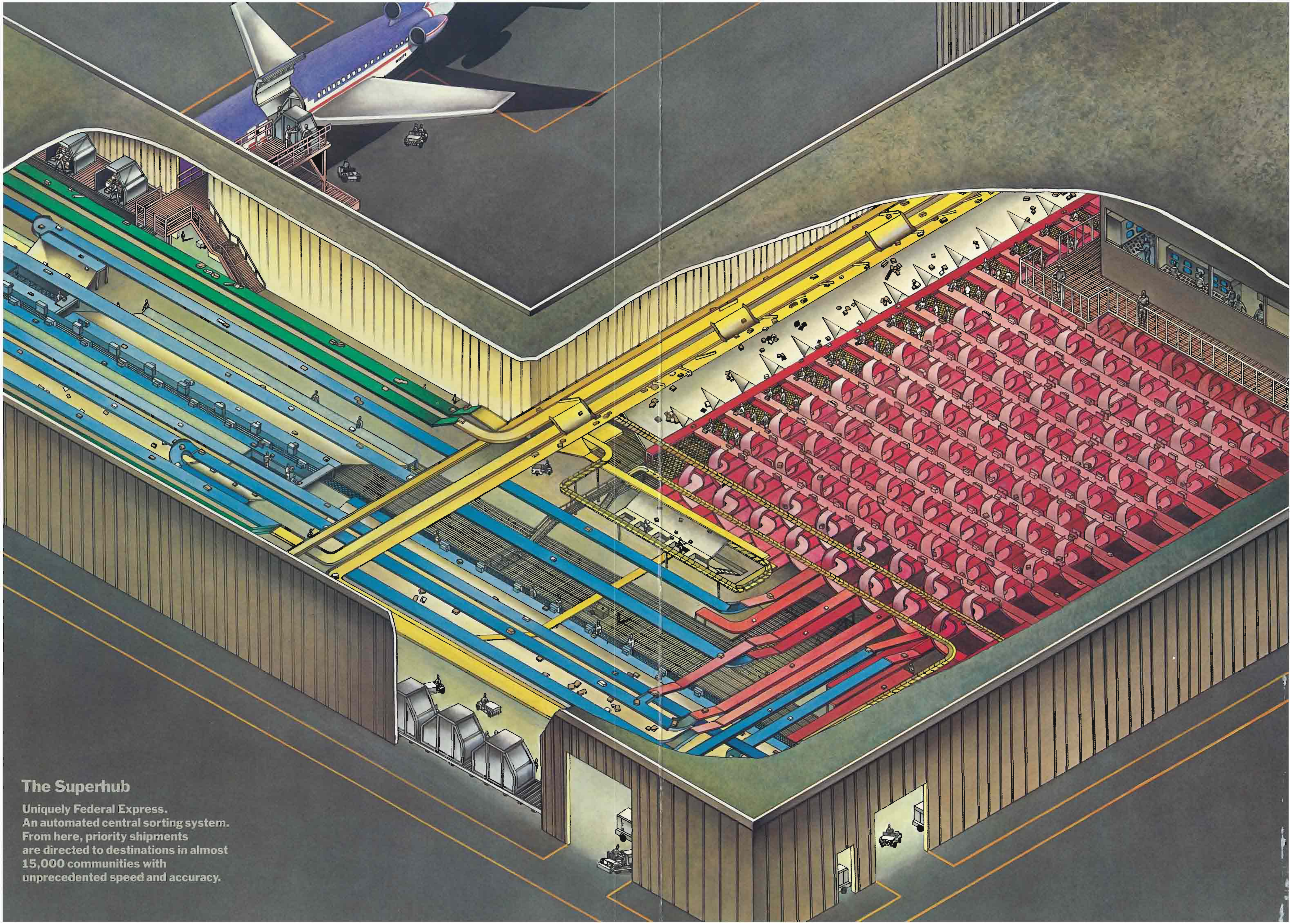


The Superhub

Uniquely Federal Express.
An automated central sorting system.
From here, priority shipments
are directed to destinations in almost
15,000 communities with
unprecedented speed and accuracy.

Consolidated Financial Highlights

		1982	1981	1980
		In thousands, except per share amounts and Other Operating Data		
Operating Results	Express service revenues	**$803,915**	$589,493	$415,379
	Operating income	**119,466**	99,735	67,001
	Income before income taxes	**131,080**	98,044	59,373
	Net income	**78,385**	58,136	37,729
	Earnings per share	**3.70**	2.83	2.00
	Average shares outstanding	**20,894**	20,111	18,282
Financial Position	Working capital	**$ 79,669**	$ 53,106	$ 21,103
	Property and equipment, net	**457,572**	373,250	277,702
	Long-term debt	**223,856**	162,705	142,465
	Common stockholders' investment	**350,319**	270,875	168,745
Other Operating Data	Average daily package volume	**125,881**	87,191	68,022
	Average pounds per package	**6.5**	8.4	9.8
	Average revenue per pound	**$ 3.81**	$ 3.15	$ 2.43
	Aircraft fleet at end of year:			
	McDonnell Douglas DC-10s	**4**	4	2
	Boeing 737s	**—**	1	5
	Boeing 727s	**31**	25	17
	Dassault Falcons	**32**	32	32
	Average number of full-time equivalent employees during the year	**10,092**	8,080	6,806

Note: Financial information for 1981 and 1980 has been restated for a change in accounting method. See Note 2 of Notes to Consolidated Financial Statements.

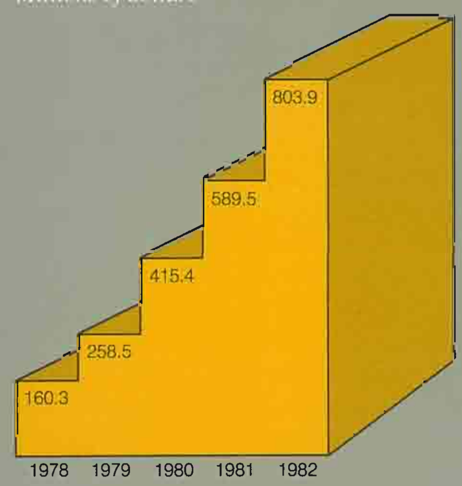
Description of Business

Federal Express Corporation provides door-to-door delivery of business goods (70 pounds or less) and messages throughout the United States overnight, using its integrated, air-ground transportation system. Other services include second-day delivery and special handling of restricted articles. The company operates 67 aircraft, more than 4,000 radio-dispatched delivery vans and a central sorting facility. Local offices are maintained in 180 cities which are served by 91 airports.

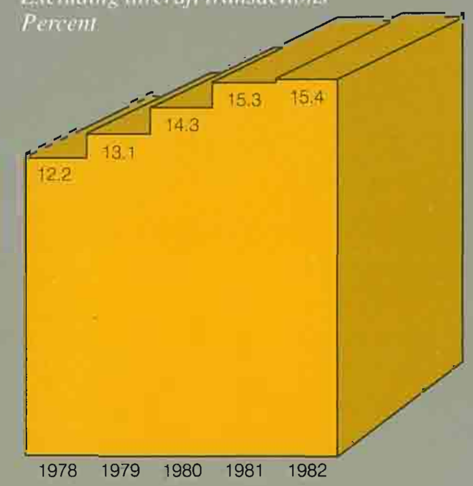
In addition, Federal Express, through an agreement with a licensee, provides high-priority, customs-cleared service between the United States and Canada.

Each business day Federal Express couriers across the country pick up shipments addressed to consignees in any of almost 15,000 communities in the United States. These, in turn, are loaded on Federal Express aircraft. Following a hub-and-spokes pattern, the aircraft fly to the central sorting facility in Memphis, most arriving between midnight and 1:00 a.m. Goods and messages are unloaded, sorted by destination and reloaded. The aircraft fly back to the point of origin carrying only packages destined for that area. Couriers then make deliveries by noon, completing the overnight door-to-door cycle.

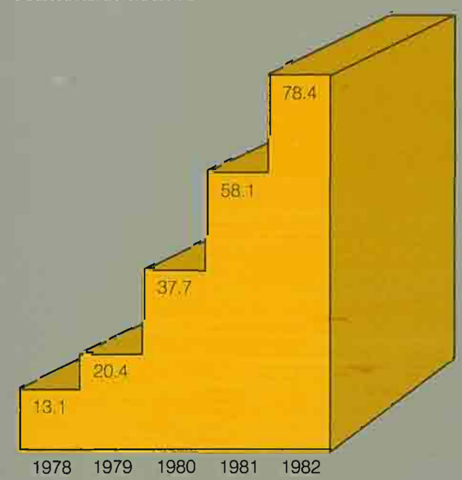
Revenues
Millions of dollars



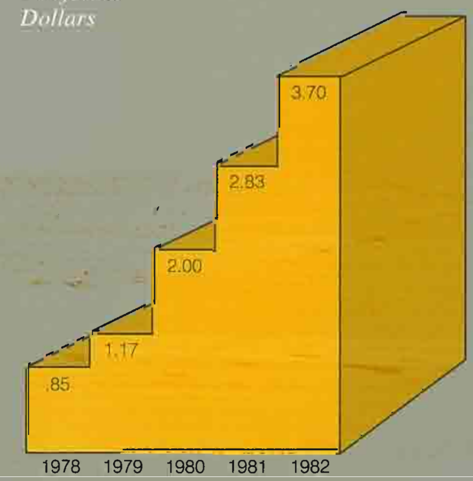
Pre-tax Margin
Excluding aircraft transactions
Percent



Net Income*
Millions of dollars



Earnings per Share*
Pro forma
Dollars



*Before tax benefit of loss carryforward
See Selected Consolidated Financial Data, page 37

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Federal Express Corporation 1982 Annual Report

Five key strengths have solidified Federal Express' leadership in the express business:

Size and scope advantages

Aviation expertise

Telecommunications skills

Brand-name recognition

A dedicated, motivated work force

To Our Stockholders:

During fiscal 1982, despite the recession of our national economy, Federal Express again achieved substantial growth in sales and net income.

Revenues rose to $803.9 million, a 36 percent increase over the $589.5 million the prior year. Net income was $78.4 million, or $3.70 per share, gains of 35 percent and 31 percent, respectively, over $58.1 million and $2.83 per share for fiscal 1981.

During the year we picked up, sorted and delivered more than 32 million express packages, an increase of 45 percent. Most importantly, our system's reliability was considerably above that of any of our competitors and continues to improve.

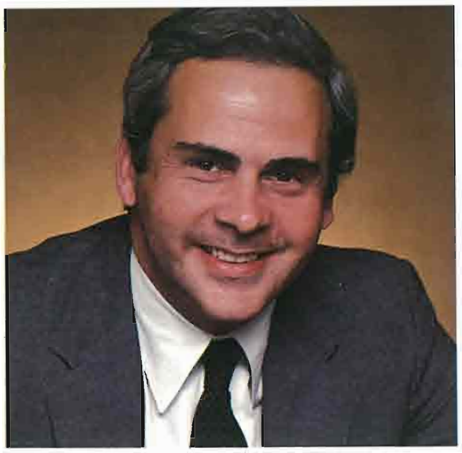
Federal Express started its corporate life based on a simple philosophy of People-Service-Profit. Our belief was, and is, that a dedicated, highly-motivated work force, given the proper equipment and support systems, would be able to satisfy a critical national need that, in time, would create an environment of growth and reward for stockholders, customers and employees. This ingrained philosophy has proven its worth throughout our corporate history, especially during the recent period of serious economic travail.

Despite this adversity during the past year we undertook, advanced or completed a number of programs which would have been remarkable even in a robust economy.

In June, 1981, we introduced the Overnight Letter to fulfill a distinct need within the business community for a rapid, reliable and low-cost means for moving urgent letters. In its first year, the Overnight Letter contributed $56 million to our revenues; and, by May, average daily volume was exceeding 27,000. We believe the outlook for this product is encouraging in light of the fact that the U.S. Postal Service now handles over 200 million pieces of certified, registered, special delivery and Express Mail per year. And while the Postal Service does a fine job handling billions of pieces of routine mail, we believe that truly urgent business correspondence will be attracted to our service with its superior reliability, broader geographic coverage, and our on-demand pickup capability. The ability to instantly trace any Federal Express shipment and to provide customized billing (including an automatic proof of delivery) further distinguishes our Overnight Letter from postal services.

As the fiscal year began, we also activated our new $98-million sorting center in Memphis. Far larger and more automated than similar types of facilities operated by our competitors, this Superhub can handle up to 205,000 packages a night with unprecedented speed and accuracy. Incremental additions to this facility will permit its capabilities to be efficiently expanded as needed. We also increased our geographic coverage of the United States to serve directly 74 percent of the population. Our goal is to reach 95 percent within the next several years. We have also completed arrangements to serve the Canadian transborder market through a licensee, which provides pick-up, customs clearance and delivery under Federal Express graphics.

