



RAILINC
2006 Annual Report

Railinc Mission

To maximize value to the railroad industry by providing effective solutions to relevant needs.

Railinc Vision

Railinc is committed to being an innovative rail industry partner and the first choice for responsive delivery of reliable IT solutions.



Railinc Headquarters

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Introduction

This is Railinc's annual report for 2006. On the following pages you will find a summary of our major accomplishments for the year, as well as information about plans for continuing the strong progress we have made to meet the core needs of rail carriers, equipment owners, rail suppliers, and government entities.

This document provides a top-line summary for Railinc's key stakeholders, including senior executives within the rail industry, car owners, equipment suppliers, and logistics service providers.

If you are interested in the services Railinc provides, or need information in addition to what is provided in the annual report, please contact us.

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Message from the President



Allen West, *President*

Railinc completed 2006 with a steady performance in support of the rail industry. Investments of over \$6 million were made on new initiatives in support of the Safety & Operations Management Committee (SOMC), the Network Efficiency Management Committee (NEMC), and Railinc Board strategic directives. Railinc

performed well as measured by all of the key metrics that gauged our success—control of key financials, effective running of industry computer systems, and successful implementation of industry projects. The company completed the year financially sound, with positive profit margins and a positive cash flow.

Railinc's strategic direction for 2006 was to:

- Improve our services
- Enhance our reliability
- Strengthen our support for the industry's growth and prosperity
- Re-establish our core values and mission
- Reaffirm our commitment to operational excellence

We saw significant organizational changes in 2006. Three of our four corporate officers left the organization and we exited the market of a product targeted for short lines, RailSync. As part of the re-organization that resulted, the latter half of 2006 was spent re-shaping for the future. In September, Todd Bolon was named Vice President and Chief Information Officer, while Malcolm Clarke rounded out the executive team in November by joining Railinc as Vice President of Corporate Services and Chief Financial Officer.

Major investments were made to our core data systems as part of our commitment to achieve operational excellence. We created new Mission and Vision statements, which are now more clearly aligned with our strategic direction.

In 2006, Railinc worked on a number of projects supporting the growth, prosperity and changing demands of the rail industry.

Examples included:

- Equipment Management Information System (EMIS)
The overhaul of the industry's equipment registration and inventory management system
- Equipment Health Monitoring System (EHMS)
Railroad and industry system for vehicle condition monitoring and alerts
- The AAR Embargo and Permit System
New automated system for managing the industry embargo process
- Ease of doing business initiatives for serving carrier reciprocal switch, tracking and tracing, and messaging upgrades
- Continuing work on improving data quality, damage prevention and security efficiencies
- Partnering with the industry in taking advantage of innovative technologies
- Support activities for mergers, line sales and trade name changes

For 2007, Railinc plans to sharpen its focus on meeting the core needs of rail carriers, equipment owners, rail suppliers, and government entities. Strategic investments will be made to our infrastructure to ensure continued reliability of our services. Major projects will continue in support of rail asset management, service reliability, revenue management, and security applications. While we invest in these solutions for the railroad industry, we will also focus on the continued development of our people and processes to ensure that Railinc is a premier solution provider.

I am very proud of our efforts in 2006 and am excited about our plans for 2007 and beyond. Railinc is committed to being the railroad industry's first choice for responsive delivery of reliable IT solutions.

E. Allen West
President

Strengthening Our Core Systems



Strengthening Our Core Systems

For several decades, Railinc has provided the core systems that North American railroads need to efficiently coordinate the movement of equipment and shipments and to settle the financial transactions associated with interline shipments. In 2006, Railinc made significant improvements to these systems as part of our ongoing commitment to be an efficient and reliable IT service provider.

This integrated set of systems enables railroads to obtain and report equipment location data (TRAIN II); submit waybills for interline shipments (Forward and Store); update trip plans that facilitate planning among the roads (Interline Service Management); reconcile the credits and debits associated with interline service (Interline Settlement System); and perform other critical tasks.

