services generally exceeded available market capacity. Consequently, airfreight shippers paid higher prices for airfreight services than in prior years. This additional revenue contributed to 1995's improvement in earnings. In contrast to 1995, the available market capacity in 1996 was greater relative to demand, which resulted in lower non-express airfreight pounds, prices and revenues for the Company.

The decrease in logistics services revenue in 1995 and 1996 was due to the sale, effective May 1994, of the Company's German logistics subsidiary and the 1995 sale of two dedicated warehousing and contract distribution companies in the United Kingdom. See additional discussion in Other Income and Expense and Income Taxes below. The increases in other revenue in 1995 and 1996 were primarily attributable to increased sales of engine noise reduction kits.

Operating Expenses

Volume growth and expansion of the Company's operations resulted in a trend of increasing operating expenses. Presented below are year-over-year percentage changes in operating expenses:

	Percent Change	
	1996/ 1995	1995/ 1994
Salaries and employee benefits	+ 4	+ 8
Rentals and landing fees	+17	+16
Depreciation and amortization	+10	+ 9
Fuel	+15	+ 6
Maintenance and repairs	+14	+17
Other	+16	+16
Total operating expenses	+10	+11

Increases in salaries and employee benefits were primarily due to higher employment levels associated with volume growth. In 1996, decreased provisions under the Company's performance-based incentive compensation plans offset a large portion of the increase in salaries and wages expense.

The increases in rentals and landing fees were primarily due to the leasing of additional aircraft. As of May 31, 1996, the Company had 74 wide-bodied aircraft under operating lease compared with 58 as of May 31, 1995, and 37 as of May 31, 1994. Management expects year-over-year increases in lease expense to continue as the Company enters into additional aircraft rental agreements during 1997 and thereafter.

Management's Discussion and Analysis

The increase in fuel expense in 1996 was due to increases in the average price per gallon of jet fuel (7%) and gallons consumed (9%). The rise in average price per gallon of jet fuel was due to higher jet fuel prices and a 4.3 cents per gallon excise tax on aviation fuel, used domestically, which became effective October 1, 1995. The increase in fuel expense in 1995 was due to an increase in gallons consumed (10%), partially offset by a decline in average jet fuel price per gallon (5%).

The increase in maintenance and repairs expense for 1996 was due to a number of factors. The Company's aircraft fleet has increased, resulting in a corresponding increase in maintenance expense. The Company also incurred significant spare parts expense outfitting the newly-opened Subic Bay facility and earlier than expected DC10 engine maintenance expense. In 1995, regulatory directives on B727 and MD11 aircraft engines resulted in higher maintenance and repairs expense, and the Company's MD11 aircraft entered their initial cycle of engine maintenance.

Maintenance and repairs expense, as it relates to aircraft, typically follows a predictable pattern over the life of the aircraft. Unforeseen maintenance events will occasionally disrupt this pattern, resulting in periodic fluctuations in maintenance and repairs expense. Given the Company's increasing fleet size and variety of aircraft types, management believes that maintenance and repairs expense will continue a long-term trend of year-over-year increases for the foreseeable future.

Increases in other operating expenses for 1996 and 1995 were primarily due to expenses related to volume growth, including the transportation of packages by third parties and temporary manpower. The cost of sales of engine noise reduction kits increased in 1996 and 1995. A significant portion of the 1996 increase in other operating expenses was also due to consulting fees related to ongoing projects designed to optimize the value of goods and services purchased and the use of internal resources. Advertising also contributed to the increase in other operating expenses in 1995.

Operating Income

The Company's operating income increased 6% and 11% in 1996 and 1995, respectively.

U.S. domestic operating income rose 16% in 1996 and declined 17% in 1995. During 1996, revenue per package increased 0.5% and cost per package increased only 0.3%, while average daily volume rose 8%. These factors contributed to a substantial improvement in operating profits. In 1996, severe winter storms in the eastern United States closed numerous airports and businesses and, consequently, lowered U.S. domestic operating income by approximately \$30 million. U.S. domestic results declined in 1995 because of lower margins attributable to a 5% decrease in U.S. domestic express yields, while the average U.S. domestic cost per package declined only 3%. Sales of engine noise reduction kits contributed an incremental \$15 million and \$36 million to U.S. domestic operating income in 1996 and 1995, respectively. U.S. domestic operating margins were 7.3%, 6.8% and 9.0% in 1996, 1995 and 1994, respectively.

International operating income declined \$44 million in 1996 compared with a \$155 million increase in 1995. In addition to the factors impacting express and airfreight revenue discussed above, the costs of establishing the Company's intra-Asian network and declines in charter revenue contributed to the decrease in international operating income. International operating margins were 2.9%, 4.9% and -1.3% in 1996, 1995 and 1994, respectively.

For additional information on the Company's U.S. domestic and international operations, see Note 10 of Notes to Consolidated Financial Statements.

Other Income and Expense and Income Taxes

Decreases in net interest expense of 17% and 19% for 1996 and 1995, respectively, were due to lower debt levels and a higher level of capitalized interest. Interest is capitalized during the modification of certain Airbus A310 aircraft from passenger to freighter configuration. During 1996, 17 A310 aircraft were modified, or were undergoing modification, compared with four during 1995.

Other, net for 1996 and 1995 included distributions of \$7.8 million and \$9.7 million, respectively, from the bankruptcy estate of a firm engaged by the Company in 1990 to remit payments of employee payroll taxes to the appropriate authorities. In total, the Company has received \$17.9 million. All major issues pertaining to the bankruptcy have been resolved, and any additional amounts the Company may receive are expected to be insignificant. Other, net for 1996 also included gains on sales of B727 aircraft and, for 1995, a pre-tax gain of \$35.7 million from the sale of warehousing and distribution companies in the United Kingdom.

The Company's effective tax rate was 43.0% in 1996 and 1995 and 46.0% for 1994. In each year, the effective tax rate was greater than the statutory U.S. federal tax rate primarily because of state income taxes and the impact of foreign operations. The 43.0% effective tax rate in 1996 was lower than the 46.0% effective rate in 1994 primarily due to reductions in state and local taxes and taxes on earnings from foreign operations. The 43.0% rate in 1995 was largely attributable to a change in the structure of the Company's foreign entity in Mexico. This change permitted the one-time deduction in 1995 of certain items for U.S. federal income tax purposes that were not deductible in prior years. For 1997, management expects the effective tax rate to remain at a level similar to the 1996 rate. The actual rate, however, is dependent on a number of factors, including the amount and source of operating income.

