RYDER SYSTEM INC
Form 10-K
February 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-4364
RYDER SYSTEM, INC.
(Exact name of registrant as specified in its charter)

Florida	59-0739250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
11690 N.W. 105th Street, Miami, Florida 33178	(305) 500-3726
(Address of principal executive offices, including zip code)	(Telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Ryder System, Inc. Common Stock ($0.50 par value)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES þ NO ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ¨ NO þ
The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was sold at June 30, 2016 was $3,202,591,552. The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at January 31, 2017 was 53,464,988.
Documents Incorporated by Reference into this Report Part of Form 10-K into which Document is Incorporated

Ryder System, Inc. 2016 Proxy Statement	Part III

RYDER SYSTEM, INC.
FORM 10-K ANNUAL REPORT
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PART I
ITEM 1. BUSINESS
OVERVIEW
Ryder System, Inc. (Ryder) is a global leader in transportation and supply chain management solutions. Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. We are reporting our financial performance based on three business segments: (1) Fleet Management Solutions (FMS), which provides full service leasing, commercial rental, contract maintenance, and contract-related maintenance of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) DTS, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) SCS, which provides comprehensive supply chain solutions including distribution and transportation services in North America and Asia. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment.
In May of 2016, we expanded our full service lease product line to provide lease customers flexibility, choice and control in fleet management. Therefore, we have renamed the lease product to ChoiceLease. Our ChoiceLease product line is a scalable lease model, which allows customers to select the terms of their lease alongside the level of maintenance they prefer, from full service or total bumper-to-bumper coverage to on demand or pay-as-you-go maintenance. We also renamed our contract maintenance product to SelectCare. Beginning in 2017, FMS will report using these new product names. In addition, the historical Contract-Related Maintenance product will be included in SelectCare.
For financial information and other information relating to each of our business segments and about our geographic areas, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of this report and Note 27, "Segment Reporting," in the Notes to Consolidated Financial Statements.

MISSION AND STRATEGY
Ryder's mission is to provide innovative fleet management and supply chain solutions that are reliable, safe and efficient, enabling our customers to deliver on their promises. We seek to deliver valuable solutions that will compel customers to outsource their fleet management and supply chain needs to us. Our strategy is to grow our fleet management and supply chain outsourcing services by targeting private fleets not currently outsourcing their fleet-related services (FMS and DTS) and key industries (SCS) with innovative solutions, operational excellence, best in class talent and information technology. This strategy is supported by:
- offering innovative products, solutions and support services that will create and strengthen customer relationships;
- delivering operational excellence through continuous productivity and process improvements;
- attracting, developing and retaining the best talent
- deploying technology that will enable growth while improving operational efficiencies.

INDUSTRY AND OPERATIONS
Fleet
Management
Solutions

Value Proposition
Through our FMS business, we provide our customers with a variety of fleet solutions that are designed to improve their competitive position. By outsourcing these services to us, our customers can focus on their core business, improve their efficiency and productivity, and lower their costs. Our FMS product offering is comprised of longer-term full service leasing as well as leasing with flexible maintenance options; shorter-term commercial truck rental; contract maintenance services; flexible maintenance services; and value-added fleet support services such as insurance, vehicle administration and fuel services. In addition, we provide our customers the ability to purchase a large selection of used trucks, tractors and trailers through our used vehicle sales program.
Market Trends
The U.S. commercial fleet market is estimated to include 8.2 million vehicles[1] of which 4.2 million vehicles are with privately held companies, 1.5 million vehicles[2] are with for-hire carriers, 0.5 million vehicles are leased from banks or other financial institutions and 0.8 million vehicles are in the lease and rental market. The 4.2 million vehicles privately owned by companies provide all or a portion of the transportation services for themselves rather than outsourcing those services to third parties such as Ryder. Several trends have been increasing the need for outsourcing: increased demand for efficiency and reliability; increased complexity and cost of buying and maintaining vehicles including technology, diagnostics, and training; labor issues including a shortage of qualified truck drivers and mechanics; as well as increased regulation and enforcement of safety requirements. Because of these trends, we believe the privately held fleets and the for-hire carriers will increasingly decide to outsource. Ryder also targets customers who are already outsourcing with other providers.
Similar trends apply to outsourcing in Canada, and the Canadian commercial fleet is estimated at 500,000 vehicles, of which approximately 17,000 are in the lease and rental market[3] . In the U.K., the commercial rental and lease market is estimated at 225,000 units [4]. The total lease and rental market in Ryder's major markets totals over 1 million units. However, due to general trends and the trends in market sub-segments described above, combined with our success in converting owners to outsourcing, the total market potential for Ryder is significantly higher.
Over the last several years, many key trends have been reshaping the transportation industry. We strongly believe these trends increase the value of our product offering. Because of increased demand for efficiency and reliability, companies that own and manage their own fleet of vehicles have put greater emphasis on the quality of their preventive maintenance and safety programs. The maintenance and operation of commercial vehicles has become more complicated and expensive, requiring companies to spend a significant amount of time and money to keep up with new technology, diagnostics, retooling and training. Increased regulation and active enforcement efforts by federal and state governments require more stringent and costly operational processes and oversight. Fluctuating energy prices and alternative fuel technologies make it difficult for businesses to predict and manage fleet costs.
Operations
For the year ended December 31, 2016, our global FMS business accounted for 61% of our consolidated revenue.
U.S. Ryder was founded in the U.S. in 1933. Our FMS customers in the U.S. range from small businesses to large national enterprises operating in a wide variety of industries, the most significant of which are food and beverage, transportation and warehousing, housing, business and personal services, and industrial. At December 31, 2016, we had 529 operating locations, excluding ancillary storage locations, in 50 states and Puerto Rico. A location consists of a maintenance facility or "shop". Our maintenance facilities typically include a shop for preventive maintenance and repairs, a service island for fueling, safety inspections and preliminary maintenance checks, offices for sales and other personnel, and in many cases, a commercial rental vehicle counter. We also operate on-site at 167 customer locations, which primarily provide vehicle maintenance.
Canada. We have been operating in Canada for over 50 years. At December 31, 2016, we had 36 operating locations throughout 9 Canadian provinces. We also operated 14 maintenance facilities on-site at customer properties in Canada.

Europe. We began operating in the U.K. in 1971. At December 31, 2016, we had 63 operating locations primarily throughout the U.K. We also managed a network of 453 independent maintenance facilities in the U.K. to serve our customers when it is more effective than providing the service in a Ryder location. In addition to our typical FMS operations, we supply and manage vehicles, equipment and personnel for military organizations in the U.K. and Germany.

(1) U.S. Fleet as of June 2016, Class 3-8, IHS Markit Ltd. (formerly RL Polk)
(2) U.S. Fleet as of June 2016, Class 3-8, IHS Markit Ltd. (formerly RL Polk)
(3) Canada Outsourced Fleet Market as of September 2016, Class 3-8, IHS Markit Ltd. (formerly RL Polk)
(4) U.K. Lease and Rental HGV Market, Projection for December 2016, Source: The Society of Motor Manufacturers & Traders (SMMT) 2010 & Ryder Internal Estimates

FMS Product Offerings

Full Service Leasing. Our full service leases as well as leases with flexible maintenance options provide customers with vehicles, maintenance services, supplies, and related equipment necessary for operation of the vehicles while our customers furnish and supervise their own drivers and dispatch and exercise control over the vehicles. Our lease customers receive the following benefits:

- We are able to leverage our vehicle buying power for the benefit of our customers because we purchase a large number of vehicles from a limited number of manufacturers. Once we have signed an agreement with the customer, we acquire vehicles and components that are custom engineered to the customer's requirements and lease the vehicles to the customer for periods generally ranging from three to seven years for trucks and tractors and typically ten years for trailers.
- We provide full service lease customers with complete maintenance program designed to reduce vehicle downtime through a preventive maintenance plan that is based on vehicle type and time or mileage intervals. Alternatively, we offer flexible maintenance options to our customers designed to provide them with choices on their preferred level of maintenance. Given our continued focus on improving the efficiency and effectiveness of our maintenance services, particularly in light of changing technology and increased regulation, we provide our lease customers with a cost effective alternative to maintaining their own fleet of vehicles and the flexibility to choose the maintenance program that works for them. Beginning in 2016 customer's maintenance options include, full service, preventive and on demand.
- Our customers have access to our extensive network of maintenance facilities and trained technicians for maintenance, vehicle repairs, 24-hour emergency roadside service, and replacement vehicles for vehicles that are temporarily out of service.
- We typically retain vehicle residual risk exposure.
- Customers have an opportunity to enhance their standard lease with additional fleet support services including our fuel and related services as described below; liability insurance coverage under our existing insurance policies and related insurance services; safety services including safety training, driver certification and loss prevention consulting; vehicle use and other tax reporting, permitting and licensing, and regulatory compliance (including hours of service administration); environmental services; and access to RydeSmart®, a full-featured GPS fleet location, tracking, and vehicle performance management system and to Ryder FleetCARE SM, our web-based tool that provides customers with 24/7 access to key operational and maintenance management information about their fleets.

For the year ended December 31, 2016, full service lease revenue accounted for 56% of our FMS total revenue. Beginning in 2017, FMS will report this product as ChoiceLease.

Commercial Rental. We target rental customers that have a need to supplement their private fleet of vehicles on a short-term basis (one day up to one year in length), either because of seasonal increases in their business or discrete projects that require additional transportation resources. Lease customers utilize our commercial rental fleet to handle their peak or seasonal business needs. Although a portion of our commercial rental business is purely occasional in nature, we focus on building long-term relationships with customers so that we become their preferred source for commercial vehicle rentals. Our rental representatives assist in selecting a vehicle that satisfies a customer's needs and supervise the rental process, which includes execution of a rental agreement and a vehicle inspection. In addition to vehicle rental, we may extend liability insurance coverage under our existing policies to our rental customers as well as the benefits of cost savings and convenience of our comprehensive fuel services program. For the year ended December 31, 2016, commercial rental revenue accounted for 19% of our FMS total revenue.

Contract Maintenance. Through our contract maintenance product line, we provide maintenance services to customers who do not choose to lease vehicles from us. Our contract maintenance customers commit to utilizing our extensive network of maintenance facilities and trained technicians to maintain the vehicles they own or lease from third parties. We can also customize the services to include ancillary maintenance and/or fleet support services. Vehicles covered under this offering are typically serviced at our own facilities. However, based on the size and complexity of a customer's fleet, we may operate an on-site maintenance facility at the customer's location. For the year ended December 31, 2016, contract maintenance revenue accounted for 4% of our FMS total revenue. Beginning in 2017, FMS will report this product as SelectCare and it will include Contract-Related Maintenance.

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The following table provides information regarding the number of vehicles and customers by FMS product offering at December 31, 2016:

	U.S. Vehicles	Customers	Foreign Vehicles	Customers	Total Vehicles	Customers
Full service leasing	112,300	11,200	24,200	2,700	136,500	13,900
Commercial rental (1)	30,600	32,100	7,200	5,900	37,800	38,000
Contract maintenance (2)	43,100	1,500	5,900	400	49,000	1,900

(1) Commercial rental customers include customers who rented a vehicle for more than 3 days during the year and includes approximately 8,100 lease customers

(2) Contract maintenance customers include approximately 970 lease customers

Contract-Related Maintenance. Our lease and contract maintenance customers periodically require additional maintenance and repair services that are not included in their lease or contract maintenance contracts. For example, additional maintenance and repair services may arise when a customer damages a leased vehicle. In addition, because of our existing relationships with the customer, we may provide service on their owned vehicles and charge the customer on an hourly basis for work performed. By servicing all of our customers' maintenance needs, we create stronger, long-term relationships and have greater opportunity to provide customers with a wide range of outsourcing solutions. For the year ended December 31, 2016, contract-related maintenance revenue accounted for 5% of our FMS total revenue. Beginning in 2017, FMS will report this product within the newly named SelectCare product.

More recently, we have contracted with large private fleet operators and for-hire carriers to provide maintenance on demand, particularly in geographic areas where these customers do not have their own maintenance operations. The contract for on-demand maintenance services is based on a maintenance program that is designed to meet the customers' specific needs and all maintenance is performed only when and as requested by the customer. This product allows us to expand our customer base to include customers that have traditionally chosen to own and maintain their fleet of vehicles.

Fuel Services. We provide our FMS customers with access to diesel fuel at competitive prices at over 450 of our maintenance facilities across the United States and Canada. We also provide fuel services such as fuel planning, fuel tax reporting, centralized billing, fuel cards and fuel monitoring. Although fuel sales do not have a significant impact on our FMS earnings, as it is largely a pass-through cost to customers, we believe allowing customers to leverage our fuel buying power is a significant and valuable benefit to our customers. For the year ended December 31, 2016, fuel services revenue accounted for 13% of our FMS total revenue.

Used Vehicles. We primarily sell our used vehicles at one of our 59 retail sales centers throughout North America (18 of which are co-located at an FMS shop), at our branch locations or through our website at www.Usedtrucks.Ryder.com. Typically, before we offer used vehicles for sale, our technicians ensure that the vehicles are Road Ready®, which means that they have passed a comprehensive, multi-point performance inspection based on specifications formulated through our maintenance program. Our retail sales centers throughout North America allow us to leverage our maintenance expertise and strong brand reputation to realize higher sales proceeds than in the wholesale market. Given our focus on maximizing sales proceeds, we generally sell our used vehicles through retail centers for prices in excess of book value. However, the extent to which we are able to realize a gain on the sale of used vehicles is dependent upon various other factors, including the general state of the used vehicle market, the supply and demand for used commercial vehicles in retail and wholesale markets, the age and condition of the vehicle at the time of its disposal and vehicle depreciation rates.

FMS Business Strategy

Our FMS business strategy is to be the leading provider of fleet management outsourcing services for light, medium and heavy duty vehicles. Our strategy will be achieved if we focus on the following goals and priorities:

- Drive profitable fleet growth by (1) successfully implementing sales and marketing initiatives designed to compel private fleet operators and for-hire carriers to outsource all or some portion of their fleet management needs to us; (2) offering innovative products, solutions and support services that will create and strengthen new and existing customer relationships; and (3) completing targeted acquisitions;

- Deliver a consistent, industry-leading and cost-effective maintenance program to our customers through continued process improvement and re-design, productivity initiatives and technology improvements; and
- Optimize asset utilization and management, particularly with respect to our rental fleet, used vehicle operations and maintenance facility infrastructure.

Successfully driving our fleet growth strategy will require significant capital investments in full service lease and commercial rental vehicles. As a result, during periods of significant growth, our free cash flow may be negative.

Competition
As an alternative to using our fleet management services, most companies choose to provide these services for themselves, although some may choose to obtain similar or alternative services from other third-party vendors.
Our FMS business segment competes with companies providing similar services on a national, regional and local level. Many regional and local competitors provide services on a national level through their participation in various cooperative programs. Competitive factors include price, equipment, maintenance, service and geographic coverage. We compete with finance lessors, truck and trailer manufacturers and independent dealers who provide full service lease products, finance leases, extended warranty maintenance, rental and other transportation services. With the growth of our on-demand maintenance product, we will also face competition from managed maintenance providers who are hired to coordinate and manage the maintenance of large fleets of vehicles through a network of third-party maintenance providers. Value-added differentiation of the full service leasing, maintenance and commercial rental services, as well as continued commitment to offer innovative products and solutions, such as natural gas vehicles, has been and will continue to be our emphasis.

Dedicated
Transportation
Solutions
Value Proposition
Through our DTS business segment, we combine the equipment, maintenance and administrative services of a full service lease with drivers and additional services to provide a customer with a dedicated transportation solution that is designed to increase their competitive position, improve risk management and integrate their transportation needs with their overall supply chain. Such additional services include routing and scheduling, fleet sizing, safety, regulatory compliance, risk management, technology and communication systems support, including on-board computers and other technical support. These additional services allow us to address, on behalf of our customers, labor challenges associated with maintaining a private fleet of vehicles, such as driver recruitment and retention, government regulation, including hours of service regulations, DOT audits and workers' compensation. Our DTS solution offers a high degree of specialization to meet the needs of customers with sophisticated service requirements such as tight delivery windows, high-value or time-sensitive freight, closed-loop distribution, multi-stop shipments, specialized equipment and integrated transportation needs.
Market Trends
The U.S. dedicated contract carriage market is estimated to be $14 billion(1). This market is affected by many of the same trends that impact our FMS business, including the tightening of capacity in the current U.S. trucking market. The administrative requirements relating to regulations issued by the Department of Transportation (DOT) regarding driver screening, training and testing, as well as record keeping and other costs associated with the hours of service requirements, make our DTS product an attractive alternative to private fleet and driver management. This has become even more significant in light of Compliance, Safety, Accountability (CSA) regulatory changes made effective in 2010. The CSA regulatory changes have also put pressure on the availability of qualified truck drivers, which supply continues to lag market need. In addition, market demand for just-in-time delivery creates a need for well-defined routing and scheduling plans that are based on comprehensive asset utilization analysis and fleet rationalization studies offered as part of our DTS services.
Operations/Product Offerings
For the year ended December 31, 2016, our global DTS business accounted for 15% of our consolidated revenue. At December 31, 2016, we had 200 DTS customer accounts in the U.S. Because it is highly customized, our DTS product is particularly attractive to companies that operate in industries that have time-sensitive deliveries or special handling requirements, as well as companies who require specialized equipment. Because DTS accounts typically operate in a limited geographic area, most of the drivers assigned to these accounts are short haul drivers, meaning they return home at the end of each work day. Although a significant portion of our DTS operations are located at customer facilities, our DTS business also utilizes and benefits from our extensive network of FMS facilities.
In order to customize an appropriate DTS transportation solution for our customers, our DTS logistics specialists perform a transportation analysis using advanced logistics planning and operating tools. Based on this analysis, they

formulate a logistics design that includes the routing and scheduling of vehicles, the efficient use of vehicle capacity and overall asset utilization. The goal of each customized plan is to create a distribution system that optimizes freight flow while meeting a customer's service goals. A team of DTS transportation specialists can then implement the plan by leveraging the resources, expertise and technological capabilities of both our FMS and SCS businesses.

