1998 Annual Report

Xtra Corporation

Five Year Selected Financial Data

Year ended September 30, (Millions of dollars except per share amounts)	1998	1997	1996	1995	1994
Operations					
Revenues	$ 461	$ 435	$ 422	$ 378	$ 355
Cash provided from operations	293	269	272	237	233
Capital expenditures[1]	199	249	210	699	236
Pretax income	99	71	69	98	98
Net income	60	43	41	57	58
Per Share Information					
Basic earnings per share	$ 3.90	$ 2.79	$ 2.56	$ 3.40	$ 3.41
Diluted earnings per share	$ 3.88	$ 2.78	$ 2.56	$ 3.39	$ 3.38
Dividends declared per share[2]	$ .64	$ .78	$ .70	$ .62	$ .54
Financial Position					
Total assets	$ 1,575	$ 1,585	$ 1,537	$ 1,516	$ 1,005
Total debt	802	892	892	898	444
Total stockholders' equity	408	360	342	359	331

(1) Includes capital expenditures for acquisitions.

(2) See Note 13 of the Notes to Consolidated Financial Statements.

To Dur Shareholders:

In fiscal year 1998, XTRA Corporation experienced a period of uncertainty. After reaching an agreement in June 1998 to merge with Wheels MergerCo, the Company terminated this agreement in November 1998. Despite this challenging environment, XTRA enjoyed a record year in terms of both earnings and cash flow from operations. We would like to thank our shareholders for their continued support and our employees for their ongoing hard work.

Fiscal year 1998 presented us with very strong market conditions for our North American businesses, as well as difficult circumstances for our international container business. Overall, this environment proved to be favorable to us as a Company. We increased cash flows, improved the balance sheet, and solidified our significant market positions. XTRA's North American operating environment benefited from a robust domestic economy and also from the surge of imports resulting from the Asian financial crisis. Both of these factors led to increased demand for freight transportation. While XTRA's domestic businesses profited from the situation in Asia, due to the trade imbalance, the international marine container business faced increased equipment availability in various locations. Although XTRA's International utilization improved this year over 1997, the utilization trend was negative for the second half of the year.

Overall, 1998 was a year in which the Company achieved significant progress. The product of our efforts is evident in our record-breaking levels of earnings and cash flow from operations. Dur 1998 diluted earnings per share showed a 40% increase compared to fiscal year 1997, while our cash flow from operations increased 9%. We are proud of these accomplishments and of the employees who made it possible.

FINANCIAL PERFORMANCE

Net income per diluted share increased to $3.88 in 1998 compared to $2.78 per share in 1997, a 40% increase.

Cash flow from operations grew to $293 million in 1998 compared to $269 million in 1997, a 9% increase.

XTRA's revenues are affected primarily by equipment utilization, which increased 2% in fiscal year 1998 to average 86%. In 1998, North American utilization increased to 87% from 86% in 1997 and International utilization increased 3% to 82%.

The Company experienced modest revenue growth in fiscal 1998, increasing by $26 million to $461 million. The additional revenue was mainly generated by our North American operations, which grew $22 million to $381 million, primarily due to higher equipment utilization and improving lease rates. International operations contributed $80 million to total revenues, increasing $4 million from 1997.

XTRA CORPORATION'S NORTH AMERICAN OPERATIONS

Over-the-Road Trailers

XTRA Corporation is one of the two largest highway trailer lessors in North America, capturing in excess of 25% of the leasing market. XTRA Lease, our largest business unit, and XTRA Mexico, our smallest, provide a wide variety of over-the-road and storage trailers to contract and common motor carriers and private fleet owners throughout North America. Combined, these two units contributed 62% of the Company's total revenue in 1998.

In fiscal year 1998, we invested $176 million for North American over-the-road equipment and by year end, operated a fleet of 79,000 units with a net investment of $770 million.

Fiscal year 1998 was a strong year for over-the-road trailer leasing. The U.S. economy continued to grow and consumer confidence remained strong. Just-in-time inventory management kept retail inventories low, while sales grew, and imports increased due to the Asian financial crisis. All of these factors led to increasing demand for transportation equipment. Over-the-road trailer utilization increased 2% to average 90%. Tightening rental capacity also led to industry-wide lease rate improvement.

Intermodal

XTRA Intermodal leases three types of equipment: intermodal trailers, chassis, and domestic containers. Customers are primarily North American railroads and global steamship lines. This division contributed 21% of XTRA Corporation's total revenues in fiscal year 1998. At September 30, 1998, XTRA Intermodal operated a total fleet of 55,000 units.

Intermodal Trailers

XTRA is the second largest lessor of intermodal trailers, with an estimated market share of 25%. In 1998, the railroads continued to ship greater proportions of freight in containers than in trailers. Given the overall demand for intermodal trailers and the expected continued trend toward domestic containers from trailers, we believe our fleet is appropriately sized. Utilization declined to average 78% in 1998, compared to 82% in 1997.

Chassis

XTRA is the fifth largest lessor of chassis in North America, with an estimated market share of 8%. At September 30, 1998, the fleet size was approximately 24,000 units. Utilization averaged 88% in 1998, as compared to 84% in 1997.

XTRA continues to focus on value-added neutral chassis pools, which are managed chassis fleets located at railroad and port terminals. Chassis pools are desirable because leased equipment can be substituted for carrier-owned equipment to improve the carriers' asset utilization and reduce their redundant expenses.

Domestic Containers

XTRA Intermodal is the third largest lessor of domestic containers, with an estimated market share of 16%. At September 30, 1998, our domestic container fleet consisted of approximately 9,000 units. Aggressive pricing policies pervade the domestic container market. Until pricing improves and a deeper operating lease market develops, we do not anticipate additional investment in this product line.

XTRA CORPORATION'S INTERNATIONAL OPERATIONS

Marine Containers

XTRA International leases marine containers globally. The Company believes it is the eighth largest lessor of marine containers. In fiscal year 1998, XTRA International contributed 17% of XTRA's overall revenues. Equipment utilization increased to 82% from 79% in 1998.

During 1998, the marine container leasing industry was impacted substantially by the trade imbalance caused by the Asian financial crisis. This resulted in increased equipment availability for the leasing industry as well as repositioning costs. The low level of lease rates remains a major issue for the profitability of the marine container leasing industry. At the present time, we do not anticipate improvement in the marine container business in fiscal 1999 and we are currently reviewing all of our strategic options with regard to this business.

TERMINATION OF RECAPITALIZATION MERGER

XTRA entered into an Agreement and Plan of Merger and Recapitalization dated as of June 18, 1998, as amended and restated as of July 31, 1998, with Wheels MergerCo LLC ("MergerCo"). MergerCo is a newly organized Delaware limited liability company formed by Apollo Management IV, L.P. and Atlas Capital Partners LLC, an affiliate of Interpool, Inc. On November 25, 1998, the Company and MergerCo mutually agreed to terminate their existing merger agreement. Previously, MergerCo had indicated that due to market conditions it did not think it would be able to obtain the financing necessary to complete the deal.

In mid-December 1998, the Company terminated all merger discussions with Wheels MergerCo and indicated that it intends to pursue its long-term strategy of building value for its shareholders as an independent company.

CAPITAL STRATEGY AND FINANCING

Total capital spending in 1998 was $199 million, $50 million lower than 1997. XTRA continues to maintain strong investment grade ratings and a solid balance sheet. At year-end, the Company's debt to equity ratio was 2.0 to 1.0, which is below our long-term target range of 2.5 - 3.0 to 1.0. Cash flow from operations in 1998 reached a record level of $293 million, adding to our already strong financial position.

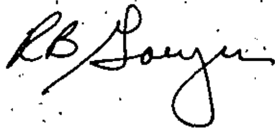
THE XTRA OUTLOOK

XTRA continues to be a leader in freight transportation equipment leasing. After such a successful year, we look forward to 1999 as an opportunity to meet or exceed our current levels of performance and we are well positioned to do so. Our balance sheet and cash flows are strong and our market positions are significant. We remain committed to our three-pronged strategy to build shareholder value by growing the existing businesses, pursuing external growth through acquisitions, and implementing timely repurchases of our stock.

For 1999, we anticipate continued solid performance in our over-the-road business. Freight demand should continue as North American economies grow at a more moderate pace. The intermodal business, including intermodal trailers, chassis, and domestic containers, will remain steady, representing a stable source of cash flow. At the present time, we do not anticipate improvement in the marine container business in fiscal 1999.

In closing, we would like to take this opportunity to commend the hard working people who comprise the XTRA team. These talented individuals are the driving force behind XTRA's success. Without their dedication, expertise, and professionalism, XTRA would not be the industry leader it is today.

Sincerely,



Chairman

Lewis Rubin
President and Chief Executive Officer

December 16, 1998

SECURITIES ANO EXCHANGE COMMISSION
WASHINGTON, O.C. 20549

FORM 10-K*

ANNUAL REPORT PURSUANT
TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENOEO
SEPTEMBER 30, 1998

COMMISSION FILE NUMBER 1-7654

XTRA CORPORATION (EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

OELAWARE
(State or other jurisdiction
of incorporation or organization)

06-0954158
(I.R.S. employer identification number)

60 STATE STREET
BOSTON, MASSACHUSETTS 02109
(Address of principal executive offices)(Zip Code)

(617) 367-5000
(Registrant's telephone number)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	*Name of exchange on which registered*
Common Stock, Par Value $.50 per Share	New York Stock Exchange

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

Shares Outstanding of the Registrant's Common Stock at November 12, 1998:	15,372,903
Aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant at November 12, 1998:	$ 682,000,000

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 ✔ No __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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 __.

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended September 30, 1998, of which this Form 10-K is a part, are incorporated by reference in Parts I, II and IV. Portions of the Registrant's definitive Proxy Statement for use at the 1999 Annual Meeting of Stockholders are incorporated by reference in Part III.

* Exhibits to Form 10-K and Parent Company Financial Statements and Schedules have been included only in copies of the Form 10-K filed with the Securities and Exchange Commission.

A copy of this Form 10-K, including a list of exhibits and the Parent Company Financial Statements and Schedules, is available free of charge to stockholders upon written request to: Vice President and Chief Financial Officer, XTRA Corporation, 60 State Street, Boston, Massachusetts 02109. In addition, upon similar request, copies of individual exhibits will be furnished upon payment of a reasonable fee.

FORM 10-K TABLE OF CONTENTS

XTRA Corporation and Subsidiaries

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PART I.

ITEM 1. BUSINESS

The discussion below contains certain forward-looking statements including estimates of economic and industry conditions. Actual results may vary from those contained in such forward-looking statements. See "Cautionary Statements for Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" contained below.