These systems, along with the Railinc Message Transmission System (MTS), comprise the backbone of real-time communications between Railinc and rail carriers. Railinc regularly invests in these applications to ensure that the quality and timeliness of data supports the industry's goals for seamless interline service.

Major enhancements made to these systems in 2006 included:

- New tools to measure and improve interchange efficiency in the Interline Service Quality (ISQ) application
- Improvements to the Interline Service Agreement (ISA) Repository to automate production of ISAs for distribution, reduce entry barriers for new users, and gain active involvement of short lines
- Incorporation of standard trip logic, currently used by Interline Service Management and Steelroads, in the TRAIN 76 equipment tracking application to improve data quality and consistency of industry applications
- New event types added to the TRAIN II reporting system for ordered equipment and leased track events to improve shipment visibility
- EDI version 5030 upgrades to support regulatory changes and new business objectives
- Moving users from old communication services to more cost-efficient, modern connection services

Industry Guided Solutions

Industry Guided Solutions

During 2006, Railinc reviewed, improved and/or developed the following railway solutions.

Umler/EMIS: One Step Closer to Completion

Umler, with its 40-year-old technologies, was originally built to store and exchange data about the industry's massive inventory of railway equipment. Back then, railways owned almost all equipment. Today, third-parties own more than half the fleet and face challenges integrating their systems and data with Umler.

Umler/EMIS is the re-engineering of the aging Umler system. It is the largest single IT project the railway industry has undertaken in many years. In 2006, the multi-phased project re-hosted Air Brake Test reporting, introduced "Retro-Reflectorization" and FRA locomotive inspection reporting.

Umler/EMIS facilitates real-time, accurate and secure data exchange with all equipment owners by using the Web and other communication modes, so that carriers can access the data they need about the industry's rolling stock fleet in order to operate safely and efficiently.

Umler/EMIS Phase III functionality will be developed and delivered over the next three years, making it the system of record for industry railcar management.

Equipment Health Management System (EHMS) Platform Development

The AAR's Advanced Technology Safety Initiative (ATSI) uses the early detection of defects in rail equipment by wayside detectors to prioritize repairs before costly failures occur. This was realized via EHMS. EHMS facilitates communication of defect alerts and remediation events for all car owners. This gives car owners the information they need to plan preventative maintenance, improving overall railroad safety and efficiency.

EHMS, launched in 2004, leveraged existing systems for expedited deployment. This short term solution served its purpose in validating the value of the system, but was inadequate for the long-term goal of the project. 2006 efforts were focused on developing a long-term, sustainable platform for EHMS. This included removing EHMS's dependencies on other systems and laying the ground-work for computer-to-computer data exchange. 2006 also saw the addition of support for Truck Hunting Detectors (THD).

Future EHMS development efforts will ensure that integration with additional emerging detector technologies are realized seamlessly and efficiently.

AAR Embargo and Permit System Successfully Released in 2006

North American rail service was significantly disrupted by three major hurricanes in 2005 causing concern in the rail industry and ultimately creating a desire to provide better embargo and embargo permit management. Answering the call, Railinc successfully deployed the new AAR Embargo and Permit System in 2006.

The system uses Web-based technology coupled with Electronic Data Interchange (EDI) and Extensible Markup Language (XML) messaging to establish embargoes, create amendments, cancel embargoes, and issue embargo permits (permission to ship to an embargoed destination), as directed by individual railroads.

Industry Guided Solutions

The AAR Embargo and Permit System also includes a new mapping feature, called Geo Tool, which railroads and their customers can use to identify freight stations, junctions or geographic locations that are subject to a specific embargo. Users can retrieve embargoes and embargo permit information with the search engine.

This project is sponsored by the AAR Customer Service Standing Committee and the Electronic Commerce Working Committee. By integrating electronic waybill processes with transportation support systems to identify embargoed locations, it allows shipments moving on a permit to reach their destination across multiple railroads, or to alert a railroad to place a shipment into embargo hold.

The Serving Carrier/Reciprocal Switch (SCRS) File Upgraded to Electronic Data Interchange Version 5030

In 2006, the SCRS file was upgraded to EDI version 5030. This upgrade included switch charge information and laid the foundation for the new SCRS Web site, set to launch in 2007. The new SCRS Web site will give carriers the ability to update and retrieve information about customers, serving carriers, and reciprocal switch charges in real time.