(1) Armstrong & Associates Tightened Up - Third-Party Logistics Market Results and Trends for 2016, June 2016

To the extent a distribution plan includes multiple modes of transportation (air, rail, sea and highway), our DTS team, in conjunction with our SCS transportation specialists, selects appropriate transportation modes and carriers, places the freight, monitors carrier performance and audits billing. In addition, through our SCS business, we can reduce costs and add value to a DTS customer’s distribution system by aggregating orders into loads, looking for shipment consolidation opportunities and organizing loads for vehicles that are returning from their destination point back to their point of origin (backhaul).

DTS Business Strategy

Our DTS business strategy is to focus on customers who need specialized equipment, specialized handling or integrated services. This strategy revolves around the following interrelated goals and priorities:

•Increase market share with customers in the energy and utility, metals and mining, retail, construction, healthcare, and food and beverage industries;

•Leverage the support and talent of the FMS sales team in a joint sales program;

•Align the DTS business with other SCS product lines to create revenue opportunities and improve operating efficiencies in both segments; and

•Improve competitiveness in the non-specialized and non-integrated customer segments.

Competition

Our DTS business segment competes with truckload carriers and other dedicated providers servicing on a national, regional and local level. Competitive factors include price, equipment, maintenance, service and geographic coverage and driver and operations expertise. We are able to differentiate the DTS product offering by leveraging FMS and integrating the DTS services with those of SCS to create a more comprehensive transportation solution for our customers. Our strong safety record and focus on customer service enable us to uniquely meet the needs of customers with high-value products that require specialized handling in a manner that differentiates us from truckload carriers.

Supply
Chain
Solutions

Value Proposition

Through our SCS business, we offer a broad range of innovative logistics management services that are designed to optimize a customer’s supply chain and address customer's key business requirements. The organization is aligned by industry verticals (Automotive, Technology and Healthcare, Consumer Packaged Goods and Retail, and Industrial) to enable our teams to focus on the specific needs of their customers. Our SCS product offerings are organized into four categories: dedicated services, distribution management, transportation management and professional services. These offerings are supported by a variety of information technology and engineering solutions that are an integral part of our SCS services. These product offerings can be offered independently or as an integrated solution to optimize supply chain effectiveness. A key aspect of our value proposition is our operational execution, which is an important differentiator in the marketplace.

Market Trends

Global logistics is approximately a $8.7 trillion(1) market, of which approximately $720 billion(1) is outsourced. Logistics spending in the markets we are targeting in North America and Asia equates to approximately $1.8 trillion, of which $193 billion is outsourced. Outsourced logistics is a market with significant growth opportunity. More sophisticated supply chain practices are required as supply chains expand and become more complex, product needs continue to proliferate and companies look for lower cost supply chain alternatives. In addition, disruptions from unexpected events such as natural disasters have caused companies to focus on risk management of their supply chains. The more complicated the supply chain or the product requirements, the greater the need for companies to utilize the expertise of supply chain solution providers.

(1) Armstrong & Associates Tightened Up - Third-Party Logistics Market Results and Trends for 2016, June 2016

Operations
For the year ended December 31, 2016, our global SCS business accounted for 24% of our consolidated revenue.

U.S. At December 31, 2016, we had 313 SCS customer accounts in the U.S., most of which are large enterprises that maintain large, complex supply chains. Most of our core SCS business operations are geographically located to maximize efficiencies and reduce costs. At December 31, 2016, managed warehouse space totaled approximately 38 million square feet for the U.S. We also concentrate certain logistics expertise in locations not associated with specific customer sites. For example, our carrier procurement, contract management, freight bill audit and payment services, and transportation optimization and execution groups operate out of our logistics centers in Novi, Michigan and Fort Worth, Texas.
Mexico. At December 31, 2016, we had 108 SCS customer accounts and managed warehouse space totaling approximately 4.5 million square feet. Our Mexico operations offer a full range of SCS services and manage approximately 15,800 border crossings each month between Mexico and the U.S. and Canada, often highly integrated with our distribution and transportation operations.
Canada. At December 31, 2016, we had 47 SCS customer accounts and managed warehouse space totaling approximately 1.2 million square feet. Given the proximity of this market to our U.S. and Mexico operations, the Canadian operations are highly coordinated with their U.S. and Mexico counterparts, managing cross-border transportation and freight movements.
Asia. At December 31, 2016, we had 72 SCS customer accounts and managed warehouse space totaling approximately 333,000 square feet, primarily in Singapore.

SCS Product Offerings
Distribution Management. Our SCS business offers a wide range of services relating to a customer’s distribution operations, from designing a customer’s distribution network to managing distribution facilities. Services within the facilities generally include managing the flow of goods from the receiving function to the shipping function, coordinating warehousing and transportation for inbound and outbound material flows, handling import and export for international shipments, coordinating just-in-time replenishment of component parts to manufacturing and final assembly, and providing shipments to customer distribution centers or end customer delivery points. Additional value-added services such as light assembly of components into defined units (kitting), packaging and refurbishment are also provided. For the year ended December 31, 2016, distribution management solutions accounted for 50% of our SCS revenue.
Dedicated Services. Dedicated services are offered as part of an integrated supply chain solution to our customers. We fulfill transportation needs for our customers with a combination of outside carriers and dedicated services. The dedicated services offering combines the equipment, maintenance, drivers and additional services to provide a customer with a dedicated transportation solution, which combined with outside transportation, is designed to increase their competitive position, improve risk management and integrate their transportation needs with their overall supply chain. Such additional services include routing and scheduling, fleet sizing, safety, regulatory compliance, risk management, technology and communication systems support including on-board computer, and other technical support. These additional services allow us to address, on behalf of our customers, labor challenges associated with maintaining a private fleet of vehicles, such as driver recruitment and turnover, government regulation (including hours of service regulations), DOT audits and workers' compensation. Our dedicated services solution offers a high degree of specialization to meet the needs of customers with sophisticated service requirements such as tight delivery windows, high value or time-sensitive freight, closed-loop distribution, multi-stop shipments, specialized equipment and integrated transportation needs. Dedicated services operations are located at our customer facilities, and our dedicated offering utilizes and benefits from our extensive network of FMS facilities. For the year ended December 31, 2016, approximately 36% of our SCS revenue was related to dedicated services.
Transportation Management. Our SCS business offers services relating to all aspects of a customer’s transportation network. Our team of transportation specialists provides shipment planning and execution, which includes shipment optimization, load scheduling and delivery confirmation through a series of technological and web-based solutions. Our transportation consultants, including our freight brokerage department, focus on carrier procurement of all modes

of transportation with an emphasis on truck-based transportation, rate negotiation, and freight bill audit and payment services. In addition, our SCS business provides customers with capacity management services that are designed to meet backhaul opportunities and minimize excess miles. For the year ended December 31, 2016, we purchased and/or executed $4.7 billion in freight moves on our customers' behalf. For the year ended December 31, 2016, transportation management solutions accounted for 9% of our SCS revenue.

Professional Services. In conjunction with providing the SCS core services described previously, our SCS business offers a variety of knowledge-based services that support every aspect of a customer's supply chain. Our SCS professionals are available to evaluate a customer's existing supply chain to identify inefficiencies as well as opportunities for integration and improvement. Once the assessment is complete, we work with the customer to develop a supply chain strategy that will create the most value for the customer and their target clients. Once a customer has adopted a supply chain strategy, our SCS logistics team, supported by functional experts and representatives from our information technology, real estate and finance groups, work together to design a strategically focused supply chain solution. The solution may include both a network design that sets forth the number, location and function of key components of the network and a transportation solution that optimizes the mode or modes of transportation and route selection. In addition to providing the distribution and transportation expertise necessary to implement the supply chain solution, our SCS representatives can coordinate and manage all aspects of the customer's supply chain provider network to assure consistency, efficiency and flexibility. For the year ended December 31, 2016, knowledge-based professional services accounted for 5% of our SCS revenue.

SCS Business Strategy

Our SCS business strategy is to offer our customers differentiated functional execution and proactive solutions from deep expertise in key industry verticals. The strategy revolves around the following interrelated goals and priorities:

- Providing customers with best in class execution and quality through reliable and flexible supply chain solutions;
- Developing innovative solutions and capabilities that drive value for our customer within our targeted industry verticals;
- Creating a culture of innovation and collaboration to share capabilities and solutions to meet our client's needs;
- Consistent focus on network optimization and continuous improvement; and
- Successfully executing targeted sales and marketing growth strategies.

Competition

As an alternative to using our services, most companies choose to internally manage their own supply chains and logistics operations, although some may choose to obtain similar or alternative services from other third-party vendors.

In the SCS business segment, we compete with a large number of companies providing similar services, each of which has a different set of core competencies. We compete with a handful of large, multi-service companies across all of our service offerings and industries. We also compete against other companies on specific service offerings (for example, in transportation management, distribution management or dedicated services) or in a specific industry. We face different competitors in each country or region where they may have a greater operational presence. Competitive factors include price, service, market knowledge, expertise in logistics-related technology and overall performance (e.g. timeliness, accuracy, and flexibility).

ACQUISITIONS

In addition to our continued focus on organic growth, acquisitions play an important role in enhancing our growth strategy. In assessing potential acquisition targets in our FMS business segment, we look for companies that would create value through operating synergies, leveraging our existing facility infrastructure, improving our geographic coverage and diversifying our customer base. In our DTS business segment, we are focusing on strategies for growth, including acquisitions that expand our capabilities and vertical market sector. In our SCS business segment, we focus on adding capabilities and product offerings, potentially expanding into new industries, diversifying our customer base within our current industries, and improving our competitive position.

CYCLICALITY

Ryder's business is impacted by economic and market conditions. In a strong economic cycle, there is generally more demand for our fleet management, dedicated and supply chain services. In a weak or volatile economy, demand for our services decreases and is inconsistent and considerably more unpredictable. Because of these factors, we have continued to focus on increasing the diversity of our customer base and strengthening our long-term business partnerships with our customers. Although we believe these efforts help mitigate the immediate impact of an economic downturn, during a protracted or severe economic downturn, customers are often unwilling to commit to a full-service lease or long-term supply chain contract. Because commercial rental and used vehicle sales are transactional, they are more cyclical in nature, and results can vary significantly in both the short- and long-term. We mitigate some of the potential impact of an economic downturn through a disciplined and centralized approach to asset management. This approach allows us to manage the size, mix and location of our operating fleet and used vehicle inventories to try and maximize asset utilization and used vehicle proceeds in both strong and weak market conditions.

ADMINISTRATION

Our financial administrative functions for the U.S. and Canada, including credit, billing and collections are consolidated into our Shared Services Center, a centralized processing center located in Alpharetta, Georgia. Our Shared Services Center also manages contracted third parties providing administrative finance and support services outside of the U.S. in order to reduce ongoing operating expenses and maximize our technology resources. This centralization results in more efficient and consistent centralized processing of selected administrative operations. Certain administrative functions are also performed at the Shared Services Center for our customers. The Shared Services Center's main objectives are to enhance customer service through process standardization, create an organizational structure that will improve market flexibility and allow future reengineering efforts to be attained more easily at lower implementation costs.

REGULATION

Our business is subject to regulation by various federal, state and foreign governmental entities. The DOT and various federal and state agencies exercise broad powers over certain aspects of our business, generally governing such activities as authorization to engage in motor carrier operations, safety and financial reporting. In 2010, the Federal Motor Carrier Safety Administration (FMCSA) began implementation of the CSA, a compliance and enforcement initiative partnering with State agencies designed to monitor and improve commercial vehicle motor safety. The CSA program includes a Safety Measurement System (SMS) that uses roadside inspections and violations to measure motor carriers and drivers and determines the scores related to these inspections and violations that compare the motor carriers and drivers against peers. The FMCSA established thresholds for seven different measurement areas that identify potential safety risks and result in direct intervention or enforcement action.

We are also subject to a variety of requirements of national, state, provincial and local governments, including the U.S. Environmental Protection Agency and the Occupational Safety and Health Administration, which regulate safety, the management of hazardous materials, water discharges and air emissions, solid waste disposal and the release and cleanup of regulated substances. We must comply with licensing and other requirements imposed by the U.S. Department of Homeland Security and U.S. Customs Service as a result of increased focus on homeland security and our Customs-Trade Partnership Against Terrorism certification. We may also become subject to new or more restrictive regulations imposed by these agencies or other authorities relating to carbon controls and reporting, engine exhaust emissions, drivers' hours of service, wage and hour requirements, security including data privacy and cyber security and ergonomics.

ENVIRONMENTAL

We have a long-standing commitment to sound environmental practices that reduce risk and build value for us and our customers. We have a history of adopting "green" designs and processes because they are efficient, cost-effective transportation solutions that improve our bottom line and bring value to our customers. We have maintained an environmental mission since 1991 and have updated it periodically as regulatory and customer needs have changed. Our environmental policy reflects our commitment to supporting the goals of sustainable development, environmental protection and pollution prevention in our business. We have adopted proactive environmental strategies that have advanced business growth and continued to improve our performance in ways that reduce emission outputs and environmental impact. Our environmental team works with operating employees to develop and administer programs in support of our environmental policy and to help ensure that environmental considerations are integrated into all business processes and decisions.

In establishing appropriate environmental objectives and targets for our wide range of business activities around the world, we focus on (1) the needs of our customers; (2) the communities in which we provide services; and (3) relevant laws and regulations. We regularly review and update our environmental management procedures, and information regarding our environmental activities is routinely disseminated throughout Ryder. In 2016, we substantially expanded our sustainability reporting with the publication of our 2014/2015 Corporate Sustainability Report, which includes expanded and enhanced disclosures, as well as new metrics related to our environmental and safety performance for the years 2014 and 2015. In addition, we have voluntarily responded to the Carbon Disclosure Project (CDP) since 2008, disclosing direct and indirect emissions resulting from our operations, and earned leadership status for the quality of our disclosure report submitted in 2016. These reports are publicly available on the company website at www.ryder.com by clicking on About Us and then selecting Sustainability.

SAFETY

Our safety culture is founded upon a core commitment to the safety, health and well-being of our employees, customers and the community, a commitment that has made us a long-standing industry leader in safety.

Safety is an integral part of our business strategy because preventing injuries and collisions improves employee quality of life, eliminates service disruptions to our customers, increases efficiency and improves customer satisfaction. As a core value, our focus on safety is embedded in our day-to-day operations, reinforced by many safety programs and continuous operational improvement and supported by a talented and dedicated safety organization. Training is a critical component of our safety program. Monthly safety training delivered by location safety committees cover specific and relevant safety topics and managers receive annual safety leadership training. Quarterly and remedial training is also delivered online to each driver through our highly interactive Ryder Pro-TREAD comprehensive lesson platform. Regular safety behavioral observations are conducted by managers throughout the organization everyday and remedial training and coaching takes place on-the-spot. We also deploy state-of-the-art safety technologies in Ryder vehicles and our safety policies require that all managers, supervisors and employees incorporate safe processes in all aspects of our business. Monthly safety scorecards are tracked and reviewed by management for progress toward key safety objectives. Our proprietary web-based safety tracking system, RyderStar^{SM}, delivers proactive safety programs tailored to every location and helps measure safety activity effectiveness across the organization.