XTRA Corporation (the "Company" or "XTRA") is a leading global transportation equipment lessor with operations in the highway, domestic intermodal and marine container markets. The Company manages a diverse fleet of approximately 299,000 units, constituting a net investment of approximately $1.4 billion, consisting of over-the-road ("OTR") trailers; intermodal equipment, including intermodal (or "piggyback") trailers, chassis and domestic containers; and marine containers.

Transportation equipment customers lease equipment to cover cyclical, seasonal and geographic needs and as a substitute for purchasing. In addition, capital and capacity-constrained transportation providers often use leasing to maximize their asset utilization and reduce capital expenditures. By maintaining a large and diversified fleet, leasing companies are able to provide customers with a broad selection of equipment and quick response times, which reduce equipment shortfalls and lost opportunities.

Lease Types and Rates

Transportation equipment is generally leased through finance or operating leases. XTRA primarily participates in the operating lease segment, generally placing less emphasis on finance leases because it believes the value-added component of such leases is low. Finance leases are longer term and have lower levels of customer service, while operating leases can be either daily ("per diem") leases or term leases. Per diem leases are for a period of less than one year, with the option to return the equipment without prior notice. Term leases are for a period of one year or more; with most being three to five years. Term lease agreements may have early termination penalties that apply in the event of early redelivery, although in most cases equipment is not returned prior to the expiration of the lease. Operating lessors generally offer certain customer services, which may include roadside assistance, insurance, repair and maintenance and regulatory compliance. For a portion of their fleet, operating lessors will enter into term leases due to the greater revenue stability associated with longer-term leases even though long-term lease rates are typically lower than per diem lease rates. The percentage of equipment on term leases versus per diem leases varies widely among leasing companies, depending upon each company's desire to have predictable revenues and cash flows.

Many of XTRA's OTR per diem and term leases provide for additional fees if the equipment is returned to a location other than the originating location. XTRA's marine container and intermodal trailer leases allow the customers to return equipment to a different location. Returns of marine containers are subject to quantity and location limitations and additional drop-off fees are built into the lease terms. XTRA's marine container leases may also provide customers with incentives to return marine containers to more desirable locations.

Lease rates depend on several factors including the type of lease, length of term, maintenance provided, type and age of the equipment and market conditions. In addition, in the OTR trailer business, the Company charges its customers a fee based on the number of miles the trailer has been driven or charges actual tire and brake wear incurred. The Company offers additional value-added services for which the Company charges specified fees. For example, in the OTR trailer business, these services include roadside assistance, various insurance alternatives and trailer repair and maintenance. Over the last several years, the Company has capitalized on strong market demand by maintaining a strong overall term lease portfolio. At September 30, 1998 approximately 37% of the total fleet were leased to customers under term lease.

Utilization

An important indicator of the Company's performance is the portion of its fleet that is on lease at any given time. This measure, called the utilization rate, is defined as the number of units on lease divided by the total number of units in the fleet. The Company leases equipment both on a term and a per diem basis in order to effectively utilize the fleet and maintain a balance between the greater stability of revenue associated with term leases and the increased profitability potential of per diem lease pricing. The Company actively manages the distribution of its units and keeps a large, diversified and well-maintained fleet of mostly standardized equipment in order to operate at high utilization rates.

Equipment Fleet

The Company's equipment fleet has increased over time through purchases of new equipment and through fleet acquisitions of other leasing companies. The Company's fleet size and net investment includes equipment owned by the Company, equipment leased-in from third parties under operating and capital leases, and equipment leased to third parties under finance leases. At September 30, 1998, 99% of the Company's net investment in equipment was owned.

The Company's fleet and net investment consisted of the following units and net investment at the end of its last five fiscal years:

Equipment Fleet[1]	*At September 30, (Units in thousands)*	1998	1997	1996	1995	1994
Over-the-road trailers		79	78	75	76	69
Marine containers		165	162	152	126	–
Intermodal trailers		22	23	24	29	34
Chassis		24	23	24	21	16
Domestic containers		9	10	8	8	8
Total		299	296	283	260	127

Equipment Fleet[1]	*At September 30, (Millions of dollars)*	1998	1997	1996	1995	1994
Over-the-road trailers		$ 770	$ 718	$ 632	$ 628	$ 508
Marine containers		388	414	419	373	–
Intermodal trailers		153	168	197	237	235
Chassis		107	112	119	107	70
Domestic containers		31	41	36	42	47
Net investment		$ 1,449	$ 1,453	$ 1,403	$ 1,387	$ 860

(1) For purposes of this presentation, the net investment in equipment leased to the Company on an operating basis represents the present value of the remaining lease payments. The net investment in revenue equipment leased to customers under finance leases as well as equipment owned by the Company or leased to the Company under capital leases represents the net carrying value of this equipment. The significant increase in fleet units and net investment in equipment in 1995 was primarily due to the Company's acquisition of Matson Leasing Company, Inc.

For information regarding business information by geographic area, see Note 7 of the Notes to Consolidated Financial Statements. For additional information, including financing and capital expenditures, see Management's Discussion and Analysis of Financial Condition and Results of Operations. Such information is incorporated herein by reference.

Description of Operating Divisions

The Company conducts its leasing operations through four divisions: XTRA Lease, XTRA Intermodal, XTRA International and XTRA Mexico. The description of XTRA Lease provided below includes both XTRA Lease and XTRA Mexico, the Company's smallest division.

XTRA Lease: General

XTRA Lease, the Company's OTR trailer business operation, leases trailers to contract and common motor carriers and to private-fleet owners throughout North America. XTRA Lease's fleet includes approximately 79,000 trailers, comprised mostly of dry cargo vans 48' and 53' long by 102" wide. For the fiscal year ended September 30, 1998, the average equipment utilization rate for the OTR business was 90%. Approximately 40% of the XTRA Lease units were leased on a term basis as of September 30, 1998, with the balance of units available for lease on a per diem basis.

XTRA Lease: Competitive Environment

XTRA estimates the leasing segment of the North American OTR trailer fleet (fleet owned by leasing companies) to be about 300,000 units. XTRA enjoys a strong competitive position in the OTR trailer segment and believes its fleet of approximately 79,000 units, or 26% of the leased fleet, is exceeded by only one competitor who has an estimated share of 32%. The remainder of the industry is fragmented and primarily spread among many smaller, more regional equipment providers.

XTRA Lease: Market Trends

Management believes that the leasing segment for OTR trailers will increase due to a number of factors. One contributing factor is the increasing trend of private fleet owners outsourcing transportation fleets as companies move towards a variable cost approach to operating their businesses. In addition, as more private owners seek to provide their services with fewer owned units to reduce costs and capital commitments, they typically look to truckload carriers and logistics companies to handle their transportation needs. Truckload carriers and logistics companies represent a significant portion of XTRA Lease's customer base.

A second factor, the continued move toward time definite inventory strategies, such as just-in-time, as well as better driver time management and truck utilization, should focus companies on leasing rather than owning trailers. An increasing number of trailers are left empty at loading docks as drivers employ a drop-off rather than a wait-and-unload strategy to improve efficiencies and driver utilization. The result is an increasing ratio of trailers to trucks in the freight transportation market. Increasingly, leasing companies are being relied upon to handle these growing trailer needs.

Recently, some domestic freight has moved from the railroad to the trucking industry. The Company believes this has occurred due to the increased consolidation in the railroad industry, which has caused more rationalized track and service availability and an increase in containerized trade from overseas, which is placed on railroads at major ports, displacing domestic traffic. These factors have increased the volume of the Company's truckload and less-than-truckload customers, who in turn continue to use leasing companies such as XTRA to satisfy increased demand.

Due to its national operating network and its strong reputation, XTRA believes it is well positioned to capitalize on the trends which favor the use of leasing companies.

XTRA Intermodal: General

XTRA's intermodal business is comprised of three rental products: intermodal trailers, chassis and domestic containers. Intermodal traffic refers to the shipment of goods in standardized containers through two or more modes of transportation, usually rail, truck or ship. On certain routings, shipping goods over two or more modes of transportation is more cost efficient. For example, over long distance, high density freight lanes, intermodal transportation can be more cost efficient than trucking. Further, containerization is more efficient and economical than "break bulk transportation," in which the goods are unpacked and repacked at various intermediate points en route to their final destination.

XTRA Intermodal: Intermodal ("Piggyback") Trailers

Intermodal trailers are designed to be carried on rail flatcars, pulled by tractor over the highway and, to a lesser extent, transported over water by ships and barges. The Company's intermodal trailer fleet of 22,000 units consists primarily of units 45' and 48' long by 102" wide. Approximately 28% of the intermodal trailer fleet was leased on a term basis as of September 30, 1998, with the remainder of the fleet available for lease on a per diem basis.

XTRA Intermodal: Chassis

Chassis are wheeled rectangular frames used to transport containers over the highway. XTRA's chassis are used as transport vehicles for marine and domestic containers, which are loaded or unloaded at shipyards, rail terminals or consignee locations. Once loaded, the chassis and the container together are the functional equivalent of a trailer. Loading the container on a chassis allows the container to be delivered to or from the final inland destination.

Marine chassis are generally 20' or 40' in length to accommodate marine containers, while domestic chassis are generally 48' or 53' in length and handle domestic containers. The Company's fleet of 24,000 units consists primarily of marine chassis and is leased to steamship lines, railroads and motor carriers. Approximately 61% of the chassis fleet was leased on a term basis as of September 30, 1998 with the balance available for lease on a per diem basis.

XTRA Intermodal: Domestic Containers

Domestic containers are designed to transport freight over rail or on chassis over highway within North America. These containers substitute for intermodal and OTR trailers, particularly on long-haul, heavy volume routes.

XTRA's fleet of 9,000 units consists primarily of 48" long by 102" wide units leased to North American railroads and other domestic freight carriers. Approximately 73% of the Company's domestic containers were leased on a term basis as of September 30, 1998, with the balance available for lease on a per diem basis.

XTRA Intermodal: Competitive Environment

With respect to intermodal trailers, XTRA believes that it is the second largest trailer lessor in North America, with approximately 25% of the total leasing market. XTRA believes that its largest competitor owns in excess of 30% of the total market.

In the leased segment of the chassis market, the Company believes that it is the fifth largest lessor in the United States with approximately 8% of the market. The Company believes its largest competitor owns approximately 33% of the market.

In the leased segment of the domestic container market, the Company believes that it is the third largest lessor in the United States with approximately 16% of the market.

XTRA Intermodal: Market Trends

Over the last several years, there has been a gradual shift in intermodal traffic from the use of intermodal trailers to domestic containers to transport goods over rail. The shift has occurred primarily due to the railroad's ability to double stack containers, which cannot be done with intermodal trailers, and due to railroads offering better freight rates to customers for using containers. However, the Company believes that demand for intermodal trailers will continue for some time due to several factors, including: (i) the preference of certain shippers to use intermodal trailers over the combination of domestic containers and chassis due to logistical ease; and (ii) the relative inefficiency of containers in locations where limited space precludes the storage of a sufficient number of chassis.

