

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

### GENERAL

Expeditors International of Washington, Inc. is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight. The Company acts as a customs broker in all domestic offices, and in many of its international offices. The Company also provides additional services for its customers including value added distribution, purchase order management, vendor consolidation and other logistics solutions. The Company offers domestic forwarding services only in conjunction with international shipments. The Company does not compete for overnight courier or small parcel business. The Company does not own or operate aircraft or steamships.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and United States and foreign laws and policies relating to tariffs, trade restrictions, foreign investments and taxation. Periodically, governments consider a variety of changes to current tariffs and trade restrictions. The Company cannot predict which, if any, of these proposals may be adopted, nor can the Company predict the effects adoption of any such proposal will have on the Company's business. Doing business in foreign locations also subjects the Company to a variety of risks and considerations not normally encountered by domestic enterprises. In addition to being affected by governmental policies concerning international trade, the Company's business may also be affected by political developments and changes in government personnel or policies in the nations in which it does business.

The Company's ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean steamship lines, and governmental agencies. The Company considers its current working relationships with these entities to be satisfactory. However, changes in space allotments available from carriers, governmental deregulation efforts, "modernization" of the regulations governing customs brokerage, and/or changes in governmental quota restrictions could affect the Company's business in unpredictable ways.

Historically, the Company's operating results have been subject to a seasonal trend when measured on a quarterly basis. The first quarter has traditionally been the weakest and the third

and fourth quarters have traditionally been the strongest. This pattern is the result of, or is influenced by, numerous factors including climate, national holidays, consumer demand, economic conditions and a myriad of other similar and subtle forces. In addition, this historical quarterly trend has been influenced by the growth and diversification of the Company's international network and service offerings. The Company cannot accurately forecast many of these factors nor can the Company estimate accurately the relative influence of any particular factor and, as a result, there can be no assurance that historical patterns, if any, will continue in future periods.

A significant portion of the Company's revenues are derived from customers in retail industries whose shipping patterns are tied closely to consumer demand, and from customers in industries whose shipping patterns are dependent upon just-in-time production schedules. Therefore, the timing of the Company's revenues are, to a large degree, impacted by factors out of the Company's control, such as a sudden change in consumer demand for retail goods and/or manufacturing production delays. Additionally, many customers ship a significant portion of their goods at or near the end of a quarter, and therefore, the Company may not learn of a shortfall in revenues until late in a quarter. To the extent that a shortfall in revenues or earnings was not expected by securities analysts, any such shortfall from levels predicted by securities analysts could have an immediate and adverse effect on the trading price of the Company's stock.

#### RESULTS OF OPERATIONS

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for 2000, 1999 and 1998, expressed as percentages of net revenues. With respect to the Company's services other than freight consolidation, net revenues are identical to revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

IN THOUSANDS	2000		1999		1998	
	AMOUNT	PERCENT OF NET REVENUES	AMOUNT	PERCENT OF NET REVENUES	AMOUNT	PERCENT OF NET REVENUES
<i>Net Revenues</i>						
Airfreight	\$225,428	41%	183,767	41%	145,907	41%
Ocean freight	114,974	21	87,181	20	66,297	19
Customs brokerage and import services	207,953	38	171,538	39	141,246	40
Net revenues	548,355	100	442,486	100	353,450	100
<i>Operating Expenses</i>						
Salaries and related costs	290,581	53	240,740	54	190,288	54
Other	130,250	24	108,423	25	89,790	25
Total operating expenses	420,831	77	349,163	79	280,078	79
Operating income	127,524	23	93,323	21	73,372	21
Other income, net	5,824	1	1,322	0	2,205	0
Earnings before income taxes	133,348	24	94,645	21	75,577	21
Income tax expense	50,313	9	35,470	8	28,303	8
Net earnings	\$ 83,035	15%	59,175	13%	47,274	13%