Outlook

Management is committed to achieving long-term earnings growth by positioning the Company's resources to address customers' expectations and to capitalize on emerging markets for express distribution services. Very often this involves a significant front-end investment in assets, technology and personnel that might have a negative impact on near-term profitability.

As discussed above, a key factor in the improvement in the Company's U.S. domestic operations was the customer pricing and discount review program. Management will continue this program in 1997. Additionally, the Company has introduced a new U.S. domestic service for certain customers in select markets with prices based on the distance between a package's origin and destination. Management believes that year-over-year changes in U.S. domestic yields will remain flat or fall slightly during 1997. Actual results, however, may vary depending primarily on the impact of competitive pricing changes, changing customer demand patterns, and the timing of the reenactment of the air cargo transportation excise tax.

To reduce costs, management will continue investing in technologies that streamline package pick-up, sorting, tracking and delivery. Improving package movement through more efficient integration of the Company's air and ground transportation systems is a continuing Company effort and, assuming effective implementation, is expected to reduce transportation cost per package. The Company has also implemented programs designed to optimize the value of goods and services purchased. These programs have already resulted in modest savings in 1996 with additional savings anticipated in 1997 and beyond. The results of these programs may differ from management's expectations depending upon the Company's success and timing in implementing the program recommendations and the timing of technological changes.

Management's long-term plan for the Company's international operations calls for continued expansion of its international network to the emerging centers of economic growth. Management believes that the overall success of its international operations is strongly tied to connecting these growth areas, most notably China, the Pacific Basin and Latin America, to its global transportation network. Providing direct service to new areas typically entails a significant capital investment followed by a start-up period characterized by operating costs higher than in established service areas. Furthermore, during the start-up period, until express volumes grow into available capacity, more reliance is placed on lower-yielding ATA and IXF to fill available space. This reliance on airfreight exposes the Company to cyclical downturns in the international airfreight market.

Management expects strong IP average daily volume growth to continue in 1997. With respect to airfreight, management believes that excess market capacity and unfavorable economic conditions encountered in 1996 will continue to hamper profitability in 1997. Actual results for IP or airfreight, however, will depend on international economic conditions, actions by the Company's competitors and regulatory conditions for international aviation rights.

➔ Financial Condition

Liquidity

Cash and cash equivalents totaled \$93 million at May 31, 1996, a decrease of \$264 million during 1996 compared with a decrease of \$35 million in 1995 and an increase of \$237 million in 1994. Cash provided from operations during 1996 was \$947 million compared with \$1.0 billion and \$767 million in 1995 and 1994, respectively. The Company currently has available a \$1 billion revolving bank credit facility that is generally used to finance temporary operating cash requirements and to provide support for the issuance of commercial paper. Management believes that cash flow from operations, its commercial paper program and the revolving bank credit facility will adequately meet its working capital needs for the foreseeable future.

Capital Resources

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

Capital expenditures for 1996 totaled \$1.4 billion and included seven Airbus A310 aircraft, two MD11 aircraft, five B727-200 aircraft, 35 Cessna 208 aircraft, deposits on future Airbus A300 aircraft, vehicles and ground support equipment, customer automation and computer equipment, and package handling facilities and sort equipment. In comparison, prior year expenditures totaled \$1.1 billion and included four A310s, 15 Cessna 208s, deposits on future A300s, vehicle and ground support equipment, and customer automation and computer equipment. One MD11 and one A310 acquired in 1996 along with two A310s acquired in 1995 were subsequently sold and leased back during 1996. For information on the Company's purchase commitments, see Note 12 of Notes to Consolidated Financial Statements.

Additional investing activities in 1996 included the purchase of an all-cargo route authority between the U.S. and China.

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

In August and October 1995, approximately \$123 and \$195 million, respectively, of pass through certificates were issued under a shelf registration filed with the Securities and Exchange Commission to refinance the debt portion of leveraged leases related to five Airbus A300 aircraft. The pass through certificates are not direct obligations of, or guaranteed by, the Company, but amounts payable by the Company under the five leveraged leases are sufficient to pay the principal of and interest on the certificates.

The Company's capital resources include backstop financing for nine Airbus A300 aircraft and the public and private debt markets for leveraged lease financing. Management believes that the capital resources available to the Company provide flexibility to access the most efficient markets for financing its capital acquisitions, including aircraft, and are adequate for the Company's future capital needs.

Deferred Tax Assets

At May 31, 1996, the Company had a net cumulative deferred tax asset of \$29 million consisting of \$443 million of deferred tax assets and \$414 million of deferred tax liabilities. The reversals of deferred tax liabilities in future periods will offset similar amounts of deferred tax assets. Based upon historical levels of taxable income, the Company believes that it is more likely than not that sufficient levels of future taxable income will be generated to realize the remaining deferred tax asset.

Consolidated Statements of Income

Federal Express Corporation and Subsidiaries

Years ended May 31

In thousands, except Earnings Per Share

→ Revenues

1996	1995	1994
\$10,273,619	\$9,392,073	\$8,479,456

Operating Expenses:

Salaries and employee benefits (Notes 8 and 9)	4,619,990	4,425,202	4,104,800
Rentals and landing fees (Note 4)	959,055	818,599	703,028
Depreciation and amortization	719,609	652,287	599,357
Fuel	578,614	502,417	472,786
Maintenance and repairs	617,657	544,170	464,557
Other	2,154,870	1,858,254	1,604,296

9,649,795	8,800,929	7,948,824
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→ Operating Income

623,824	591,144	530,632
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Other Income (Expense):

Interest, net (Note 1)	(95,599)	(114,687)	(142,392)
Other, net (Note 14)	11,734	45,627	(9,778)

(83,865)	(69,060)	(152,170)
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Income before Income Taxes

539,959	522,084	378,462
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Provision for Income Taxes (Note 7)

232,182	224,496	174,092
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→ Net Income

\$ 307,777	\$ 297,588	\$ 204,370
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→ Earnings Per Share (Note 6)

\$ 5.39	\$ 5.27	\$ 3.65
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→ Average Shares Outstanding (Note 6)

57,138	56,494	56,012
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The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Balance Sheets

May 31

In thousands

→ Assets

Current Assets:

Cash and cash equivalents	\$ 93,419	\$ 357,548
Receivables, less allowance for doubtful accounts of \$30,809 and \$31,173	1,271,599	1,130,254
Spare parts, supplies and fuel	222,110	193,251
Deferred income taxes (Note 7)	92,606	115,801
Prepaid expenses and other	48,527	72,228

Total current assets

1,728,261

1,869,082

Property and Equipment, at Cost (Notes 1, 3, 4 and 12):

Flight equipment	3,372,647	3,006,693
Package handling and ground support equipment	2,148,509	1,841,108
Computer and electronic equipment	1,439,883	1,224,050
Other	1,717,478	1,625,860

Less accumulated depreciation and amortization

8,678,517

7,697,711

4,561,916

3,982,467

Net property and equipment

4,116,601

3,715,244

Other Assets:

Goodwill (Note 1)	380,748	397,272
Equipment deposits and other assets (Note 12)	473,361	451,774

Total other assets

854,109

849,046

\$6,698,971

\$6,433,372

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

	1996	1995
→ Liabilities and Stockholders' Investment		
Current Liabilities:		
Current portion of long-term debt (Note 3)	\$ 8,009	\$ 255,448
Accounts payable	705,532	618,621
Accrued expenses (Note 2)	904,856	904,466
Total current liabilities	1,618,397	1,778,535
Long-Term Debt, Less Current Portion (Note 3)	1,325,277	1,324,711
Deferred Income Taxes (Note 7)	64,034	55,956
Other Liabilities (Note 1)	1,115,124	1,028,601
Commitments and Contingencies (Notes 4, 12 and 13)		
Common Stockholders' Investment (Note 6):		
Common Stock, \$.10 par value; 200,000 shares authorized; 56,885 and 56,174 shares issued	5,689	5,617
Additional paid-in capital	815,137	775,255
Retained earnings	1,766,578	1,466,427
	2,587,404	2,247,299
Less treasury stock and deferred compensation	11,265	1,730
Total common stockholders' investment	2,576,139	2,245,569
	\$6,698,971	\$6,433,372

Consolidated Statements of Cash Flows

Federal Express Corporation and Subsidiaries

Years ended May 31

In thousands	1996	1995	1994
→ Operating Activities			
Net income	\$ 307,777	\$ 297,588	\$ 204,370
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	719,609	652,287	599,357
Provision for uncollectible accounts	38,963	36,334	45,763
Provision for deferred income taxes and other	26,489	25,976	3,810
Gain from disposals of property and equipment	(5,397)	(39,997)	(11,897)
Changes in assets and liabilities, net of effects from dispositions of businesses:			
Increase in receivables	(191,334)	(167,319)	(173,902)
Increase in other current assets	(41,992)	(24,101)	(7,826)
Increase in accounts payable, accrued expenses and other liabilities	100,515	258,373	110,508
Other, net	(8,050)	(8,424)	(2,905)
Cash provided by operating activities	946,580	1,030,717	767,278
→ Investing Activities			
Purchases of property and equipment, including deposits on aircraft of \$68,202, \$113,073 and \$112,138	(1,412,242)	(1,060,761)	(1,087,708)
Proceeds from dispositions of property and equipment:			
Sale-leaseback transactions	176,500	—	581,400
Reimbursements of A300 deposits	143,859	138,203	38,794
Other dispositions	26,504	59,523	46,148
Other, net	77,208	87,925	27,843
Cash used in investing activities	(988,171)	(775,110)	(393,523)
→ Financing Activities			
Proceeds from debt issuances	17,298	45,460	10,777
Principal payments on debt	(264,004)	(349,523)	(198,243)
Proceeds from stock issuances	36,566	13,081	53,759
Other, net	(12,398)	—	(2,581)
Cash used in financing activities	(222,538)	(290,982)	(136,288)
→ Cash and Cash Equivalents			
Increase (decrease) during the year	(264,129)	(35,375)	237,467
Balance at beginning of year	357,548	392,923	155,456
Balance at end of year	\$ 93,419	\$ 357,548	\$ 392,923

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

Consolidated Statements of Changes in Common Stockholders' Investment

Federal Express Corporation and Subsidiaries

In thousands, except shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Deferred Compensation
➔ Balance at May 31, 1993	\$5,474	\$699,385	\$ 969,515	\$ (36)	\$ (2,957)
Purchase of treasury stock	—	—	—	(185)	—
Forfeiture of restricted stock	—	—	—	(1,224)	—
Issuance of common and treasury stock under employee incentive plans (1,153,248 shares)	115	59,844	—	670	(8)
Amortization of deferred compensation	—	—	—	—	1,467
Foreign currency translation adjustment	—	—	(11,725)	—	—
Net income	—	—	204,370	—	—
➔ Balance at May 31, 1994	5,589	759,229	1,162,160	(775)	(1,498)
Forfeiture of restricted stock	—	—	—	(231)	—
Issuance of common stock under employee incentive plans (288,724 shares)	28	16,026	—	—	—
Amortization of deferred compensation	—	—	—	—	774
Foreign currency translation adjustment	—	—	6,679	—	—
Net income	—	—	297,588	—	—
➔ Balance at May 31, 1995	5,617	775,255	1,466,427	(1,006)	(724)
Purchase of treasury stock	—	—	—	(12,398)	—
Forfeiture of restricted stock	—	—	—	(1,068)	1,130
Issuance of common and treasury stock under employee incentive plans (886,195 shares)	72	39,882	—	14,472	(13,898)
Amortization of deferred compensation	—	—	—	—	2,227
Foreign currency translation adjustment	—	—	(7,626)	—	—
Net income	—	—	307,777	—	—
➔ Balance at May 31, 1996	\$5,689	\$815,137	\$1,766,578	\$ —	\$(11,265)

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

→ **Note 1: Summary of Significant Accounting Policies**

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

Property and equipment. Expenditures for major additions, improvements, flight equipment modifications, and certain overhaul costs are capitalized. Maintenance and repairs are charged to expense as incurred, except for B747 airframe and engine overhaul maintenance which is accrued and charged to expense on the basis of hours flown. The cost and accumulated depreciation of property and equipment disposed of are removed from the related accounts, and any gain or loss 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	7 to 20 years
Package handling and ground support equipment	5 to 30 years
Computer and electronic equipment	3 to 10 years
Other	2 to 30 years

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

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

Deferred gains. Gains on the sale and leaseback of aircraft and other property and equipment are deferred and amortized over the life of the lease as a reduction of rent expense. Included in other liabilities at May 31, 1996 and 1995, were deferred gains of \$337,118,000 and \$293,000,000, respectively.