Although the shift from intermodal trailers to domestic containers will likely continue, XTRA expects that its intermodal business will continue to be a source of cash flow as a result of controlled downsizing by XTRA to maintain an appropriate intermodal fleet size relative to demand.

The demand for leased chassis in North America has been growing significantly due primarily to the growth in the use of international and domestic containers. The use of containers, which are placed on chassis to transport the container to the next destination, has increased due to the many benefits of shipping goods by container versus alternative methods. For the last five years, the growth rate of containerized trade has been approximately 7% per year. As the use of containerized trade continues to increase, the market for chassis, an essential part of moving the container to the final destination, will similarly increase. In addition, the railroads and shipping lines have focused on reducing their capital expenditures on ancillary assets in favor of more core assets such as railcars or ships. To take advantage of this trend, the Company has established neutral chassis pools at key rail interchange locations and ports in the United States.

XTRA International: General

The Company's 165,000 marine containers are standard, dry cargo 20' and 40' rectangular steel boxes leased primarily to steamship lines for transporting freight on ships worldwide. Container usage has exceeded world gross domestic product growth primarily as a result of the logistical advantages and efficiencies resulting from containerization. Standardization of the construction, maintenance and handling of containers allows containers to be picked up, dropped off, stored and repaired throughout the world.

For the 1998 fiscal year, the average utilization rate for the Company's marine containers was 82%. Approximately 32% of XTRA's marine container fleet was leased on a term basis at September 30, 1998, with the remainder of the fleet available for lease on a per diem basis.

XTRA International: Competitive Environment

XTRA believes that it is the eighth largest lessor of marine containers worldwide with an estimated share of 4% of the leasing segment of the industry. The two largest competitors in this segment each have approximately a 20% market share. Over the last several years, there has been consolidation in the container leasing business resulting from several acquisitions. The result of the consolidation has been fewer lessors, a more rationalized industry, and a stabilizing pricing environment.

XTRA International: Market Trends

The demand for leased containers is influenced primarily by the volume of international and domestic trade. In recent years, however, the rate of growth in the container industry has exceeded world gross domestic product as a whole due to several factors, including the existence of geographical trade imbalances, the expansion of shipping lines, changes in manufacturing practices and increased exports by certain technologically advanced countries of component parts for assembly in other countries and the subsequent re-importation of finished products. Leasing companies currently own approximately half of the world's container fleet. The balance is owned predominantly by the shipping lines.

Environmental Matters

Although the nature of the Company's operations at its owned and leased facilities is such that it is not a heavily regulated entity pursuant to Federal and state environmental laws and regulations, the Company is required to comply with such laws and regulations, including laws and regulations related to the generation, handling, storage, transportation, treatment and disposal of hazardous and solid wastes. In addition, under various Federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may become liable for the costs of removal or remediation of hazardous or toxic substances on, under or in such property, typically without regard to fault.

The Illinois Environmental Protection Agency has notified the Company of alleged environmental contamination of its Fairmont City, Illinois property that resulted from the prior owners' zinc smelting operations. As a result, the Company has taken certain actions to suppress dust that have significantly reduced the level of airborne contaminants at the site. Based on the Company's current understanding of the nature of the contamination at the site, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the Company's results of operations, cash flows or financial condition.

The Company believes that its facilities are in compliance in all material respects with all applicable United States Federal, state and local environmental laws, ordinances and regulations, as well as comparable laws and regulations outside the United States. No assurances can be given, however, that the current environmental condition of the Company's owned and leased facilities is not other than as currently understood by the Company, or will not be adversely affected by the condition of properties in the vicinity of the Company's owned and leased properties or by the activities of third parties unrelated to the Company, or that future laws, ordinances or regulations will not impose any material environmental liability on the Company.

Regulation

The Company's OTR and intermodal equipment is subject to various Federal and state licensing and operating regulations as well as to various industry standards. From time to time, certain Federal agencies promulgate regulations which have a direct impact on the Company's OTR and intermodal equipment relating to brake systems, periodic inspection systems, underride protection and other safety-related issues. These agencies include the Federal Highway Administration (the "FHWA") of the United States Department of Transportation, which regulates the use of motor vehicles on the United States highways; the National Highway Traffic Safety Administration, which regulates the manufacture of new motor vehicles; other agencies in the United States; and similar agencies in Mexico and Canada. Recently, the FHWA published a Notice of Proposed Rulemaking to amend the Federal Motor Carrier Safety Regulations to require that motor carriers engaged in interstate commerce install retroreflective tape or reflex reflectors on the sides and rear of all trailers that (i) were manufactured prior to December 1, 1993, (ii) have an overall width of 80 inches or more, and (iii) have a gross vehicle weight rating of 10,000 lbs. or more. The FHWA has proposed that motor carriers be required to install retroreflective tape or reflex reflectors within two years of the effective date of the final rule. A significant number of the Company's OTR and intermodal trailers would be impacted if the proposed rule is adopted in its present form, although the number of trailers affected will depend upon the date the rule is adopted, with the Company's ongoing disposition of, or conversion to off-road use of trailers decreasing the number of trailers that will be affected. The Company believes that the cost of complying with the rule (in its present form) would not have a material adverse effect on the Company's results of operations, cash flows or financial condition. The Company's international leasing operations also can be adversely affected by tariff barriers and political instability in foreign countries.

Employees

The Company had 874 employees at September 30, 1998.

Corporate Organization

The Company was organized in 1957. XTRA's corporate management offices are located at 60 State Street, Boston, Massachusetts 02109-1826 (telephone number (617) 367-5000).

XTRA, Inc., a wholly-owned direct subsidiary of XTRA Corporation, owns substantially all of the Company's transportation equipment and conducts the Company's leasing business through certain of its subsidiaries pursuant to management service agreements.

ITEM 2. PROPERTIES

The Company maintains 94 facilities for the storage and distribution of its OTR and intermodal equipment throughout North America, occupying 688 acres, of which 379 acres are owned. These facilities generally occupy 2 to 16 acres. The Company also maintains six chassis pools at various customer locations. The international marine container operations are managed from 15 Company offices and 8 agency locations, which utilize 159 independent depot locations worldwide to store and maintain equipment.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in various claims and legal actions arising out of the normal course of its business. Currently, there are no pending claims or actions that management believes will have a material adverse effect on the Company's financial position and results of operations.

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

No matter was submitted to stockholders of the Company during the fourth quarter of 1998.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company, the age of each, and the period during which each has served in his present office are as follows:

Lewis Rubin (60) – President and Chief Executive Officer. Mr. Rubin was President and Chief Executive Officer of Flexi-Van Corporation, a company engaged in the leasing of intermodal transportation equipment, from 1981 to 1983. He served as President and Chief Executive Officer of Gelco CTI Container Services, a subsidiary of Gelco Corporation, and as an Executive Vice President of Gelco Corporation from 1984 to 1988. Mr. Rubin was elected President and Chief Operating Officer of the Company in 1990. He was elected to his present position in 1990.

Robert B. Blakeley (38) – Vice President and Controller. Mr. Blakeley joined the Company in 1984, was promoted to Assistant Controller in 1987 and was elected Controller and Chief Accounting Officer in 1991. Mr. Blakeley was elected to his present position in 1996.

Jeffrey R. Blum (46) – Vice President, Administration and Human Resources. Mr. Blum joined the Company in 1995 as Vice President of Human Resources and was elected to his current position in 1996. Prior to 1995, Mr. Blum served in similar capacities at First Winthrop Corporation from 1993 to 1995 and Signal Capital Corporation prior to 1993.

Michael K. Fox (52) – Vice President, XTRA Intermodal. Mr. Fox joined the Company in 1981 and has held several managerial positions. He was elected Divisional Executive Vice President, XTRA Intermodal in 1993. He was elected to his present position in 1994.

William H. Franz (47) – Vice President, XTRA Lease. Mr. Franz was previously employed by two large over-the-road lessors, Transport International Pool and Strick Lease. He joined the Company in 1992 and was elected to the position of Divisional Executive Vice President, XTRA Lease in 1993. He was elected to his present position in 1993.

Thomas A. Giacchetto (33) – Chief Counsel and Secretary. Mr. Giacchetto joined the Company in 1995 as Senior Corporate Counsel. He was elected to his present position in April 1998. Prior to joining the Company, Mr. Giacchetto was an associate with Hutchins, Wheeler & Dittmar, a Boston law firm, from 1990 through 1995.

Frederick M. Gutterson (56) – Vice President, XTRA International. Mr. Gutterson had been President and Chief Executive Officer of Matson Leasing Company, Inc. since its inception in 1989. He was elected to his present position in 1995 following the Matson acquisition.

Christopher P. Joyce (37) – Vice President and Treasurer. Mr. Joyce joined the Company in 1985. He was promoted to Assistant Treasurer in 1991 and was elected Treasurer in 1993. Mr. Joyce was elected to his present position in 1996.

Michael J. Soja (49) – Vice President and Chief Financial Officer. Mr. Soja joined the Company as Assistant Controller in 1974, was elected Controller in 1978 and Vice President in 1979. He was elected Vice President, Finance and Administration in 1981 and Vice President, Finance and Treasurer in 1990. Mr. Soja was elected to his present position in 1990.

All terms of office expire as of the date of the Board of Directors' meeting following the next Annual Meeting of Stockholders and until their respective successors are elected and qualified.

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is listed on the New York Stock Exchange and trades under the symbol "XTR". The approximate number of record holders as of November 12, 1998 was 732. The following table sets forth the range of high and low sale prices of the Company's Common Stock on the New York Stock Exchange Composite Tape and dividends declared during fiscal years ended September 30, 1997 and 1998.

	High	Low	Dividends Declared
1997: First Quarter	$ 47 1/8	$ 40 1/8	$ .18
Second Quarter	43 3/4	40 1/2	.20
Third Quarter	49	41 1/4	.20
Fourth Quarter	57 1/4	42	.20
1998: First Quarter	60	50	.20
Second Quarter	66 1/16	57 3/4	.22
Third Quarter	64 13/16	45 1/2	.22
Fourth Quarter	62 7/8	46 5/16	–

The Company paid quarterly cash dividends on its Common Stock from January 1977 through the third quarter of 1998. The Company agreed under the terms of the Recapitalization Merger Agreement not to pay dividends on the Company Common Stock pending consummation of the Merger (see Note 13 of the Notes to Consolidated Financial Statements). Future dividends, if any, will be determined by the Board of Directors and will be dependent upon the earnings, financial condition, and cash requirements of the Company and other relevant factors existing at the time.

