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COMPANY INTL COMPUTERS INC
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Contents

<i>To Our Stockholders</i>	3
<i>Review of Operations</i>	5
<i>Directors and Principal Officers</i>	18
<i>Financial Section</i>	21
<i>Corporate Information</i>	44

Equal Employment Opportunity

Federal Express Corporation is strongly bound to a policy of affording equal employment opportunity to all, regardless of race, color, religion, sex, national origin, citizenship, handicap, status as a Vietnam era or special disabled veteran, or age (except where bona fide occupational qualifications exist). Because we believe that equal employment opportunity is the only acceptable principle, Federal Express is committed to ensuring that all personnel matters, such as compensation, benefits and opportunities for advancement, are administered fairly.

Service Marks

Priority One, Courier Pak, Standard Air and Overnight Letter are service marks of Federal Express Corporation.

Official Air Express Carrier
of the 1988 Olympic Games

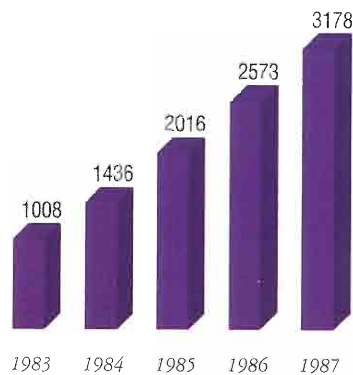


Worldwide Sponsor

Federal Express Corporation specializes in the door-to-door express delivery of packages and documents throughout the United States and to many foreign countries. The company operates an extensive fleet of aircraft and vehicles that serves sorting facilities in the United States and Europe, including the Superhub located in Memphis, Tennessee. The company provides international service to approximately 85 countries either through subsidiaries or by utilizing independent contractors.

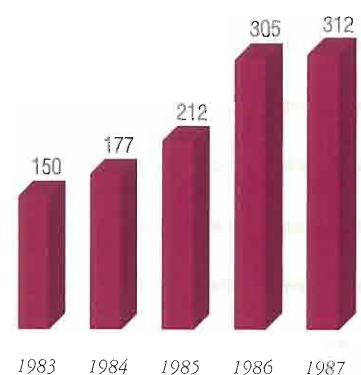
Revenues*

Millions of dollars



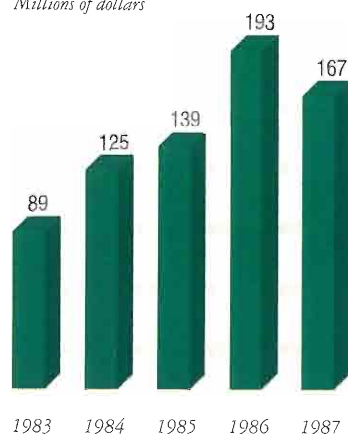
Pretax Income*

Millions of dollars



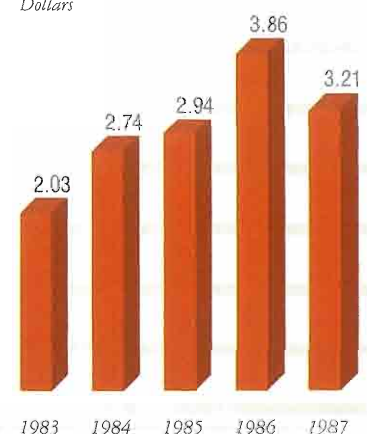
Net Income*

Millions of dollars



Earnings per Share*

Dollars



*Results from Continuing Operations

Consolidated Financial Highlights

Federal Express Corporation and Subsidiaries

Years ended May 31

In thousands, except per share amounts and Other Operating Data

	1987	1986	1985	
<i>Operating Results</i>	Revenues	\$3,178,308	\$2,573,229	\$2,015,920
	Operating income	364,743	344,021	258,617
	Income before income taxes	311,885	305,085	212,272
	Income from continuing operations	166,952	192,671	138,740
	Loss from discontinued operations	232,523	60,832	62,663
	Net income (loss)	(65,571)	131,839	76,077
	Earnings (loss) per share:			
	Continuing operations	3.21	3.86	2.94
	Discontinued operations	(4.48)	(1.22)	(1.33)
	Net earnings (loss) per share	\$ (1.27)	\$ 2.64	\$ 1.61
	Average shares outstanding	51,905	49,840	46,970
<i>Financial Position</i>	Working capital	\$ 3,755	\$ 181,380	\$ 106,266
	Property and equipment, net	1,861,432	1,551,845	1,346,023
	Long-term debt	744,914	561,716	607,508
	Common stockholders' investment	1,078,920	1,091,714	812,267
<i>Other Operating Data</i>	Average daily package volume	704,392	550,306	406,049
	Average pounds per package	5.1	5.3	5.6
	Average revenue per pound	\$ 3.33	\$ 3.40	\$ 3.45
	Aircraft fleet at end of year:			
	McDonnell Douglas DC-10-10s	8	6	6
	McDonnell Douglas DC-10-30s	11	9	5
	Boeing 727-100s	39	35	35
	Boeing 727-200s	21	18	18
	Cessna 208s	66	34	9
	Vehicle fleet at end of year	17,200	14,500	12,300
	Average number of employees (based on a standard full-time workweek)	41,047	31,582	26,495

Note: Certain information above has been restated to report the results of discontinued operations separately. See Note 9 of Notes to Consolidated Financial Statements.

Federal Express continued its impressive growth in the face of increased competition during 1987. Our 47,000 employees handled over 175 million package and document deliveries; by June 1987 we were averaging nearly 800,000 transactions nightly. Package volume was up 28% over the previous year, while revenues increased some 24%, to a record \$3.2 billion.

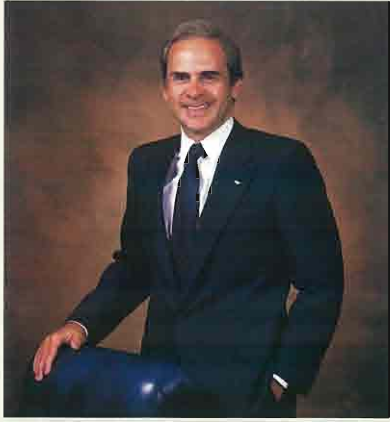
Because our employees continued to increase productivity while improving the quality of service, we were able to reduce per-package costs significantly during the past year. As a result, we achieved an operating margin in excess of 11%, by far the best performance in our industry. Our earnings per share from continuing operations for 1987 was \$3.21, although the \$233 million after-tax loss associated with the discontinuation of ZapMail resulted in a net loss of \$1.27 per share.

The decision to phase out ZapMail was a difficult one, and our reasons for doing so were explained in the first quarter report to shareholders. The fact is, however, that the discontinuation of ZapMail may have been one of our company's strongest moments. Our concern for the best interests of our customers, our shareholders and our employees was soundly demonstrated. And now, the total dedication of our resources to an increasingly competitive air express environment will ensure that we maintain full command of our leadership position in the modern express industry we pioneered.

We remain convinced that the best defense in such an environment is a good offense. During 1987 we continued to successfully differentiate our products from those of our competitors and to provide improved service to our millions of customers around the world. We expanded our aircraft fleet and further increased capacity at our Memphis Superhub, making it possible for us to maintain the highest service levels in the industry despite rapid volume growth. At the same time, we expanded our Newark and Oakland Metroplex operations, giving us the ability to handle more and more packages through these regional sorting centers.

During the past year we moved even closer to our customers by expanding to 14 regional call centers and broadening our network of Business Service Centers, enjoying particular success with our drive-through kiosk program. We also made dramatic progress in the area of customer automation, as more and more businesses chose to install Federal Express on-line computers on their premises. This equipment streamlines package-processing, enhances our billing capabilities and should further reduce per-package costs in the years ahead.

Our COSMOS IIB tracking system was phased into operation during 1987. By the end of the next year, this remarkable system should be in place for the entire Federal Express network. Virtually instantaneous package-status information will then be available to all of our customers. This is all part of our strategy to give our customers the kind of complete service none of our competitors can match.



Frederick W. Smith



James L. Barksdale

Internationally, 1987 was a landmark year for the company, a year perhaps best symbolized by Federal Express being named the official air express carrier for the 1988 Olympic Games. We have dramatically increased our overseas operations over the past twelve months, particularly in western Europe. Our British subsidiary, Federal Express (U.K.) Limited, now offers 100% coverage for the United Kingdom, and we plan to have complete coverage for France and West Germany by the end of 1988.

With the anticipated announcement that Federal Express will be granted rights to provide direct air express service to Japan, we expect daily flights to begin during fiscal 1988. Then we plan to aggressively expand promotional efforts designed to substantially increase the volume between Japan and the U.S.

While losses are still being incurred due to continuing investments in our international service, we are convinced that by 1990 our impact upon the business communities in Europe and the Far East can be as significant as it has already been in the United States.

Our achievements over the past decade have not come about by accident. Rather, they have been the direct result of the efforts of the most efficient and quality-conscious work force in the world. We are proud of the human dimension of our success; proud of our company's regular inclusion in listings of the best places to work in America; proud of our acknowledged leadership in minority employment.

But this year we are especially proud of our no-layoff philosophy, a philosophy which survived its greatest test with the successful absorption of over 1,300 employees affected by the discontinuance of ZapMail.

