RYDER SYSTEM INC
Form 10-K
February 15, 2007

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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, 2006

OR

o **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)*

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 o

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 o 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 o

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer þ Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o 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, 2006 was $3,641,159,219. The number of shares of Ryder System, Inc. Common Stock ($0.50 par value per share) outstanding at January 31, 2007 was 60,719,251.

Documents Incorporated by Reference into this Report	Part of Form 10-K into which Document is Incorporated
Ryder System, Inc. 2007 Proxy Statement	**Part III**

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**
Ryder System, Inc. 9% Series G Bonds, due May 15, 2016	**New York Stock Exchange**
Ryder System, Inc. 9^{7}/8% Series K Bonds, due May 15, 2017	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

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PART I
ITEM 1. BUSINESS

OVERVIEW

Ryder System, Inc. (Ryder), a Florida corporation organized in 1955, is a global leader in transportation and supply chain management solutions. Our business is divided into three business segments: Fleet Management Solutions (FMS), which provides full service leasing, contract maintenance, contract-related maintenance and commercial rental of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K.; Supply Chain Solutions (SCS), which provides comprehensive supply chain solutions including distribution and transportation services throughout North America and in Latin America, Europe and Asia; and Dedicated Contract Carriage (DCC), which provides vehicles and drivers as part of a dedicated transportation solution in the U.S.

Financial information relating to each of our business segments is included in the Notes to Consolidated Financial Statements as part of Item 8 of this report.

INDUSTRY AND OPERATIONS

Fleet Management Solutions

Over the last several years, many key trends have been reshaping the transportation industry, particularly the $59 billion U.S. private commercial fleet market and the $26 billion U.S. commercial fleet lease and rental market. Commercial vehicles have become more complicated requiring companies to spend a significant amount of time and money to keep up with new technology, diagnostics, retooling and training. Because of increased demand for convenience, speed and reliability, companies that own and manage their own fleet of vehicles have put greater emphasis on the quality of their preventive maintenance and safety programs. Finally, new regulatory requirements such as regulations covering diesel emissions and the number of off-duty rest hours a driver must take (hours of service regulations) have placed additional administrative burdens on private fleet owners.

Through our FMS business, we provide our customers with flexible fleet solutions that are designed to improve their competitive position by allowing them to focus on their core business, lower their costs and redirect their capital to other parts of their business. Our FMS product offering is comprised primarily of contractual-based full service leasing and contract maintenance services. We also offer transactional fleet solutions including, commercial truck rental, maintenance services, and value-added fleet support services such as insurance, vehicle administration and fuel services. In addition, we provide our customers with access to a large selection of used trucks, tractors and trailers through our used vehicle sales program.

For the year ended December 31, 2006, our global FMS business accounted for 59% of our consolidated revenue. Our FMS customers in the U.S. range from small businesses to large national enterprises. These customers operate in a wide variety of industries, the most significant of which include beverage, newspaper, grocery, lumber and wood products, home furnishings and metal. At December 31, 2006, we had a U.S. fleet of approximately 140,900 commercial trucks, tractors and trailers leased or rented through 693 locations in 49 states and Puerto Rico.

Our domestic FMS business is divided into 3 regions: East, Central and West. Each region is divided into 8 to 16 business units (BU) and each BU contains approximately 10 to 30 branch offices. A branch office typically consists of a maintenance facility or shop, offices for sales and other personnel, and in many cases, a commercial rental counter. Our maintenance facilities typically include a service island for fueling, safety inspections and preliminary maintenance checks as well as a shop for preventive maintenance and repairs.

Full Service Leasing. We target leasing customers that would benefit from outsourcing their fleet management function or upgrading their fleet without having to dedicate a significant amount of their own capital. Under a typical full service lease, we provide vehicle maintenance, 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. We will assess a customer s situation and, after considering the size of the customer, residual risk, balance sheet treatment and other factors, will tailor a leasing program that best suits the customer s needs. Once we have agreed on a leasing program, 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 up to ten years for trailers. Because we purchase a large number of vehicles from a limited number of manufacturers, we are able to leverage our buying power for the benefit of our customers. In addition, given our continued focus on improving the efficiency and effectiveness of our maintenance services, we can provide our customers with a cost effective alternative to maintaining their own fleet of vehicles. We also offer our leasing customers the additional fleet support services described below. At December 31, 2006, we leased approximately 104,500 vehicles under full service leases in the U.S. At December 31, 2006, we had approximately 11,000 full service lease customer accounts in the U.S.

Contract Maintenance. Our contract maintenance customers typically include our full service lease customers as well as other customers that want to utilize our extensive network of maintenance facilities and trained technicians to maintain the vehicles they own or lease from third parties, usually a bank or other financial institution. The contract maintenance service offering is designed to reduce vehicle downtime through preventive and predictive maintenance based on vehicle type and driving habits, vehicle repair including parts and labor, 24-hour emergency roadside service and replacement vehicles for vehicles that are temporarily out of service. These vehicles 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. At December 31, 2006, we operated 196 on-site maintenance facilities in the U.S. and Puerto Rico. At December 31, 2006, we had approximately 1,200 contract maintenance customer accounts in the U.S., 500 of which are not full service lease customers.

Commercial Rental. We target rental customers that have a need to supplement their private fleet of vehicles on a short-term basis (typically from less than one month up to one year in length) either because of seasonal increases in their business or discrete projects that require additional transportation resources. Our commercial rental fleet also provides additional vehicles to our full service lease customers to handle their peak or seasonal business needs. Our rental representatives assist in selecting a vehicle that satisfies the 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 extend to our rental customers liability insurance coverage under our existing policies and the benefits of our comprehensive fuel services program. At December 31, 2006, a fleet of approximately 33,900 vehicles, ranging from heavy-duty tractors and trailers to light-duty trucks, was available for commercial short-term rental in the U.S. The rental fleet s average age was 4.3 years. The utilization rate of the U.S. rental fleet during fiscal year 2006 was approximately 72%.

Contract-Related Maintenance. Our full service lease and contract maintenance customers periodically require additional maintenance services that are not included in their contracts. For example, additional maintenance services may arise when a customer s driver damages the vehicle and these services are performed or managed by Ryder. Some customers also periodically require maintenance work on vehicles that are not covered by a lease or maintenance contract. Ryder may provide service on these vehicles and charge the customer on an hourly basis for work performed. This contract-related maintenance work is obtained by Ryder due to our contractual relationship with the customers; however, the service provided is in addition to that included in their contractual agreements.

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Fleet Support Services. We offer a variety of fleet support services in order to capitalize on our large base of lease customers. Currently, we offer the following fleet support services:

Service	***Description***
Insurance	Liability insurance coverage under Ryder s existing insurance policies which includes monthly invoicing, discounts based on driver performance and vehicle specifications, flexible deductibles and claims administration; physical damage waivers; gap insurance; fleet risk assessment
Safety	Establishing safety standards; providing safety training, driver certification, prescreening and road tests; safety audits; instituting procedures for transport of hazardous materials; coordinating drug and alcohol testing; loss prevention consulting
Fuel	Fuel purchasing (both in bulk and at the pump) at competitive prices; fuel planning; fuel tax reporting; centralized billing; fuel cards
Administrative	Vehicle use and other tax reporting; permitting and licensing; regulatory compliance (including hours of service administration)
Environmental management	Storage tank monitoring; stormwater management; environmental training; ISO 14001 certification

Used Vehicles. We typically sell our used vehicles at one of our 57 sales centers throughout North America, at Ryder branch locations or through our website at *www.Usedtrucks.Ryder.com.* Before we offer any used vehicle for sale, our technicians assure that it is *Road Ready*, which means that the vehicle has passed a 43-point performance inspection based on specifications formulated through the Ryder contract maintenance program. Although we typically sell our used vehicles for prices in excess of book value, the extent to which we are able to realize a gain on the sale of used vehicles is dependent upon various factors including the general state of the used vehicle market, the age and condition of the vehicle at the time of its disposal and depreciation rates with respect to the vehicle.

FMS Business Strategy. Our FMS business strategy revolves around the following interrelated goals and priorities:

- improve customer retention levels;
- successfully implement sales growth initiatives in our contractual product offerings;
- optimize asset utilization and management;
- deliver unparalleled maintenance to our customers while continuing to implement process designs and productivity improvements;
- offer a wide range of support services that complement our leasing, rental and maintenance businesses, and
- offer competitive pricing through cost management initiatives and maintain pricing discipline on new business.

Supply Chain Solutions

The global supply chain logistics market is estimated to be $295 billion. Several key trends are affecting the market for third-party logistics services. Outsourcing all or a portion of a customer s supply chain is becoming a more attractive alternative for several reasons including (1) the lengthening of the global supply chain due to the location of manufacturing activities further away from the point of consumption, (2) the increasing complexity of customers supply chains, and (3) the need for new and innovative technology-based solutions. In addition, industry consolidation is increasing as providers look to expand their service offerings and create economies of scale in order to be competitive and satisfy customers global needs. To meet our customers demands in light of these trends, we provide an integrated suite of global supply chain solutions with sophisticated technologies and industry-leading engineering services, designed so that our customers can manage their supply chains with more efficiency.

Through our SCS business, we offer a broad range of innovative lead logistics management services that are designed to optimize a customer s global supply chain and address the needs and concerns reflected by the trends previously mentioned. The term supply chain refers to a strategically designed process that directs the movement of materials, funds and related information from the acquisition of raw materials to the delivery of finished products to the end-user. Our SCS product offerings are organized into three categories: professional services, distribution operations and transportation solutions. We also offer our SCS customers a variety of information technology solutions, referred to as e-fulfillment, which are an integral part of our other SCS services.

For the year ended December 31, 2006, our SCS business accounted for 32% of our consolidated revenue. At December 31, 2006, we had 96 SCS customer accounts in the U.S., most of which are large enterprises that maintain large, complex supply chains. These customers operate in a variety of industries including automotive, electronics, high-tech, telecommunications, industrial, consumer goods, paper and paper products, office equipment, food and beverage, and general retail industries. Our largest customer, General Motors Corporation (GM), is comprised of multiple contracts in various geographic regions. In 2006, GM accounted for approximately 40% of SCS total revenue, 18% of SCS operating revenue (total revenue less subcontracted transportation) and 13% of consolidated revenue.

Unlike our FMS operations, which are managed through a network of regional offices, BUs and branch offices, most of our core SCS business operations in the U.S. revolve around our customers supply chains and are geographically located to maximize efficiencies and reduce costs. These SCS facilities are typically leased. At December 31, 2006, leased SCS warehouse space totaled approximately 7 million square feet for the U.S. and Puerto Rico. Along with those core customer specific locations, we also concentrate certain logistics expertise in locations not associated with specific customer sites. For example, Ryder s carrier procurement, contract management and freight bill audit and payment services groups operate out of our carrier management center in Ann Arbor, Michigan and our transportation optimization and execution groups operate out of our logistics centers in Farmington Hills, Michigan and Ft. Worth, Texas.

We are awarded a significant portion of our SCS business through requests for proposals (RFP) processes. Many companies that maintain elaborate supply chain networks, including many of our existing customers, submit an RFP with respect to all or a portion of their supply chain. A team of SCS operations and logistics design specialists, as well as representatives from our finance, real estate and information technology departments, will formulate a bid that includes a proposed supply chain solution as well as pricing information. The bid may include one or more of the following SCS services.

Professional Services. Our SCS business offers a variety of consulting services that support every aspect of a customer s supply chain. Our SCS consultants 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 and representatives from our information technology, real estate, finance and transportation management groups work together to design a strategically focused supply chain solution. The solution may include both a distribution plan that sets forth the number, location and function of each distribution facility and a transportation solution that sets forth 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. We also provide transportation consulting services to our SCS customers, which allow us to leverage the expertise and resources of our FMS business.

Distribution Operations. Our SCS business offers a wide range of services relating to a customer s distribution operations such as designing a customer s distribution or warehouse facility, managing the customer s existing distribution facilities or a facility we acquire in order to provide the agreed-upon services, managing the flow of goods directly from the receiving function to the shipping function (cross-docking), coordinating warehousing and transportation for inbound material flows, handling import and export for international shipments, coordinating just-in-time replenishment of component parts to manufacturing and final assembly, monitoring shipment and inventory status through web-enabled tracking solutions, providing logistics services in connection with the return of products to our customers after delivery to a target client (reverse logistics) and providing additional value-added services such as light assembly of components into defined units (kitting), packaging and refurbishment.

Transportation Solutions. 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 consolidation, load scheduling and delivery confirmation through a series of technological and web-based solutions. Our transportation consultants, in conjunction with our Ryder 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 as well as our FMS and DCC businesses with capacity management services that are designed to create load-building opportunities and minimize excess capacity.

SCS Business Strategy. Our SCS business strategy revolves around the following interrelated goals and priorities:

- offer strategically-focused comprehensive supply chain solutions to our customers;
- enhance distribution management as a core platform to grow integrated solutions;
- further diversify our customer base;
- leverage our transportation management capabilities including the expertise and resources of our FMS business;
- achieve strong partnering relationships with our customers;
- be a market innovator by continuously improving the effectiveness and efficiency of our solution delivery model; and
- serve our customer s global needs as lead manager, integrator and high-value operator.

Dedicated Contract Carriage

The U.S. dedicated contract carriage market is estimated to be $10 billion. This market is affected by many of the trends that impact our FMS business such as the increased cost associated with purchasing and maintaining a fleet of vehicles. The administrative burden relating to regulations issued by the Department of Transportation (DOT) regarding driver screening, training and testing, as well as record keeping and other costs associated with the hours of service requirements, make our DCC product an attractive alternative to private fleet management. 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.

Through our DCC business segment, we combine the equipment, maintenance and administrative services of a full service lease with additional services to provide a customer with a dedicated transportation solution that is designed to increase their competitive position, improve risk management and integrate their transportation needs with their overall supply chain. Such additional services include driver hiring and training, 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, the labor

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issues associated with maintaining a private fleet of vehicles, such as driver turnover, government regulation, including hours of service regulations, DOT audits and workers compensation.

Our DCC consultants examine and assess the customer s transportation needs. In order to customize an appropriate DCC transportation solution for our customers, our DCC logistics specialists perform a transportation analysis using advanced logistics planning and operating tools. Based on this analysis, they formulate a distribution plan that includes the routing and scheduling of vehicles, the efficient use of vehicle capacity and overall asset utilization. The goal of the plan is to create a distribution system that optimizes freight flow while meeting a customer s service goals. A team of DCC transportation specialists can then implement the plan by leveraging the resources, expertise and technological capabilities of both our FMS and SCS businesses.

To the extent a distribution plan includes multiple modes of transportation (air, rail, sea and highway), our DCC 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 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).

Because it is highly customized, our DCC product is particularly attractive to companies that operate in industries that have time-sensitive deliveries or special handling requirements, such as newspapers and refrigerated products, as well as to companies whose distribution systems involve multiple stops within a closed loop highway route. Because DCC accounts typically operate in a limited geographic area, most of the drivers assigned to these accounts are shorthaul drivers meaning they return home at the end of each work day.

For the year ended December 31, 2006, our DCC business accounted for 9% of our consolidated revenue. At December 31, 2006, we had 239 DCC customer accounts in the U.S. Although a significant portion of our DCC operations are located at customer facilities, our DCC business utilizes and benefits from our extensive network of FMS facilities.

DCC Business Strategy. Our DCC business strategy revolves around the following interrelated goals and priorities:

- align our DCC and SCS businesses to create revenue opportunities and improve operating efficiencies in both segments, particularly through increased backhaul utilization;
- increase market share with customers that operate closed loop distribution systems that require a more comprehensive transportation solution;
- leverage the expertise and resources of our FMS and SCS businesses; and
- expand our DCC support services to create customized transportation solutions for new customers and enhance the solutions we have created for existing customers.

International

In addition to our operations in the U.S., we have FMS operations in Canada and the U.K. and SCS operations in Canada, Latin America, Europe and Asia. We have made it a goal to expand our international operations by leveraging our domestic product offerings and customer base.

Canada. We have been operating in Canada for over 50 years. Our FMS operations in Canada include full service leasing, contract maintenance, contract-related maintenance and commercial rental. We also offer fleet support services such as insurance, fuel services and administrative services. At December 31, 2006, we had a fleet of approximately 11,900 commercial trucks, tractors and trailers leased or rented from 41 locations, including 1 on-site maintenance facility, throughout 6 Canadian provinces. At December 31, 2006, we leased vehicles to over 1,200 full service lease customer accounts in Canada and performed contract maintenance on approximately 130 customer accounts.

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Our Canadian SCS operations also include a full range of services including lead logistics management services and distribution and transportation solutions. Given the proximity of this market to our U.S. operations, the Canadian operations are highly coordinated with their U.S. counterparts, managing cross-border transportation and freight movements. At December 31, 2006, we had 50 SCS customer accounts and leased SCS warehouse space totaling approximately 670,000 square feet in Canada.

Europe. We began operating in the U.K. in 1971 and since then have expanded into Ireland and Germany by leveraging our operations in the U.S. and the U.K. Our FMS operations in Europe include full service leasing, contract maintenance, contract-related maintenance and commercial rental. We also offer fleet support services such as insurance, fuel services, administrative services, driver capability and on-board technology.

At December 31, 2006, we had a fleet of approximately 12,000 commercial trucks, tractors and trailers leased or rented through 40 locations throughout the U.K. and Germany. We also manage a network of over 280 independent maintenance facilities in the U.K. to serve our customers where it is more effective than providing the service in a Ryder managed location. In addition to our typical FMS operations, we also supply and manage vehicles, equipment and personnel for military organizations in the U.K. and Germany. At December 31, 2006, we leased vehicles to over 1,100 full service lease customer accounts in the U.K. and Germany.

Our European SCS operations include a complete range of service offerings including lead logistics management services, distribution and transportation solutions, and logistics consulting and design services. In addition, we operate a comprehensive shipment, planning and execution system through our European transportation management services center located in Düsseldorf, Germany. At December 31, 2006, we had 28 SCS customer accounts and leased SCS warehouse space totaling approximately 200,000 square feet in Europe.

Latin America. We began operating in Mexico, Brazil and Argentina in the mid-1990s and in Chile in 2004. In all of these markets we offer a full range of SCS services, including managing distribution operations and cross-docking terminals, and designing and managing customer specific solutions. In our Argentina and Brazil operations, we also offer international transportation services for freight moving between these markets, including transportation, backhaul and customs procedure management. Our Mexican operations also manage more than 3,000 border crossings each week between Mexico and the U.S., often highly integrated with our domestic distribution and transportation operations. At December 31, 2006, we had 154 SCS customer accounts and leased SCS warehouse space totaling approximately 3 million square feet in Latin America.

Asia. We began operating in Asia in 2000 through our acquisition of Ascent Logistics. Although our Asian operations are headquartered in Singapore, we also provide services in China via our Shanghai office and coordinate logistics activities in countries such as Malaysia. As part of our strategy to expand with our customers into major markets, we will continue to refine our strategy in China and focus our efforts on growing our operations in that region. We offer a wide range of SCS services to customers in the region, including management of distribution operations, domestic transportation management, coordination, scheduling and management of international freight movement, postponement, bundling and other customization activities, and freight procurement. At December 31, 2006, we had 48 SCS customer accounts and leased SCS warehouse space totaling approximately 368,000 square feet in Asia.

Administration

We have consolidated most of our financial administrative functions for the U.S. and Canada, including credit, billing and collections, into our Shared Services Center operations, a centralized processing center located in Alpharetta, Georgia. 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 reduce ongoing annual administrative costs, enhance customer service through process standardization, create an organizational structure that will improve market flexibility and allow future

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reengineering efforts to be more easily attained at lower implementation costs. In 2006, we retained third parties to provide primarily administrative finance and support services outside of the U.S. in order to reduce ongoing operating expenses and maximize our technology resources.

Regulation

Our business is subject to regulation by various federal, state and foreign governmental entities. The DOT and various 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. 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, that regulate safety, the management of hazardous materials, water discharges and air emissions, solid waste disposal and the release and cleanup of regulated substances. We may also be subject to 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 engine exhaust emissions, drivers hours of service, security and ergonomics.

The U.S. Environmental Protection Agency has issued regulations that require progressive reductions in exhaust emissions from diesel engines from 2007 through 2010. Some of these regulations require subsequent reductions in the sulfur content of diesel fuel which began in June 2006 and the introduction of emissions after-treatment devices on newly manufactured engines and vehicles beginning with the model year 2007.

Environmental

We have adopted an environmental policy that reflects our commitment to supporting the goals of sustainable development, environmental protection and pollution prevention in our business. Toward this objective, we have developed and implemented environmental practices in our business operations, and regularly monitor these practices to identify opportunities for improvement. Our environmental team works with our staff and operating employees to develop and administer programs in support of our environmental policy.

In establishing appropriate environmental objectives and targets for our wide range of business activities around the world, we focus on (i) the needs of our customers, (ii) the communities in which we provide services and (iii) relevant laws and regulations. We regularly review and update our environmental management procedures, and information regarding our environmental activities is routinely disseminated throughout Ryder.

Safety

Safety is an integral part of our strategy because preventing injury and decreasing service interruptions increases efficiency and customer satisfaction. In 2002, we were awarded the *Green Cross for Safety* from the National Safety Council for our commitment to workplace safety and corporate citizenship.

Our Safety department focuses on (i) recruiting and maintaining qualified drivers; (ii) improving driver and management safety training; (iii) implementing periodic reviews of driver records; (iv) creating incentives for drivers with good safety records; and (v) raising awareness of safety-related issues on a company-wide basis. Our Safety, Health and Security Policy require that all managers, supervisors, and employees ensure that safety, health and security processes are incorporated into all aspects of our business.

In addition, our Safety department develops driver safety and training programs such as hours of service, driving ethics, security and hazardous material transport in order to promote safety, positive customer relations, service standards and productivity. All of our drivers in the U.S. must meet or exceed

DOT qualifications. Our DOT department updates driver qualification files at least annually to maintain compliance with DOT regulations.

Risk Management

The nature of our business exposes us to risk of liability for damages arising primarily out of property damage, customer-managed inventory shrinkage, vehicle liability, and workers compensation. We currently self-insure for a portion of our claims exposure resulting from these risks. We also maintain insurance with third-party insurance carriers above the amounts for which we self-insure. We are responsible for a deductible for auto liability, physical damage, cargo and workers compensation claims. The independent insurance carriers provide coverage for claims in excess of deductible amounts. Management believes that our insurance coverage is adequate.

Competition

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 FMS and DCC business segments compete with companies providing similar services on a national, regional and local level. Regional and local competitors may sometimes provide services on a national level through their participation in various cooperative programs. Competitive factors include price, equipment, maintenance, service and geographic coverage and, with respect to DCC, driver and operations expertise. We compete with finance lessors and to an extent, particularly in the U.K., with a number of truck and trailer manufacturers who provide truck and trailer leasing, extended warranty maintenance, rental and other transportation services. Value-added differentiation of the full service leasing, contract maintenance, contract-related maintenance and commercial rental service and DCC offerings has been, and will continue to be, our emphasis.

In the SCS business segment, we compete with companies providing similar services on an international, national, regional and local level. Additionally, this business is subject to potential competition in most of the regions it serves from air cargo, shipping, railroads, motor carriers and other companies that are expanding logistics services such as freight forwarders, contract manufacturers and integrators. Competitive factors include price, service, equipment, maintenance, geographic coverage, market knowledge, expertise in logistics-related technology, and overall performance (e.g., timeliness, accuracy and flexibility). Value-added differentiation of these service offerings across the global supply chain continues to be our overriding strategy.

Employees

At December 31, 2006, we had approximately 28,600 full-time employees worldwide, of which 23,500 were employed in North America, 3,000 in Latin America, 1,600 in Europe and 500 in Asia. We have approximately 16,200 hourly employees in the U.S., approximately 3,600 of which are organized by labor unions. These employees 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 93 labor agreements that are renegotiated periodically. None of the businesses in which we currently engage have experienced a material work stoppage, slowdown or strike and we consider that our relationship with our employees is good.

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EXECUTIVE OFFICERS OF THE REGISTRANT

All of the executive officers of Ryder were elected or re-elected to their present offices either at or subsequent to the meeting of the Board of Directors held on May 5, 2006 in conjunction with Ryder s 2006 Annual Meeting. They all hold such offices, at the discretion of the Board of Directors, until their removal, replacement or retirement.

Name	Age	Position
Gregory T. Swienton	57	Chairman of the Board and Chief Executive Officer
Mark T. Jamieson	53	Executive Vice President and Chief Financial Officer
Robert D. Fatovic	41	Executive Vice President, General Counsel and Corporate Secretary
Art A. Garcia	45	Senior Vice President and Controller
Gregory F. Greene	47	Senior Vice President and Chief Human Resources Officer
Bobby J. Griffin	58	President, Ryder International Operations
Vicki A. O Meara	49	President, U.S. Supply Chain Solutions
Thomas S. Renehan	44	Executive Vice President, Sales and Marketing, U.S. Fleet Management Solutions
Robert E. Sanchez	41	Executive Vice President of Operations, U.S. Fleet Management Solutions
Anthony G. Tegnelia	61	President, U.S. Fleet Management Solutions

Gregory T. Swienton has been Chairman since May 2002 and Chief Executive Officer since November 2000. He also served as President from June 1999 to June 2005. Before joining Ryder, Mr. Swienton was Senior Vice President of Growth Initiatives of Burlington Northern Santa Fe Corporation (BNSF) and before that Mr. Swienton was BNSF s Senior Vice President, Coal and Agricultural Commodities Business Unit.

Mark T. Jamieson has been Executive Vice President and Chief Financial Officer since March 2006. From April 2005 to February 2006, Mr. Jamieson was Executive Vice President and Chief Financial Officer of Sammons Enterprises, Inc. Prior to Sammons, Mr. Jamieson spent 29 years in General Electric Company s (GE) finance organization holding various positions including serving as the Chief Financial Officer of GE Industrial Systems from 1998 to 2004. Mr. Jamieson briefly served as Chief Executive Officer of Electric Insurance Company, a stand-alone unit of GE before joining Sammons in 2005.

Robert D. Fatovic has served as Executive Vice President, General Counsel and Corporate Secretary since May 2004. He previously served as Senior Vice President, U.S. Supply Chain Operations, High-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 positions within the Law department including Vice President and Deputy General Counsel.

Art A. Garcia has served as Senior Vice President and Controller since October 2005. Previously, Mr. Garcia served as Vice President and Controller from February 2002 to September 2005, and Group Director, Accounting Services, from September 2000 to February 2002 and from April 2000 to June 2000. Mr. Garcia was Chief Financial Officer of Blue Dot Services, Inc., a national provider of heating and air conditioning services, from June 2000 to September 2000. Mr. Garcia served as Director, Corporate Accounting, for Ryder from April 1998 to April 2000. Mr. Garcia joined Ryder in December 1997 as Senior Manager, Corporate Accounting.

Gregory F. Greene has served as Executive Vice President since December 2006 and as Chief Human Resources Officer since February 2006. Previously, Mr. Greene served as Senior Vice President, Strategic Planning and Development, from April 2003 to February 2006, and served as Senior Vice President,

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Global Talent Management, from March 2002 to April 2003. Mr. Greene joined Ryder in August 1993 as Manager of Executive and International Compensation and has since held various positions. Prior to joining Ryder, Mr. Greene served as Director of Human Resources for Sunglass Hut, Inc.

Bobby J. Griffin has been President, Ryder International Operations since July 2005. Previously, Mr. Griffin served as Executive Vice President, International Operations from November 2002 to July 2005, and as Executive Vice President, Global Supply Chain Operations from March 2001 to October 2002. Prior to this appointment, Mr. Griffin was Senior Vice President, Field Management West from January 2000 to March 2001. Mr. Griffin was Vice President, Operations of Ryder Transportation Services from 1997 to December 1999. Mr. Griffin also served Ryder as Vice President and General Manager of ATE Management and Service Company, Inc. and of Managed Logistics Systems, Inc. which were operating units of the former Ryder Public Transportation Services. He held those positions from 1993 to 1997. Mr. Griffin was Executive Vice President, Western Operations of Ryder/ ATE from 1987 to 1993. He joined Ryder as Executive Vice President, Consulting of ATE in 1986 after Ryder acquired ATE Management and Service Company. Mr. Griffin will be retiring from Ryder in the first quarter of 2007.

Vicki A. O Meara has been President of U.S. Supply Chain Solutions since October 2005. She previously served as Executive Vice President and Chief of Corporate Operations from May 2004 to September 2005. Prior to that, Ms. O Meara served as Executive Vice President and General Counsel from June 1997 and as Corporate Secretary from February 1998. Prior to joining Ryder, Ms. O Meara was a partner with the Chicago office of the law firm Jones Day. Previously, she held a variety of positions with the federal government including service as Acting Assistant Attorney General for the Environmental and Natural Resources Division of the Department of Justice, Deputy General Counsel of the Environmental Protection Agency and in the Office of White House Counsel.

Thomas S. Renehan has served as Executive Vice President, Sales and Marketing, U.S. Fleet Management Solutions, since October 2005. He previously served as Senior Vice President, Sales and Marketing from July 2005 to September 2005, as Senior Vice President, Asset Management, Sales and Marketing from March 2004 to July 2005, as Senior Vice President, Asset Management from December 2002 to March 2004 and as Vice President, Asset Management from June 2001 to December 2002. Prior to heading Asset Management, Mr. Renehan served as Vice President, Fleet Management Solutions in the Southwest Region from January 2000 to June 2001. Mr. Renehan joined Ryder in October 1985 and has held various positions with Ryder since that time.

Robert E. Sanchez has served as Executive Vice President of Operations, U.S. Fleet Management Solutions, since October 2005. He previously served as Senior Vice President and Chief Information Officer from January 2003 to September 2005, and as Senior Vice President of Global Transportation Management from March 2002 to January 2003. Previously, he also served as Chief Information Officer from June 2001 to March 2002. Mr. Sanchez joined Ryder in 1993 as a Senior Business System Designer.

Anthony G. Tegnelia has served as President, U.S. Fleet Management Solutions since October 2005. He previously served as Executive Vice President, U.S. Supply Chain Solutions from December 2002 to September 2005. Prior to that, he was Senior Vice President, Global Business Value Management. Mr. Tegnelia joined Ryder in 1977 and has held a variety of other positions with Ryder including Senior Vice President and Chief Financial Officer of Ryder s Integrated Logistics business segment and Senior Vice President, Field Finance.

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

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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.

In addition, our Corporate Governance Guidelines, Principles of Business Conduct (including our Finance Code of Conduct), and Board committee charters are posted on the Corporate Governance page of our website at www.ryder.com.

ITEM 1A. RISK FACTORS

In addition to the factors discussed elsewhere in this report, the following are some of the important factors that could affect our business.

Our operating and financial results may fluctuate due to a number of factors, many of which are beyond our control.

Our annual and quarterly operating and financial results are affected by a number of economic, regulatory and competitive factors, including:

- changes in current financial, tax or regulatory requirements that could negatively impact the leasing market;
- changes in market conditions affecting the commercial rental market or the sale of used vehicles;
- our inability to obtain expected customer retention levels or sales growth targets;
- unanticipated interest rate and currency exchange rate fluctuations;
- labor strikes or work stoppages affecting us or our customers;
- sudden changes in fuel prices and fuel shortages;
- competition from vehicle manufacturers in our U.K. business operations; and
- changes in accounting rules, estimates, assumptions and accruals.

Our failure to successfully implement growth initiatives in our FMS business segment may negatively impact our ability to increase our leasing revenues.

We have undertaken certain initiatives in our FMS operations with the intention of increasing organic revenue growth in our contractual business, better servicing our customers business needs, improving asset utilization and realizing cost savings in the future. The initiatives include changing the structure of our operational and sales teams, realigning our business processes and reorganizing our management. There is no assurance that these initiatives will be successful or that we will not have to undertake additional initiatives in order to achieve our growth targets.

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

We generally bear the residual risk on the value of our vehicles. Therefore, if the market for used vehicles declines, or our vehicles are not properly maintained, we may experience lower gains or suffer losses on the sale of the vehicles. Changes in residual values also impact the overall competitiveness of our full service lease product line, as estimated sales proceeds are a critical component of the overall price of the product. Additionally, 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 that are designed to prevent these losses, there is no assurance that these practices will sufficiently reduce the residual risk. For a detailed discussion on our accounting policies and assumptions relating to depreciation and residual values, please see the section titled Critical Accounting Estimates Depreciation and Residual Value Guarantees in Management s Discussion and Analysis of Financial Condition and Results of Operations.

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Our profitability could be adversely impacted by our inability to maintain appropriate asset utilization rates through our asset management initiatives.

We typically do not purchase vehicles for our full service lease product line until we have an executed contract with a customer. In our commercial rental product line, however, we do not purchase vehicles against specific customer contracts. Rather, we purchase vehicles and optimize the size and mix of the commercial rental fleet based upon our expectations of overall market demand for short- and long-term rentals. 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 this market demand 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 or used vehicle market.

We derive a significant portion of our SCS revenue from a small number of customers, many of which are in the automotive industry.

During 2006, sales to our top ten SCS customers accounted for 69% of our SCS total revenue and 59% of our SCS operating revenue (revenue less subcontracted transportation), with GM accounting for 40% of our SCS total revenue and 18% of our SCS operating revenue. The loss of any of these customers or a significant reduction in the services provided to any of these customers, particularly GM, could impact our domestic and international operations and adversely affect our SCS financial results. While we continue to focus our efforts on diversifying our customer base both outside and within the automotive industry, we may not be successful in doing so in the short term.

In addition, the revenue derived from our SCS customers is dependent in large part on their production and sales volumes, which are impacted by economic conditions and customer spending and preferences. Production volumes in the automotive industry are sensitive to consumer demand as well as employee and labor relations. Declines in sales volumes could result in production cutbacks and unplanned plant shutdowns. To the extent that the market share of any of our largest SCS customers deteriorates, or their sales or production volumes otherwise decline, our revenues and profitability could be adversely affected.

We are also subject to credit risk associated with the concentration of our accounts receivable from our SCS customers. Certain of our automotive customers have or are currently facing financial difficulties. If one or more of these customers were to become bankrupt, insolvent or otherwise were unable to pay for the services provided by us, our operating results and financial condition could be adversely affected.

Our profitability could be negatively impacted by downward pricing pressure from certain of our SCS customers.

Given the nature of our services and the competitive environment in which we operate, our largest SCS customers exert downward pricing pressure and often require modifications to our standard commercial terms. While we believe our ongoing cost reduction initiatives have helped mitigate the effect of price reduction pressures from our SCS customers, there is no assurance that we will be able to maintain or improve our current levels of profitability.

Substantially all of our SCS services are provided under contractual arrangements with our customers. Under most of these 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, 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. Although certain of our 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.

We hire drivers primarily for our DCC and SCS business segments. There is significant competition for qualified drivers in the transportation industry. 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.

In order to serve our customers globally, we must continue to expand our international operations, which may result in additional risks.

We are committed to meeting our customers global needs by continuing to grow our international operations in Canada, Europe, Asia and Latin America. Our international operations, particularly in Latin America and Asia, are subject to adverse developments in foreign political, governmental and economic conditions, varying competitive factors, foreign currency fluctuations, potential difficulties in identifying and retaining qualified managers and personnel, potential adverse tax consequences and difficulties in protecting intellectual property rights. These factors may have a significant effect on our ability to profitably grow our international operations or retain existing customers that require global expansion. In addition, entry into new international markets requires considerable management time as well as start-up expenses for market development, staffing and establishing office facilities before any significant revenue is generated. As a result, initial operations in a new market may operate at low margins or may be unprofitable.

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:

- we compete with many other transportation and logistics service providers, some of which have greater capital resources than we do;
- some of our competitors periodically reduce their prices to gain business, which may limit our ability to maintain or increase prices;
- because cost of capital is a significant competitive factor, any increase in either our debt or equity cost of capital as a result of reductions in our debt rating or stock price volatility could have a significant impact on our competitive position;
- 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; and
- competition from logistics and freight brokerage companies that do not operate trucking fleets may adversely affect our customer relationships and prices.

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

Our business is subject to regulation by various federal, state and foreign governmental entities. Specifically, the U.S. Department of Transportation and various state and federal agencies exercise broad powers over our motor carrier operations, safety, and the generation, handling, storage, treatment and disposal of waste materials. We may also become subject to new or more restrictive regulations imposed by the Department of Transportation, the Occupational Safety and Health Administration, the Environmental Protection Agency or other authorities, relating to the hours of service that our drivers may provide in any one-time period, security and other matters. Compliance with these regulations could substantially impair equipment productivity and increase our costs.

New regulations governing exhaust emissions could adversely impact our business. The Environmental Protection Agency has issued regulations that require progressive reductions in exhaust emissions from

certain diesel engines through 2007. Emissions standards require reductions in the sulfur content of diesel fuel beginning in June 2006 and the introduction of emissions after-treatment devices on newly-manufactured engines and vehicles utilizing engines built after January 1, 2007. The level and timing of market acceptance of new engine technology could impact timing of sales in 2007. In addition, each of these requirements could result in higher prices for tractors, diesel engines and fuel, which are passed on to our customers, as well as higher maintenance costs and uncertainty as to reliability of the new engines, all of which could, over time, increase our costs and adversely affect our business and results of operations. The new technology may also impact the residual values of these vehicles when sold in the future.

Volatility in assumptions related to our pension plans may increase our pension expense and adversely impact current funding levels.

We sponsor a number of defined benefit plans for employees in the U.S., U.K. and other foreign locations. We are required to make cash contributions to our defined benefit plans to the extent necessary to comply with minimum funding requirements imposed by employee benefit and tax laws. Our major defined benefit plans are funded, with trust assets invested in a diversified portfolio. The projected benefit obligation and assets of our global defined benefit plans as of December 31, 2006 was $1.53 billion and $1.42 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. Changes in interest rates, mortality rates, investments returns and the market value of plan assets can affect the funded status of our pension plans and cause volatility in the pension expense and future funding requirements. For a detailed discussion on our accounting policies and assumptions relating to our pension plans, please see the section titled Critical Accounting Estimates Pension Plans in Management s Discussion and Analysis of Financial Condition and Results of Operations.

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 790 FMS locations in the U.S., Puerto Rico and Canada; we own 459 of these facilities and lease the remaining facilities. Our FMS locations generally include a repair shop, rental counter, fuel service island and administrative offices.

Additionally we manage 197 on-site maintenance facilities, located at customer locations.

We also maintain 161 locations in the U.S. and Canada in connection with our domestic SCS and DCC businesses. Almost all of our SCS locations are leased and generally include a warehouse and administrative offices.

We maintain 85 international locations (locations outside of the U.S. and Canada) for our international businesses. These locations are in the U.K., Ireland, Germany, Mexico, Argentina, Brazil, Chile, China, Thailand and Singapore. The majority of these locations are leased and generally include a repair shop, warehouse and administrative offices.

ITEM 3. LEGAL PROCEEDINGS

Our subsidiaries are involved in various claims, lawsuits and administrative actions arising in the 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, results of operations or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of our security holders during the quarter ended December 31, 2006.

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 Common Share
	High	Low	
2006			
First quarter	**$46.04**	**39.61**	**0.18**
Second quarter	**59.93**	**44.47**	**0.18**
Third quarter	**58.31**	**47.38**	**0.18**
Fourth quarter	**55.32**	**50.36**	**0.18**
2005			
First quarter	$47.82	41.29	0.16
Second quarter	42.37	34.52	0.16
Third quarter	39.93	32.00	0.16
Fourth quarter	44.75	32.21	0.16

Our common shares are listed on the New York Stock Exchange under the trading symbol R. At January 31, 2007, there were 10,610 common stockholders of record and our stock price on the New York Stock Exchange was $54.54.

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Performance Graph

The following graph compares the performance of Ryder s common stock with the performance of the Standard & Poor s 500 Composite Stock Index and the Dow Jones Transportation Index for a five year period by measuring the changes in common stock prices from December 31, 2001 to December 31, 2006.

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, 2001 and that all dividends were reinvested. Past performance is not necessarily an indicator of future results.

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Purchases of Equity Securities

The following table provides information with respect to purchases we made of our common stock during the three months ended December 31, 2006:

	Total Number of Shares Purchased(1),(2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1),(2)	Maximum Number of Shares That May Yet Be Purchased Under the Program(1)
October 1 through October 31, 2006	**83,468**	**$ 54.30**	**77,443**	**422,171**
November 1 through November 30, 2006	**88,133**	**52.92**	**87,253**	**334,918**
December 1 through December 31, 2006	**227,151**	**52.10**	**166,203**	**168,715**
Total	**398,752**	**$ 52.74**	**330,899**	

(1) In May 2006, our Board of Directors authorized a two-year share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock option and stock purchase plans. Under the May 2006 program, management is authorized to repurchase shares of common stock in an amount not to exceed the number of shares issued to employees under the various employee stock option and employee stock purchase plans since March 1, 2006. The May 2006 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases will be made periodically in open-market transactions, and are subject to market conditions, legal requirements and other factors. Management was granted the authority to establish a trading plan for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the May 2006 program, which allowed for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. Since May 2006, we have repurchased in open-market transactions a total of 1,831,285 shares of common stock at December 31, 2006.

(2) During the three months ended December 31, 2006, we purchased an aggregate of 330,899 shares of our common stock as part of our share repurchase program and an aggregate of 67,853 shares of our common stock in employee-related transactions outside of the share repurchase program. 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 plan relating to investments by employees in our common stock, one of the investment options available under the plan.

Recent Sales of Unregistered Securities

In May 2006, we discovered that we inadvertently exceeded the number of shares of common stock registered with the Securities and Exchange Commission for offer and sale to participants under our 401(k) plan. We did not receive any proceeds from the sale of these securities because these purchases were made on the open-market. We estimate that approximately 243,700 shares were issued to plan participants under our 401(k) plan during the twelve months ended April 30, 2006. During that time, our common stock price ranged from a low of $32.56 per share to a high of $51.65 per share.

In May 2006, we filed a registration statement on Form S-8 to register future sales of common stock to plan participants pursuant to our 401(k) plan. Additionally, we made a registered rescission offer to eligible plan participants whereby we offered to repurchase any shares issued to them during the twelve months prior to the filing of the registered rescission offer at the price the participant paid for such shares. We also offered to reimburse those participants who bought and sold shares for a loss during those twelve months for the amount of the loss realized upon such sale. Based on our stock price on the day the rescission offer closed, we did not repurchase any shares through the rescission offer. We did reimburse a total of $11,888 to eligible plan participants who complied with the terms of the rescission offer.

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Securities Authorized for Issuance under Equity Compensation Plans

The following table includes information as of December 31, 2006 about certain plans which provide for the issuance of common stock in connection with the exercise of stock options and other share-based awards.

Plans	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans Excluding Securities Reflected in Column (a)
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
Broad based employee stock option plans	3,559,897	$35.20	3,738,367
Employee Stock Purchase Plan			891,632
Non-Employee Director s Stock Plans	186,806	20.86	41,927
Equity compensation plans not approved by security holders			
Total	3,746,703	$34.49	4,671,926

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ITEM 6. SELECTED FINANCIAL DATA

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

	Years ended December 31				
	2006	2005	2004	2003	2002
	(Dollars in thousands, except per share amounts)				
Operating Data:					
Revenue	**$ 6,306,643**	5,740,847	5,150,278	4,802,294	4,776,265
Earnings from continuing operations[1]	**$ 248,959**	227,628	215,609	135,559	112,565
Net earnings[1],[2]	**$ 248,959**	226,929	215,609	131,436	93,666
Per Common Share Data:					
Earnings from continuing operations Basic[1]	**$ 4.09**	3.57	3.35	2.15	1.83
Net earnings Basic[1],[2]	**$ 4.09**	3.56	3.35	2.09	1.52
Earnings from continuing operations Diluted[1]	**$ 4.04**	3.53	3.28	2.12	1.80
Net earnings Diluted[1],[2]	**$ 4.04**	3.52	3.28	2.06	1.50
Cash dividends	**$ 0.72**	0.64	0.60	0.60	0.60
Book value[3]	**$ 28.34**	24.69	23.48	20.85	17.75
Financial Data:					
Total assets	**$ 6,828,923**	6,033,264	5,683,164	5,323,265	4,789,393
Average assets[4]	**$ 6,426,546**	5,922,758	5,496,429	4,989,565	4,866,515
Return on average assets(%)[4]	**3.9**	3.8	3.9	2.6	1.9
Average asset turnover(%)[4]	**98.1**	96.9	93.7	96.2	98.1
Total debt	**$ 2,816,943**	2,185,366	1,783,216	1,815,900	1,551,468
Long-term debt	**$ 2,484,198**	1,915,928	1,393,666	1,449,489	1,389,099
Shareholders equity[3]	**$ 1,720,779**	1,527,456	1,510,188	1,344,385	1,108,215
Debt to equity(%)[3]	**164**	143	118	135	140
Average shareholders equity[3],[4]	**$ 1,610,328**	1,554,718	1,412,039	1,193,850	1,246,068
Return on average shareholders equity(%)[3],[4]	**15.5**	14.6	15.3	11.0	7.5
Net cash provided by operating activities	**$ 853,587**	779,062	866,849	803,613	616,683
Capital expenditures paid	**$ 1,695,064**	1,399,379	1,092,158	734,509	582,226
Other Data:					
Average common shares Basic (in thousands)	**60,873**	63,758	64,280	62,954	61,571
Average common shares Diluted (in thousands)	**61,578**	64,560	65,671	63,871	62,587
Number of vehicles Owned and leased	**165,900**	162,300	164,400	160,200	161,400
Number of employees	**28,600**	27,800	26,300	26,700	27,800

(1) Results included restructuring and other charges (recoveries), net of $2 million after-tax, or $0.04 per diluted common share in 2006, $2 million after-tax, or $0.03 per diluted common share in 2005, $(11) million after-tax, or $(0.17) per diluted common share in 2004, and $2 million after-tax, or $0.04 per diluted common share in 2002. In addition, results included an income tax benefit of $7 million, or $0.11 per diluted common share in 2006, associated with the reduction of deferred income taxes due to enacted changes in Texas and Canadian tax laws, an income tax benefit of $8 million, or $0.12 per diluted common share in 2005 related to a change in Ohio income tax law and a net income tax benefit of $9 million, or $0.14 per diluted common share in 2004, associated with developments in various tax matters. Results in 2006 included an after-tax charge of $4 million, or $0.06 per diluted common share, related to the accounting for pension prior service costs. See Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements for additional discussion.

(2) Net earnings for 2005 included (i) income from discontinued operations associated with the reduction of insurance reserves related to discontinued operations resulting in an after-tax benefit of $2 million, or $0.03 per diluted common share, and (ii) the cumulative effect of a change in accounting principle for costs associated with the future removal of underground storage tanks resulting in an after-tax charge of $2 million, or $0.04 per diluted common share. Net earnings for 2003 included the cumulative effect of a change in accounting principle for (i) variable interest entities resulting in an after-tax charge of $3 million, or $0.05 per diluted common share, and (ii) costs associated with eventual retirement of long-lived assets related primarily to components of revenue earning equipment resulting in an after-tax charge of $1 million, or $0.02 per diluted common share. Net earnings for 2002 included the cumulative effect of a change in accounting principle for goodwill resulting in an after-tax charge of $19 million, or $0.30 per diluted common share.

(3) Shareholders equity at December 31, 2006, 2005, 2004, 2003 and 2002 reflected after-tax equity charges of $201 million, $221 million, $189 million, $187 million and $229 million, respectively, related to the adoption of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, in 2006 and recording of the additional minimum pension liability.

(4) Amounts were computed using quarterly information.

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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.

OVERVIEW

Ryder System, Inc. (Ryder), is a global leader in transportation and supply chain management solutions. Our business is divided into three business segments, which operate in extremely 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 automotive, electronics, high-tech, telecommunications, industrial, consumer goods, paper and paper products, office equipment, food and beverage, general retail industries and governments.

The *Fleet Management Solutions (FMS)* business segment is our largest segment providing full service leasing, contract maintenance, contract-related maintenance, and commercial rental of trucks, tractors and trailers to customers principally in the U.S., Canada and the U.K. FMS revenue and assets in 2006 were $3.71 billion and $6.12 billion, respectively, representing 59% of our consolidated revenue and 90% of consolidated assets.

The *Supply Chain Solutions (SCS)* business segment provides comprehensive supply chain consulting including distribution and transportation services throughout North America and in Latin America, Europe and Asia. SCS revenue in 2006 was $2.03 billion, representing 32% of our consolidated revenue.

The *Dedicated Contract Carriage (DCC)* business segment provides vehicles and drivers as part of a dedicated transportation solution in the U.S. DCC revenue in 2006 was $569 million, representing 9% of our consolidated revenue.

2006 was a year of significant accomplishments for Ryder, as we realized record earnings for the third consecutive year. Continued development of our sales and operating capabilities in each of our business segments, continued focus on financial discipline and cost management while investing for strategic growth, provided support for earnings expansion. Total revenue was $6.31 billion, up 10% from $5.74 billion in 2005, while our operating revenue (total revenue less fuel and subcontracted transportation) measure was up $243 million or 6%. All business segments contributed to the total revenue growth. The growth in FMS revenue was driven in part by increased fuel services revenue, primarily as a result of higher average fuel prices, as well as higher full service lease revenue resulting from higher lease rates and business expansion. The growth in SCS revenue was driven primarily by higher volumes and new and expanded business in all industry groups. The growth in DCC revenue was driven by expanded and new business as well as pricing increases associated with higher average fuel costs. Comparisons for 2006 were also impacted by favorable movements in foreign currency exchange rates of 0.8% related to our international operations.

Earnings from continuing operations grew to $249 million from $228 million in 2005 and earnings per diluted common share from continuing operations increased to $4.04 from $3.53 in 2005. Included in earnings from continuing operations are certain items we do not consider indicative of our ongoing

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

operations. The following discussion provides a summary of the 2006 and 2005 special items which are discussed in more detail throughout our MD&A:

2006

Earnings for 2006 included an income tax benefit of $7 million, or $0.11 per diluted common share, associated with the reduction of deferred income taxes due to enacted changes in Texas and Canadian tax laws.

Earnings for 2006 included a one-time, non-cash pension accounting charge of $4 million after-tax, or $0.06 per diluted common share, to properly account for prior service costs related to retiree pension benefit improvements made in 1995 and 2000. See Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements for additional information.

2005

Earnings for 2005 included an income tax benefit of $8 million, or $0.12 per diluted common share, related to a change in Ohio income tax law.

Net earnings for 2005 included (i) income from discontinued operations associated with the reduction of insurance reserves related to discontinued operations resulting in an after-tax benefit of $2 million, or $0.03 per diluted common share, and (ii) the cumulative effect of a change in accounting principle for costs associated with the future removal of underground storage tanks resulting in an after-tax charge of $2 million, or $0.04 per diluted common share.

Excluding the special items listed above, comparable earnings from continuing operations were $246 million, up 12% from $220 million in 2005. Comparable earnings from continuing operations per diluted common share were $3.99, up 17% from $3.41 in 2005. All business segments contributed to the strong results. The earnings growth was driven primarily by contractual revenue growth from each of our business segments, which more than offset the impact of a soft commercial rental market in FMS for the second half of 2006. The results of ongoing cost management initiatives across all business segments and in our central support functions also contributed to the earnings growth in 2006. Earnings per common share growth during 2006 exceeded the earnings growth over the prior periods because the average number of shares outstanding has decreased during the past year reflecting the impact of share repurchase programs.

With the continuing improvements in earnings over the past three years, we were able to repurchase a total of 3.4 million shares of common stock in 2006 for $159 million. We also increased our annual dividend by 13% to $0.72 per share of common stock. In addition, during 2006 we contributed $130 million to our global pension plans.

Capital expenditures increased to $1.76 billion compared with $1.41 billion in 2005. The increase in capital expenditures reflects higher lease vehicle spending for replacements and expansion of customer fleets. The significant amount of capital spending to support contractual revenue growth, as well as pension contributions and share repurchases contributed to the increase in our debt from $2.19 billion at December 31, 2005 to $2.82 billion at December 31, 2006. Our debt to equity ratio also increased to 164% from 143% in 2005. Total obligations (including off-balance sheet debt) to equity ratio increased to 168% from 151% in 2005.

2007 Outlook

Our outlook for 2007 is positive, despite the uncertainty of our FMS commercial rental business. We expect stable economic conditions in 2007. Our efforts will focus on the implementation of our contractual revenue growth strategies across all business segments while retaining financial discipline. Total revenue is targeted to grow by 5% to 7% while operating revenue is expected to increase by 4% to 5%. We will also

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

continue to focus on cost management and process improvement actions that complement our growth strategies and establish a foundation for sustainable long term profitable growth. As a result, we expect earnings from continuing operations per diluted common share in 2007 to grow by 8% to 10% compared to 2006 comparable earnings from continuing operations per diluted common share.

ITEMS AFFECTING COMPARABILITY BETWEEN PERIODS

Accounting Changes

Effective December 31, 2006, we adopted Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. The adoption of SFAS No. 158 required us to record the underfunded status of our defined benefit pension and other postretirement plans as a liability and record the unrecognized net actuarial loss, unrecognized prior service cost and unrecognized transition asset of our defined benefit pension and other postretirement plans as a component of other comprehensive income. The adoption of this standard reduced total assets by $155 million, total liabilities by $4 million and shareholders equity by $151 million, with no impact to our consolidated statements of earnings and cash flows.

Effective January 1, 2006, we adopted SFAS No. 123R, Share-Based Payments. Under SFAS No. 123R, compensation expense was recognized beginning January 1, 2006 and included (a) compensation expense for all share-based employee compensation arrangements granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, Accounting for Stock-Based Compensation, and (b) compensation expense for all share-based employee compensation arrangements granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods have not been restated. As a result of adopting SFAS No. 123R on January 1, 2006, earnings before income taxes for the year ended December 31, 2006 were $10 million ($7 million after-tax) lower, than if we had continued to account for share-based compensation under Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. Both basic and diluted earnings per common share for the year ended December 31, 2006 were $0.12 lower than if we had continued to account for share-based compensation under APB No. 25. At December 31, 2006, unrecognized compensation expense from stock options and nonvested shares totaled $20 million, which is expected to be recognized over the next 3.5 years.

Effective December 31, 2005, we adopted FASB Interpretation No. (FIN) 47, Accounting for Conditional Asset Retirement Obligations. The adoption of FIN 47 required us to record an asset retirement obligation related to the future removal of underground storage tanks located at our FMS maintenance facilities. We recognized a cumulative effect charge upon adoption of $2 million on an after-tax basis, or $0.04 per diluted common share. The adoption of this standard did not have a significant impact on our operating results.

Refer to Note 2, Accounting Changes, in the Notes to Consolidated Financial Statements for additional discussion surrounding the adoption of these accounting standards.

FMS Acquisition

On March 1, 2004, we completed an asset purchase agreement with Ruan Leasing Company (Ruan) under which we acquired Ruan s fleet of approximately 6,400 vehicles, 37 of its 111 service locations and more than 500 customers. Ryder also acquired full service contract maintenance agreements covering approximately 1,700 vehicles. The network operates under Ryder s name and has allowed us to leverage our existing U.S. infrastructure in key markets while adding new infrastructure to strengthen our presence in targeted areas of the Midwest, Southeast, Mid-Atlantic and Southwest. The results of this acquisition have been included in the consolidated results of Ryder since the date of acquisition.

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

CONSOLIDATED RESULTS

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands, except per share amounts)				
Earnings from continuing operations before income taxes	**$392,973**	357,088	331,122	**10%**	8
Provision for income taxes(1)	**144,014**	129,460	115,513	**11**	12
Earnings from continuing operations(1),(2)	**$248,959**	227,628	215,609	**9%**	6
Per diluted common share(1),(2)	**$ 4.04**	3.53	3.28	**14%**	8
Net earnings(1),(2),(3)	**$248,959**	226,929	215,609	**10%**	5
Per diluted common share(1),(2),(3)	**$ 4.04**	3.52	3.28	**15%**	7
Weighted-average shares outstanding Diluted	**61,578**	64,560	65,671	**(5)%**	(2)

(1) *2006 included an income tax benefit of $7 million, or $0.11 per diluted common share, associated with the reduction of deferred income taxes due to changes in Texas and Canadian tax laws. 2005 included an income tax benefit of $8 million, or $0.12 per diluted common share, associated with the reduction of deferred income taxes due to the phase-out of income taxes for the State of Ohio. 2004 included an income tax benefit of $9 million, or $0.14 per diluted common share, associated with developments in various tax matters. See Note 14, Income Taxes, in the Notes to Consolidated Financial Statements for additional discussion.*

(2) *Results included restructuring and other charges (recoveries), net of $2 million after-tax, or $0.04 per diluted common share, in 2006, $2 million after-tax, or $0.03 per diluted common share, in 2005 and $(11) million after-tax, or $(0.17) per diluted common share, in 2004. See Note 5, Restructuring and Other Charges (Recoveries), in the Notes to Consolidated Financial Statements for additional discussion. 2006 also included an after-tax charge of $4 million, or $0.06 per diluted common share, related to the accounting for prior service costs related to retiree pension benefit improvements in 1995 and 2000. See Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements for additional discussion.*

(3) *Net earnings for 2005 included (i) income from discontinued operations associated with the reduction of insurance reserves related to discontinued operations resulting in an after-tax benefit of $2 million, or $0.03 per diluted common share, and (ii) the cumulative effect of a change in accounting principle for costs associated with the future removal of underground storage tanks resulting in an after-tax charge of $2 million, or $0.04 per diluted common share.*

Earnings from continuing operations before income taxes increased to $393 million in 2006 compared with $357 million in 2005, reflecting better operating performance in all business segments. The 2006 operating performance improvement was driven by contractual revenue growth in each of our business segments, which more than offset the impact of a soft commercial rental market on our FMS business segment results in the second half of 2006. See Operating Results by Business Segment for a further discussion of operating results. Earnings from continuing operations increased to $249 million in 2006 compared with $228 million in 2005. Earnings from continuing operations for 2006 included an income tax benefit of $7 million, or $0.11 per diluted common share, associated with the reduction of deferred income taxes due to enacted changes in Texas and Canadian tax laws and a one-time, non-cash after-tax charge of $4 million, or $0.06 per diluted common share, recorded to properly account for prior service costs related to retiree pension benefit improvements made in 1995 and 2000. Earnings from continuing operations for 2005 included a state income tax benefit of $8 million, or $0.12 per diluted common share, associated with the reduction of deferred income taxes due to the expected phase-out of income taxes for the State of Ohio. Earnings per common share growth during 2006 exceeded the net earnings growth over the prior periods because the average number of shares outstanding has decreased during the past year reflecting the impact of share repurchase programs.

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

Earnings from continuing operations before income taxes increased to $357 million in 2005 compared with $331 million in 2004, reflecting better operating performance in all business segments. Strong FMS commercial rental results, higher gains on FMS used vehicle sales and reductions in operating expenses resulting from ongoing cost reduction activities and process improvement actions across all business segments, were partially offset by the benefit from gains on the 2004 sale of our headquarters complex. Earnings from continuing operations increased to $228 million in 2005 compared with $216 million in 2004. Earnings from continuing operations in 2005 included an income tax benefit of $8 million, or $0.12 per diluted common share, related to a change in Ohio income tax law. Earnings from continuing operations in 2004 benefited from after-tax gains on the sale of our headquarters complex of $15 million, or $0.23 per diluted common share, and a net income tax benefit of $9 million, or $0.14 per diluted common share, associated with the resolution of various tax matters.

Net earnings in 2005 included an after-tax benefit of $2 million, or $0.03 per diluted common share, related to discontinued operations and an after-tax charge of $2 million, or $0.04 per diluted common share, for the cumulative effect of a change in accounting principle related to the adoption of FIN 47.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Revenue:					
Fleet Management Solutions	**$ 4,096,046**	3,921,191	3,602,839	**4%**	9
Supply Chain Solutions	**2,028,489**	1,637,826	1,354,003	**24**	21
Dedicated Contract Carriage	**568,842**	543,268	506,100	**5**	7
Eliminations	**(386,734)**	(361,438)	(312,664)	**(7)**	(16)
Total	**$ 6,306,643**	5,740,847	5,150,278	**10%**	11
Operating revenue(1)	**$ 4,454,231**	4,210,881	4,041,898	**6%**	4

(1) *We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our businesses and as a measure of sales activity. FMS fuel services revenue net of related intersegment billings, which is directly impacted by fluctuations in market fuel prices, is excluded from the operating revenue computation as fuel is largely a pass-through 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 market fuel costs. Subcontracted transportation revenue in our SCS and DCC business segments is excluded from the operating revenue computation as subcontracted transportation is largely a pass-through to our customers and we realize minimal changes in profitability as a result of fluctuations in subcontracted transportation. Refer to the section titled Non-GAAP Financial Measures for a reconciliation of operating revenue to total revenue.*

All business segments reported revenue growth in 2006. Revenue growth for FMS was driven by higher fuel services revenue, primarily as a result of higher average fuel prices from increased fuel costs, and higher full service lease revenue resulting from higher lease rates and new contract sales. SCS revenue growth was due primarily to increased volumes of managed subcontracted transportation and higher volumes and new and expanded business. DCC revenue growth was due to expanded and new business as well as pricing increases associated with higher fuel costs. Revenue comparisons were also impacted by favorable movements in foreign currency exchange rates related to our international operations. Total revenue included a favorable foreign currency exchange impact of 0.8% due primarily to the strengthening of the Canadian dollar and Brazilian real.

All business segments reported revenue growth in 2005. Additionally, revenue comparisons for all business segments were favorably impacted by pricing increases associated with higher fuel costs which

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

increased fuel services revenue. FMS revenue was also positively impacted by higher rental revenue resulting from stronger pricing and increased contract-related maintenance revenue from the implementation of growth initiatives. SCS revenue growth was primarily related to increased volumes of managed subcontracted transportation. In addition, SCS and DCC revenue grew in 2005 due to new and expanded business. Total revenue included a favorable foreign currency exchange impact of 0.9% due primarily to the strengthening of the Canadian dollar and Brazilian real.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to our SCS and DCC segments. Eliminations relate to inter-segment sales that are accounted for at rates similar to those executed with third parties. The increases in eliminations in 2006 and 2005, primarily reflects the pass-through of higher average fuel costs from the FMS segment to SCS and DCC.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Operating expense (exclusive of items shown separately)	**$2,722,592**	2,572,241	2,305,322	**6%**	12
Percentage of revenue	**43%**	45%	45%		

Operating expense grew for 2006 and 2005 principally as a result of higher fuel costs due to higher average market prices. Fuel costs are largely a pass-through to customers for which we realize minimal changes in profitability during periods of steady market fuel prices. The revenue growth from each business segment, excluding fuel, also contributed to the increases in operating expenses.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Salaries and employee-related costs	**$1,397,391**	1,262,160	1,233,038	**11%**	2
Percentage of revenue	**22%**	22%	24%		
Percentage of operating revenue	**31%**	30%	31%		

Salaries and employee-related costs and salaries and employee-related costs as a percentage of operating revenue increased in 2006 compared with 2005 primarily as a result of added headcount and increased outside labor costs to support the growth in our SCS and DCC business segments, higher share-based compensation and higher employee benefit expenses. Average headcount increased 4% in 2006 compared with 2005. The number of employees at December 31, 2006 increased to approximately 28,600, compared with 27,800 in 2005, due primarily to the growth in our SCS business segment. Additionally, on January 1, 2006, we adopted SFAS No. 123R and recognized $10 million of additional share-based compensation expense in 2006. See Note 22, Share-Based Compensation Plans, in the Notes to Consolidated Financial Statements for additional information.

Pension expense increased $11 million in 2006 to $70 million compared with 2005. During 2006, we recorded a one-time, non-cash charge of $6 million ($4 million after-tax), to properly account for prior service costs related to retiree pension benefit improvements made in 1995 and 2000. The impact of this one-time charge was partially offset by a reduction of our 2006 fourth quarter pension expense of $5 million ($3 million after-tax) resulting from the interim remeasurement of plan assets and pension obligations. The 2006 pension accounting charge and the benefit attributed to the interim pension remeasurement discussed above were excluded from our segment measure of financial performance. All other increases to pension expense largely impacted our FMS business segment which employs the majority of our employees that participate in the primary U.S. pension plan. See Note 23, Employee

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

Benefit Plans, in the Notes to Consolidated Financial Statements, for additional information regarding these items. Based on actual pension asset returns experienced in 2006, 2006 contributions and interest rate levels at December 31, 2006, we expect pension expense on a pre-tax basis to decrease approximately $31 million in 2007, excluding the impact of the $6 million pension accounting charge recorded in 2006. Our 2007 pension expense estimates are subject to change based upon the completion of the actuarial analysis for all pension plans. Our 2007 interest expense on borrowings will also increase by $5 million because of pension contributions made in the current year. The anticipated decrease in pension expense, net of higher interest on borrowings, would primarily impact our FMS business segment. See the section titled Critical Accounting Estimates Pension Plans for further discussion on pension accounting estimates.

Salaries and employee-related costs grew for 2005 compared with 2004 as a result of headcount added to support the growth in our SCS business segment, which was offset slightly by reduced performance-based incentive compensation and lower employee benefit costs. Average headcount increased 2% in 2005 compared with 2004.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Subcontracted transportation	**$865,475**	638,319	424,991	**36%**	50
Percentage of revenue	**14%**	11%	8%		

Subcontracted transportation expense represents freight management costs on logistics contracts for which we purchase transportation from third parties. During 2006 and 2005, subcontracted transportation expense in our SCS business segment grew due to increased volumes of freight management activity from new and expanded business and higher average pricing on subcontracted freight costs, resulting from increased fuel costs.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Depreciation expense	**$743,288**	740,415	706,028	**%**	5
Gains on vehicle sales, net	**(50,766)**	(47,098)	(34,504)	**8**	37
Equipment rental	**103,297**	102,816	108,468		(5)

Depreciation expense relates primarily to FMS revenue earning equipment. Depreciation expense increased slightly in 2006 compared with 2005, reflecting the impact of a higher average vehicle investment on purchases over the past year. These changes were partially offset by the impact of a lower average fleet count and the adjustments made to residual values and useful lives as part of the annual depreciation review, which were implemented January 1, 2006. The growth in depreciation expense during 2005 compared to 2004 was due to higher vehicle replacement activity within our truck and tractor fleets as well as the conversion of leased vehicles to owned status, partially offset by a decline in our average trailer fleet size.

Gains on vehicle sales, net increased in 2006 compared with 2005 due to improved average pricing on vehicles sold, which more than offset the decline in the number of vehicles sold. The improvement in gains on vehicle sales, net in 2005 compared with 2004 was due to an increase in the number of units sold combined with improved average pricing.

We periodically review and adjust residual values, reserves for guaranteed lease termination values and useful lives of revenue earning equipment based on current and expected operating trends and projected realizable values. See the section titled Critical Accounting Estimates Depreciation and Residual Value

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

Guarantees for further discussion. While we believe that the carrying values and estimated sales proceeds for revenue earning equipment are appropriate, there can be no assurance that a deterioration in economic conditions or adverse changes to expectations of future sales proceeds will not occur, resulting in lower gains or losses on sales.

Equipment rental consists primarily of rent expense for FMS revenue earning equipment under lease. The increase in equipment rental in 2006 compared with 2005 reflects the impact of higher rental costs associated with investments made in material handling equipment to support the growth in our SCS business, which more than offset the decline in vehicle-related rental expense from a smaller average lease count. The decrease in equipment rental in 2005 compared to 2004 was due to a reduction in the average number of leased vehicles.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Interest expense	**$140,561**	120,474	100,114	**17%**	20
Effective interest rate	**5.7%**	5.6%	5.5%		

Interest expense grew in 2006 compared with 2005, reflecting higher average debt levels due to funding requirements associated with higher capital spending to support our contractual full service lease business, the funding of global pension contributions and share repurchases. Interest expense grew in 2005 reflecting higher average debt levels, resulting from increased capital spending, income tax payments and share repurchases.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Miscellaneous income, net	**$(11,732)**	(8,944)	(6,625)	**31%**	35

Miscellaneous income, net consists of investment income on securities used to fund certain benefit plans, interest income, (gains) losses from sales of properties, foreign currency transaction (gains) losses, and other non-operating items. Miscellaneous income, net increased in 2006 compared with 2005 due to a 2006 fourth quarter business interruption insurance claim recovery from hurricane-related losses of $3 million ($2 million within our FMS business segment and $1 million within our DCC business segment), a one-time recovery in 2006 of $2 million for the recognition of common stock received from mutual insurance companies and better market performance of investments classified as trading securities. These favorable comparisons were partially offset by a $1 million charge in 2006 related to the settlement of litigation associated with a discontinued operation, as well as the one-time recovery in the first quarter of 2005 of $3 million of project costs incurred in prior years. Miscellaneous income, net increased in 2005 compared with 2004 due to the previously mentioned one-time recovery for project costs incurred in prior years and better market performance of investments classified as trading securities.

	Years ended December 31		
	2006	2005	2004

		(In thousands)	
Restructuring and other charges (recoveries), net	**$3,564**	3,376	(17,676)

2006 Activity

During 2006, Ryder recorded net restructuring and other charges of $4 million that primarily consisted of early debt retirement costs and employee severance and benefit costs incurred in connection with global cost savings initiatives. The majority of these charges were recorded during the fourth quarter.

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

These charges were partially offset by adjustments to prior year severance and employee-related accruals and facility charges. We expect to realize annual pre-tax cost savings of approximately $8 million from the 2006 fourth quarter measures once all employee severance actions have been completed.

As part of ongoing cost management actions, Ryder incurred $2 million in costs in the fourth quarter to extinguish high interest paying debentures that were originally set to mature in 2016. The total debt retirement costs consisted of the premium paid on the early extinguishment and the write-off of the related debt discount and issuance costs. We expect to realize annual pre-tax interest savings over the next 4 years of approximately $2 million from the early extinguishment of this debenture. In the fourth quarter, Ryder also approved a plan to eliminate approximately 150 positions as a result of ongoing cost management and process improvement actions throughout Ryder s domestic and international business segments and Central Support Services (CSS). The charge related to these actions included severance and employee-related costs totaling $1 million. Although some of these actions were completed as of December 31, 2006, transition plans for eliminating some of the positions will be communicated in the beginning of 2007. Cost reductions associated with the actions that have been completed as of December 31, 2006 will benefit salaries and employee-related costs beginning in the first quarter of 2007. Cost reductions associated with the elimination of the other positions will benefit salaries and employee-related costs in the latter part of 2007. During 2006 we also had employee-related accruals and facility charges recorded in prior restructuring charges that were adjusted due to subsequent refinements in estimates.

2005 Activity

During 2005, Ryder recorded net restructuring and other charges of $3 million that consisted of employee severance and benefits, contract termination costs, and closure of leased facilities partially offset by reversals of prior year severance and employee-related accruals. The majority of these charges were recorded during the fourth quarter and related primarily to the restructuring of our U.K. operations, and the offshoring of some administrative finance and support functions that will allow for future cost savings. By December 31, 2006, the 2005 actions were completed and the cost reductions associated with these activities benefited salaries and employee-related costs in the latter half of 2006.

During 2005, Ryder approved a plan to eliminate approximately 160 positions as a result of ongoing cost management and process improvement actions in Ryder s domestic and international FMS and SCS business segments and CSS. The charge related to these actions included severance and employee-related costs totaling $3 million. Cost reductions associated with these actions benefited salaries and employee-related costs beginning in the first quarter of 2006. Many of the eliminated positions in our domestic operations were impacted by the decision to outsource certain administrative finance functions to lower-cost foreign providers and maximize our technology resources. Transition actions began in February 2006 and continued through the remainder of 2006. We also closed two administrative offices in the U.S. as a result of the restructuring of our FMS domestic business operations and recorded a charge for future cash payments related to lease obligations. Also in 2005, management approved and committed to a plan to transition certain outsourced telecommunication services to Ryder employees. Under the terms of the outsourcing agreement, Ryder was obligated to pay termination costs in the event of termination prior to the expiration date of 2010. In accordance with the terms of this service agreement, Ryder notified the information technology services provider of its intent to terminate the services and recorded charges totaling nearly $1 million for contract termination costs. In 2006, the transition activities were completed and cost reductions associated with the termination of these services benefited operating expenses in the latter part of 2006. These charges were partially offset by reversals of prior year severance and employee-related accruals due to refinements in estimates.

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

2004 Activity

During 2004, Ryder recorded net restructuring and other recoveries of $18 million that consisted of gains from the sale of the previous headquarters complex and reversals of severance and employee-related accruals partially offset by contract termination costs.

During 2004, we recognized $24 million in gains from properties sold in connection with the relocation of our headquarters. In May 2004, we completed the sale of our corporate headquarters facility for $39 million in cash and recognized a $22 million gain from the sale. In conjunction with this sale, we entered into a lease agreement with the purchaser to lease back the headquarters facility until we relocated to our new headquarters in April 2005. Also during 2004, we recognized gains totaling $2 million from the sale of properties ancillary to our main headquarters facility.
In 2004, as part of ongoing cost containment initiatives, Ryder management approved and committed to a plan to transition certain outsourced information technology infrastructure services to Ryder employees. Under the terms of the outsourcing agreement, Ryder was obligated to pay termination costs in the event of termination prior to the expiration date of 2010. In accordance with the terms of the services agreement, Ryder notified the information technology services provider of its intent to terminate the services and recorded charges totaling $8 million for contract termination ($6 million) and transition costs incurred since termination ($2 million). By December 31, 2004, all transition activities were completed and cost reductions associated with the termination of these services benefited operating expenses starting in 2005.

See Note 5, Restructuring and Other Charges (Recoveries) in the Notes to Consolidated Financial Statements for further discussion.

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Provision for income taxes	**$144,014**	129,460	115,513	**11%**	12
Effective tax rate	**36.6%**	36.3%	34.9%		

The 2006 effective income tax rate includes a tax benefit of $7 million from the reduction of deferred income taxes as a result of enacted changes in Texas and Canadian tax laws. The 2005 effective tax rate includes a tax benefit of $8 million associated with the State of Ohio enacted tax legislation, which phases out the Ohio corporate franchise tax and phases in a new gross receipts tax called the Commercial Activity Tax (CAT) over a five-year period. The 2004 effective tax rate includes a net tax benefit of $9 million associated with the completion of the audit of our federal income tax returns for the 1995 to 1997 period, partially offset by provisions made for loss contingencies related to the 1998 through 2000 period. See Note 14, Income Taxes, in the Notes to Consolidated Financial Statements for further discussion.

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

OPERATING RESULTS BY BUSINESS SEGMENT

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Revenue:					
Fleet Management Solutions	**$4,096,046**	3,921,191	3,602,839	**4%**	9
Supply Chain Solutions	**2,028,489**	1,637,826	1,354,003	**24**	21
Dedicated Contract Carriage	**568,842**	543,268	506,100	**5**	7
Eliminations	**(386,734)**	(361,438)	(312,664)	**(7)**	(16)
Total	**$6,306,643**	5,740,847	5,150,278	**10%**	11
Operating Revenue:					
Fleet Management Solutions	**$2,921,062**	2,864,931	2,800,641	**2%**	2
Supply Chain Solutions	**1,182,925**	1,015,834	938,691	**16**	8
Dedicated Contract Carriage	**548,931**	526,941	496,421	**4**	6
Eliminations	**(198,687)**	(196,825)	(193,855)	**(1)**	(2)
Total	**$4,454,231**	4,210,881	4,041,898	**6%**	4
NBT:					
Fleet Management Solutions	**$ 368,069**	354,354	312,706	**4%**	13
Supply Chain Solutions	**62,144**	39,392	37,079	**58**	6
Dedicated Contract Carriage	**42,589**	35,129	29,450	**21**	19
Eliminations	**(33,732)**	(32,660)	(32,728)	**(3)**	
	439,070	396,215	346,507	**11**	14
Unallocated Central Support Services	**(39,486)**	(35,751)	(33,061)	**(10)**	(8)
Restructuring and other (charges) recoveries, net and 2006 net retirement plan charges	**(6,611)**	(3,376)	17,676	**NM**	NM
Earnings from continuing operations before income taxes	**$ 392,973**	357,088	331,122	**10%**	8

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

As part of management s evaluation of segment operating performance, we define the primary measurement of our segment financial performance as Net Before Tax (NBT), which includes an allocation of CSS and excludes restructuring and other (charges) recoveries, net and 2006 net retirement plan charges. The following table provides a reconciliation of items excluded from our segment NBT measure to their classification within our Consolidated Statements of Earnings:

Description	Consolidated Statements of Earnings Line Item[(1)]	Years ended December 31 **2006**	2005	2004
			(In thousands)	
Severance and employee-related (costs) recoveries	Restructuring	**$(1,048)**	(2,449)	1,216
Facilities and related (costs) recoveries	Restructuring	**(194)**	(181)	79
Early retirement of debt	Restructuring	**(2,141)**		
Contract termination and transition costs	Restructuring	**(181)**	(746)	(8,000)
Gain on sale of headquarter complex	Restructuring			24,308
Other	Restructuring			73
Restructuring and other (charges) recoveries, net		**(3,564)**	(3,376)	17,676
Pension accounting charge[(2)]	Salaries	**(5,872)**		
Pension remeasurement benefit[(2)]	Salaries	**4,667**		
Postretirement benefit plan charge[(2)]	Salaries	**(1,842)**		
2006 net retirement plan (charges)		**(3,047)**		
Restructuring and other (charges) recoveries, net and 2006 net retirement plan charges		**$(6,611)**	(3,376)	17,676

(1) *Restructuring refers to the Restructuring and other (charges) recoveries, net and Salaries refers to Salaries and employee-related costs on our Consolidated Statements of Earnings.*

(2) *See Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements for additional information.*

CSS represents those costs incurred to support all of our business segments, including human resources, finance, corporate services and public affairs, information technology, health and safety, legal and corporate communications. The objective of the NBT measurement is to provide clarity on the profitability of each of our business segments and, ultimately, to hold leadership of each business segment and each operating segment within each business segment accountable for their allocated share of CSS costs. Segment results are not necessarily indicative of the results of operations that would have occurred had each segment been an independent, stand-alone entity during the periods presented.

Certain costs are considered to be overhead not attributable to any segment and remain unallocated in CSS. Included within the unallocated overhead remaining within CSS are the costs for investor relations, corporate communications, public affairs and certain executive compensation. See Note 26, Segment Reporting, in the Notes to Consolidated Financial Statements for a description of how the remainder of CSS costs is allocated to the business segments.

Our FMS segment leases revenue earning equipment and provides fuel, maintenance and other ancillary services to our SCS and DCC segments. Inter-segment revenue and NBT are accounted for at rates similar to those executed with third parties. NBT related to inter-segment equipment and services billed to customers (equipment contribution) are included in both FMS and the business segment which served the customer and then eliminated (presented as Eliminations).

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

The following table sets forth equipment contribution included in NBT for our SCS and DCC segments:

	Years ended December 31		
	2006	2005	2004
	(In thousands)		
Equipment Contribution:			
Supply Chain Solutions	**$16,983**	15,860	14,971
Dedicated Contract Carriage	**16,749**	16,800	17,757
Total	**$33,732**	32,660	32,728

Fleet Management Solutions

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Full service lease	**$1,848,141**	1,785,606	1,766,675	**4%**	1
Contract maintenance	**141,933**	134,492	136,327	**6**	(1)
Contractual revenue	**1,990,074**	1,920,098	1,903,002	**4**	1
Contract-related maintenance	**193,134**	191,128	178,049	**1**	7
Commercial rental	**665,730**	686,343	649,847	**(3)**	6
Other	**72,124**	67,362	69,743	**7**	(3)
Operating revenue[1]	**2,921,062**	2,864,931	2,800,641	**2**	2
Fuel services revenue	**1,174,984**	1,056,260	802,198	**11**	32
Total revenue	**$4,096,046**	3,921,191	3,602,839	**4%**	9
Segment NBT	**$ 368,069**	354,354	312,706	**4%**	13
Segment NBT as a % of total revenue	**9.0%**	9.0%	8.7%	**bps**	30 bps
Segment NBT as a % of operating revenue [1]	**12.6%**	12.4%	11.2%	**20 bps**	120 bps

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our FMS business segment and as a measure of sales activity. Fuel services revenue, which is directly impacted by fluctuations in market fuel prices, is excluded from our operating revenue computation as fuel is largely a pass-through to 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 market fuel costs.

2006 versus 2005

Total revenue grew in 2006 reflecting higher fuel services revenue as a result of higher average fuel prices. Operating revenue increased in 2006 due to full service lease growth primarily in North America. FMS total revenue included a favorable foreign currency exchange impact of 0.3%.

Contractual revenue growth in 2006 was realized in both FMS product lines. Full service lease revenue grew in 2006 due to higher lease rates and higher levels of sales activity in North America. Contract maintenance revenue increased in 2006 due primarily to new sales activity. In 2007, we expect each of our contractual product lines to demonstrate revenue growth based on 2006 sales activity levels and ongoing investments in new sales and business retention initiatives. Commercial rental revenue decreased in 2006 reflecting a smaller average fleet and lower vehicle utilization from a weakening

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

U.S. commercial rental market. In the fourth quarter of 2006, commercial rental revenue decreased 7% reflecting lower vehicle utilization and pricing. We expect similar unfavorable commercial rental revenue comparisons to continue in 2007; however, we expect percentage revenue declines to be greater in the first half of 2007 and improve in the second half of 2007.

The following table provides rental statistics for the U.S. fleet, which generates more than 80% of total commercial rental revenue:

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Non-lease customer rental revenue	**$282,528**	296,435	292,241	**(5)%**	1
Lease customer rental revenue[1]	**$277,461**	284,187	257,828	**(2)%**	10
Average commercial rental fleet size in service[2]	**33,400**	34,400	34,700	**(3)%**	(1)
Average commercial rental power fleet size in service[2],[3]	**24,600**	24,700	24,000	**%**	3
Commercial rental utilization	**71.9%**	74.6%	76.9%	**(270)bps**	(230)bps

(1) Lease customer rental revenue is revenue from rental vehicles provided to our existing full service lease customers, generally during peak periods in their operations.

(2) Number of units rounded to nearest hundred.

(3) Fleet size excluding trailers.

FMS NBT grew $14 million during 2006 primarily as a result of revenue growth in our full service lease and contract maintenance product lines. The favorable impact of contractual revenue growth was partially offset by reduced commercial rental volumes, higher sales and marketing expenses, compensation-related expenses and higher interest expense due primarily to planned higher debt levels to support investments in the full service lease business, pension contributions and stock repurchases.

2005 versus 2004

Total revenue grew in 2005 reflecting higher fuel services revenue as a result of higher average fuel prices. Operating revenue for 2005 increased as a result of higher commercial rental and contract-related maintenance revenue and the impact of acquisitions. FMS acquisitions contributed approximately $21 million of total additional revenue in 2005. FMS total revenue and operating revenue comparisons for 2005 also benefited from favorable foreign currency exchange rates. FMS total revenue included a favorable foreign currency exchange impact of 0.6%.

Contractual revenue growth in 2005 was driven by growth in the full service lease product line and was slightly offset by contract maintenance revenue declines. Full service lease revenue increased in 2005 primarily from the acquisition completed in March 2004 and growth in Canada as a result of favorable foreign currency exchange rates and higher volumes. These increases were partially offset by reduced full service lease revenue in our base U.S. business (excluding acquisitions) in the first half of 2005. Our U.S. business showed improved revenue growth trends in the second half of 2005 as a result of positive net sales. Contract maintenance revenue decreased as a result of lost business. Contract-related maintenance revenue, which generally represents ancillary services supporting core product lines, benefited from ongoing initiatives aimed at growing these service offerings. Commercial rental revenue increased as a result of stronger pricing and revenue contribution attributed to the acquisition completed in March 2004. During

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

the fourth quarter of 2005, we also restructured our FMS operations to better service customers and drive future growth in full service lease.

FMS NBT grew $42 million in 2005 as a result of improved commercial rental results from higher pricing, higher gains on disposal of used vehicles resulting from stronger volume and pricing, and lower overhead costs, including performance-based incentive compensation.

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

	Years ended December 31			Change	
	2006	2005	2004	2006/ 2005	2005/ 2004
End of period vehicle count					
By type:					
Trucks	**65,200**	63,200	63,700	**3%**	(1)
Tractors	**56,100**	52,700	51,700	**6**	2
Trailers	**38,900**	40,600	43,100	**(4)**	(6)
Other	**5,700**	5,800	5,900	**(2)**	(2)
Total	**165,900**	162,300	164,400	**2%**	(1)
By ownership:					
Owned	**160,800**	156,500	157,000	**3%**	
Leased	**5,100**	5,800	7,400	**(12)**	(22)
Total	**165,900**	162,300	164,400	**2%**	(1)
By product line:					
Full service lease	**117,500**	113,700	115,300	**3%**	(1)
Commercial rental	**37,000**	38,400	40,200	**(4)**	(4)
Service vehicles and other	**3,500**	3,300	3,000	**6**	10
Active units	**158,000**	155,400	158,500	**2**	(2)
Held for sale(1)	**7,900**	6,900	5,900	**14**	17
Total	**165,900**	162,300	164,400	**2%**	(1)
Customer vehicles under contract maintenance	**30,700**	26,400	28,500	**16%**	(7)
Year-to-date average vehicle count					
By product line:					
Full service lease	**114,600**	114,400	115,900	**%**	(1)
Commercial rental	**38,700**	40,200	39,900	**(4)**	1
Service vehicles and other	**3,300**	3,300	2,900		14
Active units	**156,600**	157,900	158,700	**(1)**	(1)

Held for sale(1)	**6,700**	7,000	5,600	**(4)**	25
Total	**163,300**	164,900	164,300	**(1)%**	
Customer vehicles under contract maintenance	**28,000**	27,400	30,100	**2%**	(9)

(1) Vehicles held for sale represent all units available for sale including units held for sale reported in the following table for which no revenue has been earned in the previous 30 days (referred to as NLE units).

Note: Prior year vehicle counts have been restated to conform to current year presentation.

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

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

	Years ended December 31			Change	
Number of Units	**2006**	2005	2004	**2006/ 2005**	2005/ 2004
Not yet earning revenue (NYE)	**4,200**	1,700	1,900	**147%**	(11)
No longer earning revenue (NLE):					
Units held for sale	**6,600**	5,500	4,800	**20**	15
Other NLE units	**1,900**	1,400	1,600	**36**	(13)
Total[(1)]	**12,700**	8,600	8,300	**48%**	4

(1) Non-revenue earning equipment for FMS operations outside the U.S. totaled approximately 1,700 in 2006 and 1,500 vehicles in 2005 and 2004, which are not included above.

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. In 2006, the number of NYE units increased due to the volume of lease sales and replacement activity. NLE units represent vehicles for which no revenue has been earned in the previous 30 days. Accordingly, these vehicles may be temporarily out of service, held for sale, being prepared for sale or awaiting redeployment. In 2006 and 2005, the total number of NLE units increased due to higher out-servicing of rental units as well as the impact of increased lease replacement activity. We expect the number of NLE units to increase in the near term based on continuing lease replacement activity and planned out-servicing of rental vehicles.

Supply Chain Solutions

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
U.S. operating revenue:					
Automotive and industrial	**$ 495,363**	449,376	425,103	**10%**	6
High-tech and consumer industries	**291,933**	252,032	230,030	**16**	10
Transportation management	**30,737**	24,994	20,331	**23**	23
U.S. operating revenue	**818,033**	726,402	675,464	**13**	8
International operating revenue	**364,892**	289,432	263,227	**26**	10
Total operating revenue[(1)]	**1,182,925**	1,015,834	938,691	**16**	8
Subcontracted transportation	**845,564**	621,992	415,312	**36**	50

Total revenue	**$2,028,489**	1,637,826	1,354,003	**24%**	21
Segment NBT	**$ 62,144**	39,392	37,079	**58%**	6
Segment NBT as a % of total revenue	**3.1%**	2.4%	2.7%	**70bps**	(30)bps
Segment NBT as a % of operating revenue[1]	**5.3%**	3.9%	4.0%	**140bps**	(10)bps
Memo: Fuel costs[2]	**$ 104,233**	91,976	65,685	**13%**	40

(1) We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our SCS business segment and as a measure of sales activity. Subcontracted transportation is excluded from our operating revenue computation as subcontracted transportation is largely a pass-through to customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation.

(2) Fuel costs are largely a pass-through to customers and therefore have a direct impact on revenue.

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

2006 versus 2005

SCS total revenue grew in 2006 due to increased volume of managed subcontracted transportation, higher customer volumes and new and expanded business in all industry groups, Canada and Latin America. SCS total revenue and operating revenue included a favorable foreign currency exchange impact of 1.8% and 1.4%, respectively. Our largest customer, General Motors Corporation (GM), is comprised of multiple contracts in various geographic regions. In 2006, GM accounted for approximately 40% of SCS total revenue and 18% of SCS operating revenue. Based on sales activity to date, we expect favorable revenue comparisons to continue over the near term.

In transportation management arrangements where we act as principal, revenue is reported on a gross basis for subcontracted transportation services billed to our customers. As a result of entering into a management subcontracted transportation contract in 2005, under which we have determined we are acting as principal, the amount of managed subcontracted transportation expense and corresponding revenue has increased significantly. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation. Determining whether revenue should be reported as gross or net is based on an assessment of whether we are acting as the principal or the agent in the transaction and involves judgment based on the terms and conditions of the arrangement. From time to time, the terms and conditions of our transportation management arrangements may change, which could require a change in revenue recognition from a gross basis to a net basis or vice versa. Our measure of operating revenue would not be impacted by a change in revenue reporting.

SCS NBT improved $23 million in 2006 as a result of the impact of higher volumes, new and expanded business in all U.S. industry groups and better margins in our Brazil operations. In 2006, SCS NBT was also favorably impacted by a $3 million benefit, net of variable compensation, related to a contract termination.

2005 versus 2004

SCS total revenue growth in 2005 was due primarily to increased volumes of managed subcontracted transportation. The favorable revenue comparisons for 2005 also reflect new and expanded business in all industry groups, Canada and Latin America. In 2004, total revenue and operating revenue included $7 million associated with an international inventory procurement contract, the terms of which were favorably renegotiated late in the first quarter of 2004 to eliminate inventory risk that required net revenue reporting on a prospective basis. SCS total revenue and operating revenue also included a favorable foreign currency exchange impact of 2.0% and 1.5%, respectively. In 2005, GM accounted for approximately 35% of SCS total revenue and 18% of SCS operating revenue.

SCS NBT improved $2 million in 2005 as a result of operating revenue growth from new and expanded business and lower overhead spending. These items were partially offset by lower volumes on certain automotive accounts, including the impact of plant shutdowns and launch costs associated with new business and lower margins in our Brazil operations during the first nine months of 2005.

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

Dedicated Contract Carriage

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Operating revenue[(1)]	**$548,931**	526,941	496,421	**4%**	6
Subcontracted transportation	**19,911**	16,327	9,679	**22**	69
Total revenue	**$568,842**	543,268	506,100	**5%**	7
Segment NBT	**$ 42,589**	35,129	29,450	**21%**	19
Segment NBT as a % of total revenue	**7.5%**	6.5%	5.8%	**100bps**	70bps
Segment NBT as a % of operating revenue[(1)]	**7.8%**	6.7%	5.9%	**110bps**	80bps
Memo: Fuel costs[(2)]	**$104,647**	94,051	72,529	**11%**	30

(1) *We use operating revenue, a non-GAAP financial measure, to evaluate the operating performance of our DCC business segment and as a measure of sales activity. Subcontracted transportation is excluded from our operating revenue computation as subcontracted transportation is largely a pass-through to customers. We realize minimal changes in profitability as a result of fluctuations in subcontracted transportation.*

(2) *Fuel costs are largely a pass-through to customers and therefore have a direct impact on revenue.*

2006 versus 2005

Total revenue and operating revenue grew in 2006 as a result of expanded and new business in the first half of 2006 as well as pricing increases associated with higher average fuel costs. Despite declining revenue growth trends in the second half of 2006, we expect favorable revenue comparisons in 2007 based on planned investments in sales and marketing initiatives. DCC NBT improved $7 million in 2006 due to new and expanded business as well as lower safety and insurance costs, including a hurricane related recovery.

2005 versus 2004

DCC revenue in 2005 increased as a result of new and expanded business and pricing increases associated with higher fuel costs. DCC NBT improved $6 million reflecting the earnings leverage from new and expanded business and lower safety and other operating costs resulting from cost management and process improvement actions.

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

Central Support Services

	Years ended December 31			Change	
	2006	2005	2004	**2006/ 2005**	2005/ 2004
	(Dollars in thousands)				
Human resources	$ **14,787**	14,647	13,982		
Finance	**56,884**	56,964	56,136		
Corporate services and public affairs	**11,530**	13,028	9,196		
Information technology	**53,282**	63,569	69,457		
Health and safety	**7,823**	8,717	7,952		
Other	**47,833**	41,344	48,050		
Total CSS	**192,139**	198,269	204,773	**(3)%**	(3)
Allocation of CSS to business segments	**(152,653)**	(162,518)	(171,712)	**6**	5
Unallocated CSS	$ **39,486**	35,751	33,061	**10%**	8

2006 versus 2005

Total CSS costs in 2006 decreased due to lower information technology costs from ongoing cost containment initiatives, the one-time recovery of $2 million associated with the recognition of common stock received from mutual insurance companies in a prior year and lower spending in corporate services as the prior year included costs associated with the relocation of our headquarters facility. These decreases were slightly offset by higher share-based compensation from expensing stock options and litigation settlement costs associated with a discontinued operation. Unallocated CSS expense increased in 2006 primarily as a result of higher share-based compensation expense.

2005 versus 2004

Total CSS costs declined in 2005 due primarily to cost benefits associated with the insourcing and renegotiation of several information technology infrastructure services and lower performance-based incentive compensation costs. This improvement was partially offset by higher spending in corporate services for moving and transition costs associated with the relocation to our new, smaller headquarter facility. Unallocated CSS expenses were up in 2005 largely due to the headquarter relocation costs and higher corporate initiatives spending.

FINANCIAL RESOURCES AND LIQUIDITY

Cash Flows

The following is a summary of our cash flows from operating, financing and investing activities:

	Years ended December 31		
	2006	2005	2004
	(In thousands)		
Net cash (used in) provided by:			
Operating activities	$ **853,587**	779,062	866,849
Financing activities	**488,202**	241,505	(195,760)
Investing activities	**(1,339,550)**	(988,855)	(720,113)

Effect of exchange rate changes on cash		**(2,327)**	(3,956)	9,368
Net change in cash and cash equivalents	**$**	**(88)**	27,756	(39,656)

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

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

Cash provided by operating activities increased in 2006 compared with 2005, due primarily to higher earnings (adjusted for non-cash items) and lower income tax payments which were partially offset by higher pension contributions of $117 million. In 2005, net cash provided by operating activities was impacted by U.S. federal income tax payments of $176 million made in connection with the resolution of our federal income tax audit for the 1998 to 2000 tax period. Cash provided by financing activities for 2006 was $488 million compared with $242 million in 2005. Cash provided by financing activities in 2006 reflects higher debt borrowings used to fund increased vehicle capital spending, higher pension contributions and share repurchases. Cash used in investing activities increased to $1.34 billion in 2006 compared with $989 million in 2005, due to higher vehicle capital spending, principally lease vehicle spending for replacement and expansion of customer fleets, and an increase in restricted cash associated with the implementation of the vehicle like-kind exchange tax program in 2006.

Cash provided by operating activities decreased in 2005 compared with 2004 due to U.S. federal income tax payments of $176 million made in connection with the resolution of our federal income tax audit for the 1998 to 2000 tax period and $114 million of estimated 2004 and 2005 tax payments made during 2005. Cash provided by financing activities increased in 2005 compared with cash used in financing activities in 2004 due to higher debt borrowings used to fund increased capital requirements and federal income tax payments. Net cash used in investing activities increased in 2005 compared with 2004 due primarily to higher vehicle capital spending. The increase in capital spending was partially offset by lower acquisition-related payments and higher proceeds associated with sales of used vehicles.

We manage our business to maximize net cash provided by operating activities (operating cash flows) and proceeds from the sale of revenue earning equipment as the principal sources of liquidity. We refer to the sum of operating cash flows, proceeds from the sales of revenue earning equipment and operating property and equipment, collections on direct finance leases, sale and leaseback of revenue earning equipment and other cash inflows as total cash generated. We refer to the net amount of cash generated from operating activities and investing activities (excluding changes in restricted cash) as free cash flow. Although total cash generated and free cash flow are non-GAAP financial measures, we consider them to be important measures of comparative operating performance. We also believe total cash generated to be an important measure of total cash inflows generated from our ongoing business activities. 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.

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

The following table shows the sources of our free cash flow computation:

	Years ended December 31		
	2006	2005	2004
	(In thousands)		
Net cash provided by operating activities	**$ 853,587**	779,062	866,849
Sales of revenue earning equipment	**326,079**	326,752	288,674
Sales of operating property and equipment	**6,575**	6,963	42,839
Collections on direct finance leases	**66,274**	70,408	63,795
Sale and leaseback of revenue earning equipment			118,533
Other, net	**2,163**		512
Total cash generated	**1,254,678**	1,183,185	1,381,202
Purchases of property and revenue earning equipment	**(1,695,064)**	(1,399,379)	(1,092,158)
Acquisitions	**(4,113)**	(15,110)	(148,791)
Free cash flow	**$ (444,499)**	(231,304)	140,253

We used $444 million of free cash flow compared to a use of $231 million in 2005 due to increased vehicle capital spending and higher pension contributions. We used $231 million of free cash flow in 2005 compared to generating $140 million in 2004 due to higher capital spending levels and income tax payments made in connection with the resolution of our federal income tax audit for the 1998 to 2000 tax period and estimated tax payments which were partially offset by lower acquisition spending. We anticipate free cash flow levels to improve in 2007 as a result of lower anticipated vehicle capital spending.

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

The following is a summary of capital expenditures:

	Years ended December 31		
	2006	2005	2004
	(In thousands)		
Revenue earning equipment:[1]			
Full service lease	**$ 1,492,720**	1,082,332	862,994
Commercial rental	**195,023**	251,278	241,858

	1,687,743	1,333,610	1,104,852
Operating property and equipment	**71,772**	77,360	59,767
Total capital expenditures	**1,759,515**	1,410,970	1,164,619
Changes in accounts payable related to purchases of revenue earning equipment	**(64,451)**	(11,591)	(72,461)
Cash paid for purchases of property and revenue earning equipment	**$ 1,695,064**	1,399,379	1,092,158

(1) Capital expenditures exclude non-cash additions of approximately $2 million, $0.4 million and $54 million in 2006, 2005 and 2004, respectively, in assets held under capital leases resulting from the extension of existing operating leases and other additions.

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

Capital expenditures grew in 2006 and 2005 due to increased lease vehicle spending for replacement and expansion of customer fleets. Vehicle capital spending levels were relatively low from 2001 to 2003 as we focused efforts on extending leases with existing customers, redeploying surplus assets and right-sizing our fleet. Accordingly, capital spending levels were relatively higher from 2004 to 2006 because of increased replacement activity. We also experienced increased replacement activity in 2006 associated with the introduction in 2007 of emission after-market devices on newly manufactured engines and vehicles. We expect capital expenditures to decrease to approximately $1.33 billion in 2007 as a result of reduced replacement activity and lower planned-levels of spending for full service lease vehicles. We expect to fund 2007 capital expenditures with both internally generated funds and additional financing.

In 2005 and 2004, Ryder completed an acquisition related to the FMS segment. Total consideration paid for these acquisitions was $4 million in 2006, $15 million in 2005 and $149 million in 2004. See Note 4, Acquisitions, in the Notes to Consolidated Financial Statements for a further discussion. We will continue to evaluate selective acquisitions in FMS, SCS and DCC in 2007.

Financing and Other Funding Transactions

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

The following table shows the movements in our debt balance:

	Years ended December 31	
	2006	2005
	(In thousands)	
Debt balance at January 1	**$2,185,366**	1,783,216
Cash-related changes in debt:		
Net change in commercial paper borrowings	**328,641**	188,271
Proceeds from issuance of medium-term notes	**550,000**	600,000
Proceeds from issuance of other debt instruments	**120,568**	162,124
Retirement of medium-term notes and debentures	**(213,195)**	(200,000)
Other debt repaid, including capital lease obligations	**(165,324)**	(343,933)
	620,690	406,462
Non-cash changes in debt:		
Fair market value adjustment on notes subject to hedging	**(663)**	(4,152)
Addition of capital lease obligations	**2,295**	433
Changes in foreign currency exchange rates and other non-cash items	**9,255**	(593)
Total changes in debt	**631,577**	402,150
Debt balance at December 31	**$2,816,943**	2,185,366

In accordance with our funding philosophy, we attempt to match the average remaining repricing life of our debt with the average remaining life of our assets. We utilize both fixed-rate and variable-rate debt to achieve this match and generally target a mix of 25% - 45% variable-rate debt as a percentage of total debt outstanding. The variable-rate portion of our total obligations (including notional value of swap agreements) was 31% at December 31, 2006, compared with 32% at December 31, 2005.

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FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Ryder s leverage ratios and a reconciliation of balance sheet debt to total obligations were as follows:

	December 31, 2006	**% to Equity**	December 31, 2005	% to Equity
		(Dollars in thousands)		
On-balance sheet debt	**$2,816,943**	**164%**	$2,185,366	143%
Off-balance sheet debt PV of minimum lease payments and guaranteed residual values under operating leases for vehicles[(1)]	**77,998**		117,062	
Total obligations	**$2,894,941**	**168%**	$2,302,428	151%

(1) *Present value (PV) does not reflect payments Ryder would be required to make if we terminated the related leases prior to the scheduled expiration dates.*

Debt to equity consists of balance sheet debt for the period divided by total equity. Total obligations to equity represents balance sheet debt plus the present value of minimum lease payments and guaranteed residual values under operating leases for vehicles, discounted based on our incremental borrowing rate at lease inception, all divided by total equity. Although total obligations is a non-GAAP financial measure, we believe that total obligations is useful as it is a more complete measure of our existing financial obligations and helps better assess our overall leverage position.

The increase in leverage ratios in 2006 was driven by our increased capital spending required to support our contractual full service lease business, pension contributions and stock repurchases. Our long-term target percentage of total obligations to equity is 250% to 300% while maintaining a strong investment grade rating. We believe this leverage range is appropriate for our business due to the liquidity of our vehicle portfolio and because a substantial component of our assets are supported by long-term customer leases.

Our ability to access unsecured debt in the capital markets is linked to both our short-term and long-term debt ratings. These ratings are intended to provide guidance to 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 that such agencies consider to be reliable. Lower ratings generally result in higher borrowing costs as well as reduced access to capital markets. A significant downgrade of Ryder s debt rating would reduce our ability to issue commercial paper. As a result, we would have to rely on other established funding sources described below.

Our debt ratings at December 31, 2006 were as follows:

	Short-term	**Long-term**	**Outlook**
Moody s Investors Service	**P2**	**Baa1**	**Stable (June 2004)**
Standard & Poor s Ratings Services	**A2**	**BBB+**	**Stable (April 2005)**
Fitch Ratings	**F2**	**A-**	**Stable (July 2005)**

Ryder can borrow up to $870 million through a global revolving credit facility with a syndicate of twelve lenders. The credit facility matures in May 2010 and is used primarily to finance working capital and provide support for the issuance of commercial paper. This facility can also be used to issue up to $75 million in letters of credit (there were no letters of credit outstanding against the facility at December 31, 2006). At Ryder s option, the interest rate on borrowings under the credit facility is based on LIBOR, prime, federal funds or local equivalent rates. The credit facility s current annual facility fee is 11.0 basis points, which applies to the total facility of $870 million, and is based on Ryder s current long-term credit ratings. The credit facility contains no provisions restricting its availability in the event of a material adverse change to Ryder s business operations; however, the credit facility does contain standard representations and warranties, events of default, cross-default provisions, and certain affirmative and

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

negative covenants. In order to maintain availability of funding, Ryder must maintain a ratio of debt to consolidated tangible net worth, as defined in the credit facility agreement, of less than or equal to 300%. Throughout 2006, we were in compliance with this and all other restrictive covenants for our revolving credit facility and do not expect the covenants to significantly affect our operations. The ratio at December 31, 2006 was 146%. At December 31, 2006, $113 million was available under the credit facility.

During 1986, we issued at a discount $100 million principal amount of unsecured debentures due May 2016, with a stated interest rate of 9.0%, payable semi-annually. During the fourth quarter of 2006, we retired $63 million principal amount of these debentures at a premium, which resulted in a charge of $2 million. The charge represents the premium paid on the early extinguishment and the write-off of related debt discount and issuance costs.

During 2006, we issued $550 million of unsecured medium-term notes, of which $250 million mature in May 2011 and $300 million mature in November 2016. During 2005, we issued $600 million of unsecured medium-term notes, of which $225 million mature in April 2010, $175 million mature in April 2011 and $200 million mature in June 2012. The proceeds from the notes were used for general corporate purposes.

During 2005, Ryder filed a universal shelf registration statement with the Securities and Exchange Commission (SEC) to issue up to $800 million of securities, including $65 million of available securities that was carried forward from the previous shelf registration statement. Proceeds from debt issuances under the universal shelf registration statement are being used for general corporate purposes, which may include capital expenditures, share repurchases and reduction in commercial paper borrowings. At December 31, 2006, Ryder had $250 million of debt securities available for issuance under the latest registration statement.

In September 2005, Ryder Receivable Funding, II, L.L.C. (RRF LLC), a bankruptcy remote, consolidated subsidiary of Ryder, entered into a Trade Receivables Purchase and Sale Agreement (the Trade Receivables Agreement) with various financial institutions. Under this program, Ryder sells certain of its domestic trade accounts receivable to RRF LLC who in turn may sell, on a revolving basis, an ownership interest in certain of these accounts receivable to a receivables conduit and (or) committed purchasers. Under the terms of the program, RRF LLC and Ryder have provided representations, warranties, covenants and indemnities that are customary for accounts receivable facilities of this type. Ryder entered into this program to provide additional liquidity to fund its operations, particularly when the cost of such sales is cost effective compared with other funding programs, notably the issuance of unsecured commercial paper. This program is accounted for as a collateralized financing arrangement. The available proceeds that may be received by RRF LLC under the program are limited to $200 million. RRF LLC s costs under this program may vary based on changes in Ryder s unsecured debt ratings and changes in interest rates. If no event occurs that would cause early termination, the 364-day program will expire on September 11, 2007. At December 31, 2006, there were no receivables outstanding under the Trade Receivables Agreement.

At December 31, 2006, Ryder had the following amounts available to fund operations under the aforementioned facilities:

	(In millions)
Global revolving credit facility	**$113**
Shelf registration statement	**250**
Trade receivables facility	**200**

We believe that our existing cash and cash equivalents, operating cash flows, commercial paper program, revolving credit facility, shelf registration with the SEC and the trade receivables facility will adequately meet our working capital and capital expenditure needs for the foreseeable future.

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

Off-Balance Sheet Arrangements

Sale and leaseback transactions. We periodically enter into sale and leaseback transactions in order to lower the total cost of funding our operations, to diversify our funding among different classes of investors (e.g., regional banks, pension plans, insurance companies, etc.) and to diversify our funding among different types of funding instruments. These sale-leaseback transactions are often executed with third-party financial institutions that are not deemed to be variable interest entities (VIEs). In general, these sale-leaseback transactions result in a reduction in revenue earning equipment and debt on the balance sheet, as proceeds from the sale of revenue earning equipment are primarily used to repay debt. Accordingly, sale-leaseback transactions will result in reduced depreciation and interest expense and increased equipment rental expense.

During 2004, we completed two sale-leaseback transactions of revenue earning equipment with third-party financial institutions not deemed to be VIEs and these transactions qualified for off-balance sheet treatment. Proceeds from the sale-leaseback transactions totaled $97 million. In connection with these leases we have provided limited guarantees of the residual values of the leased vehicles (residual value guarantees) that are conditioned upon disposal of the leased vehicles prior to the end of their lease term. Proceeds from other sale-leaseback transactions during 2004 that did not qualify for off-balance sheet treatment were $22 million. We have not entered into any sale-leaseback transactions since 2004.

Guarantees. Ryder has executed various agreements with third parties that contain standard indemnifications that may require Ryder to indemnify a third party against losses arising from a variety of matters such as lease obligations, financing agreements, environmental matters, and agreements to sell business assets. In each of these instances, payment by Ryder is contingent on the other party bringing about a claim under the procedures outlined in the specific agreement. Normally, these procedures allow Ryder to dispute the other party s claim. Additionally, Ryder s obligations under these agreements may be limited in terms of the amount and (or) timing of any claim. In October 2006, Ryder entered into individual indemnification agreements with each of its independent directors. The terms of the indemnification agreements provide, among other things, that to the extent permitted by Florida law, Ryder will indemnify such director acting in good faith in a manner he or she reasonably believed to be in, or not opposed to, the best interests of Ryder, against any and all losses, expenses and liabilities arising out of such director s service as a director of Ryder. The maximum amount of potential future payments is generally unlimited. We cannot predict the maximum potential amount of future payments under certain of these agreements, including the indemnification agreements, due to the contingent nature of the potential obligations and the distinctive provisions that are involved in each individual agreement. Historically, no such payments made by Ryder have had a material adverse effect on our business. We believe that if a loss were incurred in any of these matters, the loss would not result in a material adverse impact on our consolidated results of operations or financial position. The total amount of maximum exposure determinable under these types of provisions at December 31, 2006 and 2005 was $17 million and $16 million, respectively, and we have accrued $2 million and $3 million, respectively, as a corresponding liability. See Note 18, Guarantees, 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)

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, 2006:

	2007	2008 - 2009	2010 - 2011	Thereafter	Total
			(In thousands)		
Debt	$ 332,124	269,720	1,468,587	743,003	2,813,434
Capital lease obligations	621	1,109	474	1,305	3,509
Total debt	332,745	270,829	1,469,061	744,308	2,816,943
Interest on debt[(1)]	139,648	245,390	138,172	262,139	785,349
Operating leases[(2)]	108,878	128,425	85,637	47,034	369,974
Purchase obligations[(3)]	340,427	41,850	4,350		386,627
Total contractual cash obligations	588,953	415,665	228,159	309,173	1,541,950
Insurance obligations[(4)]	117,311	113,414	47,754	29,930	308,409
Other long-term liabilities[(5),(6)]	24,831	3,667	2,010	48,591	79,099
Total	$1,063,840	803,575	1,746,984	1,132,002	4,746,401

(1) *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, 2006. Amounts are based on existing debt obligations, including capital leases, and do not consider potential refinancings of expiring debt obligations.*

(2) *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.*

(3) *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 are reflected in our Consolidated Balance Sheets as Accounts payable and Accrued expenses and other current liabilities.*

(4) *Insurance obligations are primarily comprised of self-insurance accruals.*

(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, deferred compensation obligations and derivative contracts.*

(6) *The amounts exclude our estimated pension contributions. For 2007, our pension contributions, including our minimum funding requirements as set forth by ERISA and international regulatory bodies, are expected to be $58 million. Our minimum funding requirements after 2007 are dependent on several factors. However, we estimate that the present value of required contributions over the next 5 years is approximately $56 million (pre-tax) for the U.S. plan (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 further discussion in Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements.*

Pension Information

At December 31, 2006, we had an accumulated net equity charge (after-tax) of $201 million compared to $221 million as of December 31, 2005. The adoption of SFAS No. 158 required us to record a charge related to the unrecognized net actuarial losses, unrecognized prior service costs and unrecognized transition asset. The after-tax equity charge of $201 million includes the impact of the adoption of SFAS No. 158 which increased the equity charge by $151 million at December 31, 2006. The decrease in the equity charge of $178 million, prior to the impact of adopting SFAS No. 158, was principally the

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

result of fully funding accumulated benefit obligations of our primary pension plan. The improved funding levels resulted from strong investment returns on pension plan assets, global pension contributions during 2006, and a reduction in pension obligations as a result of a higher interest rate environment. Total asset returns for our U.S. qualified pension plan (our primary plan) were 14% in 2006.

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 2006, total pension contributions, including our international plans, were $130 million compared with $12 million in 2005. After considering the 2006 contributions and asset performance, the projected present value of estimated contributions for our U.S. plan that would be required over the next 5 years totals approximately $56 million (pre-tax). Changes in interest rates and the market value of the securities held by the plans during 2006 could materially change, positively or negatively, the underfunded status of the plans and affect the level of pension expense and required contributions in 2007 and beyond. See Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements for additional information.

In August 2006, the Pension Protection Act of 2006 was signed into law. The major provisions of the statute will take effect January 1, 2008. Among other things, the statute is designed to ensure timely and adequate funding of qualified pension plans by shortening the time period within which employers must fully fund pension benefits. We are currently evaluating the effect, if any, that the Pension Protection Act of 2006 will have on future pension funding requirements.