Deferred lease obligations. While certain of the Company's aircraft and facility leases contain fluctuating or escalating payments, the related rent expense is recorded on a straight-line basis over the lease term. Included in other liabilities at May 31, 1996 and 1995, were \$260,977,000 and \$216,683,000, respectively, representing the cumulative difference between rent expense and rent payments.

Self-insurance reserves. The Company is self-insured up to certain levels for workers' compensation, employee health care and vehicle liabilities. Reserves are based on the actuarially estimated cost of claims. Included in other liabilities at May 31, 1996 and 1995, were \$278,000,000 and \$294,000,000, respectively, representing self-insurance reserves for the Company's workers' compensation and vehicle liabilities.

Capitalized interest. Interest on funds used to finance the acquisition and modification of aircraft and construction of certain facilities up to the date the asset is placed in service is capitalized and included in the cost of the asset. Capitalized interest was \$39,254,000, \$27,381,000 and \$29,738,000 for 1996, 1995 and 1994, respectively.

Advertising. Advertising costs are generally expensed as incurred and are included in other operating expenses. Advertising expenses were \$138,408,000, \$147,288,000 and \$122,002,000 in 1996, 1995 and 1994, respectively.

Cash equivalents. Cash equivalents are cash in excess of current operating requirements invested in short-term, interest-bearing instruments with maturities of three months or less at the date of purchase and are stated at cost, which approximates market value. Interest income was \$9,850,000 in 1996, \$16,236,000 in 1995 and \$9,778,000 in 1994.

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

Goodwill. Goodwill is the excess of the purchase price over the fair value of net assets of businesses acquired. It is amortized on a straight-line basis over periods ranging up to 40 years. Accumulated amortization was \$114,606,000 and \$100,527,000 at May 31, 1996 and 1995, respectively.

Foreign currency translation. Translation gains and losses of the Company's foreign operations that use local currencies as the functional currency are accumulated and reported as a separate component of common stockholders' investment. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are included in the results of operations.

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

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

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

Earnings per share. Earnings per share is computed based on the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares are the shares of common stock that would be issued upon the exercise of all dilutive outstanding stock options, less the assumed repurchase of treasury shares. Earnings per share assuming full dilution is substantially the same as earnings per share as stated and, accordingly, is not shown separately.

Recent pronouncements. During 1997, the Company will adopt the provisions of two Statements of Financial Accounting Standards ("SFAS") recently issued by the Financial Accounting Standards Board. SFAS 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," requires that long-lived assets and certain identifiable intangibles be reviewed periodically for impairment. The Company does not expect the adoption of SFAS 121 to have a material effect on its financial statements.

SFAS 123, "Accounting for Stock-Based Compensation," defines a fair-value based method of measuring and recording compensation costs for employee stock compensation programs. This new standard, however, permits companies to follow the intrinsic-value based method presently required by Accounting Principles Board Opinion No. 25, as long as they also provide pro forma footnote disclosure of the effect that the fair-value based method would have had on net income and earnings per share had that method been adopted. Management intends to adopt the pro forma disclosure alternative beginning in 1997.

Reclassifications. Certain amounts for 1995 and 1994 have been reclassified to conform to the 1996 presentation.

Use of estimates. The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make 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.

Notes to Consolidated Financial Statements

→ Note 2: Accrued Expenses

May 31

In thousands	1996	1995
Compensated absences	\$211,499	\$192,785
Insurance	194,209	176,806
Taxes other than income taxes	153,905	137,037
Employee benefits	111,912	127,870
Salaries	78,384	100,024
Aircraft overhaul	59,343	53,540
Other	95,604	116,404
	\$904,856	\$904,466

→ Note 3: Long-Term Debt

May 31

In thousands	1996	1995
Unsecured notes payable, interest rates of 6.25% to 10.57%, due through 2013	\$ 934,181	\$1,187,413
Unsecured sinking fund debentures, interest rate of 9.63%, due through 2020	98,392	98,323
Capital lease obligations and tax exempt bonds, due through 2017, interest rates of 6.75% to 8.30%	255,100	255,100
Less bond reserves	11,096	11,096
	244,004	244,004
Other debt, interest rates of 9.68% to 9.98%	56,709	50,419
	1,333,286	1,580,159
Less current portion	8,009	255,448
	\$1,325,277	\$1,324,711

The Company has a revolving credit agreement with domestic and foreign banks that provides for a commitment of \$1,000,000,000 through May 31, 2000, all of which was available at May 31, 1996. Interest rates on borrowings under this agreement are generally determined by maturities selected and prevailing market conditions. The agreement contains certain covenants and restrictions, none of which are expected to significantly affect operations or the ability to pay dividends. As of May 31, 1996, approximately \$957,000,000 was available for the payment of dividends. Commercial paper borrowings are backed by unused commitments under the revolving credit agreement and reduce the amount available under the agreement.

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

Scheduled annual principal maturities of long-term debt for the five years subsequent to May 31, 1996, are as follows: \$8,000,000 in 1997; \$126,700,000 in 1998; \$265,500,000 in 1999; \$14,900,000 in 2000; and \$11,300,000 in 2001.

The Company's long-term debt, exclusive of capital leases, had carrying values of \$1,130,000,000 and \$1,390,000,000 at May 31, 1996 and 1995, respectively, compared with fair values of approximately \$1,245,000,000 and \$1,470,000,000 at those dates. The estimated fair values were determined based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

➔ Note 4: Lease Commitments

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

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

In thousands	1996	1995
Package handling and ground support equipment	\$346,479	\$378,438
Facilities	133,435	133,435
Computer and electronic equipment and other	7,143	7,175
	487,057	519,048
Less accumulated amortization	329,678	347,738
	\$157,379	\$171,310

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

In thousands	1996	1995	1994
Minimum rentals	\$820,896	\$707,182	\$621,174
Contingent rentals	61,164	43,005	21,540
	\$882,060	\$750,187	\$642,714

Contingent rentals are based on mileage under supplemental aircraft leases.

