THE RAILROAD WEEK IN REVIEW

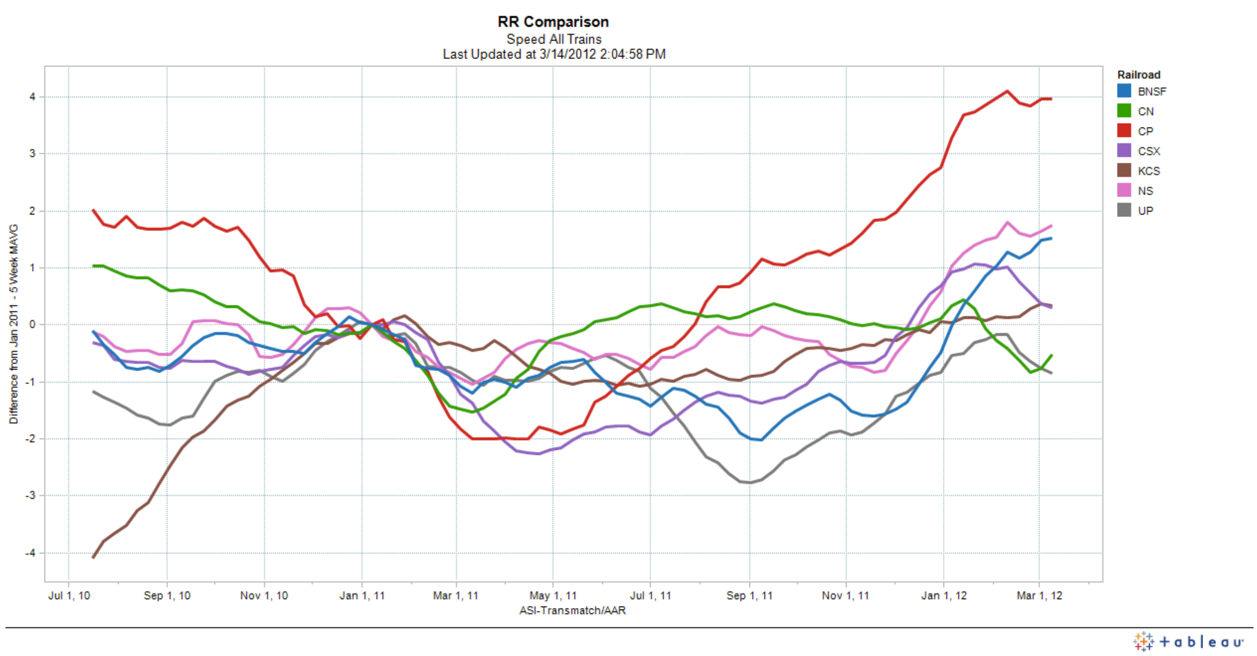
March 16, 2012

"As best practices are established throughout the organization, we're seeing the transformation of the railroad." -- CP Board Member Tony Ingram

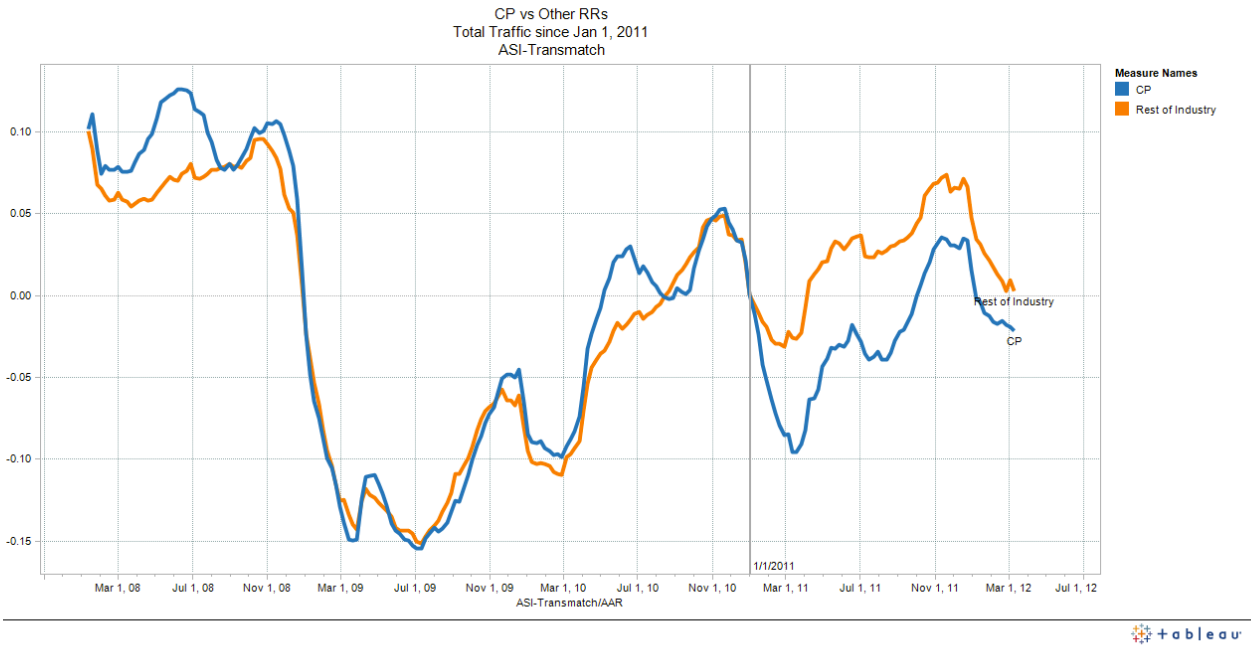
Canadian Pacific board members Tony Ingram and Ed Harris participated in a Tuesday conference call hosted by BMO Capital Markets. Harris lauded the Green Team for "successfully and aggressively executing against CP's Multi-Year Plan, which the Board has reviewed and fully endorses." You will recall CP's Multi-Year Plan has been specifically designed to generate the best possible operational and financial results from CP's unique assets and franchise; I was on the Investors' Day inspection train when they announced it two years ago.

The operating and financial results to date have shown substantial improvements in key operating metrics over the company's 3-year averages, including terminal dwell, car miles per car day, train speed and active cars online. To which Ingram added, "As best practices are established throughout the organization, we're seeing the transformation of the railroad." Both these guys have had a hand in several railroad turn-arounds in their careers and they're "seeing at CP the signs of a railroad beginning to fire on all cylinders."

Here's what CP's performance measured by system train speed looks like since July, 2010.



That's the good news. The bad news is in the year-over-year relative percentage changes in revenue-unit volumes at CP and the rest of the North American railroads. Intermodal is the biggest factor and it's where CP and CN are most competitive. I was with Transmatch creator Drew Robinson yesterday and what you see here is the merest tip of the iceberg of data he uses to track railroad performance and volume changes by commodity and railroad. The power of these charts lies in their ability to show what's happening over time as opposed to the usual year-over-year comps.



(Percent difference from Jan, 2011; mostly intermodal -- Drew Robinson, Transmatch.com)

Yesterday I got to renew old acquaintances with Hunter Harrison at the JP Morgan transportation conference in NY. He and Pershing's Paul Hilal were the lunchtime speakers in what was essentially an interview with conference host Tom Wadewitz, lead rail analyst at JPM. Hunter did most of the talking and the thrust of his remarks was for a "change of CP's corporate culture" and better railroad ops execution to capitalize on the railroad's "solid franchise and considerable operating resources."

Paul Hilal laid out the time-line for the Proxy contest as beginning with the March 22 Record Date of ownership for shareholders to be eligible to vote (I'm passing). The crucial shareholder meeting is May 17 with voting results to be certified by the CP Board on or before the 22d. If Pershing is successful, the reconstituted Board calls a special meeting and, if called for, starts a search for a new CEO. That search will take up to three weeks and if Harrison is selected he'll be officially tapped in mid to late June.

Change is likely to be swift. Harrison says he'll want to pick his new leadership team in the "first 100 days" and in that time he'll know which CP staffers will want to stay, filling any gaps from his own Rolodex. He specifically cited what he called "too many locomotives" on CP, and, as you shrink the fleet, you shrink the support assets and the related personnel.

Somebody asked about how to pay for all this. Hilal said there's no need for more debt and in fact they plan to cut CP's debt to cap ratio. Nor is there any need to increase the capex budget; just allocate it better -- fewer new locomotives, for example. As for the operating ratio, mid-60s in four years seems doable.

RailAmerica revenue units for February increased by more than six thousand carloads (RA has dodged the intermodal bullet) to 65,950 units, up 9.9 percent year-over-year (9.2 percent on a "same railroad" basis). Five of the top seven commodity groups that comprise 74.7 percent of RA's total carloads increased; three by double-digits: ag products, metallic ores & minerals and waste products. Coal, 17.7 percent of total units and RA's largest commodity by volume, was off but 2.5 percent.

Automotive products, though only 2.6 percent of total revenue units, saw the largest jump (134 percent) mainly on finished vehicles from the Honda second shift (Indiana) and exports (West Coast). The lumber and STCC 24 forest products group, RA's eighth largest commodity group by volume, was up a healthy 6.7 percent. The ag products gain was the result of increased corn and soybean shipments in the midwest, said Ira Berger, RA's VP & Treasurer. Over all, Feb carloads were up 6.8 percent year-to-date but drifted back three percent from the January car-count.

Apropos of corn, Dennis Gartman's Letter for Tuesday, March 13 tells us:

> There are all sorts of news items driving corn prices higher, not the least of which are the continued reports that China is "interested" in US origin corn. Moreover, the 2011 Chinese corn crop may have been huge, but it now appears that that crop was harvested in very wet weather, and that the corn was "put up wet" as a result. The Chinese are moving swiftly into the 21st century when it comes to the grains, but simply put they've not the infrastructure in place in their grain industry to have dried this grain properly. Thus it has been in storage wet; it has remained wet and the crop in the bins is deteriorating… rapidly. Perhaps [as much as] a third of the stored corn crop is now damaged by mildew and other problems. Demand for old-crop corn is already high. It will rise.

Genesee & Wyoming February 2012 North American year-over-year revenue units dropped by 7,621 loads, 11.0 percent, to 58,740 units as coal, 19.2 percent of GWR revenue units by volume, dropped 40.2 percent -- 80.8 percent of the total loss -- due in part to lower shipments in GWR's Illinois, Mountain West, New York/Pennsylvania and Ohio Regions. The "other" commodity group, chiefly NS overhead coal in Ohio, was off 39.2 percent. Each of the other five commodity groups that comprise the top 76.4 percent of GWR's traffic mix was up double-digits, with metals, minerals & stone and chemicals leading the pack.

Excluding 1,306 carloads from the Arizona Eastern Railway (AZER) acquisition, which closed September 1, 2011, and 243 carloads from the Hilton & Albany Railroad, Inc. (HAL), which opened for business on January 1, 2012, North American same-railroad traffic in February 2012 decreased 2,964 carloads, or 5.1 percent, compared with February 2011. These decreases were partially offset by increases of 1,981 carloads of metals traffic due to steel and scrap shipments in GWR's Southern Region, 1,116 carloads of farm & food products traffic primarily due to increased shipments in the Illinois Region.

It is instructive to track the composition of the commodity groups making up at least 75 percent of GWR's volume. In Jan 2012, it was lumber and other in fifth and sixth place. By the end of Feb, "other" and lumber had dropped out of the top group with farm & food and minerals & stone replacing them. I think that's good because you have more control over originated and terminated commodities than you do with overhead traffic. All-in, GWR Feb 2012 units dropped 2.5 percent from Feb 2011 and 4.4 percent from Jan 2012.

The RailConnect Index from RMI shows Feb year-to-date shortline carloads (through Week 9) up 2.6 percent -- flat without intermodal's 22.4 percent jump. Coal and grain continue to be the major decliners -- down 11.5 and 16.4 percent respectively. Like RailAmerica, the shortline universe for automotive-related commodities is minuscule, just 2.2 percent of total loads, though it was up 13.8 percent. Best of all, lumber (3.9 percent of total carloads) increased 13.4 percent and aggregates including frack sand (10.5 percent of total loads) increased 13.1 percent.

Union Pacific has made some management changes to cope with CEO Jim Young's battle with pancreatic cancer. As you know, Jack Koraleski is Acting President and CEO Young's absence. To fill in, the Board named Eric Butler EVP Marketing and Sales to take Jack's slot. Butler has some 26 years' experience with the railroad, most recently serving as VP and GM for the industrial products commodity group.

Stepping up for Butler is Brad Thrasher, a 24-year UP veteran who has been serving as AVP and GM at Union Pacific Distribution Services (UPDS). Finally, Kate Betsworth has been promoted to take Thrasher's slot. She's got 18 years with UP and, like her peers moving up, comes out of a carload background, having most recently served as AVP for industrial products. This is going to be a tough row to hoe for all at UP. All we can do is wish them all the best and keep those business and personal relationships as solid as ever.