The Company's sources of funds for the payment of dividends on its capital stock are advances and dividends from its direct and indirect wholly-owned subsidiaries, including XTRA, Inc. The primary sources of funds for XTRA, Inc. are cash flows from operations, advances from its subsidiaries, and external financing. The Company's loan agreements contain covenants that restrict the payment of dividends or repurchases of common stock by the Company and certain loan agreements contain covenants that restrict advances to and payment of dividends to the Company by its subsidiaries, including XTRA, Inc. Under the most restrictive provisions of the Company's loan agreements, the repurchase of common stock and/or the amount of cash dividends which could be paid on the Company's capital stock was limited to $168 million at September 30, 1998. The Company had agreed in the Recapitalization Merger Agreement not to repurchase any shares of Company Common Stock pending consummation of the Merger (see Note 13 of the Notes to Consolidated Financial Statements).

ITEM 6. SELECTED FINANCIAL DATA

This information is set forth in the table appearing on page 1 of the Company's 1998 Annual Report, which table is incorporated herein by reference.

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

The information required by this item appears in the Company's 1998 Annual Report beginning at page 25 and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has financed its operations with a combination of short-term borrowings and longer term financing. The Company borrows on a short-term basis by issuing commercial paper and using several uncommitted lines of credit. The Company's short-term borrowings are principally at variable rates and at September 30, 1998, constitute approximately 16% of total borrowings with the balance representing long-term fixed rate borrowings. At September 30, 1998, the fair value of the Company's long-term debt was $866 million. A 10% change in interest rates would result in a $16 million change in the fair value of the long-term debt.

The Company's earnings are affected by fluctuations in the exchange rate of the U.S. dollar as compared to the Mexican Peso and Canadian dollar. These earnings fluctuations are primarily a result of the Company investments in and financing of these operations, as opposed to operating results.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For the Financial Statements and Supplementary Data for XTRA Corporation and its subsidiaries, see Index to Financial Statements on page 21 of the Company's 1998 Annual Report, which Financial Statements and Supplementary Data are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) **Directors** – Information with respect to all directors may be found in the Company's definitive Proxy Statement for the 1999 Annual Meeting of Stockholders (the "1999 Proxy Statement") under the caption "Information with Respect to Director Nominees," which is to be filed with the Securities and Exchange Commission. Such information is incorporated herein by reference.

(b) **Executive Officers** – Information with respect to executive officers of the registrant appears in Item 4A of this Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

This information is contained in the 1999 Proxy Statement under the captions "Executive Compensation Tables" and "Compensation of Directors." Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is contained in the 1999 Proxy Statement under the captions "Stock Ownership by Directors and Executive Officers" and "Beneficial Ownership of More Than Five Percent of Voting Securities." Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is contained in the 1999 Proxy Statement under the captions "Information with Respect to Director Nominees" and "Certain Transactions." Such information is incorporated herein by reference.

PART IV.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) Required exhibits are included only in the Form 10-K filed with the Securities and Exchange Commission.

(b) The Company filed a Current Report on Form 8-K, dated November 20, 1998, which disclosed certain financial information for the fiscal fourth quarter ended September 30, 1998, and a Current Report on Form 8-K, dated December 15, 1998, disclosing the conditions of the merger agreement termination.

(c) For Financial Statements and Schedule, see Index to Financial Statements on page 21 of the Company's 1998 Annual Report, which Financial Statements and Schedule are incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

XTRA Corporation
(Registrant)
By /s/ Lewis Rubin

President and Chief Executive Officer

November 12, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Robert B. Goergen	Chairman of the Board of Directors	November 12, 1998
/s/ Robert M. Gintel	Vice Chairman of the Board of Directors	November 12, 1998
/s/ Lewis Rubin	President, Chief Executive Officer and Director	November 12, 1998
/s/ Michael J. Soja	Vice President and Chief Financial Officer	November 12, 1998
/s/ Robert B. Blakeley	Vice President and Controller	November 12, 1998
/s/ Michael D. Bills	Director	November 12, 1998
/s/ H. William Brown	Director	November 12, 1998
/s/ Michael N. Christodolou	Director	November 12, 1998
/s/ Herbert C. Knortz	Director	November 12, 1998
/s/ Francis J. Palamara	Director	November 12, 1998
/s/ Martin L. Solomon	Director	November 12, 1998

PARENT AND SUBSIDIARIES*

Name	State or Province of Incorporation
XTRA Corporation	Delaware
Subsidiary of XTRA Corporation	
XTRA, Inc.	Maine
Subsidiaries of XTRA, Inc.	
XTRA Intermodal, Inc.	Delaware
XTRA International Ltd.	Delaware
XTRA Mexicana, S.A. de C.V.	Mexico
Distribution International Corporation	Delaware
Subsidiaries of Distribution International Corporation	
Strick Canada Limited	Ontario
XTRA Lease, Inc.	Delaware

*Certain inactive subsidiaries have been omitted.

Index to Financial Statements

XTRA Corporation and Subsidiaries

(Information required by Part II, Items 7 and 8 and Part IV, Item 14 of Form 10-K)

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*The Parent Company financial statements have been included in the Form 10-K filed with the Securities and Exchange Commission and have been omitted from this Annual Report.

Consolidated Balance Sheets

XTRA Corporation and Subsidiaries

September 30, (Millions of dollars except per share and share amounts)	1998	1997
Assets		
Property and equipment	$ 2,200	$ 2,112
Accumulated depreciation	(748)	(658)
Net property and equipment	1,452	1,454
Lease contracts receivable	42	43
Trade receivables, net	64	65
Other assets	14	19
Cash	3	4
	$ 1,575	$ 1,585
Liabilities and Stockholders' Equity		
Liabilities		
Debt	$ 802	$ 892
Deferred income taxes	287	252
Accounts payable and accrued expenses	78	81
Total liabilities	1,167	1,225
Commitments and contingencies (Note 5)		
Stockholders' equity		
Preferred Stock, without par value; total authorized: 3,000,000 shares		
Common Stock, par value $.50 per share; authorized: 30,000,000 shares; issued and outstanding: 15,372,903 shares at September 30, 1998; 15,276,600 shares at September 30, 1997	8	8
Capital in excess of par value	57	52
Retained earnings	354	304
Cumulative translation adjustment	(11)	(4)
Total stockholders' equity	408	360
	$ 1,575	$ 1,585

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Income Statements

XTRA Corporation and Subsidiaries

For the year ended September 30, (Millions of dollars except per share amounts)	1998	1997	1996
Revenues	$ 461	$ 435	$ 422
Operating expenses			
Depreciation on rental equipment	151	149	146
Rental equipment operating expense	108	109	101
Selling and administrative expense	43	43	40
	302	301	287
Operating income	159	134	135
Interest expense	58	63	66
Foreign exchange loss	2	-	-
Pretax income	99	71	69
Provision for income taxes	39	28	28
Net income	$ 60	$ 43	$ 41
Earnings per basic common share	$ 3.90	$ 2.79	$ 2.56
Basic shares outstanding (in millions)	15.3	15.3	16.0
Earnings per diluted common share	$ 3.88	$ 2.78	$ 2.56
Diluted shares outstanding (in millions)	15.4	15.3	16.1

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

XTRA Corporation and Subsidiaries

For the year ended September 30, (Millions of dollars)	1998	1997	1996
Cash flows from operations			
Net Income	$ 60	$ 43	$ 41
Add non-cash income and expense items:			
Depreciation and amortization, net	150	148	146
Deferred income taxes, net	36	26	31
Bad debt expense	5	5	3
Add other cash items:			
Net change in receivables, other assets, payables and accrued expenses	(8)	(7)	2
Cash receipts on lease contracts receivable	24	21	18
Recovery of property and equipment net book value	26	33	31
Total cash provided from operations	293	269	272
Cash used for investment activities			
Additions to property and equipment	(199)	(249)	(210)
Total cash used for investment activities	(199)	(249)	(210)
Cash flows from financing activities			
Borrowings of debt	–	72	247
Payments of debt	(90)	(72)	(252)
Net proceeds from exercise of stock options	5	1	1
Repurchase of common stock	–	(13)	(45)
Dividends paid	(10)	(12)	(11)
Total cash used for financing activities	(95)	(24)	(60)
Net increase (decrease) in cash	(1)	(4)	2
Cash at beginning of year	4	8	6
Cash at end of year	$ 3	$ 4	$ 8
Total interest paid	$ 58	$ 59	$ 52
Total income taxes paid (refunded)	$ 3	$ (5)	$ (2)

The accompanying notes are an integral part of these consolidated financial statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Years Ended September 30, 1998

(Not covered by Report of Independent Public Accountants)

The discussion below contains certain forward-looking statements including estimates of economic and industry conditions, equipment utilization, and capital expenditures. Actual results may vary from those contained in such forward-looking statements. See "Cautionary Statements for Purposes of the 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" contained below. Reference to years in the discussion below refer to XTRA Corporation's fiscal years (the period from October 1 to September 30).

XTRA Corporation leases, primarily on an operating basis, freight transportation equipment including over-the-road trailers, marine containers, intermodal trailers, chassis, and domestic containers. XTRA's equipment utilization, lease rates, and therefore, profitability, are impacted by the supply of and demand for available equipment, the level of economic activity in North America, world trade activity, the actions of its competitors, and other factors in the freight transportation industry. Utilization and profitability are usually seasonally lower in the second and third fiscal quarters than in the first and fourth fiscal quarters. In general, the Company's receivable collection experience has been good. However, industry downturns tend to lengthen the collection period of certain receivables.

The Company's pretax profits have been cyclical, principally due to the variability of the Company's revenues and the high percentage of fixed costs. To moderate this cyclicality, the Company attempts to maintain a balance between the amount of equipment leased on a per diem and term basis and maintains a mix of various types of freight transportation equipment available for lease. The Company has historically maintained a high proportion of its debt at fixed rates to reduce the impact of fluctuations in interest rates.

XTRA's marine container leasing operation reduces XTRA's dependence on the North American transportation industry. Although the marine container business is international, substantially all transactions are denominated in U.S. dollars.

Revenues

Revenues are a function of lease rates and working units; the latter depends on fleet size and equipment utilization. Utilization, the ratio of revenue-earning units to the total fleet, is derived from billing information, usage reports and other information from customers, assumptions based on historical experience, and equipment inventories taken at Company depots, and is an approximation. Utilization is impacted by the supply of, and demand for, available equipment, the level of economic activity in North America, and world trade activity.

The following table sets forth the Company's average equipment utilization (dollar weighted by investment in each type of equipment), average fleet size in units, and average net investment in revenue equipment for the years ended September 30, 1998, 1997, and 1996. The Company's average fleet size and net investment includes equipment owned by the Company, equipment leased-in from third parties under operating and capital leases, and equipment leased to third parties under finance leases.