#### 2000 COMPARED WITH 1999

Airfreight net revenues in 2000 increased 23% compared with 1999 primarily due to (1) increased airfreight shipments and tonnages handled by the Company from the Far East to North America and Europe, (2) increased prices charged by the airlines which were passed along to customers, and (3) increased export airfreight shipments and tonnages from North America and Europe. Airfreight margins expanded approximately 2% during 2000 as compared with 1999. Higher freight volumes and efficient consolidations of dense and fluffy (volumetric) freight allowed the Company to maximize purchased transportation costs while still offering competitive rates to customers. The Company's North American export airfreight net revenues increased 21% in 2000 compared to 1999. Airfreight net revenues from the Far East and from Europe increased 31% and 9%, respectively, for 2000 compared with 1999. Airfreight rates on Far East to North American trade lanes, the Company's most dominant lane, remained strong throughout 2000.

Ocean freight net revenues increased 32% in 2000 compared to 1999. Ocean freight demand remained strong throughout 2000 and ocean freight rates from the Far East, the Company's largest trade lane, increased in the last half of the year. During 2000, management continued to expand market share, increase ocean tonnage, and increase net ocean freight revenues while offering competitive market rates to customers. Changes in the regulatory environment in the United States created new opportunities for the Company's NVOCC operations to provide services to customers who had previously dealt directly with the ocean carriers. Margins remained nearly constant in 2000 as compared with 1999. Expeditors Cargo Management Systems (ECMS), a PC-based ocean freight consolidation management and purchase order tracking service, continued to be instrumental in attracting new business. The Company's North American export ocean freight net revenues increased 26% in 2000 compared to 1999. This increase was a result of the Company handling more ocean shipments moving from North America to the Far East and, to a lesser extent, from North America to Europe. Ocean freight net revenues from the Far East and from Europe increased 38% and 26%, respectively, for 2000 compared with 1999.

Customs brokerage and import services revenues increased 21% in 2000 as compared with 1999 as a result of (1) the Company's growing reputation for providing high quality service, (2) consolidation within the customs brokerage market as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program, and (3) the growing importance of distribution services as a separate and distinct service offered to existing and potential customers. Distribution services accounted for nearly 22% of the increase in customs brokerage and import services revenues for 2000 compared with 1999.

Salaries and related costs increased in 2000 compared to 1999 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. Salaries and related costs decreased 1% as a percentage of net revenues. Management believes that this decrease is due to the Company's ability to service larger freight volumes with a relatively smaller group of people. Management attributes this to technological enhancement and operational process improvement initiatives. The relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual compensation will occur in proportion to changes in Company profits. Management believes that the growth in revenues, net revenues and net earnings for 2000 are a result of the incentives inherent in the Company's compensation program.

Other operating expenses increased in 2000 as compared with 1999 as rent expense, communications expense, quality and training expenses, and other costs expanded to accommodate the Company's growing operations. Other operating expenses as a percentage of net revenues decreased 1% in 2000 as compared with 1999.

Other income, net, increased in 2000 as compared to 1999 primarily due to interest income earned on higher cash balances and short-term investments in 2000. Management attributes higher cash balances, in large part, to the success of cash management and billing improvement initiatives.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate remained relatively constant in 2000 at 37.7%.

#### 1999 COMPARED WITH 1998

Airfreight net revenues in 1999 increased 26% compared with 1998 primarily due to (1) increased airfreight shipments and tonnages handled by the Company from the Far East to North America and Europe, (2) increased prices charged by the airlines which were passed along to customers, and (3) increased export airfreight shipments and tonnages from North America and Europe. The

Company's North American export airfreight net revenues increased 21% in 1999 compared to 1998. Airfreight net revenues from the Far East and from Europe increased 26% and 23%, respectively, for 1999 compared with 1998.