Reciprocal switching indicates whether a rail carrier will deliver a car to a customer with or without requiring that they participate in the line haul movement or receive a division of line haul revenues.

SCRS is one of the Industry Reference Files designed to provide a foundation for communications within individual companies as well as communications between all companies, even companies outside the rail industry. In conjunction with the Interline Settlement System (ISS) and the Rate EDI Network (REN), the SCRS file ensures that switch charges are applied correctly. To facilitate this process, the SCRS transaction sets must be maintained with the most up-to-date version of EDI.

DP & LS Support Leads to Continued Loss & Damage Improvements

Railinc's Damage Prevention and Loading Services (DP&LS) group has a long history of providing services for automotive damage prevention. During 2006, these included:

- Field audits (quality reviews) at major loading and unloading terminals
- Training vehicle loaders, unloaders and equipment maintenance personnel
- Audits of multi-level maintenance pool operations

During the year, Railinc conducted 132 quality reviews, held 19 training sessions (attended by 644 people), and completed 61 multi-level maintenance pool certification inspections. Damage prevention field evaluations and training are major contributors to significant improvements in performance by railroads, contractors and manufacturers in the damage-free transportation of motor vehicles.



Instructing trainees on multi-level equipment maintenance



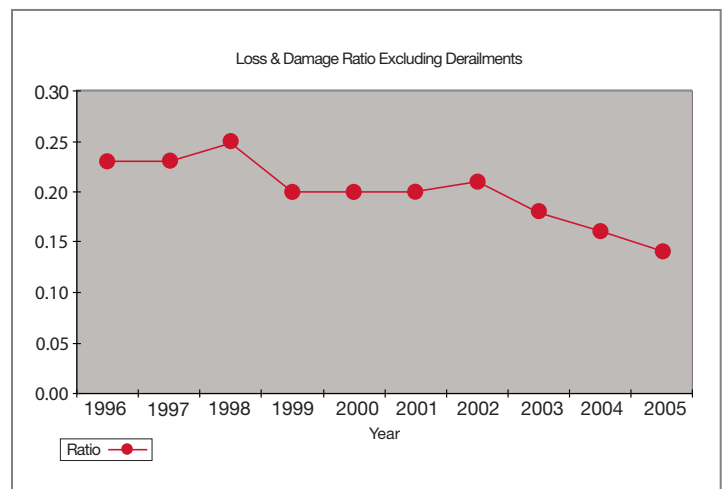
Conducting test for intermodal loading application

A highlight of the year was a series of tests for a major automotive manufacturer. This project, managed by damage prevention staff, involved 65 test runs at the Transportation Technology Center, Inc. (TTCI) measuring longitudinal forces and the effects on test vehicles during rail transportation. As a result, the auto manufacturer made changes in its shipping instructions which will reduce vehicle damage during rail transit.

The DP&LS group conducts damage prevention tests for new loading methods and materials. Test results help to enhance customer service, minimize freight damage and promote safety for the rail industry. During 2006 the following tests were completed:

- Rail environment simulation tests to approve boxcar or intermodal loading methods and materials
- Impact tests to address various boxcar, intermodal and automotive loading and securement applications
- Over-the-rail field tests on intermodal loading systems
- Laboratory tests involving materials and products used for load securement and protection of freight

Products and services offered by the Railinc DP&LS group complement work performed by individual railroads to minimize freight loss and damage. Combined, these coordinated efforts have resulted in significant decreases in industry loss and damage (L&D) measurements. For 2005 (the most recent annual statistics), the ratio of L&D claim payments (excluding derailments) to freight revenue was 0.14%—an all-time industry low.



Graph of ten-year trend in loss and damage ratio



Essential Resource for Mergers, Line Sales and Trade Name Changes

Essential Resource for Mergers, Line Sales and Trade Name Changes

Railinc is integral to rail mergers, line sales and trade name changes because it maintains the Industry Reference Files (IRFs)—the core information to all railroad systems.

