RYDER SYSTEM INC
Form 10-K
February 20, 2018

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, 2017
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, 2017 was $3,774,013,558. The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at January 31, 2018 was 52,977,548.

Documents Incorporated by Reference into this Report	Part of Form 10-K into which Document is Incorporated

Ryder System, Inc. 2018 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 and leasing with flexible maintenance options, commercial rental, and contract or transactional maintenance services of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; (2) Dedicated Transportation Solutions (DTS), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.; and (3) Supply Chain Solutions (SCS), which provides comprehensive supply chain solutions including distribution and transportation services in North America and Singapore. Dedicated transportation services provided as part of an integrated, multi-service, supply chain solution to SCS customers are reported in the SCS business segment.
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 28, "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 primary 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), as well as companies who have outsourced to other providers, 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; and
- 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 or transactional 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. FMS also provides maintenance, fuel and other services for all vehicles used in DTS and SCS solutions.
Market Trends
The U.S. commercial fleet market is estimated to include 8.3 million vehicles, of which 4.3 million vehicles are with privately held companies, 1.5 million vehicles 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[(1)]. The 4.3 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 vehicles are in the lease and rental market[(2)]. In the U.K., the commercial rental and lease market is estimated at 229,000 units [(3)]. The total lease and rental market in Ryder's major markets totals over 1 million units. However, due to the trends 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. Companies that own and manage their own fleet of vehicles have put greater emphasis on the quality of their preventive maintenance and safety programs because of increased demand for efficiency and reliability. 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, 2017, our global FMS business accounted for 58% 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 transportation and warehousing, food and beverage, housing, business and personal services, and industrial. At December 31, 2017, we had 533 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 172 customer locations, which primarily provide vehicle maintenance.
Canada. We have been operating in Canada for over 50 years. At December 31, 2017, 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, 2017, we had 60 operating locations primarily throughout the U.K. We also managed a network of 426 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 2017, Class 3-8, IHS Markit Ltd. (formerly RL Polk)

(2) Canada Outsourced Fleet Market as of September 2017, Class 3-8, IHS Markit Ltd. (formerly RL Polk)

(3) U.K. Lease and Rental HGV Market, Projection for December 2017, Source: The Society of Motor Manufacturers & Traders (SMMT) 2010 & Ryder Internal Estimates

FMS Product Offerings

ChoiceLease. Our lease offering, ChoiceLease, provides 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. The ChoiceLease offering 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. Our ChoiceLease 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 offer ChoiceLease customers a 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 ChoiceLease 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.
- 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 our web-based fleet tool that provides customers with 24/7 access to key operational and maintenance management information about their fleets.

For the year ended December 31, 2017, ChoiceLease revenue accounted for 57% of our FMS total revenue. Prior to 2017, FMS reported this product as "full service lease."

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. ChoiceLease customers also utilize our commercial rental fleet to handle their peak or seasonal business needs, as substitute vehicles while their lease vehicles are undergoing maintenance, and while they are awaiting delivery of new lease vehicles. 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, 2017, commercial rental revenue accounted for 17% of our FMS total revenue.

SelectCare. Through our SelectCare product line, we provide maintenance services to customers who do not choose to lease vehicles from us. Our SelectCare customers commit to utilizing our extensive network of maintenance facilities and trained technicians to maintain the vehicles they own or lease from third parties. There are several bundles of services available to SelectCare customers including full service contract maintenance and preventive only maintenance. 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.

Additionally, our lease and contract maintenance customers periodically require additional maintenance and repair services that are not included in their lease or contract maintenance agreements. 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

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provide customers with a wide range of outsourcing solutions. For the year ended December 31, 2017, SelectCare revenue accounted for 10% of our FMS total revenue. Prior to 2017, FMS reported this product as “contract maintenance” and “contract-related maintenance.”

The following table provides information regarding the number of vehicles and customers by FMS product offering at December 31, 2017:

	U.S. Vehicles	Customers	Foreign Vehicles	Customers	Total Vehicles	Customers
ChoiceLease	115,200	11,500	23,900	2,400	139,100	13,900
Commercial rental (1)	31,000	30,700	6,800	5,700	37,800	36,400
SelectCare (2)	48,400	1,700	6,000	400	54,400	2,100

(1) Commercial rental customers include customers who rented a vehicle for more than 3 days during the year and includes approximately 7,400 ChoiceLease customers

(2) SelectCare customers include approximately 1,020 ChoiceLease customers

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 approximately 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, 2017, fuel services revenue accounted for 15% of our FMS total revenue.

Used Vehicles. We primarily sell our used vehicles at one of our 53 retail sales centers throughout North America (14 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 estimates.

FMS Business Strategy

Our FMS business strategy is to be the leading provider of fleet management outsourcing services for light, medium and heavy duty commercial highway vehicles. This strategy revolves around the following interrelated 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
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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 lease and commercial rental vehicles. As a result, during periods of significant growth, our free cash flow may be negative due to capital outlay upfront to purchase vehicles which are leased over 3 to 10 year periods.

Competition
As an alternative to using our fleet management services, companies choose to provide these services for themselves or 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 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 ChoiceLease, SelectCare and commercial rental services, as well as continued commitment to offer innovative products and solutions, such as natural gas and electric vehicles, have been and will continue to be our emphasis.

Dedicated
Transportation
Solutions
Value Proposition
Through our DTS business segment, we combine equipment, maintenance, drivers, administrative services and additional services to provide customers 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 electronic logging devices and hours of service regulations, Department of Transportation (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 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. With the changes in the regulatory environment, including the electronic logging device mandate that became effective in late 2017, there continues to be increased pressure on the availability of qualified truck drivers, whose supply continues to tighten, and shippers are seeking dedicated capacity from quality transportation and logistics providers. 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, 2017, our global DTS business accounted for 15% of our consolidated revenue. At December 31, 2017, we had 184 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, including the FMS maintenance network which services all vehicles used in DTS solutions.

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 - Third-Party Logistics Market Results and Trends for 2017, June 2017

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 to compel private fleet operators to outsource all or some of their transportation needs to us;

•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, driver availability 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 customers' supply chain and address customers' 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 provided 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 an approximately $8.5 trillion market, of which approximately $826 billion is outsourced. Logistics spending in the markets we are targeting in North America and Singapore equates to approximately $2.0 trillion, of which $209 billion is outsourced(1). 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 - Third-Party Logistics Market Results and Trends for 2017, June 2017

Operations

For the year ended December 31, 2017, our global SCS business accounted for 27% of our consolidated revenue.

U.S. At December 31, 2017, we had 294 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, 2017, managed warehouse space totaled approximately 44 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, 2017, we had 120 SCS customer accounts and managed warehouse space totaling approximately 4.7 million square feet. Our Mexico operations offer a full range of SCS services and manage approximately 17,900 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, 2017, we had 43 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.

Singapore. At December 31, 2017, we had 82 SCS customer accounts and managed warehouse space totaling approximately 363,000 square feet.

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, including support for e-commerce networks. 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, 2017, distribution management solutions accounted for 47% 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, which provides maintenance for all Ryder vehicles used in SCS solutions. For the year ended December 31, 2017, approximately 34% 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, 2017, we purchased and/or executed $5.2 billion in freight moves on our customers' behalf. For the year ended December 31, 2017, transportation management solutions accounted for 14% 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, 2017, 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:

- Provide customers with best in class execution and quality through reliable and flexible supply chain solutions;
- Develop innovative solutions and capabilities that drive value for our customer within our targeted industry verticals;
- Create 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 execute 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 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, local 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. The Federal Motor Carrier Safety Administration (FMCSA), under the DOT, manages a compliance and enforcement initiative partnering with state agencies designed to monitor and improve commercial vehicle motor safety, which uses roadside inspections and violations to measure motor carriers and drivers. In 2017, the FMCSA regulations mandating electronic logging devices in commercial motor vehicles went into effect for various aspects of our dedicated, supply chain and rental businesses.

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 policy 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 published our 2014/2015 Corporate Sustainability Report Supplement, which includes new metrics related to our environmental and safety performance for the years 2014 and 2015. The report is publicly available on the company website at www.ryder.com by clicking on About Us and then selecting Sustainability. 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 2017 for the 2016 performance year.

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.

We deploy relevant vehicle safety systems in the vehicles we operate, including active brake assistance, lane departure warning systems, stability control, and others, to enhance safety performance. We also install aftermarket safety monitoring systems that provide effective means for our operations teams to measure and improve driver performance. Training is also a key 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. In driving operations, we use certified driver trainers to on-board and train our drivers using first hand experienced certified driver trainers. 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. 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, RyderSafetyNetSM, delivers proactive safety programs tailored to every location and helps measure safety activity effectiveness across the organization.

EMPLOYEES

At December 31, 2017, we had approximately 36,100 full-time employees worldwide, of which 34,300 were employed in North America, 1,400 in Europe and 400 in Singapore. Currently we employ approximately 8,100 drivers and 5,900 technicians. We have approximately 23,200 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 101 separate 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 the relationship with our employees to be good.

EXECUTIVE OFFICERS OF THE REGISTRANT

Name	Age	Position
Robert E. Sanchez	52	Chair and Chief Executive Officer
Art A. Garcia	56	Executive Vice President and Chief Financial Officer
Dennis C. Cooke	53	President, Global Fleet Management Solutions
John J. Diez	46	President, Dedicated Transportation Solutions
J. Steven Sensing	50	President, Global Supply Chain Solutions
Robert D. Fatovic	52	Executive Vice President, Chief Legal Officer and Corporate Secretary
Frank Lopez	43	Senior Vice President and Chief Human Resources Officer
Karen M. Jones	55	Executive Vice President and Chief Marketing Officer
John Gleason	61	Executive Vice President and Chief Sales Officer
Rajeev Ravindran	52	Senior Vice President and Chief Information Officer
Frank Mullen	48	Vice President and Controller

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.

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.

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.

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.

Rajeev Ravindran joined Ryder and was appointed Senior Vice President and Chief Information Officer in January 2018. Mr. Ravindran has over 20 years of IT leadership experience and was previously the CIO and Group Vice President at JM Enterprises. Prior to JM, Rajeev worked in IT leadership roles at various companies including Interactive Metronome, Asista.com, and AutoNation. Rajeev has a degree in Electrical & Computer Engineering from the University of Miami.

Frank Mullen was appointed Vice President and Controller in September 2017. Mr. Mullen joined Ryder from Global Eagle Entertainment, a global provider of media, content, connectivity and data analytics, where he held the position of Senior Vice President and Chief Accounting Officer since 2016. From 2015 to 2016, he served as Vice President and Controller of Pinnacle Foods Inc., a manufacturer, marketer and distributor of branded food products. Prior to joining Pinnacle, Mr. Mullen held roles of increasing responsibility at Aramark, a provider of food service, facilities and uniform services, from 2000 through 2015, including Vice President and Assistant Controller from 2014 to 2015 and Associate Vice President – Corporate Accounting from 2006 to 2014. Mr. Mullen began his career in the Audit & Assurance practice of Arthur Andersen LLP. He holds a Bachelor of Science degree in accounting from Villanova University and is a Certified Public Accountant.

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 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 these documents 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. The long-term ChoiceLease product offering 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 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 ChoiceLease and SelectCare 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. Although we experienced continued growth in ChoiceLease during 2017, 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. 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 2017, following a period of soft demand and uncertainty in the latter part of 2015 through the first half of 2017, 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 2017, we saw a weakening of conditions in the used vehicle sales market, which adversely affected used vehicle sales 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 and 2017.

Impact on our ChoiceLease Product Line. Changes in residual values also impact the overall competitiveness of our ChoiceLease 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 maintain the value of our used vehicles, 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 ChoiceLease 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 includes growing 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. Expanding our service offerings may also require us to enter into new markets and encounter new competitive challenges, which may strain our management, capital resources, information systems and customer service.

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. Our inability to deliver our services and solutions as promised on a consistent basis, or our customers having a negative experience or otherwise becoming dissatisfied, 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. In addition, advances in technology may require us to increase investments in order to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments. 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. Failure to prevent or mitigate data loss or system intrusions from cybersecurity attacks or other security breaches could expose us or our vendors or customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us and otherwise harm our business. Likewise, data privacy breaches by employees and others who access our systems may pose a risk that sensitive customer or vendor data may be exposed to unauthorized persons or to the public, adversely impacting our customer service, employee relationships and our reputation.

In addition, 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 information 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 or breach created by natural disasters, power loss, telecommunications failures, cybersecurity or other security attacks 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 2017, sales to our top ten SCS customers representing all of the industry groups we service accounted for 53% of our SCS total revenue and 48% of our SCS operating revenue (total revenue less fuel and subcontracted transportation). Additionally, approximately 40% 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 46% of DTS total revenue and 39% 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' businesses 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 ChoiceLease, SelectCare, DTS and SCS services are provided under contractual arrangements with our customers. The pricing structure for our ChoiceLease and SelectCare 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 ChoiceLease, SelectCare 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 approximately 4,100 employees that are organized by labor unions whose wages and benefits are governed by 101 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, local 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 by other parties with whom we engage with, 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.

