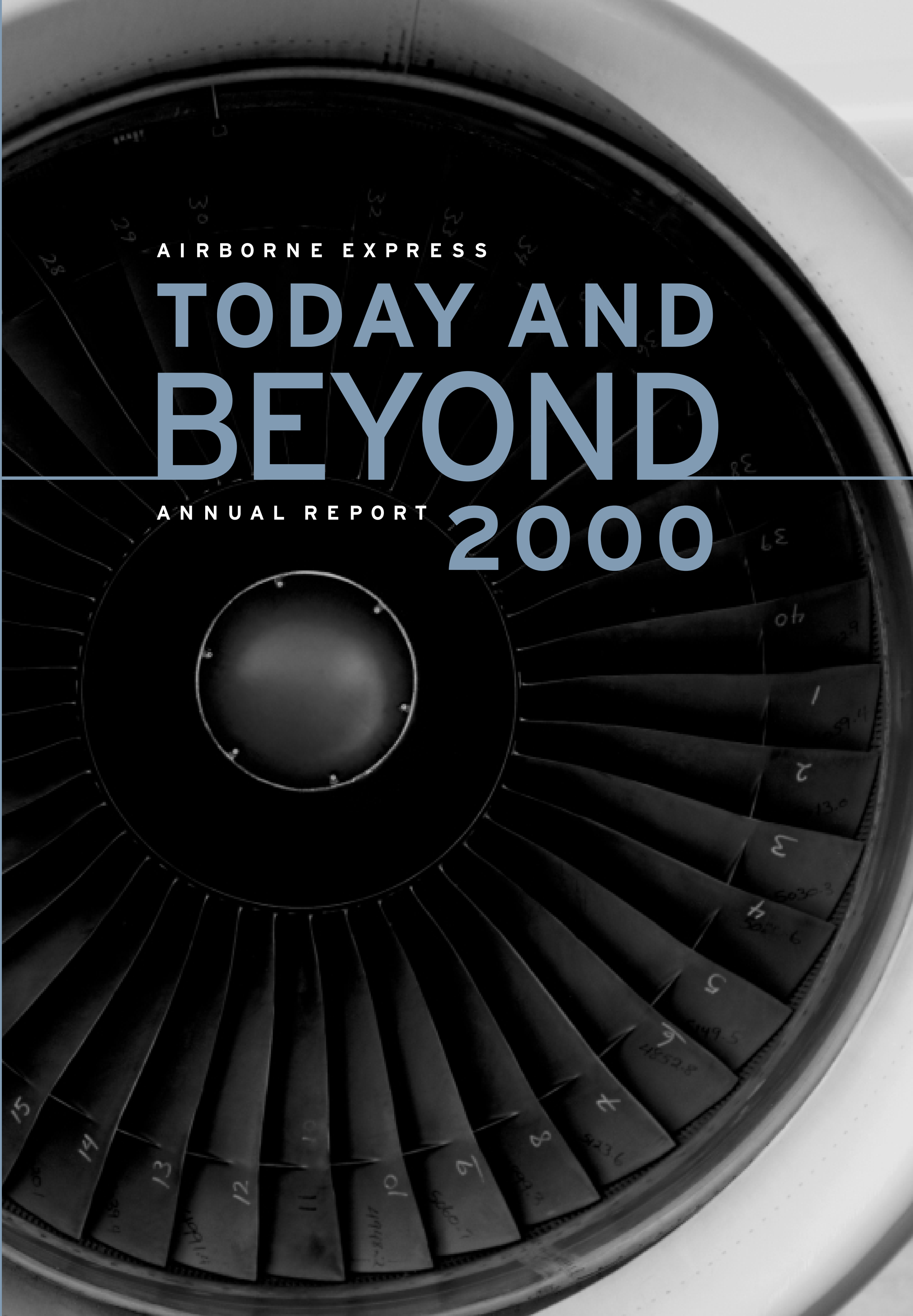
AIRBORNE EXPRESS

TODAY AND BEYOND

ANNUAL REPORT 2000



FINANCIAL HIGHLIGHTS

	2000	1999	1998
		(In thousands except per share data)	
OPERATING RESULTS			
Revenues			
Domestic	$2,895,818	$2,772,782	$2,712,344
International	380,132	366,342	361,440
Total	$3,275,950	$3,139,124	$3,073,784
Net Earnings	$ 14,286	$ 91,201	$ 137,285
Diluted Earnings Per Share[1]	$ .30	$ 1.85	$ 2.72
Dividends Per Share	$ .16	$ .16	$ .16
Diluted Average Shares Outstanding	48,647	49,269	50,561
FINANCIAL STRUCTURE			
Property and Equipment	1,314,758	1,115,712	1,010,721
Total Assets	1,745,919	1,643,250	1,501,577
Shareholders' Equity	862,855	858,207	769,152
NUMBER OF SHIPMENTS			
Domestic	322,493	316,391	316,590
International	6,558	7,038	6,451
Total	329,051	323,429	323,041

[1] *For 2000, net earnings per common share is shown exclusive of the cumulative effect of a change in accounting. Diluted earnings per share inclusive of the change was $.59.*

COMMON STOCK AND DIVIDEND INFORMATION

The Company's common stock is traded on the New York Stock Exchange and the Pacific Stock Exchange under the symbol ABF. The following is a summary of the cash dividends paid and the quarterly trading price ranges of Airborne's common stock on the New York Stock Exchange for 2000 and 1999:

QUARTER	High	Low	Dividend
2000:			
Fourth	$10.938	$ 8.438	$.04
Third	19.313	10.000	.04
Second	22.938	18.375	.04
First	25.375	17.250	.04
1999:			
Fourth	$25.375	$20.000	$.04
Third	28.875	21.063	.04
Second	36.625	24.688	.04
First	41.625	28.625	.04

For more than 50 years, Airborne Express has served the

SHIPPING NEEDS OF BUSINESS CUSTOMERS AROUND THE WORLD.

Today, Airborne offers total distribution solutions by providing time-sensitive delivery of documents, letters, small packages, and freight to virtually every U.S. ZIP Code and more than 200 countries. Customers can select from a variety of services including same day, next morning, next afternoon or second day delivery, air freight, ocean service and logistics management. Most of the Company's domestic and international express shipments are transported on its own airline and fleet of ground transportation vehicles stateside and are processed through its central sorting facility in Wilmington, Ohio or routed through its nine regional hubs. Airborne serves as a freight forwarder in international markets.

WHERE WE ARE TODAY

While 2000 was undeniably a difficult year for Airborne, it led us to develop a sharper, more aggressive focus.

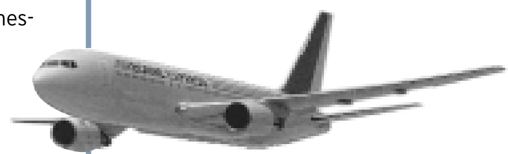
We are implementing aggressive corporate initiatives designed to renew our competitive edge, led by the introduction of our ground delivery service and the broader use of zone pricing. These programs will require investment, and the paybacks, in some cases, may not be immediate. But we have the determination to make the right decisions for all of our stakeholders – shareholders, customers and employees.

Airborne's operating results for 2000 were impacted by various factors. Our continuing lack of growth in domestic core business hampered revenue growth. Historically high fuel costs, and weather related expenses in the fourth quarter, significantly impacted operating expenses. The latter half of the year was especially difficult; growth in our core domestic product declined in part due to the slowing economy affecting the entire industry. Together, these influences hindered our ability to optimize performance and led to a decline in profitability.

TOTAL REVENUES GREW 4.4% TO $3.3 BILLION IN 2000. Growth in our **airborne@home**[sm] service, buoyed by very strong seasonal volume in the fourth quarter, led to improved revenues. However, volume in our higher yielding core products declined 1% during the year. This lack of core business growth not only limited revenue expansion, but also limited the productivity gains needed to offset cost increases.

International revenues increased to $380 million, or about 11.5% of total revenues, but margins declined. The shift in mix to lower yielding import business, and escalating international airline rates led to a negative contribution from this business segment. Our goal is to achieve a better mix of business, through targeted sales efforts, to improve margins over the long term.

Escalating prices for both jet and ground fuel added to cost pressures throughout the year. Accordingly, we instituted fuel surcharges during the year to help combat the rising costs. While overall yields were relatively



stable, aided by the fuel surcharge, revenue growth was inadequate to offset increasing costs. Earnings from operations for 2000 declined to $14.3 million, or $.30 per share, compared to earnings for 1999 of $91.2 million, or $1.85 per share. Earnings in 2000 were $28.5 million, or $.59 per share, including a credit for an accounting change and a non-recurring gain from the sale of securities.

Over the past two years we accelerated our program to acquire and deploy Boeing 767s, which provide a high level of operating efficiency compared to our DC-8 aircraft.

We acquired nine 767s during 2000 and at year-end had 17 of these aircraft in service. The new aircraft were phased in throughout the year, so we have not yet reaped the full potential of cost savings that should be attained with higher capacity utilization. Additionally, deployment of the 767s has allowed us to shift some DC-8s into charter service, providing an added revenue source.

Despite the **year's difficulties,**

With the accelerated 767 program, total net capital expenditures for 2000 were $368 million. We are targeting a lower level of 767 aircraft additions going forward. We anticipate adding three aircraft in 2001, and estimate adding from three to five aircraft a year beginning in 2002, depending on shipment growth. We have significantly reduced our target for capital expenditures for 2001 to $260 million. This capital spending plan includes investments for the ground service and other business initiatives.

We are broadening services and expanding the target markets for existing services to improve our competitive stance.

To accomplish this, the newly aligned executive team is piloting the implementation of the strategic initiatives announced in late 2000. Carl Donaway,

who became President and Chief Operating Officer in August 2000, is leading this team. We have promoted other senior management to key executive positions in key areas of the company. Changes are pervasive throughout Airborne and we are a more aggressive and enthusiastic organization as a result.

These growth initiatives will require concerted management effort and investment, and we are excited by the prospects they will bring:

OUR FIRST PRIORITY IS TO IMPROVE YIELDS. In January 2001, we announced a new pricing structure for domestic services – including a rate increase, a shift to zone-based pricing, and a non-scheduled pickup fee. International express and **airborne@home** rates also will increase. We are introducing these new pricing programs to enhance yields while providing customers greater flexibility. While some zone pricing has been used in the past, the new zone pricing structure will be gradually rolled out to a majority of our customers. We believe migrating to zone based pricing will enhance our ability to bundle our service and product options, particularly as we roll out our new ground service.

PROBABLY THE MOST SIGNIFICANT OF OUR INITIATIVES WILL BE THE introduction of our new Ground Delivery Service (GDS), targeted to launch in April 2001. We plan to develop this service in a strategically measured and controlled manner. We are confident our ground service will be well received. A recent Lou Harris poll indicated that 80% of our large customers surveyed would use Airborne for at least a portion of their ground service. With GDS, we can offer customers ground and air services together for the first time, and effectively utilize bundled marketing.

RENEWED SALES EFFICIENCY AND EFFECTIVENESS ARE VITAL. We are implementing new programs to increase the scale of the sales team, enhance training, and foster activity based selling. We also will be segmenting our customer selling, and will use an improved sales management and incentive system. These changes are already underway.

LOGISTICS CAPABILITIES WILL CONTINUE TO BE EXPANDED, AS this has been our fastest-growing business segment. In addition to continued expansion of our third-party warehouse management logistics capability, 3PL, we are targeting to have 4PL, or supply chain management services, available through alliances and partnerships later in 2001.

EXPANDED E-COMMERCE AND MARKETING ALLIANCES ARE targeting the infrequent shipper market. Increased population density and lower costs through online scheduling now make it economically feasible for us to serve this higher yielding market. Our enhanced web capabilities and a more aggressive Internet marketing strategy should attract more small business and infrequent customers. These programs are scheduled for ongoing implementation during the year.

These initiatives are the key to Airborne's future growth – leading us to recapture market share, improve capacity utilization, and generate operating efficiencies. We expect the benefits from our initiatives to gain visibility by the second half of 2001.

We assumed a holding company structure in late December 2000 under the new name of Airborne, Inc. Airborne Express, Inc., ABX Air, Inc., and Sky Courier, Inc. are the three primary subsidiaries of Airborne, Inc.

we still remain CONFIDENT.

Our heartfelt thanks go to John Cella, former Executive Vice President, International; Kent Freudenberger, Executive Vice President, Marketing; and Roy Liljebeck, Executive Vice President & Chief Financial Officer – all of whom retired during 2000. They were instrumental in Airborne's success and have left a strong legacy.

We were honored to receive several service awards during the year.

We could not accomplish this without our thousands of fine employees worldwide. Their contributions are the heart, soul, and energy of this company; and we thank them.