Carriers depend on Railinc to update files such as the Mark Register (MARK), the Centralized Station Master (CSM), the Junction Interchange File (JUNC), or the Route File (ROUTE) before they can update their internal systems with new merger, line sale and trade name change information. Railinc also manages all inventory moves, Umler/EMIS changes and EDI messaging for all mergers, line sales and trade name changes.

In 2006, Railinc facilitated two mergers and one line sale:

- Kansas City Southern (KCS)
Integrating Texas Mexican Railway (TM)
- CN
Integrating Mackenzie Northern Railway, the Lakeland & Waterways Railway, and the Central Western Railway (jointly known as RLGW/CWRL)
- Canadian Pacific Railway (CPRS)
Line sale to Indiana Rail Road (INRD)

As the steward of the IRFs, Railinc ensures that:

- Updates to these files are done correctly and in a timely manner
- Referential integrity guidelines between these files are observed
- File changes and updates via EDI are distributed
- Changes in the Official Railroad Station List (OPSL) are published, meeting legal and statutory requirements

Railinc dedicates resources to each merger, line sale and trade name change to ensure its success; it's not unusual to have a resource from each Industry Reference File area involved. For the CN and KCS mergers, there were over 20 Railinc and carrier team members involved to ensure that everything ran smoothly.



Industry Support

Industry Support

During 2007, Railinc strengthened its support for the industry's growth and prosperity.

5030 Electronic Data Interchange Upgrades

Rail industry EDI-standard-setting activities are coordinated by Railinc with the responsible industry business process owners. The EDI team maintains and publishes EDI Guidelines for all rail EDI messages as they pertain to the rail industry's implementation of the Accredited Standards Committee (ASC) X12 standards, annually.

Once every two years the EDI team oversees the ASC X12 version upgrade to Forward & Store (including 417 Rail Carrier Waybill Interchange and 421 Estimated Time of Arrival and Car Scheduling) and Steelroads (404 Rail Carrier Shipment Information). In 2006, this upgrade brought the railroad industry into version 5030 ASC X12 standards compliance. All business rules for rail EDI messaging, including notifications, advance traffic information, blocking requests and responses, and customs advice to other rail and customs agencies, are published and maintained by Railinc.

Railinc updates EDI systems—Forward & Store, Interline Settlement Systems (ISS), Industry Reference Files (IRFs), and Rate EDI Network (REN)—to enable all railroads to take advantage of current X12 EDI data changes and their rail business process advancements. The majority of updates to rail EDI involve hazardous materials and customs regulations for Canada, Mexico and the US, as well as business process changes in the rail industry that require new data to be exchanged between the railroads or with railroads' external customers.

New Interline Service Quality (ISQ) Metrics

The industry has determined that better accuracy of information provided before equipment is interchanged will improve operations. To meet this objective, the Interline Service Quality (ISQ) team designed new measurements for the interchange process.

To facilitate the improvement, Railinc developed a new tool in 2006, called ISQ Metrics, to be released in the future to railroad personnel who would benefit from the data analysis capabilities it provides. It allows users to analyze their performance as well as their interchange partners' performance.

ISQ Metrics incorporates a powerful report-and-analysis tool that helps users to identify the root cause of performance problems. ISQ Metrics includes measures of the availability, timeliness and accuracy of the information provided to interchange partners at both the train level and car level. Currently, it measures performance against Interline Service Agreements, Estimated Time of Interchange and Advance Consists.

Support Industry Efforts to Develop Better Asset Location, Health Data Collection

Railinc anticipates an industry need for a more strategic and cohesive approach to asset location and condition data collection. In 2006, Railinc took a more proactive role in the investigation of new and emerging technologies in these areas. Investigations also included a technology that can drive down the cost of the required railroad infrastructure. The current technology, Automatic Equipment Identification (AEI), is costly—ranging from \$35K–\$65K for installation and maintenance—and fails to provide real-time information for car locations.