A summary of future minimum lease payments under capital leases and non-cancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 1996, follows:

In thousands	Capital Leases	Operating Leases
1997	\$ 15,561	\$ 724,161
1998	15,561	732,675
1999	15,561	715,247
2000	15,561	671,798
2001	15,561	638,510
Thereafter	356,085	7,634,161
	\$433,890	\$11,116,552

At May 31, 1996, the present value of future minimum lease payments for capital lease obligations was \$199,004,000.

➔ Note 5: Preferred Stock

The Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 4,000,000 shares of Series Preferred Stock. The stock is issuable in series which may vary as to certain rights and preferences and has no par value. As of May 31, 1996, none of these shares had been issued.

Notes to Consolidated Financial Statements

→ Note 6: Common Stockholders' Investment

Under the provisions of the Company's stock incentive plans, options may be granted to certain key employees (and, under the 1993 plan, to directors who are not employees of the Company) to purchase common stock of the Company at a price not less than its fair market value at the date of grant. The following summarizes information for the past three years with respect to those plans:

	Number of Shares Under Option	Option Price Per Share
Outstanding at May 31, 1993	3,147,043	\$30.56–\$70.19
Granted	982,750	54.31– 70.81
Exercised	(1,142,249)	30.56– 70.19
Canceled	(111,758)	34.31– 62.94
Outstanding at May 31, 1994	2,875,786	\$30.56–\$70.81
Granted	671,800	56.13– 75.88
Exercised	(288,724)	30.56– 62.94
Canceled	(89,997)	30.56– 75.88
Outstanding at May 31, 1995	3,168,865	\$30.56–\$75.88
Granted	909,000	59.13– 82.31
Exercised	(710,945)	30.56– 75.88
Canceled	(167,640)	34.50– 82.31
Outstanding at May 31, 1996	3,199,280	\$30.56–\$82.31
Exercisable at May 31, 1996	1,226,400	\$30.56–\$75.88

At May 31, 1996, 942,731 shares were available for future grants under the above-mentioned stock incentive plans.

Under the terms of the Company's restricted stock plans, shares of the Company's common stock may be awarded to key employees. Restrictions on the shares expire over a period of one to ten years from the date of award. The value of shares awarded under these plans is recorded as a reduction of common stockholders' investment and is being amortized to compensation expense as restrictions on such shares expire. Shares awarded under the plans totaled 175,250 in 1996 and 11,000 in 1994. No shares were awarded in 1995. During 1996, 1995 and 1994, 14,500, 3,750 and 18,438 shares, respectively, were forfeited. At May 31, 1996, 128,938 shares were available for future awards.

At May 31, 1996, there were 4,270,949 shares of common stock reserved for issuance under the above-mentioned plans.

In 1988, the Board of Directors authorized the purchase of up to approximately 5,300,000 shares of the Company's common stock on the open market. As of May 31, 1996, a total of 2,911,305 shares at an average cost of \$43.85 per share had been purchased and reissued under the above-mentioned plans.

→ **Note 7: Income Taxes**

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

In thousands	1996	1995	1994
Current provision:			
Federal	\$142,512	\$137,041	\$131,724
Foreign	37,759	29,787	16,387
State	18,007	23,405	26,862
	198,278	190,233	174,973
Deferred provision (credit):			
Federal	27,962	24,058	2,263
Foreign	2,351	9,072	2,524
State	3,591	1,133	(5,668)
	33,904	34,263	(881)
	\$232,182	\$224,496	\$174,092

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

In thousands	1996	1995	1994
Entities with pre-tax income	\$ 153,000	\$ 149,000	\$ 127,000
Entities with pre-tax losses	(228,000)	(173,000)	(210,000)
	\$ (75,000)	\$ (24,000)	\$ (83,000)

Income (losses) from entities which are structured as foreign subsidiaries are not included in the U.S. consolidated income tax return. Approximately \$60,000,000, \$29,000,000 and \$14,000,000 of net foreign subsidiary income were not taxable for federal income tax purposes in 1996, 1995 and 1994, respectively. Income taxes have been provided for foreign operations based upon the various tax laws and rates of the countries in which the Company's operations are conducted. There is no direct relationship between the Company's overall foreign income tax provision and foreign pre-tax book income due to the different methods of taxation used by countries throughout the world.

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

	1996	1995	1994
Statutory U.S. income tax rate	35.0%	35.0%	35.0%
Increase resulting from:			
Goodwill amortization	0.9	1.0	1.3
Foreign operations	1.7	0.9	3.5
State income taxes, net of federal benefit	2.6	3.1	3.6
Other, net	2.8	3.0	2.6
	43.0%	43.0%	46.0%

Notes to Consolidated Financial Statements

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

In thousands	1996		1995	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Depreciation	\$ —	\$324,221	\$ —	\$303,088
Deferred gains on sales of assets	81,370	—	67,912	—
Employee benefits	45,137	—	69,563	—
Self-insurance reserves	165,020	—	165,197	—
Other	151,355	90,089	137,063	76,802
	\$442,882	\$414,310	\$439,735	\$379,890

➔ Note 8: Pension and Profit Sharing Plans

The Company sponsors pension plans covering substantially all employees. The largest plan covers U.S. domestic employees age 21 and over, with at least one year of service, and provides benefits based on final average earnings and years of service. Plan funding is actuarially determined, subject to certain tax law limitations.

International defined benefit plans provide benefits primarily based on final earnings and years of service and are funded in accordance with local laws and income tax regulations.

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

In thousands	1996	1995
Plan assets at fair value	\$2,725,896	\$2,093,422
Actuarial present value of the projected benefit obligation for service rendered to date	2,571,086	1,972,009
Plan assets in excess of projected benefit obligation	154,810	121,413
Unrecognized net gains from past experience different from that assumed and effects of changes in assumptions	(74,425)	(123,929)
Prior service cost not yet recognized in net periodic cost	(7,398)	(6,449)
Unrecognized transition amount	3,239	3,679
Pension asset (liability)	\$ 76,226	\$ (5,286)
Accumulated benefit obligation	\$1,626,877	\$1,203,126
Vested benefit obligation	\$1,538,267	\$1,140,545

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

In thousands	1996	1995	1994
Service cost — benefits earned during the period	\$ 184,305	\$ 182,617	\$176,861
Interest cost on projected benefit obligation	165,635	143,408	127,959
Actual return on plan assets	(463,819)	(192,939)	(82,019)
Net amortization and deferral	256,968	19,333	(64,727)
	\$ 143,089	\$ 152,419	\$158,074

The weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8.0% and 5.5%, respectively, in 1996, 8.6% and 6.0%, respectively, in 1995 and 8.1% and 6.0%, respectively, in 1994. The expected long-term rate of return on assets was 9.5% in 1996, 1995 and 1994. Plan assets consist primarily of marketable equity securities and fixed income instruments.