Robert S. Cline,
Chairman and Chief Executive Officer

Robert G. Brazier,
Vice Chairman

Carl Donaway,
President and Chief Operating Officer

February 9, 2001

DELIVERING THE WORLD

BEYOND

For Airborne Express and our customers, the world is changing dramatically. The Internet, e-commerce and global competition have accelerated the way in which people communicate and do business. Information technology has enhanced supply chain planning and execution allowing customers to improve inventory planning and distribution strategies. Increasingly, customers — large and small — are looking to narrow their supplier base, using fewer carriers to handle all of their shipping needs, including air, ground and logistical support — and to do it on a worldwide scale. Airborne has been developing worldwide logistics and transportation solutions for many years. In 2001, we will significantly add to our service portfolio to address this changing world of business with express delivery services tailored to help our customers grow efficiently, cost-effectively and with confidence.

THE SKY IS NOT THE LIMIT

REFLECTING ON THE PAST, AIRBORNE IS LOOKING BEYOND AIR SERVICE TO A NEW ARRAY OF GROUND, ELECTRONIC, LOGISTICAL AND INTERNATIONAL SERVICES.

NEW SERVICES, NEW MARKETS. GROWTH INITIATIVES FOR 2001 will enhance our value offering to our customers through the addition of new services and the expansion into new markets. Airborne's most significant effort will be the introduction of our Ground Delivery Service (GDS) this spring, completing a vital link in our customers' supply chain. GDS will be a door-to-door, one to six day ground transit service, leveraging Airborne's existing regional sort hub network. This service will initially be focused on corporate accounts and will provide the convenience and cost advantages of bundling their ground and air shipments under one carrier. This will provide our corporate accounts with favorable rates regardless of the distance or service required. Ground Delivery Service will also be a perfect complement to our highly successful **airborne@home** business-to-consumer, residential delivery program.

GROWING FROM THE GROUND

airborne@home is a service arrangement with the United States Postal Service (USPS), whereby Airborne performs the pick up and line-haul portions of a customer's transaction, but then delivers the package to the local post office that services the ultimate consignee. The USPS then performs the "last mile" delivery. **airborne@home** grew very fast in the second half of 2000 as customers recognized the reliability and value of this unique service.

OUR TARGETED INVESTMENT IN E-COMMERCE AND INTERNET strategies will allow us to attract the small business and infrequent shipper market. These markets typically offer higher yielding business than our traditional volume shipper and Fortune 500 target markets. The internet allows us to pursue this business in a cost effective manner. Strategic internet-based initiatives involving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transaction processing enhancements, a new Small Business Center and the establishment of key strategic alliances are at the core of our push into the small business market.

AIRBORNE LOGISTICS SERVICES (ALS) HAS BEEN AIRBORNE'S FASTEST growing business opportunity over the past few years, mainly through our third party warehouse management logistics expertise. We expect to grow in this core strength, and also leverage our assets, knowledge, and alliances to expand our offerings to include full supply chain management services, from design through execution. As a global service provider of air express, freight, and ocean services, our combination of logistics solutions and global reach provide extremely competitive opportunities to integrate international consolidation moves with our nationwide door to door delivery network. Expanded direct selling resources in both international services and supply chain consulting will provide additional momentum to these fast growing opportunities.

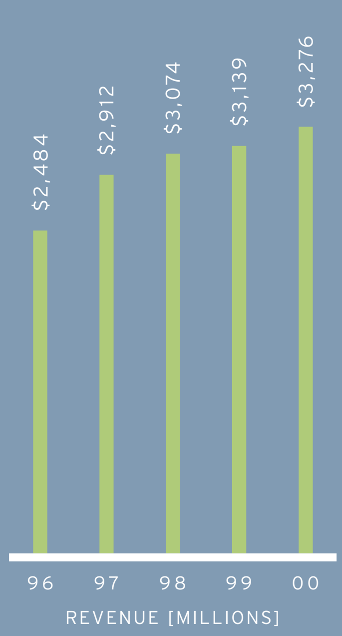
PUTTING OUR CUSTOMERS' BUSINESS 1ST

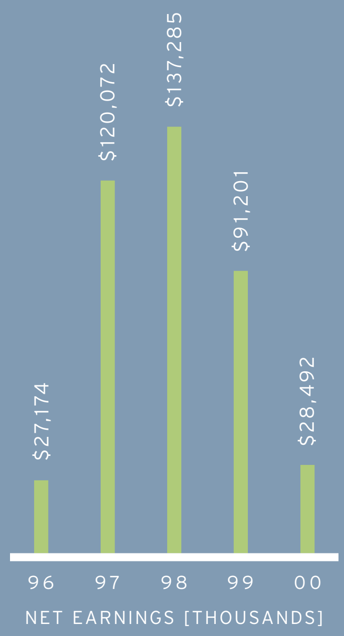
IN 2000, AIRBORNE WON THE COVETED Brand Keys Customer Loyalty Award in the parcel delivery category for the third consecutive year — and for good reason. We listen to our customers and look for *business* solutions, not just *delivery* solutions. For example, our customers have told us that they would prefer a distance-based pricing model, rather than our historic flat-rated model. Thus, beginning in the first quarter of 2001, we began converting our customers to distance-based pricing for their air express shipments. This will allow customers a better opportunity to compare the significant value we offer over our competitors. This new pricing is a better reflection of the costs associated with providing these services and will allow us to improve yield management as price comparisons across all service zones versus our competition will be within the same format — minimizing further erosion of short-haul business.

FOR 2001, WE HAVE IDENTIFIED OTHER customer needs and are unveiling several timely products. We have expanded our Flight-Ready pre-paid packaging offer to include international services. This will offer customers the ability to simplify the shipping of documents worldwide. Our E-Courier program addresses business concerns about emailing sensitive documents such as medical records, legal papers and graphical files by providing secure encrypted data transmissions. This new service complements and in some cases enhances our physical delivery services in many business lines.

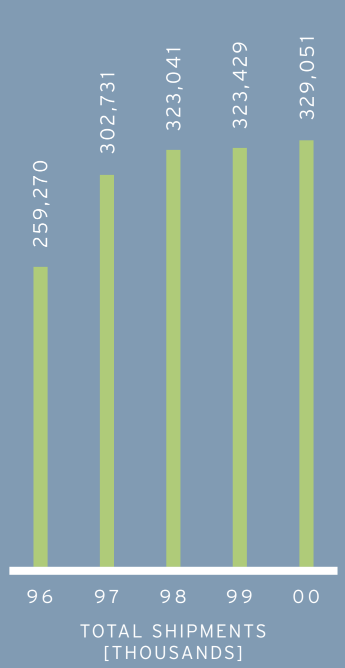
Without a doubt the express delivery business is undergoing significant changes, and Airborne is meeting the challenge with an innovative portfolio of new services. To help our programs succeed, we are bolstering our sales force and building on an e-commerce strategy aimed at improving customer service, administrative efficiency and marketing capabilities. Ground delivery service is pivotal to our future growth for both air and ground business as it completes our service portfolio and allows us to bundle multiple service offerings at the best value. By developing new multi-service opportunities through bundling, we expect to grow our global air and logistics services faster — and ultimately achieve growth and build market share across all sectors.

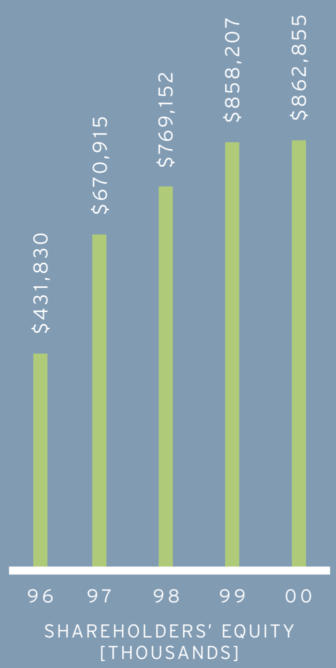
BRINGING IT ALL HOME





AIRBORNE: 5 YEARS IN REVIEW





SELECTED CONSOLIDATED FINANCIAL DATA

	2000	1999	1998	1997	1996
			(In thousands except per share data)		
OPERATING RESULTS:					
Revenues					
Domestic	$2,895,818	$2,772,782	$2,712,344	$2,514,737	$2,108,670
International	380,132	366,342	361,440	397,672	375,636
Total	3,275,950	3,139,124	3,073,784	2,912,409	2,484,306
Operating Expenses	3,233,332	2,981,403	2,841,452	2,687,154	2,405,125
Earnings From Operations	42,618	157,721	232,332	225,255	79,181
Other, Net	19,392	10,333	10,747	27,790	33,236
Earnings Before Income Taxes	23,226	147,388	221,585	197,465	45,945
Income Taxes	8,940	56,187	84,300	77,393	18,500
Net Earnings Before Change in Accounting	14,286	91,201	137,285	120,072	27,445
Cumulative Effect of Change in Accounting	14,206	–	–	–	–
Net Earnings	28,492	91,201	137,285	120,072	27,445
Preferred Stock Dividends	–	–	–	–	271
Net Earnings Available to Common Shareholders	$ 28,492	$ 91,201	$ 137,285	$ 120,072	$ 27,174
Earnings Per Common Share:					
Basic[1]	$ .30	$ 1.88	$ 2.77	$ 2.68	$ .64
Diluted[1]	$ .30	$ 1.85	$ 2.72	$ 2.44	$ .64
Dividends Per Common Share	$ .16	$ .16	$ .16	$ .15	$ .15
Diluted Average Shares Outstanding	48,647	49,269	50,561	50,339	42,573
FINANCIAL STRUCTURE:					
Property and Equipment	$1,314,758	$1,115,712	$1,010,721	$ 901,303	$ 864,735
Total Assets	1,745,919	1,643,250	1,501,577	1,365,973	1,307,422
Long-term Debt	322,230	314,707	249,149	250,559	524,440
Shareholders' Equity	862,855	858,207	769,152	670,915	431,830
NUMBER OF SHIPMENTS:					
Domestic	322,493	316,391	316,590	297,032	254,234
International	6,558	7,038	6,451	5,699	5,036
Total	329,051	323,429	323,041	302,731	259,270

[1] *For 2000, net earnings per common share is shown exclusive of the cumulative effect of a change in accounting for major engine overhaul costs. Basic and diluted earnings per share inclusive of the change was $.59.*

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

RESULTS OF OPERATIONS:

The Company's operating performance for 2000 was substantially below the results reported for 1999. A decline in the Company's core domestic shipments was the primary factor for the deterioration in earnings. With the slow growth in total shipment volumes, productivity gains were difficult to achieve and not sufficient to offset increases in operating costs. High fuel costs and poor weather late in the year coupled with additional costs to service the Company's new **airborne@home** service also had a negative impact on earnings.

Net earnings in 2000 were $28.5 million or $.59 per diluted share, which includes a credit due for a change in accounting for certain major engine overhaul costs. Net earnings before this change were $14.3 million, or $.30 per share compared to $91.2 million, or $1.85 per share in 1999. Net earnings were $137.3 million or $2.72 per share in 1998.

Effective at the beginning of 2000, the Company changed from the accrual method of accounting for DC-9 major engine overhaul costs to the direct expense method where costs are expensed as incurred. The cumulative effect of this change in accounting resulted in a non-cash credit of $14.2 million, net of taxes, or $.29 per share.

The following table is an overview of the Company's shipments, revenue and weight trends for the last three years:

	2000	1999	1998
Number of Shipments (in thousands):			
Domestic			
Overnight	185,419	186,346	186,321
Next Afternoon Service	54,213	56,201	58,186
Second Day Service	82,583	73,556	71,724
100 lbs. and Over	278	288	359
Total Domestic	322,493	316,391	316,590
International			
Express	6,157	6,639	6,017
Freight	401	399	434
Total International	6,558	7,038	6,451
Total Shipments	329,051	323,429	323,041
Average Pounds Per Shipment:			
Domestic	4.3	4.2	4.3
International	51.8	44.2	42.6
Average Revenue Per Pound:			
Domestic	$ 2.03	$ 2.03	$ 1.96
International	$ 1.10	$ 1.17	$ 1.31
Average Revenue Per Shipment:			
Domestic	$ 8.92	$ 8.76	$ 8.56
International	$57.96	$52.05	$56.03

Total revenues increased 4.4% to $3.28 billion in 2000, compared to revenue growth of 2.1% in 1999 and 5.5% in 1998. Shipment volume was 329.1 million shipments in 2000, increasing 1.7% compared to growth of .1% in 1999 and 6.7% in 1998.

Domestic revenues increased 4.4% to $2.9 billion in 2000, compared to domestic revenue growth of 2.2% in 1999 and 7.9% in 1998. Domestic shipments increased 1.9% to 322.5 million compared to flat growth in 1999 and 6.6% in 1998. Domestic revenues were aided by the implementation of a 3% fuel surcharge in February 2000 with an additional 1% added in October 2000. Fuel surcharge revenues totaled $77.6 million in 2000 and accounted for 63% of the increase in domestic revenues. Also impacting domestic revenue growth was the expansion of the Company's charter services, which contributed $18.9 million in revenues in 2000 compared to $2.5 million in 1999 and $2.8 million in 1998. Average revenue per domestic shipment was $8.92 in 2000 compared to $8.76 for 1999 and $8.56 for 1998.

