All Shapes, All Sizes, and All Revenue Levels

<table>
<thead>
<tr>
<th>STB</th>
<th>AAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I</td>
<td>Class I</td>
</tr>
<tr>
<td>Class II</td>
<td>Regional</td>
</tr>
<tr>
<td>Class III</td>
<td>Local (Short Lines)</td>
</tr>
<tr>
<td></td>
<td>Switching &amp; Terminal</td>
</tr>
</tbody>
</table>
Corporate Structure

- Board of Directors
- Chairman of the Board* (commonly President)
- President* (commonly CEO/COO)

Chief Commercial Officer (sometimes EVP Marketing & Sales)
- Sales
- Marketing

Chief Financial Officer
- Handling funds
- Signing checks
- Financial record keeping
- Financial planning
- Managing investments and borrowings

Chief Operating Officer*
- Running trains
- Mechanical dept.
- Safety
- Engineering dept.
- Customer service

Executive Vice Presidents
Senior Vice Presidents
- Government affairs
- Investor relations
- Press relations
- Law
- Human resources
- Taxation

VP Intermodal
- VP Agricultural Products
- VP Coal
- VP Automotive
- VP Industrial Products

Treasurer
- Receipts
- Disbursements
- Borrowing
- Tax matters
- Comptroller (Controller)
- Internal accounting programs

VP Transportation
- Keeps RR running

VP Mechanical
- Maintenance of rolling stock

VP Engineering
- Track structure

VP Safety

VP Customer Service
- Customer service centers

*The chairman of the board may be the president, CEO, and COO.
### Table 18-1. Condensed income statement

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total operating revenue</strong></td>
<td>$52,152</td>
<td>$46,118</td>
</tr>
<tr>
<td>Freight</td>
<td>50,315</td>
<td>44,457</td>
</tr>
<tr>
<td>Passenger</td>
<td>70</td>
<td>65</td>
</tr>
<tr>
<td><strong>All other revenues</strong></td>
<td>1,767</td>
<td>1,597</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>40,980</td>
<td>37,843</td>
</tr>
<tr>
<td>Net operating revenue</td>
<td>11,172</td>
<td>8,275</td>
</tr>
<tr>
<td>Other income</td>
<td>1,049</td>
<td>811</td>
</tr>
<tr>
<td>Miscellaneous deductions</td>
<td>945</td>
<td>725</td>
</tr>
<tr>
<td>Interest charges and amortization of discount</td>
<td>1,151</td>
<td>1,220</td>
</tr>
<tr>
<td>Income taxes on ordinary income</td>
<td>2,857</td>
<td>1,946</td>
</tr>
<tr>
<td>Provision for deferred taxes</td>
<td>786</td>
<td>278</td>
</tr>
<tr>
<td>Unusual or infrequent items (Dr) Cr</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Ordinary income</strong></td>
<td>6,482</td>
<td>4,917</td>
</tr>
<tr>
<td>Net railway operating income</td>
<td>7,560</td>
<td>6,075</td>
</tr>
<tr>
<td><strong>Rate of return on net investment</strong></td>
<td>10.2%</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

Source: Railroad Facts 2006

### Accounting Rules are Regulated, Must Follow – GAAP

### Financial and Other Data – SEC
Three Main Parts of Reports

Income Statement

Balance Sheet

Statement of Cash Flows
Income Statement

- Total Revenues from RR Operations
- Expenses Incurred to Provide Revenue
- Operating Income

Operating Ratio – Efficiency Measurement

- Proportion of Revenues Received that is Required to Maintain and Operate RR
- Lower the Better – 70 is OK
Balance Sheet

Shows Capitalization in Addition to Assets, Liabilities and Equity

Capitalization = (Long-Term Debt – Cash) + Equity
Keep Under 50 percent

Cash Flow Statement

Cash Generated by Operating Activities
Higher the Better
Railroads are Very Capital Intensive
Financial Effects of Railroad Regulation

1980 Staggers

1995 ICC Termination

Common Carrier

Revenue Adequacy = Return of Net Investment/Cost of Capital

Rail Cost Recovery Index – Adjust for Inflation
• Post-Staggers Earnings

• Pre-Staggers Years

• Leased Equipment

• Re-Regulation ?????
Infrastructure Maintenance

Deferred Maintenance-of-Way

Deferred Maintenance of Equipment

Pre-Staggers
Equipment Depreciation

New or Repair

Equipment Trusts

General Purpose Rolling Stock - Repossessed

Equipment Leases

Capital or Operating
Track
   1982 – Ratable Depreciation
   Prior – Additions/Betterments

Tunnels/Embankments
   May Be Depreciated ???

Deferred Taxes
   Depreciate Faster