On January 5, 2007, our Board of Directors approved an amendment to freeze the U.S. pension plan effective December 31, 2007 for current participants who do not meet certain grandfathering criteria. As a result, these employees will cease accruing further benefits after December 31, 2007 and will participate in an enhanced 401(k) plan. Those participants that meet the grandfathering criteria will be given the option to either continue to earn benefits in the U.S. pension plan or transition into an enhanced 401(k) plan. All retirement benefits earned as of December 31, 2007 will be fully preserved and will be paid in accordance with the plan and legal requirements. Employees hired after January 1, 2007 will not be eligible to participate in the pension plan. Due to the fact that our pension plan is being replaced by an enhanced 401(k) plan to which we will also be contributing, we do not believe our benefit plan funding requirements will change significantly as a result of the freeze of the U.S. pension plan.

Share Repurchase Programs and Cash Dividends

In May 2006, our Board of Directors authorized a two-year share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock option and stock purchase plans. Under the May 2006 program, management is authorized to repurchase shares of common stock in an amount not to exceed the number of shares issued to employees upon the exercise of stock options or through the employee stock purchase plan since March 1, 2006. The May 2006 program limits aggregate share repurchases to no more than 2 million shares of Ryder common stock. Share repurchases are made periodically in open-market transactions, and are subject to market conditions, legal requirements and other factors. Management was granted the authority to establish a trading plan for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the May 2006 program, which allowed for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. At December 31, 2006, we repurchased and retired approximately 1.8 million shares under the May 2006 program at an aggregate cost of $93 million.

In October 2005, our Board of Directors authorized a $175 million share repurchase program over a period not to exceed two years. Share repurchases of common stock were made periodically in open-market transactions and were subject to market conditions, legal requirements and other factors. Management established a prearranged written plan for the Company under Rule 10b5-1 of the Securities

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Exchange Act of 1934 as part of the October 2005 program, which allowed for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. During the first quarter of 2006, we completed the October 2005 program. In 2006 and 2005, we repurchased and retired approximately 1.6 million and 2.6 million shares, respectively, under the October 2005 program at an aggregate cost of $66 million and $109 million, respectively.

In July 2004, our Board of Directors authorized a two-year share repurchase program intended to mitigate the dilutive impact of shares issued under our various employee stock option and stock purchase plans. Under the July 2004 program, shares of common stock were purchased in an amount not to exceed the number of shares issued to employees upon the exercise of stock options or through the employee stock purchase plan since May 1, 2004. The July 2004 program limited aggregate share repurchases to no more than 3.5 million shares of Ryder common stock. Share repurchases of common stock were made periodically in open-market transactions, and were subject to market conditions, legal requirements and other factors. Management established a prearranged written plan for the Company under Rule 10b5-1 of the Securities Exchange Act of 1934 as part of the July 2004 program, which allowed for share repurchases during Ryder s quarterly blackout periods as set forth in the trading plan. During the fourth quarter of 2005, we replaced the July 2004 program with the October 2005 program noted previously. In 2005 and 2004, we repurchased and retired approximately 1.0 million and 1.4 million shares, respectively, under the July 2004 program at an aggregate cost of $43 million and $62 million, respectively.

In October 2003, our Board of Directors authorized a $90 million share repurchase program over a period not to exceed two years. Under the October 2003 program, shares of common stock were purchased in a dollar amount not to exceed the proceeds generated from the issuance of common stock to employees since January 1, 2003. Share repurchases of common stock were made periodically in open-market transactions and were subject to market conditions, legal requirements and other factors. During the second quarter of 2004, we completed the October 2003 program. In 2004, we repurchased and retired approximately 2.4 million shares, under the October 2003 program at an aggregate cost of $87 million.

Cash dividend payments to shareholders of common stock were $44 million in 2006, $41 million in 2005 and $39 million in 2004. During 2006, we increased our annual dividend to $0.72 per share of common stock. In February 2007, our Board of Directors declared a quarterly cash dividend of $0.21 per share of common stock. The dividend reflects a $0.03 increase from the $0.18 per share of common stock quarterly cash dividend paid in 2006.

Market Risk

In the normal course of business, Ryder is 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 relates primarily to debt obligations. Our interest rate risk management program objective is to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. We manage our exposure to interest rate risk through the proportion of fixed-rate and variable-rate debt in the total debt portfolio. From time to time, we also use interest rate swap and cap 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 17, Financial Instruments and Risk Management, in the Notes to Consolidated Financial Statements for further discussion on outstanding interest rate swap agreements at December 31, 2006 and 2005.

At December 31, 2006, we had $1.95 billion of fixed-rate debt (excluding capital leases) with a weighted-average interest rate of 5.5% and a fair value of $1.93 billion, including the effects of the interest

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rate swap. A hypothetical 10% decrease or increase in the December 31, 2006 market interest rates would impact the fair value of our fixed-rate debt by approximately $37 million. At December 31, 2006, the fair value of our interest rate swap agreement was recorded as an asset and was not material. At December 31, 2005, we had $1.52 billion of fixed-rate debt (excluding capital leases) with a weighted-average interest rate of 5.5% and a fair value of $1.51 billion, including the effects of interest rate swaps. A hypothetical 10% decrease or increase in the December 31, 2005 market interest rates would impact the fair value of our fixed-rate debt by approximately $26 million. At December 31, 2005, the fair value of our interest rate swap agreement was recorded as a liability totaling $0.2 million. We estimated the fair value of derivatives based on dealer quotations.

At December 31, 2006, we had $865 million of variable-rate debt, including the effects of interest-rate swaps, which effectively changed $35 million of fixed-rate debt instruments with a weighted-average interest rate of 6.6% to LIBOR-based floating-rate debt at a current weighted-average interest rate of 6.3%. Changes in the fair value of the interest rate swaps are offset by changes in the fair value of the debt instruments and no net gain or loss is recognized in earnings. At December 31, 2006, the fair value of our interest rate swap agreements was recorded as an asset totaling $0.1 million. At December 31, 2005, we had $661 million of variable-rate debt, including the effects of interest rate swaps, which effectively changed $185 million of fixed-rate debt instruments with a weighted-average interest rate of 6.7% to LIBOR-based floating-rate debt at a current weighted-average interest rate of 6.2%. The fair value of our interest rate swap agreements at December 31, 2005 was recorded as an asset totaling $0.8 million. A hypothetical 10% increase in market interest rates would impact 2007 pre-tax earnings by approximately $5 million.

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, Brazilian real 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. 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 of approximately $6 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 translation exposure related to our net investment in foreign subsidiaries, since we generally have no near-term intent to repatriate funds from such subsidiaries. At December 31, 2006 and 2005, we had a $78 million cross-currency swap used to hedge our net investment in a foreign subsidiary and for which we recognized a liability equal to its fair value of $20 million and $10 million, respectively. At December 31, 2006, we also had forward foreign currency exchange contracts with an aggregate fair value of $0.3 million. The potential loss in fair value for such instruments from a hypothetical 10% adverse change in quoted foreign currency exchange rates would be approximately $10 million and $9 million at December 31, 2006 and 2005, respectively. We estimated the fair values of derivatives based on dealer quotations.

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, 2006, 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

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prices during a short period of time as customer pricing for fuel services is established based on market fuel costs. We believe the exposure to fuel price fluctuations would not materially impact Ryder s results of operations, cash flows or financial position.

ENVIRONMENTAL MATTERS

The operations of Ryder involve storing and dispensing petroleum products, primarily diesel fuel, regulated under environmental protection laws. These laws require us to eliminate or mitigate the effect of such substances on the environment. In response to these requirements, we continually upgrade our operating facilities and implement various programs to detect and minimize contamination.

Capital expenditures related to these programs totaled approximately $1 million in 2006 and 2005 and $2 million in 2004. We incurred environmental expenses of $8 million, $9 million and $10 million in 2006, 2005 and 2004, respectively, which included remediation costs as well as normal recurring expenses such as licensing, testing and waste disposal fees. Based on current circumstances and the present standards imposed by government regulations, environmental expenses and related capitalized costs should not increase materially from 2006 levels in the near term.

The ultimate cost of our environmental liabilities cannot presently be projected with certainty due to the presence of several unknown factors, primarily the level of contamination, the effectiveness of selected remediation methods, the stage of management s investigation at individual sites and the recoverability of such costs from third parties. Based upon information presently available, we believe that the ultimate disposition of these matters, although potentially material to the results of operations in any single year, will not have a material adverse effect on Ryder s financial condition or liquidity. See Note 24, Environmental Matters, in the Notes to Consolidated Financial Statements for further discussion.

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 Ryder s financial condition and operating results in the current and future periods. We periodically review the development, selection and disclosure of these critical accounting estimates with Ryder s Audit Committee.

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 and Summary of Significant Accounting Policies Residual Value Guarantees and Deferred Gains, 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. 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. We consider factors such

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

as current and expected future market price trends on used vehicles, expected life of vehicles included in the fleet and extent of alternative uses for leased vehicles (e.g., rental fleet, and SCS and DCC applications). As a result, future depreciation expense rates are subject to change based upon changes in these factors. At the end of 2006, we completed our annual review of the residual values and useful lives of revenue earning equipment. Based on the results of our analysis, we will adjust the residual values and useful lives of certain classes of revenue earning equipment on January 1, 2007, which will cause depreciation expense in 2007 to decrease by approximately $11 million compared with 2006. Based on the mix of revenue earning equipment at December 31, 2006, a 10% decrease in expected vehicle residual values would increase depreciation expense in 2007 by approximately $80 million.

Ryder also leases vehicles under operating lease agreements. Certain of these agreements contain limited guarantees for a portion of the residual values of the equipment. Results of the reviews described above for owned equipment are also applied to equipment under operating lease. The amount of residual value guarantees expected to be paid is recognized as rent expense over the expected remaining term of the lease. At December 31, 2006, total liabilities for residual value guarantees of $2 million were included in Accrued expenses and other current liabilities (for those payable in less than one year) and in Other non-current liabilities. While we believe that the amounts are adequate, changes to management s estimates of residual value guarantees may occur due to changes in the market for used vehicles, the condition of the vehicles at the end of the lease and inherent limitations in the estimation process. Based on the existing mix of vehicles under operating lease agreements at December 31, 2006, a 10% decrease in expected vehicle residual values would increase rent expense in 2007 by approximately $1 million.

Pension Plans. Ryder sponsors several defined benefit plans covering most employees. These plans generally provide participants with benefits based on years of service and career-average compensation levels. 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 more significant 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, 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 provide a more accurate estimate of 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. The composition of our pension assets was 77% equity securities and 23% debt securities and other investments. The rate of increase in compensation levels is reviewed with the actuaries based upon actual experience. Retirement rates are based primarily on actual plan experience, while standard actuarial tables are used to estimate mortality.

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 recorded within Accumulated Other Comprehensive Loss beginning December 31, 2006. Previously, these amounts were not recorded. We have an actuarial loss of $318 million at the end of 2006 compared with a loss of $428 million at the end of 2005. The decrease in the net actuarial loss in 2006 resulted from actuarial gains associated with an increase in discount rates and plan assets earning a rate of return above the assumed rates. To the extent the amount of all actuarial gains and losses exceed 10% of the larger of the benefit obligation or plan assets, such amount is amortized over the average remaining service life of

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

active participants. The amount of the actuarial loss subject to amortization in 2007 will be $165 million. The effect on years beyond 2007 will depend substantially upon the actual experience of our plans.

Disclosure of the significant assumptions used in arriving at the 2006 net pension expense is presented in Note 23, Employee Benefit Plans, in the Notes to Consolidated Financial Statements. A sensitivity analysis of projected 2007 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 2007 Net Pension Expense	Effect on December 31, 2006 Projected Benefit Obligation
Discount rate increase	**5.73%**	**+ 0.25%**	**- $6 million**	**- $39 million**
Discount rate decrease	**5.73%**	**- 0.25%**	**+ $5 million**	**+ $39 million**
Expected long-term rate of return on assets	**8.50%**	**+/- 0.25%**	**-/+ $3 million**	
Rate of increase in compensation levels	**4.00%**	**+/- 0.50%**	**+/- $1 million**	

Self-Insurance Accruals. 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. On an annual basis, third-party actuaries perform a separate analysis of our self-insurance accruals for reasonableness. 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. While we believe that self-insurance accruals are adequate, there can be no assurance that changes to our estimates may not occur. Based on self-insurance accruals at December 31, 2006, a 5% adverse change in actuarial claim loss estimates would increase operating expense in 2007 by approximately $13 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. 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. Our valuation of fair value for each reporting unit is determined based on a discounted future cash flow model. Estimates of future cash flows are dependent on our knowledge and experience about past and current events and assumptions about conditions we expect to exist. These assumptions are based on a number of factors including future operating performance, economic conditions and actions we expect to take. In addition to these factors, our SCS reporting units are dependent on several key customers or industry sectors. The loss of a key customer may have a significant impact to one of our SCS reporting units, causing us to assess whether or not the event resulted in a goodwill impairment loss. For example, the profitability and valuation of fair value for our SCS U.K. reporting unit is dependent in large part to several significant customer contracts. While we believe our estimates of future cash flows are reasonable, there can be no assurance that deterioration in economic conditions, customer relationships or adverse changes to expectations of future performance will not occur, resulting in a goodwill impairment loss. Our annual impairment test, performed as of April 1, 2006, did not result in any impairment of goodwill. At December 31, 2006, goodwill totaled $159 million.

Revenue Recognition. In the normal course of business, we may act as or use an agent in executing transactions with our customers. The accounting issue encountered in these arrangements is whether we

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

should report revenue based on the gross amount billed to the customer or on the net amount received from the customer after payments to third parties. To the extent revenues are recorded on a gross basis, any payments to third parties are recorded as expenses so that the net amount is reflected in net earnings. Accordingly, the impact on net earnings is the same whether we record revenue on a gross or net basis.

Determining whether revenue should be reported as gross or net is based on an assessment of whether we are acting as the principal or the agent in the transaction and involves judgment based on the terms of the arrangement. To the extent we are acting as the principal in the transaction, revenue is reported on a gross basis. To the extent we are acting as an agent in the transaction, revenue is reported on a net basis. In the majority of our arrangements, we are acting as a principal and therefore report revenue on a gross basis. However, our SCS business segment engages in some transactions where we act as agents and thus record revenue on a net basis.

In transportation management arrangements where we act as principal, revenue is reported on a gross basis for subcontracted transportation billed to our customers. As a result of entering into a management subcontracted transportation contract in 2005, under which we have determined we are acting as principal, the amount of managed subcontracted transportation expense and corresponding revenue has increased significantly. From time to time, the terms and conditions of our transportation management arrangements may change, which could require a change in revenue recognition from a gross basis to a net basis or vice versa. Our measure of operating revenue would not be impacted by a change in revenue reporting.

Income Taxes. Ryder s 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 recorded the tax benefit in the financial statements. Deferred tax assets amounted to $238 million and $235 million at December 31, 2006 and 2005, respectively. We record a valuation allowance for deferred tax assets to reduce such assets to amounts expected to be realized. At December 31, 2006 and 2005, the deferred tax valuation allowance, principally attributed to foreign tax loss carryforwards in the SCS business segment, was $13 million and $12 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.

We are subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, we are subject to challenges from the Internal Revenue Service (IRS) and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. As part of our calculation of the provision for income taxes on earnings, we record the amount we expect to incur as a result of audits. Such 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.

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

As discussed in Note 14, Income Taxes, in the Notes to Consolidated Financial Statements, in February 2005 we resolved all issues with the IRS related to the 1998 and 2000 tax period, including interest and penalties. In connection with the resolution of this audit, on February 22, 2005 we paid $176 million (after utilization of all available federal net operating losses and alternative minimum tax credit carryforwards), including interest through the date of payment. In 2005, the IRS began auditing our federal income tax returns for 2001 to 2003. We believe that Ryder has not entered into any other transactions since 2000 that raise the same type of issues identified by the IRS in its most recent audit.

RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1, Summary of Significant Accounting Policies Recent Accounting Pronouncements, in the Notes to Consolidated Financial Statements for a discussion of recent accounting pronouncements.

NON-GAAP FINANCIAL MEASURES

This Annual Report on Form 10-K includes information extracted from consolidated financial information but not required by generally accepted accounting principles (GAAP) to be presented in the financial statements. Certain of this information are considered non-GAAP financial measures as defined by SEC rules. Specifically, we refer to operating revenue, salaries and employee-related costs as a percentage of operating revenue, FMS operating revenue, FMS NBT as a % of operating revenue, SCS operating revenue, SCS NBT as a % of operating revenue, DCC operating revenue, DCC NBT as a % of operating revenue, total cash generated, free cash flow, total obligations, total obligations to equity, and comparable earnings from continuing operations and comparable earnings per diluted common share from continuing operations excluding net tax benefits, pension accounting charge and gain on sale of headquarter complex. We believe that the comparable earnings from continuing operations and comparable earnings per diluted common share from continuing operations measures provide useful information to investors because they exclude significant items that are unrelated to our ongoing business operations. As required by SEC rules, we provide a reconciliation of each non-GAAP financial measure to the most comparable GAAP measure and an explanation why management believes that presentation of the non-GAAP financial measure provides useful information to investors. Non-GAAP financial measures should be considered in addition to, but not as a substitute for or superior to, other measures of financial performance prepared in accordance with GAAP.

The following table provides a numerical reconciliation of earnings from continuing operations and earnings per diluted common share from continuing operations excluding net tax benefits, pension accounting charge and gain on sale of headquarter complex to comparable earnings from continuing

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

operations and comparable earnings per diluted common share from continuing operations for December 31, 2006, 2005 and 2004, which was not provided within the MD&A discussion:

	Years ended December 31		
	2006	2005	2004
	(In thousands, except per share **amounts)**		
Earnings from continuing operations	**$248,959**	227,628	215,609
Net tax benefits	**(6,796)**	(7,627)	(9,221)
Pension accounting charge	**3,720**		
Gain on sale of headquarter complex			(15,409)
Comparable earnings from continuing operations	**$245,883**	220,001	190,979
Earnings per diluted common share from continuing operations	**$ 4.04**	3.53	3.28
Net tax benefits	**(0.11)**	(0.12)	(0.14)
Pension accounting charge	**0.06**		
Gain on sale of headquarter complex			(0.23)
Comparable earnings per diluted common share from continuing operations	**$ 3.99**	3.41	2.91

The following table provides a numerical reconciliation of total revenue to operating revenue for December 31, 2006, 2005 and 2004, which was not provided within the MD&A discussion:

	Years ended December 31		
	2006	2005	2004
	(In thousands)		
Total revenue	**$ 6,306,643**	5,740,847	5,150,278
Fuel services and subcontracted transportation revenue	**(2,040,459)**	(1,694,579)	(1,227,189)
Fuel eliminations	**188,047**	164,613	118,809
Operating revenue	**$ 4,454,231**	4,210,881	4,041,898

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking statements (within the meaning of the Federal Private Securities Litigation Reform Act of 1995) are statements that relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends concerning matters that are not historical facts. These statements are often preceded by or include the words believe, expect, intend, estimate, anticipate, will, may, could, should or similar expressions. This Annual Repor forward-looking statements including, but not limited to, statements regarding:

- our expectations as to anticipated revenue and earnings trends and future economic conditions;
- our ability to improve our competitive advantage by leveraging our vehicle buying power, reducing vehicle downtime, providing innovative broad-based supply chain solutions and increasing our customers competitive positions;
- the impact of the restructuring activities and growth initiatives on our FMS business segment;
- our ability to successfully achieve the operational goals that are the basis of our business strategies, including offering competitive pricing, diversifying our customer base, optimizing asset utilization, leveraging the expertise of our various business segments, serving our customers global needs and expanding our support services;
- impact of losses from conditional obligations arising from guarantees;

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

number of NLE vehicles in inventory over the near term;

our belief as to the adequacy of our insurance coverages and self-insurance accruals, funding sources and the effectiveness of our interest and foreign currency exchange rate risk management programs;

our relationship with our employees;

our belief that we can continue to realize significant savings from our cost management initiatives and process improvement actions, and that such initiatives and actions will mitigate pricing pressures from our SCS customers;

estimates of free cash flow and capital expenditures for 2007;

the adequacy of our accounting estimates and reserves for pension expense, depreciation and residual value guarantees, self-insurance reserves, goodwill impairment, accounting changes and income taxes, and the future impact of FIN 48;

our belief that we have not entered into any other transactions since 2000 that raise the same type of issues identified by the IRS in their audit of the 1998 to 2000 tax period;

our ability to fund all of our operations for the foreseeable future through internally generated funds and outside funding sources; and

the anticipated impact of fuel price fluctuations and cost of environmental liabilities;

the anticipated impact of ongoing legal proceedings;

our expectations as to future pension expense and contributions, as well as the effect of the freeze of the U.S. pension plan on our benefit funding requirements;

the anticipated income tax impact of the like-kind exchange program;

our ability to mitigate the impact of adverse downturns in specific sectors of the economy through customer diversification.

