Touchbase

March 2006

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Union Pacific Car Order Policy effective March 5, 2006

UP Policy intended to encourage accuracy of orders

Railroad Updates

UP General Car Order Policy

Union Pacific is implementing a Car Order Policy on March 5, 2006. As demand for equipment increases, the need for accurate forecasting becomes essential to the success of providing shippers with on-time delivery of empty equipment. The Car Order Policy will improve order accuracy and the efficiency of the fleet by matching equipment supply with true demand.

In the past, Union Pacific has operated without a standardized Car Order Policy. Rules and consistency varied between and within car types. The UP has found that these conditions made things difficult, confusing, and inefficient for both customers and the Union Pacific. This policy will provide simplicity, predictability and efficiency. (*This policy does not include GCAS, PCAS, or REZ1 container orders. These ordering systems remain the same.)

Car Order Policy effective March 5, 2006:

- Customers may place weekly car orders from 7 to 60 days in advance of the *want date*.
- Car orders will be accepted for one week time frames only.
- The car order week time frame is from Sunday (12:01 am) to Saturday (11:59 pm).
- Only one car order can exist for the same equipment type in the same weekly time frame.
    - Multiple orders may be placed for the same week, as long as they are for different car types.
- Every Saturday at 11:59 pm, non-applied car orders for the week just ending will expire.
    - This will not impact applied cars on orders, enroute to shippers, but not yet delivered.
    - If some portion of the car order is filled, the car order will be reduced to that number of cars and then closed out.
    - If no cars have been applied to the car order, the car order will expire.
    - Customers will need to re-order cars for unmet demand.
- Customers may reduce car orders to the number of cars already applied at any time.
- Customers may increase car orders, as long as 7 days advance notice is given.
- Any cars returned empty to the railroad due to over-ordering will be subject to a $250 switch charge, provided that these cars are placed or delivered to a customer within +/- 2 days of the *want date*.

This policy is intended to encourage improved accuracy of orders, which will reduce unnecessary empty miles and repositioning of equipment. By managing weekly time frames, Union Pacific and its customers will benefit by more efficient management of inventory and order files. The aim is to improve car availability and predictability of delivery for our customers. If you have any questions regarding the Car Order Policy, please contact your sales representative.

Read the entire article:
www.uprr.com/customers/equip-resources/order/general_policy.shtml

Construction Into the Powder River Basin

Board gives final approval for Dakota, Minnesota & Eastern Railroad and the Powder River Basin Expansion Project

On February 13, 2006, the Surface Transportation Board gave final approval to the Dakota, Minnesota & Eastern Railroad Corporation to construct and operate a 280-mile rail line from South Dakota to the Powder River Basin in Wyoming. The Board addressed the four environmental issues remanded by the court and determined that, with one exception, no new environmental mitigation is warranted. The Board concurs with and adopts the Supplemental Environmental Impact Statement, reimposes 147 mitigation conditions, and reestablishes an environmental oversight period.

Expanded rail will supply power plants in the Midwest with 40 million tons of coal in its first year

The purpose of the plan, known as the Powder River Basin Expansion Project, is to provide Midwestern electric utilities easy access to coal mines in northeastern Wyoming. According to DM&E, the expanded rail will supply power plants in the Midwest with 40 million tons of coal in its first year and 100 million tons annually within 10 years, approximately 10 percent of the nation's current demand. The delivered coal will cost \$5 to \$10 per ton less than eastern coal, amounting to a 19-38 percent price reduction.

Read the entire article:
www.stb.dot.gov/decisions/readingroom.nsf/51d7c65c6f78e7938525654 1007f0580/53fe263777b8a00485257116004c24d7?OpenDocument

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AAR Updates

Effective March 1, 2006, per AAR Circular C-10272, a new Price Master has been issued since the criterion determined by the Car Repair Billing and the Arbitration and Rules Committees was met. The Car Repair Billing Committee has developed a formalized procedure to ensure that significant average wheel set price fluctuations are reflected in the AAR Price Master in a more timely fashion. Essentially, the wheel set job codes are surveyed on a monthly rather than the former quarterly basis.

New Price Master has been developed to ensure that significant average wheel set price fluctuations are reflected

The new pricing affects only wheel set Job Codes 3333, 3336 and 3341.