Our tracing and billing systems are vastly improved as a result of major systems modifications completed this Spring. These



Frederick W. Smith (left) and Peter S. Willmott

changes make our critical ancillary services even more responsive to our customers' needs. For further system enhancements, lower costs and future opportunities, we have connected our customer service centers with the largest existing private satellite network using earth stations, dramatically increasing the capacity and reliability of our long-distance communications system. The resulting network will carry voice, data and video-image transmissions, and link our 4,500 computer terminals throughout the nation with the primary computer system in Memphis. Eventually, our delivery vans will be on line to this coast-to-coast network.

As we have grown, Federal Express has developed certain key strengths which we will use as the basis for future activities:

1. Size and scope advantages. Because we have more airplanes, trucks, vans, facilities and customer contact personnel than any competitor, we can give shippers faster, more responsive and more economical service;

2. Aviation expertise. Our fleet of 67 aircraft, a corps of more than 425 professional pilots, and a maintenance group second to none are directed by an outstanding management team. State-of-the-art equipment supports our aviation activities and contributes to our unmatched reliability;

3. Telecommunications skills. Our integrated systems of on-line computer networks are without parallel in the industry. Even more importantly, our Data Systems personnel are nationally recognized as one of the finest such groups in the country;

4. Brand-name recognition. Because we effectively created our industry, the Federal Express name has become generically identified with the solution to high-priority logistics problems. From our award winning advertising to insuring the cleanliness of each van, Federal Express activities are designed to protect this invaluable franchise. In this regard, we participated in The 1982 World's Fair in Knoxville. The company's pavilion was well received and an estimated two million people will have visited our exhibit before the Fair closes;

5. A dedicated, motivated work force. Our personnel are an unduplicable resource. The Federal Express commitment to its employees has created the most professional and reliable corporate team in our industry.

Over the past decade, we have invested heavily to create a totally integrated, high-priority logistics network which is more reliable than any other commercial transport system ever devised. Although we fully expect competition, we believe that the strengths noted above will stand us in good stead, while providing Federal Express an excellent foundation for an expanding role in the nation's commerce.

Sincerely,

Frederick W. Smith
Chairman and
Chief Executive Officer

Peter S. Willmott
President and
Chief Operating Officer

August 27, 1982


FEDERAL EXPRESS
FEDERAL EXPRESS
TP-153

Review of Operations

Federal Express: A company whose time is now

The annals of American business are illuminated by ideas which forever changed the way of doing things. The start of Federal Express in 1973 was such an event.

The company was created to satisfy a growing business requirement to move goods and information across vast distances with far greater speed and reliability than was possible using older distribution systems.

Technological change was accelerating product obsolescence. New design philosophies emerged, based on replacing components on site rather than returning units to repair depots or plants. Economic considerations required improved productivity from costly field service forces. Established practices of stocking inventories at multiple storage points became prohibitively expensive, technologically risky and administratively inefficient.

This emerging post-industrial society was also in need of rapid communication of information. Talented, creative people everywhere were burdened with too many projects and too many deadlines. To cope successfully, these people needed more of the most valuable resource of all: time. Federal Express literally stretched the clock for legions of white-collar workers.

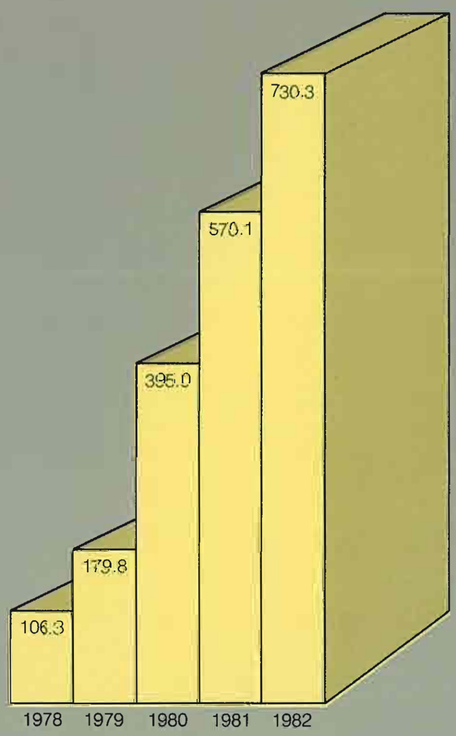
The central concept behind this nation-wide priority logistics system was so paradoxical that only now are Federal Express' competitors being driven to this approach under the pressure of necessity. Simply stated, in order to express packages in volume from any point in the United States to any other point, they must first be gathered in a central location, and from there, directed to their destinations. Actually, the idea was not new. Telephone companies had long before developed central switching to handle their growing number of calls. What was new, and challenging, was to apply the idea to packages.

A wheel with a $98-million hub

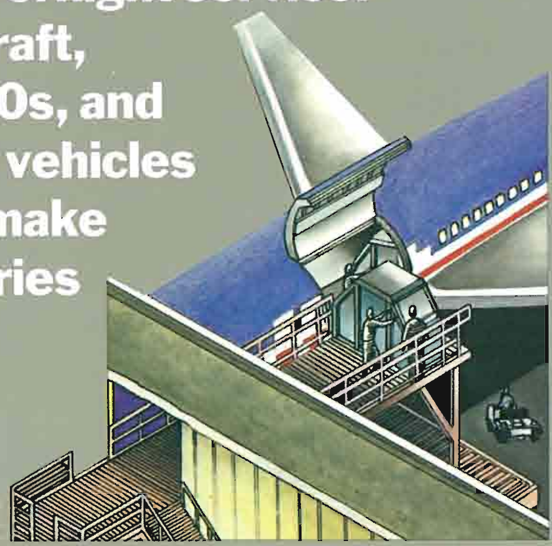
Memphis was chosen as Federal Express' central clearing point because of its location, fine airport and excellent weather. The challenge was to design and engineer a facility which could receive packages coming in by air, sort them according to destinations,

Dallas is one of 275 metropolitan areas in which Federal Express couriers and vans are a familiar sight.

Total Assets
Millions of dollars



Size and scope advantages: No competitor approaches the scope of Federal Express' overnight service. Our fleet of 67 aircraft, including four DC-10s, and over 4,000 ground vehicles permit couriers to make pick-ups and deliveries in almost 15,000 communities.



DC-10 loading at Los Angeles International Airport

and load them back on the appropriate aircraft–and do it in approximately two hours.

The ultimate solution is Federal Express' Superhub, which was phased into operation in fiscal 1981 and 1982. In the Superhub's half-million square-foot building, 17½ miles of automated, high-speed conveyor belts manned by some 1,000 people, mostly local college students, complete each night's sorting in the time required. During the past year, they handled an average nightly volume of 126,000 packages. Eventual capacity of the Superhub, which was designed for modular expansion, will be 500,000 packages per night.

Time is critical in the Superhub's operation. A few minutes saved in sorting ripple through the entire system. Aircraft are able to leave sooner, enabling them to arrive at their destinations earlier. Waiting trucks can thereby avoid heavy morning traffic on their way to city stations where packages are transferred to delivery vans. It also means a later evening deadline for pick-up of packages.

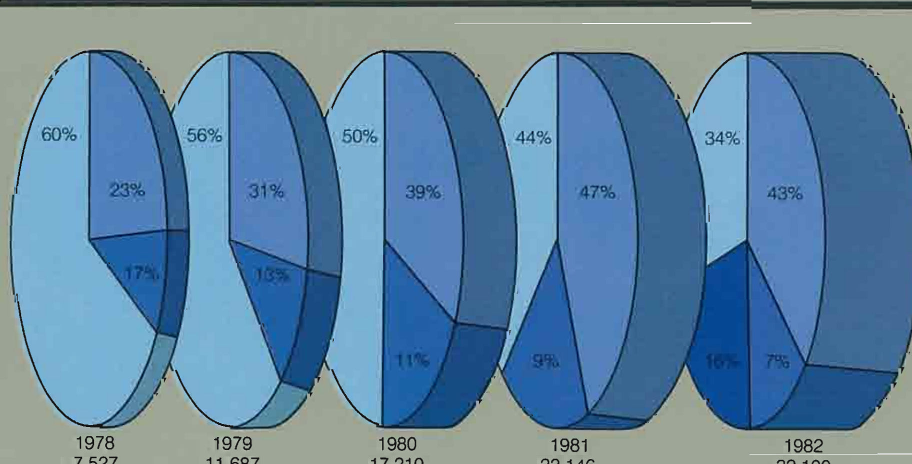
A network of networks

The relationship between more efficient operation of the Superhub and the ability to improve pick-up and delivery schedules illustrates a central point about Federal Express: it is composed of a number of integrated networks. The company's ultimate mission is having every employee and every piece of equipment devoted to solving customers' problems by providing reliable, on-time service. All of them are essential; none is superfluous or irrelevant. The realization that they are truly needed, that they all share in this dependence, is a powerful force motivating all employees, from senior management to the more than 850 customer service agents and 4,000 couriers who *are* Federal Express to the customer.

Packages by Type

Thousands of packages

- Priority 1
- Courier-Pak
- Standard Air
- Overnight Letter



Broad aviation expertise: Federal Express' unmatched reputation for reliability rests largely upon its operation of a company-owned fleet of aircraft. Pilot training and aircraft maintenance programs are second to none among either cargo or passenger airlines.

Ground operations

Most visible of Federal Express' networks are our employees–with their vans, trucks and ground service vehicles–who are responsible for the local pick-up and delivery of documents and packages. They are familiar sights in business districts throughout the United States.

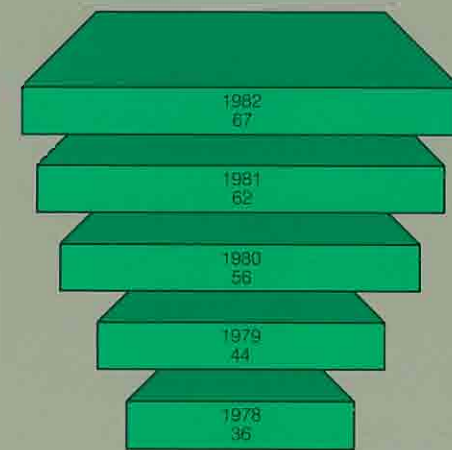
Their work begins when loaded planes touch down at any of 91 airports where Federal Express maintains field operations. The packages, which have already been sorted by zip codes, are unloaded and conveyed to one or more of the 180 city stations where couriers will transfer them to delivery vans.

In the afternoon, the process is reversed. Couriers call not only on regular customers but those who have telephoned to have their packages picked up. Customers may also take their shipments to one of the company's more than 60 Federal Express Centers located on the ground floor of major business buildings in 25 cities, or deposit them in any one of more than 3,000 Self-Service Centers located at sites which are convenient to local business offices. Further expansion is planned for this convenience network of centers to make it easier still to access the Federal Express system.

One of the inherent inefficiencies in ground operations is the inability of dispatchers to communicate with couriers who are away from their vans making deliveries or pick-ups. In response to this problem, the company developed DADS–Digitally Assisted Dispatch System–now in service in several major cities. It consists of a miniature computer and video display terminal in each delivery van. Couriers returning from a customer call need only punch up information on the video screen to aid route planning and identify additional pick-ups.

While applying advanced technology to ground operations,

Aircraft Operated



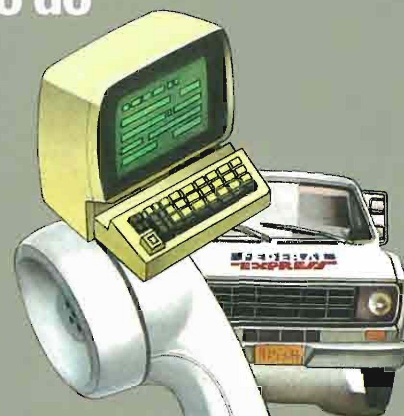
Federal Express also continues to extend its scope. Of 323 Standard Metropolitan Statistical Areas, the company now serves 275, having added 35 during the past year, including such areas as Montgomery, Alabama and Charleston, West Virginia.