U.S. Department of Transportation Regulations. The DOT and various local, 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 in the various states in which we operate.

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 United Sates, 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 parties to various class-action lawsuits related to wage and hour violations and improper pay in certain states and may become exposed to similar litigation in the future. Unfavorable or unanticipated outcomes in any of such 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 Singapore, 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 and similar anti-bribery laws. 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, continued uncertainty resulting from 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 EPA Phase 2 vehicle emission requirements for medium and heavy-duty vehicles will include technology-advancing standards that substantially reduce greenhouse gas emissions and fuel consumption, allowing vehicle manufacturers to meet standards over time through a mix of different technologies. Rules impacting 2017 - 2027 model years 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.

Although customers may see reduced fuel consumption under new vehicle emission 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. New engine technologies 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 ChoiceLease product.

Demand for our ChoiceLease 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 a new standard on 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 public companies beginning with fiscal years that start after December 15, 2018, 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 ChoiceLease customers.

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

On December 22, 2017, President Trump signed into law U.S. federal tax legislation (the “2017 Tax Cuts and Jobs Act”), which includes a broad range of tax reform measures affecting businesses, including the lowering of corporate income tax rates, limits on interest deductibility, incentives for capital spending by permitting full expensing of the purchase of qualifying assets, the loss of certain business deductions, the loss of like-kind exchange programs for our assets and modifications of international tax provisions. These changes will not only impact our company, but will impact our customers’ businesses as well as the economy in general. While we currently believe these changes in the aggregate will have a positive effect on the Company and the overall economy, we cannot predict this with certainty. Further, 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. Certain of the proposals for further tax reform, if enacted by the United States or any state thereof or by other jurisdictions 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 through qualified pension trusts, with trust assets invested in a diversified portfolio. The cash contributions made to our defined benefit trusts are required to comply with minimum funding requirements imposed by employee benefit and tax laws. The aggregate projected benefit obligations and plan assets of our global defined benefit pension plans as of December 31, 2017, were $2.3 billion and $1.9 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.

In general, we rely in large part upon global credit and financial markets to fund our operations and contractual commitments and refinance existing debt. These markets can experience high levels of volatility and access to capital can be constrained for extended periods of time. 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;
- diminished liquidity and credit availability resulting in higher short-term borrowing costs and more stringent borrowing terms; and
- restricted access to capital and increased cost of capital and financing sources.

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 608 FMS properties in the U.S., Puerto Rico and Canada; we own 408 of these and lease the remaining 200. 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 186 on-site maintenance facilities, located at customer locations.
We also maintain 207 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 60 locations in the U.K. and Germany, 59 locations in Mexico and 4 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
2017			
First quarter	$79.26	70.89	0.44
Second quarter	79.63	62.52	0.44
Third quarter	84.99	70.24	0.46
Fourth quarter	85.77	76.11	0.46
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

Our common shares are listed on the New York Stock Exchange under the trading symbol "R." At January 31, 2018, there were 6,960 common stockholders of record and our stock price on the New York Stock Exchange was $87.03.

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, 2012 to December 31, 2017.

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, 2012, 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, 2017:

	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, 2017	250	$ 81.92	—	530,734
November 1 through November 30, 2017	99,924	80.57	99,818	430,916
December 1 through December 31, 2017	54,530	81.60	54,115	376,801
Total	154,704	$ 80.94	153,933	

(1) During the three months ended December 31, 2017, we purchased an aggregate of 771 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 2017, 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 2017 program, management is authorized to repurchase up to 1.5 million shares of common stock issued to employees under the Company's employee stock plans from December 1, 2017 through December 13, 2019. Share repurchases will be made periodically in open-market transactions using the Company's working capital, and are subject to market conditions, legal requirements, and other factors. In addition, management has been granted the authority to establish prearranged written trading plans under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the repurchase program.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial information should be read in conjunction with Items 7 and 8 of this report. During 2017, we adopted ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, and are reporting all components of net benefit cost other than the service cost component within "Non-operating pension costs" in the Consolidated Statements of Earnings for both the current and prior year periods. We also updated our current and historical comparable earnings measures to exclude the amortization of prior service cost, in order to conform the presentation of "Non-operating pension costs" with the ASU.

	Years ended December 31				
	2017	2016	2015	2014	2013
	(Dollars and shares in thousands, except per share amounts)				
Operating Data:					
Total Revenue	$7,329,599	6,786,984	6,571,893	6,638,285	6,419,285
Operating Revenue (1)	$6,040,380	5,790,897	5,561,077	5,252,217	4,965,818
Earnings from continuing operations (2)	$791,015	264,640	305,989	220,225	243,275
Comparable earnings from continuing operations (3)	$240,809	290,488	326,485	294,279	255,394
Net earnings (2), (4)	$790,558	262,477	304,768	218,341	237,871
Per Share Data:					
Earnings from continuing operations -Diluted (2)	$14.87	4.94	5.73	4.14	4.63
Comparable earnings from continuing operations -Diluted (3)	$4.53	5.42	6.10	5.53	4.85
Net earnings -Diluted (2), (4)	$14.87	4.90	5.71	4.11	4.53
Cash dividends	$1.80	1.70	1.56	1.42	1.30
Book value (5)	$53.54	38.39	37.15	34.30	35.56
Financial Data:					
Total assets	$11,452,231	10,902,454	10,952,580	9,837,776	9,156,175
Average assets (6)	$11,133,727	11,056,740	10,464,001	9,594,878	8,692,120
Return on average assets (%) (6)	7.1	2.4	2.9	2.3	2.7
Long-term debt	$4,583,582	4,599,864	4,868,097	4,681,240	4,010,810
Total debt	$5,409,651	5,391,274	5,502,627	4,717,524	4,283,013
Shareholders' equity(5)	$2,835,016	2,052,275	1,987,111	1,819,087	1,896,561
Debt to equity (%) (5)	191	263	277	259	226
Average shareholders' equity(5), (6)	$2,201,219	2,052,371	1,894,917	1,925,824	1,593,942
Return on average shareholders' equity (%)(5), (6)	35.9	12.8	16.1	11.3	14.9
Adjusted return on average capital (%) (6), (7)	4.2	4.8	5.8	5.8	5.8
Net cash provided by operating activities from continuing operations	$1,547,986	1,601,022	1,441,788	1,382,818	1,251,811
Net cash (used in) provided by financing activities from continuing operations	$(155,115)	(185,922)	731,485	311,650	347,070
Net cash used in investing activities from continuing operations	$(1,366,340)	(1,405,833)	(2,161,355)	(1,704,510)	(1,603,818)
Free cash flow (8)	$189,722	193,675	(727,714)	(315,116)	(339,596)
Capital expenditures paid	$1,860,436	1,905,157	2,667,978	2,259,164	2,122,628
Other Data:					
Average common shares — Diluted	52,988	53,361	53,260	53,036	52,071
Number of vehicles — Owned and leased	186,200	185,100	185,200	174,100	172,100
Average number of vehicles — Owned and leased	185,200	185,400	180,500	172,800	171,200
Number of employees	36,100	34,500	33,100	30,600	28,900

(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) 2017 amounts reflect tax benefit as a result of the 2017 Tax Cuts and Jobs Act. Refer to Note 13 , "Income Taxes ," for additional information.

(3) 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.

(4) Net earnings in 2017, 2016, 2015, 2014 and 2013, included losses from discontinued operations of $(0.5) million, or $(0.01) per diluted common share, $(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, and $(5) million, or $(0.10) per diluted common share, respectively.

(5) Shareholders’ equity at December 31, 2017, 2016, 2015, 2014 and 2013, reflected cumulative after-tax equity charges of $567 million, $627 million, $577 million, $584 million, and $474 million, respectively, related to our pension and postretirement plans.

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

(7) 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.

(8) 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, 2017, 2016 and 2015 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 leasing, commercial rental and maintenance services for 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 Singapore. 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 2017 of $4.26 billion and $10.39 billion, respectively, representing 58% of our consolidated revenue and 91% of consolidated assets. DTS total revenue and assets in 2017 were $1.10 billion and $277 million, respectively, representing 15% of our consolidated revenue and 2% of consolidated assets. SCS total revenue and assets in 2017 were $1.97 billion and $864 million, respectively, representing 27% of our consolidated revenue and 8% 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 (20%), automotive (11%), retail and consumer goods (10%), industrial (8%), housing (8%), technology (7%), business and personal services (5%) and other (9%).

This MD&A includes certain non-GAAP financial measures. Please refer to the "Non-GAAP Financial Measures" section of this MD&A for information on the non-GAAP measures included in the MD&A, reconciliations to the most comparable GAAP financial measure and the reasons why we believe each measure is useful to investors.

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:

	2017	2016	2015	Change 2017/2016	2016/2015
	(Dollars in thousands, except per share amounts)				
Total revenue	$ 7,329,599	6,786,984	6,571,893	8%	3%
Operating revenue (1)	6,040,380	5,790,897	5,561,077	4%	4%
Earnings before income taxes (EBT)	$ 313,786	406,381	469,215	(23)%	(13)%
Comparable EBT (2)	369,747	449,048	504,571	(18)%	(11)%
Earnings from continuing operations (3)	791,015	264,640	305,989	199%	(14)%
Comparable earnings from continuing operations (2)	240,809	290,488	326,485	(17)%	(11)%
Net earnings (3)	790,558	262,477	304,768	201%	(14)%
Earnings per common share — Diluted					
Continuing operations (3)	$ 14.87	4.94	5.73	201%	(14)%
Comparable (2)	4.53	5.42	6.10	(16)%	(11)%
Net earnings (3)	14.87	4.90	5.71	203%	(14)%

———————

(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 from continuing operations and earnings per diluted common share to the comparable measures and the reasons why management believes these measures are important to investors.

(3) 2017 amounts reflect tax benefit as a result of the 2017 Tax Cuts and Jobs Act. Refer to Note 13 , "Income Taxes ," in the Notes to Consolidated Financial Statements for additional information.

In 2017, total revenue increased 8% to $7.33 billion and operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 4% to $6.04 billion. Total revenue increased due to higher operating revenue and increased subcontracted transportation passed through to customers, reflecting new business and higher volumes, as well as higher fuel costs passed through to customers. Operating revenue increased due to higher revenue in the SCS business and higher contractual ChoiceLease revenue, partially offset by lower commercial rental revenue. EBT decreased 23% in 2017, primarily reflecting increased accelerated depreciation of $21 million, lower used vehicle sales results and increased maintenance costs as maintenance spending associated with vehicles being prepared for sale returned to more normal levels.

Cash provided by operating activities from continuing operations decreased 3% to $1.55 billion in 2017 compared with $1.60 billion in 2016, primarily reflecting the impact of lower comparable earnings. Free cash flow from continuing operations (a non-GAAP financial measure) decreased 2% to $190 million in 2017 from $194 million in 2016, primarily due to lower cash flows from operations, partially offset by lower cash paid for purchases of property and revenue earning equipment reflecting lower capital expenditures.

Capital expenditures increased 10% to $1.94 billion in 2017, reflecting higher planned investments to refresh our commercial rental fleet, partially offset by lower ChoiceLease capital spending. Our debt balance of $5.41 billion at December 31, 2017, was substantially unchanged from the prior year. Our debt to equity ratio decreased to 191% from 263% in 2016, largely driven by the impact of the 2017 Tax Cuts & Jobs Act on our equity balance.

We increased our annualized dividend rate by 5% to $1.84 per share of common stock during 2017.

2018 Outlook

In 2018, we expect solid earnings growth across all business segments driven by robust contractual revenue growth from record sales results in 2017, as well as the strength of our sales pipeline. We forecast a significant increase in ChoiceLease fleet growth of 6,500 vehicles, driven by a continued trend toward outsourcing, our ongoing sales and marketing initiatives, and a strengthening freight environment. We are also anticipating strong commercial rental revenue growth in this accelerating freight environment. We plan to grow the commercial rental fleet by 6%, as well as increase pricing. In DTS and SCS, we are also expecting revenue growth and margin expansion due to improved operating performance. Additionally, we instituted a zero-based budgeting process, significantly lowering overhead costs. We also anticipate 2018 earnings to benefit from the 2017 Tax Cut & Jobs Act, primarily due to a lower effective income tax rate. These expected overhead reductions and tax benefits will improve earnings and fund 2018 strategic investments in sales and marketing, new product development, and technology, which are focused on driving long term revenue and earnings growth.

