

Management's Discussion and Analysis

of Financial Condition and Results of Operations

Ryder System, Inc. and Subsidiaries

This Management's Discussion and Analysis of the financial condition and results of operations of Ryder System, Inc. and its subsidiaries (the "Company") should be read in conjunction with the consolidated financial statements and related notes.

The Company's operating segments are aggregated into reportable business segments based primarily upon similar economic characteristics, products, services and delivery methods. The Company operates in three reportable business segments: (1) Fleet Management Solutions (FMS), which provides full service leasing, commercial rental and programmed maintenance of trucks, tractors and trailers to customers, principally in the U.S., Canada and the U.K.; (2) Supply Chain Solutions (SCS), which provides comprehensive supply chain consulting and lead logistics management solutions that support customers' entire supply chains, from inbound raw materials through distribution of finished goods throughout North America, in Latin America, Europe and Asia; and (3) Dedicated Contract Carriage (DCC), which provides vehicles and drivers as part of a dedicated transportation solution, principally in North America. During 1999, the Company sold its public transportation services business (RPTS). The following discussion excludes the results of RPTS, which has been classified as discontinued operations.

Beginning in the first quarter of 2001, e-Commerce was reported as a separate business segment. Initial costs to build the e-Commerce platform were included in Central Support Services (CSS) through December 31, 2000. During the first and second quarters of 2001, such costs were reclassified from CSS for all previous periods in order to report e-Commerce results independently. In July 2001, in conjunction with the Company's restructuring initiatives, responsibility for the Company's e-Commerce operations was transferred to the leadership of the SCS business segment. Such operations, which had evolved to provide similar services compared with other SCS operations, were integrated into the SCS customer base. As such, e-Commerce is no longer considered a separate reportable business segment.

In addition to the transfer of responsibility for the e-Commerce operations to the SCS leadership, responsibility for certain SCS accounts that had become similar to the Company's DCC product was transferred from the SCS leadership to the DCC leadership in July 2001. Also, costs and personnel associated with the maintenance of the Company's general web site, previously reported as a component of e-Commerce, began being reported internally as a component of CSS in July 2001. The business segment revenue and contribution margin information furnished herein reflects the aforementioned reclassifications to conform to the Company's current reporting and presentation.

Certain other prior year amounts have been reclassified to conform to current presentation.

CONSOLIDATED RESULTS

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Earnings from continuing operations before unusual items*	\$99,981	115,501	121,129
Per diluted common share*	1.65	1.93	1.76
Earnings from continuing operations	18,678	89,032	72,917
Per diluted common share	0.31	1.49	1.06
Weighted average shares outstanding – diluted	60,665	59,759	68,732

* Unusual items represent Year 2000 expense and restructuring and other charges. Management believes that pro forma operating results provide additional information useful in analyzing the underlying business results. However, pro forma operating results should be considered in addition to, not as a substitute for, reported results of operations.

In 2001, earnings from continuing operations, before and after unusual items, include a one-time reduction in deferred taxes of \$7 million, or \$0.11 per diluted common share, as a result of a change in Canadian tax law that affected the Company's Canadian operations.

Earnings from continuing operations decreased 79 percent in 2001 and increased 22 percent in 2000. The decrease in earnings from continuing operations in 2001 is due primarily to increased restructuring and other charges as part of the Company's implementation of strategic initiatives during 2001 to reduce Company expenses and improve profitability. See "Restructuring and Other Charges, Net" for a further discussion of such initiatives. The 2001 decrease also resulted from a 6 percent decrease in revenue as discussed below. See "Operating Results by Business Segment" for a further discussion of operating results in the past three years.

In 2000, the earnings per share growth rate exceeded the earnings growth rate because the average number of shares outstanding decreased. The decrease in average shares outstanding reflects the impact of the Company's various stock repurchase programs conducted through the end of 1999.

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Revenue:			
Fleet Management			
Solutions	\$3,352,540	3,555,990	3,307,244
Supply Chain Solutions	1,453,881	1,595,252	1,441,029
Dedicated Contract Carriage	534,962	551,706	531,642
Eliminations	(335,260)	(366,156)	(327,711)
Total revenue	\$5,006,123	5,336,792	4,952,204

Revenue from continuing operations decreased 6 percent in 2001 compared with 2000. All business segments experienced a revenue decrease in 2001 over 2000. The decrease was led by SCS, which decreased 9 percent. Such decrease was due to volume reductions in the U.S. and in Latin America attributable to the continued worldwide economic slowdown and to the sale of the contracts and related net assets associated with the disposal of the outbound auto carriage business of the Company's Brazilian SCS operation ("Vehiculos") (see further details in "Restructuring and Other Charges, Net"). FMS experienced a revenue decrease of 6 percent due primarily to decreases in fuel sales volumes throughout the year combined with decreases in fuel prices in the fourth quarter of 2001. For all years reported, the Company realized minimal changes in margin as a result of fluctuations in fuel revenue. In addition, FMS experienced decreases in revenue due to reduced demand for rental vehicles. Revenue was also reduced by the impact of exchange rates on translation of foreign subsidiary revenues, particularly those in the U.K. and Brazil where exchange rates with the U.S. Dollar have decreased by approximately 4.8 percent and 21.5 percent, respectively, from 2000.

Revenue from continuing operations increased 8 percent in 2000 compared with 1999, led by SCS, which grew 11 percent. FMS posted revenue gains of 8 percent, due primarily to increased fuel revenue resulting from increases in related fuel prices.

The FMS segment leases revenue earning equipment, sells fuel and provides maintenance and other ancillary services to the SCS and DCC segments. Eliminations relate to inter-segment sales that are accounted for at approximate fair value as if the sales were made to third parties.

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Operating expense	\$2,132,500	2,324,433	2,074,888
Percentage of revenue	43%	44%	42%

Operating expense decreased 8 percent in 2001 compared with 2000. The decrease was a result of a reduction in fuel costs as a result of lower volumes and prices, a reduction in overheads due to the Company implementing cost containment actions throughout 2001 and a reduction in fleet maintenance and licensing costs due to a reduced fleet size. Operating expense increased 12 percent in 2000 compared with 1999. The increase was primarily attributable to higher fuel costs due to fuel price increases.

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Salaries and employee-related costs	\$1,212,184	1,226,558	1,178,831
Percentage of revenue	24%	23%	24%

Salaries and employee-related costs decreased \$14 million, or 1 percent, in 2001 compared with 2000. The decrease was a result of planned reductions in headcount due to the Company implementing its strategic initiatives throughout 2001. The number of employees at December 31, 2001 was approximately 29,500, compared with slightly over 33,000 at December 31, 2000. Such salary decrease was largely offset by a reduction in net pension income in 2001 compared with 2000. Net pension income was \$1 million and \$42 million in 2001 and 2000, respectively, and principally benefits FMS. Pension income from the Company's primary U.S. pension plan is partially offset by pension expense from the Company's other pension plans.

The Company has calculated preliminary pension estimates for 2002 based on interest rate, participation and other assumptions and the market-related value of plan assets as of December 31, 2001. Based on these estimates, the Company would anticipate recording \$25 million to \$30 million in net pension expense in 2002 for all pension plans. Such 2002 estimates are subject to change based upon the completion of actuarial analysis of all pension plans. The expected increase in net pension expense is attributable primarily to the U.S. pension plan and reflects the adverse effect of negative asset returns in 2001 as well as a declining interest rate environment causing a lower discount rate. The anticipated net pension expense in 2002 would primarily impact FMS, which employs the majority of the Company's employees that participate in the Company's primary U.S. pension plan.

Salaries and employee-related costs increased \$48 million, or 4 percent, in 2000 compared with 1999. The increase was due primarily to increased salaries and wages, specifically in SCS, as a result of higher business volumes and higher outside driver costs, offset by increased net pension income in 2000.