We have been fortunate to attract a highly motivated workforce whose dedication has shown the world that rapid growth and quality service are not mutually exclusive concepts. Building upon this tradition of excellence, we are confident that we can continue to set the standard for technological and corporate innovation, building all the while the world's premier high-speed logistics system.

A handwritten signature in cursive script, appearing to read "Frederick W. Smith".

Frederick W. Smith

Chairman, President and Chief Executive Officer

A handwritten signature in cursive script, appearing to read "James L. Barksdale".

James L. Barksdale

Executive Vice President and Chief Operating Officer

Federal Express has now entered its fifteenth year of service to United States consumers. In that relatively brief period, ours has become one of the best known and most highly regarded business operations in the world. Today, the distinctive purple and orange Federal Express logo is a familiar symbol to hundreds of millions of people.

During 1987 over half of all overnight package and document transactions in the United States were handled by Federal Express. But we realize that our present leadership position is no guarantee of future success. Consumers of the Eighties are far more sophisticated than those of earlier generations. They will not tolerate inefficiency or inflexibility. They look for the same kind of service levels and attention to detail from large companies that they expect from smaller ones.

The people of Federal Express are keenly aware of these challenges and the critical importance of providing ever-better value to our customers. Each and every employee, in fact, is an integral part of the Federal Express network. There is much more to that network than airplanes, delivery vans and service centers. What typical customers see, in fact, is a fraction of what they get.

Featured throughout this report are familiar Federal Express images; the supporting photographs illustrate the human energy and technology behind the visible features of our service. However, only the essence of each can be captured in these few pages. We recognize that Federal Express delivers more than packages; it delivers the best efforts of over 47,000 people whose commitment to quality, courtesy and efficiency is second to none.

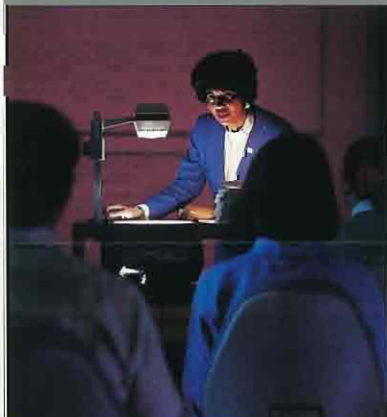
The Federal Express Network

Very few companies can be said to have "invented" the industry which they serve, but in the case of Federal Express, the facts speak for themselves. The air express industry, as we know it today, was born on April 17, 1973, when the first Federal Express Falcons delivered their tiny cargo. Since then, over 630 million packages and documents have been delivered around the world through the Federal Express network.

The focal point of our U.S. network remains, as always, the Superhub, located at the company's Memphis headquarters. Every night some 65 Federal Express airplanes deliver the majority of packages and documents to the Memphis Superhub, where more than 4,000 employees perform the impressive task of unloading, sorting and reloading them in time for early morning delivery to virtually every address in the United States. This now-famous hub-and-spokes operation has been copied by others in the air express industry, but none can compare with the Superhub in terms of capacity, efficiency or sheer human energy.

To cope with volume expansion of recent years, we have opened regional sorting centers in Newark and Oakland. Packages shipped between cities within the same regions are routed directly through these centers rather than through Memphis. By the end of 1988, almost 30% of total volume will bypass the Superhub.

Before they answer their first customer call, every customer service agent completes an intensive training program.



Maximum Efficiency: In The Air and On The Ground

8

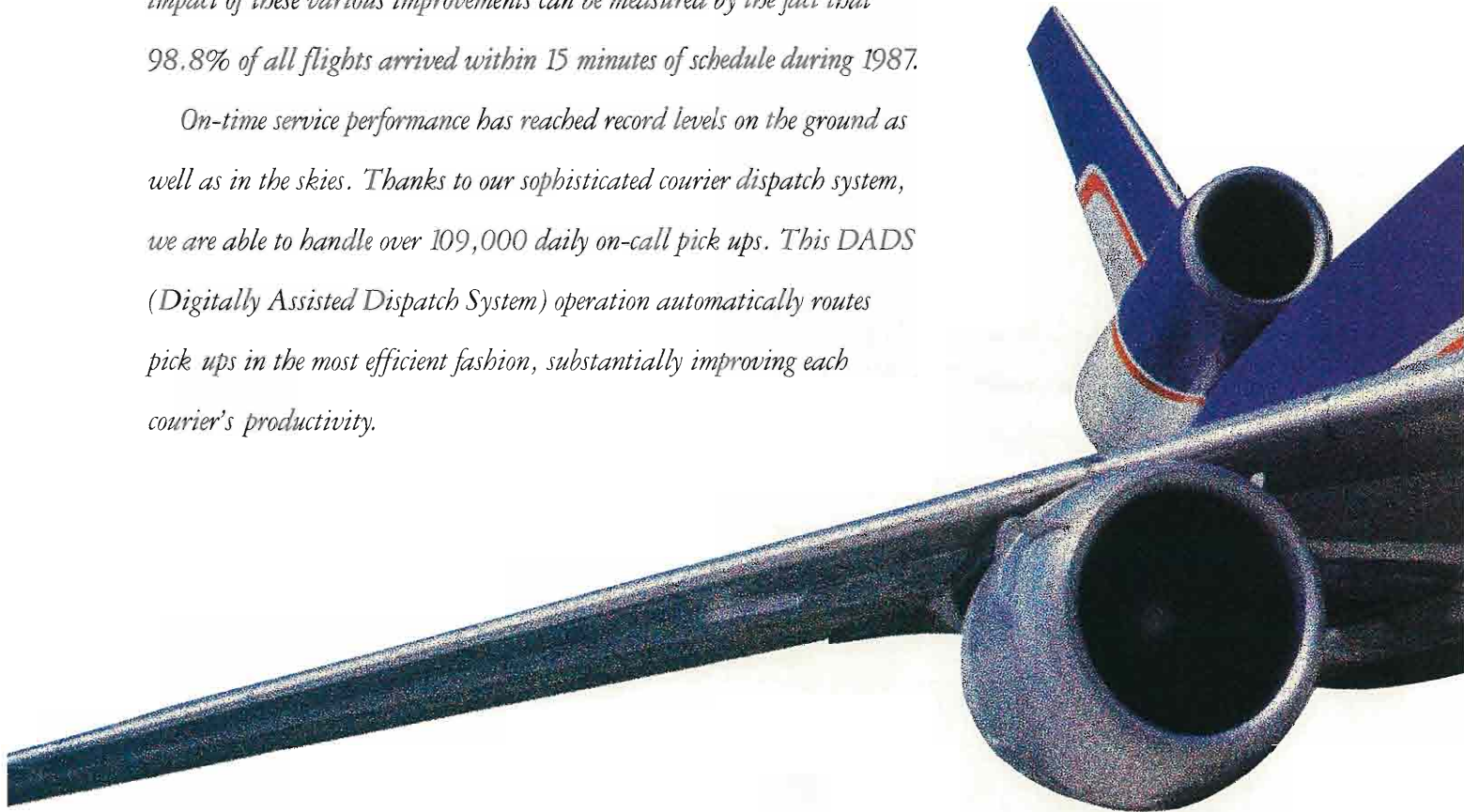
During 1987 substantial improvements were made in the area of aircraft operations. We now have a fleet of 19 DC-10s, 60 B727s and 66 Cessna 208s—with two additional DC-10s and five B727s already under contract for delivery through 1988. Our DC-10s and most of our B727-200s are CAT IIIA certified, giving them the ability to operate in restricted visibility conditions.

During the past year, we established our own weather forecast system, one designed to suit the particular needs of Federal Express and to ensure up-to-the-minute meteorological information for our operations. The impact of these various improvements can be measured by the fact that 98.8% of all flights arrived within 15 minutes of schedule during 1987.

On-time service performance has reached record levels on the ground as well as in the skies. Thanks to our sophisticated courier dispatch system, we are able to handle over 109,000 daily on-call pick ups. This DADS (Digitally Assisted Dispatch System) operation automatically routes pick ups in the most efficient fashion, substantially improving each courier's productivity.



Up-to-the-minute information from our McIDAS meteorological system enables the company to plan for the safest possible aircraft operations.





Federal Express' Cessna 208s integrate smaller population centers into our worldwide air express network by transporting freight to our larger aircraft.





Long haul vehicles bring containerized freight to regional sorting centers contributing to greater sorting efficiencies and cost savings.



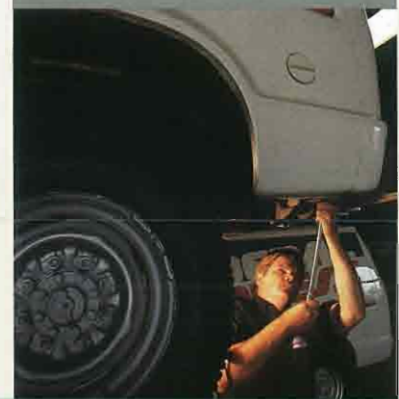
For several years, Federal Express has offered virtually universal geographic coverage of the continental United States. Today, over 98% of the United States population is served by Federal Express. For that reason, domestic expansion efforts during 1987 concentrated primarily on improving the density of our service network, making the company's services ever more accessible to potential customers.