These statements, as well as other forward-looking statements contained in this Annual Report, are based on our current plans and expectations and are subject to risks, uncertainties and assumptions. We caution readers that certain important factors could cause actual results and events to differ significantly from those expressed in any forward-looking statements. For a detailed description of certain of these risk factors, please see Item 1A. Risk Factors of this Annual Report.

The risks included in this Annual Report are not exhaustive. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors or to assess the impact of such risk factors on our business. As a result, no assurance can be given as to our future results or achievements. You should not place undue reliance on the forward-looking statements contained herein, which speak only as of the date of this Annual Report. We do not intend, or assume any obligation, to update or revise any forward-looking statements contained in this Annual Report, whether as a result of new information, future events or otherwise.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by ITEM 7A is included in ITEM 7 (pages 48 through 50) of PART II of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

TO THE SHAREHOLDERS OF RYDER SYSTEM, INC.:

Management of Ryder System, Inc., together with its consolidated subsidiaries (Ryder), is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Ryder s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Ryder s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Ryder; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of Ryder s management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Ryder s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Ryder s internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control Integrated Framework. Based on our assessment and those criteria, management determined that Ryder maintained effective internal control over financial reporting as of December 31, 2006.

Ryder s independent registered certified public accounting firm has audited management s assessment of the effectiveness of Ryder s internal control over financial reporting. Their report appears on pages 59 through 60.

REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
RYDER SYSTEM, INC.:

We have completed an integrated audit of Ryder System, Inc s. 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audit, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the accompanying consolidated balance sheet as of December 31, 2006 and the related consolidated statement of earnings, shareholders equity, and cash flows for the year then ended present fairly, in all material respects, the financial position of Ryder System, Inc. and its subsidiaries at December 31, 2006, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the 2006 financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, in 2006 the Company changed its methods of accounting for share-based compensation and pension and other postretirement plans.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in the accompanying Management s Report On Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for

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external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
February 12, 2007
Miami, Florida

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REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
RYDER SYSTEM, INC.:

We have audited the accompanying consolidated balance sheet of Ryder System, Inc. and subsidiaries as of December 31, 2005, and the related consolidated statements of earnings, shareholders equity, and cash flows for each of the years in the two-year period ended December 31, 2005. In connection with our audits of the consolidated financial statements, we also have audited the consolidated financial statement schedule listed in the accompanying index, in so far as it relates to 2005 and 2004. These consolidated financial statements and the consolidated financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and consolidated financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ryder System, Inc. and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, in so far as it relates to 2005 and 2004, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in the notes to consolidated financial statements, the Company changed its method of accounting for conditional asset retirement obligations in 2005.

/s/ KPMG LLP

February 15, 2006
Miami, Florida

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years ended December 31		
	2006	2005	2004
	(In thousands, except per share amounts)		
Revenue	**$6,306,643**	5,740,847	5,150,278
Operating expense (exclusive of items shown separately)	**2,722,592**	2,572,241	2,305,322
Salaries and employee-related costs	**1,397,391**	1,262,160	1,233,038
Subcontracted transportation	**865,475**	638,319	424,991
Depreciation expense	**743,288**	740,415	706,028
Gains on vehicle sales, net	**(50,766)**	(47,098)	(34,504)
Equipment rental	**103,297**	102,816	108,468
Interest expense	**140,561**	120,474	100,114
Miscellaneous income, net	**(11,732)**	(8,944)	(6,625)
Restructuring and other charges (recoveries), net	**3,564**	3,376	(17,676)
	5,913,670	5,383,759	4,819,156
Earnings from continuing operations before income taxes	**392,973**	357,088	331,122
Provision for income taxes	**144,014**	129,460	115,513
Earnings from continuing operations	**248,959**	227,628	215,609
Earnings from discontinued operations, net of tax		1,741	
Cumulative effect of change in accounting principle, net of tax		(2,440)	
Net earnings	**$ 248,959**	226,929	215,609
Earnings per common share Basic:			
Continuing operations	**$ 4.09**	3.57	3.35
Discontinued operations		0.03	
Cumulative effect of change in accounting principle		(0.04)	
Net earnings	**$ 4.09**	3.56	3.35
Earnings per common share Diluted:			
Continuing operations	**$ 4.04**	3.53	3.28
Discontinued operations		0.03	
Cumulative effect of change in accounting principle		(0.04)	
Net earnings	**$ 4.04**	3.52	3.28

See accompanying notes to consolidated financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
	2006	2005
	(Dollars in thousands, except per share amount)	
Assets:		
Current assets:		
Cash and cash equivalents	**$ 128,639**	128,727
Receivables, net	**883,478**	820,825
Inventories	**59,318**	59,579
Prepaid expenses and other current assets	**190,381**	154,624
Total current assets	**1,261,816**	1,163,755
Revenue earning equipment, net of accumulated depreciation of $2,825,876 and $2,862,998, respectively	**4,509,332**	3,794,410
Operating property and equipment, net of accumulated depreciation of $778,550 and $748,604, respectively	**498,968**	486,802
Goodwill	**159,244**	155,785
Intangible assets	**14,387**	22,462
Direct financing leases and other assets	**385,176**	410,050
Total assets	**$6,828,923**	6,033,264
Liabilities and shareholders equity:		
Current liabilities:		
Short-term debt and current portion of long-term debt	**$ 332,745**	269,438
Accounts payable	**515,121**	414,336
Accrued expenses and other current liabilities	**419,756**	569,721
Total current liabilities	**1,267,622**	1,253,495
Long-term debt	**2,484,198**	1,915,928
Other non-current liabilities	**449,158**	487,268
Deferred income taxes	**907,166**	849,117
Total liabilities	**5,108,144**	4,505,808
Shareholders equity:		
Preferred stock of no par value per share authorized, 3,800,917; none outstanding, December 31, 2006 or 2005		
Common stock of $0.50 par value per share authorized, 400,000,000; outstanding, 2006 60,721,528; 2005 61,869,473	**30,220**	30,935
Additional paid-in capital	**713,264**	666,674
Retained earnings	**1,123,789**	1,038,364
Deferred compensation		(5,598)
Accumulated other comprehensive loss	**(146,494)**	(202,919)

Total shareholders equity	**1,720,779**	1,527,456
Total liabilities and shareholders equity	**$ 6,828,923**	6,033,264

See accompanying notes to consolidated financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended December 31		
	2006	2005	2004
	(In thousands)		
Cash flows from operating activities:			
Net earnings	$ **248,959**	226,929	215,609
Cumulative effect of change in accounting principle		2,440	
Depreciation expense	**743,288**	740,415	706,028
Gains on vehicle sales, net	**(50,766)**	(47,098)	(34,504)
Share-based compensation expense	**13,643**	3,124	1,902
Amortization expense and other non-cash charges (credits), net	**14,106**	11,232	(19,164)
Deferred income tax expense (benefit)	**76,235**	(24,910)	9,815
Tax benefits from share-based compensation	**5,405**	5,670	21,071
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	**(58,306)**	(81,971)	(71,032)
Inventories	**513**	(564)	(4,137)
Prepaid expenses and other assets	**(16,683)**	10,724	(14,868)
Accounts payable	**32,640**	51,084	5,729
Accrued expenses and other non-current liabilities	**(155,447)**	(118,013)	50,400
Net cash provided by operating activities	**853,587**	779,062	866,849
Cash flows from financing activities:			
Net change in commercial paper borrowings	**328,641**	188,271	79,033
Debt proceeds	**670,568**	762,124	282,153
Debt repaid, including capital lease obligations	**(378,519)**	(543,933)	(456,932)
Dividends on common stock	**(43,957)**	(40,929)	(38,731)
Common stock issued	**61,593**	28,298	87,743
Common stock repurchased	**(159,050)**	(152,326)	(149,026)
Excess tax benefits from share-based compensation	**8,926**		
Net cash provided by (used in) financing activities	**488,202**	241,505	(195,760)
Cash flows from investing activities:			
Purchases of property and revenue earning equipment	**(1,695,064)**	(1,399,379)	(1,092,158)
Sales of operating property and equipment	**6,575**	6,963	42,839

Sales of revenue earning equipment	**326,079**	326,752	288,674
Sale and leaseback of revenue earning equipment			118,533
Acquisitions	**(4,113)**	(15,110)	(148,791)
Collections on direct finance leases	**66,274**	70,408	63,795
Changes in restricted cash	**(41,464)**	21,511	6,483
Other, net	**2,163**		512
Net cash used in investing activities	**(1,339,550)**	(988,855)	(720,113)
Effect of exchange rate changes on cash	**(2,327)**	(3,956)	9,368
(Decrease) increase in cash and cash equivalents	**(88)**	27,756	(39,656)
Cash and cash equivalents at January 1	**128,727**	100,971	140,627
Cash and cash equivalents at December 31	**$ 128,639**	128,727	100,971
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	**$ 138,437**	116,862	101,152
Income taxes, net of refunds	**145,396**	289,616	21,405
Non-cash investing activities:			
Changes in accounts payable related to purchases of revenue earning equipment	**64,451**	11,591	72,461
Revenue earning equipment acquired under capital leases	**2,295**	433	54,094

See accompanying notes to consolidated financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

	Preferred Stock Amount	Common Stock Shares	Common Stock Par	Additional Paid-In Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive Loss	Total
	(Dollars in thousands, except per share amounts)							
Balance at January 1, 2004	$	64,487,486	$32,244	593,843	897,841	(2,887)	(176,656)	1,344,385
Components of comprehensive income:								
Net earnings					215,609			215,609
Foreign currency translation adjustments							27,983	27,983
Additional minimum pension liability adjustment, net of tax of $(2,186)							(1,072)	(1,072)
Unrealized gain related to derivatives accounted for as hedges							324	324
Total comprehensive income								242,844
Common stock dividends declared $0.60 per share					(38,731)			(38,731)
Common stock issued under employee stock option and stock purchase plans(1)		3,538,235	1,769	88,693		(3,613)		86,849
Benefit plan stock sales(2)		20,945	10	884				894
Common stock repurchases		(3,714,559)	(1,857)	(35,932)	(111,237)			(149,026)
Tax benefits from share-based compensation				21,071				21,071
Amortization and forfeiture of nonvested stock		(21,255)	(11)	(407)		2,320		1,902

Balance at December 31, 2004	64,310,852	32,155	668,152	963,482	(4,180)	(149,421)	1,510,188
Components of comprehensive income:							
Net earnings				226,929			226,929
Foreign currency translation adjustments						(21,024)	(21,024)
Additional minimum pension liability adjustment, net of tax of $(16,076)						(32,169)	(32,169)
Unrealized loss related to derivatives accounted for as hedges						(305)	(305)
Total comprehensive income							173,431
Common stock dividends declared $0.64 per share				(40,929)			(40,929)
Common stock issued under employee stock option and stock purchase plans[1]	1,258,555	629	33,315		(5,646)		28,298
Benefit plan stock purchases[2]	(12,643)	(6)	(369)				(375)
Common stock repurchases	(3,659,056)	(1,829)	(39,004)	(111,118)			(151,951)
Tax benefits from share-based compensation			5,670				5,670
Amortization and forfeiture of nonvested stock	(28,235)	(14)	(1,090)		4,228		3,124
Balance at December 31, 2005	61,869,473	30,935	666,674	1,038,364	(5,598)	(202,919)	1,527,456
Components of comprehensive income:							
Net earnings				**248,959**			**248,959**
Foreign currency translation adjustments						**29,119**	**29,119**
						178,081	**178,081**

Additional minimum pension liability adjustment, net of tax of $(100,385)							
Unrealized gain related to derivatives accounted for as hedges						**224**	**224**
Total comprehensive income							**456,383**
Adoption of SFAS No. 158, net of tax of $(83,840)						**(150,999)**	**(150,999)**
Common stock dividends declared $0.72 per share				**(43,957)**			**(43,957)**
Common stock issued under employee stock option and stock purchase plans[1]	**2,240,380**	**1,109**	**60,339**				**61,448**
Benefit plan stock sales[2]	**4,756**	**2**	**143**				**145**
Common stock repurchases	**(3,393,081)**	**(1,697)**	**(37,776)**	**(119,577)**			**(159,050)**
Tax benefits from share-based compensation			**15,710**				**15,710**
Share-based compensation			**13,643**				**13,643**
Adoption of SFAS No. 123R		**(129)**	**(5,469)**		**5,598**		
Balance at December 31, 2006	**$ 60,721,528**	**$30,220**	**713,264**	**1,123,789**		**(146,494)**	**1,720,779**

(1) Net of common shares delivered as payment for the exercise price or to satisfy the option holders withholding tax liability upon exercise of options.

(2) Represents open-market transactions of common shares by the trustee of Ryder s deferred compensation plans.

See accompanying notes to consolidated financial statements.

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RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of Ryder System, Inc. (Ryder) and all entities in which Ryder has a controlling voting interest (subsidiaries) and variable interest entities (VIEs) where Ryder is determined to be the primary beneficiary. Ryder is deemed to be the primary beneficiary if we bear a majority of the risk to the entities potential losses or stand to gain from a majority of the entities expected returns. All significant intercompany accounts and transactions between consolidated companies have been eliminated in consolidation.

Use of Estimates

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on management s best knowledge of historical trends, actions that we may take in the future, and other information available when the consolidated financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available. Areas where the nature of the estimate make it reasonably possible that actual results could materially differ from the amounts estimated include: depreciation and residual value guarantees, employee benefit plan obligations, self-insurance accruals, impairment assessments on long-lived assets (including goodwill and indefinite-lived intangible assets), revenue recognition, income tax liabilities and contingent liabilities.

Cash Equivalents

Cash in excess of current operating requirements is invested in short-term, interest-bearing instruments with maturities of three months or less at the date of purchase and are stated at cost, which approximates market value.

Restricted Cash

We account for restricted cash consisting of the following: (1) cash proceeds from the sale of eligible vehicles set aside for the acquisition of replacement vehicles under our like-kind exchange tax program, and (2) cash from a vehicle securitization program in the form of a cash collection account which holds cash for payment of the related debt obligations and a cash reserve deposit which serves as collateral for borrowings under the arrangement. See Note 14, Income Taxes, for a complete discussion of the like-kind exchange tax program. We classify restricted cash within Prepaid expenses and other current assets if the restriction is expected to expire in the twelve months following the balance sheet date or within Direct financing leases and other assets if the restriction is expected to expire more than twelve months after the balance sheet date. The changes in restricted cash balances are reflected as an investing activity in our Consolidated Statements of Cash Flows as they relate to investing activities for the sales and purchases of revenue earning equipment and the vehicle securitization program.

Revenue Recognition

We generate revenue through the lease, rental and maintenance of revenue earning equipment and services rendered under service contracts. We recognize revenue when persuasive evidence of an arrangement exists, the services have been rendered to customers or delivery has occurred, the pricing is fixed or determinable, and collectibility is reasonably assured. We are required to make judgments about whether pricing is fixed or determinable and whether or not collectibility is reasonably assured.

Revenue is recorded on a gross basis, without deducting third-party services costs, when we are acting as a principal with substantial risks and rewards of ownership. Revenue is recorded on a net basis, after deducting third-party services costs, when we are acting as an agent without substantial risks and rewards

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RYDER SYSTEM, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of ownership. Sales tax collected from customers and remitted to the applicable taxing authorities is accounted for on a net basis, with no impact on revenues.

In addition to the aforementioned general policy, the following are the specific revenue recognition policies for our reportable business segments by major revenue arrangement:

Fleet Management Solutions (FMS)

Revenue from leases and rental agreements is driven by the classification of the arrangement as either an operating or direct finance lease under Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases.

The majority of our leases and all of our rental agreements are classified as operating leases and therefore we recognize revenue on a straight-line basis as vehicles are used over the terms of the related agreements. Lease and rental agreements do not usually provide for scheduled rent increases or escalations. However, lease agreements allow for rate changes based upon changes in the Consumer Price Index (CPI). Lease and rental agreements also provide for a fixed per-mile charge plus a fixed time charge. The fixed per-mile charge, the fixed time charge and the changes in rates attributed to changes in the CPI are considered contingent rentals and recognized as earned.

Direct financing lease revenue is recognized using the effective interest method, which provides a constant periodic rate of return on the outstanding investment on the lease.

Revenue from maintenance service contracts is recognized on a straight-line basis as maintenance services are rendered over the terms of the related agreements. Contract maintenance agreements allow for rate changes based upon changes in the CPI. Maintenance agreements also provide for a fixed per-mile charge. The fixed per-mile charge and the changes in rates attributed to changes in the CPI are recognized as earned.

Revenue from fuel services is recognized when fuel is delivered to customers.

Supply Chain Solutions (SCS) and Dedicated Contract Carriage (DCC)

Revenue from service contracts is recognized as services are rendered in accordance with contract terms, which typically include discrete billing rates for the services.

Accounts Receivable Allowance

We maintain an allowance for uncollectible customer receivables and billing adjustments related to certain discounts and billing corrections. Estimates for credit losses and billing adjustments are updated regularly based on historical experience of bad debts and billing adjustments processed, current collection trends and aging analysis. Accounts are charged against the allowance when determined to be uncollectible. The allowance is maintained at a level deemed appropriate based on loss experience and other factors affecting collectibility.

Inventories

Inventories, which consist primarily of fuel, tires and vehicle parts, are valued using the lower of cost (specific identification or average cost) or market.

Revenue Earning Equipment, Operating Property and Equipment, and Depreciation