The Company also has a profit sharing plan, which covers substantially all U.S. domestic employees age 21 and over, with at least one year of service with the Company as of the contribution date, as defined in the plan. The plan provides for discretionary contributions by the Company which are determined annually by the Board of Directors. Profit sharing expense was \$54,000,000 in 1996, \$52,200,000 in 1995 and \$36,800,000 in 1994.

➔ Note 9: Postretirement Benefit Plans

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

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

In thousands	1996	1995
Accumulated postretirement benefit obligation:		
Retirees	\$ 39,539	\$ 35,816
Fully eligible active employees	31,472	24,400
Other active employees, not fully eligible	80,001	60,769
	151,012	120,985
Unrecognized net gain	15,402	25,421
	\$166,414	\$146,406

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

In thousands	1996	1995	1994
Service cost	\$12,085	\$12,870	\$12,392
Interest cost	11,275	10,617	10,174
Amortization of accumulated gains	(780)	—	—
	\$22,580	\$23,487	\$22,566

Notes to Consolidated Financial Statements

Future medical benefit costs were estimated to increase at an annual rate of 10.5% during 1997, decreasing to an annual growth rate of 5.5% in 2007 and thereafter. Future dental benefit costs were estimated to increase at an annual rate of 8.5% during 1997, decreasing to an annual growth rate of 5.5% in 2009 and thereafter. The Company's cost is capped at 150% of 1993 employer cost and, therefore, will not be subject to medical and dental trends after the capped cost is attained, projected to be in 1999. Primarily because of the cap on the Company's cost, a 1% increase in these annual trend rates would not have a significant impact on the accumulated postretirement benefit obligation at May 31, 1996, or 1996 benefit expense. The weighted average discount rates used in estimating the accumulated postretirement obligation were 7.4% and 8.6% at May 31, 1996 and 1995, respectively. The Company pays claims as incurred.

➔ Note 10: Business Segment Information

The Company is in a single line of business — the worldwide transportation and distribution of documents, packages and freight. For reporting purposes, operations are classified into two geographic areas, U.S. domestic and international. Shipments which either originate in or are destined to locations outside the U.S. are categorized as international.

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

In thousands	U.S. Domestic	International	Total Worldwide
Revenues:			
1996	\$7,466,311	\$2,807,308	\$10,273,619
1995	6,839,418	2,552,655	9,392,073
1994	6,199,940	2,279,516	8,479,456
Operating Income (Loss):			
1996	\$ 542,168	\$ 81,656	\$ 623,824
1995	465,527	125,617	591,144
1994	559,629	(28,997)	530,632
Identifiable Assets:			
1996	\$5,449,353	\$1,249,618	\$ 6,698,971
1995	5,321,811	1,111,561	6,433,372
1994	4,883,644	1,108,854	5,992,498

Identifiable assets used jointly in U.S. domestic and international operations (principally aircraft) have been allocated based on estimated usage. International revenues related to services originating in the U.S. totaled \$1,316,100,000, \$1,201,100,000 and \$1,020,000,000 for the years ended May 31, 1996, 1995 and 1994, respectively.

➔ Note 11: Supplemental Cash Flow Information

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

In thousands	1996	1995	1994
Interest (net of capitalized interest)	\$108,052	\$138,833	\$158,149
Income taxes	204,487	185,964	167,209

In March 1995, the Company issued three series of loan certificates totaling \$50,300,000 in exchange for a leased B747 aircraft.

→ Note 12: Commitments and Contingencies

The Company's annual purchase commitments under various contracts as of May 31, 1996, were as follows:

In thousands	Aircraft	Aircraft- Related ⁽¹⁾	Other ⁽²⁾	Total
1997	\$482,800	\$185,000	\$194,400	\$862,200
1998	478,600	64,200	37,800	580,600
1999	240,800	18,500	15,600	274,900
2000	124,200	9,900	—	134,100

⁽¹⁾Primarily aircraft modifications, rotables, spare parts and engines.

⁽²⁾Facilities, vehicles, computer and other equipment.

At May 31, 1996, the Company was committed to purchase nine Airbus A300, 12 Airbus A310 and ten MD11 aircraft to be delivered through 2000. Deposits and progress payments of \$199,880,000 had been made toward these purchases. In April 1996, the Company canceled its options to purchase up to 36 additional Airbus A300s for delivery beginning in 1999. The Company may be required to purchase seven additional MD11 aircraft for delivery beginning no later than 2000 under a put option agreement.

The Company has entered into contracts which are designed to limit its exposure to fluctuations in jet fuel prices. Under these contracts, the Company makes (or receives) payments based on the difference between a specified lower (or upper) limit and the market price of jet fuel, as determined by an index of spot market prices representing various geographic regions. The difference is recorded as an increase or decrease in fuel expense. At May 31, 1996, the Company had contracts with various financial institutions covering a total notional volume of 365,300,000 gallons (approximately 54% of the Company's annual jet fuel consumption), with some contracts extending through May 1997. At May 31, 1995, the Company had similar contracts covering a total notional volume of 97,400,000 gallons (approximately 16% of the Company's annual jet fuel consumption), with some contracts extending through August 1996. During 1996, the Company received \$1,977,000 under jet fuel contracts. Based on current market prices, the fair value of outstanding contracts at May 31, 1996 and 1995, was approximately \$1,370,000 and \$141,000, respectively.

→ Note 13: Legal Proceedings

On May 14, 1996, a class-action suit was filed by customers of the Company in the United States District Court for the District of Minnesota. The complaint generally alleges that the Company breached its contract with the plaintiffs in transporting packages shipped by them by continuing to collect a 6.25% federal excise tax on the transportation of property shipped by air after the tax expired on December 31, 1995. The plaintiffs assert that the benefit to the Company is believed to be in excess of \$30,000,000. The plaintiffs seek certification as a class action, damages, an injunction to enjoin the Company from continuing to collect the excise tax referred to above, and an award of attorneys' fees and costs. Other customers of the Company filed two separate lawsuits, one in California state court during April 1996 and one in Minnesota state court during June 1996, containing substantially similar allegations and requests for relief.