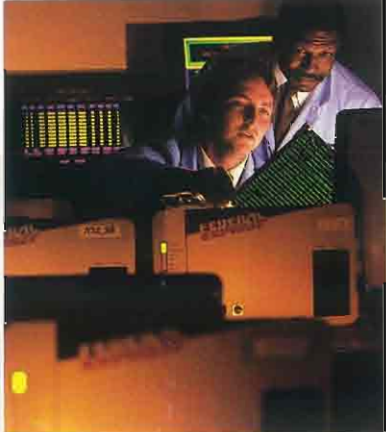
During the past year, for example, we continued to expand our network of Business Service Centers, where both the company and our customers can save money by eliminating the need for courier pick up. There are now over 350 such centers operating in urban business locations; in some densely populated districts, these centers handle up to 15% of local traffic.

In addition, the free-standing, drive-through kiosks—usually located along principal thoroughfares, in office parks and at major shopping centers—have proven extremely popular, and have been especially effective in developing new retail customers and in making our services more accessible to existing ones. A total of 141 such drive-through centers were in place by the end of the year; we intend to add over 100 more during 1988.

We found that decentralizing our call center operation increased our flexibility to handle over 208,000 daily customer calls. As a result, we opened five new regional call centers this year, now totaling 14.

While Federal Express is best known as an air carrier, the company also maintains its own ground fleet of over 17,000 vehicles.





*Each courier's SuperTracker inter-
faces with our main COSMOS
computer system, resulting in
complete monitoring for every pack-
age and document transaction.*

As the express delivery industry has developed in leaps and bounds over the past decade, so too have the expectations of express customers. Today's sophisticated consumers, for example, almost take for granted that their packages or documents will be delivered on time. Federal Express now offers them something more: virtually instantaneous information on every critical aspect of that transaction.

For several years, company researchers have been refining our COSMOS tracking system which "keeps electronic tabs" upon every package as it moves through our system from pick up to delivery.

The current stage of the project, COSMOS IIB, incorporates hand-held "SuperTrackers" which will transmit package data to the company's mainframe computers through DADS units in courier vans. Now being phased into actual use in the field, IIB is projected to be fully operational systemwide by the end of 1988.

Capping our efforts to provide every vital detail of each transaction is our customer automation program which integrates our billing system with COSMOS. In 1986, for the benefit of our high-volume customers, we began to install on-line computer terminals in their offices in order to capture billing data, and by the end of this year, over 3,000 units were in place. We intend to increase this figure to 10,000 by 1990, thereby expanding Federal Express' role as an integral part of worldwide business.

The SuperTracker, which the courier uses to capture vital package-tracking and routing information, is stored nightly in the "smartbase" to communicate its data and modify software.



During the past decade, Federal Express has become a household name across the United States. We are now confident that in the next decade the Federal Express name and logo will be just as familiar to millions of new customers around the world.

In 1984, recognizing the latent demand for a reliable express delivery service in western Europe, Federal Express acquired an established international courier business from Gelco Corporation. Using this operation as a foundation, the company began direct transatlantic service in 1985.

This was followed in 1986 by the acquisition of Lex Wilkinson Limited, a leading British express and distribution service. During the past year, that company was reorganized as Federal Express (U.K.) Limited. Willames Transport Group Limited, the leading carrier in the Republic of Ireland, was also acquired, resulting in 100% direct geographic coverage of the British Isles. In Canada, the company purchased its licensee, Cansica Inc., and initiated substantial expansion programs within that country.

In addition to the United Kingdom and Canada, Federal Express now has its own sizable operations in Belgium, France, West Germany, the Netherlands and Switzerland, as well as in the Far East (Japan, Hong

Far East expansion has required the talents of many employees with expertise on a wide range of commercial and legal issues.



Kong and Singapore). We provide service to a total of 85 different countries, some through reciprocal agreements with various agents around the globe.

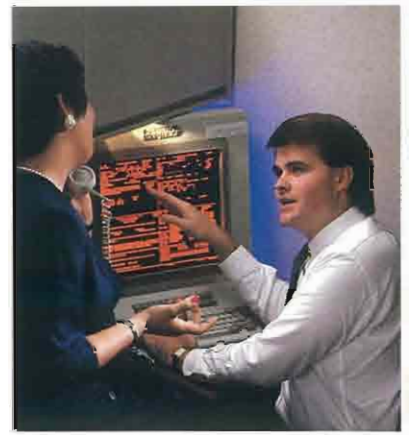
Plans for 1988 call for the continued expansion of the company's international network. Total geographic coverage is anticipated for West Germany and France, while initial operations will be launched in





The Federal Express logo is an increasingly familiar sight throughout western Europe.





As a part of our customer automation program, Federal Express technical experts work as troubleshooters to assist customers with their new on-premise meters.



Spain and Italy. Improvements will be made at our Brussels hub, which is directly served by Federal Express DC-10s from Newark.

Major growth is expected to continue in the Far East, once the company has been granted rights to operate flights to and from Japan.

Such dramatic expansion does not come cheaply, of course. We anticipate losses from international operations to continue in 1988, as the necessary steps are taken to establish and market a comprehensive international service network.

Facing the Future

As business changes worldwide in the years ahead, Federal Express intends to change with it. More and more companies, for example, are shifting to a "no-inventory" philosophy. Express delivery companies like Federal Express will be the crucial, reliable link for rapid delivery of goods and services that make such philosophies possible. With our resources and technological superiority, we are confident that we can be an integral part of emerging business patterns of the 21st century.

We at Federal Express are proud of what our employees have achieved over the past 15 years. We have never lost sight of the fact, however, that the key to this company's success remains what it always has been: the ability of our employees to provide individual solutions to our customers' individual problems.

We will continue to provide these solutions more efficiently and more effectively than any of our competitors. Federal Express achieved its present position by anticipating its customers' future needs. In the years ahead, our customers will continue to be the driving force behind our business. We fully intend to remain the best high-priority logistics company in the world.

Billing information is transmitted from each customer premise meter to the main computer making complete information accessible throughout the Federal Express system.





Board of Directors

Robert H. Allen²
*Chairman of the Board
and Chief Executive Officer
Realm Resources, Inc.
A natural resource company*

James L. Barksdale
*Executive Vice President
and Chief Operating Officer
Federal Express Corporation*

Anthony J.A. Bryan¹
*Chairman, Chief Executive Officer
and President
Copperweld Corporation
Manufacturers of seamless and welded steel
tubing, bimetallic wire, rods and strand*

Ralph D. DeNunzio²
*Chairman of the Board
Kidder, Peabody Group Inc.
Investment bankers*

Philip Greer^{1*}
*General Partner
Weiss, Peck & Greer Investments
Diversified investment management
and securities firm*

J.R. Hyde, III¹
*Chairman and President
Malone & Hyde, Inc.
Wholesale and retail foods, drugs, sporting
goods and auto parts*

Jackson W. Smart, Jr.^{2*}
*Chairman of the Executive Committee
Thomas Industries, Inc.
Diversified manufacturer of high-quality
products for home and work, lighting, tools
and hardware*

Frederick W. Smith
*Chairman, President
and Chief Executive Officer
Federal Express Corporation*

John Burton Tigrett
Financial Consultant

Peter S. Willmott¹
*Chairman and Chief Executive Officer
Carson Pirie Scott & Company
A retail, food service and lodging, and
distribution company.*

¹ Audit Committee

² Compensation Committee

* Committee Chairman

Senior Corporate Officers

Frederick W. Smith
*Chairman, President
and Chief Executive Officer*

James L. Barksdale
*Executive Vice President
and Chief Operating Officer*

David C. Anderson
*Senior Vice President
and Chief Financial Officer*

Fred A. Manske
*Senior Vice President
International*

Kenneth R. Masterson
*Senior Vice President and
General Counsel*

T. Allan McArtor
*Former Senior Vice President
Telecommunications*

Thomas R. Oliver
*Senior Vice President
Sales and Customer Service*

James A. Perkins
*Senior Vice President
and Chief Personnel Officer*

Ron J. Ponder
*Senior Vice President
Information and Telecommunications*

Carole A. Presley
*Senior Vice President
Marketing*

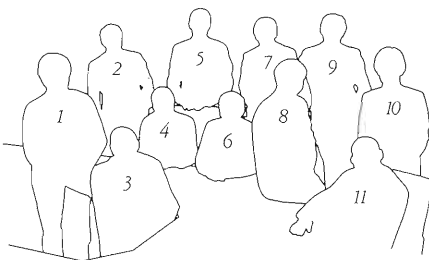
James R. Riedmeyer
*Senior Vice President
Linehaul Operations*

Judith A. Rogala
*Senior Vice President
Central Support Services*

Theodore L. Weise
*Senior Vice President
Domestic Ground Operations*

W. Jack Roberts
Vice President and Controller

Robert L. Cox
Secretary

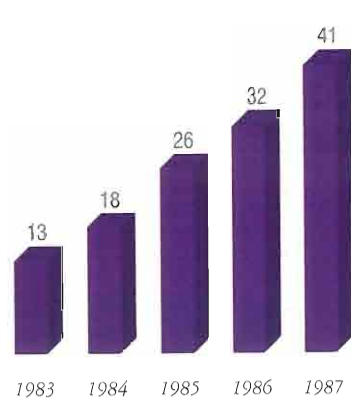


1. James A. Perkins
2. Kenneth R. Masterson
3. Ron J. Ponder
4. Carole A. Presley
5. David C. Anderson
6. Fred A. Manske, Jr.
7. Thomas R. Oliver
8. T. Allan McArtor
9. Theodore L. Weise
10. Judith A. Rogala
11. James R. Riedmeyer