Year ended September 30,	1998	1997	1996
North America			
XTRA Lease			
Utilization	90%	88%	84%
Units	79,000	77,000	77,000
Net investment in equipment (in millions)	$ 738	$ 674	$ 648
XTRA Intermodal			
Utilization	81%	82%	78%
Units	54,000	54,000	56,000
Net investment in equipment (in millions)	$ 290	$ 322	$ 357
Total			
Utilization	87%	86%	81%
Units	133,000	131,000	133,000
Net investment in equipment (in millions)	$ 1,028	$ 996	$ 1,005
International			
Utilization	82%	79%	81%
Units	164,000	157,000	141,000
Net investment in equipment (in millions)	$ 404	$ 418	$ 403
Consolidated			
Utilization	86%	84%	81%
Units	297,000	288,000	274,000
Net investment in equipment (in millions)	$ 1,432	$ 1,414	$ 1,408

Overall, 1997 revenues increased 3% or $13 million to $435 million in 1997, primarily due to improvement in the North American businesses. In 1997, the Company's overall average equipment utilization increased by 3%. XTRA's North American revenues increased 3% or $12 million due to higher equipment utilization and improving lease rates. North American utilization averaged 85% in 1997, as compared to 81% in 1996. The 2,000 unit decrease in the North American fleet size in 1997 was due to reductions in the intermodal trailer fleet.

XTRA's 1997 International revenues increased 2% or $1 million, primarily due to a larger fleet size and an increase in the number of working units in the second half of 1997, offset by a lower average effective lease rate. XTRA's marine container utilization declined to average 79% in 1997 from 81% in 1996. Industry over-capacity and sluggish demand for leased marine containers exerted pressure on container lease rates. The Company's average international fleet size increased to 157,000 units in 1997 from 141,000 units in 1996 as a result of modest capital spending.

Revenues increased by 6% or $26 million in 1998. The Company's average equipment utilization improved from 84% in 1997 to 86% in 1998. Average net investment in equipment increased by $18 million due primarily to an increase in the net investment in over-the-road trailers, which was partially offset by a decline in the net investment in the intermodal equipment and marine container fleets.

The Company's North American revenues increased 6% or $22 million from the same period a year ago due to strong levels of domestic freight leading to more working units, as well as an improvement in lease rates. The Company's North American utilization averaged 87% in 1998, as compared to 86% in 1997. XTRA Lease's revenues increased $25 million from 1997 due to strong levels of domestic freight leading to more working units, as well as an improvement in lease rates. XTRA Lease's utilization averaged 90% in fiscal year 1998, as compared to 88% in 1997. Increasing demand for equipment was reflected in increased truck tonnage, an indicator of domestic freight levels in the U.S. XTRA Intermodal's revenues decreased $3 million from fiscal 1997 due to a decrease in working units, as well as declining lease rates. XTRA Intermodal's utilization averaged 81% in fiscal 1998, compared to 82% in 1997.

The Company's North American over-the-road fleet of 79,000 units, consisting primarily of over-the-road trailers, represented 51% of average net investment in equipment in 1998, compared to 77,000 units, or 47% of average net investment in equipment in 1997. The Company continues to review its North American intermodal trailer fleet as the railroads shift toward more domestic container usage. Given the reduced demand for intermodal trailers and the expected continued trend toward domestic containers from trailers, XTRA believes its fleet is appropriately sized. XTRA's intermodal trailer fleet averaged 23,000 units in 1998 and 1997, or 11% of average net investment in equipment in 1998, versus 13% of average net investment in equipment in 1997.

International revenues increased 5% or $4 million in 1998. An increase in revenues attributable to more working units was partially offset by lower average effective lease rates. Equipment utilization improved to 82% from 79% in the comparable prior year period. While International utilization improved this year, the utilization trend declined for the second half of the fiscal year. Marine container lease rates, which had been experiencing a steady decline since fiscal year 1996, remained relatively flat during the most recent twelve month period. Overall, lease rates in 1998 declined compared to the 1997 rates. The Company's average international fleet size increased to 164,000 units in 1998 from 157,000 units in 1997.

Operating Expenses

Depreciation expense increased 2% or $3 million in 1997 and 1% or $2 million in 1998 due to a larger fleet investment.

In 1997, rental equipment operating expenses increased 8% or $8 million due to higher storage and repositioning costs associated with more idle marine containers, as well as increased facility costs. In 1998, rental equipment operating expenses decreased 1% or $1 million, due to lower repair and maintenance and storage and repositioning costs, which were partially offset by higher facility costs.

In 1997, selling and administrative expenses increased 8% or $3 million. Approximately half of the increase was due to an increase in bad debt expense, with no other single factor contributing significantly to the increase. Selling and administrative expenses in 1998 remained unchanged from 1997 levels.

Interest Expense

Interest expense is a function of the amount of average net debt outstanding (long-term debt less cash) and average interest rates. The following table sets forth total average net debt outstanding and interest expense as a percentage of total average net debt outstanding.

Year ended September 30,	1998	1997	1996
Average net debt outstanding (millions of dollars)	$ 831	$ 882	$ 906
Interest expense as a percentage of average net debt outstanding	6.9%	7.1%	7.3%

In 1997, interest expense decreased 5% or $3 million, due to a decrease in average net debt outstanding, as well as a decrease in the average effective interest rate. Interest expense in 1998 decreased 8% or $5 million, due primarily to a decrease in average net debt outstanding as well as a lower average effective interest rate.

Foreign Exchange Loss

The $2 million foreign exchange loss in 1998 is due to a strengthening of the U.S. dollar against the Canadian and Mexican currencies. The value of the Mexican peso and the Canadian dollar decreased by 24% and 10%, respectively, from September 30, 1997 to September 30, 1998. The Company's operation in Mexico are accounted for as a highly inflationary economy and as a result, all translation gains or losses are recorded to the income statement.

Pretax Income

In 1997, pretax income increased 3% or $2 million due primarily to improving utilization. In 1998, pretax income increased 39% or $28 million due to higher equipment utilization, improved North American lease rates and lower expenses, including interest expense.

Provision for Income Taxes

The Company's effective income tax rate was approximately 41%, 40%, and 40% in 1996, 1997, and 1998, respectively. For additional information regarding the provision for income taxes, see Notes 1 and 4 of the Notes to Consolidated Financial Statements.

FINANCIAL LIQUIDITY AND CAPITAL RESOURCES

Significant capital investment is required by the Company's leasing operations, not only for growth but also for replacement of units retired from service. However, during periods of slower economic growth or excess equipment supplies, capital expenditures may be curtailed until demand for transportation equipment increases.

The following table sets forth capital expenditures by equipment type, including units acquired by acquisition, units purchased, and units leased-in from third parties under operating leases and capital leases. The capital expenditures for fiscal 1999 represent XTRA's commitments for 1999 as of November 12, 1998.

(Millions of dollars)	1999	1998	1997	1996
Over-the-road trailers	$ 98	$ 176	$ 193	$ 100
Marine containers	–	10	30	79
Intermodal trailers	–	–	–	2
Chassis	17	6	2	22
Domestic containers	–	–	18	2
Non-revenue equipment	–	7	6	5
Total	$ 115	$ 199	$ 249	$ 210

The Company recognizes the importance of managing capital spending as essential to maintaining the quality of its fleet. The Company increases its fleet by purchasing new and used equipment and by acquiring equipment from other leasing companies. In 1997, capital expenditures increased to $249 million as XTRA purchased over-the-road trailers to respond to current and anticipated strong future market demand. In 1998, capital expenditures declined to $199 million, of which $176 million was for over-the-road trailers. As of November 12, 1998, XTRA's committed capital expenditures for 1999 amounted to $115 million. The Company may increase capital spending in 1999 if conditions warrant. Actual capital expenditures for 1999 will depend on the Company's assessment of business conditions.

During the three years ended September 30, 1998, the Company generated $834 million of cash flow from operations. During this same period, XTRA invested $658 million in property and equipment including acquisitions, paid dividends of $33 million, repurchased $51 million of common stock net of stock options exercised, and reduced net debt (debt less cash) outstanding by $92 million.

The Company has authorized the repurchase of up to $200 million of Company common stock. As of November 12, 1998, the Company had repurchased $79 million of common stock under this authorization. The Company had agreed in the Recapitalization Merger Agreement not to repurchase any shares of Company Common Stock pending consummation of the Merger (see Note 13 of the Notes to Consolidated Financial Statements).

Although some level of future capital spending can be financed internally, the ability to fund expenditures above that level will depend upon the availability of external financing. The Company historically has had available to it a variety of external sources at favorable rates and terms to finance its acquisitions and the growth of its leasing equipment fleet. However, the availability of such capital depends heavily upon prevailing market conditions and the Company's capital structure and credit ratings.

Currently, the Company's external financing options include a combination of medium-term and long-term borrowings in the public and non-public debt market, a revolving credit agreement, intermediate- and long-term financing from banks and institutional investors, and lease financing. XTRA and XTRA, Inc. have registered with the Securities and Exchange Commission $604 million of securities consisting of Preferred Stock and Company Common Stock of XTRA as well as senior and subordinated debt securities of XTRA, Inc., fully and unconditionally guaranteed by XTRA Corporation (the "Shelf Registration") (see Note 3 of Notes to Consolidated Financial Statements). As of November 12, 1998, XTRA, Inc. had $532 million available for issuance under this Shelf Registration. As of November 12, 1998, the Company had $189 million of unused committed credit available under its $300 million Revolving Credit Agreement. For additional information regarding debt, see Notes 3 and 13 of the Notes to Consolidated Financial Statements.

Year 2000

The Company has completed an assessment of the majority of its systems and has developed a specific workplan to address the year 2000 issue. The Company's assessment resulted in the identification of certain applications and information systems that needed to be replaced or modified. The applications consisted of certain purchased software packages used on the Company's personal computers and the information systems are primarily those used by the Company's XTRA Intermodal business. With respect to the purchased software packages, work plans were created and new applications were installed to replace each of the purchased software packages with applications that are year 2000 compliant. The Company has completed modification and testing of its systems applications used by the Intermodal business. The Company expects that the total costs to fix its year 2000 issues Company-wide will amount to approximately $1 million.

The Company is in the process of completing an assessment of the potential risks associated with business disruption as a result of year 2000 issues experienced by the Company's vendors, suppliers and customers. Upon completion of this assessment, the Company will determine whether certain contingency plans should be put in place and what the cost of those plans will be. At this point, the Company has not identified any required contingency plans which would require that material expenditures be made by the Company.

While the Company does not believe that the year 2000 matters discussed above will have a material impact on its business, financial conditions, or results of operations, no assurances can be given as to what extent the Company may be affected by such matters.

New Accounting Pronouncements

The Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income," which established standards for the reporting and displaying of comprehensive income in general-purpose financial statements. Statement 130 is effective for fiscal years beginning after December 15, 1997. Adoption of this standard will not impact the Company's consolidated financial position, results of operations, or cash flows, and any effect will be limited to the form and content of the Company's disclosures.