During June 1996, the Company reached an agreement with the plaintiffs in all three lawsuits to consolidate the three lawsuits in the United States District Court for the District of Minnesota. The plaintiffs are in the process of filing the necessary motions to accomplish this consolidation.

The Company intends to vigorously defend itself in these cases. No amount has been reserved for these contingencies.

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

Notes to Consolidated Financial Statements

→ Note 14: Unusual Events

The Company received \$7,800,000 and \$9,700,000 in 1996 and 1995, respectively, from the bankruptcy estate of a firm engaged by the Company in 1990 to remit payments of employee withholding taxes. These amounts are a partial recovery of a \$32,000,000 loss incurred by the Company in 1991 that resulted from the firm's failure to remit certain tax payments to appropriate authorities. The Company has received a total of \$17,900,000 from the bankruptcy estate of the firm. All major issues pertaining to the bankruptcy have been resolved, and any additional amounts the Company may receive are expected to be insignificant.

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

→ Note 15: Summary of Quarterly Operating Results (Unaudited)

In thousands, except earnings per share	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1996				
Revenues	\$2,453,394	\$2,547,012	\$2,535,470	\$2,737,743
Operating income	149,230	170,905	77,943	225,746
Income before income taxes	129,886	154,952	52,637	202,484
Net income	75,334	89,871	27,156	115,416
Earnings per share	\$ 1.33	\$ 1.57	\$.47	\$ 2.01
Average shares outstanding	56,688	57,260	57,258	57,346
1995				
Revenues	\$2,231,127	\$2,358,765	\$2,332,594	\$2,469,587
Operating income	142,985	176,376	97,672	174,111
Income before income taxes	107,267	151,120	110,714	152,983
Net income	61,142	86,139	63,107	87,200
Earnings per share	\$ 1.08	\$ 1.53	\$ 1.12	\$ 1.54
Average shares outstanding	56,614	56,385	56,374	56,601

To the Stockholders of Federal Express Corporation:

We have audited the accompanying consolidated balance sheets of Federal Express Corporation (a Delaware corporation) and subsidiaries as of May 31, 1996 and 1995, and the related consolidated statements of income, common stockholders' investment and cash flows for each of the three years in the period ended May 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Federal Express Corporation and subsidiaries as of May 31, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended May 31, 1996, in conformity with generally accepted accounting principles.

Arthur Anderson LLP

Memphis, Tennessee

July 1, 1996

Selected Consolidated Financial Data

Years ended May 31

In thousands, except per share amounts and Other Operating Data

→ Operating Results

	1996	1995	1994
Revenues	\$10,273,619	\$9,392,073	\$8,479,456
Operating income	623,824	591,144	530,632
Income (loss) before income taxes	539,959	522,084	378,462
Income (loss) from continuing operations	307,777	297,588	204,370
Net income (loss)	\$ 307,777	\$ 297,588	\$ 204,370

→ Per Share Data

Earnings (loss) per share:

Continuing operations	\$ 5.39	\$ 5.27	\$ 3.65
Discontinued operations	—	—	—
Cumulative effect of changes in accounting principles	—	—	—
Net earnings (loss) per share	\$ 5.39	\$ 5.27	\$ 3.65

Average shares outstanding

	57,138	56,494	56,012
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Cash dividends

	—	—	—
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→ Financial Position

Property and equipment, net	\$ 4,116,601	\$3,715,244	\$3,449,093
Total assets	6,698,971	6,433,372	5,992,498
Long-term debt	1,325,277	1,324,711	1,632,202
Common stockholders' investment	2,576,139	2,245,569	1,924,705

→ Other Operating Data

Express package:

Average daily package volume	2,437,662	2,247,594	1,925,105
Average pounds per package	6.4	6.3	6.0
Average revenue per pound*	\$ 2.31	\$ 2.31	\$ 2.51
Average revenue per package*	\$ 14.87	\$ 14.62	\$ 15.12

Airfreight:

Average daily pounds	2,144,225	2,153,041	1,844,270
Average revenue per pound	\$ 1.01	\$ 1.06	\$ 1.06
Operating weekdays	256	255	257

Aircraft fleet:

Airbus A300-600	16	9	2
Airbus A310-200	25	15	—
Boeing 747-100	—	—	—
Boeing 747-200	4	5	6
McDonnell Douglas MD11	18	13	13
McDonnell Douglas DC10-10	13	13	11
McDonnell Douglas DC10-30	22	22	19
McDonnell Douglas DC8	—	—	—
Boeing 727-100	68	68	69
Boeing 727-200	95	90	90
Cessna 208A	10	10	10
Cessna 208B	254	219	206
Fokker F27	32	32	32

Vehicle fleet	36,900	35,900	30,900
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Average number of employees (based on a standard full-time workweek)	99,999	94,201	88,502
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*Beginning in 1995, certain service fee revenues were classified as package-related revenue. Data for prior periods has been restated where applicable to conform to this presentation.

1993	1992	1991	1990	1989	1988	1987
\$7,808,043	\$7,550,060	\$7,688,296	\$7,015,069	\$5,166,967	\$3,882,817	\$3,178,308
377,173	22,967	252,126	387,355	414,787	379,452	364,743
203,576	(146,828)	40,942	218,423	298,332	302,328	311,885
109,809	(113,782)	5,898	115,764	166,451	187,716	166,952
\$ 53,866	\$ (113,782)	\$ 5,898	\$ 115,764	\$ 184,551	\$ 187,716	\$ (65,571)
\$ 2.01	\$ (2.11)	\$.11	\$ 2.18	\$ 3.18	\$ 3.56	\$ 3.21
—	—	—	—	—	—	(4.48)
(1.03)	—	—	—	.35	—	—
\$.98	\$ (2.11)	\$.11	\$ 2.18	\$ 3.53	\$ 3.56	\$ (1.27)
54,719	53,961	53,350	53,161	52,272	52,670	51,905
—	—	—	—	—	—	—
\$3,476,268	\$3,411,297	\$3,624,026	\$3,566,321	\$3,431,814	\$2,231,875	\$1,861,432
5,793,064	5,463,186	5,672,461	5,675,073	5,293,422	3,008,549	2,499,511
1,882,279	1,797,844	1,826,781	2,148,142	2,138,940	838,730	744,914
1,671,381	1,579,722	1,668,620	1,649,187	1,493,524	1,330,679	1,078,920
1,710,561	1,472,642	1,310,890	1,234,174	1,059,882	877,543	704,392
5.8	5.7	5.6	5.4	5.4	5.3	5.1
\$ 2.62	\$ 2.90	\$ 3.08	\$ 3.13	\$ 3.04	\$ 3.10	\$ 3.33
\$ 15.30	\$ 16.38	\$ 17.33	\$ 16.76	\$ 16.28	\$ 16.32	\$ 16.97
2,050,033	2,258,303	2,650,204	3,148,290	4,019,353	—	—
\$ 1.09	\$ 1.22	\$ 1.20	\$ 1.13	\$ 1.06	—	—
255	254	255	255	255	257	254
—	—	—	—	—	—	—
—	—	—	—	—	—	—
—	4	8	9	9	—	—
8	9	10	10	12	—	—
8	4	1	—	—	—	—
11	11	11	10	8	8	8
19	17	16	16	16	13	11
—	—	—	6	6	—	—
80	85	92	89	80	47	39
87	66	57	41	26	21	21
10	10	10	37	38	38	39
206	206	183	147	109	71	27
32	32	26	19	7	5	—
28,100	30,400	32,800	31,000	28,900	21,000	18,700
84,104	84,162	81,711	75,102	58,136	48,556	41,047