Operational Highlights

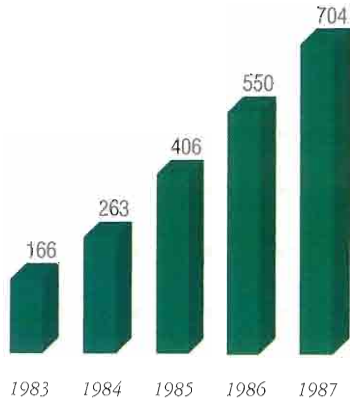
Employees (Full-time equivalents)

Thousands



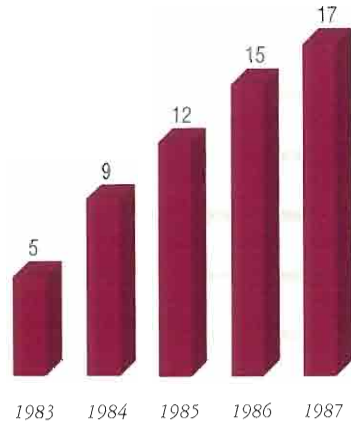
Average Daily Package Volume

Thousands



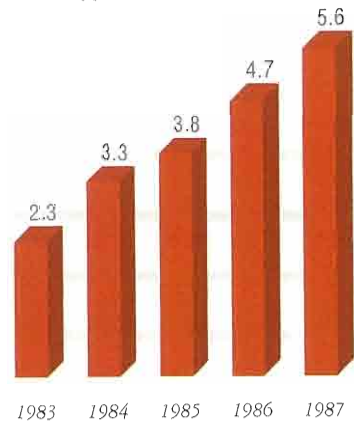
Vehicles

Thousands



Aircraft Capacity

Millions of pounds



Financial Section

<i>Management's Discussion and Analysis of Consolidated Results of Operations and Financial Condition</i>	22
<i>Consolidated Statements of Income</i>	27
<i>Consolidated Balance Sheets</i>	28
<i>Consolidated Statements of Changes in Financial Position</i>	30
<i>Consolidated Statements of Changes in Common Stockholders' Investment</i>	31
<i>Notes to Consolidated Financial Statements</i>	32
<i>Auditors' Report</i>	41
<i>Selected Consolidated Financial Data</i>	42

Results of Operations

Overall performance for 1987 was significantly impacted by the discontinuance of ZapMail operations. A pretax loss of \$357 million (\$195 million after giving effect to tax benefits) was recognized for the phase out of ZapMail operations and the disposal of related assets. ZapMail operating results and the total net loss provision have been reported separately from continuing operations. The strong performance achieved in 1987 from express delivery operations did not completely offset total ZapMail losses for the year. As a result, the Company realized an overall net loss in 1987 of \$66 million, compared to net income of \$132 million in 1986 and \$76 million in 1985.

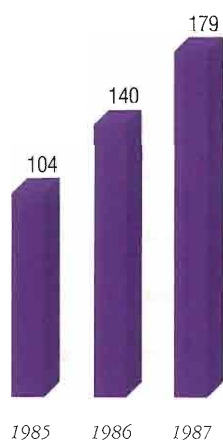
The discussion of comparative results of operations below pertains to the continuing operations of the Company. Discontinued operations are further disclosed in Note 9 of Notes to Consolidated Financial Statements.

Revenues increased by 24% in 1987, compared to increases of 28% in 1986 and 40% in 1985, primarily due to express delivery volume increases of 28%, 35% and 54% for these periods, respectively. The composite yield in 1987 for express delivery services continued to decline due to the availability of greater discounts to a larger group of high-volume shippers and from the implementation of other pricing actions. The Company has been able to lower list prices to its customers over time due to productivity improvements which have contributed to a lower cost per package for its services. Revenue growth was further restrained due to a continued faster growth rate of the Company's lower-priced services.

Operating expenses rose 26% in 1987, compared to increases of 27% in 1986 and 41% in 1985. Although partially offset by productivity improvements, higher operating expenses primarily resulted from increased package volumes, enhancements of the Company's services and international expansion.

Express Delivery Volumes

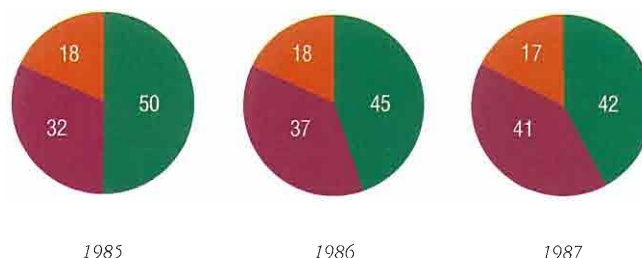
Millions



Express Delivery Volume Mix

Percent to total

- Priority One/Courier Pak
- Standard Air
- Overnight Letter

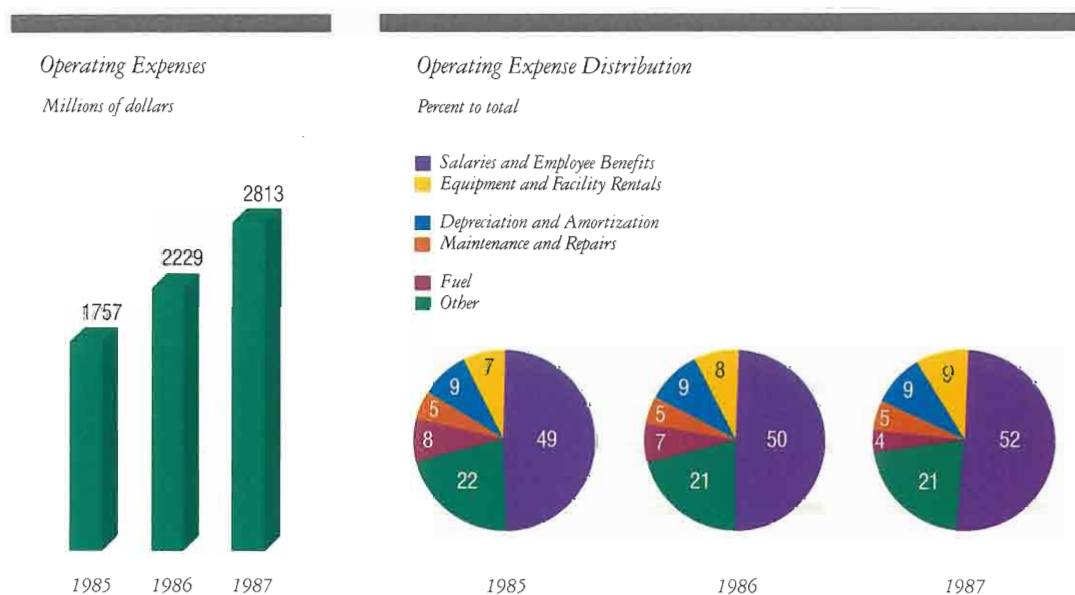


Salaries and employee benefits expense rose for these periods as additional employees were hired primarily to handle package volume growth and to support international expansion. Significant investments in aircraft, facilities and equipment to handle higher package volumes and increase the accessibility of customer services have resulted in continued increases in depreciation expense and equipment and facility rentals. Fuel expense decreased in 1987 versus increases in 1986 and 1985 due to declining fuel prices. Maintenance and repairs expense for 1987 was also higher compared to 1986 as a result of a continued increase in the operation of expanded aircraft and vehicle fleets. Other operating expense items for 1987 continued to be impacted by the levels of volume growth and expansion.

As a result, operating margin in 1987 was lower than 1986 as the reduction in the composite package yield exceeded the decline in the average cost per package. The slight increase in operating margin in 1986 was mostly attributable to a lower rate of decline in the composite package yield than 1985 combined with the continuing development of cost control programs.

Other income and expense increased 36% in 1987, decreased 16% in 1986 and nearly tripled in 1985. Interest expense increased in 1987 due to higher debt levels, partially offset by lower average interest rates incurred on outstanding debt. The level of borrowings was also the primary factor which led to the changes in interest expense in 1986 and 1985, while average effective interest rates declined gradually during these periods.

The effective tax rate for 1987 was 46.5%, compared to rates of 36.8% and 34.6% in 1986 and 1985, respectively. The effective tax rates for 1986 and 1985 were favorably impacted by investment tax credits. The impact of investment tax credits was substantially reduced in 1987 due to provisions in the Tax Reform Act of 1986 (the Act).



The Act contains provisions that significantly affect the Company's operating results, particularly for 1988 and in future years. While certain provisions of the Act, primarily the elimination of investment tax credits as of January 1, 1986, will result in larger future income tax payments for the Company, management anticipates that these factors will be mostly offset by the reduction in the statutory corporate tax rate from 46% to 34% next year.