The Financial Accounting Standards Board issued Statement No.131, "Disclosures about Segments of an Enterprise and Related Information," which requires companies to present segment information based upon the way that management organizes the segments within a company. Statement 131 is effective for periods beginning after December 15, 1997. In the initial year of its application, this statement need not be applied to interim financial statements. Adoption of this standard will not impact the Company's consolidated financial position, result of operations, or cash flows, and any effect will be limited to the form and content of the Company's disclosures.

Cautionary Statements for Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

The foregoing Part I, Item 1. Business; Management's Discussion and Analysis of Financial Condition and Results of Operations; and letter to our shareholders contain certain forward-looking statements, including estimates of economic and industry conditions, equipment utilization, and capital expenditures. In addition, the Company may occasionally make forward-looking statements and estimates such as forecasts and projections of the Company's future performance or statements of management's plans and objectives. These forward-looking statements may be contained in, among other things, SEC filings and press releases made by the Company and in oral statements made by the officers of the Company. Actual results could differ materially from those contained in such forward-looking statements. Therefore, no assurances can be given that the results in such forward-looking statements will be achieved. Important factors that could cause the Company's actual results to differ from those contained in such forward-looking statements include, among others, the factors mentioned below. An additional risk factor is the Company's ability to address the "Year 2000 problem" in a timely and efficient manner.

VARIABLE REVENUES AND OPERATING RESULTS

The Company's revenues may vary significantly from period to period while a high percentage of its operating costs are fixed. As a result of the variability of the Company's revenues and the Company's limited ability to reduce its fixed operating costs, the Company's profitability may be cyclical and subject to significant fluctuation from period-to-period. The Company's revenues are a function of lease rates and working units; the latter depends on fleet size and equipment utilization (the ratio of revenue earning equipment to the total fleet). Some of the factors which affect lease rates and working units are competition, economic conditions and world trade activity, the supply and demand for available equipment, aggressive purchasing of equipment by the Company's customers and competitors leading to an excess supply of equipment and reduced lease rates and utilization, shifting traffic trends in the industry, severe adverse weather conditions, strikes by transportation unions and other factors in the freight transportation industry. The Company's fixed costs include depreciation, a portion of rental equipment operating expenses and selling and administrative expenses.

AVAILABILITY OF NEW EQUIPMENT

New equipment is built to the Company's specifications and reflects industry standards and customer needs. The Company obtains new equipment from a number of manufacturers. Certain of these manufacturers have consolidated and, in the process, eliminated manufacturing facilities. These manufacturers are, in turn dependent on the prompt delivery and supply of the components required to assemble the trailers, chassis and containers. Historically, delivery times have varied from three to fifteen months from when the order is placed, and there can be no assurance that equipment will be available at the times or of the types needed by the Company. In addition, it is difficult to accurately predict demand for the Company's equipment in future periods. As a result, the Company's performance in a given period may be adversely affected because of its inability to quickly increase fleet size to take advantage of unexpectedly strong demand due to extended back orders.

COMPETITION

Leasing transportation equipment is a highly competitive business and is affected by factors related to the transportation market. Lease terms and lease rates, as well as availability, condition and size of equipment and customer service are all important factors to the lessee. The Company has many competitors, some of which have leasing fleets that are larger in size than the Company's leasing fleet and some of which have greater resources. Various types of transportation equipment compete for freight movement. Over-the-road trailers, intermodal trailers, marine and domestic containers and railroad rolling stock are all potential vehicles for the movement of freight.

CUSTOMER CONSOLIDATION

Certain industries in which the Company competes, including trucking and shipping, are in the process of consolidation. As a result of this consolidation, the Company's customers may be better able to manage their equipment requirements and may seek increased efficiencies through direct ownership of equipment. In such event, the ratio of leased equipment to owned equipment may decrease, which could reduce the overall market for the Company's services.

AVAILABILITY OF CAPITAL

The acquisition of new equipment, both for growth as well as replacement of older equipment, requires significant capital. In addition, over the past several years, the Company has grown its fleet through acquisitions of other companies such as Strick Lease, Inc. and Matson Leasing Company, Inc., requiring additional capital. The Company plans to continue to pursue acquisition opportunities. Historically, the Company generally has had available a variety of sources to finance such expenditures and acquisitions at favorable rates and terms. However, the availability of such capital depends heavily upon prevailing market conditions, the Company's capital structure, and its credit ratings. No assurances can be given that the Company will be able to obtain sufficient financing on terms that are acceptable to it to fund its operations and capital expenditures or to enable the Company to take advantage of favorable acquisition opportunities.

Unaudited Quarterly Condensed Consolidated Income Statements

XTRA Corporation and Subsidiaries

For the four quarters ended September 30, 1998 and 1997 (Millions of dollars except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1998				
Revenues	$ 121	$ 109	$ 112	$ 119
Expenses[1]	91	91	92	88
Pretax income	30	18	20	31
Provision for income taxes	12	7	8	12
Net income	$ 18	$ 11	$ 12	$ 19
Earnings per basic common share	$ 1.18	$ .71	$ .80	$ 1.20
Basic shares outstanding (in millions)	15.3	15.3	15.3	15.4
Earnings per diluted common share	$ 1.17	$ .71	$ .80	$ 1.20
Diluted shares outstanding (in millions)	15.4	15.4	15.4	15.4
1997				
Revenues	$ 111	$ 102	$ 105	$ 117
Expenses[1]	89	89	91	95
Pretax income	22	13	14	22
Provision for income taxes	9	5	5	9
Net income	$ 13	$ 8	$ 9	$ 13
Earnings per basic common share	$ .85	$ .49	$ .56	$ .89
Basic shares outstanding (in millions)	15.3	15.3	15.3	15.3
Earnings per diluted common share	$ .85	$ .49	$ .56	$ .89
Diluted shares outstanding (in millions)	15.3	15.3	15.3	15.3

(1) Includes operating and interest expenses.

Consolidated Statements of Stockholders' Equity

XTRA Corporation and Subsidiaries

For the three years ended September 30, 1998 (Millions of dollars)	Common Stock $.50 Par Value	Capital in Excess of Par Value	Retained Earnings	Cumulative Translation Adjustment
Balance at September 30, 1995	$ 8	$ 108	$ 243	$ –
Net income	–	–	41	–
Common stock cash dividends declared at $.70 per share	–	–	(11)	–
Options exercised and related tax benefits	–	1	–	–
Repurchase of common stock	–	(45)	–	–
Translation adjustment	–	–	–	(3)
Balance at September 30, 1996	8	64	273	(3)
Net income	–	–	43	–
Common stock cash dividends declared at $.78 per share	–	–	(12)	–
Options exercised and related tax benefits	–	1	–	–
Repurchase of common stock	–	(13)	–	–
Translation adjustment	–	–	–	(1)
Balance at September 30, 1997	8	52	304	(4)
Net income	–	–	60	–
Common stock cash dividends declared at $.64 per share	–	–	(10)	–
Options exercised and related tax benefits	–	5	–	–
Repurchase of common stock	–	–	–	–
Translation adjustment	–	–	–	(7)
Balance at September 30, 1998	$ 8	$ 57	$ 354	$ (11)

The accompanying notes are an integral part of these consolidated financial statements.

1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

XTRA Corporation leases, primarily on an operating basis, freight transportation equipment including over-the-road trailers, marine containers, intermodal trailers, chassis, and domestic containers. XTRA leases over-the-road and intermodal equipment throughout North America, predominantly within the United States, to contract and common motor carriers, railroads, and private fleet owners. In addition, the Company leases marine containers worldwide to steamship lines.

Principles of Consolidation

The consolidated financial statements include the accounts of XTRA Corporation and its wholly-owned subsidiaries ("the Company"). All material intercompany accounts and transactions have been eliminated. Certain amounts in the prior year financial statements have been reclassified to be consistent with the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Provisions for income taxes recognize the tax effect of all revenue and expense transactions as well as any change during the period in deferred tax assets and liabilities. The effects of changes in tax rates and laws on deferred tax assets and liabilities are reflected in net income in the period in which such changes are enacted.

Leases

The Company records the majority of its leases using the operating method of accounting. Full-payout or near full-payout leases, where the present value of the of the minimum lease payments at the beginning of the lease term equals or exceeds 90% of the fair value of the leased property, are accounted for under the finance method.

Depreciation

The Company provides for depreciation by using the straight-line method to amortize the cost of property and equipment to its estimated residual value over its estimated useful life. Revenue equipment is depreciated using estimated useful lives of 10 to 20 years. In addition, the Company reviews the condition and types of its revenue equipment to determine if any impairment has occurred.

When equipment is sold or retired, its cost and accumulated depreciation are removed from the balance sheet, and any gain or loss is included in revenues. Revenue equipment with an original cost of approximately $122 million, which has reached the end of its estimated useful life, remains in service and is included in Revenue Equipment at September 30, 1998.

Equipment Disposals

For purposes of the statements of cash flows, the net book value of equipment sold is included in cash flow from operations to reflect the total proceeds, including the gain or loss on sale already included in income, from the continuous disposal of fleet assets.

Repair and Maintenance

Repair and maintenance expenses are charged to operating expenses when incurred and amounted to $28 million, $29 million, and $27 million in 1998, 1997, and 1996, respectively.

Earnings per Share

The computation of basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by weighted average shares outstanding. Diluted earnings per share reflects the effect of all other outstanding common stock equivalents under the treasury stock method.

Foreign Currency Translation

The Company translates the assets and liabilities of its foreign operations at the exchange rates in effect at year-end. Revenues and expenses are translated using average exchange rates in effect during the year. Gains and losses from foreign currency translation for the Company's Canadian operations are credited or charged to cumulative translation adjustment included in stockholders' equity in the accompanying Consolidated Balance Sheets. The gains and losses from remeasurement of certain intercompany liabilities of the Company's Canadian businesses are included in foreign exchange loss. The Company's operations in Mexico are accounted for as a highly inflationary economy and, accordingly, all translation gains and losses are charged to foreign exchange loss.

2 EQUIPMENT LEASES

The Company uses the operating method of accounting for the majority of its equipment leases. Under this method, revenue is recognized in the month earned based on the terms of the lease contract, and the equipment is depreciated to its estimated residual value over its estimated useful life.

The finance method of accounting is used for revenue equipment leased to customers on a full-payout or near full-payout basis at lease inception. Under this method, finance lease income, the difference between the total lease receivable and the net book value less the unguaranteed residual value of the related equipment, is deferred and amortized as revenue over the lease term using the interest method, which provides a level rate of return on the net investment in the lease.