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

Core product shipment volumes experienced a disappointing .9% decline in 2000. The Company's core products include its Overnight Service, Next Afternoon Service (NAS) and Second Day Service (SDS) excluding **airborne@home** shipments. **airborne@home** shipments are classified with Second Day Service (SDS) volumes for statistical reporting purposes. Higher yielding Overnight shipments decreased .5% in 2000 compared to flat growth in 1999 and 7.8% growth in 1998. The NAS product decreased 3.5% and 3.4% in 2000 and 1999, respectively and grew 8.2% in 1998. Core SDS shipment volumes grew .5%, 2.1% and 2.3% in 2000, 1999 and 1998, respectively. Overnight shipments accounted for 57.5% of total domestic shipments in 2000 compared to 58.9% in 1999 and 1998. The deferred NAS and SDS products comprise the balance of the Company's domestic product mix.

The Company's new **airborne@home** product, which was introduced in late 1999, provided virtually all of the Company's shipment growth in 2000 and totaled 9.0 million shipments in 2000 compared to .3 million shipments in 1999. This service is intended to capture primarily business-to-consumer shipments from e-commerce and catalog fulfillment providers. **airborne@home** utilizes an arrangement with the U.S. Postal Service to provide final delivery of the product.

International revenues increased 3.8% in 2000 with shipments decreasing 6.8%. Higher yielding international freight shipments increased slightly over 2000 while lower yielding international express product volumes decreased 7.3% due to the loss in early 2000 of a major customer. International revenues increased 1.4% in 1999 on shipment growth of 9.1%. In 1998, revenues declined 9.1% on shipment growth of 13.2%. While growth in the international freight segment was encouraging in the second half of 2000, a shift in mix during the year towards lower margin import business coupled with overall cost increases from airlines resulted in a deterioration in margins and international segment profitability. Lower international express volumes also contributed to the decline in profitability. The international segment contribution to earnings from operations was a loss of $7.3 million in 2000, compared to earnings of $1.1 million in 1999 and $1.5 million in 1998.

OPERATING EXPENSES are affected by shipment volume, productivity levels, costs incurred to increase capacity and expand service, fuel price volatility and discretionary items such as the level of sales and marketing expenditures. Operating expenses as a percentage of revenues increased to 98.7% of revenues in 2000 compared to 95.0% in 1999 and 92.4% in 1998. Measuring cost performance on a per shipment basis, total operating expenses per shipment increased 6.6% to $9.83, compared to $9.22 in 1999 and $8.80 in 1998. The significantly higher cost of jet fuel was a major factor impacting operating expenses in 2000. Excluding the cost of jet fuel, operating cost per shipment rose 4.5% to $9.26 compared to $8.86 in 1999 and $8.45 in 1998. Additionally, productivity, as measured by shipments handled per paid employee hour declined .9% in 2000, compared to a decline of 2.5% in 1999 and an improvement of 1.4% in 1998. The Company continued to manage productivity at levels sufficient to maintain a high level of overall service integrity with its customers. A comparison of operating expense components is discussed below.

Transportation purchased increased as a percentage of revenues to 31.8% in 2000 as compared to 30.8% in 1999 and 30.7% in 1998. This increase was primarily due to higher costs in farmed out pickup and delivery, international airline and surface line haul as well as fuel surcharges on these services. An increase in **airborne@home** shipment volumes was also a significant contributor to the increase as this category includes the U.S. Postal Service delivery costs necessary to support the new product. Due to the higher than expected volumes of this product during certain periods of the holiday season, additional and often times more expensive line hauls were incurred to meet service requirements.

Station and ground expense as a percentage of revenues was 32.2% in 2000 compared to 31.1% in 1999 and 29.8% in 1998. The increase in this category as a percentage of revenues in 2000 compared to 1999 was primarily a result of a decline in productivity, increases in wage related costs to maintain service, and poor weather in the latter part of 2000.

Flight operations and maintenance expense as a percentage of revenues was 18.0% in 2000 compared to 16.4% in 1999 and 15.5% in 1998. This category of expense was impacted during 2000 by higher fuel costs. The average aviation fuel price, exclusive of fuel hedge settlements was $1.02 per gallon in 2000 compared to $.64 per gallon in 1999 and $.57 per gallon in 1998. Aviation fuel consumption increased 1.8% to 184.1 million gallons compared to a .9% decrease in consumption in 1999 over 1998. Consumption totals include fuel used to service the Company's expanded charter operations. Excluding charters, total fuel consumed in 2000 decreased .5%. The decrease was due to the placing of nine additional 767 aircraft in service thereby allowing less fuel-efficient DC-8 aircraft to be moved to shorter lane segments, backup status or charter operations, or removed from service. The high cost of fuel through 1999 and 2000 hampered the Company's efforts to enter into fuel hedging contracts at acceptable price levels. No fuel contract hedges were outstanding as of either the year ended December 31, 2000 or 1999. The Company incurred settlement expense equivalent to approximately $.01 per gallon in 1999 and $.04 in 1998 as a result of fuel hedging contracts.

Effective January 1, 2000 the Company began to expense DC-9 major engine overhaul costs directly to maintenance expense as costs were incurred. Engine overhaul costs charged to expense as incurred in 2000 and included in flight operations and maintenance were previously accrued in advance of the next scheduled overhaul and charged to the depreciation and amortization category.

General and administrative expense as a percentage of revenues increased to 7.9% in 2000 compared to 7.6% in 1999 and 8.0% in 1998. The increase in 2000 was primarily due to wage and compensation cost pressures.

Sales and marketing costs were 2.5% of revenues in 2000 and 1999 and 2.3% in 1998. In an effort to improve shipment growth the Company plans on adding sales personnel in 2001 as well as expanding its marketing efforts.

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

Depreciation and amortization expense constituted 6.3% of revenues in 2000 compared to 6.7% in 1999 and 6.0% in 1998. The decrease in expense is due primarily to the effect of the change in accounting for engine overhauls discussed above but is offset by an increase in depreciation associated with the additional 767 aircraft placed in service during 2000 and the later part of 1999. In 2000, this expense category also includes an impairment loss of $4.0 million on the DC-8 aircraft which were removed from service.

INTEREST EXPENSE increased in 2000 compared to 1999, primarily as a result of the higher level of average outstanding borrowings. Interest capitalized in 2000 of $6.8 million was primarily related to the acquisition and modification of 767 aircraft and compares to capitalized interest of $4.0 million in 1999 and $5.9 million in 1998. The Company anticipates the level of capitalized interest in 2001 to be less than the amount recorded in 2000 due to fewer 767 aircraft being modified and placed in service.

OTHER income includes gains on sale and realized income from securities held, foreign joint venture earnings and costs associated with accounts receivable securitization transactions. In 2000, a gain of $1.9 million was recorded on the sale of common stock received in connection with the demutualization of Metropolitan Life Insurance Company. The shares were received since the Company held certain employee benefit policies with Metropolitan. In 1999, a gain of $4.6 million was realized on the sale of 34% of the Company's investment in Equant N.V., an international data network services company. The Company acquired its interest in Equant through its membership in SITA, a cooperative of major airline companies, which primarily provides data communication services to the air transport industry.

INCOME TAXES for 2000 resulted in an effective tax rate on earnings from continuing operations of 38.5% compared to 38.1% in 1999 and 38.0% in 1998. The higher tax rates in 2000 were primarily due to higher non-deductible expenses in relation to earnings and higher effective state tax rates.

The Company is undertaking a number of initiatives targeted to improve revenue growth and profitability. In January 2001, the Company announced a new pricing structure for its domestic services that include a rate increase, a shift to zone-based pricing, and a non-scheduled pickup fee. Additionally, a new product, Ground Delivery Service (GDS) is scheduled to be introduced beginning April 2001. This product will leverage the Company's sort and line haul infrastructure and will provide the Company the ability to offer customers both air and ground services. Other initiatives targeted to improve growth include expanded logistics capabilities, e-commerce and marketing alliances, as well as an expansion of the Company's sales force.

The strength of the U.S. and global economies will have an impact on the results of operations in 2001 and beyond. The consensus forecast of some experts indicates very slow US economic growth in the first half of 2001, with growth improving somewhat in the second half of the year. Looking ahead, it is difficult at this point to project a trend for all of 2001 regarding volume growth, but the Company is anticipating modest shipment growth somewhat commensurate with these forecasts. The Company's focus will continue to be on managing yields and cost per shipment to improve margins, while maintaining the high level of customer service.

FINANCIAL CONDITION:

CAPITAL EXPENDITURES and financing associated with those expenditures have been the primary factors affecting the financial condition of the Company over the last three years. A significant portion of these expenditures has been related to the acquisition and modification of aircraft and related flight equipment. Over the past two years the Company accelerated its program to acquire and deploy Boeing 767 aircraft – which provide a high level of operating efficiency compared to the DC-8 aircraft. The Company acquired nine 767 aircraft during 2000. Accordingly, total capital expenditures net of dispositions increased to $368 million in 2000 compared to $293 million in 1999 and $283 million in 1998. At the end of 2000, there were 120 aircraft in service, consisting of 17 767s, 30 DC-8s and 73 DC-9s. In addition, there were two 767 and one DC-9 aircraft in modification status. Other capital expenditures in 2000 included vehicles for expansion and replacement, facilities and package handling equipment, leasehold improvements for new or expanded facilities and computer equipment.

The level of planned capital spending for 2001 has been significantly reduced compared to 2000, primarily as a result of fewer planned aircraft acquisitions. The Company anticipates 2001 capital expenditures of approximately $260 million. This includes aircraft related expenditures of approximately $111 million, including the acquisition of three additional 767 aircraft. Also included is an estimated $30 million for vehicles and facility expansion related to the Ground Delivery Service program being launched in the second quarter. Other expenditures are primarily related to facilities and package handling equipment, leasehold improvements for new or expanded facilities, information systems development and equipment, and replacement vehicles.

As the Company places additional 767 aircraft into service over the next few years, it may continue to remove additional DC-8s from service. This will depend on factors such as overall capacity requirements and the availability of placing aircraft for charter operations. At December 31, 2000 there were five DC-8 aircraft removed from service.

The Company has commitments to acquire a total of 30 767 aircraft including the 19 aircraft owned and the three aircraft which will be delivered in 2001. The remaining 767 aircraft are to be delivered in 2002 and 2003. Additional 767 commitments may be made depending on capacity requirements or for operating efficiency purposes.

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

LIQUIDITY AND CAPITAL RESOURCES:

A majority of the liquidity for financing capital expenditures in the past three years came from internally generated cash provided by operations. Cash provided by operations net of changes in working capital was approximately $264 million in 2000 compared to $259 million in 1999 and $345 million in 1998. Additional liquidity of $150 million was provided in 2000 from advances under a receivable securitization facility implemented in December 2000. Also, the Company's unsecured revolving bank credit agreement has been used as a source of liquidity for periods between other financing transactions.

The Company completed a share repurchase of 1 million shares of common stock in June 2000 for approximately $20.7 million, which were added to the Company's treasury stock. The shares were repurchased pursuant to a 4 million stock repurchase program authorized by the Board of Directors in 1998. The Company has no current plans to purchase additional shares under the remaining repurchase authority.

In July 2000, the Company replaced its revolving bank credit facility with a new agreement expiring June 30, 2005. The revolving bank credit is for a total commitment of $275 million, subject to certain financial covenants. The Company was in compliance with covenants at December 31, 2000. One of these covenants requires a fixed charge coverage ratio of 2.75 or greater to be maintained on a prior four quarter reporting basis. The Company's ratio of fixed charge coverage was approximately 2.95 at December 31, 2000. The fixed charge coverage ratio may not be met for the March 31, 2001 reporting date as a result of the decreased level of operating earnings over recent quarters. The Company is pursuing strategies to ensure the borrowing commitment under the bank revolver facility is maintained. These strategies may include obtaining covenant waivers, renegotiating terms of the agreement, and reducing amounts outstanding under the agreement through other financing options available to the Company.

The Company also has available $30 million under unsecured, uncommitted money market lines of credit with two banks, used in conjunction with the revolving credit agreement to facilitate settlement and accommodate short-term borrowing fluctuations.

Reliance on the bank facilities increased during 1999 and 2000 as the result of the level of capital expenditures exceeding cash provided by operating activities. At December 31, 2000, a total of $103.0 million was owed under the revolving bank credit and money market agreements compared to $95.0 million outstanding at December 31, 1999.

In December 2000, The Company completed an agreement for an accounts receivable securitization facility for $200 million with a term of up to three years. This facility is accounted for as a sale of assets. Therefore, the amount outstanding is not reflected as long-term debt on the balance sheet and is not included in the debt capitalization percentage ratio referred to below. At December 31, 2000, the Company had $150 million of sales proceeds drawn and outstanding under the facility.