These benefits are expected to be partially offset by impacts from the extended downturn in the used vehicle market as well as higher maintenance costs on certain older model year vehicles that will largely exit the fleet over the next 18 months. We anticipate a modestly improved outlook for used vehicle pricing in 2018 that will benefit year over year results; however, we still expect used vehicle sales to incur a loss for the year. We are also reducing our long term residual value estimates on vehicles in operation to reflect used vehicle market trends. Additionally, we are further accelerating depreciation on vehicles, which we expect to make available for sale through mid-2019.

We expect cash provided by operating activities from continuing operations to increase approximately $270 million to $1.8 billion in 2018, due to growth in pre-tax earnings adjusted for non-cash items, primarily depreciation. We expect free cash flow to decrease to negative $600 million in 2018, reflecting higher capital spending, partially offset by higher cash from operations. With expected negative free cash flow, we expect our leverage to increase to just below the bottom end of our target range of 200% - 250%.

We forecast 2018 earnings from continuing operations of $5.34 to $5.64 per diluted share, compared with $14.87 per diluted share in 2017, which included a $10.75 one-time net benefit from the 2017 Tax Cut & Jobs Act, and comparable earnings from continuing operations of $5.40 to $5.70 per diluted share, compared with $4.53 per diluted share in 2017. Comparable earnings exclude non-operating pension costs of $0.06 per diluted share in 2018, as well as non-operating pension, restructuring and other net benefit of $10.34 in 2017. Total revenue for 2018 is expected to be up 6% to approximately $8 billion. Operating revenue for 2018 is forecast to be up 8% to approximately $7 billion.

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 8% in 2017 to $7.33 billion and increased 3% in 2016 to $6.79 billion. Operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 4% in 2017 to $6.04 billion and increased 4% in 2016 to $5.79 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2017		2016	
	Total	Operating	Total	Operating
Organic, including price and volume	7%	4%	6%	5%
Fuel	1	—	(2)	—
Foreign exchange	—	—	(1)	(1)
Total increase	8%	4%	3%	4%

Lease and Rental

	2017	2016	2015	Change 2017/2016	2016/2015
	(Dollars in thousands)				
Lease and rental revenues	$3,237,685	3,170,952	3,121,553	2%	2%
Cost of lease and rental	2,355,043	2,234,284	2,153,450	5%	4%
Gross margin	882,642	936,668	968,103	(6)%	(3)%
Gross margin %	27 %	30 %	31 %		

Lease and rental revenues represent ChoiceLease and commercial rental product offerings within our FMS business segment. Revenues increased 2% in both 2017 and 2016, from higher ChoiceLease revenue, driven by growth in the average ChoiceLease fleet (up 2% in 2017 and 4% in 2016) and higher prices on replacement vehicles. ChoiceLease revenue growth was partially offset by lower commercial rental revenue reflecting weaker demand. Foreign exchange did not have a significant impact on revenue in 2017, but negatively impacted revenue growth by 100 basis points in 2016.

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 increased 5% in 2017 and 4% in 2016. In both years, cost of lease and rental reflected higher depreciation and maintenance costs from a larger average lease fleet and accelerated depreciation of $30 million in 2017 and $10 million in 2016, offset by lower depreciation and maintenance on a smaller average rental fleet. In 2017, maintenance spending also increased as the number of vehicles being prepared for sale returned to more normal levels and due to an increase in the age of the fleet. Changes in estimated residual values and useful lives of revenue earning equipment effective January 1 of each respective year negatively impacted cost of lease and rental by $4 million in 2017 and benefited cost of lease and rental by $35 million in 2016.

Lease and rental gross margin decreased 6% and gross margin as a percentage of revenue decreased to 27% in 2017. The decrease in gross margin dollars and gross margin as a percentage of revenue was due to increased maintenance costs, accelerated depreciation and lower commercial rental demand. Lease and rental gross margin decreased 3% 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.

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

Services

				Change	
	2017	2016	2015	2017/2016	2016/2015
	(Dollars in thousands)				
Services revenue	$3,571,414	3,152,294	2,912,063	13%	8%
Cost of services	3,003,348	2,602,978	2,413,156	15%	8%
Gross margin	568,066	549,316	498,907	3%	10%
Gross margin %	16 %	17 %	17 %		

Services revenue represents all the revenues associated with our DTS and SCS business segments as well as SelectCare and fleet support services associated with our FMS business segment. Services revenue increased 13% in 2017 due to new business, increased volumes and higher pricing in the SCS and DTS segments. In 2017, services revenue also benefited from higher fuel costs passed through to our DTS and SCS customers. Services revenue increased 8% in 2016 due to new business, increased volumes and higher pricing in the DTS and SCS segments. In 2016, the SelectCare product line in FMS benefited from growth in fleet size and increased volumes, which were partially offset by lower fuel prices passed through to our DTS and SCS customers. Foreign exchange did not have a significant impact on revenue in 2017, but negatively impacted revenue growth by 200 basis points in 2016.

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 15% in 2017 due to higher volumes and higher fuel costs. Cost of services increased 8% in 2016 due to higher volumes, partially offset by lower fuel and insurance costs. Foreign exchange did not have a significant impact on cost of services in 2017, but reduced cost of services by 100 basis points in 2016.

Services gross margin increased 3% in 2017, reflecting benefits from revenue growth in our DTS and SCS segments, partially offset by lower operating performance on certain SCS contracts and increased maintenance costs on certain older model year vehicles in DTS. Services gross margin as a percentage of revenue decreased to 16%, reflecting lower operating performance on certain SCS contracts and higher maintenance costs in DTS. Services gross margin increased 10% in 2016 due to higher revenue. Services gross margin as a percentage of revenue remained at 17% in 2016, reflecting no change from the prior year.

Fuel

				Change	
	2017	2016	2015	2017/2016	2016/2015
	(Dollars in thousands)				
Fuel services revenue	$520,500	463,738	538,277	12%	(14)%
Cost of fuel services	507,440	448,306	519,843	13%	(14)%
Gross margin	13,060	15,432	18,434	(15)%	(16)%
Gross margin %	3 %	3 %	3 %		

Fuel services revenue represents fuel services provided to our FMS customers. Fuel services revenue increased 12% in 2017 and decreased 14% in 2016. In 2017, the revenue increase was due to higher fuel costs passed through to customers. In 2016, the revenue decrease was due to lower fuel costs passed through to customers.

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 increased 13% in 2017 due to higher fuel costs and decreased 14% in 2016 due to lower fuel costs.

Fuel services gross margin decreased 15% in 2017 and 16% in 2016. Fuel services gross margin as a percentage of revenue remained at 3% in 2017 and 2016. 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.

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

	2017	2016	2015	Change 2017/2016	Change 2016/2015
	(In thousands)				
Other operating expenses	$115,507	113,461	117,082	2%	(3)%

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 ChoiceLease, rental, SelectCare and fleet support services customers.

	2017	2016	2015	Change 2017/2016	Change 2016/2015
	(Dollars in thousands)				
Selling, general and administrative expenses (SG&A)	$871,983	805,104	822,857	8%	(2)%
Percentage of total revenue	12 %	12 %	13 %		

SG&A expenses increased 8% in 2017 and decreased 2% in 2016. SG&A expenses as a percent of total revenue remained at 12% in 2017 after decreasing to 12% in 2016. The 2017 increase was primarily due to higher compensation-related costs and professional fees, as well as a $5 million estimated pension settlement charge for the exit from a U.S. multi-employer pension plan. The decrease in 2016 was due to lower compensation-related and marketing-related costs, professional fees and the effects from foreign exchange in SG&A expenses, partially offset by increased information technology costs. Foreign exchange did not significantly impact SG&A expenses in 2017, but reduced growth in SG&A expenses by 100 basis points in 2016.

	2017	2016	2015	Change 2017/2016	Change 2016/2015
	(In thousands)				
Non-operating pension costs	$27,741	37,593	17,797	(26)%	111%

Non-operating pension costs includes the components of our net periodic benefit cost other than service cost. These components include interest cost, expected return on plan assets, amortization of actuarial loss and prior service cost. Non-operating pension costs decreased 26% in 2017, primarily due to a one-time charge of $8 million in 2016 to fully reflect pension benefit improvements made in 2009 in our pension benefit obligation that were not fully reflected in prior years. Non-operating pension costs increased by $20 million in 2016, due to the impact of a lower asset return assumption and a higher discount rate, as well as the $8 million one-time charge.

	2017	2016	2015	Change 2017/2016	Change 2016/2015
	(In thousands)				
Used vehicle sales, net	$(17,241)	972	99,853	NM	(99)%

Used vehicle sales, net includes gains from sales of used vehicles, selling costs associated with used vehicles and write-downs of vehicles to fair market value. Used vehicle sales, net decreased to a loss of $17 million in 2017, due to a drop in the market value of tractors and trucks, which resulted in lower gains on sales. We anticipate a modestly improved outlook for used vehicle pricing in 2018 that will benefit year over year results; however, we still expect used vehicle sales to incur a loss for the year. Used vehicle sales, net decreased to a gain of $1 million in 2016, due to a drop in the market value of trucks and tractors, which resulted in lower gains on sales of used vehicles and higher fair market value write-downs.

The following table presents the used vehicle pricing changes for 2017 and 2016 compared with the respective prior years:

Proceeds per unit change	
2017/2016	2016/2015

Tractors	(12)%	(14)%
Trucks	(12)%	(1)%

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

	2017	2016	2015	Change 2017/2016	2016/2015
	(Dollars in thousands)				
Interest expense	$140,350	147,843	150,434	(5)%	(2)%
Effective interest rate	2.6 %	2.7 %	2.9 %		

Interest expense decreased 5% to $140 million in 2017, reflecting a lower average outstanding debt and a lower effective interest rate. Interest expense decreased 2% to $148 million in 2016, reflecting a lower effective interest rate, partially offset by a higher average outstanding debt. The lower effective interest rate in both years reflects the replacement of higher interest rate debt with debt issuances at lower rates.

	2017	2016	2015
	(In thousands)		
Miscellaneous income, net	$44,245	13,068	10,156

Refer to Note 27, Miscellaneous Income, Net in the Notes to Consolidated Financial Statements for a discussion of the changes in miscellaneous income, net.

	2017	2016	2015
	(In thousands)		
Restructuring charges and fees, net	$21,405	5,074	18,068

During the fourth quarters of 2017, 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 $13 million in 2017, $5 million in 2016 and $9 million in 2015. The workforce reduction approved in 2017 will be completed during 2018 and is expected to result in annual cost savings of approximately $30 million. The workforce reduction approved in 2016 was completed during 2017, and the workforce reduction 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 Charges and Fees, Net” in the Notes to Consolidated Financial Statements for further discussion.

	2017	2016	2015	Change 2017/2016	2016/2015
	(Dollars in thousands)				
(Benefit from) provision for income taxes	$(477,229)	141,741	163,226	NM	(13)%
Effective tax rate from continuing operations	(152.1)%	34.9 %	34.8 %		

Our provision for income taxes and effective income tax rates from continuing operations are impacted by discrete items such 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 188.2% in 2017, 0.8% in 2016 and 2.2% in 2015. The other components of the effective tax rate in 2017 and 2016 remained consistent with the prior year.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. We recognized a benefit of $586 million in the fourth quarter of 2017 associated with the adoption of tax reform. Refer to 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)

FULL YEAR OPERATING RESULTS BY BUSINESS SEGMENT

	2017	2016	2015	Change 2017/2016	2016/2015
	(In thousands)				
Revenue:					
Fleet Management Solutions	$4,733,571	4,556,194	4,545,692	4 %	— %
Dedicated Transportation Solutions	1,096,042	1,020,895	895,538	7	14
Supply Chain Solutions	1,969,500	1,637,850	1,547,763	20	6
Eliminations	(469,514)	(427,955)	(417,100)	(10)	(3)
Total	$7,329,599	6,786,984	6,571,893	8 %	3 %
Operating Revenue: [1]					
Fleet Management Solutions	$4,043,762	3,947,740	3,846,046	2 %	3 %
Dedicated Transportation Solutions	789,294	774,319	714,453	2	8
Supply Chain Solutions	1,507,548	1,352,077	1,256,309	11	8
Eliminations	(300,224)	(283,239)	(255,731)	(6)	(11)
Total	$6,040,380	5,790,897	5,561,077	4 %	4 %
EBT:					
Fleet Management Solutions	$312,720	370,829	461,314	(16)%	(20)%
Dedicated Transportation Solutions	55,328	63,571	45,575	(13)	39
Supply Chain Solutions	103,102	105,532	93,575	(2)	13
Eliminations	(53,275)	(50,148)	(47,193)	(6)	(6)
	417,875	489,784	553,271	(15)	(11)
Unallocated Central Support Services	(48,128)	(40,736)	(48,700)	(18)	16
Non-operating pension costs	(27,741)	(29,943)	(17,797)	7	(68)
Restructuring charges and fees, net and other items	(28,220)	(12,724)	(17,559)	NM	NM
Earnings from continuing operations before income taxes	$313,786	406,381	469,215	(23)%	(13)%

(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 Charges and Fees, Net," 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 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 28, "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.