The following schedule summarizes the future minimum rental receipts on operating and finance leases by year as of September 30, 1998:

(Millions of dollars)	Operating Leases	Finance Leases
1999	$ 112	$ 21
2000	56	15
2001	33	10
2002	23	3
2003	13	1
2004 and thereafter	10	1
Total	$ 247	$ 51

The components of the net investment in finance leases as of September 30, 1998 and 1997 were as follows:

(Millions of dollars)	1998	1997
Minimum lease payments receivable	$ 51	$ 53
Add: estimated unguaranteed residual values	7	7
	58	60
Less: deferred finance lease income	(16)	(17)
Lease contracts receivable, net	$ 42	$ 43

3 DEBT

Debt as of September 30, 1998 and 1997 consisted of the following:

(Millions of dollars)	1998	1997
Unsecured financing		
Medium-term Notes	$ 656	$ 703
Revolving Credit Agreement	128	161
Total unsecured financing	784	864
Secured financing	18	28
Total debt	802	892
Less: current portion	(72)	(57)
Long-term debt	$ 730	$ 835

The $656 million of Medium-term Notes have a weighted average interest rate of 7.1% and maturities from 1999 to 2012. At September 30, 1998, $532 million remained available under the shelf registration for future debt issuance. The weighted average interest rates incurred were 7.0%, 7.0%, and 7.1% during 1998, 1997, and 1996, respectively.

The Company's Revolving Credit Agreement has bank commitments of $300 million at September 30, 1998 and a revolving period maturity date of June 30, 1999. Pricing on the Revolving Credit Agreement is dependent on the Company's credit ratings and is based on a fixed spread over the London Interbank Offered Rate (LIBOR). The Company pays a facility fee on any unused commitment in the facility.

Unless the Company requests and the banks approve a renewal or extension of the agreement, borrowings outstanding on the revolving period maturity date will be converted to a five year term loan payable in equal quarterly installments with a final term maturity of June 30, 2004.

The Company borrows on a short-term basis by issuing commercial paper and using uncommitted lines of credit. Short-term borrowings are back-stopped by the unused borrowing capacity under the Revolving Credit Agreement. They have therefore been classified as Revolving Credit Agreement borrowings. At September 30, 1998 and September 30, 1997, such borrowings amounted to $78 million and $161 million, respectively. At September 30, 1998, the $128 million of Revolving Credit Agreement borrowings had a weighted average interest rate of 5.8%. The weighted average interest rates incurred under the Revolving Credit Agreement, consisting primarily of short-term borrowings, were 5.8%, 5.7%, and 5.8% during 1998, 1997, and 1996, respectively. At September 30, 1998, $172 million of unused commitment was available under the Revolving Credit Agreement.

The secured financing at September 30, 1998, consisting of capital lease obligations, has a weighted average interest rate of 8.8% and is payable in installments through 2001. The weighted average interest rates incurred under the secured financing were 9.1%, 10.0%, and 9.4% during 1998, 1997, and 1996, respectively.

Revenue equipment recorded on the consolidated balance sheets related to secured financing was as follows at September 30, 1998 and 1997:

(Millions of dollars)	1998	1997
Revenue equipment	$ 41	$ 61
Accumulated depreciation	(22)	(28)
Net secured equipment	$ 19	$ 33

Assuming the Company were to convert the Revolving Credit Agreement to a term loan on its revolving period maturity date, the amount of minimum maturities of all debt during each of the next five fiscal years and thereafter would be as follows:

(Millions of dollars)	Minimum Debt Maturities
1999	$ 72
2000	100
2001	99
2002	98
2003	95
2004 and thereafter	338
Total payments and maturities	$ 802

The Company's loan agreements contain minimum debt service tests and restrictive covenants including restrictions on the amount of debt in relation to revenue equipment and stockholders' equity and limitations on secured borrowings. The Company's loan agreements contain covenants that restrict the payment of dividends or repurchases of common stock by the Company. In addition, certain loan agreements contain covenants that restrict advances to and the payment of dividends to the Company by its subsidiaries, including XTRA, Inc. Under the most restrictive provisions of the Company's loan agreements, the repurchase of common stock and/or the amount of cash dividends which could be paid on the Company's capital stock was limited to $168 million at September 30, 1998. The Company had agreed in the Recapitalization Merger Agreement not to pay dividends on the Company Common Stock and not to repurchase any shares of Company Common Stock pending consummation of the Merger (see Note 13 of the Notes to Consolidated Financial Statements).

4

INCOME TAXES

The components of the provision for income taxes for 1998, 1997, and 1996 are as follows:

(Millions of dollars)	1998	1997	1996
Current tax provision			
Federal	$ 2	$ 1	$ (4)
State	2	1	1
Current tax provision	4	2	(3)
Deferred tax provision			
Federal	30	22	25
State	6	4	6
Deferred tax provision	36	26	31
Provision for income taxes	$ 40	$ 28	$ 28

The provision differs from income taxes currently payable because certain items of income and expense are recognized in different periods for financial statement purposes than for tax return purposes.

The reasons for the difference between the statutory U.S. Federal income tax rates and the Company's effective income tax rates for 1998, 1997, and 1996 are as follows:

Percent of Pretax Income	1998	1997	1996
Federal statutory rate	35%	35%	35%
Increase in taxes resulting from:			
State taxes and other	5	5	6
Effective income tax rate	40%	40%	41%

The components of the net deferred tax liability as of September 30, 1998 and 1997 are as follows:

(Millions of dollars)	1998	1997
Assets		
Capital lease obligations	$ 7	$ 15
Investment tax credits	1	3
Alternative minimum tax credits	22	20
Other	16	16
Total deferred tax assets	$ 46	$ 54
Liabilities		
Revenue equipment	$ 312	$ 286
Other	21	20
Total deferred tax liabilities	333	306
Net deferred tax liability	$ 287	$ 252

The Company estimates that after filing its fiscal 1998 tax return, it will have $1 million of investment tax credit carryforwards available to reduce future federal income tax liabilities. The investment tax credit carryforwards expire beginning in 2000. The Company also estimates that after filing its fiscal 1998 tax return, it will have $22 million of alternative minimum tax credit carry forwards available to reduce future federal income tax liabilities. The benefit of both tax credit carry forwards has been recorded in the Company's financial statements. The Company has not recognized a valuation allowance for deferred tax assets.

5

COMMITMENTS AND CONTINGENCIES

The Company's offices and certain facilities are occupied under leases expiring at various dates. At September 30, 1998, the Company's lease commitments under the non-cancelable portion of these leases for the next five years and in total thereafter were as follows:

(Millions of dollars)	Total Lease Commitments
1999	$ 6
2000	5
2001	4
2002	3
2003	2
2004 and thereafter	5
Total	$ 25

Rental equipment lease financing expense amounted to $1 million in both 1997 and 1996, which is included in the income statement under the caption "Depreciation on rental equipment." Other rental expense amounted to $6 million, $6 million, and $5 million in 1998, 1997, and 1996, respectively.

As of November 11, 1998, the Company had committed capital expenditures of $115 million, principally for revenue equipment in fiscal 1999.

The Illinois Environmental Protection Agency has notified the Company of alleged environmental contamination of its Fairmont City, Illinois property that resulted from the prior owners' zinc smelting operations. As a result, the Company has taken certain actions to suppress dust that have significantly reduced the level of airborne contaminants at the site. Based on the Company's current understanding of the nature of the contamination at the site, the Company does not believe that the ultimate resolution of this matter will have a material adverse effect on the Company's results of operations, cash flows or financial condition.

6

RETIREMENT PLANS

The Company provides retirement benefits to substantially all of its employees through a qualified and funded defined contribution retirement plan. The Company's yearly profit sharing cash contributions are discretionary and the retirement trust fund's assets are administered by a trustee. The Company's contributions include an employee-matching contribution to a 401(k) plan and a profit sharing contribution and are based on a specified percentage of employee qualified compensation. Participants are entitled to their vested portion of the retirement assets upon termination of employment. The Company recorded expenses of $2 million each year in 1998, 1997, and 1996 in connection with the defined contribution retirement plan.

7

BUSINESS INFORMATION

The Company leases transportation equipment throughout North America and internationally. The over-the-road and intermodal equipment is leased throughout North America and the marine containers are moved between countries in international commerce. Information about the business of the Company by geographic area is presented in the table below.

(Millions of dollars)	1998	1997	1996
Revenues			
North America	$ 381	$ 359	$ 347
International	80	76	75
	$ 461	$ 435	$ 422
Operating Income			
North America	$ 141	$ 121	$ 115
International	18	13	20
	$ 159	$ 134	$ 135
Identifiable Assets			
North America	$ 1,165	$ 1,150	$ 1,100
International	410	435	437
	$ 1,575	$ 1,585	$ 1,537

8

COMMON STOCK

Repurchase of Common Stock

The Company has authorized the repurchase of up to $200 million of its common stock. The timing of the repurchases, which could occur over an extended period of time, will depend on price, market conditions, and other factors. As of November 12, 1998, the Company repurchased $79 million of common stock. The Company had agreed in the Recapitalization Merger Agreement not to repurchase any shares of Company Common Stock pending consummation of the Merger (see Note 13 of the Notes to Consolidated Financial Statements).

1997 Stock Incentive Plan

The 1997 Stock Incentive Plan authorizes the issuance of 500,000 shares of common stock under the plan. The plan allows the Company to grant awards to key employees including restricted stock awards, stock options, and stock appreciation rights, subject primarily to the requirement of continuing employment. The awards under this plan are available for grant over a period of ten years from the date on which the plan was adopted, but the grants may vest beyond the ten year period. Stock options issued by the Company are exercisable at a future time as specified by the Company and generally expire from five to ten years from the date of grant. The exercise price of stock options may not be less than the fair market value of the common stock at the date of grant.

1991 Stock Option Plan for Non-Employee Directors

The 1991 Stock Option Plan for Non-Employee Directors authorizes the granting of options for a maximum of 100,000 shares. The option price per share is equal to the fair market value of the common stock on the date of grant. The term of each option is five years and options become exercisable one year after the date of grant.

The XTRA Corporation Deferred Director Fee Option Plan

The Deferred Director Fee Option Plan allows a non-employee director to elect to receive, in lieu of his annual retainer fee and/or board and committee meeting fees, a non-qualified stock option. The option exercise price is 50% of the fair market value of the shares at the time the options are awarded and the amount of shares is determined by dividing the director's fees by the exercise price.

1987 Stock Incentive Plan

The 1987 Stock Incentive Plan, which expired November 1997, authorized the issuance of 1,150,000 shares of common stock under the plan. The plan allowed the Company to grant awards to key employees including restricted stock awards, stock options, and stock appreciation rights, subject primarily to the requirement of continuing employment. The awards under this plan were available for grant over a period of ten years from the date on which the plan was adopted, but grants were allowed to vest beyond the ten year period. Stock options issued by the Company are exercisable at a future time as specified by the Company and generally expire from five to ten years from the date of grant. The exercise price of stock options may not be less than the fair market value of the common stock at the date of grant.