Air operations

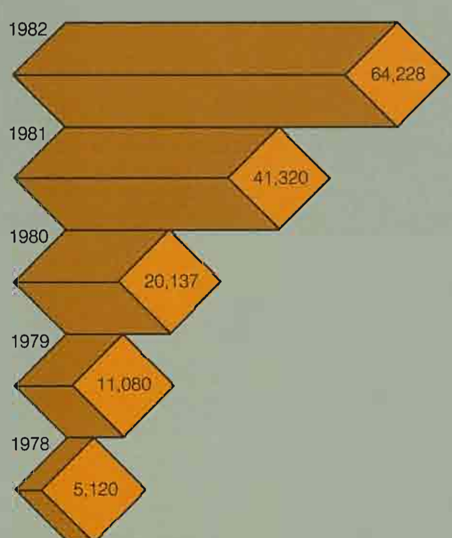
The air fleet that moves packages between airports and the Memphis sorting facility consists of four DC-10s, 31 Boeing 727-100s and 32 Dassault Falcons. Of seven remaining used 727-100s purchased from Eastern Airlines, three are being delivered in first quarter fiscal 1983; one in the second quarter; two in the fourth quarter; and one in first quarter fiscal 1984. The company has placed an order for 15 727-200s to be delivered, at the rate of one per month, starting in July 1983. This stretched

Boeing 727-100 flight simulator, Federal Express' Greenway Aviation Training Center, Memphis

Telecommunication skills: Federal Express has developed a communication system based on powerful computers with 4,500 terminals. But in order to do everything we wanted the system to do and respond to the needs of our customers, we had to teach it a whole new bag of tricks.



Calls Received by Customer Service Centers on June 1*



*Includes pick-up, trace & information calls.

version of the 727 series is more fuel efficient and carries more payload—59,000 pounds compared with the 42,000-pound capacity of the smaller 727-100s. In conjunction with the expansion of its 727 fleet, the company has announced a plan to dispose of its Falcon aircraft.

The priorities of Federal Express' airborne network are safety, reliability and flexibility. Anyone who flies frequently, especially in Winter, is aware of the problem of maintaining an on-time schedule. No one totally overcomes the weather or mechanical problems, but Federal Express comes as close as possible. Further improvements were made in service levels after the Federal Aviation Administration granted approval for full Category II weather operations for our DC-10s and 727s, expediting flights into poor weather cities.

Complementing the basic flight schedule are computer-generated contingency plans for the re-routing of aircraft due to various exigencies caused by weather, traffic delays or mechanical problems. Because the air system must connect smoothly with the ground-operations network, such changes also require adjustments for trucks which may have to collect or deliver packages at alternate airports. The entire procedure is handled by a unique Systems Control unit which monitors the entire operation as each station closes until all packages are safely delivered to the delivery vans the following morning.

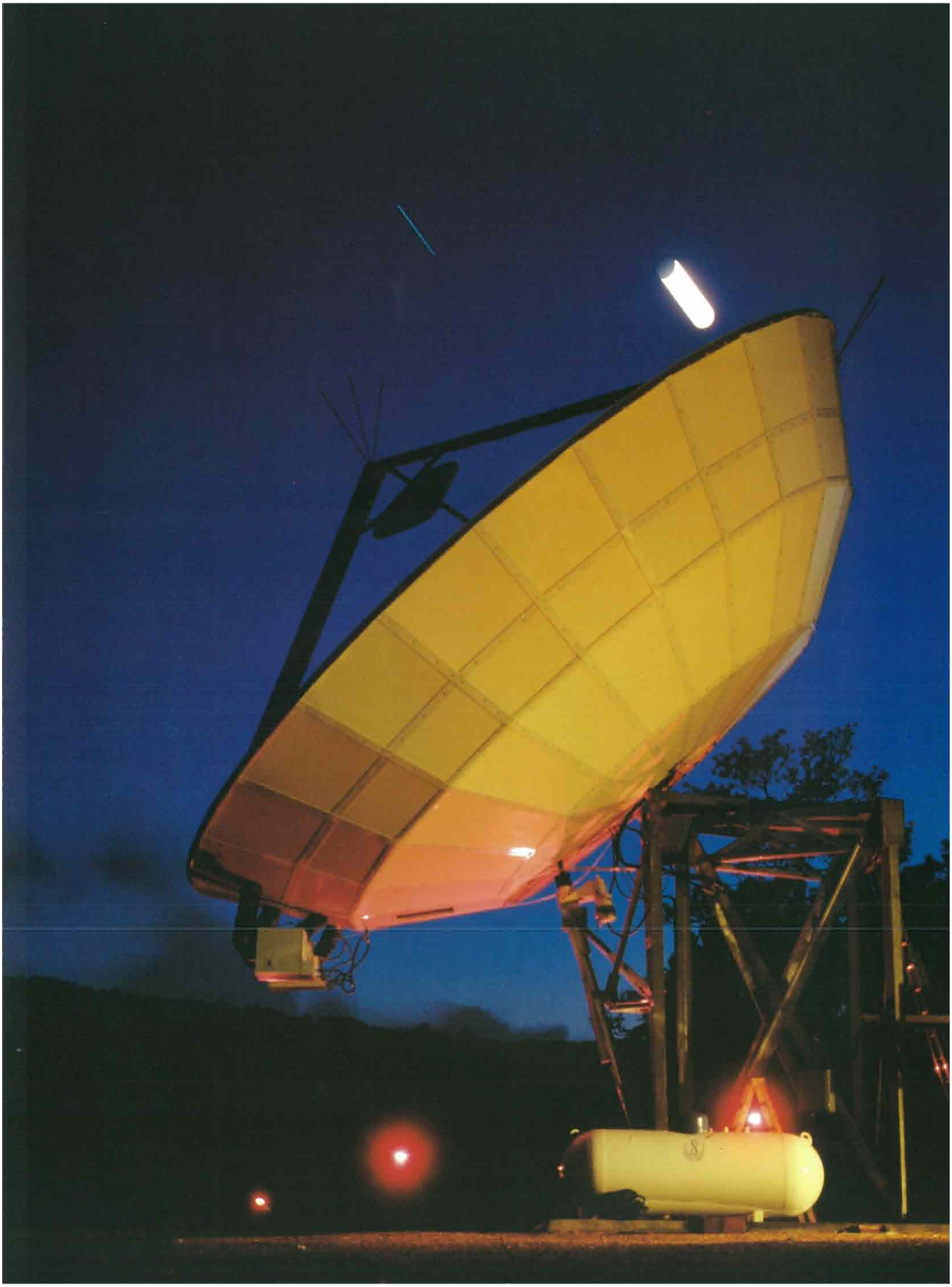
Federal Express has designed and constructed a $3.2-million aviation-training center at the Memphis International Airport. This facility contains a 727-100 simulator and space for a DC-10 simulator which will be installed next Spring. It is also equipped with cockpit procedures trainers, sophisticated audio-visual equipment for interactive instruction, and system mockups for maintenance training.

Federal Express' commitment to on-time, reliable service entails practices which even passenger airlines do not observe. For instance, the company's maintenance and engineering division has established procedures which are more stringent than those mandated by the FAA. The division also has responsibility for the maintenance of all the company's rolling equipment, vans and trucks.

Telecommunications: the information network

To link its ground and air networks, Federal Express has installed one of the most sophisticated systems ever developed. It is activated when a customer calls to request a pick-up. Although a local number is dialed, the call is switched automatically to one of the company's customer

Federal Express satellite earth station, Colorado Springs

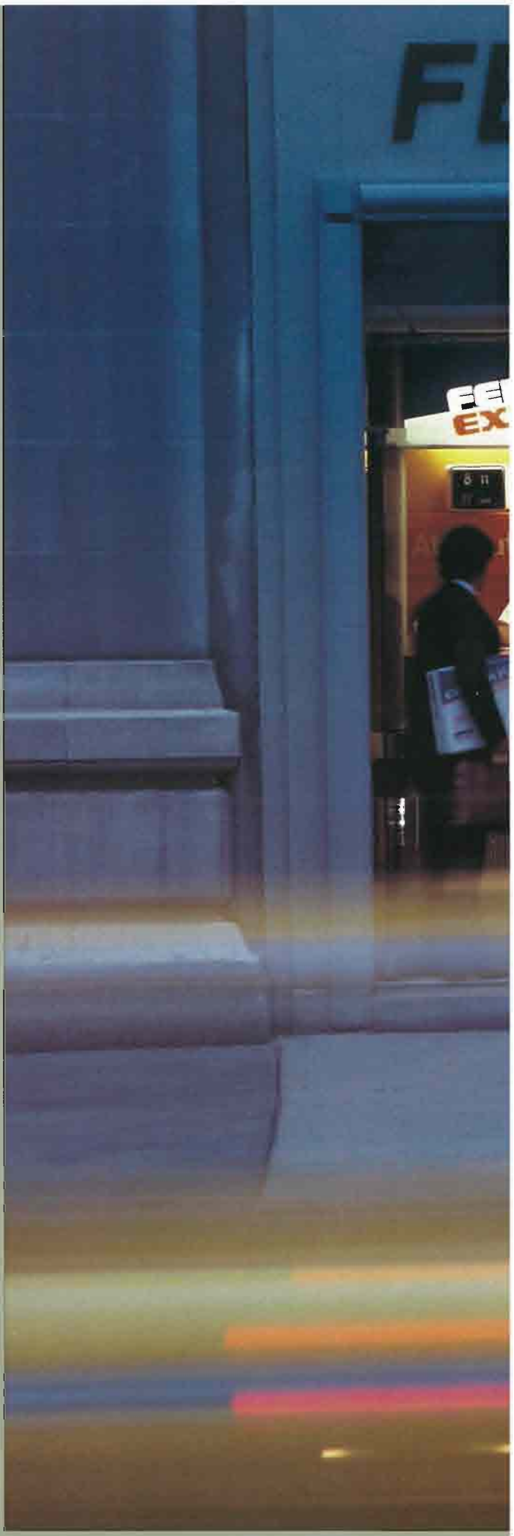


Brand-name recognition: In ten years we have moved from anonymity to a household word. "Let's Federal Express it" is now a synonym for fast, dependable service. If customers sometimes mistakenly apply it to our competitors, we don't mind. Our performance brings them back.

service centers in Memphis, Sacramento, California or Somerset, New Jersey. There, the call is received by a service representative who transmits the request through the Memphis computer system. The order is then transmitted to the appropriate station where it is both printed out and video displayed. If the pick-up is to be made in a major city, it is also routed to the appropriate courier van by means of the DADS network. After making a pick-up, the courier enters that information into a terminal so that the dispatcher can close out all pick-up requests at the end of the day.

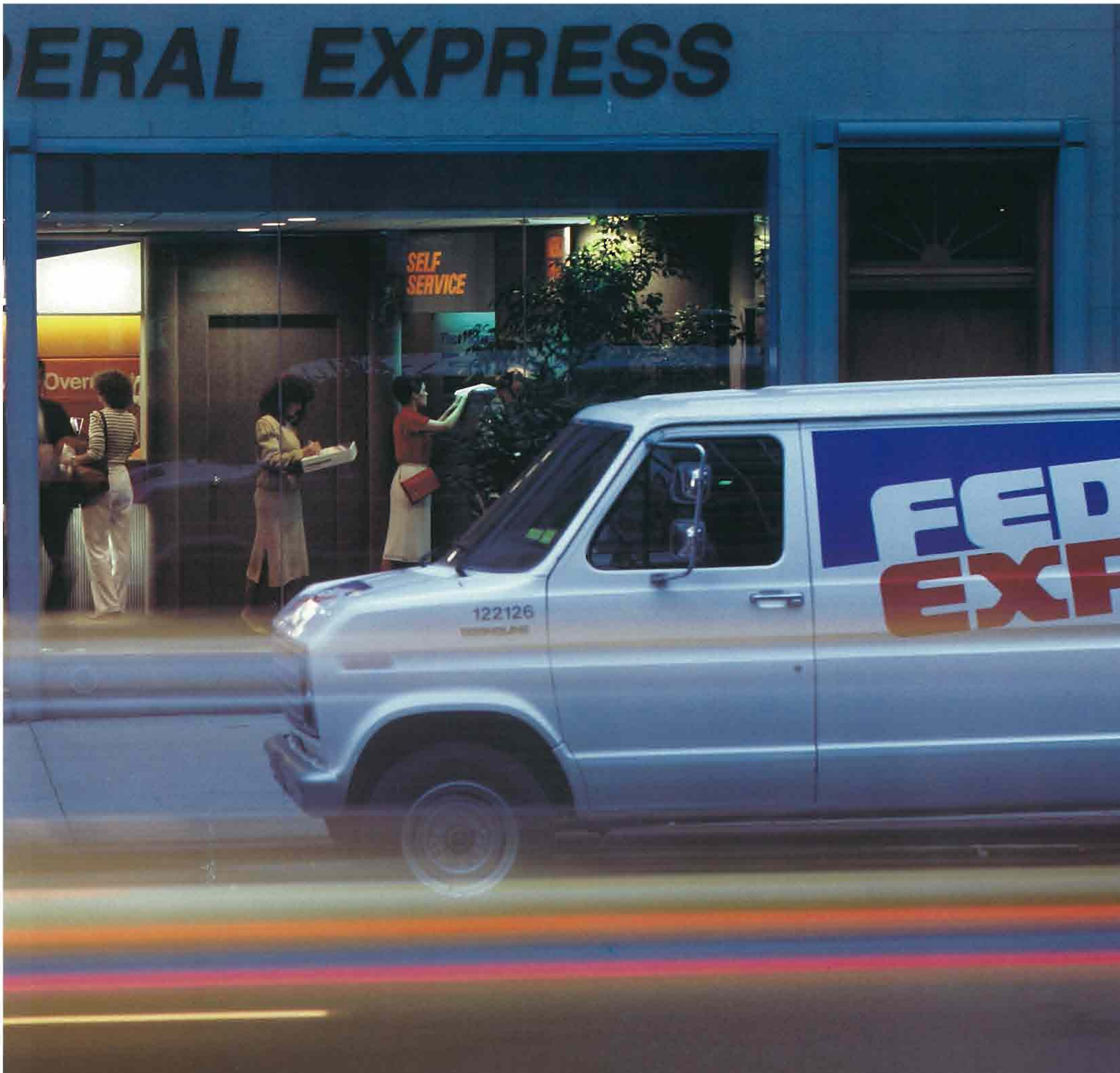
Once the package reaches the city station and before being loaded into a container, the airbill number is scanned electronically. This information is relayed to the Memphis computer where it may be retrieved in less than two seconds. Customers who call to inquire about their shipment may therefore be accurately informed of its status. The system also makes it possible for the company to provide every customer proof of delivery, including date and time. No competitor provides this service.