Revised pages are being printed and distributed to all subscribers of the Office Manual and are available by ordering the AAR Circular

Visit the AAR at:
http://www.aar.org

Railroad Traffic

U.S. rail traffic up 4.2 percent in the first four weeks of 2006

U.S. rail carload traffic rose 4.2 percent (52,844 carloads) to 1,325,473 carloads, while U.S. rail intermodal traffic rose 6.1 percent (51,173 trailers and containers) to 890,704 units in the first four weeks of 2006 compared with the first four weeks of 2005, the Association of American Railroads (AAR) reported. Total volume for the first month of 2006 was estimated at 129.4 billion ton-miles, up 5.9 percent from January 2005.

Coal, crushed stone, sand and gravel up; metallic ores, nonmetallic minerals and chemicals down

On the carload side, commodities with significant gains in January 2006 included coal (up 7.7 percent); crushed stone, sand, and gravel (up 9.1 percent); and grain (up 5.0 percent). Commodities with carload declines in January 2006 included metallic ores (down 22.2 percent,); nonmetallic minerals (down 15.1 percent); and chemicals (down 2.3 percent.

Intermodal — the movement of truck trailers or containers on rail cars — accounts for 23 percent of U.S. Class I rail revenue. Intermodal overtook coal in 2003 as the top revenue source for Class I carriers. In January 2006, the trailer component of U.S. intermodal traffic was up 1.1 percent, while containers were up 7.8 percent (48,861 units) to 675,684.

Railroads are confident that the enormous investments they made in 2005 will lead to enhanced service

"January was a good start to what railroads hope will be a very good year in 2006," noted AAR Vice President Craig F. Rockey. "Railroads are confident that the enormous investments they made in 2005, and even larger projected investments in 2006, in infrastructure, equipment, and labor will lead to enhanced service to their customers."

In comparison, winter storms during the week ended February 18 were at least partly responsible for a drop in rail freight traffic in comparison with the corresponding week last year, the Association of American Railroads (AAR) reported.

Winter storms dropped carload freight compared to last year

Carload freight dropped 6.3 percent from a year earlier, totaling 321,728 cars, with volume down 6.0 percent in the East and 6.6 percent in the West and Intermodal volume on U.S. railroads did register an increase for the week, totaling 228,443 trailers and containers, up 2.5 percent from last year. Container volume gained 3.9 percent while trailer traffic declined by 2.0 percent.

Total freight volume for the week was estimated at 31.8 billion ton-miles, down 5.4 percent from last year. Cumulative volume for the first seven weeks of 2006 totaled 2,322,439 carloads, up 1.8 percent from 2005; 1,585,203 trailers or containers, up 5.5 percent; and total volume of an estimated 229.3 billion ton-miles, up 3.1 percent from last year.

Visit the AAR at:
http://www.aar.org

Industrial Inside

The beginning of 2006 did not supply the U.S. scrap market with the usual New Year jump start, but rather left scrap processors feeling the chill of lackluster demand and continued falling prices. Auto factory bundles were down in January and with it, price offerings from the mills. To add to the freeze, imported scrap alternatives are plentiful and cheap, giving scrap dealers little room in which to negotiate.

U.S. steel sector continues to enjoy healthy domestic demand

Because the U.S. steel sector continues to enjoy healthy domestic demand, the mills have been able to maintain prime price levels into January. Although imports are likely to become a factor in the first few months of 2006, they are not yet having any meaningful impact.

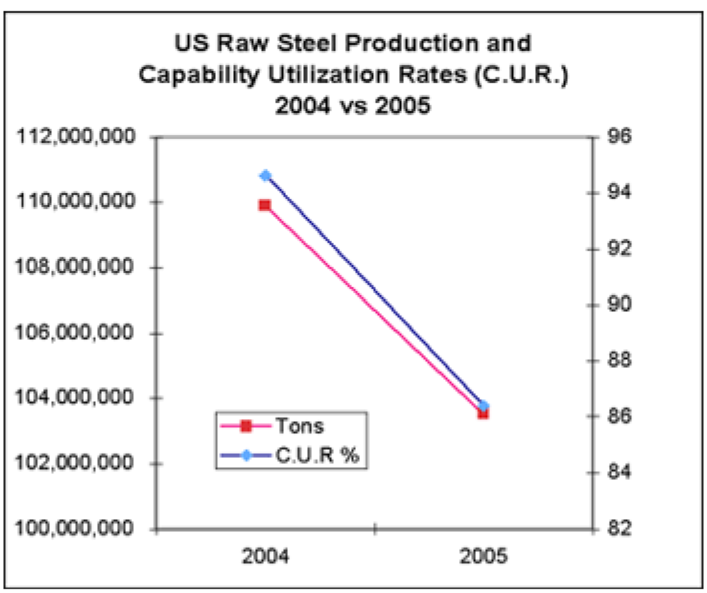
Ferrous scrap pricing is off $35-a-ton in some major steel making regions as mills reduced their ferrous scrap purchase offers in response to the weakness in factory bundles pricing, continued sluggishness in offshore demand, an increased flow of inexpensive scrap alternatives, and an overall uncertainty about the direction of the scrap market globally.