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 DTS and SCS customers (equipment contribution) are included in both FMS and the segment that served the customer and then eliminated (presented as “Eliminations” in the table above). Refer to Note 28, "Segment Reporting" in the Notes to Consolidated Financial Statements for additional information. Prior year amounts have been reclassified to conform to the current period presentation.

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

	2017	2016	2015	Change 2017/2016	2016/2015
	(In thousands)				
Equipment Contribution:					
Dedicated Transportation Solutions	$31,029	32,731	32,471	(5)%	1%
Supply Chain Solutions	22,246	17,417	14,722	28	18
Total	$53,275	50,148	47,193	6%	6%

(1) Total amount is included in FMS EBT

DTS equipment contribution decreased 5% in 2017, primarily due to higher maintenance costs on an older vehicle fleet used in DTS operations. SCS equipment contribution increased 28% in 2017, primarily driven by new business and increased volumes. DTS equipment contribution increased slightly in 2016. SCS equipment contribution increased 18% in 2016, primarily driven by new business and increased volumes.

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	2017	2016	2015
		(In thousands)		
Restructuring [1]	Restructuring charges and fees, net	$(10,500)	(5,074)	(14,225)
Fees related to cost-savings program [2]	Restructuring charges and fees, net	(10,905)	—	(3,843)
Restructuring charges and fees, net		(21,405)	(5,074)	(18,068)
Non-operating pension costs [3]	Non-operating pension costs	(27,741)	(29,943)	(17,797)
Tax reform related bonus [2]	SG&A	(23,278)	—	—
Operating tax adjustment [2]	SG&A	(2,205)	—	—
Gain on sale of property [2]	Miscellaneous income	24,122	—	—
Pension related adjustment [4]	SG&A	(5,454)		509
Pension related adjustment [4]	Non-operating pension costs	—	(7,650)	—
		$(55,961)	(42,667)	(35,356)

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(1) See Note 4 , "Restructuring Charges and Fees, Net ," 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 28 “Segment Reporting,” in the Notes to Consolidated Financial Statements for additional information.

(4) 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

	2017	2016	2015	Change 2017/2016	Change 2016/2015
	(Dollars in thousands)				
ChoiceLease	$2,688,717	2,573,638	2,406,711	4%	7%
SelectCare	464,056	449,729	421,665	3	7
Commercial rental	813,539	846,331	940,045	(4)	(10)
Other	77,450	78,042	77,625	(1)	1
Fuel services revenue	689,809	608,454	699,646	13	(13)
FMS total revenue (1)	$4,733,571	4,556,194	4,545,692	4%	—%
FMS operating revenue (2)	$4,043,762	3,947,740	3,846,046	2	3
FMS EBT	$312,720	370,829	461,314	(16)%	(20)%
FMS EBT as a % of FMS total revenue	6.6 %	8.1 %	10.1 %	(150) bps	(200) bps
FMS EBT as a % of FMS operating revenue (1)	7.7 %	9.4 %	12.0 %	(170) bps	(260) 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 4% to $4.73 billion in 2017 and increased slightly in 2016 to $4.56 billion. FMS operating revenue (a non-GAAP measure excluding fuel) increased 2% in 2017 to $4.04 billion and 3% in 2016 to $3.95 billion. The following table summarizes the components of the change in revenue on a percentage basis versus the prior year:

	2017 Total	2017 Operating (1)	2016 Total	2016 Operating (1)
Organic, including price and volume	2%	2%	3%	4%
Fuel	2	—	(2)	—
Foreign exchange	—	—	(1)	(1)
Total increase	4%	2%	—%	3%

(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.

2017 versus 2016

ChoiceLease revenue increased 4% in 2017, reflecting a larger average fleet size and higher prices on replacement vehicles. The average number of ChoiceLease vehicles increased 2% from the prior year, reflecting continued solid sales activity. We expect favorable ChoiceLease comparisons to continue next year due to strong 2017 sales activity, as well as expected sales in 2018. Commercial rental revenue decreased 4% in 2017 due to lower demand. However, we expect favorable commercial rental comparisons next year based on a stronger demand environment experienced in the latter half of 2017. SelectCare revenue increased 3% in 2017, due to new business and higher volumes. Fuel services revenue increased 13% in 2017 due to higher fuel costs passed through to customers.

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

FMS EBT decreased 16% in 2017, due to increased accelerated depreciation of $21 million, lower used vehicle sales and commercial rental results. These decreases were partially offset by improved SelectCare and ChoiceLease performance. The increase in accelerated depreciation reflects a full year of accelerated depreciation and the expansion of acceleration to vehicles expected to be made available for sale through June 2019. Used vehicle sales results declined primarily due to lower pricing. Commercial rental performance declined 4% in 2017, reflecting lower demand. However, rental power fleet utilization was 75.6% in 2017, up from 74.7% in 2016, on a 6% smaller average rental power fleet, reflecting fleet right-sizing actions taken during the year. SelectCare performance was driven by new business and increased volumes. ChoiceLease comparisons benefited from growth in fleet size and higher per vehicle pricing.

2016 versus 2015

ChoiceLease revenue increased 7% in 2016 , reflecting a larger average fleet size and higher prices on replacement vehicles. Foreign exchange negatively impacted ChoiceLease revenue growth by 100 basis points. The average number of ChoiceLease vehicles increased 4% from the prior year, reflecting strong sales activity. Commercial rental revenue decreased 10% in 2016, due to lower demand. Foreign exchange negatively impacted commercial rental revenue growth by 100 basis points. SelectCare revenue increased 7%, primarily due to higher volumes and new business. Fuel services revenue declined 13% due to lower fuel costs passed through to customers.

FMS EBT decreased 20% in 2016, 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 ChoiceLease performance and lower overhead costs. Used vehicle sales results declined due to lower pricing, primarily on tractors and higher fair market value write-downs on vehicles held for sale. Commercial rental performance declined 10% 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. ChoiceLease comparisons benefited from growth in fleet size and higher per vehicle pricing. ChoiceLease and commercial rental results benefited from lower depreciation of $35 million due to residual value changes implemented on January 1, 2016.

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

	2017	2016	2015	Change 2017/2016	Change 2016/2015
	(Dollars in thousands)				
Rental revenue from non-lease customers	$517,874	528,892	571,985	(2)%	(8)%
Rental revenue from lease customers (1)	$295,665	317,439	368,060	(7)%	(14)%
Average commercial rental power fleet size – in service (2), (3)	29,700	31,500	33,800	(6)%	(7)%
Commercial rental utilization – power fleet (2)	75.6 %	74.7 %	76.5 %	90 bps	(180) bps

(1) Represents revenue from rental vehicles provided to our existing ChoiceLease 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 SelectCare vehicles, including vehicles under on-demand maintenance, is summarized as follows (number of units rounded to the nearest hundred):

	2017	2016	2015	Change 2017/2016	2016/2015
End of period vehicle count					
By type:					
Trucks [(1)]	76,400	73,300	72,800	4%	1%
Tractors [(2)]	66,000	67,900	68,700	(3)	(1)
Trailers [(3), (4)]	42,600	42,800	42,400	—	1
Other	1,200	1,100	1,300	9	(15)
Total	186,200	185,100	185,200	1%	—%
By ownership:					
Owned	184,900	183,700	184,700	1%	(1)%
Leased	1,300	1,400	500	(7)	180
Total	186,200	185,100	185,200	1%	—%
By product line: [(4)]					
ChoiceLease	139,100	136,500	131,800	2%	4%
Commercial rental	37,800	37,800	42,100	—	(10)
Service vehicles and other	3,300	3,300	3,300	—	—
Active units	180,200	177,600	177,200	1	—
Held for sale	6,000	7,500	8,000	(20)	(6)
Total	186,200	185,100	185,200	1	—
Customer vehicles under SelectCare contracts	54,400	49,000	46,700	11	5
Average vehicle count					
By product line:					
ChoiceLease	137,600	134,400	128,800	2%	4%
Commercial rental	37,500	39,200	42,400	(4)	(8)
Service vehicles and other	3,400	3,400	3,200	—	6
Active units	178,500	177,000	174,400	1	1
Held for sale	6,700	8,400	6,100	(20)	38
Total	185,200	185,400	180,500	—	3
Customer vehicles under SelectCare contracts	52,100	49,200	43,300	6%	14%
Customer vehicles under SelectCare on-demand [(5)]	24,500	21,000	20,000	17%	5%
Total vehicles serviced	261,800	255,600	243,800	2%	5%

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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 4,900 UK trailers (3,100 ChoiceLease and 1,800 commercial rental), 5,300 UK trailers (3,300 ChoiceLease and 2,000 commercial rental) and 6,100 UK trailers (3,900 ChoiceLease and 2,200 commercial rental) as of December 31, 2017, 2016 and 2015, respectively.

(5) Comprised of the number of unique vehicles serviced under on-demand maintenance agreements. This does not represent averages for the periods. 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.

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):

				Change	
Number of Units	2017	2016	2015	2017/2016	2016/2015
Not yet earning revenue (NYE)	2,900	1,700	2,800	71%	(39)%
No longer earning revenue (NLE):					
Units held for sale	6,000	7,500	8,000	(20)	(6)
Other NLE units	3,400	4,400	3,300	(23)	33
Total	12,300	13,600	14,100	(10)%	(4)%

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 2017, the number of NYE units increased 71% compared with December 31, 2016, reflecting lease fleet growth. 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 2017, the number of NLE units decreased 21%, reflecting lower used vehicle inventories and a lower number of vehicles being prepared for sale at the end of the year. We expect NLE units to increase slightly in 2018, as a result of higher expected used vehicle inventories driven by the lease replacement cycle.

Dedicated Transportation Solutions

				Change	
	2017	2016	2015	2017/2016	2016/2015
	(Dollars in thousands)				
DTS total revenue	$1,096,042	1,020,895	895,538	7%	14%
DTS operating revenue [(1)]	$789,294	774,319	714,453	2%	8%
DTS EBT	$55,328	63,571	45,575	(13)%	39%
DTS EBT as a % of DTS total revenue	5.0 %	6.2 %	5.1 %	(120) bps	110 bps
DTS EBT as a % of DTS operating revenue[(1)]	7.0 %	8.2 %	6.4 %	(120) bps	180 bps
Memo:					
Average fleet	8,200	8,200	7,700	—%	6%

(1) Non-GAAP financial measures. Reconciliations of DTS total revenue to DTS operating revenue and 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.

DTS total revenue increased 7% in 2017 to $1.10 billion and increased 14% in 2016 to $1.02 billion. DTS operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 2% in 2017 to $789 million and 8% in 2016 to $774 million. We expect improved operating revenue growth next year based on strong sales activity as well as expected 2018 activity.

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:

	2017		2016	
	Total	Operating [(1)]	Total	Operating [(1)]
Organic, including price and volume	6%	2%	16%	8%
Fuel	1	—	(2)	—
Total increase	7%	2%	14%	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.

2017 versus 2016

In 2017, DTS total revenue increased 7% reflecting organic growth and, to a lesser extent, higher fuel costs passed through to our customers. DTS operating revenue increased 2% due to new business, increased volumes and higher pricing. DTS EBT decreased 13% due to higher insurance premiums, increased maintenance costs on certain older model year vehicles and higher labor costs from increased driver turnover. These items were partially offset by favorable developments of self-insurance claims from prior years.

2016 versus 2015

In 2016, DTS total revenue increased 14% reflecting organic growth, partially offset by lower fuel prices passed through to our customers. DTS 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.

Supply Chain Solutions

	2017	2016	2015	Change 2017/2016	2016/2015
	(Dollars in thousands)				
Automotive	$566,302	548,659	469,178	3%	17%
Technology and healthcare	271,551	242,474	251,188	12	(3)
CPG and retail	511,793	436,368	431,571	17	1
Industrial and other	157,902	124,576	104,372	27	19
Subcontracted transportation	386,792	224,060	226,880	73	(1)
Fuel	75,160	61,713	64,574	22	(4)
SCS total revenue	$1,969,500	$1,637,850	$1,547,763	20%	6%
SCS operating revenue [(1)]	$1,507,548	1,352,077	1,256,309	11%	8%
SCS EBT	$103,102	105,532	93,575	(2)%	13%
SCS EBT as a % of SCS total revenue	5.2 %	6.4 %	6.0 %	(120) bps	40 bps
SCS EBT as a % of SCS operating revenue[(1)]	6.8 %	7.8 %	7.4 %	(100) bps	40 bps
Memo:					
Average fleet	7,900	7,200	6,300	10%	14%

(1) Non-GAAP financial measures. Reconciliations of SCS total revenue to SCS operating revenue and 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
FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)

SCS total revenue increased 20% in 2017 to $1.97 billion and 6% in 2016 to $1.64 billion. SCS operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 11% in 2017 to $1.51 billion and 8% in 2016 to $1.35 billion. We expect favorable operating revenue comparisons to continue next year, although at a lower level than realized in 2017.