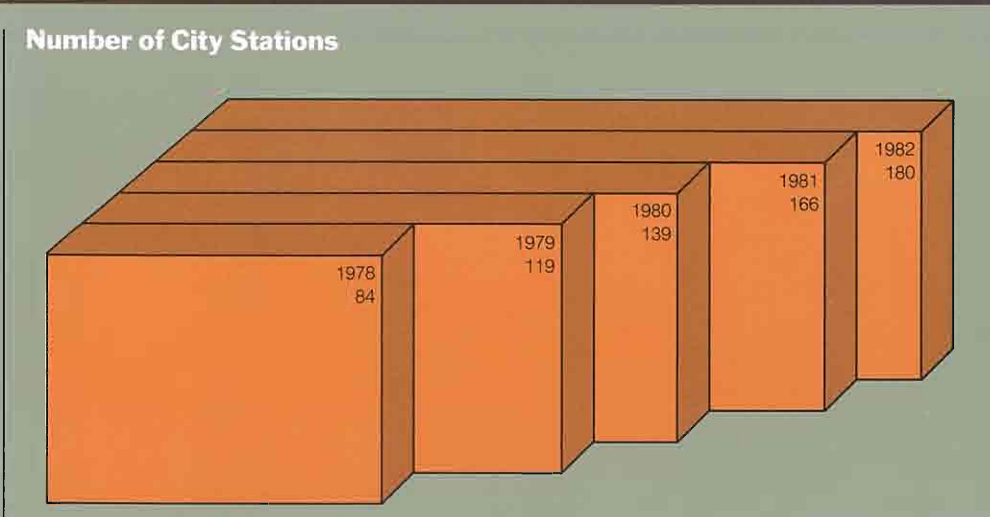
Federal Express' service cycle has a short life. It is born, lives and dies in less than 24 hours. All the information systems that support this cycle must therefore be fast and responsive. For instance, at each city station and at each airport ramp facility, there is a computer terminal connected to the company's data network. As information is continuously received, the Systems Control unit in Memphis is made aware of the volume of packages to be picked up. It can alter individual flight plans to accommodate variances from an anticipated volume and provide airlift to any given location.



"Absolutely, positively": the making of an idea

From its inception, Federal Express has relied upon extensive market research to develop its strategies. Early on, such research revealed that Federal Express' services, although paid for by companies, were used by people under pressure who needed to move vital materials





Federal Express Center on New York City's Park Avenue

A motivated, dedicated work force: Averaging over 140,000 deliveries each week night would not be possible without workers who are totally committed to superior performance. In turn, we are uniquely committed to our employees. When we hire someone, it is with the expectation that they will spend their entire working career with us.

to distant places with absolute assurance that they would arrive on time. To them, Federal Express offered peace of mind, as well as excellent service.

In the final analysis, Federal Express is selling time, and people who save time in their daily functions are most effective. This has been the enduring theme of the company's television advertising which again during the past year swept a substantial number of industry awards. More important, audience research has shown that the commercials do an effective job of presenting Federal Express as a company which responds to a real need.

In addition to national advertising, Federal Express maintains a field force of 190 sales persons and 55 telephone sales representatives who call on major business accounts. The company's superior service gives them a distinct advantage.

There are almost half-a-million Federal Express customers. As an aid to these and potential customers, the company has recently simplified its rate structure, making it easier to use its services. Given this, and additional improvements in responsiveness and reliability, Federal Express is in a position to enjoy substantial growth as the economy improves.

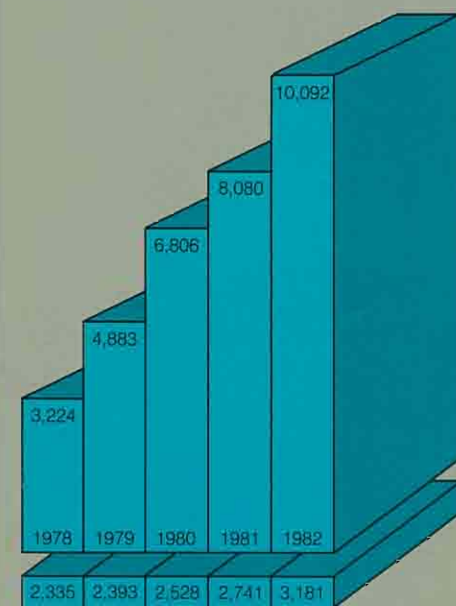
People: the greatest advantage

Federal Express has a policy of not furloughing employees, short of corporate survival. When the company hires someone it views this as a long-term investment.

To retain flexibility in compensation and headcount, Federal Express offers profit sharing plans and augments permanent personnel with casual employees. Use of part-time personnel permits operations to expand or contract with traffic levels.

Federal Express' active list of some 45,000 applicants for

Number of Employees
Full-time equivalent (FTE)



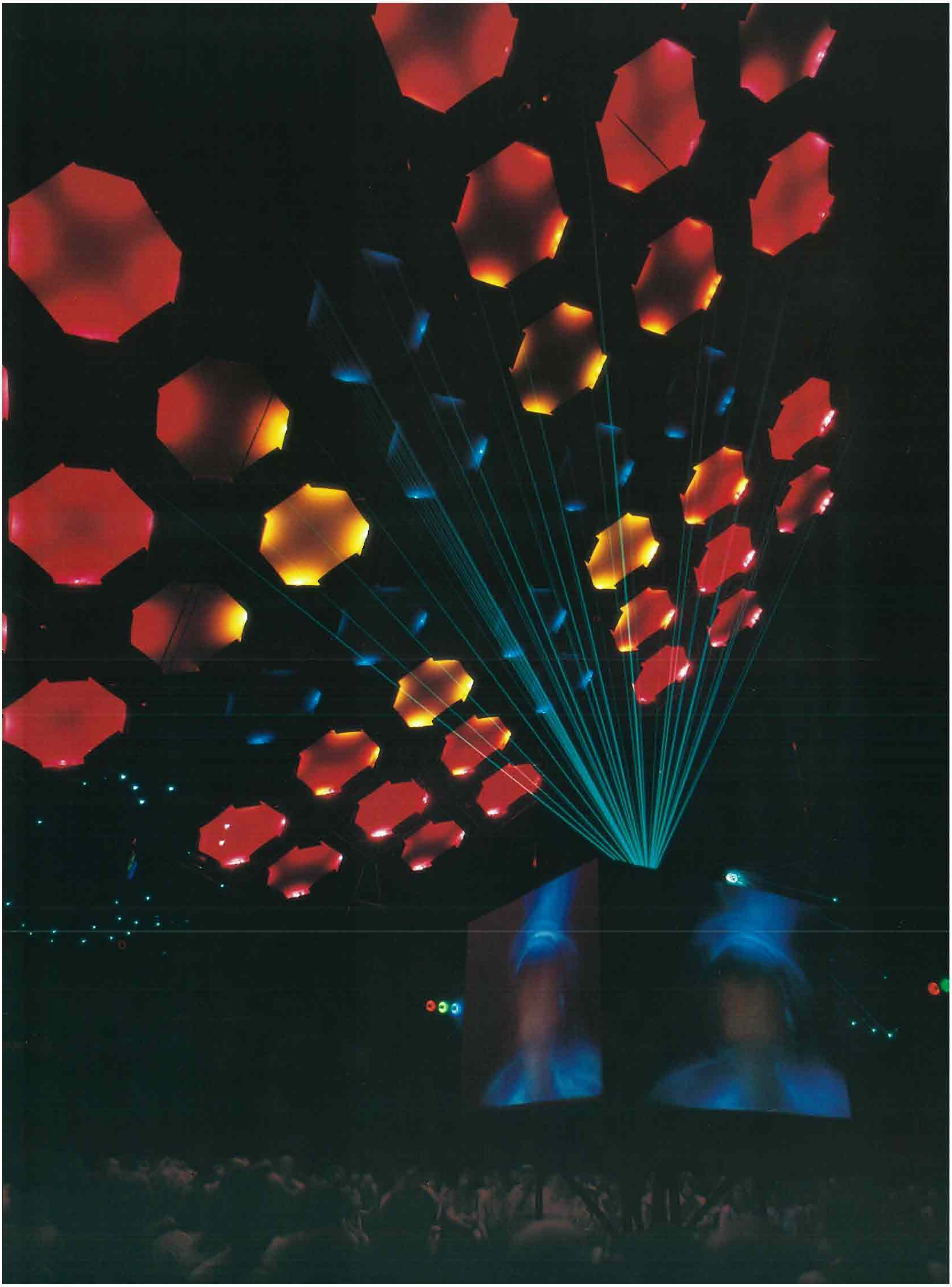
Packages processed per FTE

positions, ranging from pilot to customer service representative, is an indication of the attractiveness of company policy and attendant benefits.

The company invests heavily in employee communications. The objective is to maintain not only downward but also upward channels of communication. There is a company procedure, for example, which permits any employee with a grievance to air it through successive steps leading to the Chairman of the Board.

Federal Express is aware that its progressive and proven policies foster the teamwork required to perform the exacting tasks placed upon the company. In turn, the company's success has made a career with Federal Express one of the most secure and best-paid in the United States.

Couriers load their vans with incoming shipments at Alexandria (Va.) station, which serves Capitol area.



Financial Section

Contents

Federal Express, as the leading corporate participant at the 1982 World's Fair, will have attracted some two million fair goers to its pavilion. The dramatic presentation leads visitors from one theater, depicting the plight of individuals in a technology-oriented society, to a second theater (shown left) where a young boy and his family discover their own creative energy and symbolically demonstrate their powers by sending a shower of laser beams over the audience. Another attraction is a spectacular laser show projected skyward from the roof of the pavilion each night. TIME Magazine called the Federal Express presentation "the most memorable exhibit at the Fair" and NBC's TODAY show singled it out as "one of the most impressive corporate displays."