Scrap pricing decline mirrored that of January 2004

While January's scrap pricing decline practically mirrored that of January 2004, the beginning of the year is usually seen as a month in which pricing rises, not falls, as mills begin purchasing more scrap to feed the increased new orders as the holidays end and production gets back into full swing. Prime industrial scrap grades took the hardest hits, falling between $20-35 a ton in most major steelmaking markets.

Mill claimed that 1,000 railcars were loaded with scrap on the track in the Midwest

The absence of integrated mills from the bidding was a major factor in this month's bearish factory bundles pricing. At least one mill has claimed to have around 1,000 railcars loaded with scrap on the track at its mill in the Midwest. Many of the mini-mills also entered 2006 well stocked with scrap inventories. The absence of export demand has also spawned surplus of shredded scrap for domestic mills.



Although scrap pricing is down on the domestic front, the American

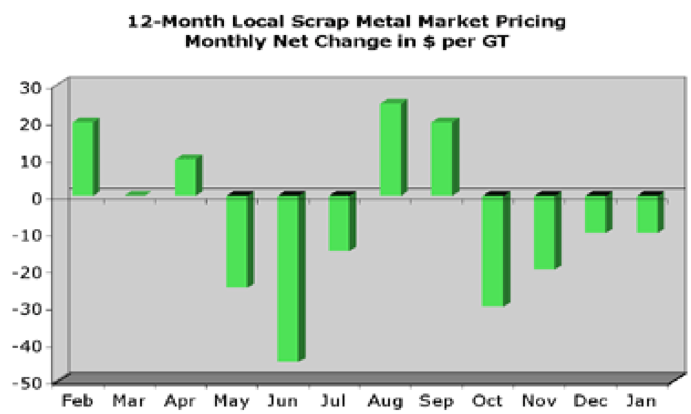
The tonnage produced in the first week of January marked the highest total in more than seven months

Increase on the Chinese currency could restrain the flood of China's global exports

Iron and Steel Institute in Washington has reported that U.S. raw steel output totaled 2,064,000 tons during the first week of January, a 2.2% increase from the previous week, as mills operated at an average capability utilization rate of 86.7%. The tonnage produced in the first week January marked the highest total in more than seven months and was up 0.6% from the same week last year, when mills produced 2,051,000 tons at an average capability utilization rate of 92.7%. Economic activity in the US manufacturing sector grew in December for the 31st consecutive month, while the overall economy grew for the 50th consecutive month, according to the latest Manufacturing ISM Report on Business. While 2005 was a strong year for the manufacturing sector, December did see a decline in the both the growth rates of new orders and production, but registered levels that still support overall growth and a strong 4th quarter is expected to carry significant momentum in the sector for 2006.

China's trade surplus with the rest of the world tripled in 2005, to a record $102 billion, a figure that could intensify global trade frictions and increase pressure on China's government to allow its currency to further appreciate. An increase in value of the Yuan would help restrain the flood of Chinese exports globally and help to rebalance China's economy, allowing for more imports into the country. China's government said that exports in 2005 were a record 762 billion, up 28%, while imports climbed to $660 billion, up nearly 18% from 2004.

While most major steel making regions are down $35-a-ton for January, our local market has dropped around $10-a-ton. A continued anemic export market, a flow of cheaper scrap alternatives at the mills and overall uncertainty as to where the market is headed has resulted in our continued downtrend. We look to March for the first signs of price stabilization in several months.