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

	2017		2016	
	Total	Operating (1)	Total	Operating (1)
Organic, including price and volume	19%	11%	8%	9%
Foreign exchange	—	—	(2)	(1)
Fuel	1	—	—	—
Total increase	20%	11%	6%	8%

(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.

2017 versus 2016

SCS total revenue increased 20% in 2017 due to organic growth and, to a lesser extent, higher fuel costs passed through to our customers. SCS operating revenue increased 11% due to new business, increased volumes and higher pricing. SCS EBT decreased 2% in 2017 as benefits from increased revenue were offset by the performance of two customer accounts, higher compensation-related costs and higher overhead spending due to planned investments in information technology and sales.

2016 versus 2015

SCS 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 due to increased revenue.

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

Central Support Services

	2017	2016	2015	Change 2017/2016	2016/2015
	(In thousands)				
Human resources	$16,820	17,501	20,150	(4)%	(13)%
Finance	58,597	59,445	60,998	(1)	(3)
Corporate services and public affairs	12,561	11,682	12,303	8	(5)
Information technology	89,453	82,087	84,729	9	(3)
Legal and safety	25,382	23,977	24,522	6	(2)
Marketing	18,306	18,029	22,206	2	(19)
Other	34,284	24,144	33,888	42	(29)
Total CSS	255,403	236,865	258,796	8	(8)
Allocation of CSS to business segments	(207,275)	(196,129)	(210,096)	6	(7)
Unallocated CSS	$48,128	40,736	48,700	18%	(16)%

2017 versus 2016

Total CSS costs increased 8% in 2017 to $255 million, due to higher information technology and compensation-related costs, as well as, higher professional services costs associated with strategic initiatives. Unallocated CSS costs increased 18% in 2017 to $48 million, primarily due to higher professional services costs associated with strategic initiatives.

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.

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
	2017	2016	2017/2016
	(Dollars in thousands, except per share amounts)		
Total revenue	$1,939,693	1,729,150	12%
Operating revenue [(1)]	1,586,612	1,466,878	8
EBT	$78,795	69,196	14%
Comparable EBT [(2)]	104,540	82,165	27
Earnings from continuing operations [(3)]	642,480	49,275	1,204
Comparable earnings from continuing operations [(2)]	72,730	57,435	27
Net earnings [(3)]	642,970	48,181	1,234
Earnings per common share (EPS) — Diluted			
Continuing operations [(3)]	$12.10	0.92	1,215%
Comparable [(2)]	1.37	1.07	28
Net earnings [(3)]	$12.11	0.91	1,231

(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 from continuing operations and earnings per diluted common share to their respective comparable measures and the reasons why management believes these measures are important to investors.

(3) 2017 amounts reflect tax benefit as a result of the 2017 Tax Cuts and Jobs Act. Refer to Note 13 , "Income Taxes ," in the Notes to Consolidated Financial Statements for additional information.

Total revenue increased 12% in the fourth quarter of 2017 to $1.94 billion. Operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 8% in the fourth quarter of 2017 to $1.59 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, 2017	
	Total	Operating [(1)]
Organic, including price and volume	9%	7%
Foreign exchange	1	1
Fuel	2	—
Total increase	12%	8%

(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.

Total revenue and operating revenue grew across all three business segments reflecting new business and higher volumes. Total revenue also grew due to higher fuel costs passed through to customers. EBT increased 14% in the fourth quarter of 2017 to $79 million. The increase in EBT primarily reflects improved used vehicle sales results and higher commercial rental and lease performance, partially offset by higher restructuring and other charges. See “Fourth Quarter Operating Results by Business Segment” for further discussion of segment operating results.

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
	2017	2016	2017/2016
	(In thousands)		
Revenue:			
Fleet Management Solutions	$ 1,241,724	1,151,742	8%
Dedicated Transportation Solutions	284,422	256,870	11
Supply Chain Solutions	540,023	430,185	26
Eliminations	(126,476)	(109,647)	(15)
Total	$ 1,939,693	1,729,150	12%
Operating Revenue: (1)			
Fleet Management Solutions	$ 1,056,970	992,274	7%
Dedicated Transportation Solutions	198,249	193,106	3
Supply Chain Solutions	410,649	352,650	16
Eliminations	(79,256)	(71,152)	(11)
Total	$ 1,586,612	1,466,878	8%
EBT:			
Fleet Management Solutions	$ 91,747	64,275	43%
Dedicated Transportation Solutions	15,436	15,271	1
Supply Chain Solutions	27,743	26,427	5
Eliminations	(15,222)	(13,032)	(17)
	119,704	92,941	29
Unallocated Central Support Services	(15,163)	(10,775)	(41)
Non-operating pension costs	(6,866)	(7,895)	13
Restructuring and other charges, net and other items	(18,880)	(5,074)	NM
Earnings from continuing operations before income taxes	$ 78,795	69,196	14%

(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

FMS total revenue increased 8% to $1.24 billion in the fourth quarter of 2017. FMS operating revenue (a non-GAAP measure excluding fuel) increased 7% in the fourth quarter of 2017 to $1.06 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, 2017	
	Total	Operating (1)
Organic, including price and volume	5%	6%
Fuel	2	—
Foreign exchange	1	1
Total increase	8%	7%

(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.

ChoiceLease revenue increased 6% to $696 million in the fourth quarter of 2017, reflecting a larger average lease fleet size and higher prices on replacement vehicles. Commercial rental revenue grew 7% in the fourth quarter of 2017 due to increased demand and higher pricing. Fuel services revenue increased 16% to $185 million in the fourth quarter of 2017 due to higher fuel costs passed through to customers.

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

FMS EBT increased 43% in the fourth quarter of 2017 to $92 million, reflecting improved used vehicle sales results and higher commercial rental and ChoiceLease performance. Used vehicle sales comparisons primarily reflect prior year inventory valuation adjustments of $21 million. Commercial rental performance improved due to higher pricing and increased utilization, reflecting stronger demand on a smaller fleet due to the fleet right-sizing actions taken earlier in the year. Rental power fleet utilization increased to 81.2% in the fourth quarter of 2017 from 77.3% in the year-earlier period. ChoiceLease results benefited from fleet growth. These items were partially offset by higher compensation-related costs. Additionally, FMS results in the fourth quarter included accelerated depreciation of $9 million in 2017 and $10 million in 2016 to reflect a challenging used vehicle market outlook.

Dedicated Transportation Solutions

DTS total revenue increased 11% in the fourth quarter of 2017 to $284 million and DTS operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 3% in the fourth quarter of 2017 to $198 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, 2017	
	Total	Operating (1)
Organic, including price and volume	9%	3%
Fuel	2	—
Total increase	11%	3%

The growth in DTS total revenue and DTS operating revenue primarily reflects increased volumes. DTS EBT increased 1% from the fourth quarter of the prior year as favorable developments of self-insurance claims from prior years largely offset by higher driver costs due to increased turnover and seasonal volumes at select customer accounts, as well as elevated maintenance costs on certain older model year vehicles.

Supply Chain Solutions

SCS total revenue increased 26% in the fourth quarter of 2017 to $540 million. SCS operating revenue (a non-GAAP measure excluding fuel and subcontracted transportation) increased 16% in the fourth quarter of 2017 to $411 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, 2017	
	Total	Operating (1)
Organic, including price and volume	24%	15%
Fuel	1	—
Foreign exchange	1	1
Total increase	26%	16%

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(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 revenue and SCS operating revenue grew primarily as a result of new business. SCS EBT increased 5% in the fourth quarter of 2017 to $28 million reflecting the impact of revenue growth, partially offset by lower performance in two customer accounts, although to a lesser extent than in the third quarter of 2017. Additionally, results were negatively impacted by higher overhead spending due to planned investments in information technology and sales.

Central Support Services

Unallocated CSS costs increased 41% in the fourth quarter of 2017 to $15 million primarily due to higher compensation-related costs and professional fees in 2017.

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

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

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

	2017	2016	2015
	(In thousands)		
Net cash provided by (used in):			
Operating activities	$1,547,986	1,601,022	1,441,788
Financing activities	(155,115)	(185,922)	731,485
Investing activities	(1,366,340)	(1,405,833)	(2,161,355)
Effect of exchange rates on cash	(5,539)	(9,482)	37
Net change in cash and cash equivalents	$20,992	(215)	11,955

Cash provided by operating activities from continuing operations decreased to $1.55 billion in 2017, compared with $1.60 billion in 2016, primarily reflecting the impact of lower comparable earnings. Cash used in financing activities totaled $155 million in 2017, compared with $186 million in 2016, driven by share repurchases and common stock dividends. Cash used in investing activities decreased to $1.37 billion in 2017, compared with $1.41 billion in 2016, primarily due to lower payments for capital expenditures and higher proceeds from operating property and equipment sales, partially offset by lower proceeds from revenue earning equipment sales.

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 account 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.

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

	2017	2016	2015
	(In thousands)		
Net cash provided by operating activities	$1,547,986	1,601,022	1,441,788
Sales of revenue earning equipment (1)	376,743	414,249	423,605
Sales of operating property and equipment (1)	52,257	7,051	3,891
Collections on direct finance leases and other (1)	73,172	76,510	70,980
Total cash generated (2)	2,050,158	2,098,832	1,940,264
Purchases of property and revenue earning equipment (1)	(1,860,436)	(1,905,157)	(2,667,978)
Free cash flow (2)	$189,722	193,675	(727,714)
Memo:			
Net cash (used in) provided by financing activities	$(155,115)	(185,922)	731,485
Net cash used in investing activities	$(1,366,340)	(1,405,833)	(2,161,355)

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(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 of $190 million in 2017 was level with $194 million in 2016, primarily due to lower cash flows from operations, partially offset by lower cash paid for purchases of property and revenue earning equipment in 2017. Free cash flow increased to $194 million in 2016 from $(728) million in 2015 due to lower capital expenditures in 2016.

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

We expect cash provided by operating activities from continuing operations to increase approximately $270 million to $1.8 billion in 2018, due to pre-tax earnings growth adjusted for non-cash items, primarily depreciation. We expect 2018 free cash flow to decrease to negative $600 million, reflecting capital spending to fund higher growth and replacement in the lease and rental vehicle fleets.

Capital expenditures are generally used to purchase revenue earning equipment (trucks, tractors and trailers) within our FMS segment. These expenditures primarily support the ChoiceLease and commercial rental product lines. The level of capital required to support the ChoiceLease 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:

	2017	2016	2015
	(In thousands)		
Revenue earning equipment:			
ChoiceLease	$1,456,758	1,547,717	2,060,254
Commercial rental	351,707	82,580	522,940
	1,808,465	1,630,297	2,583,194
Operating property and equipment	132,752	132,603	112,918
Total capital expenditures (1)	1,941,217	1,762,900	2,696,112
Changes in accounts payable related to purchases of revenue earning equipment	(80,781)	142,257	(28,134)
Cash paid for purchases of property and revenue earning equipment	$1,860,436	1,905,157	2,667,978

(1) Non-cash additions exclude approximately $7 million, $1 million and $6 million in 2017, 2016 and 2015, respectively, in assets held under capital leases resulting from the extension of existing operating leases and other additions.

Capital expenditures increased to $1.94 billion in 2017, reflecting higher planned investments to refresh our commercial rental fleet, partially offset by lower ChoiceLease spending. Capital expenditures decreased in 2016 to $1.76 billion, reflecting lower planned investments in the ChoiceLease and commercial rental fleets. We expect capital expenditures to increase to approximately $2.9 billion in 2018, primarily due to increased investments to grow our ChoiceLease fleet, and to refresh and expand our commercial rental fleet. We expect to fund 2018 capital expenditures primarily with additional debt financing.

Working Capital

	2017	2016
	(In thousands)	
Current assets	$1,322,282	$1,101,557
Current liabilities	2,012,778	1,744,069
Working capital	$(690,496)	$(642,512)

Our net working capital was negative $690 million at December 31, 2017, compared with negative $643 million at December 31, 2016. Approximately $826 million of our negative working capital is associated with debt due in the next year. 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.

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

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.