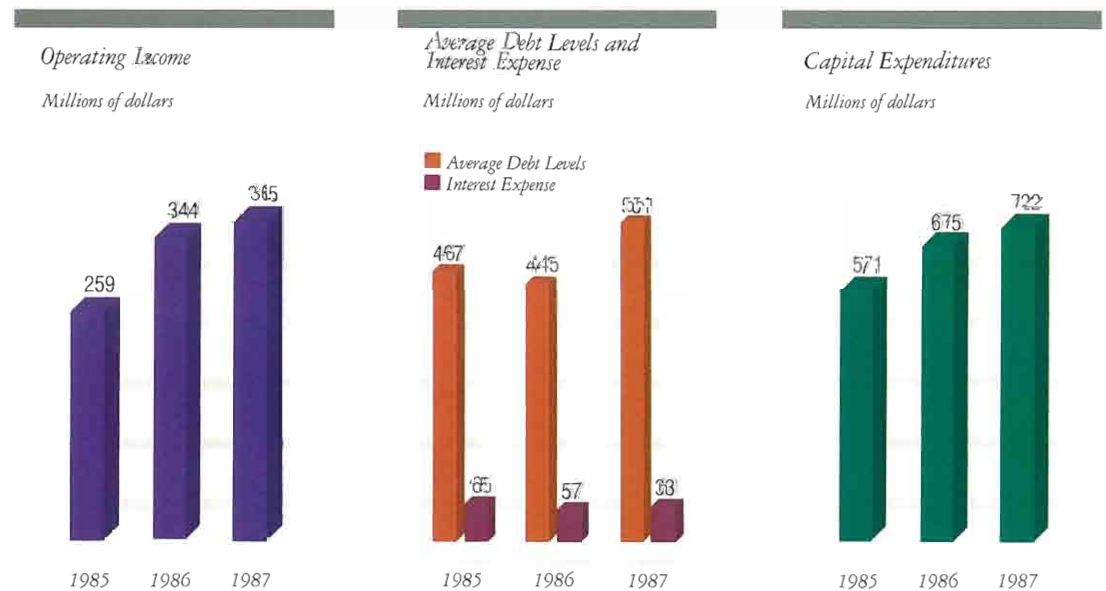
Financial Condition

Capital Expenditures

Capital expenditures in 1987 of \$722 million were primarily made to enhance and increase the accessibility of the Company's services, provide for continued productivity improvements and accommodate increased volumes for worldwide services. Aircraft and related equipment comprised the majority of capital expenditures during 1987 as two DC-10-30, two DC-10-10, three B727-200, four B727-100 and 32 Cessna 208 aircraft were added to the Company's fleet. At May 31, 1987, four B727-100s and one B727-200 acquired in 1987 were undergoing modifications and are expected to be placed in service at various dates through 1988.

Other significant asset purchases for 1987 included expansion and additions to the Superhub, regional sorting facilities, vehicles and other ground support equipment, and computer and telecommunications equipment.

Significant commitments to acquire capital assets, primarily aircraft, have been made as of May 31, 1987, and are further discussed in Note 10 of Notes to Consolidated Financial Statements. The Company is committed under various contracts to purchase five DC-10-30, two MD-11, five B727-100, seven B727-200 and 43 Cessna 208 aircraft to be delivered through 1992.



Significant capital acquisitions in addition to aircraft, mostly related to existing projects, are expected to continue in the future. The Company anticipates that capital expenditures in 1988 will be approximately \$650 million. With the exception of committed capital expenditures, the amount and timing of capital expenditures will depend on various factors which cannot be accurately estimated beyond current plans, including future volume levels, the introduction of new products and services, the availability of satisfactory financing and the need to remain flexible in a highly competitive environment. The Company's long-range capital requirements are determined based on its ability to ensure adequate returns, superior services and the safety and well-being of its employees.

Liquidity and Capital Resources

Working capital at May 31, 1987, was \$4 million, compared to \$181 million and \$106 million at May 31, 1986 and 1985, respectively. Working capital for 1987 was provided primarily by continuing operations and working capital available at June 1, 1986. The primary use of working capital was to acquire capital assets.

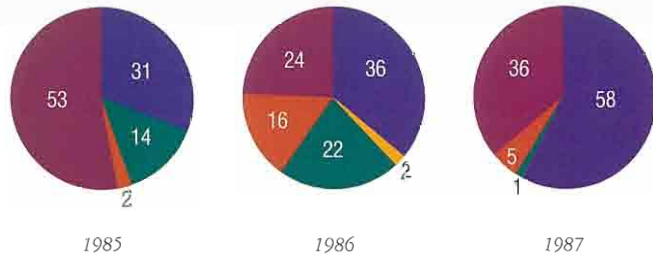
Working capital for future periods is expected to be provided by operations and the use of available external financing. Accordingly, in March 1987, the Company increased its credit facilities to \$800 million.

Rates of return on assets and equity decreased in 1987 versus 1986, while these performance measures increased in 1986 and decreased in 1985. The decreases in 1987 were attributable to the significantly higher provision for income taxes and international expansion. The levels achieved in 1986 compared to 1985 were mostly attributable to cost control efforts and improved productivity, while these performance measures for 1985 compared to 1984 were affected by a greater rate of decline in the Company's composite yield and increased interest expense from higher average debt levels.

Sources of Working Capital Distribution

Percent to total

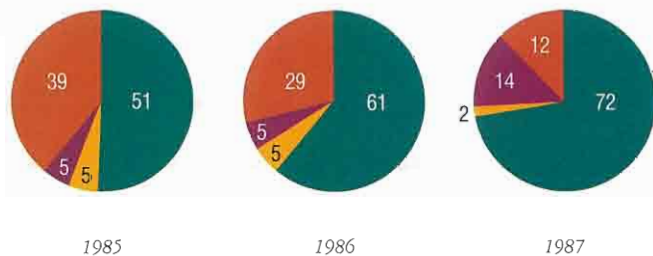
- Continuing Operations
- Debt Proceeds
- Stock Proceeds
- Disposition of Property and Equipment
- Other



Uses of Working Capital Distribution

Percent to total

- Capital Acquisitions
- Debt Reductions
- Discontinued Operations
- Other

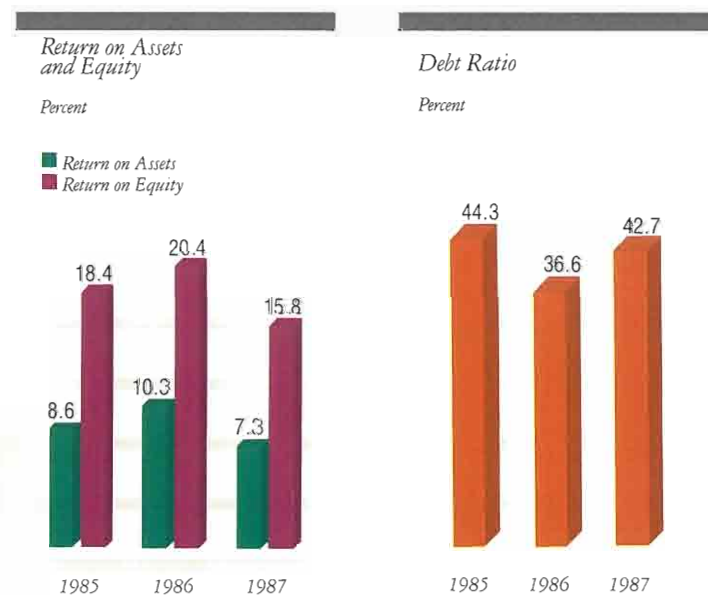


Major factors which affected the debt to equity ratio for 1987, as in 1986 and 1985, included the amount and timing of capital acquisitions, operating margin levels, the decline in interest rates and a public stock offering in 1986.

For additional information on the Company's long-term debt obligations, refer to Note 3 of Notes to Consolidated Financial Statements.

Inflation and Changing Prices

The Company is capital intensive as nearly 75% of its total assets at May 31, 1987, consisted of property and equipment, primarily flight equipment. The effect of inflation on the Company's financial statements is to generally understate depreciation expense and overstate net income to the extent that current costs exceed original costs. However, due to the small rate of increase in inflation experienced by the general economy over the past several years, the impact of inflation on the Company's financial statements has been minimal.