Source:
http://www.advancedsteel.com/news/28

Financial Focus

Despite mixed signals from the latest government data on the economy, most economists, bankers and investors are still confident that another 25 basis point (0.25 percentage point) increase to the Federal Funds

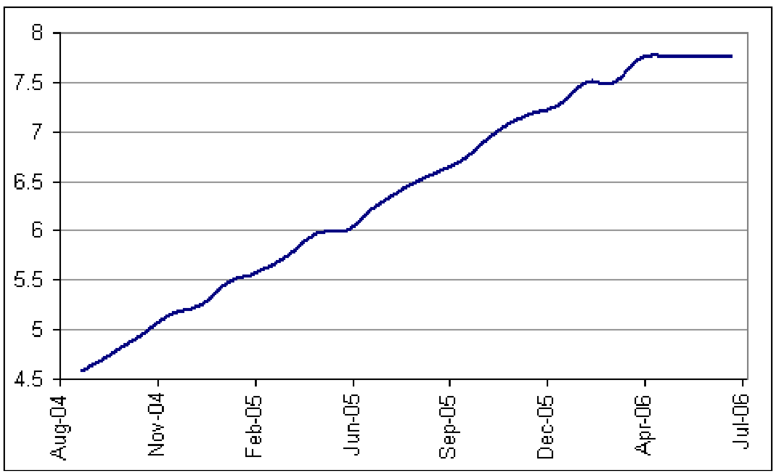
Prime Rate Increases Likely at the end of March

Rate is coming when the FOMC meets on March 28th raising the current prime rate from 7.50 percent to 7.75 percent. If the Fed Funds Rate goes up by 25 basis points on March 28th, then the U.S. prime rate [WSJ prime rate] will also rise by 25 basis points.

The Fed has been worried about the price of crude oil and recent violence in Nigeria and Saudi Arabia as well as political tensions in both Africa and The Middle East probably aren't going to disappear overnight, so the price on crude oil may remain high for some time, and the high cost of energy may "pass through"--as The Fed likes to phrase it--and cause general prices increases for both consumers and producers: a.k.a. inflation.

If the Federal Funds Rate continues to escalate on the current pace, a national prime rate of 8% is expected in May.

Prime Rate expected at 8% by May 2006.



Learn more at:
http://www.wsjprimerate.us/wsjprimerate/blog.htm

The Edge

The World is Flat(ter)

My good friend Jamie Heller (**www.hellerworx.com**) sent me a book recently by Thomas L. Friedman entitled The World is Flat, A Brief History of The Twenty-First Century. It talks about a lot of interesting facets of business not the least of which is that the dot-com bust and the developments and infrastructure that created the dot-com era created more opportunity than one would imagine. The significant amount of fiber optic cable that was laid between nations allows easy communications world wide. When you couple increased communication ability with cheap and well educated foreign labor in countries that have less governed industries than the US you get an emerging ("emerged") global economy. This entire phenomenon creates a flat world where one needs to embrace change and look beyond borders.

In the rail industry we've had our own flattening of sorts right here within our own boundaries. We've seen a large transformation from Class I railroads to regional and shortline railroads to switch carriers down to customers supplying power and crews to load their own unit grain trains at shuttle facilities. We've seen vertical integration that breaks down boundaries between customers and railroads where administrative tasks are concerned such as weighing, electronic waybilling and accepting and releasing railcars via web sites.

This flattening of the rail industry has caused a more vertically integrated rail system between railroad operations and the shipping community but has also resulted in a static historical growth in Class I freight revenue. Consider that from 1995 to 2005 freight revenue grew from $31.4 billion to $39.1 billion, roughly 2.23 percent per year (averaging all years). Not a stellar performance if you're an investor.

So if you're a Class I how do you fix this? You've driven operating efficiencies to as much "hook and haul" as you possibly can, you've spun off probably more shortlines than you maybe should have and you're pushing more efficient locomotives, railcars, streamlined operations. The answer is very simple, for any commodity group that can stand a strategic freight rate increase you raise the freight rate to a level that gives you an acceptable return to your shareholders (not necessarily to your shippers).

We don't want to convey a doom and gloom message. Our message is very clear, if you're not "flat" with the railroad and doing everything you can to drive the first flattening key, e.g. operating efficiencies, expect an extremely significant rate increase. However, if your highly efficient and driving as many operating efficiencies as possible expect only a slightly unreasonable freight rate increase.

If we may be of assistance to help you determine your flattened factor with the railroads please don't hesitate to call on us.

We look forward to earning your business!