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, 2017 were as follows:

	Short-term		Long-term	
	Rating	Outlook	Rating	Outlook
Moody’s Investors Service	P2	Stable	Baa1	Stable (affirmed May 2017)
Standard & Poor’s Ratings Services	A2	Stable	BBB+	Stable (affirmed October 2017)
Fitch Ratings	F2	Stable	A-	Stable (affirmed October 2017)

Cash and equivalents totaled $78 million as of December 31, 2017. Approximately $23 million was held outside the U.S. as of December 31, 2017, and is available to fund operations and other growth of our non-U.S. subsidiaries. We have historically reinvested such earnings overseas indefinitely and may continue to reinvest future foreign earnings overseas
indefinitely. Since the 2017 Tax Cut and Jobs Act implements a territorial tax system, whereby certain foreign subsidiary earnings can be repatriated to the U.S. with no federal tax, we are reassessing whether to indefinitely reinvest our overseas earnings. 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. Refer to Note 13, “Income Taxes,” in the Notes to Consolidated Financial Statements for an additional discussion.

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, 2017, we had the following amounts available to fund operations:

	(In millions)
Global revolving credit facility	$577
Trade receivables program	$175

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

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:

	2017	2016
	(In thousands)	
Debt balance at January 1	$5,391,274	5,502,627
Cash-related changes in debt:		
Net change in commercial paper borrowings and revolving credit facilities	89,519	(77,798)
Proceeds from issuance of medium-term notes	595,785	596,283
Proceeds from issuance of other debt instruments	277,517	78,645
Retirement of medium-term notes	(700,000)	(600,000)
Other debt repaid	(262,577)	(69,047)
Debt issuance costs paid	(1,738)	(1,776)
	(1,494)	(73,693)
Non-cash changes in debt:		
Fair market value adjustment on notes subject to hedging	(8,302)	(4,143)
Addition of capital lease obligations	7,057	1,231
Changes in foreign currency exchange rates and other non-cash items	21,116	(34,748)
Total changes in debt	18,377	(111,353)
Debt balance at December 31	$5,409,651	5,391,274

In accordance with our funding philosophy, we attempt to align 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 alignment 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 31% and 30% at December 31, 2017 and 2016, respectively.
Ryder's debt to equity ratios were 191% and 263% at December 31, 2017 and 2016, respectively. The debt to equity ratio represents total debt divided by total equity. Our debt to equity ratio decreased as of December 31, 2017, primarily due to a one-time net tax benefit of $586 million related to the 2017 Tax Cut and Jobs Act for the estimated impact of the change in the future tax rates on our deferred tax liabilities as of December 31, 2017.

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, 2017:

	2018	2019-2020	2021-2022	Thereafter	Total
	(In thousands)				
Debt	$818,510	2,970,078	1,416,874	190,510	5,395,972
Capital lease obligations	7,559	9,502	3,810	—	20,871
Total debt, including capital leases (1)	826,069	2,979,580	1,420,684	190,510	5,416,843
Interest on debt (2)	148,150	201,785	71,900	32,570	454,405
Operating leases (3)	84,824	104,469	43,443	38,288	271,024
Purchase obligations (4)	26,417	29,668	6,641	259	62,985
Total contractual cash obligations	259,391	335,922	121,984	71,117	788,414
Insurance obligations (primarily self-insurance)	110,632	114,543	49,590	78,341	353,106
Other long-term liabilities (5), (6), (7)	6,771	6,957	4,547	71,308	89,583
Total	$1,202,863	3,437,002	1,596,805	411,276	6,647,946

(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, 2017. 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 2018, our pension contributions, including our minimum funding requirements as set forth by U.S. and international regulations and legislation (including ERISA), are expected to be $34 million. Our minimum funding requirements after 2018 are dependent on several factors. However, we estimate that the undiscounted required global contributions over the next five years are approximately $296 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 $68 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 2017, total global pension contributions were $41 million compared with $128 million in 2016. We estimate 2018 required pension contributions will be $34 million. The present value of estimated global pension contributions that would be required over the next 5 years totals approximately $266 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 expense and required contributions in future years. The ultimate amount of contributions is also dependent upon the requirements of applicable laws and regulations. See Note 22, “Employee Benefit Plans,” in the Notes to Consolidated Financial Statements for additional information.

Due to the underfunded status of our defined benefit plans, we had an accumulated net pension equity charge (after-tax) of $567 million and $627 million at December 31, 2017 and 2016, respectively. The improvement in funded status reflects the benefit of asset returns of 15% in 2017.

Pension expense totaled $57 million in 2017 compared to $61 million in 2016. The increase in pension expense is primarily due to higher expense for union-administered multi-employer plans. We expect 2018 pension expense to decrease approximately $22 million primarily due to the benefit of favorable asset returns in 2017. Our 2018 pension expense estimates are subject to change based upon the completion of the actuarial analysis for all pension plans. See the “Critical Accounting Estimates — Pension Plans” section for further discussion on pension accounting estimates.

During 2017, we completed a transfer of future retiree benefits in our U.S. defined benefit plan to a third-party annuity company. We paid $71 million in connection with this transfer, which included a $66 million reduction in our projected benefit obligation and an annuity premium. We did not record a gain or loss on this transaction as the cost of all settlements during the year, including this transaction, were less than our combined service and interest costs for the year.

We participate in certain U.S. multi-employer pension (MEP) plans that provide defined benefits to employees covered by collective bargaining agreements. At December 31, 2017, approximately 1,100 employees (approximately 3% of total employees) participated in these MEP plans. The annual net pension cost of the MEP plans is equal to the annual contribution determined in accordance with the provisions of negotiated labor contracts. Our current year MEP plan contributions total approximately $10 million. Pursuant to current U.S. pension laws, if any MEP plans fail to meet certain minimum funding thresholds, we could be required to make additional MEP plan contributions, until the respective labor agreement expires, of up to 10% of current contractual requirements. Several factors could cause MEP plans not to meet these minimum funding thresholds, including unfavorable investment performance, changes in participant demographics, and increased benefits to participants. The plan administrators and trustees of the MEP plans provide us with the annual funding notice as required by law. This notice sets forth the funded status of the plan as of the beginning of the prior year but does not provide any company-specific information.

Employers participating in MEP plans can elect to withdraw from the plans, contingent upon certain requirements, and be subject to a withdrawal obligation based on, among other factors, the MEP plan’s unfunded vested benefits. U.S. pension regulations provide that an employer can fund its withdrawal obligation in a lump sum or over a time period of up to 20 years based on previous contribution rates. During 2017, we recorded estimated pension settlement charges of $5 million related to our exit from a U.S. multi-employer pension plan. These charges were recorded within "Selling, general and administrative expenses" in our Consolidated Statement of Earnings and are included in the Union-administered plans expense. See Note 22, “Employee Benefit Plans,” in the Notes to Consolidated Financial Statements for additional information.

Share Repurchase Programs and Cash Dividends

Refer to Note 18, “Share Repurchase Programs,” in the Notes to Consolidated Financial Statements for a discussion on our share repurchase programs.

Cash dividend payments to shareholders of common stock were $96 million in 2017, $91 million in 2016, and $83 million in 2015. During 2017, we increased our annualized dividend rate 5% to $1.84 per share of common stock.

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

Market Risk

In the normal course of business, we are exposed to fluctuations in interest rates, foreign currency exchange rates and fuel prices. We manage these exposures in several ways, including, in certain circumstances, the use of a variety of derivative financial instruments when deemed prudent. We do not enter into leveraged derivative financial transactions or use derivative financial instruments for trading purposes.

Exposure to market risk for changes in interest rates exists for our debt obligations. Our interest rate risk management program objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. A hypothetical 100 basis point change in short-term market interest rates would change annual pre-tax earnings by $13 million. We manage our exposure to interest rate risk primarily through the proportion of fixed-rate and variable-rate debt we hold in the total debt portfolio. From time to time, we also use interest rate swap agreements to manage our fixed-rate and variable-rate exposure and to better match the repricing of debt instruments to that of our portfolio of assets. See Note 16, “Derivatives,” in the Notes to Consolidated Financial Statements for further discussion on interest rate swap agreements.

At December 31, 2017, we had $3.22 billion of fixed-rate debt outstanding (excluding capital leases and U.S. asset-backed securities) with a weighted-average interest rate of 3% and a fair value of $3.26 billion. A hypothetical 10% decrease or increase in the December 31, 2017 market interest rates would impact the fair value of our fixed-rate debt by approximately $28 million at December 31, 2017. Changes in the relative sensitivity of the fair value of our financial instrument portfolio for these theoretical changes in the level of interest rates are primarily driven by changes in our debt maturities, interest rate profile and amount.

At December 31, 2017, we had $1.69 billion of variable-rate debt, including $825 million of fixed-rate debt instruments swapped to LIBOR-based floating-rate debt. Changes in the fair value of the interest rate swaps were offset by changes in the fair value of the debt instruments and no net gain or loss was recognized in earnings. The fair value of our interest rate swap agreements at December 31, 2017 was a net liability of $7 million. The fair value of our variable-rate debt at December 31, 2017 was $1.69 billion. A hypothetical 10% increase in market interest rates would have impacted 2017 pre-tax earnings from continuing operations by approximately $3 million.

We are also subject to interest rate risk with respect to our pension and postretirement benefit obligations, as changes in interest rates will effectively increase or decrease our liabilities associated with these benefit plans, which also results in changes to the amount of pension and postretirement benefit expense recognized each period.

Exposure to market risk for changes in foreign currency exchange rates relates primarily to our foreign operations’ buying, selling and financing in currencies other than local currencies and to the carrying value of net investments in foreign subsidiaries. The majority of our transactions are denominated in U.S. dollars. The principal foreign currency exchange rate risks to which we are exposed include the Canadian dollar, British pound sterling and Mexican peso. We manage our exposure to foreign currency exchange rate risk related to our foreign operations’ buying, selling and financing in currencies other than local currencies by naturally offsetting assets and liabilities not denominated in local currencies to the extent possible. A hypothetical uniform 10% strengthening in the value of the dollar relative to all the currencies in which our transactions are denominated would result in a decrease to pre-tax earnings from continuing operations of approximately $0.1 million. We also use foreign currency option contracts and forward agreements from time to time to hedge foreign currency transactional exposure. We generally do not hedge the foreign currency exposure related to our net investment in foreign subsidiaries, since we have no near-term intent to repatriate funds from such subsidiaries.

Exposure to market risk for fluctuations in fuel prices relates to a small portion of our service contracts for which the cost of fuel is integral to service delivery and the service contract does not have a mechanism to adjust for increases in fuel prices. At December 31, 2017, we also had various fuel purchase arrangements in place to ensure delivery of fuel at market rates in the event of fuel shortages. We are exposed to fluctuations in fuel prices in these arrangements since none of the arrangements fix the price of fuel to be purchased. Increases and decreases in the price of fuel are generally passed on to our customers for which we realize minimal changes in profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel services is established based on trailing market fuel costs. We believe the exposure to fuel price fluctuations would not materially impact our results of operations, cash flows or financial position.

ENVIRONMENTAL MATTERS

Refer to Note 23, “Environmental Matters,” in the Notes to Consolidated Financial Statements for a discussion surrounding environmental matters.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions. Our significant accounting policies are described in the Notes to Consolidated Financial Statements. Certain of these policies require the application of subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. These estimates and assumptions are based on historical experience, changes in the business environment and other factors that we believe to be reasonable under the circumstances. Different estimates that could have been applied in the current period or changes in the accounting estimates that are reasonably likely can result in a material impact on our financial condition and operating results in the current and future periods. We review the development, selection and disclosure of these critical accounting estimates with Ryder’s Audit Committee on an annual basis.

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

Depreciation and Residual Value Guarantees. We periodically review and adjust the residual values and useful lives of revenue earning equipment of our FMS business segment as described in Note 1, “Summary of Significant Accounting Policies — Revenue Earning Equipment, Operating Property and Equipment, and Depreciation” in the Notes to Consolidated Financial Statements. Reductions in residual values (i.e., the price at which we ultimately expect to dispose of revenue earning equipment) or useful lives will result in an increase in depreciation expense over the life of the equipment. Based on the mix of revenue earning equipment at December 31, 2017, a 10% decline in expected vehicle residual values would increase depreciation expense in 2018 by approximately $126 million.

We review residual values and useful lives of revenue earning equipment on an annual basis or more often if deemed necessary for specific groups of our revenue earning equipment. Reviews are performed based on vehicle class, generally subcategories of trucks, tractors and trailers by weight and usage. Our annual review is established with a long-term view considering historical market price changes, current and expected future market price trends, expected life of vehicles included in the fleet and extent of alternative uses for leased vehicles (e.g., rental fleet, and DTS and SCS applications). As a result, future depreciation expense rates are subject to change based upon changes in these factors. While we believe that the carrying values and estimated sales proceeds for revenue earning equipment are appropriate, there can be no assurance that deterioration in economic conditions or adverse changes to expectations of future sales proceeds will not occur, resulting in lower gains or losses on sales.

At the end of each year, we complete our annual review of the residual values and useful lives of revenue earning equipment. Based on the results of our analysis, we adjust the residual values and useful lives of certain classes of our revenue earning equipment effective January 1 of each year. The approximate (unfavorable) / favorable impact on the annual depreciation expense resulting from the residual value and useful life reviews is as follows:

2018	2017	2016
($40 million)	($4 million)	$35 million

In addition, we also monitor market trends throughout the year and assess residual values of vehicles expected to be sold in the near term and may adjust residual values for the vehicles.

Factors that could cause actual results to materially differ from the estimated results include significant changes in the used equipment market brought on by unforeseen changes in technology innovations and any resulting changes in the useful lives of used equipment.

Depreciation expense was $1.26 billion, $1.19 billion and $1.12 billion in 2017, 2016 and 2015, respectively. Depreciation expense relates primarily to FMS revenue earning equipment. Depreciation expense increased 6% in 2017, driven by a larger average full service lease fleet and accelerated depreciation on vehicles expected to be made available for sale through June 2019 of $21 million, partially offset by a smaller average commercial rental fleet. Depreciation expense increased 6% in 2016, driven by a larger average full service lease fleet and accelerated depreciation of $10 million. The increase in 2016 was partially offset by $35 million from increases in residual values.

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

Pension Plans. We apply actuarial methods to determine the annual net periodic pension expense and pension plan liabilities on an annual basis, or on an interim basis if there is an event requiring remeasurement. Each December, we review actual experience compared with the assumptions used and make adjustments to our assumptions, if warranted. In determining our annual estimate of periodic pension cost, we are required to make an evaluation of critical factors such as discount rate, expected long-term rate of return on assets, expected increase in compensation levels, retirement rate and mortality. Discount rates are based upon a duration analysis of expected benefit payments and the equivalent average yield for high quality corporate fixed income investments as of our December 31 annual measurement date. In order to estimate the discount rate relevant to our plan, we use models that match projected benefits payments of our primary U.S. plan to coupons and maturities from a hypothetical portfolio of high quality corporate bonds. Long-term rate of return assumptions are based on actuarial review of our asset allocation strategy and long-term expected asset returns. Investment management and other fees paid using plan assets are factored into the determination of asset return assumptions.

Assumptions as to mortality of the participants in our pension plan is a key estimate in measuring the expected payments participants may receive over their lifetime, and therefore the amount of expense we will recognize. We update our mortality assumptions as deemed necessary by taking into consideration relevant actuarial studies as they become available as well as reassessing our own historical experience.

As part of our strategy to manage future pension costs and net funded status volatility, we regularly assess our pension investment strategy. Our U.S. pension investment policy and strategy seek to reduce the effects of future volatility on the fair value of our pension assets relative to our pension liabilities by increasing our allocation of high quality, longer-term fixed income securities and reducing our allocation of equity investments as the funded status of the plan improves. The composition of our pension assets was 52% equity securities and alternative assets and 48% debt securities and other investments at December 31, 2017. We continually evaluate our mix of investments between equity and fixed income securities and adjust the composition of our pension assets when appropriate. In 2017, we adjusted our long-term expected rate of return assumption for our primary U.S. plan to 5.40% from 5.85% based on our expected asset mix. The expected rate of return assumption for the fixed income portion of our portfolio mirrors the discount rate in order to align the expected return on fixed income securities with the movement in the pension liability under our strategy.

Accounting guidance applicable to pension plans does not require immediate recognition of the effects of a deviation between these assumptions and actual experience or the revision of an estimate. This approach allows the favorable and unfavorable effects that fall within an acceptable range to be netted and included in "Accumulated other comprehensive loss." We had a pre-tax accumulated actuarial loss of $878 million and $961 million at the end of 2017 and 2016, respectively. To the extent the amount of cumulative actuarial gains and losses exceed 10% of the greater of the benefit obligation or plan assets, the excess amount is amortized over the average remaining life expectancy of active participants or the remaining life expectancy of inactive participants if all or almost all of a plan's participants are inactive. The amount of the actuarial loss subject to amortization in 2018 and future years will be $649 million. We expect to recognize approximately $29 million of the net actuarial loss as a component of pension expense in 2018. The effect on years beyond 2018 will depend substantially upon the actual experience of our plans.

Disclosure of the significant assumptions used in arriving at the 2017 net pension expense is presented in Note 22, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements. A sensitivity analysis of 2017 net pension expense to changes in key underlying assumptions for our primary plan, the U.S. pension plan, is presented below.

	Assumed Rate		Change	Impact on 2018 Net Pension Expense	Effect on December 31, 2017 Projected Benefit Obligation
Expected long-term rate of return on assets	5.40	%	+/- 0.25	+/- $3.0 million	N/A
Discount rate increase	3.70	%	+ 0.25	+ $4.0 million	- $52 million
Discount rate decrease	3.70	%	- 0.25	- $4.0 million	+ $52 million

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

Self-Insurance Accruals. Self-insurance accruals were $349 million and $337 million as of December 31, 2017 and 2016, respectively. The majority of our self-insurance relates to vehicle liability and workers' compensation. We use a variety of statistical and actuarial methods that are widely used and accepted in the insurance industry to estimate amounts for claims that have been reported but not paid and claims incurred but not reported. In applying these methods and assessing their results, we consider such factors as frequency and severity of claims, claim development and payment patterns and changes in the nature of our business, among other factors. Such factors are analyzed for each of our business segments. Our estimates may be impacted by such factors as increases in the market price for medical services, unpredictability of the size of jury awards and limitations inherent in the estimation process. During 2017, we recognized a $9 million benefit from the development of estimated prior years' self-insured loss reserves. For 2016 and 2015, we recognized a charge of $9 million and $4 million, respectively, from the development of estimated prior years' self-insured loss reserves. Based on self-insurance accruals at December 31, 2017, a 5% adverse change in actuarial claim loss estimates would increase operating expense in 2018 by approximately $16 million.

Goodwill Impairment. We assess goodwill for impairment, as described in Note 1, "Summary of Significant Accounting Policies — Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements, on an annual basis or more often if deemed necessary. At December 31, 2017, goodwill totaled $396 million. To determine whether goodwill impairment indicators exist, we are required to assess the fair value of the reporting unit and compare it to the carrying value. A reporting unit is a component of an operating segment for which discrete financial information is available and management regularly reviews its operating performance. In evaluating goodwill for impairment, we have the option to first assess qualitative factors to determine whether further impairment testing is necessary.

We have historically performed the annual impairment test as of April 1 for all of our reporting units. However, during the three months ended December 31, 2017, we elected to change our annual impairment assessment date from April 1 to October 1 for all of our reporting units. We believe this change, which represents a change in method of applying an accounting principle, is preferable under our circumstances. The change was made to align the annual goodwill impairment test date with our strategic and business plan time lines and to reduce the risk that an interim impairment triggering event might occur between the annual goodwill impairment test date and the year-end balance sheet date. This change in assessment date required us to perform another impairment review. The following summarized the nature of our reviews:

	December 31, 2017	April 1, 2017		October 1, 2017	
Reporting unit:	Goodwill (In millions)	Quantitative	Qualitative	Quantitative	Qualitative
FMS North America	$ 211.7	X			X
FMS Europe	15.1	X		X	
DTS	40.8		X		X
SCS U.S.	121.8		X		X
SCS Canada	6.1		X		X
Total	$ 395.5				

For quantitative tests, we estimated the fair value of the reporting units using a discounted cash flow model. The principal assumptions used in the discounted cash flow model were projected operating results, weighted-average cost of capital, and terminal value. Based on our quantitative analysis, we determined the fair value of the reporting units exceeded their carrying values resulting in no impairment to goodwill at both test dates. We estimated the fair value of the FMS Europe reporting unit exceeded its carrying value by approximately 25%. Given this level of excess fair value, in the event the financial performance of FMS Europe does not meet our expectations during 2018, we may be required to perform an interim impairment analysis prior to our next annual test, and based on the outcome of that

analysis, could be required to take a non-cash impairment charge. As of October 1, 2017, there was $15 million of goodwill recorded related to FMS Europe.
For qualitative tests, we considered individual factors such as macroeconomic conditions, changes in our industry, and the markets in which we operate, as well as our historical and expected future financial performance. Examples of factors we considered included the results of our most recent impairment tests, declines in our financial performance, a lack of significant changes in our competitive landscape, changes in our stock price as compared to a relatively stable carrying value since our most recent impairment tests and improvements in macroeconomic conditions since our most recent impairment test. After performing the qualitative assessments, we concluded it is more likely than not that fair values are greater than carrying values and no additional testing was performed.
As of December 31, 2017, there have been no events or changes in circumstances that indicate that it is more likely than not that a goodwill impairment has occurred since the October 1, 2017 assessment date.

Income Taxes. Our overall tax position is complex and requires careful analysis by management to estimate the expected realization of income tax assets and liabilities.

Tax regulations require items to be included in the tax return at different times than the items are reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements is different than that reported in the tax return. Some of these differences are permanent, such as expenses that are not deductible on the tax return, and some are timing differences, such as depreciation expense. Timing differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in the tax return in future years, for which we have already recognized the tax benefit in the financial statements. Deferred tax assets were $448 million and $809 million at December 31, 2017 and 2016, respectively. The reduction in deferred tax assets is primarily due to the revaluation required as part of the adoption of tax reform in the fourth quarter of 2017.

We recognize a valuation allowance for deferred tax assets to reduce such assets to amounts expected to be realized. At December 31, 2017 and 2016, the deferred tax valuation allowance, principally attributed to foreign tax loss carryforwards in the SCS business segment, was $19 million and $16 million, respectively. In determining the required level of valuation allowance, we consider whether it is more likely than not that all or some portion of deferred tax assets will not be realized. This assessment is based on management’s expectations as to whether sufficient taxable income of an appropriate character will be realized within tax carryback and carryforward periods. Our assessment involves estimates and assumptions about matters that are inherently uncertain, and unanticipated events or circumstances could cause actual results to differ from these estimates. Should we change our estimate of the amount of deferred tax assets that we would be able to realize, an adjustment to the valuation allowance would result in an increase or decrease to the provision for income taxes in the period such a change in estimate was made.

As part of our calculation of the provision for income taxes, we determine whether the benefits of our tax positions are at least more likely than not of being sustained upon audit based on the technical merits of the tax position. We accrue the largest amount of the benefit that has a cumulative probability of greater than 50% of being sustained. These accruals require management to make estimates and judgments with respect to the ultimate outcome of a tax audit. Actual results could vary materially from these estimates. We adjust these reserves, including any impact on the related interest and penalties, in light of changing facts and circumstances, such as the progress of a tax audit.

A number of years may elapse before a particular matter for which we have established a reserve is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction. The tax benefit that has been previously reserved because of a failure to meet the “more likely than not” recognition threshold would be recognized in our income tax expense in the first interim period when the uncertainty is resolved under any one of the following conditions: (1) the tax position has been determined to be “more likely than not” sustained, (2) the tax position, amount and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the tax position has expired. Settlement of any particular issue would usually require the use of cash. See Note 13, “Income Taxes,” in the Notes to Consolidated Financial Statements for further discussion of the status of tax audits and uncertain tax positions.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 2, “Recent Accounting Pronouncements,” in the Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

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

NON-GAAP AND SEGMENT FINANCIAL MEASURES

Non-GAAP Financial Measures. This Annual Report on Form 10-K includes information extracted from consolidated financial information that is not required by generally accepted accounting principles in the United States of America (GAAP) to be presented in the financial statements. Certain elements of this information are considered “non-GAAP financial measures” as defined by SEC rules. Non-GAAP financial measures should be considered in addition to, but not as a substitute for or superior to, other measures of financial performance or liquidity prepared in accordance with GAAP. Also, our non-GAAP financial measures may not be comparable to financial measures used by other companies. We provide a reconciliation of each of these non-GAAP financial measures to the most comparable GAAP measure in this non-GAAP financial measures section. We also provide the reasons why management believes each non-GAAP financial measure is useful to investors in this section.

Specifically, we refer to the following non-GAAP financial measures in this Form 10-K:

Non-GAAP Financial Measure	Comparable GAAP Measure
Operating Revenue Measures:	
Operating Revenue	Total Revenue
FMS Operating Revenue	FMS Total Revenue
DTS Operating Revenue	DTS Total Revenue
SCS Operating Revenue	SCS Total Revenue
FMS EBT as a % of FMS Operating Revenue	FMS EBT as a % of FMS Total Revenue
DTS EBT as a % of DTS Operating Revenue	DTS EBT as a % of DTS Total Revenue
SCS EBT as a % of SCS Operating Revenue	SCS EBT as a % of SCS Total Revenue
Comparable Earnings Measures:	
Comparable Earnings Before Income Tax	Earnings Before Income Tax
Comparable Earnings	Earnings from Continuing Operations
Comparable EPS	EPS from Continuing Operations
Adjusted Return on Average Capital (ROC)	Not Applicable. However, the non-GAAP elements of the calculation have been reconciled to the corresponding GAAP measures. A numerical reconciliation of net earnings to adjusted net earnings and average total debt and average shareholder's equity to adjusted average total capital is provided on page 63.
Cash Flow Measures:	
Total Cash Generated and Free Cash Flow	Cash Provided by Operating Activities

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

Set forth in the table below is an overview of each non-GAAP financial measure and why management believes that presentation of each non-GAAP financial measure provides useful information to investors. See reconciliations for each of these measures following this table.

Operating Revenue Measures:	
Operating Revenue FMS Operating Revenue DTS Operating Revenue SCS Operating Revenue FMS EBT as a % of FMS Operating Revenue DTS EBT as a % of DTS Operating Revenue SCS EBT as a % of SCS Operating Revenue	Operating revenue is defined as total revenue for Ryder System, Inc. or each business segment (FMS, DTS and SCS), respectively, excluding any (1) fuel and (2) subcontracted transportation. We believe operating revenue provides useful information to investors as we use it to evaluate the operating performance of our core businesses and as a measure of sales activity at the consolidated level for Ryder System, Inc., as well as for each of our business segments. We also use segment EBT as a percentage of segment operating revenue for each business segment for the

same reason. Note: FMS EBT, DTS EBT and SCS EBT, our primary measures of segment performance, are not non-GAAP measures.

Fuel: We exclude FMS, DTS and SCS fuel from the calculation of our operating revenue measures, as fuel is an ancillary service that we provide our customers, which is impacted by fluctuations in market fuel prices, and the costs are largely a pass-through to our customers, resulting in minimal changes in our profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by rapid changes in market fuel prices during a short period of time, as customer pricing for fuel services is established based on trailing market fuel costs.

Subcontracted transportation: We also exclude subcontracted transportation from the calculation of our operating revenue measures, as these services are also typically a pass-through to our customers and, therefore, fluctuations result in minimal changes to our profitability. While our DTS and SCS business segments subcontract certain transportation services to third party providers, our FMS business segment does not engage in subcontracted transportation and, therefore, this item is not applicable to

		FMS.
Comparable Earnings Measures:		
Comparable earnings before income tax (EBT)		Comparable EBT, comparable earnings and comparable EPS are defined, respectively, as GAAP EBT, earnings and EPS, all from continuing operations, excluding (1) non-operating pension costs and (2) any other significant items that are not representative of our business operations. We believe these comparable earnings measures provide useful information to investors and allow for better year-over-year comparison of operating performance.
Comparable Earnings		
Comparable earnings per diluted common share (EPS)	Comparable Earnings	
Adjusted Return on Average Capital (ROC)		
		Non-Operating Pension Costs: Our comparable earnings measures exclude non-operating pension costs, which include the amortization of

net actuarial loss and prior service cost, interest cost and expected return on plan assets components of pension and postretirement benefit costs. We exclude non-operating pension costs because we consider these to be impacted by financial market performance and outside the operational performance of our business.

Other Significant Items: Our comparable earnings measures also exclude other significant items that are not representative of our business operations as detailed in the reconciliation table below page 59. These other significant items vary from period to period and, in some periods, there may be no such significant items.

Calculation of comparable tax rate: The comparable provision for income taxes is computed using the same methodology as the GAAP provision for income taxes. Income tax effects of non-GAAP adjustments are calculated based on the statutory tax rates of the jurisdictions to which the non-GAAP adjustments relate.

Adjusted ROC: Adjusted ROC is defined as adjusted net earnings divided by average total capital and represents the rate of return generated by the capital deployed in our business. The adjustments represent the comparable items described above, which are excluded, as applicable, from the calculation of net earnings and average shareholders' equity (a component of average total capital). We use adjusted ROC as an internal measure of how effectively we use the capital invested (borrowed or owned) in our operations.

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

Cash Flow Measures:	
Total Cash Generated Free Cash Flow	We consider total cash generated and free cash flow to be important measures of comparative operating performance, as our principal sources of operating liquidity are cash from operations and proceeds from the sale of revenue earning equipment. Total Cash Generated: Total cash generated is defined as the sum of (1) net cash provided by operating activities, (2) net cash provided by the sale of revenue earning equipment and (3) net cash provided by the sale of operating property and equipment, (4) collections on direct finance leases and (5)

other cash inflows from investing activities. We believe total cash generated is an important measure of total cash flows generated from our ongoing business activities.

Free Cash Flow: We refer to the net amount of cash generated from operating activities and investing activities (excluding changes in restricted cash and acquisitions) from continuing operations as “free cash flow”. We calculate free cash flow as the sum of (1) net cash provided by operating activities, (2) net cash provided by the sale of revenue earning equipment and (3) net cash provided by the sale of operating property and equipment, (4) collections on direct finance leases and (5) other cash inflows from investing activities, less (6) purchases of property and revenue earning equipment. We believe free cash flow provides investors with an important perspective on the cash available for debt service and for shareholders, after making capital investments required to support ongoing business operations. Our calculation of free cash flow may be different from the calculation used by other companies and, therefore, comparability may be limited.

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

The following table provides a reconciliation of GAAP earnings before taxes (EBT), earnings, and earnings per diluted share (EPS) from continuing operations to comparable EBT, comparable earnings and comparable EPS from continuing
operations for the years ended December 31, 2017, 2016, 2015, 2014 and 2013. Certain items included in EBT, earnings and diluted EPS from continuing operations have been excluded from our comparable EBT, comparable earnings and comparable diluted EPS measures. The following table lists a summary of these items, which are discussed in more detail throughout our MD&A and within the Notes to Consolidated Condensed Financial Statements:

	Continuing Operations				
	2017	2016	2015	2014	2013
	(Dollars in thousands, except per share amounts)				
EBT	$313,786	406,381	469,215	338,267	369,015
Non-operating pension costs	27,741	29,943	17,797	5,521	22,236
Tax reform related adjustments, net (1)	23,278	—	—	—	—
Restructuring charges and fees, net (2)	21,405	5,074	18,068	2,787	(469)
Pension lump sum settlement expense	—	—	—	97,231	—
Pension-related adjustments (3)	5,454	7,650	(509)	12,564	2,820
Operating tax adjustment (1)	2,205	—	—	—	—
Gain on sale of property (1)	(24,122)	—	—	—	—
Acquisition-related tax adjustment	—	—	—	1,808	—
Acquisition transaction costs	—	—	—	566	—
Superstorm Sandy vehicle-related recoveries	—	—	—	—	(600)
Foreign currency translation benefit	—	—	—	—	(1,904)
Comparable EBT	$369,747	449,048	504,571	458,744	391,098
Earnings	$791,015	264,640	305,989	220,225	243,275
Non-operating pension costs	16,034	17,518	10,136	2,822	13,046
Tax reform related adjustments, net (1), (4)	(571,666)	—	—	—	—
Restructuring charges and fees, net (2)	13,371	3,513	12,782	1,800	(360)
Pension lump sum settlement expense	—	—	—	61,333	—
Pension-related adjustments (3)	3,303	4,817	(309)	7,623	1,711
Operating tax adjustment (1)	1,677	—	—	—	—
Gain on sale of property (1)	(14,769)	—	—	—	—
Acquisition-related tax adjustment	—	—	—	1,808	—
Acquisition transaction costs	—	—	—	444	—
Tax law changes (4)	1,844	—	(2,113)	(1,776)	—
Superstorm Sandy vehicle-related recoveries	—	—	—	—	(374)
Foreign currency translation benefit	—	—	—	—	(1,904)
Comparable Earnings(5)	$240,809	290,488	326,485	294,279	255,394
Diluted EPS	$14.87	4.94	5.73	4.14	4.63
Non-operating pension costs	0.31	0.33	0.19	0.05	0.25
Tax reform related adjustments, net (1), (4)	(10.75)	—	—	—	—
Restructuring charges and fees, net (2)	0.25	0.06	0.23	0.03	(0.01)
Pension lump sum settlement expense	—	—	—	1.16	—
Pension-related adjustments (3)	0.06	0.09	(0.01)	0.14	0.03
Operating tax adjustment (1)	0.03	—	—	—	—

Gain on sale of property (1)	(0.27)	—	—	—	—
Acquisition-related tax adjustment	—	—	—	0.03	—
Acquisition transaction costs	—	—	—	0.01	—
Tax law changes (4)	0.03	—	(0.04)	(0.03)	—
Superstorm Sandy vehicle-related recoveries	—	—	—	—	(0.01)
Foreign currency translation benefit	—	—	—	—	(0.04)
Comparable EPS (5)	$4.53	5.42	6.10	5.53	4.85

(1) Refer to Note 24, "Other Items Impacting Comparability," in the Notes to Consolidated Financial Statements for further discussion.
(2) Refer to Note 4, "Restructuring Charges and Fees, Net," in the Notes to Consolidated Financial Statements for additional information.
(3) Refer to Note 22, "Employee Benefit Plans," in the Notes to Consolidated Financial Statements for further discussion
(4) Refer to Note 13, "Income Taxes," in the Notes to Consolidated Financial Statements for further discussion.
(5) Refer to page 60 for information on the tax impact on our comparable earnings measures.

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

The following table provides a reconciliation of GAAP earnings before taxes (EBT), earnings, and earnings per diluted share (EPS) from continuing operations to comparable EBT, comparable earnings and comparable EPS from continuing operations.

Certain items included in EBT, earnings and diluted EPS from continuing operations in the three and twelve months ended December 31, 2017 and 2016, respectively, included certain items we do not consider indicative of our business operations and have been excluded from our comparable EBT, comparable earnings and comparable diluted EPS measures. The following table lists a summary of these items, which are discussed in more detail throughout our MD&A and within the Notes to Consolidated Financial Statements. EPS amounts may not be additive due to rounding.

	Continuing Operations					
	EBT		Earnings		Diluted EPS	
	2017	2016	2017	2016	2017	2016
	(Dollars in thousands except per share amounts)					
Three months ended December 31						
EBT/Earnings/EPS (1)	$78,795	69,196	$642,480	49,275	$12.10	0.92
Non-operating pension costs (2)	6,865	7,895	3,969	4,647	0.07	0.09
Restructuring charges and fees, net (3)	19,724	5,074	12,716	3,513	0.24	0.06
Tax reform related adjustments, net (4)	23,278	—	(571,666)	—	(10.77)	—
Gain on sale of property	(24,122)	—	(14,769)	—	(0.27)	—
Comparable	$104,540	82,165	$72,730	57,435	$1.37	1.07

(1) 2017 amounts reflect tax benefit as a result of the 2017 Tax Cuts and Jobs Act. Refer to Note 13 , "Income Taxes ," in the Notes to Consolidated Financial Statements for additional information.
(2) Includes the amortization of actuarial loss, interest cost and expected return on plan assets components of pension and post-retirement costs, which are tied to financial market performance.
(3) Refer to Note 4, "Restructuring Charges and Fees, Net," in the Notes to Consolidated Financial Statements for additional information.
(4) Refer to the table below for the information on the tax impact on our comparable earnings measures.

The following table provides a reconciliation of the provision for income taxes to the comparable provision for income taxes:

	Three months ended December 31,		Twelve months ended December 31,				
	2017	2016	2017	2016	2015	2014	2013
	(In thousands)						
Provision for income taxes (1), (2)	$563,685	(19,921)	$477,229	(141,741)	(163,226)	(118,042)	(125,740)
Income tax effects of non-GAAP adjustments (1)	(551)	(4,809)	(11,223)	(16,819)	(14,860)	(46,423)	(9,964)
Tax reform related adjustments, net (1), (2)	(594,944)	—	(594,944)	—	—	—	—
Comparable provision for income taxes (1)	$(31,810)	(24,730)	$(128,938)	(158,560)	(178,086)	(164,465)	(135,704)

(1) The comparable provision for income taxes is computed using the same methodology as the GAAP provision of income taxes. Income tax effects of non-GAAP adjustments are calculated based on statutory tax rates of the

jurisdictions to which the non-GAAP adjustments related.

(2) 2017 amounts reflect tax benefit as a result of the 2017 Tax Cuts and Jobs Act. Refer to Note 13 , "Income Taxes ," 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)

The following table provides a numerical reconciliation of net cash provided by operating activities to total cash generated and to free cash flow for the years ended December 31, 2017, 2016, 2015, 2014 and 2013:

	2017	2016	2015	2014	2013
	(In thousands)				
Net cash provided by operating activities	$				