Industry Support

A number of alternative approaches to traditional AEI technology are being developed by companies such as IBM and GE. One example is the combination of Radio Frequency Identification (RFID) technology, sensor-based networks, and the use of a satellite uplink. This trio will allow the transition from a transaction-based system (event data sent after a train passes wayside devices) to a real-time system (location data always available, on demand). It will also include methods to integrate captured events with systems that have been traditionally transaction-oriented through the use of reliable messaging. Events will be monitored and reported by sensors located on the rail car and transmitted to a router.

Since many locomotives are equipped with a satellite uplink capability, this existing link can be used to transmit information from the sensor network to a central location. Work is currently under way to begin a prototype of this technology. Railinc, as the project manager, is ensuring that information about this prototype is shared across the industry in a number of ways including regular updates to key industry committees and briefings and seminars for the industry.

In addition to project management and industry communications on these new endeavors, Railinc continues to develop more cost-effective options and configurations for existing AEI technology. As an example, Railinc surveyed vendors of components that make up an AEI installation, then put together sample configurations that could be used at a lower cost than the standard installation in use today. The results of this effort were shared throughout the industry at the end of October.

2007 plans include the documentation of AEI reference architecture and the piloting of a high-speed configuration with one of the Class I roads within the year.

Guardian System for Hazmat Information

Complete hazmat shipment information is more important to the rail industry than ever before. Development of Railinc's Guardian System was initiated in 2006 to provide current and historical information in the form of commodity descriptions, waybills, events, and related data.

Guardian will speed and simplify the retrieval and use of hazmat information. Its improved organization and access methods will create a more responsive, effective and efficient information resource to meet industry requirements.

Recent examples of special hazmat information requests included:

- Loaded car miles, by state and major railroad for designated groups of hazardous commodities, were provided to a rail industry group studying risk elements
- A list of all shipments of selected hazardous commodities in 2004 and 2005, provided to the AAR for the support of FRA-sponsored collaboration among railroads, shippers and tank car owners

Guardian's goals will be accomplished by:

- Collecting current and historical hazmat information in a secure database
- Deploying appropriate access tools (e.g. Business Objects, SAS)
- Making the information accessible only to approved parties

FreightScope™ Selected for Hazmat Emergency Location

Railinc's FreightScope service was selected by the American Short Line and Regional Railroad Association (ASLRRA) and the Federal Railroad Administration (FRA) in the wake of Hurricane Katrina for faster location of specific hazmat shipments in the event of natural and man-made disasters.

FreightScope provides a Web-based interactive dashboard of near-real-time rail shipment location information for North America. Users can quickly determine the last reported location of hazmat shipments that are in the control of short line railroads. FreightScope also quickly identifies shipments for

which no event reports have been received during specified time periods. It produces graphical breakdowns of short line-controlled hazmat shipments, by FRA region and state.

In November 2006, the FRA and the ASLRRA performed an emergency simulation test during which ASLRRA personnel quickly retrieved required hazmat shipment data from the FreightScope system. In previous similar circumstances, such as the Hurricane Katrina disaster, it took about three days and a great deal of manual effort to develop the information needed to take action. In the November test, the ASLRRA produced a written report on short line-controlled hazmat shipments in 15 minutes.





Operational Excellence

Our Commitment to Operational Excellence

In 2006, Railinc re-established its core values and mission, and reaffirmed its commitment to operational excellence.

Hardware Investments and System Availability

During 2006, the Railinc IT team focused on improving the reliability and performance of mid-range and mainframe system environments and infrastructure. Performance was enhanced by updating the architecture of the supporting infrastructure and by bringing legacy systems into a standard high-availability configuration. These substantial performance enhancements have resulted in a 48% reduction in Severity 1 incidents, year-to-date, versus the year before. Improvements included:

- Stabilizing key applications and related mid-range infrastructure
- Improving performance and reliability of data storage and backup systems
- Enhancing the networking and messaging systems
- Updating key mainframe components and improved application performance

Service-Oriented Environment in Development

Service-Oriented Architecture (SOA) is defined by *Wikipedia* as “a design for linking computational resources (principally, applications and data) on demand to achieve the desired results for service consumers.”

SOA is based on the principle that applications can be built using common services. