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The Railroad Week in Review
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CSX has modified its fuel cost recovery program to allow for smaller, more incremental changes in the fuel surcharge that are made on a predictable, monthly basis. The surcharge will be adjusted up or down 0.4% for every dollar increase or decrease in oil prices above $23/barrel. These charges will be determined monthly based on the thirty-day average price of West Texas Intermediate (WTI) crude oil.

When fuel prices drop below $23/barrel, no fuel surcharge will apply. New rules will take effect in late April. Until then, the current program will remain in place. Once the program is amended, additional details will be available at www.csx.com. What I'd like to know is whether shortline allowances may be negotiated upwards to offset the smaller roads' increased fuel costs. There was a WIR thread on this topic last year and just recently (WIR 3/8) we learned RailAmerica (RRA) has had some success passing fuel surcharges on to its own customers, though the calss 1 was not named.

Elsewhere, John Snow, late of CSX, now Secretary of the Treasury, received a lump-sum payment of $60.8 mm when he resigned last month. That included $8.7 mm that he had deferred during the past 17 years, stock accrued over the past 10 years worth $18.9 mm, and a lump-sum payment of $33.2 million representing the present value of his pension benefit.

Norfolk Southern's 2002 Annual Report came out this week, aptly titled "The Right Direction." This is one of those rare reports that goes directly to accomplishments that enhance stakeholder value. Examples of "the right direction" include improving performance, moving beyond the traditional, increasing freight volumes and sales, and sharpening customer focus. There are thumbnails about and quotes from major customers representing industries from truckload carriers to aggregates, coal, and chemicals.

Every section is chock-full of specific accomplishments, though the continuing thread goes to how reliable service delivery attracts more business at higher prices. The section on shortline partnerships cites the *Railway Age* awards won by the Winchester & Western and the Reading Blue Mountain & Northern "for their roles in developing new aggregates business." These two, premium business at premium prices and shortline partnerships, now must be combined so that a car waybilled on a shortline gets the same trip plan discipline as a car waybilled on NS. Then we'll truly be headed in The Right Direction.

BNSF enjoyed an upgrade to Outperform from Underperform courtesy of Bear Stearns this week. Good call. We can't remain in the economic doldrums forever, the war in Iraq is going to be over and life will resume. Only this time BNSF – and the entire rail group to one degree or another – will come out in better fighting form than ever. Sometimes BNSF gets taken down for having so much intermodal as a percent of the whole, and I myself have been guilty.

I'm willing to reconsider. Intermodal requires neither class yards nor locals and though the revenue per unit (RPU) may be lower than carload the yield per carload equivalent may not be all that bad. Perpend: the 2002 average revenue per intermodal unit (read box) was $778. BNSF loads tight averaging 1.7 boxes per platform, a $1312 carload equivalent RPU. Also consider the

system-wide average RPU is $1111, an 18% advantage for intermodal. The niche is SoCal to Chicago, where BNSF is clearly the outperformer. Kudos to Bear Stearns.

Union Pacific says it will miss profit targets for 2003 with earnings from continuing operations expected to be between $0.58 and $0.60 per share in 1Q03. In a press release UP notes that war fears dramatically increased fuels costs and contributed to weaker economic demand. Moreover, this winter's severe storms have also hurt full year results, now seen as falling short of the targeted 5% to 10% percent EPS growth in 2003 from the $4.30 earned in 2002.

In a recent note Morgan Stanley's Jim Valentine writes, "Margins would have improved by more than 100 bp in 1Q03 had it not been" for weather, fuel and a severance program costs. Some may argue that these are "non-recurring," though IMOH there will always be weather, fluctuating fuel costs (hence hedging) and buyouts. In railroading, not unlike combat, one always must expect the unexpected. Maybe that's why the rails have traditional military chains of command.

Genesee & Wyoming (GWR) Feb carloadings for North America (US, Canada, Mexico) were up 24.3% for the month and 27.9% for QTD. If one were to exclude the 2/2002 Emons acquisition, the 8/2002 Utah acquisition and the 12/2002 BNSF Oregon lease, one would be looking at a slim 1% same-railroad gain. But then, that's what acquisitions are for. This same-railroad increase was led by increased shipments of road salt in GWR's New York-Pennsylvania Region partially offset by lower grain shipments in Canada.

Australian carloads slipped 11.3% yoy due mainly to a 7,552 carload decrease in grain traffic due to drought conditions, and a 3,464 decrease in hook and pull traffic that was previously handled for Toll and Patrick prior to their acquisition of Pacific National. Offsetting these declines, iron ores increased by 2,409 carloads and all other commodities increased by net 1,157 carloads. Also in February 2003, ARG continued to provide contractual haulage and construction services for the Alice Springs to Darwin rail line project, which is not reflected in the above carloadings.

RailAmerica (RRA) Feb carloads for North America were down 2.9% for the quarter and year if one uses the Feb 2002 carloads reported in 3/12/2002 press release. The current release adjusts the yoy figures to exclude lines since sold giving us 88,652 for Feb 2002 rather than the 88,638 reported a year ago. RRA says that on a same-railroad basis YTD carloads decreased 1.9% to 178,638, from 182,073 in 2002.

International total and same-railroad carloads were off 6.6% in Feb, again no thanks to the severe drought affecting grain shipments in Australia. For the month, traffic in Chile was up 33.9% versus last year due to a new copper ore contract, while Australia traffic was down 24.9% due to the drought. YTD total international carloads were off 6.2%.

Elsewhere, RRA reported capex of $66 mm (WIR 3/8) and $16 mm free cash flow (FCF) in 2002. This nominally would imply at least $72 mm cash from operating activities. However, Wayne August, VP for Investor Relations, writes, "We define/calculate FCF as EBITDA, less interest, less capex, less cash taxes (only $1-2 mm for us), plus the non-gain portion of asset sales (basically the book value)." Thanks, Wayne, for the sharper pencil

Roy Blanchard writes and consults on railroad commercial, financial and operating best practices for shortlines and shippers. Disclosure: Blanchard may from time to time hold long, short, debt or derivative positions in the companies mentioned here. A list of such holdings is available on request.