Federal Express Corporation
and Subsidiary

Consolidated Statements of Income

Years ended May 31

	1982	1981	1980
	In thousands, except per share amounts		
Express Service Revenues	**$803,915**	$589,493	$415,379
Operating Expenses (Notes 1, 2, 5 and 9):			
Salaries and employee benefits	**320,345**	234,491	164,504
Fuel and oil	**69,282**	57,037	42,465
Depreciation and amortization	**56,353**	39,010	22,012
Equipment and facility rentals	**46,116**	35,133	33,256
Maintenance and repairs	**38,795**	22,286	16,129
Advertising	**25,302**	17,159	10,634
Other	**128,256**	84,642	59,378
Total operating expenses	**684,449**	489,758	348,378
Operating Income	**119,466**	99,735	67,001
Other (Income) Expense:			
Interest expense	**15,933**	14,684	10,408
Interest capitalized (Note 1)	**(2,852)**	(2,467)	(802)
Interest income	**(11,994)**	(4,780)	(1,854)
Gain on disposition of aircraft and related equipment (Note 10)	**(7,318)**	(8,068)	—
Other, net	**(5,383)**	2,322	(124)
Total other (income) expense	**(11,614)**	1,691	7,628
Income before Income Taxes	**131,080**	98,044	59,373
Provision for Income Taxes (Notes 1 and 8)	**52,695**	39,908	21,644
Net Income (Note 2)	**$ 78,385**	$ 58,136	$ 37,729
Earnings Per Share (Notes 1 and 2)	**$ 3.70**	$ 2.83	$ 2.00
Average Shares Outstanding (Notes 1 and 7)	**20,894**	20,111	18,282

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

Federal Express Corporation and Subsidiary

Consolidated Statements of Changes in Financial Position

Years ended May 31

	1982	1981	1980
		In thousands	
Funds Provided By:			
Net income	**$ 78,385**	$ 58,136	$ 37,729
Charges to income not requiring working capital:			
Depreciation and amortization	**56,353**	39,010	22,012
Deferred income taxes	**20,369**	6,254	6,215
Other	**967**	728	441
Working capital provided from operations	**156,074**	104,128	66,397
Increase in long-term debt	**65,479**	86,125	206,813
Conversion of preferred stock into common stock	**—**	1,499	682
Proceeds from issuance of common stock	**2,077**	43,669	56,620
Disposition of property and equipment	**14,512**	36,538	92
Decrease in equipment deposits and other assets	**—**	1,508	—
Total funds provided	**238,142**	273,467	330,604
Funds Used For:			
Acquisition of property and equipment	**155,187**	171,096	175,962
Payment of dividends on preferred stock	**1,018**	1,284	1,343
Mandatory redemption of preferred stock	**1,535**	1,538	1,531
Conversion of preferred stock into common stock	**—**	1,499	682
Reduction of long-term debt	**4,328**	65,885	110,077
Increase in construction funds in escrow	**32,855**	162	19,568
Increase in equipment deposits and other assets	**16,656**	—	5,632
Total funds used	**211,579**	241,464	314,795
Increase in Working Capital	**$ 26,563**	$ 32,003	$ 15,809
Increase (Decrease) in Working Capital by Component:			
Cash and short-term investments	**$ (5,216)**	$ 54,291	$ (217)
Receivables	**34,021**	16,034	17,927
Due from Memphis-Shelby County Airport Authority	**(5,191)**	4,817	9,281
Spare parts, supplies and fuel	**(2,205)**	5,090	9,298
Prepaid expenses and other	**5,904**	1,266	190
Current portion of long-term debt and redeemable preferred stock	**(885)**	(403)	(2,213)
Accounts payable	**(1,993)**	(6,322)	(11,971)
Income taxes	**16,930**	(21,153)	4,951
Accrued expenses	**(14,802)**	(21,617)	(11,437)
Increase in Working Capital	**$ 26,563**	$ 32,003	$ 15,809

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

Federal Express Corporation and Subsidiary

Consolidated Balance Sheets

May 31

	1982	1981
Assets	*In thousands*	
Current Assets:		
Cash, including short-term investments of $54,237,000 and $54,629,000 (Note 1)	**$ 60,892**	$ 66,108
Receivables, less allowance for doubtful accounts of $4,784,000 and $3,102,000	**97,371**	63,350
Due from Memphis-Shelby County Airport Authority (Note 1)	**8,907**	14,098
Spare parts, supplies and fuel (Note 1)	**15,162**	17,367
Prepaid expenses and other	**11,933**	6,029
Total current assets	**194,265**	166,952
Property and Equipment, at cost (Notes 1, 4, 5, 10 and 11):		
Flight equipment	**322,854**	289,700
Package handling and ground support equipment	**98,601**	68,120
Land, buildings and leasehold improvements	**60,136**	30,770
Other property and equipment	**96,399**	58,616
Construction in progress	**25,608**	19,988
	603,598	467,194
Less accumulated depreciation and amortization	**146,026**	93,944
Net property and equipment	**457,572**	373,250
Construction Funds in Escrow (Notes 1 and 4)	**52,585**	19,730
Equipment Deposits and Other Assets (Notes 1 and 11)	**25,869**	10,180
	$730,291	$570,112

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

	1982	1981
Liabilities and Stockholders' Investment	*In thousands*	
Current Liabilities:		
Current portion of long-term debt and redeemable preferred stock (Notes 4 and 6)	**$ 5,393**	$ 4,508
Accounts payable	**32,745**	30,752
Income taxes (Note 8)	**10,618**	27,548
Accrued expenses (Note 3)	**65,840**	51,038
Total current liabilities	**114,596**	113,846
Long-Term Debt, less current portion (Note 4)	**223,856**	162,705
Deferred Income Taxes (Notes 1 and 8)	**33,874**	13,505
Commitments and Contingencies (Notes 4, 5, 6, 9, 10 and 11)		
$9.50 Cumulative Preferred Stock, $1.00 par value; stated at $100 mandatory redemption value, less $1,534,500 for shares currently redeemable; 91,810 and 107,155 shares authorized and issued (Note 6)	**7,646**	9,181
Common Stockholders' Investment (Notes 2, 4 and 7):		
Common Stock, $.10 par value; 50,000,000 shares authorized, 20,757,584 and 19,657,728 shares issued	**2,076**	1,966
Additional paid-in capital	**157,489**	155,522
Retained earnings	**190,754**	113,387
Total common stockholders' investment	**350,319**	270,875
	$730,291	$570,112

Federal Express Corporation and Subsidiary

Consolidated Statements of Changes in Common Stockholders' Investment

Years ended May 31, 1982, 1981 and 1980

	Common Stock	Additional Paid-in Capital	Retained Earnings
		In thousands	
Balance at May 31, 1979, as reported	$ 803	$ 53,302	$ 22,905
Adjustment to restate for a change in accounting for vacation benefits (Note 2)	—	—	(1,843)
Balance at May 31, 1979, as restated	803	53,302	21,062
Dividends paid on preferred stock	—	—	(1,343)
Sale of common stock (1,000,000 shares)	100	56,354	—
Issuance of common stock upon:			
Exercise of options (7,460 shares)	1	165	—
Conversion of 6,816 shares of $8.00 Convertible Cumulative Preferred Stock (80,000 shares)	8	674	—
Net income	—	—	37,729
Balance at May 31, 1980	912	110,495	57,448
Dividends paid on preferred stock	—	—	(1,284)
Sale of common stock (1,000,000 shares)	100	42,693	—
Issuance of common stock upon:			
Two-for-one stock split effected in the form of a stock dividend (9,132,178 shares)	913	—	(913)
Exercise of options (55,685 shares)	6	870	—
Conversion of 14,994 shares of $8.00 Convertible Cumulative Preferred Stock (351,972 shares)	35	1,464	—
Net income	—	—	58,136
Balance at May 31, 1981	1,966	155,522	113,387
Dividends paid on preferred stock	—	—	(1,018)
Issuance of common stock upon exercise of:			
Options (100,736 shares)	10	1,403	—
Warrants (999,120 shares)	100	564	—
Net income	—	—	78,385
Balance at May 31, 1982	**$2,076**	**$157,489**	**$190,754**

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

Notes to Consolidated Financial Statements

Note 1
Summary of Significant Accounting Policies

Principles of consolidation. The consolidated financial statements include the accounts of Federal Express Corporation and Federal Express Leasing Corporation, a wholly-owned subsidiary whose operations consist primarily of the acquisition and leasing of equipment to 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. The cost and accumulated depreciation of property and equipment disposed of are removed from the related accounts and any gain or loss reflected in income.

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

Flight equipment	7 to 12 years
Package handling and ground support equipment	5 to 28 years
Buildings and leasehold improvements	5 to 31 years
Other property and equipment	5 to 8 years

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

Capitalized interest. Interest on funds used to finance the acquisition of aircraft and construction of certain facilities is capitalized as an additional cost of the asset up to the date the asset is placed in service. For income tax purposes, interest capitalized is deducted currently.

Short-term investments. Short-term investments are carried at cost, which approximates market and consist of commercial paper, repurchase agreements, certificates of deposit and other money-market instruments.

Construction expenditures under bond issues. In accordance with the provisions of several bond issues of the Memphis-Shelby County Airport Authority, the Company makes construction expenditures and is reimbursed from bond proceeds held by a trustee upon compliance with the terms of the construction contracts and presentation of proof of payment.

Note 1
continued

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.

Deferred charges. Significant costs associated with the introduction of new types of aircraft are deferred and amortized over periods of up to five years. Expenses applicable to the issuance of long-term debt are deferred and amortized over the term of the related debt.

Income taxes. Deferred income taxes are provided for the tax effect of timing differences which occur in the recognition of certain expenses (principally depreciation of property and equipment) for tax and financial reporting purposes. Investment tax credit is accounted for using the flow-through method as a reduction of Federal income taxes in the year in which the credit is utilized.

Earnings per share. Earnings per share are computed by dividing net income (adjusted for dividend requirements on the $9.50 Cumulative Preferred Stock) by the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are the number of shares of common stock that would be issued upon the exercise of all outstanding stock options and warrants.

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

Reclassifications. Certain amounts for 1981 and 1980 have been reclassified to conform to the 1982 presentation.

Note 2
Change in Accounting Method

Effective June 1, 1981, the Company changed its method of accounting for vacation benefits to comply with Statement of Financial Accounting Standards No. 43. This new statement requires the Company to accrue employee vacation benefits as they are earned; previously, such amounts were expensed when paid. In accordance with the provisions of Statement No. 43, this change in accounting was made retroactively and decreased net income by $1,204,000 ($.06 per share) in 1981 and $1,001,000 ($.06 per share) in 1980. The cumulative effect of the restatement for 1979 and prior years amounted to $1,843,000 and is shown as an adjustment to retained earnings at May 31, 1979.

Note 3
Accrued Expenses

Accrued expenses at May 31 consisted of the following (in thousands):

	1982	1981
Interest	**$ 4,946**	$ 4,250
Salaries	**3,888**	1,431
Employee benefits	**38,778**	31,443
Taxes other than income taxes	**6,680**	8,088
Insurance	**7,067**	3,571
Other	**4,481**	2,255
	$65,840	$51,038

Note 4
Long-Term Debt

Long-term debt at May 31 consisted of the following:

	1982	1981
	In thousands	
10¼% unsecured notes payable, due in equal annual installments commencing July 1, 1985 through July 1, 1994	**$ 55,000**	$ 55,000
12⅞% unsecured notes payable, due in equal annual installments commencing July 1, 1986 through July 1, 1995	**20,000**	20,000
Capital lease obligations:		
Memphis-Shelby County Airport Authority:		
7½% and 7⅝% Special Facilities Revenue Bonds, Series 1979, less bond reserve fund of $3,097,000, due in annual installments commencing September 1, 1994 through September 1, 2009	**31,873**	31,873
9% Project Revenue Bonds, Series 1981, due March 1, 1984	**40,000**	40,000
13% and 13¼% Special Facilities Revenue Bonds, Series 1982A, less bond reserve fund of $6,490,000 and unamortized bond discount of $180,000, due in annual installments commencing September 1, 2002 through September 1, 2012	**41,330**	—
11% Special Facilities Revenue Bonds, Series 1982B, less bond reserve fund of $2,533,000, due September 1, 2012	**19,467**	—
Other, effective interest rates of 6¼% to 14½%	**20,044**	18,805
	227,714	165,678
Less current portion	**3,858**	2,973
	$223,856	$162,705

In December 1981, the Company renegotiated its bank credit agreement under which a maximum revolving credit commitment of $150,000,000 is made available through February 28, 1986. Thereafter, the commitment will be reduced pro rata each quarter until termination of the agreement on November 30, 1991. Under the terms of the agreement, $50,000,000 of the commitment is deferred as to availability and automatically becomes available on May 30, 1983 or, at the Company's option, any time prior to such date. Amounts borrowed will bear interest, payable quarterly, at prime through November 30, 1985 and thereafter, at prime plus ½ of 1%. In addition, the agreement provides an option for the Company to elect to pay interest on all or a portion of the borrowings at a short-term fixed rate (based on a 90-day CD rate or one of various London Interbank Offered Rates, as defined) plus ⅝ of 1% through November 30, 1985 and thereafter, at the fixed rate plus 1⅛%. A commitment fee is payable annually at the rate of ½ of 1% per annum on the unused portion of the available commitment and ¼ of 1% on any deferred commitment. In connection with the credit agreement, the Company is required to maintain compensating bank balances equal to 5% of borrowings through November 30, 1983, and thereafter, 2½% of the available commitment plus 2½% of borrowings. During 1982, there were no borrowings under the credit agreements.

The loan and credit agreements each contain, among other things, provisions regarding the maintenance of minimum working capital and certain financial ratios, all as defined, the incurrence of additional indebtedness and long-term lease commitments, the creation of liens on assets and the payment of cash dividends. At May 31, 1982, the amount the Company may expend for cash dividends and for the purchase or redemption of the Company's stock was limited to approximately $200,000,000.

The Company has entered into certain lease agreements with the Memphis-Shelby County Airport Authority in connection with the issuance by the Authority of bonds for the acquisition and construction of various air-cargo handling and sorting facilities, training facilities and related incidental facilities and equipment at the Memphis International Airport. Proceeds from the bonds, including debt service reserve requirements and amounts used to pay interest during the construction period, are held in escrow by a trustee and invested in short-term securities until used to reimburse the Company for

Note 4
continued

qualified expenditures. Under the terms of the lease agreements, the Company is obligated to pay rental in an amount equal to the principal and interest due on the bonds. Annual principal payments on the 1979 and 1982 Special Facilities Revenue Bonds are due as follows: $1,860,000 in 1994 through 2001; $13,860,000 in 2002; $2,610,000 in 2003; $7,120,000 in 2004; $2,250,000 in 2005 through 2008; $4,750,000 in 2009; $750,000 in 2010 and 2011; and $51,250,000 in 2012. It is anticipated that the 1981 Project Revenue Bonds will be refinanced by the Company and, under certain covenants in the resolution which authorized the issuance of the bonds, the Authority will use its best efforts to provide for the payment of the $40,000,000 due in 1984 through a refunding bond issue.