EMPLOYEES

At December 31, 2016, we had approximately 34,500 full-time employees worldwide, of which 32,600 were employed in North America, 1,400 in Europe and 500 in Asia. Currently we employ approximately 7,700 drivers and 5,900 technicians. We have approximately 21,600 hourly employees in the U.S., approximately 4,100 of which are organized by labor unions. Those employees organized by labor unions are principally represented by the International Brotherhood of Teamsters, the International Association of Machinists and Aerospace Workers and the United Auto Workers, and their wages and benefits are governed by 98 labor agreements which are renegotiated periodically. Although we have not experienced a material work stoppage or strike, these events can potentially occur given the types of businesses in which we currently engage. We consider that our relationship with our employees is good.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
Robert E. Sanchez	51	Chair and Chief Executive Officer
Art A. Garcia	55	Executive Vice President and Chief Financial Officer
Dennis C. Cooke	52	President, Global Fleet Management Solutions
John J. Diez	45	President, Dedicated Transportation Solutions
J. Steven Sensing	49	President, Global Supply Chain Solutions
Robert D. Fatovic	51	Executive Vice President, Chief Legal Officer and Corporate Secretary
Frank Lopez	42	Senior Vice President and Chief Human Resources Officer
Karen M. Jones	54	Executive Vice President and Chief Marketing Officer
John Gleason	60	Executive Vice President and Chief Sales Officer
Melvin L. Kirk	52	Senior Vice President and Chief Information Officer

Robert E. Sanchez was appointed Chair of Ryder's Board in May 2013 and promoted to Chief Executive Officer and became a Board member in January 2013. Previously, Mr. Sanchez served as President and Chief Operating Officer from February 2012 to December 2012. He served as President, Global Fleet Management Solutions from September 2010 to February 2012 and as Executive Vice President and Chief Financial Officer from October 2007 to September 2010. He also previously served as Executive Vice President of Operations, U.S. Fleet Management Solutions from October 2005 to October 2007 and as Senior Vice President and Chief Information Officer from January 2003 to October 2005. Mr. Sanchez joined Ryder in 1993 and has held various other positions of increasing responsibility, including leadership positions in all three of Ryder's business segments.

Art A. Garcia has served as Executive Vice President and Chief Financial Officer since September 2010. Previously, Mr. Garcia served as Senior Vice President and Controller from October 2005 to August 2010, and as Vice President and Controller from February 2002 to September 2005. Mr. Garcia joined Ryder in 1997 and has held various other positions within Corporate Accounting.

Dennis C. Cooke has served as President, Global Fleet Management Solutions since February 2012. Previously, Mr. Cooke served as Senior Vice President and Chief of Operations, U.S. and Canada Fleet Management Solutions from July 2011 to February 2012. Prior to joining Ryder in July 2011, Mr. Cooke held various positions with General Electric (GE) and related companies, including Vice President and General Manager of GE Healthcare’s Global MRI business from 2000 to 2005. He then served as President and Chief Executive Officer of GE Security’s Homeland Protection business from 2005 to 2009, and continued serving in those roles from 2009 to 2011 after the business was acquired by the Safran Group and became Morpho Detection, Inc.

J. Steven Sensing has served as President of Global Supply Chain Solutions since March 2015. Previously, Mr. Sensing served as Vice President and General Manager of the Technology industry group from February 2007 to February 2015. In July 2014, he also added the Retail industry group under his leadership. Mr. Sensing joined Ryder in 1992 and has since held various positions within Dedicated Services, Transportation Management and Distribution Management.

John J. Diez has served as President of Dedicated Transportation Solutions since March 2015. Previously, Mr. Diez served as Senior Vice President of Ryder Dedicated from March 2014 to February 2015, and as Senior Vice President of Asset Management from January 2011 to February 2014. Mr. Diez joined Ryder's Finance department in 2002 and has since held various positions within Finance including Senior Vice President Global Field Finance and Vice President and Chief Financial Officer of Fleet Management Solutions.

Robert D. Fatovic has served as Executive Vice President, Chief Legal Officer and Corporate Secretary since May 2004. He previously served as Senior Vice President, U.S. Supply Chain Operations, Hi-Tech and Consumer Industries from December 2002 to May 2004. Mr. Fatovic joined Ryder’s Law department in 1994 as Assistant Division Counsel and has held various other positions within the Law department including Vice President and Deputy General Counsel.

Frank Lopez was appointed to Chief Human Resources Officer in February 2016. Previously, Mr. Lopez held the position of Senior Vice President, Global Human Resources Operations since July 2013. Mr. Lopez joined Ryder in 2002 and has since held various positions within the Human Resources, Labor Relations and Legal functions.

Karen M. Jones has served as Executive Vice President and Chief Marketing Officer since October 2014. She joined Ryder in September 2013 as Senior Vice President and Chief Marketing Officer. Prior to joining Ryder, Ms. Jones was Chief Marketing Officer for NRG/Reliant Energy, Inc from 2010 to 2013. Previously, Ms. Jones served as Senior Vice President of Marketing and Corporate Communications for DHL Express U.S. from 2006 to 2009 and as Vice President of Advertising, Brand Management and Promotion from 2004 to 2006. In addition, Ms. Jones has served in key positions responsible for worldwide brand advertising, sponsorship, and strategic alliances for Hewlett Packard.

John Gleason was appointed Executive Vice President and Chief Sales Officer in November 2015. Previously, Mr. Gleason served as Senior Vice President of Global Fleet Management Solutions from October 2009, when he joined Ryder, to October 2015. Prior to joining Ryder, Mr. Gleason served as Chief Sales Officer for Automatic Data Processing (ADP) from April 2005 to September 2009 and as Senior Vice President of Sales from July 1998 to April 2005.

Melvin L. Kirk has served as Senior Vice President and Chief Information Officer since May 2015. He began reporting directly to the CEO and joined Ryder's Executive Leadership Team in January 2016. Mr. Kirk joined Ryder in March 2012 as Vice President of Maintenance, Engineering and Quality Operations within the Fleet Management Solutions organization. Prior to joining Ryder, Mr. Kirk held various roles at Global Service at Safran’s Morpho Detection, Inc. (formerly GE Homeland Protection), most recently serving as Vice President and General Manager from 1996 to 2012.

FURTHER INFORMATION

For further discussion concerning our business, see the information included in Items 7 and 8 of this report. Industry and market data used throughout Item 1 was obtained through a compilation of surveys and studies conducted by industry sources, consultants and analysts.

We make available free of charge through the Investor Relations page on our website at www.ryder.com our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission. The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains our reports, proxy and information statements, and our other SEC filings. The address of the SEC's website is www.sec.gov.

In addition, our Corporate Governance Guidelines, Principles of Business Conduct and Board committee charters are posted on the Corporate Governance page of our website at www.ryder.com. Upon request to our Investor Relations page on our website at www.ryder.com, we will provide a copy of our Finance Code of Conduct to anyone, free of charge.

ITEM 1A. RISK FACTORS

The following contains all known material risks that could affect our business.

Uncertain or unfavorable economic and industry conditions could adversely impact our business and operating results.

Although macro-economic risk affects most industries, the transportation industry is particularly susceptible to changes in economic and market conditions as our business relies on the strength of our customers' businesses and the level of confidence our customers have about future market conditions. Because of this, our business may begin to slow before market slowdowns, at the point of customer uncertainty, and may recover later than market recoveries, as our customers may continue to feel uncertain about future market conditions. Long-term full service lease and short-term rental of commercial vehicles comprise a large portion of our business. Our vehicles are leased or rented to customers that transport goods commercially so that the demand for our products is directly tied to the production and sale of goods by our customers. As a result, when fewer goods are sold by our customers, demand for our services may decrease. Also, sudden changes in fuel prices and fuel shortages may adversely impact the total vehicle miles driven by our customers. If uncertainty and lack of customer confidence around macroeconomic and transportation industry conditions increase, they may impact our future growth prospects and our business and results of operations could be materially adversely affected.

In a weak or volatile economy, demand for our longer-term contractual services may decrease, waver or become less predictable as customers are often unwilling to commit to long-term lease, maintenance, dedicated services or supply chain contracts. Contractual-based services include full lease and maintenance contracts in our FMS business segment, dedicated services in our DTS business segment and supply chain contracts in our SCS business segment. Accordingly, any sustained weakness in demand or a protracted economic downturn can negatively impact performance and operating results in our contractual-based service offerings. Similarly, although we experienced continued growth in full service lease during 2016, our customers still remain cautious about entering into long-term leases.

Customer uncertainty may serve to increase demand for our transactional services (because they do not require a long-term commitment) as these services are generally more cyclical due to their transactional nature, causing results to vary in both the short- and long-term. Transactional-based services include commercial rental and used vehicle sales in our FMS business segment. Although commercial rental demand began to stabilize in the second half of 2016, following a period of soft demand and uncertainty in the latter part of 2015 and first half of 2016, rental demand may decline again or face more unexpected volatility in the future.

Our capital intensive business requires us to make capital decisions based upon projected customer activity levels.

We make significant investments in rental vehicles to support our rental business based on anticipated customer demand. We make commitments to purchase the vehicles months in advance. We must predict fleet requirements and make commitments based on demand projections and various other factors. Missing our projections could result in too much or too little capacity in our rental fleet. Overcapacity could require us to dispose of vehicles at lower than anticipated pricing levels or result in asset write-downs and undercapacity could negatively impact our ability to reliably provide rental vehicles to our customers.

We bear the residual risk on the value of our vehicles.

Impact on Used Vehicle Sales. We generally bear the residual risk on the value of our vehicles. Beginning in the latter part of 2015 and continuing through 2016, we saw a weakening of conditions in the used vehicle sales market, which adversely affected used vehicle volume and pricing, especially for tractors. If the market for used vehicles further declines, or there is a concern regarding the quality, maintenance or condition of our vehicles, we may obtain lower sales proceeds upon the sale of used vehicles, which may impact the residual value estimates of our operating fleet.We sell our used vehicles through various channels, including retail sales centers, at our branch locations, through our website at www.UsedTrucks.Ryder.com, as well as through the wholesale market. Pricing and demand for used vehicles varies among selling channels, particularly between the retail and wholesale markets, as we generally obtain lower proceeds on vehicles sold through wholesale channels. If we are unable to meet our targeted fleet counts through our projected mix of retail versus wholesale sales, we may be required to sell more vehicles than planned through the wholesale market, which will impact our sales proceeds. In the latter part of 2016, we increased wholesaling activity which contributed to lower used vehicle sales results in 2016.

Impact on our Full Service Lease Product Line. Changes in residual values also impact the overall competitiveness of our full service lease product line, as estimated sales proceeds are a significant component of the overall price of the lease. Additionally, technology changes and sudden changes in supply and demand together with other market factors beyond our control vary from year to year and from vehicle to vehicle, making it difficult to accurately predict residual values used in calculating our depreciation expense. Although we have developed disciplines related to the management and maintenance of our vehicles designed to prevent these losses, there is no assurance that these practices will sufficiently reduce the residual risk. For a detailed discussion on our accounting policies and assumptions relating to depreciation and residual values, please see the “Critical Accounting Estimates - Depreciation and Residual Value Guarantees” section in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our inability to maintain appropriate commercial rental fleet utilization rates could adversely impact our profitability. In our commercial rental product line, we purchase vehicles and optimize the size and mix of the commercial rental fleet based upon our expectations of overall market demand. As a result, we bear the risk for ensuring that we have the proper vehicles in the right condition and location to effectively capitalize on market demand in order to drive the highest levels of utilization and revenue per unit. We employ a sales force and operations team on a full-time basis to manage and optimize this product line; however, their efforts may not be sufficient to overcome a significant change in market demand in the rental business. In contrast, in our full service lease product line, we typically do not purchase vehicles until we have an executed contract with a customer.

Failure to execute our growth strategy and develop, market and consistently deliver high-quality services that meet customer expectations, may cause our revenue and earnings to suffer.

Our long-term strategy is to grow our outsourcing services by targeting private fleets new to outsourcing and key industries with innovative solutions, operational excellence, and best-in-class talent and information technology. To successfully execute on this strategy, we must continue to focus on developing effective solutions that meet our existing and target customers’ evolving needs. This requires the skills, experience and efforts of our management team and continued investment in new technology, sales and marketing. Notwithstanding our efforts, these new or changed service offerings may not meet customer demands, prove to be profitable or succeed in the long term. If we do not make the right strategic investments to respond to current customer needs and establish and develop new customer relationships, our ability to develop and maintain a competitive advantage and continue to grow could be negatively affected.

Even with the right solutions, our growth strategy depends on delivering consistent operational excellence and strong customer service. If our services and solutions are not delivered as promised on a consistent basis or our customers have a negative experience or are otherwise dissatisfied, this can impair our relationships with new or existing customers and adversely affect our brand and reputation, which could, in turn, adversely affect revenue and earnings growth.

We may fail to respond adequately or in a timely manner to innovative changes in new technology in our industry. In recent years, our industry has been characterized by rapid changes in technology, leading to innovative transportation and logistics concepts that could change the way our industry does business. For example, new concepts are currently under development for more advanced electric vehicles, automatic or semi-automatic self-driving vehicles and drones. There may be additional innovations impacting the transportation, trucking and supply chain/logistics industries that we cannot yet foresee. Our inability to quickly adapt to and adopt new innovations in products and processes desired by our customers may result in a significant loss of demand for our service offerings. Our lease and rental fleets could become unfavorable with our customers or obsolete within a relatively short period of time, and we may no longer be able to find buyers for our used vehicles. An increase in customer use of electric vehicles could reduce the need for our vehicle maintenance services, diesel vehicles and related offerings. Likewise, self-driving vehicles may reduce the need for our dedicated service offerings, where, in addition to a vehicle, Ryder provides a driver as part of an integrated, full service customer solution.

Failure to maintain, upgrade and consolidate our information technology networks could adversely affect us.
The success of our strategic initiatives designed to increase our sales and capture a greater percentage of the outsourced transportation and supply chain markets is dependent in varying degrees on the timely delivery and the functionality of information technology systems to support them. Extended delays or cost overruns in securing, developing and otherwise implementing technology solutions to support the new business initiatives we are developing now, and will be developing in the future, would delay and possibly even prevent us from realizing the projected benefits of these initiatives. Advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments. In addition, our reputation with our customers may suffer if outages, system failures or delays in timely access to data occur in legacy information technology systems that support key business processes.

We are continuously upgrading and consolidating our systems, including enhancing legacy systems, replacing legacy systems with successor systems and acquiring new systems with newer functionality. These types of activities subject us to additional costs and inherent risks associated with replacing and modifying these systems, including impairment of our ability to provide our services, potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, demands on management time, and other risks and costs of delays or difficulties in transitioning to new systems or integrating new systems into our current systems. Our system implementations may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. In addition, the implementation of new technology systems may cause disruptions in our business operations and have an adverse effect on our business and operations, if not anticipated and appropriately mitigated.

We may be subject to cybersecurity risks, some of which are beyond our control.

We depend on the proper functioning and availability of our information systems in operating our business, including communications and data processing systems. It is important that the data processed by these systems remains confidential, as it often includes competitive customer information, confidential customer transaction data, employee records, and key financial and operational results and statistics. Portions of our business utilize information systems that provide critical services to both our employees and our customers. Cyber incidents that impact the availability, reliability, speed, accuracy, or other proper functioning of these systems could have a significant impact on our operations. Some of our software applications are utilized by third parties who provide outsourced administrative functions, which may increase the risk of a cybersecurity incident. Our information systems are protected through physical and software safeguards as well as backup systems considered appropriate by management. However, we may be unable to fully protect against the possibility of damage created by natural disasters, power loss, telecommunications failures, cybersecurity attacks and similar events in every potential circumstance that may arise.

We and the vehicle and equipment manufacturers in our FMS business rely on a small number of suppliers.
We buy vehicles and related equipment from a relatively small number of original equipment manufacturers (OEMs) in our FMS business. Some of our vehicle manufacturers rely on a small concentration of suppliers for certain vehicle parts, components and equipment. A discrete event in a particular OEM's or supplier's industry or location, or adverse regional economic conditions impacting an OEM or supplier's ability to provide vehicles or a particular component, could adversely impact our FMS business and profitability. In addition, our business and reputation could also be negatively impacted if any parts, components or equipment from one of our suppliers suffer from broad-based quality control issues or become the subject of a product recall and we are unable to obtain replacement parts from another supplier in a timely manner.
We derive a significant portion of our SCS and DTS segment revenue from a relatively small number of customers.

During 2016, sales to our top ten SCS customers representing all of the industry groups we service accounted for 55% of our SCS total revenue and 53% of our SCS operating revenue (revenue less fuel and subcontracted transportation). Additionally, approximately 44% of our global SCS revenue is from the automotive industry and is directly impacted by automotive vehicle production. Our top ten DTS customers accounted for 45% of DTS total revenue and 40% of DTS operating revenue. The loss of any of these customers or a significant reduction in the services provided to any of these customers could impact our operations and adversely affect our SCS or DTS segment financial results. While we continue to focus our efforts on diversifying our customer base, we may not be successful in doing so in the short-term.

We are also subject to credit risk associated with the concentration of our accounts receivable from our SCS and DTS customers. If one or more of these customers were to become bankrupt, insolvent or otherwise were unable to pay for the services provided by us, we may incur significant write-offs of accounts receivable or incur lease or asset impairment charges that could adversely affect our operating results and financial condition.