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Freight under management expense	\$436,413	506,709	496,248
Percentage of revenue	9%	10%	10%

Freight under management expense (FUM) represents subcontracted freight costs on logistics contracts for which the Company purchases transportation. FUM expense decreased \$70 million, or 14 percent, in 2001. The decrease was due to revenue reductions in related operating units of the SCS business segment as a result of reduced freight volumes, decreases in the U.K. due to lost business and decreases in South America as a result of the sale of Vehiculos. FUM expense increased \$10 million, or 2 percent, in 2000 compared with 1999. The increase was due primarily to increased freight volumes in the Vehiculos operation, which was sold in 2001.

CONSOLIDATED RESULTS (continued)

In thousands

Years ended December 31	2001	2000	1999
Depreciation expense	\$545,485	580,356	622,726
Gains on vehicle sales, net	(11,968)	(19,307)	(55,961)
Equipment rental	427,024	373,157	263,484

Depreciation expense decreased by \$35 million, or 6 percent, in 2001 compared with 2000. Depreciation expense decreased by \$42 million, or 7 percent, in 2000 compared with 1999. Decreases in depreciation expense for both years resulted principally from sale-leaseback and other leasing transactions which increased the number of leased (compared with owned) vehicles in the Company's fleet. In 2001, the decrease in depreciation expense was partially offset by an increase in depreciation expense associated with the reduction of estimated residual values associated with certain classes of tractors.

Gains on vehicle sales decreased \$7 million, or 38 percent, in 2001 compared with 2000. Gains on vehicle sales decreased to \$19 million in 2000 from \$56 million in 1999. Decreases in gains on vehicle sales for both years were due to continuing weak demand in the used truck market. Such weakness began to impact the Company during the second quarter of 2000. During 2001, average sales proceeds per unit decreased by approximately 5 percent compared with 2000. However, the average book value per unit of units sold in 2001 was approximately 2 percent lower than that of units sold in 2000 as a result of the aforementioned increase in depreciation expense due to reductions in estimated residual values.

The Company periodically reviews and adjusts residual values, reserves for guaranteed lease termination values and useful lives of revenue earning equipment based on current and expected operating trends and projected realizable values. See further discussion on depreciation and residual value guarantees at "Accounting Matters." The Company believes that its carrying values and estimated sales proceeds for revenue earning equipment are appropriate. However, a greater than anticipated decline in the market for used vehicles may require the Company to further adjust such values and estimates.

Equipment rental primarily consists of rental costs on revenue earning equipment. Equipment rental costs increased 14 percent in 2001 and 42 percent in 2000. The increases were due to sale-leaseback transactions, including securitization transactions, as well as increases in reserves for guaranteed lease termination values to reflect decreases in the estimated residual values of leased equipment.

In thousands

Years ended December 31	2001	2000	1999
Interest expense	\$118,549	154,009	187,176
Percentage of revenue	2%	3%	4%

Interest expense decreased 23 percent in 2001 compared with 2000, due primarily to debt reductions associated with the use of proceeds from the aforementioned sale-leaseback transactions and

generally lower interest rates compared with 2000. Interest expense decreased 18 percent in 2000 due primarily to lower commercial paper interest rates, debt reductions associated with the use of proceeds from the RPTS sale and the impact of sale-leaseback transactions completed beginning in December 1998.

In thousands

Years ended December 31	2001	2000	1999
Miscellaneous (income) expense, net	\$(1,334)	7,542	(8,825)

The Company had net miscellaneous income of \$1 million in 2001 compared with net miscellaneous expense of \$8 million in 2000. The change was primarily due to lower costs related to the decreased use of the Company's revolving facility for the sale of trade receivables combined with increased servicing fee income related to administrative services provided to vehicle lease trusts related to the Company's securitization transactions. See "Financing and Other Funding Transactions" for further discussion on securitization transactions. The increase in servicing fee income in 2001 is a result of growth in serviced assets due to the securitization transaction executed in the first quarter of 2001. The Company recorded net miscellaneous expense in 2000 compared with net miscellaneous income in 1999. The growth in expense was due to an increase of \$7 million in fees (due to an increase in dollar volume) related to the Company's trade receivables sale facility in 2000. Additionally, in 1999, such fees were offset by a \$5 million gain on the sale of non-operating property and \$4 million of interest income earned on temporarily investing the proceeds from the RPTS sale.

In thousands

Years ended December 31	2001	2000	1999
Unusual items:			
Restructuring and other charges, net	\$116,564	42,014	52,093
Year 2000 expense	—	—	24,050
	\$116,564	42,014	76,143

In 2001, restructuring and other charges increased to \$117 million from \$42 million in 2000. Restructuring and other charges totaled \$42 million in 2000 compared with \$52 million in 1999. See "Restructuring and Other Charges, Net" for further discussion.

In thousands

Years ended December 31	2001	2000	1999
Provision for income taxes	\$12,028	52,289	44,577

The effective income tax rate is the provision for income taxes as a percentage of earnings from continuing operations before income taxes. The Company's effective tax rate was 39.2 percent in 2001, 37.0 percent in 2000 and 37.9 percent in 1999. The higher effective tax rate in 2001 resulted primarily from an increase in net non-deductible items, principally the write down of goodwill, included in restructuring and other charges. The increase in the Company's effective tax rate was partially offset by a permanent reduction in corporate tax rates in Canada. This resulted in a one-time reduction in the Company's related deferred taxes of approximately \$7 million. The Company believes the impact of this tax rate change on its future effective income tax rate will be nominal. Canadian operations represented approximately 6 percent of the Company's revenue in 2001.

RESTRUCTURING AND OTHER CHARGES, NET

In 2001, the Company recorded pre-tax restructuring and other charges of \$117 million. The components of charges in 2001, 2000 and 1999 were as follows:

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Restructuring charges (recoveries):			
Severance and employee-related costs:			
Shutdown of U.K. home delivery network	\$ 2,593	—	—
Other	27,845	(1,077)	16,500
Total severance and employee-related costs	30,438	(1,077)	16,500
Facilities and related costs	6,261	(2,009)	4,478
	36,699	(3,086)	20,978
Other charges (recoveries):			
Cancellation of IT project	21,727	—	—
Goodwill impairment	13,823	—	—
Shutdown of U.K. home delivery network	12,862	—	—
Contract termination costs	11,204	—	—
Strategic consulting fees	8,586	958	3,935
Asset write-downs	7,273	41,100	14,215
Write-down of software licenses	5,311	—	—
Loss on the sale of business	3,512	—	—
Start-up costs	—	—	7,970
Other(recoveries)charges, net	(4,433)	3,042	4,995
	\$116,564	42,014	52,093

> 2001 Charges

During the third quarter of 2001, the Company initiated the shutdown of Systemcare, Ryder's shared-user home delivery network in the U.K. The shutdown was initiated as a result of management's review of future prospects for the operation in light of historical and anticipated operating losses. Such review was performed in conjunction with its restructuring initiatives. The shutdown will be completed after meeting contractual obligations to current customers, which extend to December 31, 2002. The charge related to the Systemcare shutdown totaled \$15 million and included severance and employee-related costs of \$3 million. The remainder of the charge, reported in other charges (recoveries), includes a goodwill impairment of \$11 million and asset impairment charges, primarily for specialized vehicles to be disposed of within 12 months after the shutdown of Systemcare's operations, of \$2 million.

In late 2000, the Company communicated to its employees its planned strategic initiatives to reduce Company expenses. As part of such initiatives, the Company reviewed employee functions and staffing levels to eliminate redundant work or otherwise restructure work in a manner that led to a workforce reduction. The process resulted in terminations of over 1,400 employees during 2001. Other severance and employee-related costs of \$28 million included in 2001 represent termination benefits to employees whose jobs were eliminated as part of this review.

During 2001, the Company identified more than 55 facilities in the U.S. and in other countries to be closed in order to improve profitability. Facilities and related costs of \$6 million in 2001 represent contractual lease obligations for closed facilities.

Other charges (recoveries) represent asset impairments and other unusual costs associated with the Company's strategic restructuring initiatives.