Board of Directors

Robert H. Allen⁽²⁾

Private Investor and
Managing Partner
Challenge Investment Partners
Investment firm

Judith L. Estrin

President and
Chief Executive Officer
Precept Software, Inc.
Computer software company

Jackson W. Smart, Jr.^(2*)

Chairman and
Chief Executive Officer
MSP Communications, Inc.
Radio broadcasting company

Howard H. Baker, Jr.⁽¹⁾

Partner
Baker, Donelson,
Bearman & Caldwell
Law firm

Philip Greer^(1*)

Senior Managing Principal
Weiss, Peck & Greer, L.L.C.
Investment management firm

Frederick W. Smith

Chairman, President and
Chief Executive Officer
Federal Express Corporation

Anthony J.A. Bryan⁽¹⁾

Senior Managing Director
The Whatley Group L.L.C.
*Private investment and
consulting firm*

J.R. Hyde, III⁽²⁾

Chairman and
Chief Executive Officer
AutoZone, Inc.
Auto parts retail chain

Dr. Joshua I. Smith⁽¹⁾

Chairman, President and
Chief Executive Officer
The MAXIMA Corporation
*Information and
data processing firm*

Robert L. Cox⁽¹⁾

Partner
Waring Cox
Law firm

Charles T. Manatt⁽²⁾

Senior Partner
Manatt, Phelps & Phillips
Law firm

Peter S. Willmott⁽¹⁾

Chairman and
Chief Executive Officer
Willmott Services, Inc.
Retail and consulting firm

Ralph D. DeNunzio⁽²⁾

President
Harbor Point Associates, Inc.
*Private investment and
consulting firm*

George J. Mitchell⁽¹⁾

Special Counsel
Verner, Liipfert, Bernhard,
McPherson and Hand
Law firm

⁽¹⁾ Audit Committee

⁽²⁾ Compensation Committee

^(*) Committee Chairman

Frederick W. Smith

Chairman, President and
Chief Executive Officer

T. Michael Glenn

Senior Vice President
Marketing, Customer Service
and Corporate Communications

Mary Alice Taylor

Senior Vice President
United States and Canada

Alan B. Graf, Jr.

Executive Vice President and
Chief Financial Officer

Dennis H. Jones

Senior Vice President and
Chief Information Officer

Laurie A. Tucker

Senior Vice President
Logistics, Electronic
Commerce and Catalog

Kenneth R. Masterson

Executive Vice President,
General Counsel and Secretary

Joseph C. McCarty, III

Senior Vice President
Latin America and Caribbean

James S. Hudson

Vice President, Controller and
Chief Accounting Officer

Theodore L. Weise

Executive Vice President
Worldwide Operations

Gilbert D. Mook

Senior Vice President
Air Operations

David J. Bronczek

Senior Vice President
Europe, Middle East
and Africa

James A. Perkins

Senior Vice President and
Chief Personnel Officer

Michael L. Ducker

Senior Vice President
Asia and Pacific

David F. Rebholz

Senior Vice President
Global Sales and Trade Services

Leonard B. Feiler

Senior Vice President
Central Support Services

Tracy G. Schmidt

Senior Vice President
Air Ground Terminals and
Transportation

Corporate Information

➔ **Stock listing:** The Company's common stock is listed on The New York Stock Exchange under the ticker symbol FDX.

➔ **Stockholders:** At July 15, 1996, there were 9,649 stockholders of record.

➔ **Market information:** Following are high and low closing prices, by quarter, for Federal Express Corporation common stock in fiscal 1996 and 1995. No cash dividends have been declared.

Closing prices of common stock	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 1996				
High	\$75½	\$86	\$82½	\$82½
Low	58½	79%	66%	68%
FY 1995				
High	\$80¼	\$70¼	\$65¼	\$69%
Low	64	56½	53%	59%

➔ **Corporate headquarters:** 2005 Corporate Avenue, Memphis, Tennessee 38132, (901) 369-3600.

➔ **Annual meeting:** The annual meeting of stockholders will be held at the Crowne Plaza Memphis, 250 North Main Street, Memphis, Tennessee, on Tuesday, October 1, 1996, at 10:00 a.m., CDT.

➔ **Inquiries:** For financial information, contact Thomas L. Holland, Managing Director, Investor Relations and Corporate Contributions, Federal Express Corporation, Box 727, Dept. 1854, Memphis, Tennessee 38194, (901) 395-3478. For general information, contact Gregory M. Rossiter, Managing Director, Public Relations, Federal Express Corporation, Box 727, Dept. 1850, Memphis, Tennessee 38194, (901) 395-3460.

➔ **Form 10-K:** A copy of the Company's Annual Report on Form 10-K (excluding exhibits), filed with the Securities and Exchange Commission (SEC) is available free of charge. You will be mailed a copy upon request to Rebecca M. Halvorson, Manager, Investor Relations Department, Federal Express Corporation, Box 727, Dept. 1854, Memphis, Tennessee 38194, (901) 395-3478. Company documents filed electronically with the SEC can also be found on the Internet at the SEC's Web site (<http://www.sec.gov>).

➔ **Auditors:** Arthur Andersen LLP, Memphis, Tennessee.

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

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