Consolidated Statements of Income

Federal Express Corporation and Subsidiaries

Years ended May 31

27

<i>In thousands, except per share amounts</i>	1987	1986	1985
Revenues	\$3,178,308	\$2,573,229	\$2,015,920
Operating Expenses:			
Salaries and employee benefits (Note 8)	1,457,427	1,117,621	870,259
Equipment and facility rentals (Note 4)	254,473	185,339	129,171
Depreciation and amortization	239,291	193,544	160,052
Maintenance and repairs	150,605	120,314	86,730
Fuel	123,860	149,252	133,016
Other	587,909	463,138	378,075
	2,813,565	2,229,208	1,757,303
Operating Income	364,743	344,021	258,617
Other Income (Expense):			
Interest, net (Note 1)	(46,692)	(38,789)	(46,384)
Gain on disposition of aircraft and related equipment	2,310	11,877	8,499
Other, net	(8,476)	(12,024)	(8,460)
	(52,858)	(38,936)	(46,345)
Income from Continuing Operations before Income Taxes	311,885	305,085	212,272
Provision for Income Taxes (Note 7)	144,933	112,414	73,532
Income from Continuing Operations	166,952	192,671	138,740
Discontinued Operations, net of tax benefits (Note 9):			
Loss from operations	37,457	60,832	62,663
Loss on disposal	195,066	—	—
	232,523	60,832	62,663
Net Income (Loss)	\$ (65,571)	\$ 131,839	\$ 76,077
Earnings (Loss) per Share (Note 6):			
Continuing operations	\$ 3.21	\$ 3.86	\$ 2.94
Discontinued operations	(4.48)	(1.22)	(1.33)
	\$ (1.27)	\$ 2.64	\$ 1.61
Average Shares Outstanding (Note 6)	51,905	49,840	46,970

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

Consolidated Balance Sheets

May 31

28

<i>In thousands</i>	1987	1986
<i>Assets</i>		
<i>Current Assets:</i>		
Cash, including short-term investments of \$15,000 and \$177,500	\$ 21,685	\$ 185,036
Receivables, less allowance for doubtful accounts of \$16,230 and \$19,788	399,333	347,010
Spare parts, supplies and fuel	39,933	49,342
Prepaid expenses and other	46,529	31,902
Total current assets	507,480	613,290
<i>Property and Equipment, at cost (Notes 3, 4 and 10):</i>		
Flight equipment	1,138,875	841,410
Package handling and ground support equipment	587,430	418,053
Computer and electronic equipment	321,651	391,146
Other	664,096	551,992
	2,712,052	2,202,601
Less accumulated depreciation and amortization	850,620	650,756
Net property and equipment	1,861,432	1,551,845
<i>Other Assets</i>	130,599	111,227
	\$2,499,511	\$2,276,362

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

<i>In thousands, except common shares</i>		1987	1986
<i>Liabilities and Stockholders' Investment</i>	<i>Current Liabilities:</i>		
	Current portion of long-term debt and redeemable preferred stock (Notes 3 and 5)	\$ 60,393	\$ 72,979
	Accounts payable	192,877	184,534
	Accrued expenses (Note 2)	250,455	174,397
	Total current liabilities	503,725	431,910
	<i>Long-Term Debt, less current portion (Note 3)</i>	744,914	561,716
	<i>Deferred Income Taxes and Other (Notes 7 and 9)</i>	171,952	189,513
	<i>Commitments and Contingencies (Notes 3, 4, 8 and 10)</i>		
	<i>\$9.50 Cumulative Preferred Stock (Note 5)</i>	—	1,509
	<i>Common Stockholders' Investment (Notes 3 and 6):</i>		
	Common Stock, \$.10 par value; 100,000,000 shares authorized, 51,630,316 and 50,808,280 shares issued	5,163	5,081
	Additional paid-in capital	571,071	531,632
	Retained earnings	536,386	597,201
		1,112,620	1,133,914
	Less deferred compensation related to stock plan	33,700	42,200
Total common stockholders' investment	1,078,920	1,091,714	
	\$2,499,511	\$2,276,362	

Consolidated Statements of Changes in
Financial Position

Federal Express Corporation and Subsidiaries

Years ended May 31

30

<i>In thousands</i>		1987	1986	1985
<i>Funds Provided By</i>	Income from continuing operations	\$ 166,952	\$ 192,671	\$ 138,740
	Charges to income not requiring working capital:			
	Depreciation and amortization	239,291	193,544	160,052
	Deferred income taxes and other	69,018	44,046	56,693
	Working capital provided from continuing operations	475,261	430,261	355,485
	Increase in long-term debt	299,911	284,387	610,807
	Disposition of property and equipment:			
	Sale-leaseback transactions	2,852	251,533	149,503
	Other	3,899	5,012	15,834
	Proceeds from issuance of common stock	39,521	191,257	19,049
Decrease in other assets	—	17,256	—	
	Total funds provided	821,444	1,179,706	1,150,678
<i>Funds Used For</i>	Acquisition of property and equipment	722,369	674,771	571,054
	Reduction of long-term debt	116,713	323,137	438,457
	Increase in other assets	26,302	—	46,638
	Increase in deferred compensation related to stock plan	—	50,000	—
	Discontinued operations, net	136,320	52,688	52,682
	Other	(2,635)	3,996	7,807
		Total funds used	999,069	1,104,592
	<i>Increase (Decrease) in Working Capital</i>	\$(177,625)	\$ 75,114	\$ 34,040
<i>Increase (Decrease) in Working Capital by Component</i>	Cash	\$(163,351)	\$ 172,847	\$(25,501)
	Receivables	52,323	54,213	85,541
	Spare parts, supplies and fuel	(9,409)	(7,195)	16,812
	Prepaid expenses and other	14,627	(29,719)	18,156
	Current portion of long-term debt and redeemable preferred stock	12,586	(28,249)	(22,729)
	Accounts payable	(8,343)	(56,813)	2,239
	Accrued expenses	(76,058)	(29,970)	(40,478)
		<i>Increase (Decrease) in Working Capital</i>	\$(177,625)	\$ 75,114

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

31

<i>In thousands, except common shares</i>	Common Stock	Additional Paid-in Capital	Retained Earnings	Deferred Compensation
<i>Balance at May 31, 1984</i>	\$4,639	\$321,768	\$391,314	\$ —
Dividends paid on preferred stock	—	—	(580)	—
Issuance of common stock under employee incentive plans (644,278 shares)	64	18,985	—	—
Net income	—	—	76,077	—
<i>Balance at May 31, 1985</i>	4,703	340,753	466,811	—
Dividends paid on preferred stock	—	—	(435)	—
Sale of common stock (2,000,000 shares)	200	108,980	—	—
Issuance of common stock under employee incentive plans (1,777,710 shares)	178	81,899	—	(50,000)
Amortization of deferred compensation	—	—	—	7,800
Foreign currency translation adjustment	—	—	(1,014)	—
Net income	—	—	131,839	—
<i>Balance at May 31, 1986</i>	5,081	531,632	597,201	(42,200)
Dividends paid on preferred stock	—	—	(289)	—
Issuance of common stock under employee incentive plans (822,036 shares)	82	39,439	—	—
Amortization of deferred compensation	—	—	—	8,500
Foreign currency translation adjustment	—	—	5,045	—
Net loss	—	—	(65,571)	—
<i>Balance at May 31, 1987</i>	\$5,163	\$571,071	\$536,386	\$(33,700)

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. 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 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	3 to 30 years

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

Capitalized interest. Interest on funds used to finance the acquisition 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 \$9,187,000, \$6,808,000 and \$9,736,000 for 1987, 1986 and 1985, respectively.

For income tax purposes, capitalized interest is deducted currently for personal property (primarily aircraft and sort equipment) and amortized over a 10-year period for real property (primarily facilities).

Short-term investments. Short-term investments are carried at cost, which approximates market, and consist of commercial paper, collateralized repurchase agreements, certificates of deposit and other money-market instruments. Interest income earned on short-term investments was \$7,588,000 in 1987, \$10,908,000 in 1986 and \$9,209,000 in 1985.

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.

Note 1 continued *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 related assets are placed in service.

Earnings per share. Earnings per share is computed based on net income after adjustment for dividend requirements on the \$9.50 Cumulative Preferred Stock and on the weighted average number of common and common equivalent shares outstanding during the year. Common equivalent shares are the number of shares of common stock that would be issued upon the exercise of all outstanding stock options.

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

Reclassifications. Certain amounts for 1986 and 1985 have been reclassified to conform to the 1987 presentation.

Note 2
Accrued
Expenses

<i>In thousands</i>	May 31	
	1987	1986
Employee benefits	\$118,147	\$ 83,768
Insurance	38,405	25,422
Taxes other than income taxes	26,704	12,971
Salaries	20,093	16,330
Interest	15,359	16,711
Other	31,747	19,195
	<u>\$250,455</u>	<u>\$174,397</u>

Note 3

Long-Term Debt

<i>In thousands</i>	May 31	
	1987	1986
Unsecured notes payable, interest rates of 8¾% to 10⅝%, due through 1996	\$323,369	\$318,690
Commercial paper, effective rate of 6⅘%	148,764	—
Memphis-Shelby County Airport Authority Special Facilities Revenue Bonds:		
7½% and 7⅝% Series 1979, due 1995 through 2010	34,970	34,970
13% and 13¼% Series 1982A, due 2003 through 2013	48,000	48,000
11% Series 1982B, due 2013	22,000	22,000
10⅞% Series 1982C, due 2004 through 2013	47,770	47,770
7⅞% Series 1984, due 2010	92,550	94,550
	245,290	247,290
Less bond reserve funds and unamortized discount	26,863	28,866
	218,427	218,424
Capital lease obligations and other debt, effective rates of 6¼% to 16⅜%	113,234	96,047
	803,794	633,161
Less current portion	58,880	71,445
	\$744,914	\$561,716

At May 31, 1987, the Company had credit facilities with domestic and foreign banks aggregating \$800,000,000. Borrowings under these agreements bear interest at essentially the prime rate and are convertible at the option of the Company into term loans. Of the total commitment, a portion supports the issuance of commercial paper. The agreements are subject to commitment fees which are not material to the Company. These credit agreements contain certain covenants and restrictions none of which is expected to significantly affect operations or the ability to pay dividends.