In the third quarter of 2001, the Company cancelled an information technology (IT) project in its FMS business segment. The charge of \$22 million represents the write-down of software licenses, development costs and assets related to the project that had no future economic benefit.

During the fourth quarter of 2001, the Company identified certain operating units for which current circumstances indicated that the carrying amount of long-lived assets, in particular, goodwill, may not be recoverable. The Company assessed the recoverability of these long-lived assets and determined that the goodwill related to these operating units was not recoverable. See "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements for the Company's policy on impairment of long-lived assets. In addition to the aforementioned goodwill impairment in the Systemcare operations, goodwill impairment charges in 2001, all of which related to scs operating units, are summarized as follows:

In thousands

Ryder Argentina	\$ 9,130
Ryder Brazil	3,706
Other	987
	<u>\$13,823</u>

Goodwill impairment in Ryder Argentina was triggered by the significant adverse change in the business climate in Argentina in the fourth quarter of 2001 that led to a devaluation of the Argentine Peso, breakdowns in the Argentine banking system and repeated turnover in the country's leadership. These factors, combined with a history of operating losses and anticipated future operating losses, led to goodwill impairment. Goodwill of \$9 million was considered impaired and was written-down in December 2001. At December 31, 2001, Ryder Argentina had total assets of \$8 million and total equity of \$4 million. The Company is currently committed to continuing to operate in Argentina in order to serve its global accounts, which it believes are profitable when considered on a worldwide basis.

During the fourth quarter of 2001, the Company reviewed goodwill associated with its remaining investment in Ryder Brazil for impairment. Subsequent to the sale of Vehiculos, as discussed below, the Company made a significant effort to restructure the operations of Ryder Brazil. However, such restructuring was not sufficient to offset the impact of lost business, the side-effects of the Argentine economic crisis and the marginal historical and anticipated cash flows related to the remaining business. At December 31, 2001, Ryder Brazil had total assets of \$18 million and total equity of \$6 million. Like Argentina, the Company is currently committed to operate in Brazil in order to serve its global accounts, which it believes are profitable when considered on a worldwide basis. As a result of the Company's analysis, goodwill of \$4 million was considered impaired and was written-down in December 2001.

In 2001, as part of its restructuring initiatives, the Company reached an agreement with Accenture LLP ("Accenture") to transition certain IT services previously delivered by Accenture under contract to Ryder. Contract termination costs of \$11 million represent termination penalties and the write-down of certain prepaid expenses associated with the Accenture relationship.

Strategic consulting fees of \$9 million were incurred during 2001 in relation to the aforementioned strategic initiatives. Such consulting engagements were completed by the end of 2001.

The Company's strategic initiatives during 2001 resulted in asset write-downs of \$7 million primarily for owned real estate, operating property and technology that would no longer be used in the business. These assets are planned to be disposed of within the next 12 months.

An investment of \$5 million in certain license agreements for supply chain management software was written down in 2001 because the software no longer had a viable business or customer application in light of the Company's restructuring initiatives.

During the quarter ended March 31, 2001, the Company sold Vehiculos for \$14 million and incurred a loss of \$4 million on the sale of the business.

Other net recoveries in 2001 primarily represent \$3 million in recoveries from an insurance settlement attributed to a previously sold business combined with a gain of \$2 million recorded in the first quarter of 2001 on the sale of the corporate aircraft.

The Company estimates pre-tax cost savings of approximately \$22 million on 2002 earnings as a result of the 2001 restructuring initiatives. These savings are expected to be realized primarily in operating expense and salaries and employee-related costs.

> 2000 Charges

In 2000, severance and employee-related costs that had been recorded in the 1999 restructuring were reversed due to refinements in estimates. Facilities and related costs reflect \$2 million of recoveries in 2000 for charges recorded in the 1999 and 1996 restructuring.

A charge of \$958,000 for consulting fees was incurred during 2000 related to the completion of the Company's 1999 profitability improvement study.

In 2000, an asset write-down of \$41 million resulted from the rapid industry-wide downturn in the market for new and used "Class 8" vehicles (the largest heavy-duty tractors and straight trucks) which led to a decrease in the market value of used tractors during the second half of 2000. The Company's unsold Class 8 inventory consists of units previously used by customers of the FMS segment. Approximately \$15 million of the charge related to tractors held for sale and identified in 2000 as increasingly undesirable and unmarketable due to lower-powered engines or a potential lack of future support for parts and service. The remainder of the charge related to other owned and leased tractors held for sale for which estimated fair value less costs to sell declined below carrying value (or termination value, which represents the final payment due to lessors, in the case of leased units) in 2000. These charges were slightly offset with gains of \$570,000 on vehicles sold in the U.K. during 2000, for which an impairment charge had been recorded in the 1999 restructuring.

During 2000, the Company settled long-standing litigation with a former customer, OfficeMax, relating to a logistics services agreement that was terminated in 1997. In 2000, other net charges includes \$4 million in impairment charges related to the write-down, net of recoveries, of certain assets related to the OfficeMax contract offset by \$1 million in the reversal of certain other charges recorded in the 1999 restructuring.

> **1999 Charges**

During 1999, the Company implemented several restructuring initiatives designed to improve profitability and align the organizational structure with the strategic direction of the Company. The restructuring initiatives resulted in identification of approximately 250 employees whose jobs were terminated. Contractual lease obligations associated with facilities to be closed as a result of the restructuring amounted to \$4 million. Strategic consulting fees of \$4 million were incurred during 1999 in relation to that year's restructuring initiatives.

The Company also recorded asset impairments of \$14 million in 1999 for certain classes of specialized used vehicles, real estate and other assets held for sale and software development projects that would not be implemented or further utilized in the future. The Company also identified certain assets that would be sold or for which development would be abandoned as a result of the restructuring. During 1999, the Company also restructured its FMS operations in the U.K. following the 1998 decision to retain the business.

In conjunction with the 1999 restructuring, the Company formed a captive insurance subsidiary under which the Company's various self-insurance programs are administered. Costs incurred related to the start-up of this entity totaled \$8 million. The Company also recorded \$5 million for other costs incurred in connection with the restructuring initiatives.

See "Restructuring and Other Charges, Net" in the Notes to Consolidated Financial Statements for additional discussion.

OPERATING RESULTS BY BUSINESS SEGMENT

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Revenue:			
Fleet Management Solutions:			
Full service lease and program maintenance	\$1,855,865	1,865,345	1,816,599
Commercial rental	468,438	523,776	540,734
Fuel	658,325	773,320	587,193
Other	369,912	393,549	362,718
	<u>3,352,540</u>	<u>3,555,990</u>	<u>3,307,244</u>
Supply Chain Solutions	1,453,881	1,595,252	1,441,029
Dedicated Contract Carriage	534,962	551,706	531,642
Eliminations	(335,260)	(366,156)	(327,711)
Total revenue	\$5,006,123	5,336,792	4,952,204

In thousands

Years ended December 31	2001	2000	1999
Contribution margin:			
Fleet Management Solutions	\$339,326	382,851	372,164
Supply Chain Solutions	51,236	65,484	54,832
Dedicated Contract Carriage	57,679	60,828	59,633
Eliminations	(36,989)	(41,888)	(40,280)
	<u>411,252</u>	<u>467,275</u>	<u>446,349</u>
Central Support Services	(263,982)	(283,940)	(252,712)
Restructuring and other charges, net	(116,564)	(42,014)	(52,093)
Year 2000 expense	—	—	(24,050)
Earnings from continuing operations before income taxes	\$ 30,706	141,321	117,494

Management evaluates business segment financial performance based upon several factors, of which the primary measure relied upon is contribution margin. Contribution margin represents each business segment's revenue, less direct costs and direct overheads related to the segment's operations. Business segment contribution margin for all segments (net of eliminations), less CSS expenses and restructuring and other charges, is equal to earnings from continuing operations before income taxes. CSS are those costs incurred to support all business segments, including sales and marketing, human resources, finance, shared management information systems, customer solutions, health and safety, legal and communications.