Under the terms of the Special Facilities Revenue Bonds, Series 1982B, the Company has a one-time option on September 1, 1987 or any subsequent September 1 to redetermine the interest rate on the bonds. Such rate will be determined by an independent committee designated by the Authority and will be effective to maturity of the bonds. In addition, the Company has granted to the bondholders the option to tender their Series 1982B bonds for purchase at par by the Company on September 1, 1987 and annually thereafter, prior to the date that the interest rate is redetermined or maturity. The Company may have the tendered bonds, or portions thereof, cancelled, reoffered for purchase in the open market or delivered to the Company.

Scheduled annual principal maturities of long-term debt, including Memphis-Shelby County Airport Authority capital lease obligations, for the five years subsequent to May 31, 1982 are as follows: $3,858,000 in 1983; $44,132,000 in 1984; $3,928,000 in 1985; $8,907,000 in 1986; and $8,648,000 in 1987. The amount due in 1984 includes the principal of the Project Revenue Bonds which management intends to refinance.

Note 5
Lease Commitments

The Company utilizes certain land, facilities, flight equipment, vehicles, data processing equipment, hangars, a training simulator and other equipment under capital and operating leases which expire at various dates through 2021. In addition, supplemental aircraft are leased under agreements which generally provide for cancellation upon sixty days notice.

Property and equipment recorded under capital leases at May 31 was as follows (in thousands):

	1982	1981
Package handling and ground support equipment	**$ 53,103**	$30,497
Land, buildings and leasehold improvements	**23,559**	11,255
Other property and equipment	**24,750**	20,329
	101,412	62,081
Less accumulated amortization	**12,439**	7,438
	$ 88,973	$54,643

Excluded from the above are construction-in-progress amounts related to incomplete projects being financed through bonds issued by the Memphis-Shelby County Airport Authority. Such projects are scheduled for substantial completion in March 1983 (see Note 4).

Rent expense under operating leases for the years ended May 31 was as follows (in thousands):

	1982	1981	1980
Minimum rentals	**$43,541**	$32,526	$23,664
Contingent rentals	**2,575**	2,607	9,592
	$46,116	$35,133	$33,256

Contingent rentals are based on mileage under supplemental aircraft leases.

Note 5
continued

A summary of future minimum lease payments under capital leases and noncancellable operating leases with an initial or remaining term in excess of one year at May 31, 1982 follows (in thousands):

	Capital Leases	Operating Leases: Flight Equipment	Facilities	Other	Total Operating
1983	$ 20,333	$1,604	$ 18,737	$2,539	$ 22,880
1984	60,338	445	16,004	1,420	17,869
1985	16,163	—	12,997	969	13,966
1986	15,284	—	10,593	125	10,718
1987	12,821	—	8,937	5	8,942
Thereafter	341,595	—	75,092	—	75,092
	$466,534	$2,049	$142,360	$5,058	$149,467

Included in the above commitments is a $40,000,000 capital lease obligation to the Memphis-Shelby County Airport Authority due in 1984 which the Company intends to refinance (see Note 4).

At May 31, 1982, the present value of future minimum lease payments for capital lease obligations was $152,894,000.

Note 6
$9.50 Cumulative Preferred Stock

The $9.50 Cumulative Preferred Stock is redeemable at a price of $100 per share. Annually, on each January 1 through 1988, 15,345 shares are required to be redeemed. In addition, the Company has the option to redeem the stock, in whole or in part, at any time. In 1982 and 1981, 15,345 shares were redeemed. The holders of such stock are not entitled to vote except as provided by law.

Note 7
Common Stockholders' Investment

The Company has stock incentive plans which provide for the granting of options to certain officers and other key employees to purchase common stock at a price not less than its fair market value at the date of grant. The maximum number of shares which may be granted is 240,000 under the 1978 Plan, 150,000 under the 1979 Plan and 500,000 under the 1980 Plan. Options granted under the plans become exercisable in varying amounts over periods of one to five years following the date of grant and expire five to ten years from the date of grant.

At May 31, 1982, options for 458,074 shares were outstanding under the plans at exercise prices of $11.13 to $69.63 per share. During 1982, options for 39,200 shares were granted at prices of $47.63 to $65.75 per share, 100,736 shares were exercised at prices of $11.13 to $42.00 per share and 24,880 shares were cancelled at prices of $11.13 to $32.38. At May 31, 1982, options for 139,950 shares were exercisable at prices of $11.13 to $69.63 per share and 246,300 shares were available for future grants. Although the number of participants in each plan varies, approximately 140 employees participate in one or more of the plans.

In March 1982, the Company adopted the 1982 Employee Stock Purchase Plan under which 500,000 shares of common stock were authorized for sale to non-officer employees of the Company. On June 1, 1982 and quarterly thereafter, grants of options to purchase shares of stock will be made to participating employees at a purchase price equal to the lower of 85 percent of the fair market value of the Company's common stock on the date of grant or the date of exercise (three months from the date of grant). The maximum number of shares subject to each option under the Plan is limited to the sum of authorized payroll deductions (up to 10 percent of salary) divided by the per share purchase price.

As of May 31, 1982, there were 1,204,374 shares of common stock reserved for issuance under these plans.

Note 7
continued

On April 1, 1982, Frederick W. Smith, Chairman and Chief Executive Officer of the Company, and a company in which Mr. Smith has a substantial interest exercised warrants to purchase 978,564 shares of common stock at $.63 per share and 20,556 shares at $2.56 per share.

In September 1981, the stockholders approved an amendment to the Company's Certificate of Incorporation to increase authorized common stock from 30,000,000 to 50,000,000 shares.

Note 8
Income Taxes

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

	1982	1981	1980
Current:			
Federal	**$29,021**	$31,393	$13,406
State	**3,305**	2,261	2,023
Total current	**32,326**	33,654	15,429
Deferred:			
Federal	**19,484**	5,839	5,835
State	**885**	415	380
Total deferred	**20,369**	6,254	6,215
	$52,695	$39,908	$21,644

The effective tax rates of 40.2% in 1982, 40.7% in 1981 and 36.5% in 1980 differ from the statutory Federal income tax rate, primarily due to the utilization of investment tax credits of $7,870,000, $4,650,000 and $7,450,000 in such years, respectively. Investment tax credits for 1982 and 1981 have been reduced $1,600,000 and $4,100,000, respectively, related to the disposition of aircraft and related equipment.

Investment tax credit includes approximately $860,000 in 1982, $795,000 in 1981 and $750,000 in 1980 related to an employee stock ownership plan provision established under the Company's deferred profit sharing plan. Under this provision, a contribution equal to the additional investment tax credit allowed by the Internal Revenue Code is made to the plan and invested in the Company's common stock for the benefit of eligible participants.

Note 9
Pension and
Profit Sharing Plans

The Company has a noncontributory defined benefit pension plan which covers substantially all full-time employees age 25 and over with at least one year of service. Pension cost is actuarially determined utilizing the aggregate cost method and is funded as accrued. Past service cost is amortized over the future service lives of participating employees. Total pension expense was approximately $13,247,000 in 1982, $9,513,000 in 1981 and $5,500,000 in 1980.

As of June 1, 1981 and 1980, the actuarial present value of accumulated plan benefits was $8,320,000 and $10,410,000 of which vested benefits amounted to $3,006,000 and $3,398,000, respectively. The accumulated benefit amounts at June 1, 1981 were calculated assuming no future increase in salary levels and a rate of return ranging from 8% to 10¼% as compared to 7% for 1980. Net assets available for plan benefits were $19,742,000 and $9,506,000.

The Company also has a deferred profit sharing plan which covers substantially all full-time employees age 25 and over with at least one year of service. The plan provides for discretionary contributions by the Company, which are determined annually by the Board of Directors, and voluntary contributions by employees. Deferred profit sharing expense, including amounts related to the employee stock ownership provision of the plan (see Note 8), was $7,800,000 in 1982, $6,000,000 in 1981 and $4,400,000 in 1980.

Note 10 Aircraft Dispositions

In October 1981, the Company sold its last Boeing 737 aircraft, a spare engine, spare parts and support equipment and recognized a pre-tax gain of approximately $3,100,000 from the sale.

In January 1978, the Company entered into purchase agreements with Canadair Limited for the purchase of five jet aircraft at a total purchase price of approximately $22,000,000. In March 1978, the Company agreed to the termination of four such agreements and as consideration for each terminated agreement, the Company will receive from Canadair an amount equal to the difference between the Company's purchase price and the sales price of such aircraft to a third party purchaser. In June 1981 and January 1982, the Company recognized gains of $2,105,000 and $2,119,000, respectively, in connection with the delivery of two of the aircraft to third party purchasers. Deliveries of the two remaining aircraft are expected to occur in fiscal 1983. The Company will purchase the fifth aircraft at a price of $4,375,000 with delivery scheduled for March 1983.

Note 11 Commitments and Contingencies

At May 31, 1982, the Company had commitments to purchase seven used 727-100 aircraft at an aggregate purchase price of approximately $23,000,000. Payment for each aircraft is due upon delivery with six aircraft scheduled for delivery in 1983 and one during 1984. The Company estimates that an additional $12,000,000 will be spent for the purchase of spare engines and parts, aircraft modifications and support equipment related to these aircraft. At May 31, 1982, the Company had outstanding deposits of $1,750,000 and letters of credit totalling $5,250,000 in connection with these commitments. During June and July 1982, the Company took delivery of two of the 727-100 aircraft at an aggregate purchase price of approximately $7,200,000.

In September 1981, the Company agreed to purchase fifteen new Boeing 727-200 cargo aircraft and six spare engines at an aggregate purchase price of approximately $310,000,000, including estimated amounts for price escalation. Deliveries of the aircraft are scheduled at the rate of one per month beginning in July 1983. The Company has advanced deposits of approximately $8,000,000 in conjunction with these agreements. Additional deposits and payments, including estimated amounts for price escalation, will be approximately $44,000,000 in 1983, $187,000,000 in 1984, and $71,000,000 in 1985. The Company also estimates that approximately $20,000,000 of additional expenditures will be required for the purchase of spare parts and related support equipment.

Note 12 Summary of Quarterly Operating Results (Unaudited)

The following is a summary of unaudited quarterly operating results for 1982 and 1981 (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1982				
Express service revenues	$182,333	$197,586	$200,938	$223,058
Operating income	28,988	31,645	24,783	34,050
Income before income taxes	31,226	34,903	28,655	36,296
Net income	18,112	20,240	18,964	21,069
Earnings per share	$ .86	$ .95	$ .90	$ .99
Average shares outstanding	20,864	20,863	20,927	20,922
1981				
Express service revenues	$122,434	$145,059	$152,512	$169,488
Operating income	19,395	28,095	22,394	29,851
Income before income taxes	15,794	23,365	26,142	32,743
Net income	9,508	13,873	16,288	18,467
Earnings per share	$ .47	$ .69	$ .79	$ .88
Average shares outstanding	19,680	19,759	20,147	20,856

Note 13
Supplemental Information on the Effects of Changing Prices (Unaudited)

Generally accepted accounting principles in the United States require that financial statements be prepared using historical, or actual, costs. Until recent years, national inflation rates have remained relatively low and the financial data prepared using historical costs have been relatively free of distortion from changing prices. In the past few years, however, dramatic increases in annual inflation rates have been experienced. As a result, there has been increasing concern that financial statements are not an accurate representation of a company's financial condition and results of operations in terms of current dollars.

To assist readers of financial statements in judging the impact of inflation, the Financial Accounting Standards Board issued Statement No. 33, "Financial Reporting and Changing Prices." This statement requires that certain companies present supplemental information describing the effects of inflation on selected financial data utilizing two different methods of measurement: (1) the constant dollar method, which measures the effect of general inflation; and (2) the current cost method, which measures the effect of specific price changes. Both of these methods are experimental and involve the use of assumptions and estimates. Therefore, the resulting measurements should be viewed as estimates rather than as precise indicators of the effects of inflation.

Although the Company recognizes the importance for readers of financial statements to understand the impact of inflation, management believes that the user should continue to focus on the historical financial statements in assessing the Company's results of operations and financial condition. The supplemental data contained in this section may not be a fair presentation of the effects of inflation and the Company cautions the reader against accepting it as such.