The Company's percentage ratio of total long-term debt to total capitalization was 24.6% at December 31, 2000, compared to 24.7% at December 31, 1999. Anticipated cash flow from 2001 operations and liquidity available under the accounts receivable securitization facility should provide the majority of the liquidity for projected 2001 capital expenditures. Accordingly, the debt-to-capitalization percentage ratio is not expected to change significantly during 2001.

In management's opinion, the available capacity under the accounts receivable securitization facility and bank credit agreements coupled with anticipated internally generated cash flow from operations should provide adequate flexibility for financing growth in 2001.

INFLATION:

The rate of inflation has been relatively constant over the past several years, and so has the impact of inflation on the Company's results of operations and financial condition. The effects of inflation have been considered in management's discussion where considered pertinent.

NEW ACCOUNTING PRONOUNCEMENTS:

In September 2000, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 140 "Accounting for Transfers of Servicing of Financial Assets and Extinguishments of Liabilities", which revises standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. SFAS No. 140 is not expected to have a material effect on the Company's financial position or results of operations.

In 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" was issued and requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133, as amended, will be implemented in 2001 and is not expected to have a material effect on the Company's financial position or results of operations.

FORWARD LOOKING STATEMENTS:

Statements contained herein and in other parts of this annual report which are not historical facts are considered forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995). Such statements relating to future events involve risks and uncertainties which are inherently difficult to predict, including statements regarding future shipment growth and product acceptance, capacity requirements, capital expenditure levels and the adequacy of available financing capacity. Actual results, however, may vary because of competitor pricing initiatives, customer demand for time-definite and deferred services, the ability of management to successfully implement growth and profitability initiatives, economic and regulatory conditions, fuel price volatility and labor disputes.

RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Airborne, Inc. has the responsibility for preparing the accompanying consolidated financial statements of the Company and for their integrity and objectivity. The consolidated financial statements have been prepared by the management of the Company in accordance with accounting principles generally accepted in the United States of America using management's best estimates and judgment where necessary. Financial information appearing throughout this annual report is consistent with that in the consolidated financial statements.

To help fulfill its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that transactions are executed in accordance with management's authorizations and are reflected accurately in the Company's records. The concept of reasonable assurance is based on the recognition that the cost of maintaining a system of internal accounting controls should not exceed benefits expected to be derived from the system. The Company believes that its long-standing emphasis on the highest standards of conduct and ethics set forth in comprehensive written policies serves to reinforce its system of internal controls.

Deloitte & Touche LLP, independent auditors, audited the consolidated financial statements in accordance with auditing standards generally accepted in the United States of America to independently assess the fair presentation of the Company's financial position results of operations and cash flows.

The Audit Committee of the Board of Directors, composed entirely of outside directors, oversees the fulfillment by management of its responsibilities over financial controls and the preparation of financial statements. The Audit Committee meets with the independent auditors during the year to review audit plans and audit results. This provides the auditors direct access to the Board of Directors.

Management recognizes its responsibility to conduct the business of Airborne, Inc. in accordance with high ethical standards. This responsibility is reflected in key policy statements that, among other things, address potentially conflicting outside business interests of Company employees and specify proper conduct of business activities. Ongoing communications and review programs are designed to help ensure compliance with these policies.

Robert S. Cline
Chairman of the Board and
Chief Executive Officer

Lanny H. Michael
Senior Vice President and
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

Board of Directors
Airborne, Inc. and Subsidiaries
Seattle, Washington

We have audited the accompanying consolidated balance sheets of Airborne, Inc. and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of net earnings, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the Financial Statements, the company changed its method of accounting for major engine overhaul costs on DC-9 aircraft effective January 1, 2000.

Deloitte & Touche LLP

DELOITTE & TOUCHE LLP
February 9, 2001
Seattle, Washington

CONSOLIDATED STATEMENTS OF NET EARNINGS

Year Ended December 31	2000	1999	1998
	(In thousands except per share data)		
REVENUES:			
Domestic	$2,895,818	$2,772,782	$2,712,344
International	380,132	366,342	361,440
	3,275,950	3,139,124	3,073,784
OPERATING EXPENSES:			
Transportation purchased	1,042,541	965,722	944,357
Station and ground operations	1,055,142	975,669	914,919
Flight operations and maintenance	588,582	513,337	477,799
General and administrative	258,149	240,089	248,497
Sales and marketing	82,512	77,196	71,354
Depreciation and amortization	206,406	209,390	184,526
	3,233,332	2,981,403	2,841,452
EARNINGS FROM OPERATIONS	42,618	157,721	232,332
OTHER INCOME (EXPENSE):			
Interest, net	(23,425)	(17,262)	(12,882)
Other	4,033	6,929	2,135
EARNINGS BEFORE INCOME TAXES	23,226	147,388	221,585
INCOME TAXES	8,940	56,187	84,300
NET EARNINGS BEFORE CHANGE IN ACCOUNTING	14,286	91,201	137,285
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	14,206	–	–
NET EARNINGS	$ 28,492	$ 91,201	$ 137,285
EARNINGS PER SHARE:			
BASIC-			
Before change in accounting	$ .30	$ 1.88	$ 2.77
Cumulative effect of change in accounting	.29	–	–
Earnings per basic share	$ .59	$ 1.88	$ 2.77
DILUTED-			
Before change in accounting	$ .30	$ 1.85	$ 2.72
Cumulative effect of change in accounting	.29	–	–
Earnings per diluted share	$ .59	$ 1.85	$ 2.72
DIVIDENDS PER SHARE	$ .16	$ .16	$ .16

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

December 31	2000	1999
	(In thousands)	
ASSETS		
CURRENT ASSETS:		
Cash	$ 40,390	$ 28,678
Accounts receivable, less allowance of $10,290,000 and $9,640,000	218,685	339,044
Spare parts and fuel inventory	43,231	44,263
Refundable income taxes	21,595	1,679
Deferred income tax assets	28,839	31,950
Prepaid expenses and other	20,809	24,456
TOTAL CURRENT ASSETS	373,549	470,070
PROPERTY AND EQUIPMENT, NET	1,314,758	1,115,712
EQUIPMENT DEPOSITS AND OTHER ASSETS	57,612	57,468
TOTAL ASSETS	$1,745,919	$1,643,250
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 180,623	$ 142,087
Salaries, wages and related taxes	71,179	65,276
Accrued expenses	83,518	78,755
Income taxes payable	–	3,282
Current portion of debt	477	442
TOTAL CURRENT LIABILITIES	335,797	289,842
LONG-TERM DEBT	322,230	314,707
DEFERRED INCOME TAX LIABILITIES	125,444	99,169
POSTRETIREMENT LIABILITIES	62,360	46,552
OTHER LIABILITIES	37,233	34,773
COMMITMENTS AND CONTINGENCIES (NOTE H)		
SHAREHOLDERS' EQUITY:		
Preferred stock, without par value - Authorized 5,200,000 shares, no shares issued		
Common stock, par value $1 per share - Authorized 120,000,000 shares Issued 51,279,651 and 51,176,018	51,280	51,176
Additional paid-in capital	303,885	298,742
Retained earnings	567,700	546,962
Accumulated other comprehensive income	(136)	918
	922,729	897,798
Treasury stock, 3,244,526 and 2,491,078 shares, at cost	(59,874)	(39,591)
	862,855	858,207
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,745,919	$1,643,250

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31	2000	1999	1998
		(In thousands)	
OPERATING ACTIVITIES:			
Net earnings	$ 28,492	$ 91,201	$ 137,285
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Cumulative effect of change in accounting	(14,206)	–	–
Depreciation and amortization	206,406	188,955	168,029
Deferred income taxes	20,679	6,889	9,538
Postretirement obligations	15,808	15,197	13,846
Provision for aircraft engine overhauls	–	20,435	16,497
Other	5,833	529	(1,590)
CASH PROVIDED BY OPERATIONS	263,012	323,206	343,605
Change in:			
Proceeds from receivable securitization facility	150,000	–	–
Receivables	(29,641)	(15,866)	(629)
Inventories and prepaid expenses	4,679	(3,296)	(1,475)
Refundable income taxes	(19,916)	(1,679)	–
Accounts payable	38,536	(10,913)	9,034
Accrued expenses, salaries and taxes payable	7,384	(32,534)	(5,532)
NET CASH PROVIDED BY OPERATING ACTIVITIES	414,054	258,918	345,003
INVESTING ACTIVITIES:			
Additions to property and equipment	(372,575)	(294,319)	(285,481)
Disposition of property and equipment	4,713	1,693	2,598
Proceeds from sale of securities	1,913	4,603	–
Expenditures for engine overhauls	–	(18,735)	(22,846)
Other	(16,794)	(5,453)	(4,584)
NET CASH USED BY INVESTING ACTIVITIES	(382,743)	(312,211)	(310,313)
FINANCING ACTIVITIES:			
Proceeds (payments) on bank notes, net	8,000	66,000	(1,000)
Repurchase of common stock	(20,662)	–	(38,835)
Principal payments on debt	(442)	(410)	(381)
Proceeds from common stock issuance	1,259	5,480	6,509
Dividends paid	(7,754)	(7,778)	(7,829)
NET CASH (USED) PROVIDED BY FINANCING ACTIVITIES	(19,599)	63,292	(41,536)
NET INCREASE (DECREASE) IN CASH	11,712	9,999	(6,846)
CASH AT BEGINNING OF YEAR	28,678	18,679	25,525
CASH AT END OF YEAR	$ 40,390	$ 28,678	$ 18,679
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid during the year -			
Interest, net of amount capitalized	$ 24,066	$ 17,429	$ 13,227
Income taxes	10,604	53,628	68,301
Non-cash financing activities -			
Contribution of treasury stock to profit sharing plans	4,367	–	341

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
			(In thousands)			
BALANCE AT JANUARY 1, 1998	$50,428	$287,209	$334,083	$ –	$ (805)	$670,915
Comprehensive income:						
Net earnings			137,285			137,285
Other comprehensive income, net of tax -						
Unrealized securities gains				947		947
Foreign currency translation adjustments				(181)		(181)
Total comprehensive income	–	–	137,285	766	–	138,051
Common stock dividends paid			(7,829)			(7,829)
Repurchase of common stock					(38,835)	(38,835)
Exercise of stock options	391	6,093			25	6,509
Contribution of treasury stock to profit sharing plans		327			14	341
BALANCE AT DECEMBER 31, 1998	$50,819	$293,629	$463,539	$766	$(39,601)	$769,152
Comprehensive income:						
Net earnings			91,201			91,201
Other comprehensive income, net of tax -						
Unrealized securities gains				29		29
Foreign currency translation adjustments				123		123
Total comprehensive income	–	–	91,201	152	–	91,353
Common stock dividends paid			(7,778)			(7,778)
Exercise of stock options	357	5,113			10	5,480
BALANCE AT DECEMBER 31, 1999	$51,176	$298,742	$546,962	$ 918	$(39,591)	$858,207
Comprehensive income:						
Net earnings			28,492			28,492
Other comprehensive income, net of tax -						
Unrealized securities losses				(769)		(769)
Foreign currency translation adjustments				(285)		(285)
Total comprehensive income	–	–	28,492	(1,054)	–	27,438
Common stock dividends paid			(7,754)			(7,754)
Repurchase of common stock					(20,662)	(20,662)
Exercise of stock options	104	1,155				1,259
Contribution of treasury stock to profit sharing plans		3,988			379	4,367
BALANCE AT DECEMBER 31, 2000	$51,280	$303,885	$567,700	$ (136)	$(59,874)	$862,855

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three Years Ended December 31, 2000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REORGANIZATION

Effective December 26, 2000, the Company reorganized its corporate structure through the creation of a new holding company, Airborne, Inc. (the Company). Pursuant to a reorganization agreement, Airborne Express, Inc., (formerly Airborne Freight Corporation), ABX Air, Inc., and Sky Courier, Inc. (formerly Airborne Forwarding Corporation) became wholly-owned subsidiaries of Airborne, Inc. Holders of outstanding Airborne Freight Corporation common shares, $1.00 par value, automatically became holders of Airborne, Inc. common shares at the same par value.

NATURE OF OPERATIONS

The Company's revenues are primarily derived from domestic and international transportation of shipments. The Company provides door-to-door express delivery of small packages and documents throughout the United States and to most foreign countries. The Company also acts as an international and domestic freight forwarder for shipments of any size. Most domestic shipments are transported on the Company's own airline and a fleet of ground transportation vehicles through its Company-owned airport and central sorting facilities, or one of nine regional hubs. International shipments are transported utilizing a combination of the Company's domestic network, commercial airline lift capacity, and through a network of offshore Company offices and independent agents.

As of December 31, 2000, the Company had approximately 10,600 employees (44% of total employees), including approximately 800 pilots, employed under collective bargaining agreements with various locals of the International Brotherhood of Teamsters and Warehousemen. The pilots are covered by an agreement that becomes amendable on July 31, 2001. Most labor agreements covering the Company's ground personnel expire in either 2003 or 2004. The Company has not experienced any significant disruptions from labor disputes in the past.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions are eliminated in consolidation.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements. Changes in these estimates and assumptions may have a material impact on the financial statements.