Contribution margin related to inter-segment equipment and services billed to customers (equipment contribution) is included in both FMS and the business segment which served the customer, then eliminated (presented as "Eliminations"). Equipment contribution included in SCS contribution margin in 2001, 2000 and 1999 was \$17 million, \$20 million and \$19 million, respectively. Equipment contribution included in DCC contribution margin in 2001, 2000 and 1999 was \$20 million, \$22 million and \$21 million, respectively. Interest expense is primarily allocated to the FMS business segment since such borrowings are used principally to fund the purchase of revenue earning equipment used in FMS.

These results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

> Fleet Management Solutions

FMS revenue decreased 6 percent in 2001 compared with 2000. Full service lease and program maintenance revenue remained relatively flat in 2001 compared with 2000. The Company anticipates generally flat to slightly lower full service lease and program maintenance revenue in 2002 due to negative net sales over recent periods primarily as a result of the slowing U.S. economy as well as decreases in variable billings, which are generally a function of total miles run by leased vehicles. Net sales takes into consideration new business with new or existing customers and revenue changes with existing customers due to replacement vehicles or rate changes, net of full service leases that reach the end of their term during the reported period.

All elements of commercial rental revenue (consisting of pure rental, lease extra and await new lease revenue) decreased in 2001 compared with 2000. In the U.S., pure rental revenue (total rental revenue less rental revenue related to units provided to full service lease customers) decreased 5 percent to \$184 million in 2001 compared with 2000 due to the slowing economy. Lease extra revenue represents revenue on rental vehicles provided to existing full service lease customers generally during peak periods in their operations. In the U.S., lease extra revenue decreased 17 percent to \$116 million in 2001. Await new lease revenue represents revenue on rental vehicles provided to new full service lease customers who have not taken delivery of full service lease units. In 2001, await new lease revenue decreased 47 percent to \$18 million in the U.S. Such revenue declines were due to lower utilization, a decrease in the number of units in the rental fleet and shorter lead times to place full service lease vehicles into service compared with 2000. Rental fleet utilization was 66 percent in 2001, compared with 71 percent in 2000. Rental fleet utilization decreased less than rental revenue as a result of the implementation of planned reductions in the size of the rental fleet. Pure rental revenue, lease extra, await new lease and rental fleet utilization statistics are monitored for the U.S. only; however, management believes such metrics to be indicative of rental product performance for the Company as a whole. Fuel revenue decreased in 2001 due primarily to decreased sales volume and, secondly, due to reduced sales prices.

FMS revenue increased 8 percent in 2000 compared with 1999. Full service lease and program maintenance revenue increased in 2000 compared with 1999 as a result of growth in both fleet size and average revenue per unit. Commercial rental revenue decreased in 2000 compared with 1999 due to increased revenue in 1999 as a result of a backlog in the arrival of new vehicles for full service lease customers. Rental vehicles were provided to these customers until new full service lease vehicles arrived and were prepared for use. In 2000, fuel revenue increased as a result of increases in fuel prices. FMS realized minimal changes in margin as a result of fuel price increases.

Contribution margin as a percentage of dry revenue (revenue excluding fuel) decreased to 13 percent in 2001 compared with 14 percent in 2000 and was flat in 2000 compared with 1999. The

decrease in 2001 was attributable to the decrease in gains from the sale of equipment due to weakened used truck market demand, lower net pension income in 2001 compared with 2000 and decreased rental contribution margin resulting from the decline in rental revenue. In 2000, improvements in full service lease margins, decreased running costs and the impact of net pension income on benefits costs were offset by reduced gains in vehicle sales compared with 1999. Decreased running costs in 2000 were generally attributable to a decrease in the average age of the fleet. Pension income attributable to FMS from the Company's principal pension plan in the U.S. decreased by \$33 million in 2001 compared with 2000 and increased by \$27 million in 2000 compared with 1999.

The Company's fleet of owned and leased revenue earning equipment is summarized as follows:

<i>Number of Units</i>		
December 31	2001	2000
By type:		
Trucks	66,000	66,800
Tractors	52,400	56,400
Trailers	46,700	48,500
Other	5,000	4,600
	<u>170,100</u>	<u>176,300</u>
By business:		
Full service lease	126,900	130,700
Commercial rental	40,200	42,200
Service and other vehicles	3,000	3,400
	<u>170,100</u>	<u>176,300</u>

The totals in each of the tables above include the following non-revenue earning equipment:

<i>Number of Units</i>		
December 31	2001	2000
Not yet earning revenue (NYE)		
	1,200	2,400
No longer earning revenue (NLE):		
Units held for sale	5,200	5,100
Other NLE units	4,700	3,200
	<u>11,100</u>	<u>10,700</u>

NYE units represent new units on hand that are being prepared for deployment to a lease customer or into the rental fleet. Preparations include activities such as adding lift gates, paint, decals, cargo area and refrigeration units.

NLE units represent units held for sale, as well as other units for which no revenue has been earned in the previous 30 days. These vehicles may be temporarily out of service, being prepared for sale or not rented due to lack of demand.

> **Supply Chain Solutions**

SCS revenue decreased 9 percent in 2001 compared with 2000 mostly due to volume reductions in North America and Latin America as a result of the continued worldwide economic slowdown. In North America, volume reductions experienced in the Company's automotive operating unit were the result of reduced auto production. The electronics and high tech operating units saw reduced volumes due to slowed consumer demand in those sectors combined with lost business in 2001. Volume decreases in Latin America were due to the slowing economies in Brazil and Argentina and to the sale of Vehiculos in 2001. Additionally, revenue reductions occurred in 2001 due to the impact of exchange rates on translation of foreign subsidiaries, particularly in the U.K. and Brazil, as well as to lost business in the U.K. Such revenue decreases were partially offset by business expansion in Mexico and Asia. The Company's Asian operating unit was acquired at the end of the third quarter of 2000.

SCS revenue increased 11 percent in 2000 compared with the previous year. Revenue growth in 2000 was due to expansion of business with existing customers and addition of new customers, particularly automotive suppliers, aerospace, electronics and technology companies.

Contribution margin as a percentage of operating revenue decreased to 5 percent in 2001 compared with 6 percent in 2000. The decrease in contribution margin was due primarily to the previously mentioned volume reductions as a result of the current economic downturn, lost business and increased operating costs, particularly related to the Company's transportation management operations.

Contribution margin as a percentage of operating revenue increased to 6 percent in 2000 compared with 5 percent in 1999. The improved contribution margin percentage in 2000 compared with 1999 was the result of improved performance in the Company's operations outside the U.S.

> **Dedicated Contract Carriage**

DCC revenue decreased 3 percent in 2001 compared with 2000 due primarily to volume reductions as a result of the current economic downturn and lost business. DCC revenue increased 4 percent in 2000 compared with 1999. In 2000, such revenue growth was due to increased fuel costs billed to customers and net business growth. Contribution margin as a percentage of operating revenue remained relatively flat in 2001 compared with 2000 as a result of expanded business with certain existing customers partially offset by the impact of lost business and volume reductions in 2001. DCC contribution margin as a percentage of operating revenue was flat in 2000 compared with 1999.

> **Central Support Services**

CSS expenses were as follows:

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Sales and marketing	\$ 27,071	39,202	47,840
Human resources	21,911	21,001	17,775
Finance	53,464	57,097	53,600
Corporate services/public affairs	8,023	10,099	13,308
MIS	98,373	99,471	84,862
Customer solutions	20,909	19,297	15,845
Health and safety	9,046	9,840	8,964
Other	25,185	27,933	10,518
Total CSS	\$263,982	283,940	252,712

CSS decreased 7 percent in 2001 compared with 2000. The decrease in total CSS expense was due primarily to spending reductions in sales and marketing, corporate services and MIS expense as a result of the Company's expense reduction initiatives. Such initiatives in these areas included ending the Company's sponsorship of the Doral Ryder Open, the sale of the Company's corporate jet and reducing the spending rate for new technology projects, respectively.