In the following summary of financial information, operating results have been adjusted for the effects of general inflation by restating historical cost depreciation and amortization of property and equipment into dollars having the same general purchasing power (1982 constant dollars). Under this method, historical cost depreciation and amortization was remeasured using the Consumer Price Index for all Urban Consumers (CPI-U).

Financial information adjusted for changes in specific prices reflects depreciation and amortization computed on the average current cost during the year of property and equipment having the same service potential (i.e., service life, service capability and operating cost) as assets owned by the Company. Current cost data were developed using a combination of estimated market prices for used flight equipment and external price indices. The current cost of property and equipment does not necessarily represent the market value of the Company's assets nor is it an indication of their future replacement cost.

Revenues and certain other operating expenses have not been adjusted for the effects of inflation, as they were assumed to have occurred proportionately during the year and therefore, generally reflect average price levels for the year. Under each method, depreciation and amortization increased which generally reflects the Company's historical cost investment in property and equipment as compared to higher current prices for such assets. In general, the difference between constant dollar and current cost depreciation amounts represents the extent to which the general rate of inflation has exceeded the increase in specific prices for the Company's assets over the years. The excess of the increase in the general price level over the increase in specific prices of property and equipment in 1982 results primarily from a decline in the current cost of used aircraft.

Note 13
continued

In accordance with Statement No. 33, the provision for income taxes has not been adjusted as current tax laws do not allow deductions for inflation adjusted expenses.

The gain from decline in purchasing power of net amounts owed represents an unrealized gain to the Company from holding net monetary liabilities (excess of amounts owed, which are fixed in terms of dollars, over cash and claims to cash) during the year while prices have generally increased.

The following is a summary of selected financial information for the year ended May 31, 1982, adjusted for the effects of changing prices (in thousands, except per share amounts):

	As Reported in the Consolidated Financial Statements	Adjusted for General Inflation *Constant Dollar*	Adjusted for Changes in Specific Prices *Current Cost*
Operating Results:			
Express service revenues	$803,915	$803,915	$803,915
Depreciation and amortization	56,353	71,954	59,623
Other operating expenses	628,096	628,096	628,096
Gain on disposition of aircraft and related equipment	(7,318)	(4,553)	(4,224)
Other, net	(4,296)	(4,296)	(4,296)
Total expenses	672,835	691,201	679,199
Income before income taxes	131,080	112,714	124,716
Provision for income taxes	52,695	52,695	52,695
Net income	$ 78,385	$ 60,019	$ 72,021
Earnings per share	$ 3.70	$ 2.82	$ 3.40
Other Information:			
Gain from decline in purchasing power of net amounts owed		$ 8,945	$ 8,945
Increase in specific prices (current cost) of property and equipment held during the year*			$ 2,237
Effect of increase in general price level			26,339
Excess of increase in general price level over increase in specific prices			$ 24,102
Net assets at year end	$350,319	$421,596	$343,067

* *At May 31, 1982, the current cost of property and equipment, net of accumulated depreciation was $458,627,000.*

Note 13
continued

A five-year comparison of selected financial information adjusted for the effects of changing prices for the years ended May 31, is presented below (stated in average fiscal 1982 dollars):

	1982	1981	1980	1979	1978
	In thousands, except per share data and index				
Express service revenues:					
As reported	**$803,915**	$589,493	$415,379	$258,482	$160,301
In constant dollars	**803,915**	645,352	509,110	358,064	242,299
Net income:					
As reported	**$ 78,385**	$ 58,136	$ 37,729		
In constant dollars	**60,019**	47,400	39,884		
At current cost	**72,021**	48,898	37,916		
Earnings per share:					
As reported	**$ 3.70**	$ 2.83	$ 2.00		
In constant dollars	**2.82**	2.29	2.10		
At current cost	**3.40**	2.36	2.00		
Net assets at year end:					
As reported	**$350,319**	$270,875	$168,745		
In constant dollars	**421,596**	354,609	245,797		
At current cost	**343,067**	284,504	254,085		
Excess of increase in general price level over the change in specific prices	**$ 24,102**	$ 81,074	$ 4,354		
Gain from decline in purchasing power of net amounts owed	**$ 8,945**	$ 13,128	$ 13,442		
Market price per common share at year end:					
As quoted	**$ 43.25**	$ 68.50	$ 22.32	$ 11.75	$ 9.82
In constant dollars	**42.47**	71.78	25.69	15.47	14.32
Average consumer price index	**281.9**	257.5	230.0	203.5	186.5

Auditors' Report

To The Stockholders of Federal Express Corporation:

We have examined the consolidated balance sheets of Federal Express Corporation (a Delaware corporation) and subsidiary as of May 31, 1982 and 1981, and the related consolidated statements of income, changes in common stockholders' investment and changes in financial position for each of the three years in the period ended May 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Federal Express Corporation and subsidiary as of May 31, 1982 and 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended May 31, 1982, all in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for vacation benefits as required by a newly adopted statement of the Financial Accounting Standards Board and as explained in Note 2.

Arthur Andersen & Co.

Memphis, Tennessee
July 20, 1982

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

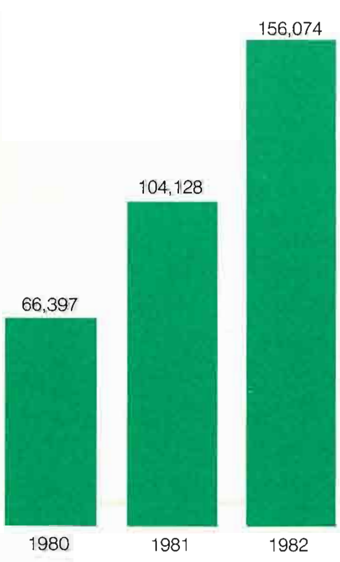
Liquidity and Capital Resources

Federal Express has been able to satisfy its working capital requirements and finance its capital expenditure programs through a combination of income from operations, equity offerings and long-term borrowing arrangements. The Company's working capital position has improved significantly since May 31, 1979, primarily due to strong growth in funds provided from operations. At May 31, 1982, working capital was $79.7 million with a current ratio of 1.70 to 1 as compared to $53.1 million and a 1.47 to 1 ratio at May 31, 1981.

The Company's investment in capital assets has been significant over the past three years with over $150 million expended annually. These capital expenditures are principally related to the Company's planned expansion programs to increase its service capacity and include the addition of DC-10 and 727-100 aircraft, a major expansion of its central package handling and sorting facilities (Superhub) and the addition of city station facilities. These programs are being financed through proceeds from loan agreements, bond issues, equity offerings and from internally generated funds. At May 31, 1982, the Company had outstanding commitments to purchase seven additional used Boeing 727-100 and fifteen new Boeing 727-200 aircraft scheduled for delivery in fiscal 1983 through 1985. In 1979, the Company began an extensive program to expand and improve its Superhub facilities located at the Memphis International Airport. This program is a phased expansion which provides support equipment and facilities and additional sorting and package handling capacity in response to growth in package volume. During 1982, package handling capacity was increased to 205,000 packages nightly and a further expansion was begun to provide additional support facilities and equipment. These improvements are being financed through long-term capital lease commitments with the Memphis-Shelby County Airport Authority. Total planned expenditures for 1983 will approximate $250 million, including aircraft acquisitions and equipment and facilities additions, and are anticipated to be financed from an existing bank credit agreement, bond offerings and internally generated funds.

Except for the purchase of aircraft, the construction of training and support facilities and other projects for which the Company is now committed, the amount and timing of future expenditures subsequent to fiscal 1983 will depend on various factors which cannot be predicted, including future levels of package volume, the feasibility of introducing new services and expanding services to new cities, fuel availability and cost and the availability of satisfactory financing. The Company continually reviews its long-range capital requirements and determines the need for additional expenditures based on projections of profitability and return on investment. This factor, together with the Company's rapid growth, dictates that a significant degree of flexibility be available for adjusting its capital expenditure programs as the need arises.

Working Capital from Operations
Thousands of dollars



Management's Discussion and Analysis
continued

In December 1981, the Company renegotiated its bank credit agreement to provide a more flexible line of credit designed to be more responsive to future financing requirements. The new agreement provides for a maximum borrowing of $150 million under a revolving credit arrangement which expires on November 30, 1991. At May 31, 1982, there were no borrowings outstanding under this credit agreement.

At May 31, 1982, the Company's debt-to-equity ratio was .65 to 1. In management's opinion, this should provide the Company with a high degree of financial flexibility to meet changing conditions.

For additional information on the Company's long-term financing arrangements and future aircraft commitments see Notes 4 and 11 of Notes to Consolidated Financial Statements.

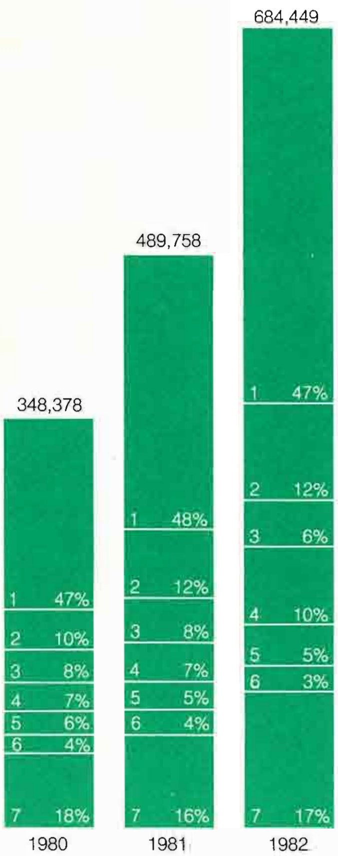
Results of Operations

The Company's growth in profitability has resulted primarily from a combination of increased package volume, increased prices for the Company's services and improved productivity. Package volume has been favorably affected by expanded service into new cities, increased advertising and promotional efforts and the relaxation and subsequent abolishment of regulations which restricted the Company's pickup and delivery service areas. The increases in express service revenues have more than offset the higher level of operating expenses, which generally were attributable to the higher volume of business and inflationary factors. Rising fuel prices, additional advertising and marketing programs to promote the Company's services in new market areas, the opening of new locations, improved customer service programs and system enhancements, and administrative expenses primarily related to the design and implementation of improved data processing capabilities have all contributed to these higher operating expense levels.

1982 Compared to 1981. Express service revenues increased $214.4 million (36%), primarily as a result of an increase in package volume. Total packages shipped were up 45% to 32.1 million as compared to 22.1 million in 1981. The volume-related increase in revenues more than offset a 6% decline in the overall yield per package during 1982 due to a higher volume of the Company's lighter-weight, lower-priced Courier-Pak and Overnight Letter services. With nationwide introduction of the Overnight Letter service in June 1981, these two services now represent 59% of total packages as compared to 47% in 1981.

Operating expenses increased $194.7 million (40%), principally related to higher package volume and an expansion of operating capacity. Salaries and employee benefits, which represent 47% of total operating expenses, rose $85.9 million (37%) in 1982 as a result of higher employment levels, wage and salary increases and improved benefits. Depreciation and amortization was up $17.3 million (44%) and maintenance and repairs increased $16.5 million (74%). These increases primarily reflect the addition of one DC-10 and nine 727-100 aircraft over the last fifteen months, an expansion of the Company's Superhub sorting facilities in Memphis and additional vehicles and support equipment. Fuel and oil costs increased $12.2 million (21%). This increase was mainly related to an expanded aircraft fleet with a resulting 15% higher consumption level and a 4% increase in the average price per gallon of aircraft fuel for 1982, which accounted for increases of $7.6 million and $2.0 million, respectively. Equipment and facility rentals were up $11.0 million (31%), primarily due to a growth in operations. During 1982, the Company expanded its customer service area by opening new city stations, added more vehicles to its package delivery fleet and provided added customer services through

Operating Expense Distribution
Thousands of dollars



1. Salaries & Employee Benefits
2. Fuel & Oil
3. Depreciation & Amortization
4. Equipment & Facility Rentals
5. Maintenance & Repairs
6. Advertising
7. Other

improved data systems enhancements. With the advent of the Overnight Letter and increased competition within the small package delivery business, an extensive marketing and promotional program was undertaken in 1982 which resulted in an $8.1 million (47%) increase in advertising costs. Other expenses were up $43.6 million (52%), primarily in support of the Company's expanded operations and general inflationary pressures. Additional communications expense, supply costs and a higher bad debt provision accounted for 20%, 17%, and 9%, respectively, of the increase in other expenses.

Operating income rose $19.7 million (20%) in 1982. Due primarily to the economic recession, a smaller growth in package volume than anticipated resulted in an underutilization of the Company's operating capacity and a drop of two percentage points in the operating margin.