Ocean freight net revenues increased 32% in 1999 compared to 1998. Ocean freight demand remained strong throughout 1999 and ocean freight rates from the Far East, the Company's largest trade lane, increased in the last half of the year. During 1999, management continued to expand market share, increase ocean tonnage, and increase net ocean freight revenues while offering competitive market rates to customers. Margins diminished slightly as a result of this increased demand and due to regulatory constraints which restricted the Company's ability to promptly pass carrier rate increases to NVOCC customers. ECMS continued to be instrumental in attracting new business. The Company's North American export ocean freight net revenues increased 18% in 1999 compared to 1998. This increase was a result of the Company handling more ocean shipments moving from North America to the Far East and, to a lesser extent, from North America to Europe. Ocean freight net revenues from the Far East and from Europe increased 36% and 32%, respectively, for 1999 compared with 1998.

Customs brokerage and import services revenues increased 21% in 1999 as compared with 1998 as a result of (1) the Company's growing reputation for providing high quality service, (2) consolidation within the customs brokerage market as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program, and (3) the growing importance of distribution services as a separate and distinct service offered to existing and potential customers. Distribution services accounted for nearly 29% of the increase in customs brokerage and import services revenues for 1999 compared with 1998.

Salaries and related costs increased in 1999 compared to 1998 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. Salaries and related costs remained constant as a percentage of net revenues.

Other operating expenses increased in 1999 as compared with 1998 as rent expense, communications expense, quality and training expenses, and other costs expanded to accommodate the Company's growing operations. Other operating expenses as a percentage of net revenues remained constant in 1999 as compared with 1998.

Other income, net, decreased in 1999 as compared to 1998 primarily due to smaller foreign exchange gains recorded in 1999 than in 1998. Interest income was slightly higher in 1999 than in 1998. Interest expense was also higher in 1999 due to an increase in short-term borrowings.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate remained constant in 1999 at 37.5%.

#### CURRENCY AND OTHER RISK FACTORS

International air/ocean freight forwarding and customs brokerage are intensively competitive and are expected to remain so for the foreseeable future. There are a large number of entities competing in the international logistics industry; however, the Company's primary competition is confined to a relatively small number of companies within this group. While there is currently a marked trend within the industry toward consolidation into large firms with multinational offices and agency networks, regional and local broker/forwarders remain a competitive force.

Historically, the primary competitive factors in the international logistics industry have been price and quality of service, including reliability, responsiveness, expertise, convenience, and scope of operations. The Company emphasizes quality service and believes that its prices are competitive with those of others in the industry. Recently, customers have exhibited a trend towards more sophisticated and efficient procedures for the management of the logistics supply chain by embracing strategies such as just-in-time inventory management. Accordingly, sophisticated computerized customer service capabilities and a stable worldwide network have become significant factors in attracting and retaining customers.

Developing these systems and a worldwide network has added a considerable indirect cost to the services provided to customers. Smaller and middle-tier competitors, in general, do not have the resources available to develop customized systems and a worldwide network. As a result, there is a significant amount of consolidation currently taking place in the industry. Management expects that this trend toward consolidation will continue for the short- to medium-term.

The nature of the Company's worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. Dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international

currency settlements among its offices or agents. Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting standards for derivative and hedging transactions and is effective for fiscal years beginning after June 15, 2000. Adoption of this standard by the Company on January 1, 2001, had no material impact on the Company's consolidated financial statements. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during 2000, 1999 and 1998 was insignificant. Net foreign currency gains realized during 2000 were \$309,000. Net foreign currency gains realized in 1999 were \$196,000. Net foreign currency losses realized in 1998 were \$534,000.

The Company has traditionally generated revenues from airfreight, ocean freight and customs brokerage and import services. In light of the customer-driven trend to provide customer rates on a door-to-door basis, management foresees the potential, in the medium- to long-term, for fees normally associated with customs house brokerage to be de-emphasized and included as a component of other services offered by the Company.