CSS increased 12 percent in 2000 compared with 1999 due to increased spending for MIS. Additionally, in 1999, CSS was reduced by a \$5 million gain on a real estate sale as well as \$4 million of interest income earned on temporarily investing the proceeds from the RPTS sale.

Currently, contribution margin is the measure of segment financial performance that is primarily relied upon by management. In 2001, the Company began a project to allocate CSS expenses to each business segment, as appropriate. The objective is to provide management more clarity on the profitability of each business segment (similar to a "earnings before income taxes" or "NBT" measure) and, ultimately, to hold leadership of each business segment, and each operating segment within each business segment, accountable for their allocated share of CSS expenses. This new measure of segment profitability, "contribution margin after allocated CSS," is still under refinement by the Company and is being reported to the Company's chief operating decision-maker periodically. Beginning in 2002, the Company intends to complete its refinement of the allocation methodology and will utilize contribution margin after allocated CSS as its primary measurement of segment financial performance. However, the Company has decided to provide contribution margin after allocated CSS by business segment as additional information through the end of its refinement period which is year-end 2001.

Certain costs are considered to be overhead not attributable to any segment and as such, remain unallocated in CSS. Included among the unallocated overhead remaining within CSS are the costs

for investor relations, corporate communications, public affairs and certain executive compensation. Those CSS costs attributable to the business segments are generally allocated to FMS, SCS and DCC as follows:

- > *Sales and marketing, finance, corporate services and health and safety*— allocated based upon estimated and planned resource utilization.
- > *Human resources*— individual costs within this category are allocated in several ways, including allocation based on estimated utilization and number of personnel supported.
- > *MIS*— allocated principally based upon utilization-related metrics such as number of users or minutes of CPU time.
- > *Customer Solutions*— represents project costs and expenses incurred in excess of amounts billable to a customer during the period. Expenses are allocated to the business segment responsible for the project.
- > *Other*— where allocated, the allocation is based on the number of personnel supported.

The following table sets forth contribution margin for each of the Company's business segments after CSS allocation for 2001 and 2000 (such information is not available for 1999):

<i>In thousands</i>		
Years ended December 31	2001	2000
Contribution margin after allocated CSS:		
Fleet Management Solutions	\$187,965	219,759
Supply Chain Solutions	(12,851)	3,918
Dedicated Contract Carriage	34,541	37,068
Eliminations	(36,989)	(41,888)
	172,666	218,857
Central Support Services (unallocated)	(25,396)	(35,522)
Restructuring and other charges, net	(116,564)	(42,014)
Earnings before income taxes	\$ 30,706	141,321

DISCONTINUED OPERATIONS

On September 13, 1999, the Company completed the sale of RPTS for \$940 million in cash and realized a \$339 million after-tax gain (\$4.94 per diluted common share). After-tax earnings from discontinued operations amounted to \$12 million in 1999. The transaction generated gains from the settlement and curtailment of certain employee benefit and postretirement plans, offset by provisions for severance and direct transaction and other costs. The RPTS disposal has been accounted for as discontinued operations and accordingly, its operating results and cash flows are segregated and reported as discontinued operations in the accompanying consolidated financial statements.

FINANCIAL RESOURCES AND LIQUIDITY

> Cash Flows

The following is a summary of the Company's cash flows from continuing operating, financing and investing activities:

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Net cash provided by (used in):			
Operating activities	\$308,702	1,015,533	269,819
Financing activities	(319,699)	(363,599)	(527,848)
Investing activities	6,893	(642,957)	228,067
Net cash flows from			
continuing operations	\$ (4,104)	8,977	(29,962)

A summary of the individual items contributing to the cash flow changes is included in the Consolidated Statements of Cash Flows.

The decrease in cash flow from operating activities in 2001 compared with 2000 was primarily attributable to decreases in the aggregate balance of trade receivables sold. As a result of the decrease in the aggregate balance of trade receivables sold, the Company's accounts receivable balance increased 39 percent to \$556 million at December 31, 2001 compared with December 31, 2000. Cash used in financing activities slightly decreased in 2001 compared with 2000 as the Company's increased net borrowings were almost offset by decreased use of its commercial paper program due primarily to interest rate decreases in the Company's other funding facilities compared with the Company's commercial paper program. The increase in cash provided by investing activities in 2001 compared with 2000 was attributable to lower capital expenditures in 2001. Higher proceeds provided from the sale-leaseback of revenue earning equipment in 2001 (see "Financing and Other Funding Transactions") were offset by decreased proceeds from the sales of property and revenue earning equipment primarily due to continued weak demand in the used truck market.

Cash provided by operating activities increased in 2000 compared with 1999 primarily due to increases in trade receivables sold in 2000 and lower working capital needs in 1999. Cash used in financing activities decreased in 2000 compared with 1999. During 1999, cash of \$528 million was used in financing activities, primarily to repurchase \$275 million of common stock and reduce debt by \$220 million. The stock repurchase program was completed in 1999 and there was no such program in 2001 or 2000. Cash used in investing activities was \$643 million compared with cash provided by investing activities of \$228 million in 1999. In 1999, cash provided by investing activities was the result of proceeds from the RPTS sale. After adjusting for such proceeds, cash used in investing activities decreased in 2000 compared with 1999 primarily as a result of reduced levels of capital expenditures.

The following is a summary of capital expenditures:

<i>In thousands</i>			
Years ended December 31	2001	2000	1999
Revenue earning equipment	\$579,320	1,186,787	1,627,206
Operating property and equipment	77,277	101,997	107,013
	<u>\$656,597</u>	<u>1,288,784</u>	<u>1,734,219</u>

The decrease in capital expenditures in 2001 was principally due to reduced demand for new units as well as increased pricing discipline over new business, which has resulted in fewer sales but improved margins on business sold. The Company has worked to improve controls over capital expenditures and reduce the volume of early terminations of full service leases compared with 2000. In contrast to 2000, the Company is pursuing a strategy of extending certain full service leases rather than leasing new units. This allows the Company to further control capital expenditures while frequently providing customers with vehicles at favorable pre-owned rates compared with rates on new units. The Company expects to fund 2002 capital expenditures with internally generated funds and borrowings. Such capital expenditures are anticipated to be approximately \$580 million in 2002.

The decrease in capital spending in 2000 was planned based upon the significant increase in capital spending and fleet replacement in FMS that took place during the first half of 1999. Capital spending for 1999 was consistent with management's expectations of anticipated growth and fleet replacement in full service leasing and commercial rental. However, capital spending was significantly above plan during the first half of 1999. The excess spending reflected higher than anticipated requirements for replacement.

No acquisitions were completed in 2001. During 2000 and 1999, the Company completed a few immaterial acquisitions, each of which was accounted for using the purchase method of accounting. Total consideration for these acquisitions was \$28 million in 2000 and \$13 million in 1999. The Company will continue to evaluate selective acquisitions in FMS and SCS in 2002.

> **Financing and Other Funding Transactions**

Ryder utilizes external capital to support growth in its asset-based product lines. The Company has a variety of financing alternatives available to fund its capital needs. These alternatives include long-term and medium-term public and private debt, including asset-backed securities, bank term loans and leasing arrangements as well as fixed-rate and variable-rate financing available through bank credit facilities, commercial paper and receivable conduits. The Company also periodically enters into sale-leaseback agreements on revenue earning equipment, which are primarily accounted for as operating leases.

Debt totaled \$1.7 billion at the end of 2001 compared with \$2.0 billion at the end of 2000. The decrease in debt in 2001 was principally due to repayment of \$100 million in debentures in addition to a decrease of \$231 million in commercial paper borrowings,

which were repaid with proceeds of sale-leaseback transactions described below. In addition to the Company's reduced debt in 2001, receivables sold decreased \$235 million in 2001 compared with 2000. Decreased debt levels and reduced overall funding needs were generally the result of reduced levels of capital expenditures on revenue-earning equipment.