In addition, many of our customers operate in cyclical or seasonal industries, or operate in industries, including the food and beverage industry, that may be impacted by unanticipated weather, growing conditions (such as drought, insects or disease), natural disasters and other conditions over which we have no control. A downturn in our customers' business cycles or unanticipated events impacting their businesses could cause a reduction in freight volume shipped by those customers or a reduction in their need for our SCS or DTS services.

We operate in a highly competitive industry and our business may suffer if we are unable to adequately address potential downward pricing pressures and other competitive factors.

Numerous competitive factors could impair our ability to maintain our current profitability. These factors include the following:

- our inability to obtain expected customer retention levels or sales growth targets;
- we compete with many other transportation and logistics service providers, some of which have greater capital resources than we do;
- customers may choose to provide the services we provide for themselves;
- some of our competitors periodically reduce their prices to gain business, and some of our smaller competitors may have lower cost structures than we do, which may limit our ability to maintain or increase prices; and
- because cost of capital is a significant competitive factor, any increase in either the cost of our debt or equity as a result of reductions in our debt rating or stock price volatility could have a significant impact on our competitive position.

Our profitability could be negatively impacted if the key operational assumptions and pricing structure prove to be invalid.

Substantially all of our FMS lease and maintenance services and our DTS and SCS services are provided under contractual arrangements with our customers. The pricing structure for our lease and contract maintenance business is based on certain assumptions regarding capital costs, our ability to acquire equipment at competitive rates from our suppliers, maintenance expense over the life of the contract, particularly in light of new engine technologies, residual values, productivity, and the mix of fixed and variable costs, many of which are derived from historical data and trends. Under most of our SCS contracts, all or a portion of our pricing is based on certain assumptions regarding the scope of services, production volumes, operational efficiencies, the mix of fixed versus variable costs, productivity and other factors.

If we are incorrect in our assumptions, or as a result of subsequent changes in our customers' business needs or operations, or market forces that are outside of our control, these assumptions prove to be invalid, we could have lower margins than anticipated or be unable to offer competitive products and services. Although some of our SCS contracts provide for renegotiation upon a material change, there is no assurance that we will be successful in obtaining the necessary price adjustments.

We may face difficulties in attracting and retaining drivers and technicians.

Drivers. We hire drivers primarily for our DTS business segment. There is significant competition for qualified drivers in the transportation industry. Additionally, interventions and enforcement under the Federal Motor Carrier Safety Administration (FMCSA) Compliance, Safety, Accountability program may shrink the industry's pool of drivers as those drivers with unfavorable scores may no longer be eligible to drive for us. As a result of driver shortages, we could be required to increase driver compensation, let trucks sit idle, utilize lower quality drivers or face difficulty meeting customer demands, all of which could adversely affect our growth and profitability.

Technicians. Similarly, we hire technicians in our FMS business segment to perform vehicle maintenance services on our lease, contract maintenance and rental fleets. In recent years, there has been a decrease in the overall supply of skilled maintenance technicians, particularly new technicians with qualifications from technical programs and schools, which could make it more difficult to attract and retain skilled technicians.

We may face issues with our union employees.

We have 4,100 employees that are organized by labor unions whose wages and benefits are governed by 98 labor agreements that are renegotiated periodically. Some of the industries in which we currently engage have experienced a material work stoppage, slowdown or strike. Our business and operations could be impacted in the event of labor strikes or work stoppages involving our employees organized by labor unions in our FMS, DTS or SCS business segments.

We operate in a highly regulated industry, and costs of compliance with, or liability for violation of, existing or future regulations could significantly increase our costs of doing business.

Our business is subject to regulation by various federal, state and foreign governmental agencies. These agencies could institute new laws, rules or regulations or issue interpretation changes to existing regulations at any time. We have also seen an increase in proactive enforcement of existing regulations by some entities. Compliance with new laws, rules or regulations could substantially impair labor and equipment productivity, increase our costs or impact our ability to offer certain services. Conversely, our failure to comply with any applicable laws, rules or regulations to which we are subject, whether actual or alleged, could expose us to fines, penalties or potential litigation liabilities, including costs, settlements and judgments. We are also subject to reputational risk and other detrimental business consequences associated with noncompliance, such as employees, customers, agents, suppliers or other persons using our supply chain or assets to commit illegal acts, including the use of company assets for terrorist activities, or a breach of data privacy laws, the ongoing development of which in the U.S. and other jurisdictions may require changes to our data security policies and procedures to comply with new standards.

Department of Transportation Regulations. The U.S. Department of Transportation and various state and federal agencies exercise broad powers over our motor carrier operations, safety and the generation, handling, storage, treatment and disposal of waste materials. Any regulatory initiatives could increase costs or operating complexity.

Federal Motor Carrier Safety Administration (FMCSA) Compliance, Safety, Accountability Program. The FMCSA's Compliance, Safety, Accountability program may increase the cost for our customers given the potential impact to the driver pool, the additional hours of service requirements and additional investment in vehicle equipment. In addition, although Ryder's scores are below the thresholds that would trigger concern, if performance worsens, we could risk intervention that may create risk to our operating authority.

Labor and Employment Laws and Regulations. We maintain operations and employees in numerous states throughout the U.S., which are governed by federal and state labor and employment laws and regulations relating to compensation, benefits, healthcare and various workplace issues, all of which are applicable to our employees, and in some cases, independent contractors. State labor and employment rules vary from state to state and in some states, require us to meet much stricter standards than required in other states. Also, we are or may become subject to various class-action lawsuits related to wage and hour violations and improper pay in certain states. Unfavorable or unanticipated outcomes in any of the lawsuits could subject us to increased costs and impact our profitability.

International Laws Governing Countries Where We Have Operations. We currently operate in Canada, Europe, Mexico and Asia, where we are subject to compliance with local laws and regulatory requirements of foreign jurisdictions, including local tax laws, and compliance with the Foreign Corrupt Practices Act. Local laws and regulatory requirements may vary significantly from country to country. Customary levels of compliance with local regulations and the tolerance for noncompliance by regulatory authorities may also vary in different countries and geographical locations, and impact our ability to successfully implement our compliance and business initiatives in certain jurisdictions. Also, adherence to rigorous local laws and regulatory requirements may limit our ability to expand into certain international markets and result in residual liability for legal claims and tax disputes arising out of previously discontinued operations. In addition, uncertainty resulting from the new U.S. presidential administration and congress or the U.K.'s withdrawal from the European Union (Brexit) could adversely impact our (or our customers) business, financial condition and results of operations.

Laws Governing the Operations of our Customers. The U.S. government or governments of other nations that regulate the operations of our customers or any instituted laws relating to cross-border tariffs or other penalties could disrupt international or domestic supply chain operations. The laws could adversely affect the ability for customers to continue their international operations, which would have a negative impact on the demand for our services.

Environmental Regulations Regarding Vehicle Exhaust Emissions, Carbon Emissions and Climate Change May Negatively Impact our Business. Current and future regulations governing vehicle exhaust emissions could adversely impact our business. The Environmental Protection Agency (EPA) issued regulations that required progressive reductions in exhaust emissions from certain diesel engines. The 2015 regulations require reductions in carbon dioxide, which can only be reduced by improving fuel economy, and which require compliance with different emissions standards for both engines and chassis, based on vocation. OEMs may be required to install additional engine componentry, additional aerodynamics on chassis and low-rolling resistance tires to comply with the regulations, which may result in higher operating costs associated with the more complex componentry and a shorter useful tread life for tires and increased operating costs for customers and us.

Additional EPA regulations are expected to go into effect in 2017, with incremental changes through 2027, that may further impact our business. Although customers may see reduced fuel consumption under the new standards, this could be offset by higher maintenance costs per mile . Each of these requirements could also result in higher prices for vehicles, diesel engine fuel and vehicle maintenance, which are passed on to our customers, as well as higher maintenance costs and uncertainty as to reliability of the new engines, all of which could, over time, increase our costs and adversely affect our business and results of operations. The new technology may also impact the residual values of these vehicles when sold in the future.

Future regulation of other environmental matters, including potential limits on carbon emissions under climate-change legislation, could also impact our business and profitability if enacted.

Other Regulations. We may also become subject to new or more restrictive regulations imposed by the Occupational Safety and Health Administration, the Department of Homeland Security, U.S. Customs Service or other authorities.

New lease accounting rules may negatively impact customer demand for our lease products.

Demand for our full service lease product line is based in part on customers' decisions to lease rather than buy vehicles. A number of factors can impact whether customers decide to lease or buy vehicles, including economic benefits, accounting considerations, tax treatment, interest rates and operational flexibility. In February 2016, the Financial Accounting Standards Board issued its new accounting standards involving a new approach to lease accounting that differs from current practice. Most notably, the new approach eliminates off-balance sheet treatment of leases and require lessees to recognize a right-of-use asset and a lease liability on their balance sheets for all leases with a term of greater than 12 months. This new accounting standard must be implemented by companies as of January 1, 2019, although companies may opt to adopt the standard before this date. Implementation of the new standard could be perceived to make leasing a less attractive option for some of our full service lease customers.

Changes in income tax regulations for U.S. and multinational companies may increase our tax liability or adversely impact our tax structure.

The U.S. Congress, the Organization for Economic Co-operation and Development (OECD), the European Union, and other government agencies in jurisdictions in which we and our affiliates invest or do business have maintained a focus on the taxation of multinational companies. The OECD, which represents a coalition of member countries, is supporting changes to numerous long-standing tax principles through its base erosion and profit shifting (BEPS) project, which is focused on a number of issues, including the shifting of profits between affiliated entities in different tax jurisdictions. The European Union has a number of on-going tax initiatives. Additionally, President Trump and Congress have announced proposals for potential reform to the U.S. federal income tax rules for businesses. Certain of these proposals for reform, if enacted by the United States or by other countries in which we or our affiliates invest or do business, could adversely affect us. It is unclear what any actual legislation would provide or what its prospects for enactment would be.

Volatility in assumptions and asset values related to our pension plans may reduce our profitability and adversely impact current funding levels.

We historically sponsored a number of defined benefit plans for employees not covered by union-administered plans, including certain employees in foreign countries. The retirement benefits under the defined benefit plans are frozen for non-grandfathered and certain non-union employees. Our major defined benefit plans are funded, with trust assets invested in a diversified portfolio. The cash contributions made to our defined benefit plans are required to comply with minimum funding requirements imposed by employee benefit and tax laws. The projected benefit obligation and assets of our global defined benefit plans as of December 31, 2016, were $2.2 billion and $1.8 billion, respectively. The difference between plan obligations and assets, or the funded status of the plans, is a significant factor in determining pension expense and the ongoing funding requirements of those plans. Macroeconomic factors, as well as changes in investment returns and discount rates used to calculate pension expense and related assets and liabilities can be volatile and may have an unfavorable impact on our costs and funding requirements. Although we have actively sought to control increases in these costs and funding requirements through investment policies and plan contributions, as well as through a lump-sum buyout offer in 2015, there can be no assurance that we will succeed, and continued cost pressure could reduce the profitability of our business and negatively impact our cash flows.

We are subject to risk of multi-employer pension plan withdrawal.

We participate in certain U.S. multi-employer pension (MEP) plans that provide defined benefits to employees covered by collective bargaining agreements. In the event that we withdraw from participation in one of these plans, then applicable law could require us to make an additional lump-sum contribution to the plan. Our withdrawal liability for any MEP plan would depend on the extent of the plan's funding of vested benefits. Economic conditions have caused MEP plans to be significantly underfunded. As a result, although we have taken steps in recent years to withdraw from these MEP plans, we may still have liability for at least a period of time following our withdrawal. If the financial condition of the MEP plans were to continue to deteriorate, we could be subject to additional assessments.

We establish self-insurance reserves based on historical loss development factors, which could lead to adjustments in the future based on actual development experience.

We retain a portion of the accident risk under vehicle liability and workers' compensation insurance programs. Our self-insurance accruals are based on actuarially estimated, undiscounted cost of claims, which includes claims incurred but not reported. While we believe that our estimation processes are well designed, every estimation process is inherently subject to limitations. Fluctuations in the frequency or severity of accidents make it difficult to precisely predict the ultimate cost of claims. The actual cost of claims can be different than the historical selected loss development factors because of safety performance, payment patterns and settlement patterns. For a detailed discussion on our accounting policies and assumptions relating to our self-insurance reserves, please see the “Critical Accounting Estimates - Self-Insurance Accruals” section in Management's Discussion and Analysis of Financial Condition and Results of Operations.

Severe weather or other natural occurrences could result in significant business interruptions and expenditures in excess of available insurance coverage.

Our operations may be affected by external factors such as severe weather and other natural occurrences, including floods, fires, hurricanes and earthquakes at operating locations where we have vehicles, warehouses and other facilities. As a result, our vehicles and facilities may be damaged, our workforce may be unavailable, fuel costs may rise and significant business interruptions could occur. In addition, the performance of our vehicles could be adversely affected by extreme weather conditions. Insurance to protect against loss of business and other related consequences resulting from these natural occurrences is subject to coverage limitations, depending on the nature of the risk insured. This insurance may not be sufficient to cover all of our damages or damages to others and this insurance may not continue to be available at commercially reasonable rates. Even with insurance, if any natural occurrence leads to a catastrophic interruption of service, we may not be able to mitigate a significant interruption in operations.

Our international operations subject us to operational and financial risks.

We provide services outside of the U.S., which subjects our business to various risks, including changes in tariffs, trade restrictions, trade agreements and taxes; difficulties in managing or overseeing foreign operations and agents; foreign currency fluctuations and limitations on the repatriation of funds due to foreign currency controls; different liability standards; and intellectual property laws of countries that do not protect our rights in intellectual property to the same extent as the laws of the U.S. The occurrence or consequences of any of these factors may restrict our ability to operate in the affected region and/or decrease the profitability of our operations in that region. Also, if we do not correctly anticipate changes in international economic and political conditions, we may not alter our business practices in time to avoid adverse effects.

We may be negatively impacted by adverse events in the global credit and financial markets.

Significant uncertainty, volatility, disruptions or downturns in the global credit and financial markets may result in:

- unanticipated interest rate and currency exchange rate fluctuations;
- increased risk of default by counterparties under derivative instruments and hedging agreements; and
- diminished liquidity and credit availability resulting in higher short-term borrowing costs and more stringent borrowing terms.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
Our properties consist primarily of vehicle maintenance and repair facilities, warehouses and other real estate and improvements.
We maintain 606 FMS properties in the U.S., Puerto Rico and Canada; we own 402 of these and lease the remaining 204. Our FMS properties are primarily comprised of maintenance facilities generally including a repair shop, rental counter, fuel service island, administrative offices, and used vehicle retail sales centers.
Additionally, we manage 181 on-site maintenance facilities, located at customer locations.
We also maintain 189 locations in the U.S. and Canada in connection with our domestic SCS business. Almost all of our SCS locations are leased and generally include a warehouse and administrative offices.
We maintain 123 international locations (locations outside of the U.S. and Canada) for our international businesses. There are 63 locations in the U.K. and Germany, 57 locations in Mexico and 3 locations in Singapore. The majority of these locations are leased and may be a repair shop, warehouse or administrative office.
Additionally, we maintain 10 U.S. locations primarily used for Central Support Services. These facilities are generally administrative offices, of which we own three and lease the remaining seven.

ITEM 3. LEGAL PROCEEDINGS
We are involved in various claims, lawsuits and administrative actions arising in the normal course of our businesses. Some involve claims for substantial amounts of money and/or claims for punitive damages. While any proceeding or litigation has an element of uncertainty, management believes that the disposition of such matters, in the aggregate, will not have a material impact on our consolidated financial condition or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Ryder Common Stock Prices

	Stock Price		Dividends per
	High	Low	Common Share
2016			
First quarter	$66.36	45.12	0.41
Second quarter	71.90	56.98	0.41
Third quarter	69.78	59.57	0.44
Fourth quarter	85.42	62.03	0.44
2015			
First quarter	$99.32	82.29	0.37
Second quarter	100.64	86.75	0.37
Third quarter	93.86	72.66	0.41
Fourth quarter	76.33	53.54	0.41

Our common shares are listed on the New York Stock Exchange under the trading symbol "R." At January 31, 2017, there were 7,181 common stockholders of record and our stock price on the New York Stock Exchange was $77.60.

Performance Graph

The following graph compares the performance of our common stock with the performance of the Standard & Poor's 500 Composite Stock Index and the Dow Jones Transportation 20 Index for a five year period by measuring the changes in common stock prices from December 31, 2011 to December 31, 2016.