CASH

The Company has a cash management system under which a cash overdraft exists for uncleared checks in the Company's primary disbursement accounts. The cash amount in the accompanying financial statements represents balances in other accounts prior to being transferred to the primary disbursement accounts. Uncleared checks of $51,738,000 and $43,246,000 are included in accounts payable at December 31, 2000 and 1999, respectively.

SPARE PARTS AND FUEL INVENTORY

Spare parts are stated at average cost and fuel inventory is stated at cost on a first-in, first-out basis.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. The cost and accumulated depreciation of property and equipment disposed of are removed from the accounts with any related gain or loss reflected in earnings from operations.

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

Flight equipment	5 to 18 years
Buildings, runways, and leasehold improvements	5 to 40 years
Package handling and ground support equipment	3 to 10 years
Vehicles and other equipment	3 to 8 years

DC-8 and DC-9 aircraft generally carry residual values of 10% and 15% of asset cost, respectively. All other property and equipment have no assigned residual values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

As of December 31, 2000, residual values on three DC-8 aircraft that were removed from service were adjusted to fair value in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". During 2000, an impairment loss of $3,956,000 was recorded and included in depreciation and amortization expense in the consolidated statements of net earnings. The fair values of the aircraft were adjusted to their estimated parts value. Fair value approximated net book value on two additional DC-8 aircraft which had been removed from service as of December 31, 2000.

Major engine overhauls as well as ordinary engine maintenance and repairs for DC-8 and 767 aircraft are performed by third-party service providers under long-term contracts. Service costs under the contracts are based upon hourly rates for engine usage and are charged to expense in the period utilization occurs. Beginning in 2000, major engine overhauls for DC-9 aircraft are expensed as incurred. As discussed in "Change in Accounting" below, prior to 2000 the Company provided accruals for costs in advance of the next scheduled overhaul. The provision for engine overhauls was included in depreciation and amortization expense in prior years.

CAPITALIZED INTEREST

Interest incurred during the construction period of certain facilities and on aircraft purchase and modification costs is capitalized until the date the asset is placed in service as an additional cost of the asset. Capitalized interest was $6,770,000, $3,969,000 and $5,850,000 for 2000, 1999 and 1998, respectively.

INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are provided for temporary differences between the timing of reporting certain revenues and expenses for financial versus tax purposes. Deferred taxes are measured using provisions of currently enacted tax laws. Tax credits are accounted for as a reduction of income taxes in the year in which the credit originates.

FUEL CONTRACTS

The Company has, in the past, utilized fuel contract hedges with financial institutions to limit its exposure to volatility in jet fuel prices. Under terms of the contracts, the Company either made or received payments if the market price of heating oil, as determined by an index of the monthly NYMEX Heating Oil futures contracts, was lower than or exceeded certain prices agreed to between the Company and the financial institutions. Settlements were made in cash and recorded in the period of settlement as either an increase or decrease to fuel expense.

The Company had no fuel contract hedges outstanding at December 31, 2000. There were no settlement payments made on fuel contract hedges during 2000. Settlement payments of $1,886,000 and $7,915,000 were made during 1999 and 1998, respectively. The Company may enter into fuel contracts in future periods depending on pricing and market conditions.

The Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". As amended by SFAS No. 137, this statement will be effective for fiscal year 2001. SFAS No. 138, an additional amendment, and SFAS No. 133 require an entity to recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value.

Under the cash flow hedge provisions of SFAS Nos. 133 and 138, the Company will be required to record all outstanding fuel contracts at fair value, with corresponding changes in fair value recorded as a component of Other Comprehensive Income if the hedges are determined to be effective. Upon implementation in 2001, the Company does not anticipate the provisions of SFAS Nos. 133 and 138 will have a material effect on its financial condition or results of operations.

COMPREHENSIVE INCOME

Comprehensive income includes net income and other comprehensive income which includes changes in equity arising during the period from holding investments in marketable securities and foreign joint ventures.

REVENUE RECOGNITION

Domestic revenues and most domestic operating expenses are recognized when shipments are picked up from the customer. International revenues and direct air carrier expenses are recognized in the period when shipments are tendered to a carrier for transport to a foreign destination. Domestic and international delivery costs are recognized in the period incurred. The net revenue resulting from existing recognition policies does not materially differ from that which would be recognized on a delivery date basis.

CHANGE IN ACCOUNTING

Effective January 1, 2000, the Company changed its method of accounting for major overhaul costs on DC-9 aircraft from the accrual method to the direct expense method where costs are expensed as incurred. Previously, these costs were accrued in advance of the next scheduled overhaul based upon engine usage and estimates of overhaul costs. The Company believes that this new method is preferable because it is more consistent with industry practice and appropriate given the relatively large size of its DC-9 fleet.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cumulative effect of this change in accounting resulted in a non-cash credit in 2000 of $14,206,000 net of taxes, or $.29 per diluted share. Excluding the cumulative effect, this change increased net earnings for 2000 by approximately $3,687,000, net of tax or $.08 per diluted share. If the accounting change had been retroactively applied, net earnings and earnings per diluted share would have been as follows (in thousands except per share data):

Year Ended December 31	1999	1998
As reported:		
Net earnings	$91,201	$137,285
Earnings per diluted share	$ 1.85	$ 2.72
Proforma:		
Net earnings	$94,828	$135,819
Earnings per diluted share	$ 1.92	$ 2.69

RECLASSIFICATIONS

Certain amounts for prior years have been reclassified in the consolidated financial statements to conform to the classification used in 2000.

NOTE B - FAIR VALUE INFORMATION

The carrying amounts and related fair values of the Company's financial instruments are as follows (in thousands):

December 31	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Marketable securities	$ 18,747	$ 18,747	$ 19,619	$ 19,619
Long-term debt	322,707	306,078	315,149	314,804

Marketable securities consist primarily of commingled investment funds that may be used for funding non-qualified pension plan obligations. These securities are considered available-for-sale securities for financial reporting purposes and are classified with equipment deposits and other assets on the consolidated balance sheets. Fair value for these investments is based on quoted market prices for the securities underlying the investment funds or the same securities. Unrealized losses on these securities, which are included in other comprehensive income, were $1,248,000 for 2000. Unrealized gains on these securities were $47,000 and $1,540,000 for 1999 and 1998, respectively. Realized gains recognized in 2000, 1999 and 1998 were $1,117,000, $1,268,000 and $1,531,000, respectively.

Discussion regarding the fair value of the Company's long-term debt and fuel contracts is disclosed in the respective notes to the consolidated financial statements. Carrying amounts for cash, trade accounts receivable and current liabilities approximate fair value.

NOTE C – ACCOUNTS RECEIVABLE

Accounts receivable consists of the following (in thousands):

December 31	2000	1999
Retained interest in securitized accounts receivable:		
Securitized trade accounts receivable	$ 340,838	$ –
Less: Proceeds from sale of undivided interest in receivables	(150,000)	–
Less: Allowance for doubtful accounts	(8,610)	–
Retained interest in securitized accounts receivable, net	182,228	–
Other accounts receivable:		
Other trade accounts receivable	38,137	348,684
Less: Allowance for doubtful accounts	(1,680)	(9,640)
Other trade accounts receivable, net	36,457	339,044
Accounts receivable on consolidated balance sheets	$ 218,685	$339,044

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C – ACCOUNTS RECEIVABLE (CONTINUED)

The Company entered into an agreement with a financial institution in December 2000 to finance the sale, on a continuous basis, of an undivided interest in all eligible U.S. trade accounts receivables through an accounts receivable securitization facility. This financing agreement is accounted for as a sale of assets under the provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities."

To facilitate the sales, the Company formed Airborne Credit, Inc. ("ACI"), a wholly-owned, special purpose, bankruptcy remote subsidiary consolidated by the Company. The Company transfers substantially all of its U.S. trade account receivables to ACI, whose sole purpose, in turn, is to sell an undivided interest in the receivables to an unrelated third party and receive proceeds of up to $200,000,000. The facility has a committed term of three years, subject to annual renewal of a separate liquidity facility. The Company retains the servicing of the receivables transferred to ACI.

To the extent that customers default on the receivables, losses will first reduce the Company's retained interest in the receivables prior to reducing the interests sold through the facility. Any increase in actual defaults above the recorded amount of allowance for doubtful accounts would decrease the value of the Company's retained interest.

Upon the sale of the undivided interest in the receivables, the Company incurs a liability to fund the purchaser's costs of financing the proceeds. This liability is recorded at the time of sale and is estimated based on projected financing costs over the projected life of the receivable interests sold. Discounts associated with the sale of receivables, primarily related to recording the obligation to fund the purchaser's costs, were $96,000 for 2000 and are included in other expense in the consolidated statements of net earnings. The Company does not believe any difference between the projected and actual financing costs would have a material effect on the financial condition results of operations.

In September 2000, the Financial Accounting Standards Board issued SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", which revises the standards for accounting for securitizations and other transfers of financial assets and collateral and requires certain disclosures, but carries over most of the provisions of SFAS No. 125 without reconsideration. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001. SFAS No. 140 is not expected to have a material effect on the Company's financial position or its results of operations.

NOTE D - PROPERTY AND EQUIPMENT

Property and equipment consists of the following (in thousands):

December 31	2000	1999
Flight equipment	$ 1,871,137	$ 1,584,089
Land, buildings and leasehold improvements	269,723	246,004
Package handling and ground support equipment	200,796	175,081
Vehicles and other equipment	278,585	268,161
	2,620,241	2,273,335
Accumulated depreciation and amortization	(1,305,483)	(1,157,623)
	$ 1,314,758	$ 1,115,712

NOTE E - ACCRUED EXPENSES

Accrued expenses consist of the following (in thousands):

December 31	2000	1999
Insurance	$40,556	$28,377
Unearned revenues	17,176	15,781
Property and other taxes	9,725	8,815
Other retirement plans	7,000	3,584
Interest	2,738	2,762
Profit sharing retirement plan	380	10,747
Aircraft lease payments	–	2,796
Other	5,943	5,893
	$83,518	$78,755

NOTE F - INCOME TAXES

Deferred income tax assets and liabilities consist of the following (in thousands):

December 31	2000	1999
Employee benefits	$ 13,715	$ 19,025
Insurance	12,733	9,466
Bad debts, sales reserves and other	2,391	3,459
Current net deferred income tax assets	28,839	31,950
Depreciation	146,677	122,974
Employee benefits	(17,062)	(10,033)
Insurance	(12,874)	(11,788)
Capitalized systems development	3,671	–
Aircraft engine overhaul accrual	–	(6,163)
Other	5,032	4,179
Noncurrent net deferred income tax liabilities	125,444	99,169
Net deferred income tax liabilities	$ 96,605	$ 67,219

Income taxes consist of the following (in thousands):

Year Ended December 31	2000	1999	1998
Current:			
Federal	$(11,785)	$44,215	$66,372
State	(210)	4,920	7,800
Foreign	256	163	590
	(11,739)	49,298	74,762
Deferred:			
Depreciation	23,702	13,845	11,425
Aircraft engine overhaul accrual	6,163	(637)	2,180
Capitalized systems development	3,671	–	–
Alternative Minimum Tax credit	(639)	–	11,761
Employee benefits	(1,684)	(7,230)	(6,240)
Insurance accruals	(4,352)	(1,794)	(2,178)
Cumulative effect of change in accounting principle	(8,707)	–	–
Union pension benefits	–	–	(8,225)
Other	2,525	2,705	815
	20,679	6,889	9,538
	$ 8,940	$56,187	$84,300

The income tax rate on earnings from continuing operations differed from the Federal statutory rate as follows:

Year Ended December 31	2000	1999	1998
Taxes computed at statutory rate of 35%	35.0%	35.0%	35.0%
State and foreign income taxes, net of Federal benefit	3.0%	2.2%	2.3%
Tax effect of nondeductible expenses	6.7%	1.1%	0.7%
Tax credits	(3.5%)	–	–
Other	(2.7%)	(0.2%)	–
	38.5%	38.1%	38.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE G - LONG-TERM DEBT

Long-term debt consists of the following (in thousands):

December 31	2000	1999
Revolving credit notes payable to banks, effective rate of 7.42% as of December 31, 2000	$ 75,000	$ 95,000
Money market lines of credit	28,000	–
Senior notes, 8.875%, due December, 2002	100,000	100,000
Senior notes, 7.35%, due September, 2005	100,000	100,000
Refunding revenue bonds, effective rate of 4.95% as of December 31, 2000, due June 2011	13,200	13,200
Other	6,507	6,949
	322,707	315,149
Less current portion	477	442
	$322,230	$314,707

The Company has a revolving bank credit agreement providing for a total commitment of $275,000,000. The agreement expires June 30, 2005. Interest rates for borrowings outstanding are generally determined by maturities selected and prevailing market conditions. The Company was in compliance with covenants of the revolving credit agreement during 2000, 1999 and 1998, including net worth restrictions that limit the payment of dividends ($142,173,000 of retained earnings was not restricted at December 31, 2000). One of the covenants requires a fixed charge coverage ratio of 2.75 or greater to be maintained on a prior four quarter reporting basis. The Company's ratio of fixed charge coverage was approximately 2.95 at December 31, 2000. The fixed charge coverage ratio may not be met for the March 31, 2001 reporting date as a result of the decreased level of operating earnings over recent quarters. The Company is pursuing strategies to ensure the borrowing commitment under the bank revolver facility is maintained. These strategies may include obtaining covenant waivers, renegotiating terms of the agreement, and reducing amounts outstanding under the agreement through other financing options available to the Company.