Debt totaled \$2.0 billion at the end of 2000 compared with \$2.4 billion at the end of 1999. The decrease in debt in 2000 was principally due to repayment of \$426 million in medium-term notes, net of an increase of \$108 million in commercial paper borrowing. The Company's reduced debt in 2000 was also due to an increase of \$270 million of trade receivables sold in 2000 compared with 1999.

The Company's debt ratings as of December 31, 2001 were as follows:

	Short Term	Long Term
Moody's Investors Service	P2	Baa1
Standard & Poor's Ratings Group	A2	BBB
Fitch Ratings	F2	BBB+

A downgrade of the Company's debt below investment grade level would limit the Company's ability to issue commercial paper and would result in the Company no longer having the ability to sell trade receivables under the agreement described below. As a result, the Company would have to rely on other established funding sources described below.

The Company's debt-to-equity and related ratios were as follows:

December 31	2001	2000
Debt to equity	139%	161%
Total obligations to equity	199%	258%
Total obligations to equity, including securitizations	234%	275%

Debt to equity consists of the Company's on-balance sheet debt for the period divided by total equity. Total obligations to equity represents debt plus the following off-balance sheet funding, all divided by total equity:

- > Receivables sold
- > The present value of minimum lease payments and guaranteed residual values under operating leases for equipment, discounted at the interest rate implicit in the lease

Total obligations to equity, including securitizations consists of total obligations, described above, plus the present value of contingent rentals under the Company's securitizations (assuming customers make all lease payments on securitized vehicles when contractually due), discounted at the average interest rate paid to investors in the trust, all divided by total equity.

The decrease in all of the above ratios in 2001 was driven by the Company's reduced funding needs as a result of decreases in purchases of revenue earning equipment. For 2002, the Company anticipates additional reductions in each of these ratios due to expected improvements in operating cash flow and reduced cash needs due to planned further reductions in capital expenditures.

During 2001, the Company replaced its \$720 million global revolving credit facility with a new \$860 million global revolving credit facility. The new facility is composed of \$300 million which matures in May 2002 and is renewable annually (and is in the process of being renewed), and \$560 million which matures in May 2006. The primary purposes of the credit facility are to finance working capital and provide support for the issuance of commercial paper. At the Company's option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. The credit facility's annual facility fee ranges from 12.5 to 15.0 basis points applied to the total facility of \$860 million based on the Company's current credit ratings. Foreign borrowings of \$100 million were outstanding under the facility at December 31, 2001. In order to maintain availability of funding, the global revolving credit facility requires the Company to maintain a ratio of debt to consolidated tangible net worth, as defined, of less than or equal to 300 percent. The ratio at December 31, 2001 was 117 percent.

In September 1998, the Company filed an \$800 million shelf registration statement with the Securities and Exchange Commission (SEC). Proceeds from debt issues under the shelf registration are available for capital expenditures, debt refinancing and general corporate purposes.

The Company participates in an agreement, as amended from time to time, to sell with limited recourse up to \$375 million of trade receivables on a revolving basis. This agreement expires in July 2004. The Company sells the receivables in order to fund the Company's operations, particularly when the cost of such sales is cost effective compared with other means of funding, notably, commercial paper. The receivables are sold first to a bankruptcy remote special purpose entity, Ryder Receivables Funding LLC ("RRF LLC"), that is included in the Company's consolidated financial statements. RRF LLC then sells certain receivables to unrelated commercial entities at a loss, which approximates the purchaser's financing cost of issuing its own commercial paper backed by the trade receivables over the period of anticipated collection. The Company is responsible for servicing receivables sold but has no retained interests. At December 31, 2001 and 2000, the outstanding balance of receivables sold pursuant to this agreement was \$110 million and \$345 million, respectively. Losses on receivable sales associated with this program were \$9 million in 2001, \$17 million in 2000 and \$10 million in 1999 and are included in miscellaneous (income) expense, net. The Company maintains an allowance for doubtful receivables based on the expected collectibility of all receivables, including receivables sold. The decrease in trade receivables sold since December 31, 2000 is due to a reduced need for cash as a result of the sale-leaseback

transaction completed in 2001 (described below) as well as increased use of the Company's other funding facilities. See "Receivables" in the Notes to Consolidated Financial Statements for a further discussion on the Company's sale of receivables.

As of December 31, 2001 the Company had the following amounts available to fund operations under the aforementioned facilities:

<i>In millions</i>	
Global revolving credit facility	
(\$300 limited to less than one year)	\$550
Shelf registration statement	337
Trade receivables facility	265

The Company believes such facilities, along with the Company's commercial paper program and other funding sources, will be sufficient to fund operations in 2002.

In addition to the financing activities described above, the Company executes sale-leaseback transactions with third-party financial institutions as well as with substantive special purpose entities ("SPES") which facilitate sale-leaseback transactions with multiple third-party investors ("securitizations"). In general, sale-leaseback transactions result in a reduction in revenue earning equipment and debt on the balance sheet, as proceeds from the sale of revenue earning equipment are primarily used to repay debt. Accordingly, sale-leaseback transactions will result in reduced depreciation and interest expense and increased equipment rental expense.

Sale-leaseback transactions (including securitizations) are generally executed from time to time for the following reasons:

- > To lower the total cost of funding the Company's operations
- > To diversify the Company's funding among different classes of investors (e.g. regional banks, pension plans, insurance companies, etc.)
- > To diversify the Company's funding among different types of funding instruments

Proceeds from sale-leaseback transactions were \$411 million, \$373 million and \$594 million in 2001, 2000 and 1999, respectively. Included in the sale-leaseback transactions in 2001 and 1999 were vehicle securitization transactions in which the Company sold a beneficial interest in certain leased vehicles to separately rated and unconsolidated vehicle lease trusts and subsequently entered into an operating lease ("program operating lease") with those trusts. A prospectus for each transaction is on file with the SEC. Such securitizations generated cash proceeds of \$411 million and \$294 million in 2001 and 1999, respectively. The vehicles were sold for approximately their carrying value. The Company retained an interest in the vehicle lease trusts in the form of subordinated notes issued at the date of each sale. The Company has provided credit enhancement for each sale in the form of a one-time up front cash reserve deposit

and a pledge of the subordinated notes, including interest thereon, as additional security for the trusts to the extent that payments under the program operating leases are not made due to delinquencies and incurred losses under the program operating leases and related vehicle sales. The trusts rely on collections from the program operating leases, sales proceeds from the disposition of such vehicles and cash reserve funds to make payments to investors. The trusts are solely liable for such payments to investors, who are

all independent of the Company. Other than the credit enhancement noted above, the Company does not guarantee investors' interests in the securitization trusts. See "Leases" in the Notes to Consolidated Financial Statements for a further discussion on the Company's securitization transactions.

The following table summarizes the Company's undiscounted on and off-balance sheet contractual cash obligations and contingent rentals at December 31, 2001:

In thousands

	2002	2003	2004	2005	2006	Thereafter	Total
Long-term debt	\$ 312,531	118,694	161,194	201,545	491,736	407,347	1,693,047
Capital leases	4,556	3,609	4,075	3,115	282	—	15,637
Total debt	317,087	122,303	165,269	204,660	492,018	407,347	1,708,684
Operating leases ^(a)	364,419	280,123	120,765	66,990	47,831	97,227	977,355
Total contractual cash obligations	681,506	402,426	286,034	271,650	539,849	504,574	2,686,039
Contingent rentals ^(b)	128,191	118,932	102,082	74,342	33,590	8,227	465,364
Total	\$809,697	521,358	388,116	345,992	573,439	512,801	3,151,403

(a) *The amounts in the previous table are based upon the assumption that revenue earning equipment will remain on lease for the length of time specified by the respective lease agreements. No effect has been given to renewals, cancellations, contingent rentals or future rate changes, except as described below for vehicle securitization transactions.*

(b) *Contingent rentals relate to the Company's vehicle securitization transactions. The timing and amount of payment of rent by the Company for securitized vehicles is dependent on the timing and amount of payments received from the Company's customers for use of such vehicles, as stipulated by the program operating lease. For purposes of this presentation, the Company has assumed that the full monthly payment for each vehicle is received from the customer exactly when such payment is due, and that there are no defaults, prepayments or early termination of leases between the Company and its customers. Contingent rentals in the table above are estimated based upon this assumption. The actual amount and timing of contingent rentals paid by the Company may vary from that assumed above.*

Certain of the Company's agreements for the sale and operating leaseback of revenue earning equipment contain purchase and/or renewal options as well as limited guarantees of the lessor's residual value ("residual value guarantees"). The Company's reserve for residual value guarantees was \$44 million at December 31, 2001. See discussion on depreciation and rental of revenue earning equipment at "Accounting Matters" for a further discussion on residual value guarantees.