The stock performance graph assumes for comparison that the value of the Company's Common Stock and of each index was $100 on December 31, 2011, and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

Purchases of Equity Securities

The following table provides information with respect to purchases we made of our common stock during the quarter ended December 31, 2016:

	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program (2)	Maximum Number of Shares That May Yet Be Purchased Under the Anti-Dilutive Program (2)
October 1 through October 31, 2016	92	$ 70.88	—	1,620,104
November 1 through November 30, 2016	143,547	73.72	143,547	1,476,557
December 1 through December 31, 2016	13,288	79.96	12,855	1,463,702
Total	156,927	$ 74.24	156,402	

(1) During the three months ended December 31, 2016, we purchased an aggregate of 525 shares of our common stock in employee-related transactions. Employee-related transactions may include: (i) shares of common stock delivered as payment for the exercise price of options exercised or to satisfy the option holders' tax withholding liability associated with our share-based compensation programs and (ii) open-market purchases by the trustee of Ryder's deferred compensation plans relating to investments by employees in our stock, one of the investment options available under the plans.

(2) In December 2015, our Board of Directors authorized a new share repurchase program intended to mitigate the dilutive impact of shares issued under our employee stock plans. Under the December 2015 program, management is authorized to repurchase (i) up to 1.5 million shares of common stock, the sum of which will not exceed the number of shares issued to employees under the Company's employee stock plans from December 1, 2015 to December 9, 2017, plus (ii) 0.5 million shares issued to employees that were not purchased under the Company's previous share repurchase program. The December 2015 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases of common stock are made periodically in open-market transactions and are subject to market conditions, legal requirements and other factors. Management may establish prearranged written plans for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the December 2015 program, which allow for share repurchases during Ryder's quarterly blackout periods as set forth in the trading plan.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information should be read in conjunction with Items 7 and 8 of this report.

	Years ended December 31				
	2016	2015	2014	2013	2012
	(Dollars and shares in thousands, except per share amounts)				
Operating Data:					
Total Revenue	$6,786,984	6,571,893	6,638,774	6,419,285	6,256,967
Operating Revenue [1]	$5,790,897	5,561,077	5,252,217	4,965,818	4,770,259
Earnings from continuing operations	$264,640	305,989	220,225	243,275	200,668
Comparable earnings from continuing operations [2]	$290,357	327,331	296,868	256,640	226,584
Net earnings [3]	$262,477	304,768	218,341	237,871	209,748
Per Share Data:					
Earnings from continuing operations -Diluted	$4.94	5.73	4.14	4.63	3.90
Comparable earnings from continuing operations -Diluted [2]	$5.42	6.13	5.58	4.88	4.40
Net earnings -Diluted [3]	$4.90	5.71	4.11	4.53	4.08
Cash dividends	$1.76	1.56	1.42	1.30	1.20
Book value [4]	$38.39	37.15	34.30	35.56	28.56
Financial Data:					
Total assets	$10,902,454	10,952,580	9,837,776	9,156,175	8,439,027
Average assets [5]	$11,056,740	10,464,001	9,594,878	8,692,120	8,168,023
Return on average assets (%) [5]	2.4	2.9	2.3	2.7	2.6
Long-term debt	$4,599,864	4,868,097	4,681,240	4,010,810	3,577,289
Total debt	$5,391,274	5,502,627	4,717,524	4,283,013	3,982,044
Shareholders' equity[4]	$2,052,275	1,987,111	1,819,087	1,896,561	1,467,237
Debt to equity (%) [4]	263	277	259	226	271
Average shareholders' equity[4], [5]	$2,052,371	1,894,917	1,925,824	1,593,942	1,405,640
Adjusted return on average capital (%) [5], [6]	4.8	5.8	5.8	5.8	5.7
Net cash provided by operating activities from continuing operations	$1,601,022	1,441,788	1,382,818	1,251,811	1,160,175
Net cash (used)/provided by financing activities from continuing operations	$(185,922)	731,485	311,650	347,070	333,805
Net cash used in investing activities from continuing operations	$(1,405,833)	(2,161,355)	(1,704,510)	(1,603,818)	(1,504,273)
Free cash flow [7]	$193,675	(727,714)	(315,116)	(339,596)	(488,373)
Capital expenditures paid	$1,905,157	2,667,978	2,259,164	2,122,628	2,133,235
Other Data:					
Average common shares — Diluted	53,361	53,260	53,036	52,071	50,740
Number of vehicles — Owned and leased	185,100	185,200	174,100	172,100	172,500
Average number of vehicles — Owned and leased	185,400	180,500	172,800	171,200	173,700
Number of employees	34,500	33,100	30,600	28,900	27,700

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(1) Non-GAAP financial measure. Refer to the "Non-GAAP Financial Measures" section in Item 7 for a reconciliation of total revenue to operating revenue, as well as the reasons management believes these measures are important to investors.

(2) Non-GAAP financial measures. Refer to the "Non-GAAP Financial Measures" section in Item 7 of this report for a reconciliation of net earnings from continuing operations to comparable earnings from continuing operations and net earnings from continuing operations per diluted common share to comparable earnings per diluted common

share, as well as the reasons management believes these measures are important to investors.

(3) Net earnings in 2016, 2015, 2014, 2013 and 2012, included (losses)/earnings from discontinued operations of $(2) million, or $(0.04) per diluted common share, $(1) million, or $(0.02) per diluted common share, $(2) million, or $(0.03) per diluted common share, $(5) million, or $(0.10) per diluted common share, and $9 million, or $0.18 per diluted common share, respectively.

(4) Shareholders’ equity at December 31, 2016, 2015, 2014, 2013 and 2012, reflected cumulative after-tax equity charges of $627 million, $577 million, $584 million, $474 million, and $645 million, respectively, related to our pension and postretirement plans.

(5) Amounts were computed using an 8-point average based on quarterly information.

(6) Non-GAAP financial measure. Refer to the “Non-GAAP Financial Measures” section in Item 7 of this report for a reconciliation of the non-GAAP elements of this calculation and a numerical reconciliation of net earnings to adjusted net earnings and average total debt and average shareholders' equity to adjusted average total capital used to calculate adjusted return on average capital, as well as the reasons management believes these measures are important to investors.

(7) Non-GAAP financial measure. Refer to the “Non-GAAP financial measures” section in Item 7 of this report for a reconciliation of net cash provided by operating activities to free cash flow, as well as the reasons why management believes this measure is important to investors.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with our consolidated financial statements and related notes contained in Item 8 of this report on Form 10-K. The following MD&A describes the principal factors affecting results of operations, financial resources, liquidity, contractual cash obligations, and critical accounting estimates. The information presented in the MD&A is for the years ended December 31, 2016, 2015 and 2014 unless otherwise noted.

OVERVIEW

Ryder System, Inc. (Ryder) is a global leader in transportation and supply chain management solutions. Our operating segments are aggregated into reportable business segments based upon similar economic characteristics, products, services, customers and delivery methods. We report our financial performance based on three business segments: (1) FMS, which provides full service leasing, commercial rental, contract maintenance, and contract-related maintenance of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) DTS, which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) SCS, which provides comprehensive supply chain solutions including distribution and transportation services in North America and Asia. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment.

The FMS business, our largest segment, had total revenue (net of intercompany eliminations) and assets in 2016 of \$4.1 billion and \$10 billion, respectively, representing 61% of our consolidated revenue and 91% of consolidated assets. DTS total revenue and assets in 2016 were \$1.0 billion and \$256 million, respectively, representing 15% of our consolidated revenue and 2% of consolidated assets. SCS total revenue and assets in 2016 were \$1.6 billion and \$713 million, respectively, representing 24% of our consolidated revenue and 7% of consolidated assets.

We operate in highly competitive markets. Our customers select us based on numerous factors including service quality, price, technology and service offerings. As an alternative to using our services, customers may choose to provide these services for themselves, or may choose to obtain similar or alternative services from other third-party vendors. Our customer base includes enterprises operating in a variety of industries including food and beverage service (22%), transportation and warehousing (19%), automotive (11%), retail and consumer goods (10%), industrial (8%), housing (8%), technology (7%), business and personal services (6%) and other (9%).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following discussion provides a summary of financial highlights that are discussed in more detail throughout our MD&A and within the Notes to Consolidated Financial Statements:

	2016	2015	2014	Change 2016/2015	2015/2014
	(Dollars in thousands, except per share amounts)				
Total revenue	$ 6,786,984	6,571,893	6,638,774	3%	(1)%
Operating revenue [(1)]	5,790,897	5,561,077	5,252,217	4%	6%
Earnings before income taxes (EBT)	$ 406,381	469,215	338,267	(13)%	39%
Comparable EBT [(2)]	448,833	505,960	462,991	(11)%	9%
Earnings from continuing operations	264,640	305,989	220,225	(14)%	39%
Comparable earnings from continuing operations [(2)]	290,357	327,331	296,868	(11)%	10%
Net earnings	262,477	304,768	218,341	(14)%	40%
Earnings per common share — Diluted					
Continuing operations	$ 4.94	5.73	4.14	(14)%	38%
Comparable [(2)]	5.42	6.13	5.58	(12)%	10%
Net earnings	4.90	5.71	4.11	(14)%	39%

(1) Non-GAAP financial measure. Refer to the“Non-GAAP Financial Measures” section of this MD&A for a reconciliation of total revenue to operating revenue and the reasons why management believes this measure is important to investors.

(2) Non-GAAP financial measures. Refer to the “Non-GAAP Financial Measures” section for a reconciliation of EBT, net earnings and earnings per diluted common share to the comparable measures and the reasons why management believes these measures are important to investors.

In 2016, total revenue increased 3% to $6.79 billion and operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 4% to $5.79 billion. Total and operating revenue increased due to growth in the full service lease fleet and higher prices on full service lease replacement vehicles and new business, increased volumes and higher pricing in SCS and DTS. These increases were partially offset by lower demand in commercial rental and negative impacts from foreign exchange. Total revenue was also negatively impacted by lower prices on fuel passed through to customers, partially offset by increased subcontracted transportation in DTS. EBT decreased 13% in 2016, reflecting lower used vehicle and commercial rental results, partially offset by higher full service lease results in FMS and margin growth in SCS and DTS.

Cash provided by operating activities from continuing operations increased to $1.60 billion in 2016 compared with $1.44 billion in 2015. Free cash flow from continuing operations (a non-GAAP financial measure) increased to positive $194 million in 2016 from negative $728 million in 2015 reflecting lower capital expenditures.

Capital expenditures decreased 35% to $1.76 billion in 2016, reflecting planned lower investments in the full service lease and commercial rental fleets. Our debt balance decreased 2% to $5.39 billion at December 31, 2016, due to lower financing needs to fund capital expenditures. Our debt to equity ratio decreased to 263% from 277% in 2015, largely driven by positive free cash flow and lower borrowings to fund capital expenditures.

We increased our annual dividend by 7% to $1.76 per share of common stock during 2016.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

2017 Outlook

In 2017, we expect to deliver another year of solid revenue growth, however, we expect continued challenges in the used vehicle sales environment to result in lower earnings. While future pricing will be determined by the market, our forecast assumes average vehicle pricing will decline by double digits in 2017. We have also accelerated depreciation on vehicles in operation that are expected to be available for sale through mid-2018 to reflect this lower outlook. We anticipate that secular trends favoring outsourcing will drive continued revenue and earnings growth in our contractual businesses across all three segments and expect lease fleet growth of 3,500 vehicles. We expect better commercial rental results reflecting improved utilization in 2017. In addition to earnings growth from our contractual products and improved rental performance, we also anticipate earnings to benefit from workforce reductions taken in late 2016 and other cost-savings actions.

We expect cash provided by operating activities from continuing operations to increase approximately $100 million to $1.7 billion in 2017. We also expect free cash flow to increase $60 million to $250 million in 2017, reflecting increased cash from operations partially offset by higher capital spending. Given the increase in free cash flow, we expect to reduce our leverage to the middle of our long-term range, supporting our ability to continue anti-dilutive share repurchases.

We forecast 2017 earnings from continuing operations of $4.78 to $5.08 per diluted share, compared with $4.94 per diluted share in 2016, and comparable earnings from continuing operations of $5.10 to $5.40 per diluted share, compared with $5.42 per diluted share in 2016. Comparable earnings exclude non-operating pension costs of $0.32 per diluted share in 2017, as well as non-operating pension, restructuring and other net charges of $0.48 in 2016. Total revenue for 2017 is expected to be up 4% to approximately $7 billion. Operating revenue for 2017 is forecast to be up 3% to approximately $6 billion.

Free cash flow, comparable earnings from continuing operations per diluted share and operating revenue are non-GAAP financial measures. Refer to the "Non-GAAP financial measures" section of this MD&A for a description of these measures, reconciliations to their comparable GAAP measures and the reasons why management believes these measures are important to investors.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

FULL YEAR CONSOLIDATED RESULTS

Revenue and cost of revenue by source

Total revenue increased 3% in 2016 to $6.79 billion and decreased 1% in 2015 to $6.57 billion. Operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 4% in 2016 to $5.79 billion and increased 6% in 2015 to $5.56 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2016		2015	
	Total	Operating	Total	Operating
Organic, including price and volume	6%	5%	7%	8%
Fuel	(2)	—	(6)	—
Foreign exchange	(1)	(1)	(2)	(2)
Total increase/(decrease)	3%	4%	(1)%	6%

Lease and Rental

	2016	2015	2014	Change 2016/2015	2015/2014
	(Dollars in thousands)				
Lease and rental revenues	$3,170,952	3,121,553	2,939,422	2%	6%
Cost of lease and rental	2,234,284	2,153,450	2,036,881	4%	6%
Gross margin	936,668	968,103	902,541	(3)%	7%
Gross margin %	30 %	31 %	31 %		

Lease and rental revenues represent full service lease and commercial rental product offerings within our FMS business segment. Revenues increased 2% in 2016 to $3.17 billion and increased 6% in 2015 to $3.12 billion. In 2016, the increase was due to higher full service lease revenue, driven by growth in the average full service lease fleet (up 4% in 2016) and higher prices on replacement vehicles. Lease and rental revenues in 2016 were negatively impacted by lower commercial rental revenue reflecting weaker demand. Foreign exchange negatively impacted revenue growth by 100 basis points. In 2015, the increase was primarily driven by a larger full service lease fleet, higher prices on full service lease vehicles and increased commercial rental revenue. Foreign exchange negatively impacted 2015 lease and rental revenue growth by 200 basis points.

Cost of lease and rental represents the direct costs related to lease and rental revenues. These costs are comprised of depreciation of revenue earning equipment, maintenance costs (primarily repair parts and labor), and other fixed costs such as licenses, insurance and operating taxes. Cost of lease and rental excludes interest costs from vehicle financing. Cost of lease and rental were $2.2 billion in both 2016 and 2015. In 2016, cost of lease and rental reflected higher depreciation and maintenance costs from a larger average lease fleet and accelerated depreciation on vehicles expected to be made available for sale through June 2018 of $10 million, offset by lower depreciation and maintenance on a smaller average rental fleet (down 8% in 2016). Changes in estimated residual values and useful lives of revenue earning equipment effective January 1, 2016, benefited cost of lease and rental by $35 million in 2016. In 2015, the increase was due to higher depreciation, insurance and maintenance costs resulting from a 4% larger average lease fleet and a 7% larger average rental fleet. Cost of lease and rental benefited by $40 million in 2015 due to changes in estimated residual values and useful lives of revenue earning equipment effective January 1, 2015.

Lease and rental gross margin decreased 3% to $937 million and gross margin as a percentage of revenue decreased to 30% in 2016 due to lower commercial rental demand, partially offset by lease fleet growth, as well as benefits from improved residual values. Gross margin increased 7% to $968 million and gross margin as a percentage of revenue remained at 31% in 2015 due to higher per-vehicle pricing and benefits from improved vehicle residual values.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Services

	2016	2015	2014	Change 2016/2015	2015/2014
	(Dollars in thousands)				
Services revenue	$3,152,294	2,912,063	2,911,465	8%	—%
Cost of services	2,602,978	2,413,156	2,447,867	8%	(1)%
Gross margin	549,316	498,907	463,598	10%	8%
Gross margin %	17 %	17 %	16 %		

Services revenue represents all the revenues associated with our DTS and SCS business segments as well as contract maintenance, contract-related maintenance and fleet support services associated with our FMS business segment. Services revenue increased 8% in 2016 due to new business, increased volumes and higher pricing in the DTS and SCS segments. The contract-related maintenance and contract maintenance product lines benefited from growth in fleet size, and contract-related maintenance revenue also increased from higher volumes. These increases were partially offset by lower fuel prices passed through to our DTS and SCS customers. Services revenue in 2015 was consistent with the prior year as new business, increased pricing and higher volumes in our SCS and DTS business segments were offset by lower fuel prices and negative impacts from foreign exchange. Foreign exchange negatively impacted revenue growth by 200 basis points in both periods.

Cost of services represents the direct costs related to services revenue and is primarily comprised of salaries and employee-related costs, subcontracted transportation (purchased transportation from third parties), maintenance costs and fuel. Cost of services increased 8% in 2016 to $2.6 billion due to higher volumes, partially offset by lower fuel and insurance costs. Foreign exchange reduced cost of services by 100 basis points in 2016. Cost of services decreased 1% in 2015 to $2.41 billion due to lower fuel costs as well as lower shutdown costs in our SCS business, partially offset by increased insurance and compensation-related costs. The 2015 decrease also reflects higher prior-year start-up and severe winter weather-related costs.