The Company has available $30,000,000 of financing under uncommitted money market lines of credit with several banks. These facilities bear interest at rates that vary with the banks' cost of funds and are typically less than the prevailing bank prime rate. The average interest rate on these borrowings was 7.05% for 2000. These credit lines are used in conjunction with the revolving credit agreement to facilitate settlement and accommodate short-term borrowing fluctuations.

The Company classified the borrowings outstanding under the money market lines of credit as long-term as of December 31, 2000. The Company had the intent and ability at that date to refinance these borrowings under the revolving credit agreement.

The Company's tax-exempt airport facilities refunding bonds carry no sinking fund requirements and bear interest at weekly adjustable rates. The average interest rate on these borrowings was 4.2% during 2000. Payment of principal and interest is secured by an irrevocable bank letter of credit that is collateralized by a mortgage on certain airport properties which had a net carrying value of $46,343,000 at December 31, 2000.

The scheduled annual principal payments on long-term debt for the next five years are $477,000, $100,513,000, $553,000, $596,000 and $203,643,000 for 2001 through 2005, respectively.

The fair value information shown in Note B reflects values for the Company's senior notes based on quoted market prices for the same issues. The carrying value of the Company's remaining long-term financial debt instruments approximates fair value primarily because of the repricing frequency of the instruments.

NOTE H - COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company is obligated under various long-term operating lease agreements for certain equipment and for a substantial portion of its facilities. These leases expire at various dates through 2016. Rental expense for 2000, 1999 and 1998 was $95,559,000, $98,416,000 and $104,816,000, respectively.

Rental commitments under long-term operating leases at December 31, 2000 total $415,936,000 and are payable as follows (in thousands):

	Facilities	Equipment
2001	$ 76,350	$3,167
2002	73,395	2,932
2003	61,176	1,785
2004	51,304	613
2005	38,139	31
2006 and beyond	107,044	–

NOTE H - COMMITMENTS AND CONTINGENCIES (CONTINUED)

COMMITMENTS

The Company has entered into firm agreements to purchase 11 used Boeing 767s and related freighter conversion kits at various dates through 2003. At December 31, 2000, cash deposits of $2,743,000 had been made toward these purchases. Additional deposits and payments for all aircraft acquisitions will approximate $67,321,000, $85,243,000 and $75,400,000 for 2001 through 2003, respectively. There are currently no aircraft related commitments extending beyond 2003.

CONTINGENCIES

In the normal course of business, the Company has various legal claims and other contingent matters outstanding. Management believes that any ultimate liability arising from these actions would not have a material adverse effect on the Company's financial condition or results of operations as of and for the year ended December 31, 2000.

NOTE I - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Company sponsors defined benefit and defined contribution pension plans and postretirement healthcare plans. These plans are generally provided to employees who are not covered by multi-employer plans to which the Company contributes under terms of various collective bargaining agreements.

Information regarding the Company's qualified defined benefit pension plans and postretirement healthcare plans is as follows (in thousands):

	Pension Plans		Postretirement Healthcare Plans	
Year Ended December 31	2000	1999	2000	1999
Reconciliation of benefit obligation:				
Obligation as of January 1	$ 111,902	$111,635	$ 8,374	$ 9,234
Service cost	17,309	11,218	948	935
Interest cost	13,379	7,578	700	540
Benefits paid	(1,495)	(999)	(293)	(246)
Actuarial gain (loss)	26,755	(17,762)	1,286	(2,089)
Plan transfers	–	232	–	–
Plan amendments	52,755	–	110	–
Obligation as of December 31	$ 220,605	$111,902	$ 11,125	$ 8,374
Reconciliation of fair value of plan assets:				
Plan assets as of January 1	$ 94,511	$ 78,237	$ –	$ –
Actual return on plan assets	(1,353)	13,309	–	–
Employer contributions	10,904	3,732	293	246
Benefits paid	(1,495)	(999)	(293)	(246)
Plan transfers	–	232	–	–
Plan assets as of December 31	$ 102,567	$ 94,511	$ –	$ –
Funded status:				
Funded status as of December 31	$(118,038)	$ (17,391)	$(11,125)	$(8,374)
Unrecognized prior service cost (income)	46,522	(1,625)	(438)	(668)
Unrecognized net actuarial loss (gain)	28,691	(7,153)	1,279	28
Unrecognized transition amount	–	30	–	–
Accrued benefit liabilities	$ (42,825)	$ (26,139)	$(10,284)	$(9,014)

Accrued expenses on the consolidated balance sheets include accrued qualified defined benefit pension plan liabilities of $7,000,000 and $3,584,000 as of December 31, 2000 and 1999, respectively. Long term postretirement liabilities include postretirement healthcare and remaining qualified defined benefit pension plan liabilities of $46,109,000 and $31,569,000 as of December 31, 2000 and 1999, respectively, which do not require funding in the next year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

Net periodic benefit cost consists of the following components (in thousands):

	Pension Plans			Postretirement Healthcare Plans		
Year Ended December 31	2000	1999	1998	2000	1999	1998
Service cost	$17,309	$11,218	$9,775	$ 948	$ 935	$ 954
Interest cost	13,379	7,578	6,403	700	540	529
Expected return on plan assets	(7,926)	(6,390)	(5,363)	–	–	–
Net amortization and deferral	4,828	1,115	1,584	(101)	(73)	29
Net periodic benefit cost	$27,590	$13,521	$12,399	$1,547	$1,402	$1,512

Assumptions used in determining pension and postretirement healthcare obligations were as follows:

	Pension Plans			Postretirement Healthcare Plans		
	2000	1999	1998	2000	1999	1998
Discount rate	7.25%	7.75%	6.75%	7.25%	7.75%	6.75%
Expected return on plan assets	8.00%	8.00%	8.00%	–	–	–
Rate of compensation increase (pilots)	6.50%	6.50%	6.50%	–	–	–
Rate of compensation increase (non-pilots)	5.00%	5.00%	5.00%	–	–	–

Effective January 1, 2000, the Company amended its qualified retirement plans that cover substantially all employees not covered under collective bargaining agreements. Retirement income has historically been provided to employees through the coordination of benefits accumulated and funded through a defined benefit plan and a defined contribution profit sharing plan. Generally, benefit levels calculated under defined benefit plan formulas are offset by amounts contributed and earned in an employee's profit sharing account. The plan amendments adopted in 2000 provided for an increase in retirement income levels provided under the defined benefit plan through formula changes that increased the percentage applied to an employee's salary to determine the level of retirement benefit and removed provisions that limited the maximum years of allowable service credit. These changes are effective for past and future years of accumulated service with the Company. Additionally, the Company amended its defined contribution profit sharing plan to discontinue future contributions to employee's accounts. Previous contributions and earnings accumulated under the profit sharing plan prior to the amendments as well as future account earning will continue to be coordinated with benefits accrued under the defined benefit plan.

The effect of the amendments is to increase pension expense and projected benefit obligations provided under the defined benefit plans and discontinue contributions to the profit sharing plan, other than for the Company's pilots. The Company's funding policy provides for annual contributions to pension trusts at least equal to amounts required by ERISA.

The Company's qualified defined benefit pension plans had aggregate accumulated benefit obligations of $106,863,000 compared to plan assets of $102,567,000. All qualified defined benefit plans had plan assets in excess of accumulated benefit obligations as of December 31, 1999.

The Company also sponsors several non-qualified defined benefit pension plans. The accumulated benefit obligation of these plans was $18,379,000 and $13,811,000 as of December 31, 2000 and 1999, respectively. Postretirement liabilities include accruals relating to these plans of $16,039,000 and $14,611,000 as of December 31, 2000 and 1999, respectively. The Company has invested in certain commingled investment funds that may be used for funding non-qualified pension plan obligations.

The assumed healthcare cost trend rate used in measuring postretirement healthcare benefit costs was 8.5% for 2000, decreasing each year to a 5.5% annual growth rate in 2003 and thereafter. A 1% increase or decrease in the assumed healthcare cost trend rate for each year would not have a material effect on the accumulated postretirement benefit obligation or cost as of or for the year ended December 31, 2000. Postretirement healthcare plan obligations have not been funded.

NOTE I - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS (CONTINUED)

The Company maintains defined contribution capital accumulation and profit sharing plans. Capital accumulation plans (401K) are funded by both voluntary employee salary deferrals of up to 16% of annual compensation and by employer matching contributions on employee salary deferrals of up to 6% of annual compensation. In connection with the amendments to the Company's qualified defined benefit retirement plans, except for the pilots, accruals for contributions to the profit sharing plans were discontinued beginning in 2000. Prior to 2000, a basic formula had been followed for contributions of 7% of earnings before taxes up to a specific profit level plus 14% of earnings in excess of that level. The profit sharing plans hold 1,166,725 shares of the Company's common stock at December 31, 2000, representing 2% of outstanding shares. Expense for these plans is as follows (in thousands):

Year Ended December 31	2000	1999	1998
Capital accumulation plans	$7,970	$ 8,009	$ 7,375
Profit sharing plans	380	10,747	20,407
Defined contribution plans	$8,350	$18,756	$27,782

The Company contributes to multi-employer defined benefit pension plans and health and welfare plans for substantially all employees covered under collective bargaining agreements. Expense for these plans is as follows (in thousands):

Year Ended December 31	2000	1999	1998
Multi-employer defined benefit pension plans	$45,668	$41,062	$37,309
Multi-employer health and welfare plans	49,113	44,415	41,473
Multi-employer plans	$94,781	$85,477	$78,782

NOTE J - STOCK OPTIONS

The Company has three shareholder approved stock option plans. Two of these plans, approved by the shareholders in 1994 and 1998 (the "1994 Plan" and "1998 Plan"), reserve shares of the Company's common stock for issuance to officers and key employees. Options granted under the 1994 Plan vest over a three year period. Options granted under the 1998 Plan include options which vest over a four year period and performance options issued to the Company's executive officers which vest upon attainment of specified market price targets of the Company's common stock. A third plan, the 2000 Directors' Stock Option Plan, provides for annual grants to the Company's non-employee directors of 2,000 shares that vest fully on the date of grant. Options granted under these three plans are issued at the fair market value of the Company's stock on the date of grant. A total of 7,707,250 shares may be granted under these plans. There were 4,086,575 shares available for future grants as of December 31, 2000.

A summary of the Company's stock option activity and related information is as follows:

Year Ended December 31	2000	1999	1998
Outstanding at beginning of year	2,819,847	2,516,417	2,189,014
Granted	746,200	738,410	766,280
Exercised	(116,485)	(411,100)	(423,697)
Canceled	(117,245)	(23,880)	(15,180)
Outstanding at end of year	3,332,317	2,819,847	2,516,417
Exercisable at end of year	1,977,390	1,428,574	1,297,300

Weighted average option price information is as follows:

Year Ended December 31	2000	1999	1998
Outstanding at beginning of year	$25.35	$19.38	$12.22
Granted	18.94	38.13	34.90
Exercised	10.74	11.21	10.44
Canceled	25.07	35.30	20.07
Outstanding at end of year	24.44	25.35	19.38
Exercisable at end of year	21.65	17.31	14.54

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE J - STOCK OPTIONS (CONTINUED)

Information related to the number of options outstanding, weighted average price per share and remaining life of significant option groups outstanding at December 31, 2000 is as follows:

	Outstanding			Exercisable		
Price Range	Number	Price	Life in Years	Number	Price	Life in Years
$11.06 - $11.56	345,572	$11.37	2.7	345,572	$11.37	2.7
$13.00 - $18.94	1,573,967	16.40	6.8	941,917	14.70	5.3
$31.06 - $38.13	1,412,778	36.58	7.5	689,901	36.28	7.4

The Company has elected to follow APB Opinion No. 25 in accounting for its stock option plans. No compensation expense was recorded in 2000 or 1999. In 1998, compensation expense of $1,198,000 was recognized upon attainment of market price targets as specified under the grant provisions of the performance options. Had expense been measured under the fair value provisions of SFAS No. 123, the Company's net earnings and earnings per diluted share for 2000, 1999 and 1998 would have been reduced to the pro forma amounts as follows (in thousands, except per share data):

Year Ended December 31	2000	1999	1998
Net Earnings:			
As reported	$28,492	$91,201	$137,285
Pro forma	23,124	85,510	134,230
Earnings Per Diluted Share:			
As reported	$ .59	$ 1.85	$ 2.72
Pro forma	.48	1.74	2.65

The weighted average fair value for options granted in 2000, 1999 and 1998 computed utilizing the Black-Scholes option-pricing model, was $10.61, $17.21 and $16.83 respectively. Significant assumptions used in the estimation of fair value and compensation expense are as follows:

Year Ended December 31	2000	1999	1998
Weighted expected life (years)	9.6	6.2	7.4
Weighted risk-free interest rate	6.6%	4.8%	5.5%
Weighted volatility	41.0%	41.0%	38.8%
Dividend yield	0.9%	0.4%	0.5%

NOTE K - EARNINGS PER SHARE

Net earnings from continuing operations and average shares used in basic and diluted earnings per share calculations were as follows (in thousands except per share data):

Year Ended December 31	2000	1999	1998
NET EARNINGS:			
Net earnings from continuing operations before cumulative effect of change in accounting principle	$14,286	$91,201	$137,285
SHARES:			
Basic weighted average shares outstanding	48,396	48,596	49,620
Stock options	251	673	941
Diluted weighted average shares outstanding	48,647	49,269	50,561
EARNINGS PER SHARE:			
Basic	$ .30	$ 1.88	$ 2.77
Diluted	.30	1.85	2.72

The above calculations of earnings per diluted share for 2000, 1999 and 1998 exclude 2,130,740, 1,361,000 and 528,000, respectively, of common shares issuable under stock option plans because the options' exercise price was greater than the average market price of the common shares.