At December 31, 2001, the Company had letters of credit outstanding totaling \$115 million, which primarily guarantee certain insurance activities. Certain of these letters of credit guarantee insurance activities associated with insurance claim liabilities transferred in conjunction with the sale of certain businesses reported as discontinued operations in previous years. To date, such insurance claims, representing per claim deductibles payable under third-party insurance policies, have been paid by the companies that assumed such liabilities. However, if all or a portion of such assumed claims of approximately \$20 million are unable to be paid, the third-party insurers may have recourse against certain of the outstanding letters of credit provided by the Company in order to satisfy the unpaid claim deductibles.

> Market Risk

In the normal course of business, the Company is exposed to fluctuations in interest rates, foreign exchange rates and fuel prices. The Company manages such exposures in several ways, including, in certain circumstances, the use of a variety of derivative financial instruments when deemed prudent. The Company does not enter into leveraged derivative financial transactions or use derivative financial instruments for trading purposes.

Exposure to market risk for changes in interest rates relates primarily to debt obligations. The Company's interest rate risk management program objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. The Company manages its exposure to interest rate risk through the proportion of fixed rate and variable rate debt in the total debt portfolio. From time to time, the Company also uses an interest rate swap and cap agreements to manage its fixed rate and variable rate exposure and to better match the repricing of its debt instruments to that of its portfolio of assets. At December 31, 2001, an interest rate swap agreement with a notional value of \$22 million was outstanding, which was accounted for as a cash flow hedge of fixed rate debt. No interest rate swap or cap agreements were outstanding at December 31, 2000.

The following tables summarize debt obligations outstanding as of December 31, 2001 and 2000 expressed in U.S. dollar equivalents. The tables show the amount of debt, including current portion, and related weighted average interest rates by contractual

maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 2001 and 2000. This information should be read in conjunction with the "Debt" note to the consolidated financial statements.

2001	Expected Maturity Date						Total	Fair Value
	Years ended December 31							
<i>In thousands</i>	2002	2003	2004	2005	2006	Thereafter		
Fixed-rate debt:								
Dollar denominated	\$166,227	75,591	72,099	199,995	150,317	407,347	1,071,576	1,065,624
Average interest rate	6.93%	7.00%	7.07%	7.12%	7.25%	7.42%		
Pound Sterling denominated	50,960	—	—	—	21,840	—	72,800	73,907
Average interest rate	7.05%	6.39%	6.39%	6.39%	6.39%	—		
Canadian Dollar denominated	15,705	40,833	15,705	—	—	—	72,243	77,156
Average interest rate	6.58%	6.43%	6.51%	—	—	—		
Other	2,128	2,124	1,550	1,550	9,999	—	17,351	17,098
Average interest rate	4.90%	4.85%	4.79%	4.84%	4.72%	—		
Variable-rate debt:								
Dollar denominated (a)	25,000	—	50,000	—	215,309	—	290,309	290,309
Average interest rate	2.90%	4.94%	6.18%	6.54%	6.79%	—		
Pound Sterling denominated	42,952	—	21,840	—	36,400	—	101,192	101,192
Average interest rate	5.32%	6.30%	6.51%	6.38%	6.17%	—		
Canadian Dollar denominated	—	—	—	—	57,871	—	57,871	57,871
Average interest rate	2.47%	3.93%	5.29%	5.94%	6.16%	—		
Other	9,559	146	—	—	—	—	9,705	9,705
Average interest rate	5.74%	10.00%	—	—	—	—		
Total Debt (excluding capital leases)							\$1,693,047	1,692,862

(a) Includes commercial paper which is assumed to be renewed through May 2006. As discussed in the "Debt" note to the consolidated financial statements, the commercial paper program is supported by the Company's \$860 million global credit facility which is composed of \$300 million which matures in May 2002 and is renewable annually, and \$560 million which matures in March 2006. The Company classified commercial paper borrowings as long-term debt in the consolidated balance sheets at December 31, 2001 and 2000.

2000	Expected Maturity Date						Total	Fair Value
	Years ended December 31							
<i>In thousands</i>	2001	2002	2003	2004	2005	Thereafter		
Fixed-rate debt:								
Dollar denominated	\$264,300	166,324	75,591	72,099	199,962	406,973	1,185,249	1,120,611
Average interest rate	7.00%	6.96%	7.04%	7.13%	7.21%	7.52%		
Pound Sterling denominated	22,397	74,655	—	—	—	—	97,052	98,186
Average interest rate	8.13%	7.91%	—	—	—	—		
Canadian Dollar denominated	10,008	33,360	30,024	13,344	—	—	86,736	90,325
Average interest rate	6.64%	6.57%	6.24%	6.25%	—	—		
Other	4,238	1,363	1,360	723	723	723	9,130	9,070
Average interest rate	6.77%	5.97%	6.11%	6.31%	6.31%	6.31%		
Variable-rate debt:								
Dollar denominated	—	447,340	5,000	—	—	—	452,340	452,340
Average interest rate	6.21%	5.61%	6.26%	—	—	—		
Pound Sterling denominated	8,212	61,217	—	—	—	—	69,429	69,429
Average interest rate	5.78%	5.64%	—	—	—	—		
Canadian Dollar denominated	67,387	—	—	—	—	—	67,387	67,387
Average interest rate	6.22%	—	—	—	—	—		
Other	27,440	1,596	123	—	—	—	29,159	29,159
Average interest rate	6.77%	6.64%	9.25%	—	—	—		
Total Debt (excluding capital leases)							\$1,996,482	1,936,507

Exposure to market risk for changes in foreign exchange rates relates primarily to foreign operations' buying, selling and financing in currencies other than local currencies and to the carrying value of net investments in foreign subsidiaries. The Company manages its exposure to foreign exchange rate risk related to foreign operations' buying, selling and financing in currencies other than local currencies by naturally offsetting assets and liabilities not denominated in local currencies. The Company also uses foreign currency option contracts and forward agreements from time to time to hedge foreign currency transactional exposure. No foreign currency option contracts or forward agreements were outstanding at December 31, 2001 or 2000.

The Company does not generally hedge the translation exposure related to its net investment in foreign subsidiaries, since the Company generally has no near-term intent to repatriate funds from such subsidiaries. Based on the overall level of transactions denominated in other than local currencies, the lack of transactions

between the Company and its foreign subsidiaries and the level of net investment in foreign subsidiaries, the exposure to market risk for changes in foreign exchange rates is not material.

Exposure to market risk for fluctuations in fuel prices relates to a portion of the Company's service contracts for which the cost of fuel is integral to service delivery and the service contract does not have a mechanism to adjust for increases in fuel prices. As of December 31, 2001, the Company had various fuel purchase arrangements in place to ensure delivery of fuel at market rates in the event of fuel shortages. None of the Company's current fuel purchase arrangements fix the price of fuel to be purchased and as such the Company is exposed to fluctuations in fuel prices. Increases and decreases in the price of fuel are generally passed on to customers and have only a minor effect on contribution margins. The Company believes the exposure to fuel price fluctuations would not materially impact the Company's results of operations, cash flows or financial position.

ENVIRONMENTAL MATTERS

The operations of the Company involve storing and dispensing petroleum products, primarily diesel fuel, regulated under environmental protection laws. These laws require the Company to eliminate or mitigate the effect of such substances on the environment. In response to these requirements, the Company has upgraded operating facilities and implemented various programs to detect and minimize contamination.