Services gross margin increased 10% to $549 million in 2016, reflecting benefits from higher pricing, new business and higher volumes in our DTS and SCS segments. Services gross margin increased 8% to $499 million in 2015 due to higher revenue. Services gross margin as a percentage of revenue remained at 17% in 2016 and increased to 17% in 2015 due to lower costs.

Fuel

	2016	2015	2014	Change 2016/2015	2015/2014
	(Dollars in thousands)				
Fuel services revenue	$463,738	538,277	787,887	(14)%	(32)%
Cost of fuel services	448,306	519,843	768,292	(14)%	(32)%
Gross margin	15,432	18,434	19,595	(16)%	(6)%
Gross margin %	3 %	3 %	2 %		

Fuel services revenue decreased 14% in 2016 to $464 million and decreased 32% in 2015 to $538 million. In both 2016 and 2015, the revenue decrease was due to lower fuel prices passed through to customers. In addition, foreign exchange negatively impacted revenue growth by 100 basis points in 2015. Foreign exchange did not significantly impact revenue growth in 2016.

Cost of fuel services includes the direct costs associated with providing our customers with fuel. These costs include fuel, salaries and employee-related costs of fuel island attendants and depreciation of our fueling facilities and equipment. Cost of fuel services decreased 14% in 2016 to $448 million and decreased 32% in 2015 to $520 million due to lower fuel prices.

Fuel services gross margin decreased 16% to $15 million in 2016 and decreased 6% to $18 million in 2015. Fuel services gross margin as a percentage of revenue remained at 3% in 2016 and increased to 3% in 2015. Fuel is largely a pass-through to customers for which we realize minimal changes in margin during periods of steady market fuel prices. However, fuel services margin is impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel is established based on trailing market fuel costs.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

	2016	2015	2014	Change 2016/2015	2015/2014
	(In thousands)				
Other operating expenses	$113,461	117,082	115,808	(3)%	1%

Other operating expenses include costs related to our owned and leased facilities within the FMS business segment such as depreciation, rent, insurance, utilities and taxes. These facilities are utilized to provide maintenance to our lease, rental, contract maintenance and fleet support services customers. Other operating expenses decreased 3% to $113 million in 2016, due to lower utility and maintenance costs for FMS facilities. Other operating expenses increased 1% to $117 million in 2015.

	2016	2015	2014	Change 2016/2015	2015/2014
	(Dollars in thousands)				
Selling, general and administrative expenses (SG&A)	$842,697	844,497	816,975	—%	3%
Percentage of total revenue	12 %	13 %	12 %		

SG&A expenses were down slightly at $843 million in 2016 and increased 3% to $844 million in 2015. SG&A expenses as a percent of total revenue decreased to 12% in 2016 and increased to 13% in 2015. Lower compensation-related expenses, marketing-related costs, professional fees and the effects from foreign exchange in SG&A expenses in 2016, were offset by increased pension expense and information technology costs. Pension expense, which primarily impacts SG&A expenses, increased $20 million in 2016 due to the impact of a lower asset return assumption and a higher discount rate as well as a $8 million one-time charge in the second quarter to reflect pension benefit improvements made in 2009 that were not fully reflected in our pension benefit obligation in prior years. The increase in 2015 primarily reflects higher professional fees and compensation-related expenses, strategic investments in information technology and a settlement of a customer-extended insurance claim partially offset by foreign exchange. Foreign exchange reduced growth in SG&A expenses by 100 basis points in 2016 and 200 basis points in 2015.

	2014
	(In thousands)
Pension lump sum settlement expense	$ 97,231

In 2014, we reduced the size and potential volatility of our U.S. pension plan obligation by offering former employees a one-time option to receive a lump sum distribution of their vested benefits. The transaction resulted in a non-cash pension settlement loss of $97 million. Refer to Note 22, “Employee Benefit Plans,” in the Notes to Consolidated Financial Statements for additional information.

	2016	2015	2014	Change 2016/2015	2015/2014
	(In thousands)				
Used vehicle sales, net	$972	99,853	116,060	(99)%	(14)%

Used vehicle sales, net includes gains and selling costs from sales of used vehicles as well as the write-downs of vehicles classified as held for sale to fair market value. Used vehicle sales, net decreased 99% to $1 million in 2016, due to a drop in the market value of trucks and tractors, which has resulted in lower gains on sales of used vehicles and higher fair market value write-downs. Average proceeds per unit decreased in 2016 from the prior year reflecting a 14% decrease in tractor proceeds per unit and a 1% decrease in truck proceeds per unit. We expect used vehicle pricing to continue declining through 2017. Used vehicle sales, net decreased 14% to $100 million in 2015 due to lower sales volume and higher fair market value write-downs, partially offset by higher average proceeds per unit.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

				Change	
	2016	2015	2014	2016/2015	2015/2014
	(Dollars in thousands)				
Interest expense	$147,843	150,434	144,739	(2)%	4%
Effective interest rate	2.7 %	2.9 %	3.1 %		

Interest expense decreased 2% to $148 million in 2016, reflecting a lower effective interest rate, partially offset by higher average outstanding debt. Interest expense increased 4% to $150 million in 2015, reflecting higher average outstanding debt, partially offset by a lower effective interest rate. The increase in average outstanding debt in 2015 reflects planned higher vehicle capital spending in that year. The lower effective interest rate in both years reflects the replacement of higher interest rate debt with debt issuances at lower rates.

	2016	2015	2014
	(In thousands)		
Miscellaneous income, net	$13,068	10,156	13,613

Miscellaneous income, net consists of investment income on securities used to fund certain benefit plans, interest income, gains from sales of operating property, foreign currency transaction gains and other non-operating items. The increase in 2016 is primarily driven by increased rabbi trust investment income. The decrease in 2015 reflects a gain on a contract settlement that benefited 2014.

	2016	2015	2014
	(In thousands)		
Restructuring and other charges, net	$5,074	14,225	2,387

During the fourth quarter of 2016 and 2015, we approved plans to reduce our workforce in multiple locations as a result of cost containment actions. These actions resulted in pre-tax charges of $5 million in 2016 and $9 million in 2015. The workforce reduction approved in 2016 was substantially completed in December 2016 and is expected to result in annual cost savings of approximately $20 million. The workforce reduction approved in 2015 was completed during 2016. During the fourth quarter of 2015, we also committed to a plan to divest our Ryder Canadian Retail Shippers Association Logistics operations and shutdown our Ryder Container Terminals business in Canada. The sale and shutdown were completed in 2016. We recognized charges in 2015 for this action of $3 million for employee termination costs and $2 million for asset impairment to adjust assets held for sale to fair value. Refer to Note 4, “Restructuring and Other Charges” in the Notes to Consolidated Financial Statements for further discussion.

				Change	
	2016	2015	2014	2016/2015	2015/2014
	(Dollars in thousands)				
Provision for income taxes	$141,741	163,226	118,042	(13)%	38%
Effective tax rate from continuing operations	34.9 %	34.8 %	34.9 %		

Our provision for income taxes and effective income tax rates from continuing operations are impacted by such items as enacted tax law changes, settlement of tax audits and the reversal of reserves for uncertain tax positions due to the expiration of statutes of limitation. In the aggregate, these items reduced the effective rate by 0.8% in 2016, 2.2% in 2015 and 1.8% in 2014. The other components of the effective tax rate in 2016 and 2015 remained consistent with the prior year.

On December 18, 2015, the U.S. enacted the Protecting Americans from Tax Hikes Act (PATH). This enactment along with the Tax Increase Prevention Act of 2014, the American Taxpayer Relief Act of 2012, the 2010 Tax Relief, and the Unemployment Insurance Reauthorization and Job Creation Act, expanded and extended bonus depreciation to qualified property placed in service during 2010 through 2019. These changes will continue to significantly reduce our U.S. federal tax payments.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

FULL YEAR OPERATING RESULTS BY BUSINESS SEGMENT

	2016	2015	2014	Change 2016/2015	2015/2014
	(In thousands)				
Revenue:					
Fleet Management Solutions	$4,556,194	4,545,692	4,655,758	— %	(2)%
Dedicated Transportation Solutions	1,020,895	895,538	899,802	14	—
Supply Chain Solutions	1,637,850	1,547,763	1,561,347	6	(1)
Eliminations	(427,955)	(417,100)	(478,133)	(3)	13
Total	$6,786,984	6,571,893	6,638,774	3 %	(1)%
Operating Revenue: [1]					
Fleet Management Solutions	$3,947,740	3,846,046	3,630,521	3 %	6 %
Dedicated Transportation Solutions	774,319	714,453	661,228	8	8
Supply Chain Solutions	1,352,077	1,256,309	1,201,250	8	5
Eliminations	(283,239)	(255,731)	(240,782)	(11)	(6)
Total	$5,790,897	5,561,077	5,252,217	4 %	6 %
EBT:					
Fleet Management Solutions	$370,754	462,109	433,736	(20)%	7 %
Dedicated Transportation Solutions	63,611	45,800	44,556	39	3
Supply Chain Solutions	105,561	93,754	77,800	13	21
Eliminations	(50,148)	(47,193)	(41,361)	(6)	(14)
	489,778	554,470	514,731	(12)	8
Unallocated Central Support Services	(40,945)	(48,510)	(51,740)	16	6
Non-operating pension costs	(29,728)	(19,186)	(9,768)	(55)	(96)
Restructuring and other charges, net and other items	(12,724)	(17,559)	(114,956)	NM	NM
Earnings from continuing operations before income taxes	$406,381	469,215	338,267	(13)%	39 %

(1) Non-GAAP financial measures. Refer to the “Non-GAAP Financial Measures” section of this MD&A for a reconciliation of total revenue to operating revenue, and segment total revenue to segment operating revenue for FMS, DTS and SCS, as well as the reasons why management believes these measures are important to investors.

As part of management’s evaluation of segment operating performance, we define the primary measurement of our segment financial performance as EBT from continuing operations, which includes an allocation of Central Support Services (CSS), and excludes non-operating pension costs, restructuring and other charges, net, as described in Note 4, “Restructuring and Other Charges,” and the items discussed in Note 24, “Other Items Impacting Comparability,” in the Notes to Consolidated Financial Statements. CSS represents those costs incurred to support all business segments, including human resources, finance, corporate services and public affairs, information technology, health and safety, legal, marketing and corporate communications.

The objective of the EBT measurement is to provide clarity on the profitability of each business segment and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. Segment 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. Certain costs are not attributable to any segment and remain unallocated in CSS, including costs for investor relations, public affairs and certain executive compensation. See Note 27, “Segment Reporting,” in the Notes to

Consolidated Financial Statements for a description of the methodology for allocating the remainder of CSS costs to the business segments.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Inter-segment revenue and EBT are accounted for at rates similar to those executed with third parties. EBT related to inter-segment equipment and services billed to customers (equipment contribution) are included in DTS and SCS and then eliminated (presented as “Eliminations” in the table above). Refer to Note 27, "Segment Reporting" in the Notes to Consolidated Financial Statements for additional information.

The following table sets forth equipment contribution included in EBT for our DTS and SCS business segments:

	2016	2015	2014	Change 2016/2015	Change 2015/2014
	(Dollars in thousands)				
Equipment Contribution:					
Dedicated Transportation Solutions	$32,731	32,471	28,436	1%	14%
Supply Chain Solutions	17,417	14,722	12,925	18	14
Total	$50,148	47,193	41,361	6%	14%

The following table provides items excluded from our segment EBT measure and their classification within our Consolidated Statements of Earnings:

Description	Consolidated Statements of Earnings Line Item	2016	2015	2014
		(In thousands)		
Non-operating pension costs	SG&A	$(29,728)	(19,186)	(9,768)
Restructuring and other charges, net [1]	Restructuring and other charges	(5,074)	(14,225)	(2,387)
Consulting fees [2]	SG&A	—	(3,843)	(400)
Pension-related adjustments [3]	SG&A	(7,650)	509	(12,564)
Pension lump sum settlement expense [3]	Pension lump sum settlement expense	—	—	(97,231)
Acquisition-related tax adjustment [2]	SG&A	—	—	(1,808)
Acquisition transaction costs	SG&A	—	—	(566)
		$(42,452)	(36,745)	(124,724)

(1) See Note 4, “Restructuring and Other Charges,” in the Notes to Consolidated Financial Statements for additional information.

(2) See Note 24, “Other Items Impacting Comparability,” in the Notes to Consolidated Financial Statements for additional information.

(3) See Note 22, “Employee Benefit Plans,” in the Notes to Consolidated Financial Statements for additional information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Fleet Management Solutions

	2016	2015	2014	Change 2016/2015	2015/2014
	(Dollars in thousands)				
Full service lease	$2,573,638	2,406,711	2,276,381	7%	6%
Contract maintenance	199,923	192,470	184,591	4	4
Contractual revenue	2,773,561	2,599,181	2,460,972	7	6
Commercial rental	846,331	940,045	876,994	(10)	7
Contract-related maintenance	249,806	229,195	221,491	9	3
Other	78,042	77,625	71,064	1	9
Fuel services revenue	608,454	699,646	1,025,237	(13)	(32)
FMS Total revenue (1)	$4,556,194	4,545,692	4,655,758	—%	(2)%
FMS Operating revenue (2)	$3,947,740	3,846,046	3,630,521	3	6
FMS EBT	$370,754	462,109	433,736	(20)%	7%
FMS Segment EBT as a % of FMS total revenue	8.1 %	10.2 %	9.3 %	(210) bps	90 bps
FMS Segment EBT as a % of FMS operating revenue (1)	9.4 %	12.0 %	11.9 %	(260) bps	10 bps

(1) Includes intercompany fuel sales from FMS to DTS and SCS.

(2) Non-GAAP financial measures. Reconciliations of FMS total revenue to FMS operating revenue, and FMS EBT as a % of FMS total revenue to FMS EBT as a % of FMS operating revenue, as well as the reasons why management believes these measures are important to investors are included in the “Non-GAAP Financial Measures” section of this MD&A.

FMS total revenue increased slightly to $4.56 billion in 2016 and decreased 2% in 2015 to $4.55 billion. FMS operating revenue (a non-GAAP measure excluding fuel) increased 3% in 2016 to $3.95 billion and increased 6% in 2015 to $3.85 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2016 Total	2016 Operating (1)	2015 Total	2015 Operating (1)
Organic, including price and volume	3%	4%	7%	8%
Fuel	(2)	—	(7)	—
Foreign exchange	(1)	(1)	(2)	(2)
Total (decrease)/increase	—%	3%	(2)%	6%

(1) Non-GAAP financial measures. A reconciliation of FMS total revenue to FMS operating revenue as well as the reasons why management believes these measures are important to investors are included in the "Non-GAAP Financial Measures" section of this MD&A.

2016 versus 2015

Full service lease revenue increased 7% in 2016, reflecting a larger average fleet size and higher prices on replacement vehicles. Foreign exchange negatively impacted full service lease revenue growth by 100 basis points. The average number of full service lease vehicles increased 4% from the prior year, reflecting continued strong sales activity. We expect favorable full service lease comparisons to continue next year primarily due to strong 2016 sales activity, as well as 2017 expected sales. Commercial rental revenue decreased 10% in 2016 due to lower demand. Foreign exchange negatively impacted commercial rental revenue growth by 100 basis points. We expect unfavorable commercial rental comparisons next year based on a weaker demand environment. Contract maintenance revenue increased 4% in 2016, primarily due to higher volumes and new business. Contract-related maintenance revenue increased 9% in 2016, reflecting favorable impacts from growth in the full service lease fleet and higher volumes. Fuel services revenue declined 13% in 2016 due to lower prices passed through to customers.

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FMS EBT decreased 20% in 2016 to $371 million, reflecting lower used vehicle sales results, decreased commercial rental performance and accelerated depreciation on vehicles expected to be made available for sale through June 2018 of $10 million, partially offset by higher full service lease performance and lower overhead costs. Used vehicle sales results declined due to lower proceeds per unit, primarily with tractors and higher fair market value write-downs on vehicles held for sale. Commercial rental performance declined 16% in 2016 reflecting decreased demand. Rental power fleet utilization was 74.7% in 2016, down from 76.5% in 2015, on a 7% smaller average rental power fleet. Full service lease comparisons benefited from growth in fleet size and higher per-vehicle pricing. Full service lease and commercial rental results benefited from lower depreciation of $35 million due to residual value changes implemented January 1, 2016.

2015 versus 2014

Full service lease revenue increased 6% in 2015 due to lease fleet growth and higher pricing on replacement vehicles. Foreign exchange negatively impacted full service lease revenue growth by 200 basis points. The average number of full service lease vehicles increased 4% from the prior year. Commercial rental revenue increased 7% in 2015, reflecting higher North American demand and increased pricing (up 3% in 2015). Foreign exchange negatively impacted commercial rental revenue growth by 200 basis points. Contract maintenance revenue increased 4% in 2015, primarily due to higher volumes and new business. Contract-related maintenance revenue increased 3% in 2015, reflecting higher volumes and new business. Both contract-related maintenance and contract maintenance were positively impacted in 2015 by the full year impact of the 2014 acquisition of Bullwell Trailer Solutions. Fuel services revenue declined 32% in 2015 due to lower prices passed through to customers.