Accounting for Stock-Based Compensation

In October 1995, the Financial Accounting Standards Board issued Statement of Accounting Standards Number 123 (SFAS 123), "Accounting for Stock-Based Compensation," which sets forth a fair-value-based method of recognizing stock-based compensation expense. As permitted by SFAS 123, the Company has elected to continue to apply APB No. 25, "Accounting for Stock Issued to Employees," to account for its stock-based compensation plans.

Had the compensation cost for these plans been determined according to SFAS 123, the Company's net income and earnings per share would have been the following pro forma amounts:

(Millions of dollars, except per share amounts)	1998	1997	1996
Net Income			
As reported	$ 60	$ 43	$ 41
Pro forma	$ 59	$ 41	$ 41
Basic EPS			
As reported	$ 3.90	$ 2.79	$ 2.56
Pro forma	$ 3.87	$ 2.72	$ 2.56
Diluted EPS			
As reported	$ 3.88	$ 2.78	$ 2.56
Pro forma	$ 3.86	$ 2.71	$ 2.55

For purposes of the pro forma disclosure, the fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	1998	1997	1996
Volatility	20.1%	20.1%	22.9%
Risk-free interest rate	4.4%	5.8%	6.3%
Dividend yield	1.8%	1.8%	1.6%
Expected life of options (years)	3	3	3

For shares granted under the 1987 Stock Incentive Plan, the weighted average grant date fair value of options granted during 1997 and 1996 was $9.32 and $9.35 per share, respectively. For shares granted under the 1991 Stock Option Plan for Non-Employee Directors, the weighted average grant date fair value of options granted during 1998, 1997, and 1996 was $9.86, $8.29, and $8.83 per share, respectively. The weighted average grant date fair value of options granted during 1998, 1997, and 1996 for the shares granted under the Deferred Director Fee Option Plan was $4.92, $4.02, and $4.40 per share respectively. For shares granted under the 1997 Stock Incentive Plan, the weighted average grant fair value of options granted during 1998 was $8.59 per share.

Because SFAS 123 does not require a fair-value-based method of accounting to be applied to options granted prior to October 1, 1995, the resulting pro forma compensation cost may not be representative of that to be expected in future years.

The following table summarizes the stock option transactions pursuant to the Company's stock incentive and stock option plans for the three-year period ended September 30, 1998:

	Shares (000s)	Weighted Average Exercise Price Per Share ($)
Options outstanding at September 30, 1995	666	$46.71
Granted	21	41.08
Exercised	(36)	14.43
Forfeited	(11)	47.96
Options outstanding at September 30, 1996	640	48.27
Granted	262	50.05
Exercised	(30)	34.95
Forfeited	(64)	50.04
Options outstanding at September 30, 1997	808	49.10
Granted	95	52.52
Exercised	(96)	45.03
Forfeited	(14)	47.17
Options outstanding at September 30, 1998	793	49.95
Exercisable options at September 30, 1998	641	50.45
Shares available for grant at September 30, 1998	496	

The following table summarizes information about stock options outstanding at September 30, 1998:

	Options outstanding			Options exercisable	
	Number Outstanding at 9/30/98 (000s)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 9/30/98 (000s)	Weighted Average Exercise Price
Range of exercise prices					
$20.75 to $29.88	7	2.7	$ 24.47	5	$ 23.28
$40.75 to $60.44	786	2.4	50.17	636	50.68
Total	793	2.4	$ 49.95	641	$ 50.45

9 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Short-term Investments

The carrying amount approximates fair value because of the short maturity of those instruments.

Debt

The fair value of the Company's fixed rate debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The fair value of the Company's floating rate debt is its carrying amount.

The carrying amounts and estimated fair values of the Company's financial instruments are as follows:

For the two years ended September 30, 1998 (Millions of dollars)	Carrying Amount	Fair Value
1998		
Cash and short-term investments	$ 3	$ 3
Debt	802	866
1997		
Cash and short-term investments	$ 4	$ 4
Debt	892	917

10

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts as of September 30, 1998, 1997, and 1996 consists of the following:

For the year ended September 30, (Millions of dollars)	1998	1997	1996
Balance at beginning of year	$ 14	$ 13	$ 16
Additions charged to operating expenses	5	5	3
Deductions[1]	(3)	(4)	(6)
Balance at end of year	$ 16	$ 14	$ 13

(1) Amounts charged against reserves, net of recoveries.

11

SELECTED FINANCIAL DATA OF SIGNIFICANT SUBSIDIARIES

The condensed consolidated data for XTRA, Inc., a wholly-owned subsidiary of XTRA Corporation, included in the consolidated financial information of the Company, is summarized below:

For the three years ended September 30, (Millions of dollars)	1998	1997	1996
Income Statement Data			
Revenues	$ 461	$ 435	$ 422
Pretax income	99	71	69
Net income	59	43	41
Selected Balance Sheet Data			
Receivables, net	$ 106	$ 108	$ 94
Net property and equipment	1,452	1,454	1,407
Other assets	17	23	35
Total assets	$ 1,575	$ 1,585	$ 1,536
Debt	$ 802	$ 892	$ 892
Deferred income taxes	287	252	227
Other liabilities	84	86	76
Total liabilities	1,173	1,230	1,195
Stockholders' equity	402	355	341
Total liabilities and stockholders' equity	$ 1,575	$ 1,585	$ 1,536

12

BASIC AND DILUTED EARNINGS PER SHARE

The following tables provide a reconciliation of the numerators and denominators of basic and diluted earnings per share computations:

Year ended September 30, (Millions of dollars except per share amounts)	1998	1997	1996
Net income (in millions) (numerator)	$ 60	$ 43	$ 41
Computation of Basic Shares Outstanding (in thousands, except per share amounts)			
Weighted average number of basic shares outstanding (denominator)	15,319	15,268	16,027
Basic earnings per common share	$ 3.90	$ 2.79	$ 2.56
Computation of Diluted Shares Outstanding (in thousands, except per share amounts)			
Weight average number of basic shares outstanding	15,319	15,268	16,027
Common Stock equivalents for diluted shares outstanding	72	18	25
Weight average number of diluted shares outstanding (denominator)	15,391	15,286	16,052
Diluted earnings per common share	$ 3.88	$ 2.78	$ 2.56

13

TERMINATION OF RECAPITALIZATION MERGER

XTRA entered into an Agreement and Plan of Merger and Recapitalization dated as of June 18, 1998, as amended and restated as of July 31, 1998, with Wheels MergerCo LLC ("MergerCo"). MergerCo is a newly organized Delaware limited liability company formed by Apollo Management IV, L.P. and Atlas Capital Partners LLC, an affiliate of Interpool, Inc. On June 26, 1998, a Current Report on Form 8-K was filed by the Company which included a copy of the Agreement and Plan of Merger and Recapitalization. In addition, the Company filed a proxy statement on October 30, 1998 which included further information regarding the merger. Among other restrictions in the Agreement, the Company was restricted from paying dividends and repurchasing stock.

On November 25, 1998, the Company and MergerCo mutually agreed to terminate their existing merger agreement. Previously, MergerCo had indicated that due to market conditions it did not think it would be able to obtain the financing necessary to complete the deal. The Company filed a Current Report on Form 8-K on December 15, 1998, disclosing the conditions of the merger agreement termination.

Report of Independent Public Accountants

To the Stockholders of XTRA Corporation:

We have audited the accompanying consolidated balance sheets of XTRA Corporation (a Delaware corporation) and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 financial statements referred to above present fairly, in all material respects, the financial position of XTRA Corporation and subsidiaries as of September 30, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Boston, Massachusetts
November 11, 1998

(except with respect to the matters discussed
in Note 13, as to which the date is
December 15, 1998)

XTRA Corporation

DIRECTORS

Robert B. Goergen
Chairman,
The Ropart Group;
Chairman of the Board

Robert M. Gintel
Senior Partner,
Gintel & Company;
Vice Chairman of the Board

Lewis Rubin
President and Chief Executive Officer;
Director

Michael D. Bills
Senior Managing Director,
Tiger Management L.L.C.;
Director

H. William Brown
Chief Financial Officer,
Maritrans Inc.;
Director

Michael N. Christodolou
Director of Equity Investments,
Taylor and Company;
Director

Herbert C. Knortz
Former Executive Vice President,
ITT Corporation;
Director

Francis J. Palamara
Former Executive Vice President and
Chief Operating Officer,
The New York Stock Exchange;
Director

Martin L. Solomon
Chairman,
American Country Holdings Inc.;
Director

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee
Francis J. Palamara (Chairman)
H. William Brown
Michael N. Christodolou
Herbert C. Knortz

Compensation Committee
Martin L. Solomon (Chairman)
Robert B. Goergen
Francis J. Palamara

Executive Committee
Robert B. Goergen (Chairman)
Michael D. Bills
Robert M. Gintel
Lewis Rubin
Martin L. Solomon

Nominating Committee
H. William Brown (Chairman)
Michael D. Bills
Herbert C. Knortz

OFFICERS

Lewis Rubin
President and Chief Executive Officer

Robert B. Blakeley
Vice President and Controller

Jeffrey R. Blum
Vice President, Administration and Human Resources

Michael K. Fox
Vice President, XTRA Intermodal

William H. Franz
Vice President, XTRA Lease

Thomas A. Giacchetto
Chief Counsel and Secretary

Frederick M. Gutterson
Vice President, XTRA International

Christopher P. Joyce
Vice President and Treasurer

Michael J. Soja
Vice President and Chief Financial Officer

OPERATING DIVISIONS

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St. Louis, MO 63146
Telephone: (314) 579-9300

XTRA International
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San Francisco, CA 94111
Telephone: (415) 477-8700

XTRA Intermodal
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Liberty, MO 64068
Telephone: (816) 792-8500

XTRA Mexicana
Adolfo Prieto 623-601 y 602
Col Del Valle
Mexico, D.F. 03100
Telephone: 011-525-536-2591

STOCKHOLDER REFERENCE

Stock Transfer Agent and Registrar of Stock
BankBoston
c/o Boston EquiServe, L.P.
P.O. Box 8040
Boston, MA 02102-8040
Telephone: (781) 575-3400
(800) 736-3001

Auditors
Arthur Andersen LLP
225 Franklin Street
Boston, MA 02110-2812
Telephone: (617) 330-4000

Corporate Management Offices
60 State Street
Boston, MA 02109-1826
Telephone: (617) 367-5000

Shares Traded
New York Stock Exchange
Common Stock Symbol: XTR
Options traded on the American and Pacific Stock Exchanges

Corporate Information
Requests for additional corporate information should be directed to the Vice President and Chief Financial Officer
Telephone: (617) 367-7810
http://www.xtracorp.com

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Boston, MA 02109