In 1982, the Company had net other income of $11.6 million compared to net other expense of $1.7 million in the prior year, a change of $13.3 million. Interest income accounted for $7.2 million of the change and was principally the result of higher levels of short-term investments and bond construction funds held in escrow. In 1982, the Company realized gains totalling $7.3 million from the sale of its last 737 aircraft and two Canadair aircraft delivery positions as compared to 1981 gains of $8.1 million from the sale of three 737 aircraft. Additionally, favorable property tax and insurance adjustments totalling $4.4 million and a $1.1 million excise tax refund were recorded in 1982 while a loss of $1.2 million was incurred in 1981 due to the forfeiture of option deposits on four DC-10 aircraft.

Pre-tax income was up $33.0 million (34%), largely due to the increase in operating income. The pre-tax margin, including the effect of gains from aircraft sales, declined slightly due to the lower operating margin for 1982 which was offset by the higher level of other income. The effective tax rates for 1982 and 1981 were 40.2% and 40.7%, respectively, and are different from the statutory rate primarily due to the utilization of investment tax credits.

Net income for 1982 rose $20.2 million (35%). Earnings per share increased $.87 as a result of all of the factors discussed above although the per share impact of the year's results were slightly reduced due to a 4% increase in common and common equivalent shares.

1981 Compared to 1980. Express service revenues increased $174.1 million (42%), principally due to a 29% increase in package volume from 17.2 million in 1980 to 22.1 million in 1981. The average yield per package rose 11% for 1981, primarily as a result of price increases for the Company's services, which included the effect of the expiration, in October 1980, of Federal excise tax legislation related to the transportation of property by air. These price increases were offset somewhat by a strong growth in the lower-priced Courier-Pak service.

Operating expenses were up $141.4 million (41%) for 1981, primarily related to the growth in package volume, expanded customer services and operating capacity and general inflationary pressures. Salaries and employee benefits increased $70.0 million (43%), principally the result of higher employment and wage and salary levels, as well as increased fringe benefits. Depreciation and amortization increased $17.0 million (77%) and maintenance and repairs were up $6.2 million (38%), primarily reflecting the addition of three DC-10 and seven 727-100 aircraft since the third quarter of fiscal year 1980 and additional ground support equipment. Fuel and oil costs were up $14.6 million (34%), due to an increase in fuel prices and an enlarged aircraft and vehicle fleet. Higher jet fuel prices, brought on by inflation and the decontrol of jet fuel, raised the average price per gallon for aircraft fuel consumed in 1981 by 23% over 1980 prices and accounted for a $9.5 million increase in jet fuel costs. A 10% higher consumption level resulted in $3.7 million of additional expenses. Equipment and facility rentals were $1.9 million (6%) higher in 1981 which were primarily attributable to additional administrative facilities, new city

Management's Discussion and Analysis
continued

stations and data processing support equipment with an offsetting reduction in leased supplemental aircraft expense, which declined due to more utilization of the Company's owned aircraft. An expanded marketing program for the Company's services resulted in an increase of $6.5 million (61%) in advertising costs. Other expenses were up $25.3 million (43%) for 1981, primarily related to higher communications expense, printing and supply costs, and property taxes; 21%, 20%, and 12% of the increase in other expenses, respectively.

Operating income increased $32.7 million (49%) and the Company's operating margin improved slightly from 16.1% in 1980 to 16.9%, primarily reflecting the growth in package volume, more utilization of capacity and stringent cost controls.

Other income and expense decreased $5.9 million (78%). Interest expense, net of capitalized interest, was $2.6 million higher in 1981, primarily reflecting a greater utilization of borrowings to finance capital expenditures and a partially offsetting higher amount of capitalized interest related to the Superhub expansion program. A higher amount of interest income for 1981 resulted from higher levels of short-term investments, and gains totalling $8.1 million were realized from the sale of three 737 aircraft. Additionally, the Company absorbed a $1.2 million loss from the forfeiture of deposits on four DC-10 aircraft purchase options, which the Company elected not to exercise.

Pre-tax income rose $38.7 million (65%), principally related to the higher level of operating income. The pre-tax margin, excluding the gain on aircraft sales, increased to 15.3% as compared to 14.3% in 1980, primarily reflecting the overall decrease in other income and expense. The effective tax rates for 1981 and 1980, 40.7% and 36.5%, respectively, both differ from the statutory rate primarily as a result of the utilization of investment tax credits. The higher effective tax rate for 1981 reflects a reduction in the investment tax credit amount due to the sale of 737 aircraft purchased in 1980.

Net income for 1981 was up $20.4 million (54%). Earnings per share increased $.83 despite a 10% increase in common and common equivalent shares, primarily the result of the Company's stock offerings in January 1980 and 1981.

1980 Compared to 1979. Express service revenues were up $156.9 million (61%) for 1980, primarily because of a 47% increase in the number of packages carried.

Operating expenses were $130.0 million (60%) higher, principally related to the higher package volume and expanded service capacity and the effects of general inflation. During 1980, the Company experienced a higher level of employment and compensation, introduced DC-10's and 737's and added more 727's to its existing aircraft fleet, purchased additional ground support equipment, opened new city stations and a second regional customer call-consolidation center and expanded its advertising program.

Other income and expense increased $1.3 million (21%), primarily as a result of a higher level of interest expense (net of capitalized interest) from additional borrowings used to finance the Company's expanded service capacity. This increase in interest expense was partially offset by additonal interest income from bond construction funds and increases in other income amounts.

Pre-tax income was up $25.6 million (76%) and generally reflects a higher level of operating income for 1980. An increase of $8.2 million (62%) in the provision for income taxes was attributable to the higher pre-tax income and a lower effective tax rate resulting from greater utilization of investment tax credits.

Net income was$17.3 million (85%) higher and earnings per share gained $.83 for 1980 while common and common equivalent shares increased 12%.

Inflation and Changing Prices. For information on the impact of inflation and changing prices on operating results see Note 13 of Notes to Consolidated Financial Statements.

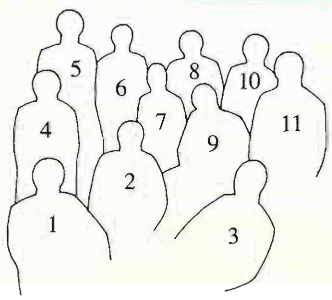
Selected Consolidated Financial Data

	1982	1981	1980	1979	1978
		In thousands, except per share amounts			
Operating Results					
Express service revenues	**$803,915**	$589,493	$415,379	$258,482	$160,301
Operating expenses	**684,449**	489,758	348,378	218,370	135,064
Operating income	**119,466**	99,735	67,001	40,112	25,237
Other (income) expense	**(11,614)**	1,691	7,628	6,329	5,693
Income before income taxes	**131,080**	98,044	59,373	33,783	19,544
Income taxes	**52,695**	39,908	21,644	13,400	6,471
Income before tax benefit of loss carryforward	**78,385**	58,136	37,729	20,383	13,073
Tax benefit of loss carryforward	**—**	—	—	—	6,425
Net income	**$ 78,385**	$ 58,136	$ 37,729	$ 20,383	$ 19,498
Earnings Per Share					
Historical—					
Earnings before tax benefit of loss carryforward	**$ 3.70**	$ 2.83	$ 2.00	$ 1.17	$ 1.06
Net earnings per share	**3.70**	2.83	2.00	1.17	1.62
Average shares outstanding	**20,894**	20,111	18,282	16,366	11,512
Pro forma (See note)—					
Earnings before tax benefit of loss carryforward	**$ 3.70**	$ 2.83	$ 2.00	$ 1.17	$ .85
Net earnings per share	**3.70**	2.83	2.00	1.17	1.25
Average shares outstanding	**20,894**	20,111	18,282	16,366	15,888
Financial Position					
Current assets	**$194,265**	$166,952	$ 85,454	$ 48,975	$ 30,370
Property and equipment, net	**457,572**	373,250	277,702	123,844	71,813
Total assets	**730,291**	570,112	395,030	179,823	106,291
Current liabilities	**114,596**	113,846	64,351	43,681	24,315
Long-term debt	**223,856**	162,705	142,465	45,729	30,825
Common stockholders' investment	**350,319**	270,875	168,745	74,946	37,491

Note: Pro forma earnings per share have been computed as though the Company's recapitalization and stock offerings in April 1978 had occurred at the beginning of fiscal year 1978.

Financial information for 1981 and prior periods has been restated for a change in accounting method. See Note 2 of Notes to Consolidated Financial Statements.

Directors and Principal Officers



1 Thomas R. Oliver
2 Fred A. Manske, Jr.
3 Brian E. Pecon
4 James L. Barksdale
5 James A. Perkins
6 David C. Anderson
7 Kenneth R. Masterson
8 Francis X. Maguire
9 James R. Riedmeyer
10 Theodore L. Weise
11 John C. Miller

Board of Directors

Robert H. Allen[2]
Private Investor

Arthur C. Bass
Chairman of the Board,
Chief Executive Officer and President
Midway Airlines, Inc.

Anthony J.A. Bryan[1]
Chairman and Chief Executive Officer
Copperweld Corporation
Manufacturers of seamless and welded tubing, bimetallic wire, rods and strand and carbon and alloy steel bars

Ralph D. DeNunzio[2]
President and Chief Executive Officer
Kidder, Peabody & Co. Incorporated
Investment bankers

Philip Greer[1]*
General Partner, Weiss, Peck & Greer
Diversified investment management and securities firm

J.R. Hyde, III[1]
President and Chairman of the Board
Malone & Hyde, Inc.
Wholesale and retail foods, drugs and sporting goods

Jackson W. Smart, Jr.[2]*
Chairman of the Board and
Chief Executive Officer
Central National Bank in Chicago
Commercial banking

Frederick W. Smith
Chairman of the Board
and Chief Executive Officer

John Burton Tigrett
Financial Consultant

Peter S. Willmott
President and Chief Operating Officer

[1] Audit Committee
[2] Compensation Committee
* Committee Chairman

Senior Corporate Officers

Frederick W. Smith
Chairman of the Board
and Chief Executive Officer

Peter S. Willmott
President and Chief Operating Officer

David C. Anderson
Senior Vice President and Treasurer

James L. Barksdale
Senior Vice President, Data Systems

Francis X. Maguire
Senior Vice President,
Corporate Communications

Fred A. Manske, Jr.
Senior Vice President, Ground Operations

Kenneth R. Masterson
Senior Vice President and General Counsel

John C. Miller
Senior Vice President, Finance and Logistics

Thomas R. Oliver
Senior Vice President,
Marketing & Customer Service

Brian E. Pecon
Senior Vice President,
Flight and International Operations

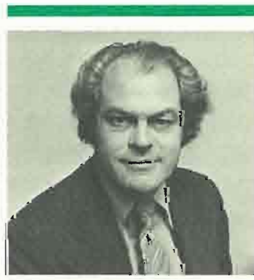
James A. Perkins
Senior Vice President, Personnel

James R. Riedmeyer
Senior Vice President,
Maintenance & Engineering

Theodore L. Weise
Senior Vice President,
Operations Planning and Support

W. Jack Roberts
Vice President and Controller

Robert L. Cox
Secretary



Much of the success Federal Express has achieved in its nine years may be attributed to J. Vincent Fagan, former senior vice president, marketing, sales and customer service. Mr. Fagan was instrumental in forming marketing concepts that helped forge the company's leadership position in the industry. He left Federal Express, in 1980, to return to New York and, from there, served the company in a consulting capacity. He died in May 1982, of cancer.

Corporate Information

Form 10-K

A copy of Federal Express' Form 10-K annual report, filed with the Securities and Exchange Commission, is available free. You will be mailed a copy upon request to James E. Coleman, Manager, Investor Relations, Federal Express Corporation, Box 727, Memphis, Tennessee 38194.

Stock Listing

The company's common stock is listed on The New York Stock Exchange under the ticker symbol FDX.

Stockholders

At June 30, 1982, there were approximately 6,700 holders of the Company's Common Stock.

Market Information

Following are high and low closing prices, by quarters, for Federal Express stock in fiscal 1981 and 1982. No cash dividends have been declared.

Closing Prices of Common Stock		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
FY 1981*	High	$29.63	$48.75	$47.25	$70.38
	Low	$20.75	$28.31	$37.75	$44.00
FY 1982	High	$71.25	$67.00	$64.88	$55.50
	Low	$57.88	$48.75	$49.88	$42.13

* Adjusted for two-for-one stock split in October, 1980.

Annual Meeting

The annual meeting of stockholders will be held in the McCool Room, Holiday City, 3728 Lamar Avenue, Memphis, Tennessee, on Monday, September 27, 1982 at 10:00 a.m., CDT.

Registrar and Transfer Agent

First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Corporate Headquarters

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Memphis, Tennessee 38194

Inquiries

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For general information, contact Brandon Davis, Director of Public Relations, Federal Express Corporation, Box 727, Memphis, Tennessee 38194.

Counsel

Waring, Cox, Sklar, Allen, Chafetz & Watson
Memphis, Tennessee

Auditors

Arthur Andersen & Co.
Memphis, Tennessee

Design: The Graphic Expression Inc.

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Memphis, Tennessee 38194