FMS EBT increased 7% in 2015 to $462 million primarily due to higher full service lease results and strong commercial rental performance, partially offset by lower used vehicle sales results. Full service lease comparisons benefited from growth in fleet size and higher per-vehicle pricing. Commercial rental performance improved 8% in 2015 from the prior year, reflecting increased North American demand and higher pricing. Rental power fleet utilization was 76.5% in 2015, down from 77.6% in 2014 on an 8% larger average rental power fleet. Full service lease and commercial rental results benefited from lower depreciation of $40 million due to residual value changes implemented January 1, 2015. Used vehicle sales results decreased due to lower volume, partially offset by higher proceeds per unit.

The following table provides commercial rental statistics on our global fleet:

	2016	2015	2014	Change 2016/2015	Change 2015/2014
	(Dollars in thousands)				
Rental revenue from non-lease customers	$528,892	571,985	523,063	(8)%	9%
Rental revenue from lease customers [1]	$317,439	368,060	353,931	(14)%	4%
Average commercial rental power fleet size – in service [2], [3]	31,500	33,800	31,200	(7)%	8%
Commercial rental utilization – power fleet [2]	74.7 %	76.5 %	77.6 %	(180) bps	(110) bps

(1) Represents revenue from rental vehicles provided to our existing full service lease customers, generally in place of a lease vehicle.

(2) Number of units rounded to nearest hundred and calculated using quarterly average unit counts.

(3) Excluding trailers.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Our global fleet of owned and leased revenue earning equipment and contract maintenance vehicles is summarized as follows (number of units rounded to the nearest hundred):

	2016	2015	2014	Change 2016/2015	2015/2014
End of period vehicle count					
By type:					
Trucks(1)	73,300	72,800	68,900	1%	6%
Tractors (2)	67,900	68,700	62,400	(1)	10
Trailers (3), (4)	42,800	42,400	41,400	1	2
Other	1,100	1,300	1,400	(15)	(7)
Total	185,100	185,200	174,100	—%	6%
By ownership:					
Owned	183,700	184,700	172,300	(1)%	7%
Leased	1,400	500	1,800	180	(72)
Total	185,100	185,200	174,100	—%	6%
By product line: (4)					
Full service lease	136,500	131,800	125,500	4%	5%
Commercial rental	37,800	42,100	39,900	(10)	6
Service vehicles and other	3,300	3,300	3,200	—	3
Active units	177,600	177,200	168,600	—	5
Held for sale	7,500	8,000	5,500	(6)	45
Total	185,100	185,200	174,100	—	6
Customer vehicles under contract maintenance	49,000	46,700	42,400	5	10
Total vehicles serviced	234,100	231,900	216,500	1%	7%
Average vehicle count					
By product line:					
Full service lease	134,400	128,800	123,400	4%	4%
Commercial rental	39,200	42,400	39,800	(8)	7
Service vehicles and other	3,400	3,200	3,100	6	3
Active units	177,000	174,400	166,300	1	5
Held for sale	8,400	6,100	6,500	38	(6)
Total	185,400	180,500	172,800	3	4
Customer vehicles under contract maintenance	49,200	43,300	39,500	14%	10%
Customer vehicles under on-demand maintenance (5)	21,000	20,000	17,000	5%	18%
Total vehicles serviced	255,600	243,800	229,300	5%	6%

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(1) Generally comprised of Class 1 through Class 7 type vehicles with a Gross Vehicle Weight (GVW) up to 33,000 pounds.

(2) Generally comprised of over the road on highway tractors and are primarily comprised of Class 8 type vehicles with a GVW of over 33,000 pounds.

(3) Generally comprised of dry, flatbed and refrigerated type trailers.

(4) Includes 5,300 UK trailers (3,300 full service lease and 2,000 commercial rental), 6,100 UK trailers (3,900 full service lease and 2,200 commercial rental) and 6,800 UK trailers (4,400 full service lease and 2,400 commercial rental) as of December 31, 2016, 2015 and 2014, respectively, primarily acquired as part of the Hill Hire acquisition.

(5) Comprised of the number of unique vehicles serviced under on-demand maintenance agreements. Vehicles included in the end of period count may have been serviced more than one time during the respective annual period.

Note: Average vehicle counts were computed using a 24-point average based on monthly information.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The totals in the previous table include the following non-revenue earning equipment for the global fleet (number of units rounded to the nearest hundred):

Number of Units	2016	2015	2014	Change 2016/2015	2015/2014
Not yet earning revenue (NYE)	1,700	2,800	2,300	(39)%	22%
No longer earning revenue (NLE):					
Units held for sale	7,500	8,000	5,500	(6)	45
Other NLE units	4,400	3,300	3,000	33	10
Total	13,600	14,100	10,800	(4)%	31%

NYE units represent new vehicles 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 equipment. For 2016, the number of NYE units decreased 39% compared with December 31, 2015, reflecting lower lease fleet growth and the redeployment of used vehicles to fulfill lease sales. NLE units represent all vehicles held for sale and vehicles for which no revenue has been earned in the previous 30 days. Accordingly, these vehicles may be temporarily out of service, being prepared for sale or awaiting redeployment. For 2016, the number of NLE units increased 5%, reflecting higher used vehicle inventories and a higher number of vehicles being prepared for sale. We expect NLE units to decline in 2017, as a result of lower expected used vehicle inventories and units being transferred to our used vehicle locations as they are prepared for sale.

Dedicated Transportation Solutions

	2016	2015	2014	Change 2016/2015	2015/2014
	(Dollars in thousands)				
DTS Total revenue (1)	$1,020,895	895,538	899,802	14%	—%
DTS Operating revenue (2)	$774,319	714,453	661,228	8%	8%
DTS EBT	$63,611	45,800	44,556	39%	3%
DTS EBT as a % of DTS total revenue	6.2 %	5.1 %	5.0 %	110 bps	10 bps
DTS EBT as a % of DTS operating revenue (1)	8.2 %	6.4 %	6.7 %	180 bps	(30) bps
Memo:					
Average fleet	8,200	7,700	7,300	6%	5%

———————

(1) Includes intercompany fuel sales from FMS to DTS.

(2) Non-GAAP financial measures. Reconciliations of DTS total revenue to DTS operating revenue, DTS EBT as a % of DTS total revenue to DTS EBT as a % of DTS operating revenue, as well as the reasons why management believes these measures are important to investors are included in the “Non-GAAP Financial Measures” section of this MD&A.

Total revenue increased 14% in 2016 to $1.02 billion and remained unchanged at $896 million in 2015. DTS operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 8% in 2016 to $774 million and 8% in 2015 to $714 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2016		2015	
	Total	Operating (1)	Total	Operating (1)
Organic, including price and volume	16%	8%	5%	8%
Fuel	(2)	—	(5)	—
Total increase	14%	8%	—%	8%

(1) Non-GAAP financial measure. A reconciliation of DTS total revenue to DTS operating revenue, as well as the reasons why management believes this measure is important to investors is included in the "Non-GAAP Financial Measures" section of this MD&A.

We expect favorable operating revenue comparisons to continue next year, however, at a lower growth rate.

2016 versus 2015
In 2016, total revenue increased 14% reflecting organic growth, partially offset by lower fuel prices passed through to our customers. Operating revenue increased 8% due to new business, increased volumes and higher pricing. DTS EBT increased 39% due to increased revenue and, to a lesser extent, lower insurance costs.
2015 versus 2014
In 2015, total revenue was consistent with the prior year as increased operating revenue was offset by declining fuel prices and lower subcontracted transportation costs passed through to customers. Operating revenue increased 8% due to new business, increased pricing and higher volumes. DTS EBT increased 3% due to the benefits of higher operating revenue partially offset by unfavorable self-insurance developments and customer-related bankruptcy charges.
Supply Chain Solutions

	2016	2015	2014	Change 2016/2015	Change 2015/2014
	(Dollars in thousands)				
Automotive	$548,659	469,178	454,888	17%	3%
Technology and healthcare	242,474	251,188	236,380	(3)	6
CPG and retail	436,368	431,571	405,929	1	6
Industrial and other	124,576	104,372	104,053	19	—
Subcontracted transportation	224,060	226,880	264,377	(1)	(14)
Fuel costs (1)	61,713	64,574	95,720	(4)	(33)
SCS total revenue	$1,637,850	$1,547,763	$1,561,347	6%	(1)%
SCS operating revenue (2)	1,352,077	1,256,309	1,201,250	8%	5%
SCS EBT	$105,561	93,754	77,800	13%	21%
SCS EBT as a % of SCS total revenue	6.4 %	6.1 %	5.0 %	30 bps	110 bps
SCS EBT as a % of SCS operating revenue (2)	7.8 %	7.5 %	6.5 %	30 bps	100 bps
Memo:					
Average fleet	7,200	6,300	6,000	14%	5%

(1) Includes intercompany fuel sales from FMS to SCS.
(2) Non-GAAP financial measures. Reconciliations of SCS total revenue to SCS operating revenue, SCS EBT as a % of SCS total revenue to SCS EBT as a % of SCS operating revenue, as well as the reasons why management believes these measures are important to investors are included in the “Non-GAAP Financial Measures” section of

this MD&A.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
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Total revenue increased 6% in 2016 to $1.64 billion and decreased 1% in 2015 to $1.55 billion. Operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 8% in 2016 to $1.35 billion and 5% in 2015 to $1.26 billion.

The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2016		2015	
	Total	Operating (1)	Total	Operating (1)
Organic, including price and volume	8%	9%	5%	8%
Foreign exchange	(2)	(1)	(4)	(3)
Fuel	—	—	(2)	—
Total increase/(decrease)	6%	8%	(1)%	5%

(1) Non-GAAP financial measure. A reconciliation of SCS total revenue to SCS operating revenue, as well as the reasons why management believes this measure is important to investors is included in the "Non-GAAP Financial Measures" section of this MD&A.

We expect favorable operating revenue comparisons to continue next year in line with 2016 performance.

2016 versus 2015

Total revenue increased 6% in 2016 as increased operating revenue was partially offset by a negative impact from foreign exchange. SCS operating revenue increased 8% due to new business, increased volumes and higher pricing, partially offset by a negative impact from foreign exchange. SCS EBT increased 13% in 2016 to $106 million due to increased revenue.

2015 versus 2014

Total revenue decreased 1% in 2015 primarily due to negative impacts from foreign exchange, lower fuel costs passed through to customers and lower subcontracted transportation costs, partially offset by operating revenue growth. Operating revenue increased 5% due to new business, higher volumes and increased pricing, partially offset by a negative impact from foreign exchange. SCS EBT increased 21% in 2015 to $94 million due to increased operating revenue and favorable comparisons to 2014, despite being negatively impacted by lost automotive business, start-up costs and severe winter weather. These favorable comparisons in 2015 were partially offset by foreign exchange, large medical claims, higher compensation-related expenses and insurance developments that benefited the prior year.

Central Support Services

	2016	2015	2014	Change 2016/2015	2015/2014
	(In thousands)				
Human resources	$17,501	20,150	19,255	(13)%	5%
Finance	59,445	60,998	57,510	(3)	6
Corporate services and public affairs	11,682	12,303	11,142	(5)	10
Information technology	82,087	84,729	79,498	(3)	7
Legal and safety	23,977	24,522	23,917	(2)	3
Marketing	18,029	22,206	21,409	(19)	4
Other	24,353	33,698	36,689	(28)	(8)
Total CSS	237,074	258,606	249,420	(8)	4
Allocation of CSS to business segments	(196,129)	(210,096)	(197,680)	(7)	6
Unallocated CSS	$40,945	48,510	51,740	(16)%	(6)%

2016 versus 2015

Total CSS costs decreased 8% in 2016 to $237 million, due to lower compensation-related expenses and lower marketing-related and information technology costs. Unallocated CSS costs decreased 16% in 2016 to $41 million, primarily due to the 2015 settlement of a customer-extended insurance claim that adversely impacted costs in the prior year and lower compensation-related expenses.

2015 versus 2014

Total CSS costs increased 4% in 2015 to $259 million, primarily driven by planned investments in information technology and a settlement of a customer-extended insurance claim, partially offset by lower compensation-related expenses. Unallocated CSS costs decreased 6% in 2015 to $49 million, due to a new allocation of marketing-related costs to the business segments in 2015 and lower compensation-related expenses, partially offset by the insurance settlement and investments in information technology.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

FOURTH QUARTER CONSOLIDATED RESULTS

	Three months ended December 31,		Change
	2016	2015	2016/2015
	(Dollars in thousands, except per share amounts)		
Total revenue	$1,729,150	1,672,743	3%
Operating revenue (1)	1,466,878	1,441,708	2
EBT	$69,196	111,691	(38)%
Comparable EBT (2)	82,307	130,751	(37)
Earnings from continuing operations	49,275	75,935	(35)
Comparable earnings from continuing operations (2)	57,519	88,832	(35)
Net earnings	48,181	76,201	(37)
Earnings per common share (EPS) — Diluted			
Continuing operations	$0.92	1.42	(35)%
Comparable (2)	1.07	1.66	(36)
Net earnings	$0.91	1.43	(36)

(1) Non-GAAP financial measure. Refer to the“Non-GAAP Financial Measures” section of this MD&A for a reconciliation of total revenue to operating revenue and the reasons why management believes this measure is important to investors.

(2) Non-GAAP financial measures. Refer to the “Non-GAAP Financial Measures” section for a reconciliation of EBT, net earnings and earnings per diluted common share to their respective comparable measures and the reasons why management believes these measures are important to investors.

Total revenue increased 3% in the fourth quarter of 2016 to $1.73 billion. Operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 2% in the fourth quarter of 2016 to $1.47 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	Three months ended December 31, 2016	
	Total	Operating (1)
Organic, including price and volume	5%	3%
Foreign exchange	(2)	(1)
Total increase	3%	2%

(1) Non-GAAP financial measure. Refer to the“Non-GAAP Financial Measures” section of this MD&A for a reconciliation of total revenue to operating revenue and the reasons why management believes this measure is important to investors.

EBT decreased 38% in the fourth quarter of 2016 to $69 million. The decrease in EBT reflects lower used vehicle sales results and, to a lesser extent, lower commercial rental results in FMS, partially offset by revenue growth in SCS and DTS. See “Fourth Quarter Operating Results by Business Segment” for further discussion of segment operating results.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

FOURTH QUARTER OPERATING RESULTS BY BUSINESS SEGMENT

	Three months ended December 31,		Change
	2016	2015	2016/2015
	(In thousands)		
Revenue:			
Fleet Management Solutions	$ 1,151,742	1,151,615	—%
Dedicated Transportation Solutions	256,870	232,444	11
Supply Chain Solutions	430,185	392,463	10
Eliminations	(109,647)	(103,779)	(6)
Total	$ 1,729,150	1,672,743	3%
Operating Revenue: (1)			
Fleet Management Solutions	$ 992,274	999,385	(1)%
Dedicated Transportation Solutions	193,106	187,571	3
Supply Chain Solutions	352,650	322,056	9
Eliminations	(71,152)	(67,304)	(6)
Total	$ 1,466,878	1,441,708	2%
EBT:			
Fleet Management Solutions	$ 64,367	123,506	(48)%
Dedicated Transportation Solutions	15,284	11,099	38
Supply Chain Solutions	26,440	23,793	11
Eliminations	(13,032)	(12,073)	(8)
	93,059	146,325	(36)
Unallocated Central Support Services	(10,752)	(15,574)	31
Non-operating pension costs	(8,037)	(4,835)	(66)
Restructuring and other charges, net and other items	(5,074)	(14,225)	NM
Earnings from continuing operations before income taxes	$ 69,196	111,691	(38)%

(1) Non-GAAP financial measure. Refer to the “Non-GAAP Financial Measures” section of this MD&A for a reconciliation of total revenue to operating revenue, and segment total revenue to segment operating revenue, as well as the reasons why management believes these measures are important to investors.

Fleet Management Solutions

Total revenue remained at $1.15 billion in the fourth quarter of 2016. Operating revenue (a non-GAAP measure excluding fuel) decreased 1% in the fourth quarter of 2016 to $992 million. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year.

	Three months ended December 31, 2016	
	Total	Operating (1)
Organic, including price and volume	1%	1%
Fuel	1	—
Foreign exchange	(2)	(2)
Total decrease	—%	(1)%

(1) Non-GAAP financial measure. A reconciliation of FMS total revenue to FMS operating revenue as well as the reasons why management believes this measure is important to investors is included in the "Non-GAAP Financial Measures" section of this MD&A.