The Memphis-Shelby County Airport Authority has issued Special Facilities Revenue Bonds to finance the acquisition and construction of various facilities and equipment for the Company at the Memphis International Airport. Lease agreements with the Authority covering the facilities and equipment financed with the bond proceeds obligate the Company for rentals equal to principal and interest due on the bonds.

Scheduled annual principal maturities of long-term debt for the five years subsequent to May 31, 1987, are as follows: \$58,900,000 in 1988; \$60,000,000 in 1989; \$53,000,000 in 1990; \$136,500,000 in 1991 and \$9,000,000 in 1992.

Note 4
Lease
Commitments

The Company utilizes certain aircraft, land, facilities and equipment under capital and operating leases which expire at various dates through 2022. In addition, supplemental aircraft are leased under agreements which generally provide for cancellation upon 60 days' notice.

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

<i>In thousands</i>	1987	1986
Package handling and ground support equipment	\$310,661	\$236,743
Computer and electronic equipment	57,731	58,856
Other	98,461	90,521
	466,853	386,120
Less accumulated amortization	157,945	111,598
	<u>\$308,908</u>	<u>\$274,522</u>

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

<i>In thousands</i>	1987	1986	1985
Minimum rentals	\$210,421	\$156,867	\$109,764
Contingent rentals	44,052	28,472	19,407
	<u>\$254,473</u>	<u>\$185,339</u>	<u>\$129,171</u>

Contingent rentals are based on mileage under supplemental aircraft leases.

A summary of future minimum lease payments under capital leases and noncancellable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 1987, follows:

<i>In thousands</i>	Capital Leases	Operating Leases
1988	\$ 64,867	\$ 160,726
1989	59,883	147,858
1990	47,938	128,754
1991	40,240	99,142
1992	27,576	90,458
Thereafter	636,386	880,195
	<u>\$876,890</u>	<u>\$1,507,133</u>

At May 31, 1987, the present value of future minimum lease payments for capital lease obligations, including the Special Facilities Revenue Bonds, was \$321,310,000.

Note 5
Preferred Stock

The Company is required to redeem the remaining 15,131 outstanding shares of the \$9.50 Cumulative Preferred Stock at a price of \$100 per share on January 1, 1988.

The Certificate of Incorporation authorizes the Board of Directors to issue, at their discretion, 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, 1987, none of these shares had been issued.

Note 6
Common
Stockholders'
Investment

Under the provisions of the Company's stock incentive plans, options may be granted to certain key management personnel 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 with respect to those plans:

	Number of Shares Under Option	Option Price Per Share
Outstanding at May 31, 1986	2,043,014	\$ 8.00-\$62.00
Granted	314,700	\$56.63-\$70.19
Exercised	(277,765)	\$10.75-\$45.00
Cancelled	(23,812)	\$23.59-\$62.00
Outstanding at May 31, 1987	2,056,137	\$ 8.00-\$70.19
Exercisable at May 31, 1987	1,079,191	\$ 8.00-\$70.19

At May 31, 1987, there were 110,585 shares available for future grants.

The Company has an employee stock purchase plan which provides for the purchase of common stock by non-officer employees at a price which approximates 85% of market. During 1987, 490,941 shares were issued under this plan at prices ranging from \$51.00 to \$53.00 per share.

At May 31, 1987, there were 2,959,577 shares of common stock reserved for issuance under the above-mentioned plans.

In 1986, the Company established an Employee Stock Ownership Plan (ESOP) which borrowed \$50,000,000 from the Company and used the proceeds to purchase 992,556 shares of the Company's unissued common stock for the benefit of eligible employees. Contributions are being made annually by the Company to the ESOP sufficient to pay principal and interest on the loan. Deferred compensation related to this plan is recorded as a reduction of common stockholders' investment and is being amortized over the term of the loan.

Note 7
Income Taxes

The income tax provision for continuing operations consists of the following:

<i>In thousands</i>	Year Ended May 31		
	1987	1986	1985
Current Provision:			
Federal	\$ 86,790	\$ 69,595	\$13,686
State	455	9,277	4,223
Total current provision	87,245	78,872	17,909
Deferred Provision:			
Federal	45,996	30,022	51,948
State	11,692	3,520	3,675
Total deferred provision	57,688	33,542	55,623
	\$144,933	\$112,414	\$73,532

The effective tax rates were 46.5% in 1987, 36.8% in 1986 and 34.6% in 1985. The effective tax rates in both 1986 and 1985 differ from the statutory rate primarily due to the utilization of investment tax credits. The impact of investment tax credits was substantially reduced in 1987 as a result of the Tax Reform Act of 1986.

At May 31, 1987, the Company had investment tax credit carryforwards for income tax reporting purposes of approximately \$34,000,000 expiring in 2001 and 2002.

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

<i>In thousands</i>	Year Ended May 31		
	1987	1986	1985
Depreciation	\$61,399	\$55,520	\$44,336
Tax operating leases	4,626	6,541	7,018
Interest and taxes capitalized for books	4,937	3,950	5,538
Gains on sales of fixed assets	(1,876)	(2,887)	(6,179)
Investment in tax lease	(8,708)	(7,487)	6,758
ITC carryover	(10,865)	(13,774)	(6,326)
Other	(3,517)	(11,841)	803
	\$45,996	\$30,022	\$51,948

The 1987 tax benefit of the losses from discontinued operations of approximately \$182,000,000 includes a deferred benefit of \$96,000,000 related primarily to the timing of the deductibility of losses on disposal of equipment.

Note 8

Postretirement
Benefit Plans

The Company has a defined benefit pension plan covering substantially all employees age 21 and over with at least one year of service, as defined. Annual funding is actuarially determined using the aggregate cost method. Effective June 1, 1985, the Company adopted Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions."

The following table sets forth the plan's funded status as of May 31:

<i>In thousands</i>	1987	1986
Actuarial present value of the projected benefit obligation for service rendered to date (1)	\$280,612	\$187,914
Plan assets at fair value	213,999	149,004
Projected benefit obligation in excess of plan assets	66,613	38,910
Unrecognized net losses from past experience different from that assumed and effects of changes in assumptions	(36,691)	(12,426)
Prior service cost not yet recognized in net periodic cost	(7,777)	—
Unrecognized net obligation at June 1, 1985, being recognized over 15.47 years	(310)	(333)
Prepaid pension cost included in other assets	21,131	—
Pension liability included in accrued expenses	\$ 42,966	\$ 26,151

(1) The actuarial present value of the accumulated benefit obligation is \$129,291,000 in 1987 and \$90,765,000 in 1986, of which vested benefits are \$68,314,000 in 1987 and \$40,692,000 in 1986.

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

<i>In thousands</i>	1987	1986
Service cost—benefits earned during the period	\$ 42,118	\$ 22,792
Interest cost on projected benefit obligation	16,866	10,339
Actual return on plan assets	(17,898)	(27,822)
Net amortization and deferral	1,880	20,842
Net periodic pension cost	\$ 42,966	\$ 26,151

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 8.3% and 7.5% in 1987 and 7.9% and 7.5% in 1986, respectively. The expected long-term rate of return on assets was 10.5% in 1987 and 7% in 1986.

Note 8
continued

The Company also has a deferred profit sharing plan which covers substantially all employees age 21 and over with at least one year of service, as defined. 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 was \$23,000,000 in 1987, \$10,800,000 in 1986, and \$4,500,000 in 1985 including amortization of deferred compensation related to the ESOP.

In addition to the above benefits, the Company provides certain health care benefits for retired employees. Substantially all of the Company's employees may become eligible for those benefits at age 60 and older, if they have at least 10 years of permanent, continuous service to the Company. These and similar benefits for approximately 40,000 active employees are expensed at the time claims are incurred. For 1987 and 1986, total health care benefit costs were \$53,200,000 and \$39,900,000, respectively. Due to the insignificant number of retirees, the cost of providing benefits for retired employees has not been separately reported.

Note 9
Discontinued
Operations

On September 29, 1986, the Company announced the discontinuance of its ZapMail services; such services were phased out by May 31, 1987. A pretax loss of \$357,000,000 (\$195,000,000 after giving effect to tax benefits) was recorded. The consolidated statements of income and changes in financial position for the periods presented have been restated to report the results of the discontinued operations separately.

Disposition of the assets of the discontinued operations began in 1987. Remaining net assets at May 31, 1987, were reduced to their estimated net realizable value. At May 31, 1987, the remaining assets (primarily property and equipment), net of related reserves and other liabilities, are included in Deferred Income Taxes and Other in the accompanying balance sheet. At May 31, 1986, net assets (primarily property and equipment) are included in their respective captions in the accompanying balance sheet.

Operating results for the years ended May 31, 1986 and 1985, and up to the date of the announcement of the discontinuance in 1987, were as follows:

<i>In thousands</i>	1987	1986	1985
Revenues	\$ 9,873	\$ 32,981	\$ 14,741
Operating loss	(50,941)	(131,880)	(121,894)
Other expense	(6,092)	(9,000)	(7,000)
Loss before income taxes	(57,033)	(140,880)	(128,894)
Tax benefit	19,576	80,048	66,231
Loss from discontinued operations	\$(37,457)	\$(60,832)	\$(62,663)

Revenues and operating losses from the date of the announcement of the discontinuance through May 31, 1987, were \$7,800,000 and \$54,500,000, respectively.