On January 1, 1999, eleven of fifteen member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and a new common currency – the Euro. The Euro trades on currency exchanges and may be used in business transactions. The conversion to the Euro eliminates currency exchange rate risk between the member countries. Beginning in January 2002, new Euro-denominated bills and coins will be issued and legacy currencies will be withdrawn from circulation. The Company has established plans to address the issues raised by the Euro currency conversion including the need to adapt computer systems and business processes to accommodate Euro-denominated transactions. Since existing financial systems currently accommodate multiple currencies, the plans contemplate full conversion by the end of 2001. The Company does not expect the conversion costs to be material and is actively pursuing conversion plans and initiatives to fully accommodate the introduction of the Euro as the financial reporting currency of the member states. Due to numerous uncertainties, the Company is evaluating the effects one common European currency will have on pricing. The Company is unable to predict the resulting impact, if any, on the Company's consolidated financial statements. As of December 31, 2000, the Company had not experienced any significant disruption as a result of this phased conversion.

#### SOURCES OF GROWTH

Historically, growth through aggressive acquisition has proven to be a challenge for many of the Company's competitors and typically involves the purchase of significant "goodwill", the value of which can be realized in large measure only by retaining the customers and profit margins of the acquired business. As a result, the Company has pursued a strategy emphasizing organic growth supplemented by certain strategic acquisitions, where future economic benefit significantly exceeds the "goodwill" recorded in the transaction.

#### OFFICE ADDITIONS

The Company opened 11 start-up offices during 2000.

<u>NORTH AMERICA</u>	<u>EUROPE</u>	<u>LATIN AMERICA</u>	<u>ASIA</u>
UNITED STATES Washington, D.C. Kansas City, MO Savannah, GA	HUNGARY Budapest	BRAZIL Manaus Belo Horizonte	CAMBODIA Phnom Penh
MEXICO Ciudad Juarez	FRANCE Bordeaux		VIETNAM Ho Chi Minh City
			MARIANA ISLANDS Saipan

The Company, at the request of a major customer, opened an office in Huizen, The Netherlands during early 2000. When promised revenue levels were not achieved, the Company transferred existing business and personnel to other Netherlands offices and closed the Huizen office as of November 2000. This customer continues to purchase services from the Company.

#### INTERNAL GROWTH

Management believes that a comparison of “same store” growth is critical in the evaluation of the quality and extent of the Company’s internally generated growth. This “same store” analysis isolates the financial contributions from offices that have been included in the Company’s operating results for at least one full year. The table below presents “same store” comparisons on a year-over-year basis for the years ended December 31, 2000, 1999 and 1998.

SAME STORE COMPARISONS FOR THE YEARS ENDED DECEMBER 31,	2000	1999	1998
Net revenues	23%	22%	18%
Operating income	36%	24%	21%

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is cash generated from operating activities. Net cash provided by operating activities for the year ended December 31, 2000 was approximately \$154 million, as compared with \$53 million for the same period of 1999. This \$101 million increase is principally due to a smaller increase in accounts receivable (\$47 million) between 2000 and 1999 than was experienced between 1999 and 1998. Management believes that the smaller increase in accounts receivable is due to internal initiatives to increase the quality and timeliness of customer billings, which in turn improved the rate of customer collections. The Company also did a more effective job in 2000 of matching cash outflows with inflows. This resulted in a \$16 million increase in accounts payable and other accrued expenses and taxes payable in 2000 over the increase in 1999.

The Company's business is subject to seasonal fluctuations. Cash flow fluctuates as a result of this seasonality. Historically, the first quarter shows an excess of customer collections over customer billings. This results in positive cash flow. The increased activity associated with peak season (typically commencing late second or early third quarter) causes an excess of customer billings over customer collections. This cyclical growth in customer receivables consumes available cash. In the past, the Company has utilized short-term borrowings to satisfy normal operating expenditures when temporary cash outflows exceed cash inflows. These short-term borrowings have been repaid when the trend reverses and customer collections exceed customer billings. During 2000, short-term borrowings were not required in the United States; the market where cash flow pressures are most intense due to funds advanced in association with customs brokerage activity.