Fuel services revenue increased 5% to $159 million in the fourth quarter of 2016 due to higher fuel prices passed through to customers. Full service lease revenue increased 5% in the fourth quarter of 2016, reflecting a larger average lease fleet size and higher prices on replacement vehicles. Foreign exchange negatively impacted full service lease revenue growth by 100 basis points. Commercial rental revenue declined 14% in the fourth quarter of 2016 due to lower demand.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

FMS EBT decreased 48% in the fourth quarter of 2016 to $64 million, primarily reflecting lower used vehicle sales results, lower commercial rental results and accelerated depreciation on vehicles expected to be made available for sale through June 2018 of $10 million. FMS EBT benefited from higher full service lease results and lower overhead spending. Used vehicles sales results were impacted by lower pricing and increased used vehicle inventory valuation reserves. Lower pricing, in part, reflects increased wholesaling to bring used vehicle inventories closer to our target range. Commercial rental results declined from lower demand. Rental power fleet utilization decreased slightly to 77.3% in the fourth quarter of 2016 from 77.6% in the year-earlier period. Full service lease results benefited from fleet growth. Full service lease and commercial rental results benefited from approximately $9 million of lower depreciation in the fourth quarter due to residual value changes implemented January 1, 2016.

Dedicated Transportation Solutions

Total revenue increased 11% in the fourth quarter of 2016 to $257 million. Operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 3% in the fourth quarter of 2016 to $193 million. The growth in total revenue reflects higher subcontracted transportation and higher operating revenue. DTS operating revenue grew as a result of increased volumes, as well as new business and increased pricing. DTS EBT increased 38% from the fourth quarter of the prior year due to revenue growth, improved operating performance and prior year customer-related bankruptcy charges.

Supply Chain Solutions

Total revenue increased 10% in the fourth quarter of 2016 to $430 million. Operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 9% in the fourth quarter of 2016 to $353 million. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	Three months ended December 31, 2016	
	Total	Operating [(1)]
Organic, including price and volume	12%	11%
Foreign exchange	(2)	(2)
Total increase/(decrease)	10%	9%

(1) Non-GAAP financial measure. A reconciliation of SCS total revenue to SCS operating revenue, as well as the reasons why management believes this measure is important to investors is included in the "Non-GAAP Financial Measures" section of this MD&A.

SCS total and operating revenue grew as a result of new business and increased volumes, partially offset by the effects of foreign exchange. SCS EBT increased 11% in the fourth quarter of 2016 to $26 million reflecting the impact of revenue growth.

Central Support Services

Unallocated CSS costs decreased 31% in the fourth quarter of 2016 to $11 million due to the settlement of a customer-extended insurance claim in the prior year and lower compensation-related costs in 2016.

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

The following is a summary of our cash flows from continuing operations:

	2016	2015	2014
	(In thousands)		
Net cash provided by (used in):			
Operating activities	$1,601,022	1,441,788	1,382,818
Financing activities	(185,922)	731,485	311,650
Investing activities	(1,405,833)	(2,161,355)	(1,704,510)

Effect of exchange rates on cash	(9,482)	37	297
Net change in cash and cash equivalents	$(215)	11,955	(9,745)

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Cash provided by operating activities from continuing operations increased to $1.60 billion in 2016, compared with $1.44 billion in 2015, reflecting higher earnings adjusted for non-cash items, primarily depreciation, and working capital improvements, partially offset by higher pension contributions. The working capital improvements were primarily driven by the timing of trade accounts payable payments to vendors. Cash used in financing activities was $186 million in 2016, compared to cash provided from financing activities of $731 million in 2015 due to lower borrowing needs. Cash used in investing activities decreased to $1.41 billion in 2016, compared with $2.16 billion in 2015, primarily due to lower payments for capital expenditures.

Cash provided by operating activities from continuing operations increased to $1.44 billion in 2015, compared with $1.38 billion in 2014, reflecting higher earnings, excluding depreciation, and lower pension contributions, partially offset by increased working capital needs. The increased working capital needs were primarily driven by timing of trade account payments to vendors and increased receivables related to revenue growth. Cash provided by financing activities increased to $731 million in 2015 from $312 million in 2014, due to increased borrowing needs to fund investing activities. Cash used in investing activities increased to $2.16 billion in 2015, compared with $1.70 billion in 2014, primarily due to higher net capital spending and lower proceeds from revenue earning equipment sales.

The following table shows the components of our free cash flow:

	2016	2015	2014
	(In thousands)		
Net cash provided by operating activities	$1,601,022	1,441,788	1,382,818
Sales of revenue earning equipment (1)	414,249	423,605	493,477
Sales of operating property and equipment (1)	7,051	3,891	3,486
Collections on direct finance leases and other (1)	76,510	70,980	64,267
Total cash generated (2)	2,098,832	1,940,264	1,944,048
Purchases of property and revenue earning equipment (1)	(1,905,157)	(2,667,978)	(2,259,164)
Free cash flow (2)	$193,675	(727,714)	(315,116)
Memo:			
Net cash (used in) provided by financing activities	$(185,922)	731,485	311,650
Net cash used in investing activities	$(1,405,833)	(2,161,355)	(1,704,510)

(1) Included in cash flows from investing activities.

(2) Non-GAAP financial measures. Reconciliations of net cash provided by operating activities to total cash generated and to free cash flow are set forth in this table. Refer to the “Non-GAAP Financial Measures” section of this MD&A for the reasons why management believes these measures are important to investors.

Free cash flow increased to positive $194 million in 2016 from negative $728 million in 2015 due to lower capital expenditures in 2016. Free cash flow decreased to negative $728 million in 2015 from negative $315 million in 2014 due to higher capital expenditures and lower proceeds from vehicle sales in 2015.

We expect cash provided by operating activities from continuing operations to increase approximately $100 million to $1.7 billion in 2017, primarily due to higher earnings adjusted for non-cash items, mainly depreciation. We also expect 2017 free cash flow to increase to $250 million reflecting higher cash provided by operating activities, partially offset by higher capital spending.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Capital expenditures are generally used to purchase revenue earning equipment (trucks, tractors and trailers) within our FMS segment. These expenditures primarily support the full service lease and commercial rental product lines. The level of capital required to support the full service lease product line varies based on customer contract signings for replacement vehicles and growth. These contracts are long-term agreements that result in predictable cash flows typically over a three to seven year term for trucks and tractors and ten years for trailers. We utilize capital for the purchase of vehicles in our commercial rental product line to replenish and expand the fleet available for shorter-term use by contractual or occasional customers. Operating property and equipment expenditures primarily relate to spending on items such as vehicle maintenance facilities and equipment, computer and telecommunications equipment, investments in technologies, and warehouse facilities and equipment.

The following is a summary of capital expenditures:

	2016	2015	2014
	(In thousands)		
Revenue earning equipment:			
Full service lease	$1,547,717	2,060,254	1,732,904
Commercial rental	82,580	522,940	415,186
	1,630,297	2,583,194	2,148,090
Operating property and equipment	132,603	112,918	150,145
Total capital expenditures (1)	1,762,900	2,696,112	2,298,235
Changes in accounts payable related to purchases of revenue earning equipment	142,257	(28,134)	(39,071)
Cash paid for purchases of property and revenue earning equipment	$1,905,157	2,667,978	2,259,164

(1) Non-cash additions exclude approximately $1 million, $6 million and $8 million in 2016, 2015 and 2014, respectively, in assets held under capital leases resulting from the extension of existing operating leases and other additions.

Capital expenditures decreased in 2016, reflecting planned lower investments in the full service lease and commercial rental fleets. Capital expenditures increased in 2015, reflecting planned higher investments in the full service lease and commercial rental fleets. We expect capital expenditures to increase to approximately $2.0 billion in 2017, primarily due to a planned increase in capital spending in commercial rental. We expect to fund 2017 capital expenditures primarily with internally generated funds and additional debt financing.

Working Capital

	2016	2015
	(In thousands)	
Current assets	$1,101,557	$1,098,302
Current liabilities	1,744,069	1,680,255
Working capital	$(642,512)	$(581,953)

Our net working capital was negative $643 million at December 31, 2016 compared with negative $582 million at December 31, 2015. The change in net working capital is primarily driven by a $157 million increase in the current portion of long term debt as we intend to repay certain short-term borrowings with positive free cash flow instead of refinancing these borrowings on a long-term basis under the global revolving credit facility. Our global revolving credit facility is used primarily to finance working capital needs. See "Financing and Other Funding Transactions" for further discussion on the adequacy of our funding sources to meet our operating, investing and financing needs.

Financing and Other Funding Transactions

We utilize external capital primarily to support working capital needs and growth in our asset-based product lines. The variety of financing alternatives typically available to fund our capital needs include commercial paper, long-term and medium-term public and private debt, asset-backed securities, bank term loans, leasing arrangements and bank credit facilities. Our principal sources of financing are issuances of commercial paper and medium-term notes.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Our ability to access unsecured debt in the capital markets is impacted by both our short-term and long-term debt ratings. These ratings are intended to provide guidance to fixed income investors in determining the credit risk associated with particular Ryder securities based on current information obtained by the rating agencies from us or from other sources. Lower ratings generally result in higher borrowing costs, as well as reduced access to unsecured capital markets. A significant downgrade of our short-term debt ratings would impair our ability to issue commercial paper and likely require us to rely on alternative funding sources. A significant downgrade would not affect our ability to borrow amounts under our revolving credit facility described below, assuming ongoing compliance with the terms and conditions of the credit facility.

Our debt ratings and rating outlooks at December 31, 2016 were as follows:

	Short-term		Long-term	
	Rating	Outlook	Rating	Outlook
Moody’s Investors Service	P2	Stable	Baa1	Stable (affirmed February 2016)
Standard & Poor’s Ratings Services	A2	Stable	BBB+	Stable (upgraded December 2016)
Fitch Ratings	F2	Stable	A-	Stable (affirmed October 2016)

Cash and equivalents totaled $59 million as of December 31, 2016. Approximately $21 million was held outside the U.S. as of December 31, 2016 and is available to fund operations and other growth of our non-U.S. subsidiaries. Our intent is to indefinitely reinvest these foreign amounts outside the U.S. If we decide to repatriate cash and equivalents held outside the U.S., we may be subject to additional U.S. income taxes and foreign withholding taxes. However, our intent is to permanently reinvest these foreign amounts outside the U.S. and our current plans do not demonstrate a need to repatriate these foreign amounts to fund our U.S. operations.

We believe that our operating cash flows, together with our access to the public unsecured bond market, commercial paper market and other available debt financing, will be adequate to meet our operating, investing and financing needs in the foreseeable future. However, there can be no assurance that unanticipated volatility and disruption in the public unsecured debt market or the commercial paper market would not impair our ability to access these markets on terms commercially acceptable to us or at all. If we cease to have access to public bonds, commercial paper and other sources of unsecured borrowings, we would meet our liquidity needs by drawing upon contractually committed lending agreements as described below and/or by seeking other funding sources.

At December 31, 2016, we had the following amounts available to fund operations:

	(In millions)
Global revolving credit facility	$675
Trade receivables program	$175

Refer to Note 15, “Debt,” in the Notes to Consolidated Financial Statements for a discussion of these debt facilities.The following table shows the movements in our debt balance:

	2016	2015
	(In thousands)	
Debt balance at January 1	$5,502,627	4,717,524
Cash-related changes in debt:		
Net change in commercial paper borrowings and revolving credit facilities	(77,798)	323,359
Proceeds from issuance of medium-term notes	596,283	998,576
Proceeds from issuance of other debt instruments	78,645	284,647
Retirement of medium-term notes	(600,000)	(660,000)
Other debt repaid	(69,047)	(138,311)
Debt issuance costs paid	(1,254)	(2,134)
	(73,171)	806,137
Non-cash changes in debt:		
Fair market value adjustment on notes subject to hedging	(4,143)	423
Addition of capital lease obligations	1,231	5,959

Changes in foreign currency exchange rates and other non-cash items	(35,270)	(27,416)
Total changes in debt	(111,353)	785,103
Debt balance at December 31	$5,391,274	5,502,627

In accordance with our funding philosophy, we attempt to match the aggregate average remaining re-pricing life of our vehicle-related debt with the aggregate average remaining re-pricing life of our vehicle assets. We utilize both fixed-rate and variable-rate debt to achieve this match and generally target a mix of 20% - 40% variable-rate debt as a percentage of total debt outstanding. The variable-rate portion of our total debt (including notional value of swap agreements) was 30% at both December 31, 2016 and 2015.

Ryder's debt to equity ratios were 263% and 277% at December 31, 2016 and 2015, respectively. The debt to equity ratio represents total debt divided by total equity. Additional obligations, including the present value of minimum lease payments under operating leases for vehicles, were not significant as of December 31, 2016 or December 31, 2015. Our debt to equity ratio decreased as of December 31, 2016, due to the impact of foreign exchange rates and lower borrowing needs reflecting lower planned capital expenditures.

Off-Balance Sheet Arrangements

Guarantees. Refer to Note 17, “Guarantees,” in the Notes to Consolidated Financial Statements for a discussion of our agreements involving guarantees.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Contractual Obligations and Commitments

As part of our ongoing operations, we enter into arrangements that obligate us to make future payments under contracts such as debt agreements, lease agreements and unconditional purchase obligations. The following table summarizes our expected future contractual cash obligations and commitments at December 31, 2016:

	2017	2018-2019	2020-2021	Thereafter	Total
	(In thousands)				
Debt	$957,358	1,859,981	2,310,795	237,846	5,365,980
Capital lease obligations	8,827	12,316	2,304	737	24,184
Total debt, including capital leases (1)	966,185	1,872,297	2,313,099	238,583	5,390,164
Interest on debt (2)	137,179	203,595	105,818	53,992	500,584
Operating leases (3)	73,064	93,178	33,774	22,276	222,292
Purchase obligations (4)	248,743	29,905	11,757	663	291,068
Total contractual cash obligations	458,986	326,678	151,349	76,931	1,013,944
Insurance obligations (primarily self-insurance)	107,136	100,773	40,468	93,096	341,473
Other long-term liabilities (5), (6), (7)	5,233	6,848	4,740	59,846	76,667
Total	$1,537,540	2,306,596	2,509,656	468,456	6,822,248

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(1) Net of unamortized discount and excludes the fair market value adjustment on notes subject to hedging.

(2) Total debt matures at various dates through fiscal year 2025 and bears interest principally at fixed rates. Interest on variable-rate debt is calculated based on the applicable rate at December 31, 2016. Amounts are based on existing debt obligations, including capital leases, and do not consider potential refinancing of expiring debt obligations.

(3) Represents future lease payments associated with vehicles, equipment and properties under operating leases. Amounts are based upon the general assumption that the leased asset 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.

(4) The majority of our purchase obligations are pay-as-you-go transactions made in the ordinary course of business. Purchase obligations include agreements to purchase goods or services that are legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed minimum or variable price provisions; and the approximate timing of the transaction. The most significant item included in the above table are purchase obligations related to vehicles. Purchase orders made in the ordinary course of business that are cancelable are excluded from the above table. Any amounts for which we are liable under purchase orders for goods received are reflected in our Consolidated Balance Sheets as “Accounts payable” and “Accrued expenses and other current liabilities” and are excluded from the above table.

(5) Represents other long-term liability amounts reflected in our Consolidated Balance Sheets that have known payment streams. The most significant items included were asset retirement obligations and deferred compensation obligations.

(6) The amounts exclude our estimated pension contributions. For 2017, our pension contributions, including our minimum funding requirements as set forth by ERISA and international regulatory bodies, are expected to be $22 million. Our minimum funding requirements after 2017 are dependent on several factors. However, we estimate that the undiscounted required global contributions over the next five years are approximately $272 million (pre-tax) (assuming expected long-term rate of return realized and other assumptions remain unchanged). We also have payments due under our other postretirement benefit (OPEB) plans. These plans are not required to be funded in advance, but are pay-as-you-go. See Note 22,“Employee Benefit Plans,” in the Notes to Consolidated Financial Statements for further discussion.

(7) The amounts exclude $67 million of liabilities associated with uncertain tax positions as we are unable to reasonably estimate the ultimate amount or timing of settlement. See Note 13, “Income Taxes,” in the Notes to

Consolidated Financial Statements for further discussion.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

Pension Information

We have defined benefit retirement plans which are frozen for non-grandfathered and certain non-union employees in the U.S., Canada and the United Kingdom. The funded status of our pension plans is dependent upon many factors, including returns on invested assets and the level of certain market interest rates. We review pension assumptions regularly and we may from time to time make voluntary contributions to our pension plans, which exceed the amounts required by statute. During 2016, total global pension contributions were $128 million compared with $34 million in 2015. We estimate 2017 required pension contributions will be $22 million. The projected present value of estimated global pension contributions that would be required over the next 5 years totals approximately $246 million (pre-tax). Changes in interest rates and the market value of the securities held by the plans could materially change, positively or negatively, the funded status of the plans and affect the level of pension expen