Note 10

Commitments

Under various contracts, the Company is committed to purchase five DC-10-30, two MD-11, five B727-100, seven B727-200 and 43 Cessna 208 aircraft to be delivered through 1992. At May 31, 1987, deposits of approximately \$61,400,000 had been made toward these purchases. Further deposits and payments for aircraft acquisitions are expected to approximate \$160,800,000, \$191,600,000, \$20,000,000, \$63,800,000 and \$63,800,000 in 1988 through 1992, respectively.

During 1988, the Company anticipates capital expenditures will be approximately \$650,000,000. In connection therewith, in addition to the commitments discussed above, other substantial commitments have been made as of May 31, 1987. With the exception of committed capital expenditures, the amount and timing of expenditures will depend on various factors which cannot be predicted including future volumes, the introduction of new products and services, service area expansion and the availability of satisfactory financing.

Note 11

Summary of
QuarterlyOperating Results
(Unaudited)

<i>In thousands, except per share amounts</i>	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1987				
Revenues	\$726,008	\$783,733	\$798,867	\$869,700
Operating income	89,732	92,239	82,311	100,461
Income before income taxes	80,401	80,202	67,888	83,394
Income from continuing operations	52,878	34,489	35,922	43,663
Loss from discontinued operations	(28,105)	(199,352)	—	(5,066)
Net income (loss)	24,773	(164,863)	35,922	38,597
Earnings (loss) per share:				
Continuing operations	1.03	.66	.69	.84
Discontinued operations	(.55)	(3.85)	—	(.10)
Net earnings (loss) per share	\$.48	\$ (3.19)	\$.69	\$.74
Average shares outstanding	51,540	51,857	52,034	52,191
1986				
Revenues	\$581,810	\$616,536	\$659,183	\$715,700
Operating income	80,223	86,432	74,020	103,346
Income before income taxes	68,294	78,005	69,260	89,526
Income from continuing operations	43,832	49,374	42,410	57,055
Loss from discontinued operations	(12,221)	(14,429)	(16,085)	(18,097)
Net income	31,611	34,945	26,325	38,958
Earnings (loss) per share:				
Continuing operations	.91	1.01	.83	1.11
Discontinued operations	(.25)	(.30)	(.32)	(.35)
Net earnings per share	\$.66	\$.71	\$.51	\$.76
Average shares outstanding	48,044	48,854	50,936	51,526

To the Stockholders of Federal Express Corporation:

41

We have examined the consolidated balance sheets of Federal Express Corporation (a Delaware corporation) and subsidiaries as of May 31, 1987 and 1986, 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, 1987. 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 subsidiaries as of May 31, 1987 and 1986 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, 1987, in conformity with generally accepted accounting principles consistently applied during the period except for the change, with which we concur, made as of June 1, 1985 in the method of determining pension expense as described in Note 8.

Arthur Andersen & Co.

Memphis, Tennessee,
July 14, 1987.

Selected Consolidated Financial Data

Years ended May 31

42

<i>In thousands, except per share amounts and Other Operating Data</i>		1987	1986	1985
<i>Operating Results</i>	Revenues	\$3,178,308	\$2,573,229	\$2,015,920
	Operating expenses	2,813,565	2,229,208	1,757,303
	Operating income	364,743	344,021	258,617
	Other income (expense)	(52,858)	(38,936)	(46,345)
	Income before income taxes	311,885	305,085	212,272
	Income taxes	144,933	112,414	73,532
	Tax benefit of loss carryforward	—	—	—
	Income from continuing operations	166,952	192,671	138,740
	Loss from discontinued operations	(232,523)	(60,832)	(62,663)
	Net income (loss)	\$ (65,571)	\$ 131,839	\$ 76,077
<i>Earnings Per Share</i>	Earnings (loss) per share:			
	Continuing operations	\$ 3.21	\$ 3.86	\$ 2.94
	Discontinued operations	(4.48)	(1.22)	(1.33)
	Net earnings (loss) per share	\$ (1.27)	\$ 2.64	\$ 1.61
	Average shares outstanding	51,905	49,840	46,970
<i>Financial Position</i>	Current assets	\$ 507,480	\$ 613,290	\$ 423,144
	Property and equipment, net	1,861,432	1,551,845	1,346,023
	Total assets	2,499,511	2,276,362	1,899,506
	Current liabilities	503,725	431,910	316,878
	Long-term debt	744,914	561,716	607,508
	Common stockholders' investment	1,078,920	1,091,714	812,267
<i>Other Operating Data</i>	Average daily package volume	704,392	550,306	406,049
	Average pounds per package	5.1	5.3	5.6
	Average revenue per pound	\$ 3.33	\$ 3.40	\$ 3.45
	Average revenue per package	\$ 16.97	\$ 17.92	\$ 19.19
	Average number of employees	41,047	31,582	26,495
	Aircraft fleet at end of year:			
	McDonnell Douglas DC-10-10s	8	6	6
	McDonnell Douglas DC-10-30s	11	9	5
	Boeing 737-200s	—	—	—
	Boeing 727-100s	39	35	35
	Boeing 727-200s	21	18	18
	Cessna 208s	66	34	9
	Dassault Falcons	—	—	—
Vehicle fleet at end of year	17,200	14,500	12,300	

*Note: Certain information for 1984 through 1986 has been restated to report the results of discontinued operations separately.
See Note 9 of Notes to Consolidated Financial Statements.*

1984	1983	1982	1981	1980	1979	1978
\$1,436,305	\$1,008,087	\$803,915	\$589,493	\$415,379	\$258,482	\$160,301
1,247,553	857,350	684,449	489,758	348,378	218,370	135,064
188,752	150,737	119,466	99,735	67,001	40,112	25,237
(11,948)	(521)	11,614	(1,691)	(7,628)	(6,329)	(5,693)
176,804	150,216	131,080	98,044	59,373	33,783	19,544
51,373	61,283	52,695	39,908	21,644	13,400	6,471
—	—	—	—	—	—	6,425
125,431	88,933	78,385	58,136	37,729	20,383	19,498
(10,001)	—	—	—	—	—	—
\$ 115,430	\$ 88,933	\$ 78,385	\$ 58,136	\$ 37,729	\$ 20,383	\$ 19,498
\$ 2.74	\$ 2.03	\$ 1.85	\$ 1.42	\$ 1.00	\$.59	\$.81
(.22)	—	—	—	—	—	—
\$ 2.52	\$ 2.03	\$ 1.85	\$ 1.42	\$ 1.00	\$.59	\$.81
45,448	43,316	41,788	40,222	36,564	32,732	23,024
\$ 328,136	\$ 265,171	\$194,265	\$166,952	\$ 85,454	\$ 48,975	\$ 30,370
1,112,639	596,392	457,572	373,250	277,702	123,844	71,813
1,525,805	991,717	730,291	570,112	395,030	179,823	106,291
255,910	175,293	114,596	113,846	64,351	43,681	24,315
435,158	247,424	223,856	162,705	142,465	45,729	30,825
717,721	503,794	350,319	270,875	168,745	74,946	37,491
263,385	166,428	125,881	87,191	68,022	45,833	29,516
5.5	5.8	6.5	8.4	9.8	10.7	11.3
\$ 3.80	\$ 4.02	\$ 3.81	\$ 3.15	\$ 2.43	\$ 2.03	\$ 1.86
\$ 21.03	\$ 23.42	\$ 24.79	\$ 26.29	\$ 23.81	\$ 21.72	\$ 21.02
18,368	12,507	10,092	8,080	6,806	4,883	3,224
6	6	4	4	2	—	—
4	—	—	—	—	—	—
—	—	—	1	5	—	—
35	38	31	25	17	12	4
12	—	—	—	—	—	—
—	—	—	—	—	—	—
—	32	32	32	32	32	32
9,000	5,000	4,000	2,500	2,200	1,700	900

Corporate Information

44

Form 10-K A copy of Federal Express' Form 10-K annual report, filed with the Securities and Exchange Commission, is available free. You will be mailed a copy upon request to Investor Relations Department, Federal Express Corporation, Box 727, Memphis, Tennessee 38194-1854, (901) 395-3478.

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

Stockholders At June 30, 1987, there were 6,902 stockholders of record.

Market Information Following are high and low closing prices, by quarters, for Federal Express stock in fiscal 1986 and 1987. No cash dividends have been declared.

<i>Closing Prices of Common Stock</i>		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
FY 1986	High	\$51.38	\$54.88	\$72.38	\$73.38
	Low	41.50	41.00	53.75	59.00
FY 1987	High	\$63.13	\$69.63	\$70.88	\$67.88
	Low	51.88	53.13	59.75	60.00

Annual Meeting The annual meeting of stockholders will be held at the Peabody Hotel, 149 Union Avenue, Memphis, Tennessee, on Monday, September 28, 1987, at 10:00 AM, CDT.

Registrar and Transfer Agent Michael J. Phalen
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Counsel Waring Cox
Memphis, Tennessee

Auditors Arthur Andersen & Co.
Memphis, Tennessee

Federal Express Corporation
Box 727
Memphis, Tennessee 38194