NOTE L - SEGMENT INFORMATION

The Company has organized its business into two reportable operating segments. The domestic segment derives its revenues from the door-to-door delivery of small packages and documents throughout the United States, Canada and Puerto Rico. Domestic operations are supported principally by Company operated aircraft and facilities. The international segment derives its revenues from express door-to-door delivery and a variety of freight services. International revenues are recognized on shipments where the origin and/or destination is outside of locations supported by the domestic segment. The Company uses a variable cost approach in delivering international services through use of existing commercial airline capacity in connection with its domestic network and independent express and freight agents in locations not currently served by Company-owned foreign operations.

The following is a summary of key segment information (in thousands):

	Domestic	International	Total
2000			
Revenues	$2,895,818	$380,132	$3,275,950
Depreciation and amortization	204,913	1,493	206,406
Segment earnings from operations	49,915	(7,297)	42,618
Segment assets	1,661,075	84,844	1,745,919
Expenditures for property and equipment	370,317	2,258	372,575
1999			
Revenues	$2,772,782	$366,342	$3,139,124
Depreciation and amortization	207,902	1,488	209,390
Segment earnings from operations	156,637	1,084	157,721
Segment assets	1,569,367	73,883	1,643,250
Expenditures for property and equipment	292,130	2,189	294,319
1998			
Revenues	$2,712,344	$361,440	$3,073,784
Depreciation and amortization	183,147	1,379	184,526
Segment earnings from operations	230,831	1,501	232,332
Segment assets	1,428,956	72,621	1,501,577
Expenditures for property and equipment	281,571	3,910	285,481

International operations are supported in the United States by pickup and delivery, customer service and airline capabilities provided by the domestic segment. Management allocates these costs, generally on a per shipment basis, to the international segment.

Management considers interest expense, other income and income taxes as corporate items and, accordingly, does not allocate these amounts to the operating segments. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

A substantial portion of international revenue is associated with shipments originating within the United States ($211,835,000 in 2000, $234,087,000 in 1999 and $256,259,000 in 1998). Long lived assets located within the United States and associated with the international segment were $6,382,000, $6,792,000 and $6,274,000 as of December 31, 2000, 1999 and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE M - GAIN ON SALE OF SECURITIES

In June 2000, a gain of $1,912,000 was recorded from the sale of common shares of Metropolitan Life Insurance Company ("Metropolitan"). As a policyholder for certain employee benefit programs, these shares were allocated to the Company and sold in connection with the demutualization of Metropolitan. The gain was recorded in other income on the consolidated statements of net earnings.

The Company is a participating member of SITA, a cooperative of major airline companies, which primarily provides data communication services to the air transport industry. Through this membership the Company holds depository certificates in The SITA Foundation ("Foundation") whose principal asset is an equity interest in Equant, N.V. ("Equant"), an international data network services company whose stock is traded publicly on the New York Stock Exchange under the symbol ENT. In December 1999, the Foundation sold a portion of its interest in Equant through a public offering and distributed proceeds pro rata to the certificate holders that elected to participate in the offering. As part of this sale, the Company sold 34% of its interest in Equant and recognized a pre-tax gain of approximately $4,600,000 that was included in other income on the consolidated statements of net earnings.

The Company has remaining restricted depository certificates in the Foundation that may, in the future, become convertible into 103,351 shares of Equant. As convertibility is contingent on future share offerings by the Foundation, no amount has been recorded on the consolidated balance sheets as of December 31, 2000 and 1999. The Company has no cost basis in the depository certificates, although the converted fair value of the remaining certificates was approximately $2,700,000 and $11,600,000 at December 31, 2000 and 1999, respectively.

NOTE N - OTHER COMPREHENSIVE INCOME

Other comprehensive income includes the following transactions and tax effects for the years ended December 31, 2000, 1999 and 1998, respectively (in thousands):

	Before Tax	Income Tax (Expense) or Benefit	Net of Tax
2000			
Unrealized securities losses arising during the period	$ (132)	$ 50	$ (82)
Less: Reclassification adjustment for gains realized in net income	(1,117)	430	(687)
Net unrealized securities losses	(1,249)	480	(769)
Foreign currency translation adjustments	(465)	180	(285)
Other comprehensive income	$(1,714)	$ 660	$(1,054)
1999			
Unrealized securities gains arising during the period	$ 1,315	$ (506)	$ 809
Less: Reclassification adjustment for gains realized in net income	(1,268)	488	(780)
Net unrealized securities gains	47	(18)	29
Foreign currency translation adjustments	200	(77)	123
Other comprehensive income	$ 247	$ (95)	$ 152
1998			
Unrealized securities gains arising during the period	$ 3,071	$(1,182)	$ 1,889
Less: Reclassification adjustment for gains realized in net income	(1,531)	589	(942)
Net unrealized securities gains	1,540	(593)	947
Foreign currency translation adjustments	(295)	114	(181)
Other comprehensive income	$ 1,245	$ (479)	$ 766

NOTE O - QUARTERLY RESULTS (UNAUDITED)

The following is a summary of quarterly results of operations (in thousands except per share data):

2000	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$812,464	$811,027	$804,529	$847,930
Earnings (Loss) from Operations	33,425	25,343	(3,026)	(13,124)
Earnings (Loss) before Change in Accounting	17,899	13,758	(5,509)	(11,862)
Cumulative Effect of Change in Accounting	14,206	–	–	–
Net Earnings (Loss)	32,105	13,758	(5,509)	(11,862)
Earnings (Loss) per Share				
Basic:				
Before Change in Accounting	$ .37	$ .28	$ (.11)	$ (.25)
Cumulative Effect of Change in Accounting	.29	–	–	–
Earnings per Basic Share	$ .66	$ .28	$ (.11)	$ (.25)
Diluted:				
Before Change in Accounting	$ .36	$ .28	$ (.11)	$ (.25)
Cumulative Effect of Change in Accounting	.29	–	–	–
Earnings per Diluted Share	$ .65	$ .28	$ (.11)	$ (.25)

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$769,348	$779,000	$785,308	$805,468
Earnings from Operations	44,827	47,834	38,811	26,249
Net Earnings	25,244	27,022	21,604	17,331
Earnings per Share:				
Basic	$ .52	$ .56	$ .44	$ .36
Diluted	$ .51	$ .55	$ .44	$ .35

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$750,153	$763,981	$768,666	$790,984
Earnings from Operations	56,529	58,836	55,471	61,496
Net Earnings	32,360	33,827	32,813	38,285
Earnings per Share:				
Basic	$ .65	$ .67	$ .66	$ .79
Diluted	$ .63	$ .66	$ .65	$ .78

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION

In connection with the issuance of $200,000,000 of Senior Notes (Notes) by Airborne Express, Inc. (AEI), certain subsidiaries (collectively, "Guarantors") of Airborne, Inc. (the "Company") have fully and unconditionally guaranteed, on a joint and several basis, the obligations to pay principal, premium, if any, and interest with respect to the Notes. The Guarantors are ABX Air Inc. (ABX) and Sky Courier, Inc. (SKY), which are wholly-owned subsidiaries of the Company, and Airborne FTZ Inc. (FTZ) and Wilmington Air Park Inc. (WAP), which are wholly-owned subsidiaries of ABX.

ABX is a certificated air carrier that owns and operates the domestic express cargo services for which AEI is the sole customer. ABX also offers air charter services on a limited basis to third-party customers. FTZ owns certain aircraft parts inventories that it sells primarily to ABX but also has limited sales to third-party customers. FTZ is also the holder of a foreign trade zone certificate at Wilmington airport property. WAP is the owner of the Wilmington airport property, which includes the Company's main sort facility, aircraft maintenance facilities, runways and related airport facilities and airline administrative and training facilities. ABX is the only occupant and customer of WAP. SKY provides expedited courier services and regional logistics warehousing primarily to third-party customers.

Revenues and net earnings recorded by ABX, FTZ, and WAP are controlled by the Company and are based on various discretionary factors. Investment balances and revenues between Guarantors have been eliminated for purposes of presenting the financial information below. Intercompany advances and liabilities represent amounts due between the various entities. The Company provides its subsidiaries with a majority of the cash necessary to fund operating and capital expenditure requirements.

The following are consolidating condensed balance sheets of the Company as of December 31, 2000 and 1999 and the related consolidating condensed statements of net earnings and cash flows for each of the three years ended December 31, 2000:

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION (CONTINUED)

Balance Sheet Information:

December 31, 2000	Airborne Express, Inc.	Airborne, Inc.	Guarantors	Non-guarantors	Elimination	Consolidated
			(in thousands)			
ASSETS						
Cash	$ 37,523	$ –	$ 52	$ 2,815	$ –	$ 40,390
Accounts receivable	20,248	–	16,164	182,273	–	218,685
Spare parts and fuel inventory	–	–	40,885	2,346	–	43,231
Refundable income taxes	21,595	–	–	–	–	21,595
Deferred income tax assets	28,839	–	–	–	–	28,839
Prepaid expenses and other	5,408	–	14,948	453	–	20,809
Total current assets	113,613	–	72,049	187,887	–	373,549
Property and equipment, net	115,309	–	1,195,122	4,327	–	1,314,758
Intercompany advances	408,403	364,303	(3,532)	(68,309)	(700,865)	–
Equipment deposits and other assets	38,418	5,988	13,207	10	(11)	57,612
Total assets	$675,743	$370,291	$1,276,846	$123,915	$(700,876)	$1,745,919
LIABILITIES AND SHAREHOLDERS' EQUITY						
Accounts payable	$114,198	$ –	$ 61,142	$ 5,392	$ (109)	$ 180,623
Salaries, wages and related taxes	44,796	–	26,383	–	–	71,179
Accrued expenses and income taxes payable	75,689	–	7,752	77	–	83,518
Current portion of debt	–	–	477	–	–	477
Total current liabilities	234,683	–	95,754	5,469	(109)	335,797
Long-term debt	228,000	75,000	19,230	–	–	322,230
Intercompany liabilities	–	–	585,756	–	(585,756)	–
Deferred income tax liabilities	13,112	–	112,124	208	–	125,444
Postretirement liabilities	42,438	–	19,922	–	–	62,360
Other liabilities	37,233	–	–	–	–	37,233
Common stock	–	51,280	(109)	120	(11)	51,280
Additional paid in capital	–	303,885	(754)	115,754	(115,000)	303,885
Retained earnings	120,413	–	444,923	2,364	–	567,700
Accumulated other comprehensive income	(136)	–	–	–	–	(136)
Treasury stock	–	(59,874)	–	–	–	(59,874)
Total shareholders' equity	120,277	295,291	444,060	118,238	(115,011)	862,855
Total liabilities and shareholders' equity	$675,743	$370,291	$1,276,846	$123,915	$(700,876)	$1,745,919

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION (CONTINUED)

Balance Sheet Information:

December 31, 1999	Airborne Express, Inc.	Guarantors	Non-guarantors	Elimination	Consolidated
			(in thousands)		
ASSETS					
Cash	$ 28,638	$ 99	$ (59)	$ –	$ 28,678
Accounts receivable	325,778	13,224	42	–	339,044
Spare parts and fuel inventory	–	42,265	1,998	–	44,263
Refundable income taxes	1,679	–	–	–	1,679
Deferred income tax assets	31,950	–	–	–	31,950
Prepaid expenses and other	7,281	17,145	30	–	24,456
Total current assets	395,326	72,733	2,011	–	470,070
Property and equipment, net	113,174	1,001,513	1,025	–	1,115,712
Intercompany advances	484,583	(47,481)	302	(437,404)	–
Equipment deposits and other assets	43,395	19,562	10	(5,499)	57,468
Total assets	$1,036,478	$1,046,327	$3,348	$(442,903)	$1,643,250
LIABILITIES AND SHAREHOLDERS' EQUITY					
Accounts payable	$ 99,379	$ 41,302	$1,616	$ (210)	$ 142,087
Salaries, wages and related taxes	39,242	26,031	3	–	65,276
Accrued expenses and income taxes payable	70,970	11,067	–	–	82,037
Current portion of debt	–	442	–	–	442
Total current liabilities	209,591	78,842	1,619	(210)	289,842
Long-term debt	295,000	19,707	–	–	314,707
Intercompany advances	–	437,194	–	(437,194)	–
Deferred income tax liabilities	14,880	84,081	208	–	99,169
Postretirement liabilities	34,112	12,440	–	–	46,552
Other liabilities	34,773	–	–	–	34,773
Common stock	51,176	(10)	110	(100)	51,176
Additional paid in capital	298,741	4,647	753	(5,399)	298,742
Retained earnings	136,878	409,426	658	–	546,962
Accumulated other comprehensive income	918	–	–	–	918
Treasury stock	(39,591)	–	–	–	(39,591)
Total shareholders equity	448,122	414,063	1,521	(5,499)	858,207
Total liabilities and shareholders' equity	$1,036,478	$1,046,327	$3,348	$(442,903)	$1,643,250

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION (CONTINUED)

Statement of Net Earnings Information:

Year Ended December 31, 2000	Airborne Express, Inc.	Guarantors	Non-guarantors	Elimination	Consolidated
			(in thousands)		
Revenues	$3,198,442	$1,187,164	$ 246	$(1,109,902)	$3,275,950
Operating expenses:					
Transportation purchased	1,966,993	185,293	–	(1,109,745)	1,042,541
Station and ground operations	906,583	148,559	–	–	1,055,142
Flight operations and maintenance	1,025	590,455	(2,741)	(157)	588,582
General and administrative	195,926	62,066	157	–	258,149
Sales and marketing	81,287	1,225	–	–	82,512
Depreciation and amortization	52,638	153,485	283	–	206,406
	3,204,452	1,141,083	(2,301)	(1,109,902)	3,233,332
Earnings from operations	(6,010)	46,081	2,547	–	42,618
Other Income (Expense):					
Interest, net	(10,876)	(12,549)	–	–	(23,425)
Other	3,984	–	49	–	4,033
Earnings before income taxes	(12,902)	33,532	2,596	–	23,226
Income taxes	(4,208)	12,238	910	–	8,940
Net earnings before change in accounting	(8,694)	21,294	1,686	–	14,286
Cumulative effect of change in accounting	–	14,206	–	–	14,206
Net earnings	$ (8,694)	$ 35,500	$ 1,686	$ –	$ 28,492

Year Ended December 31, 1999	Airborne Express, Inc.	Guarantors	Non-guarantors	Elimination	Consolidated
			(in thousands)		
Revenues	$3,072,947	$1,171,003	$ 163	$(1,104,989)	$3,139,124
Operating expenses:					
Transportation purchased	1,891,610	178,934	–	(1,104,822)	965,722
Station and ground operations	836,758	138,911	–	–	975,669
Flight operations and maintenance	3,102	513,213	(2,811)	(167)	513,337
General and administrative	187,605	52,348	136	–	240,089
Sales and marketing	75,890	1,306	–	–	77,196
Depreciation and amortization	52,950	156,284	156	–	209,390
	3,047,915	1,040,996	(2,519)	(1,104,989)	2,981,403
Earnings from operations	25,032	130,007	2,682	–	157,721
Other Income (Expense):					
Interest, net	(8,323)	(8,939)	–	–	(17,262)
Other	6,929	–	–	–	6,929
Earnings before income taxes	23,638	121,068	2,682	–	147,388
Income taxes	12,077	43,170	940	–	56,187
Net earnings	$ 11,561	$ 77,898	$ 1,742	$ –	$ 91,201

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION (CONTINUED)

Statement of Net Earnings Information:

December 31, 1998	Airborne Express, Inc.	Guarantors	Non-guarantors	Elimination	Consolidated
			(in thousands)		
Revenues	$3,002,876	$1,055,174	$ 351	$(984,617)	$3,073,784
Operating expenses:					
Transportation purchased	1,785,015	143,844	–	(984,502)	944,357
Station and ground operations	783,297	131,622	–	–	914,919
Flight operations and maintenance	6,948	473,693	(2,727)	(115)	477,799
General and administrative	205,540	42,802	155	–	248,497
Sales and marketing	69,941	1,413	–	–	71,354
Depreciation and amortization	50,873	133,445	208	–	184,526
	2,901,614	926,819	(2,364)	(984,617)	2,841,452
Earnings from operations	101,262	128,355	2,715	–	232,332
Other Income (Expense):					
Interest, net	(3,846)	(9,036)	–	–	(12,882)
Other	2,135	–	–	–	2,135
Earnings before income taxes	99,551	119,319	2,715	–	221,585
Income taxes	40,707	42,641	952	–	84,300
Net earnings	$ 58,844	$ 76,678	$ 1,763	$ –	$ 137,285

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION (CONTINUED)

Statement of Cash Flows Information:

Year Ended December 31, 2000	Airborne Express, Inc.	Guarantors	Non-guarantors	Consolidated
		(in thousands)		
OPERATING ACTIVITIES:				
Net earnings	$ (8,694)	$ 35,500	$ 1,686	$ 28,492
Adjustments to reconcile net earnings to				
net cash provided by operating activities:				
Cumulative effect of change in accounting	–	(14,206)	–	(14,206)
Depreciation and amortization	52,638	153,485	283	206,406
Deferred income taxes	11,444	9,235	–	20,679
Postretirement obligations	8,326	7,482	–	15,808
Other	5,833	–	–	5,833
Cash provided (used) by operations	69,547	191,496	1,969	263,012
Change in:				
Proceeds from receivable securitization facility	–	–	150,000	150,000
Receivables	121,808	(2,940)	(148,509)	(29,641)
Inventories and prepaid expenses	1,873	3,577	(771)	4,679
Refundable income taxes	(19,916)	–	–	(19,916)
Accounts payable	14,710	19,948	3,878	38,536
Accrued expenses, salaries and taxes payable	10,273	(2,963)	74	7,384
Intercompany transactions	(154,197)	154,379	(182)	–
Net cash provided by operating activities	44,098	363,497	6,459	414,054
INVESTING ACTIVITIES:				
Additions to property and equipment	(31,786)	(337,204)	(3,585)	(372,575)
Disposition of property and equipment	27,396	(22,683)	–	4,713
Proceeds from sale of securities	1,913	–	–	1,913
Other	(13,579)	(3,215)	–	(16,794)
Net cash used by investing activities	(16,056)	363,102	(3,585)	(382,743)
FINANCING ACTIVITIES:				
Proceeds on bank notes, net	8,000	–	–	8,000
Repurchase of common stock	(20,662)	–	–	(20,662)
Principal payments on debt	–	(442)	–	(442)
Proceeds from common stock issuance	1,259	–	–	1,259
Dividends paid	(7,754)	–	–	(7,754)
Net cash used by financing	(19,157)	(442)	–	(19,599)
Net (decrease) increase in cash	8,885	(47)	2,874	11,712
Cash at beginning of year	28,638	99	(59)	28,678
Cash at end of year	$ 37,523	$ 52	$ 2,815	$ 40,390

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION (CONTINUED)

Statement of Cash Flow Information:

Year Ended December 31, 1999	Airborne Express, Inc.	Guarantors	Non-guarantors	Consolidated
		(in thousands)		
OPERATING ACTIVITIES:				
Net earnings	$ 11,561	$ 77,898	$ 1,742	$ 91,201
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	52,950	135,849	156	188,955
Deferred income taxes	(3,240)	10,113	16	6,889
Postretirement obligations	14,509	688	–	15,197
Provision for aircraft engine overhauls	–	20,435	–	20,435
Other	529	–	–	529
Cash provided by operations	76,309	244,983	1,914	323,206
Change in:				
Receivables	(13,490)	(2,386)	10	(15,866)
Inventories and prepaid expenses	1,063	(3,773)	(586)	(3,296)
Refundable income taxes	(1,679)	–	–	(1,679)
Accounts payable	(3,091)	(7,888)	66	(10,913)
Accrued expenses, salaries and taxes payable	(22,715)	(9,845)	26	(32,534)
Intercompany transactions	(74,208)	75,647	(1,439)	–
Net cash (used) provided by operating activities	(37,811)	296,738	(9)	258,918
INVESTING ACTIVITIES:				
Additions to property and equipment	(49,582)	(244,714)	(23)	(294,319)
Disposition of property and equipment	33,218	(31,525)	–	1,693
Gain on sale of securities	4,603	–	–	4,603
Expenditures for engine overhauls	–	(18,735)	–	(18,735)
Other	(4,072)	(1,381)	–	(5,453)
Net cash used by investing activities	(15,833)	(296,355)	(23)	(312,211)
FINANCING ACTIVITIES:				
Proceeds on bank notes, net	66,000	–	–	66,000
Principal payments on debt	–	(410)	–	(410)
Proceeds from common stock issuance	5,480	–	–	5,480
Dividends paid	(7,778)	–	–	(7,778)
Net cash provided (used) by financing	63,702	(410)	–	63,292
Net increase (decrease) in cash	10,058	(27)	(32)	9,999
Cash at beginning of year	18,580	126	(27)	18,679
Cash at end of year	$ 28,638	$ 99	$ (59)	$ 28,678

NOTE P - SUPPLEMENTAL GUARANTOR INFORMATION (CONTINUED)

Year Ended December 31, 1998	Airborne Express, Inc.	Guarantors	Non-guarantors	Consolidated
	(in thousands)			
OPERATING ACTIVITIES:				
Net earnings	$ 58,844	$ 76,678	$ 1,763	$ 137,285
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Depreciation and amortization	50,872	116,949	208	168,029
Deferred income taxes	4,203	5,306	29	9,538
Postretirement obligations	12,352	1,494	–	13,846
Provision for aircraft engine overhauls	–	16,497	–	16,497
Other	(1,590)	–	–	(1,590)
Cash provided by operations	124,681	216,924	2,000	343,605
Change in:				
Receivables	811	(1,421)	(19)	(629)
Inventories and prepaid expenses	16,386	(19,996)	2,135	(1,475)
Accounts payable	4,136	1,925	2,973	9,034
Accrued expenses, salaries and taxes payable	(1,689)	(3,867)	24	(5,532)
Intercompany transactions	(88,113)	94,445	(6,332)	–
Net cash provided (used) by operating activities	56,212	288,010	781	345,003
INVESTING ACTIVITIES:				
Additions to property and equipment	(51,191)	(233,707)	(583)	(285,481)
Disposition of property and equipment	31,852	(29,254)	–	2,598
Expenditures for engine overhauls	–	(22,846)	–	(22,846)
Other	(2,618)	(1,966)	–	(4,584)
Net cash used by investing activities	(21,957)	(287,773)	(583)	(310,313)
FINANCING ACTIVITIES:				
Proceeds on bank notes, net	(1,000)	–	–	(1,000)
Repurchase of common stock	(38,835)	–	–	(38,835)
Principal payments on debt	–	(381)	–	(381)
Proceeds from common stock issuance	6,509	–	–	6,509
Dividends paid	(7,829)	–	–	(7,829)
Net cash used by financing	(41,155)	(381)	–	(41,536)
Net (decrease) increase in cash	(6,900)	(144)	198	(6,846)
Cash at beginning of year	25,480	270	(225)	25,525
Cash at end of year	$ 18,580	$ 126	$ (27)	$ 18,679

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Corporate Accounts

K.C. Cheng
Vice President,
Australasia

Allan Speleers
Vice President &
Regional Manager, Europe

Diane M. Hackler
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Flight Operations

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Edward P. Smethwick
Vice President,
Air Park Services

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Robert G. Brazier
Bruce E. Grout
Darby Langdon
Carl D. Donaway
Kenneth J. McCumber
David A. Billings
Robert S. Cline

STOCK TRANSFER AGENT AND REGISTRAR The Bank of New York, New York, New York

GENERAL COUNSEL Riddell Williams P.S., Seattle, Washington

INDEPENDENT AUDITORS Deloitte & Touche LLP, Seattle, Washington

FORM 10-K We welcome any requests for a copy of Airborne's 2000 Form 10-K, which is an annual report filed with the Securities and Exchange Commission (SEC). Copies may be obtained by writing to the Chief Financial Officer, Airborne Inc., P.O. Box 662, Seattle, Washington 98111. Company documents electronically filed with the SEC may also be found through Airborne's web site (www.airborne.com).

ANNUAL MEETING The annual meeting of shareholders will be April 24, 2001 at 10:00 a.m. at The Westin Hotel, 1900 Fifth Avenue, Seattle, Washington.

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