As a customs broker, the Company makes significant 5-10 business day cash advances for the payment of duties and freight. These advances are made as an accommodation for a select group of credit-worthy customers. Cash advances are a "pass through" and are not recorded as a component of revenue and expense, but are accounted for as a direct increase in accounts receivable and accounts payable. As a result of these "pass through" billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the year ended December 31, 2000 was \$29 million, as compared with \$32 million during the same period of 1999. The largest use of cash in investing activities is cash paid for capital expenditures. For the year ended December 31, 2000, the Company made capital expenditures of \$26 million as compared with \$27 million for the same period in 1999. Capital expenditures in 2000 and in 1999 related primarily to investments in technology and office furniture and equipment.

Cash used in financing activities for the year ended December 31, 2000 was \$23 million as compared with cash provided by financing activities of \$2 million for the same period in 1999. In 2000, the Company paid down \$15 million on short-term debt, as compared with an increase in short-term debt of \$7 million that occurred during the same period of 1999. The Company uses the proceeds from stock option exercises to repurchase the Company's stock on the open market. The differences shown at year end of 2000 and 1999 between proceeds from the issuance of common stock and the amounts paid to repurchase common stock represent a timing difference in the receipt of proceeds and the subsequent repurchase of outstanding shares.

At December 31, 2000, working capital was \$223 million, including cash and short-term investments of \$171 million. The Company had no long-term debt at December 31, 2000. While the nature of its business does not require an extensive investment in property and equipment, the Company cannot eliminate the possibility that it could acquire an equity interest in property in certain geographic locations. The Company currently expects to spend approximately \$60 million on property and equipment in 2001. In addition to normal capital expenditures for leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures, this total includes estimates for building projects in Egypt, Ireland and Malaysia. The Company expects to finance capital expenditures in 2001, with cash.

The Company borrows internationally and domestically under unsecured bank lines of credit. The U.S. facility totals \$50 million and international bank lines of credit totaled \$11.1 million. In addition, the Company maintains a bank facility with its U.K. bank for \$7.4 million. At December 31, 2000, the Company was directly liable for \$4.7 million drawn on these lines of credit and was contingently liable for an additional \$24.2 million from standby letters of credit.

Management believes that the Company's current cash position, bank financing arrangements, and operating cash flows will be sufficient to meet its capital and liquidity requirements for the foreseeable future.

In some cases, the Company's ability to repatriate funds from foreign operations may be subject to foreign exchange controls. In addition, certain undistributed earnings of the Company's subsidiaries accumulated through December 31, 1992 would, under most circumstances, be subject to some additional United States income tax if distributed to the Company. The Company has not provided for this additional tax because the Company intends to reinvest such earnings to fund the expansion of its foreign activities, or to distribute them in a manner in which no significant additional taxes would be incurred.

#### IMPACT OF INFLATION

To date, the Company's business has not been adversely affected by inflation, nor has the Company experienced significant difficulty in passing carrier rate increases on to its customers by means of price increases. Direct carrier rate increases could occur over the short- to medium-term period. Due to the high degree of competition in the market place, these rate increases might lead to an erosion in the Company's margins. However, as the Company is not required to purchase or maintain extensive property and equipment and has not otherwise incurred substantial interest rate-sensitive indebtedness, the Company currently has no direct exposure to increased costs resulting from increases in interest rates.

The forward-looking statements contained in this document involve a number of risks and uncertainties. Factors that could cause actual results to differ materially from these statements include, but are not limited to: risks associated with foreign operations, elimination of intercompany transactions, matching of expenses with the associated revenue, seasonality, shifts in consumer demand, the effect that the adoption of the Euro as the primary currency of 11 member states of the European Union might have on the global economy and the Company's international and domestic customers, other accounting estimates and other risk factors disclosed from time to time in the Company's public reports.