Capital expenditures related to these programs totaled approximately \$2 million in 2001 and 2000. The Company incurred environmental expenses of \$7 million, \$5 million and \$10 million in 2001, 2000 and 1999, respectively, which included remediation costs as well as normal recurring expenses, such as licensing, testing and waste disposal fees. The increase in expenses in 2001 reflected the impact of lower claim recoveries compared with 2000. Lower environmental expenses in 2000 resulted from increased claim recoveries and a decrease in the number of projects compared with 1999.

The ultimate cost of the Company's environmental liabilities cannot presently be projected with certainty due to the presence of several unknown factors, primarily the level of contamination, the effectiveness of selected remediation methods, the stage of management's investigation at individual sites and the recoverability of such costs from third parties. Based upon information presently available, management believes that the ultimate disposition of these matters, although potentially material to the results of operations in any single year, will not have a material adverse effect on the Company's financial condition or liquidity. See "Environmental Matters" in the Notes to Consolidated Financial Statements for further discussion.

EURO CONVERSION

On January 1, 1999, the participating countries of the European Union adopted the Euro as their common legal currency. On January 1, 2002, the Euro began circulation within the participating countries, with the existing national currencies continuing as legal tender through February 28, 2002, at which time the existing national currencies were completely removed from circulation. The Euro was adopted as functional currency in the operations of the Company's subsidiaries in Germany and Netherlands. At December 31, 2001, total assets were \$22 million and \$2 million in Germany and Netherlands, respectively, and equity was \$16 million and \$1 million in Germany and Netherlands, respectively. Due to the nature and small magnitude of current international operations affected by the Euro conversion, conversion to the Euro did not have a material impact on the Company's results of operations, cash flows or financial position.

ACCOUNTING MATTERS

> Critical Accounting Policies

The Company's significant accounting policies are described in the footnotes to the Company's financial statements. Certain of these policies are considered to be "critical." That is, they are both the most important to the financial presentation of the Company's financial condition and results, and they require management's most difficult, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The following discussion, which should be read in conjunction with the descriptions in the Notes to Consolidated Financial Statements, is furnished for additional insight into certain accounting policies that management considers to be critical.

Self-Insurance Reserves: Management uses a variety of statistical and actuarial methods that are widely used and accepted in the insurance industry to estimate required self-insurance reserves. In applying these methods and assessing their results, management considers such factors as frequency and severity of claims, claim development and payment patterns and changes in the nature of the Company's business, among other factors. On an annual basis, the Company's self-insurance reserves are reviewed for reasonableness by third-party actuaries. The Company's estimates may be impacted by such factors as increases in the market price for medical services, unpredictability of the size of jury awards and limitations inherent in the estimation process, among other factors. While management believes that self-insurance reserves are adequate, there can be no assurance that changes to management's estimates may not occur. At December 31, 2001, self-insurance reserves were \$219 million.

Depreciation and Residual Value Guarantees: The Company periodically reviews and adjusts the residual values and useful lives of revenue earning equipment as described in "Revenue Earning Equipment, Operating Property and Equipment and Depreciation" and "Residual Value Guarantees" in the Notes to Consolidated Financial Statements. Reductions in residual values – the price at which the Company ultimately expects to dispose of revenue earning equipment – or useful lives will result in an increase in depreciation expense over the life of the equipment. The Company reviews residual values and useful lives of revenue earning equipment on an annual basis or more often if deemed necessary for specific groups of revenue earning equipment. Reviews are performed based on vehicle class, generally subcategories of trucks, tractors and trailers by weight and usage. The Company considers such factors as current and expected future market price trends on used vehicles, expected life of vehicles included in the fleet and extent of alternative uses for leased vehicles (e.g. rental fleet, SCS and DCC applications). Future depreciation expense rates are subject to change based upon changes in these factors.

The Company also leases vehicles under operating lease agreements. Certain of these agreements contain limited guarantees for a portion of the residual values of the equipment. Results of the reviews described above for owned equipment are also applied to equipment under operating lease. The amount of residual value guarantees expected to be paid is recognized as rent expense over the expected remaining term of the lease. At December 31, 2001, total liabilities for residual value guarantees of \$44 million were included in accrued expenses (for those payable in less than one year) and in other non-current liabilities. While management believes that the amounts are adequate, changes to management's estimates of residual value guarantees may occur due to changes in the market for used vehicles, the condition of the vehicles at the end of the lease and inherent limitations in the estimation process.

Income Taxes: The Company records a valuation allowance for deferred income tax assets to reduce such assets to amounts expected to be realized. In determining the required level of such allowance, the Company considers whether it is more likely than not that all or some portion of deferred tax assets will not be realized. This assessment is based on management's expectations as to whether sufficient taxable income of an appropriate character will be realized within tax carryback and carryforward periods. Such assessment, and thus the related valuation allowance, is subject to change based on changes in anticipated future taxable earnings.

➤ **Recent Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations." SFAS 141 requires the purchase method of accounting for all business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. Adoption of this statement did not have an impact on the Company's financial position, cash flows or results of operations as no business combinations were initiated after June 30, 2001.

In June 2001, the FASB issued SFAS 142, "Goodwill and Other Intangible Assets," which requires, among other things, the discontinuance of goodwill amortization. SFAS 142 is required to be applied for fiscal years beginning after December 15, 2001, with certain early adoption permitted. The Company will adopt SFAS 142 effective January 1, 2002 and is currently assessing its impact on the Company's financial statements, including whether any transitional impairment losses will be required to be recognized as the cumulative effect of a change in accounting principle. However, at the date of this report, it is not practicable to reasonably estimate the impact of adopting this statement on the Company's results of operations, cash flows or financial position.

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated retirement costs. The Company is in the process of assessing the impact of adopting SFAS 143, which will be effective for 2003, on its results of operations, cash flows or financial position.

In August 2001, the FASB issued SFAS No. 144, which amends existing accounting guidance on asset impairment and provides a single accounting model for long-lived assets to be disposed of. Among other provisions, the new rules change the criteria for classifying an asset as held-for-sale. SFAS 144 also broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001 and will be adopted by the Company effective January 1, 2002. The Company is currently evaluating the potential impact, if any, the adoption of SFAS No. 144 will have on its results of operations, cash flows or financial position.

For further details regarding the above recent accounting pronouncements, see "Recent Accounting Pronouncements Affecting Future Periods" in the Notes to Consolidated Financial Statements.

➤ **Other Accounting Matters**

In January 2001, the Company revised its vacation policy in the U.S. Starting January 1, 2001, employees earn vacation based on the calendar year rather than their anniversary date. Additionally, unused earned vacation may not be carried forward into the next calendar year. At December 31, 2000, the Company's vacation accrual for U.S. employees was approximately \$22 million. As a result of the policy change, the balance was approximately \$3 million at December 31, 2001 which represents vacation accrual for California employees where local law did not permit the adoption of the revised policy.

FORWARD-LOOKING STATEMENTS

This Annual Report contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on the Company’s current plans and expectations and involve risks and uncertainties that may cause actual results to differ materially from the forward-looking statements. Generally, the words “believe,” “expect,” “intend,” “estimate,” “anticipate,” “will,” “may” and similar expressions identify forward-looking statements.

Important factors that could cause such differences include, among others: general economic conditions in the U.S. and worldwide; the market for the Company’s used equipment; the highly competitive environment applicable to the Company’s operations (including competition in supply chain solutions from other logistics companies as well as from air cargo, shippers, railroads and motor carriers and competition in full service leasing and commercial rental from companies providing similar services as well as truck and trailer manufacturers that provide leasing, extended warranty maintenance, rental and other transportation services); greater than expected expenses associated with the Company’s activities (including increased cost of fuel, freight and transportation) or personnel needs; availability of equipment; changes in customers’ business environments (or the loss of a significant customer) or changes in government regulations.

The risks included here are not exhaustive. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on the Company’s business. Accordingly, the Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.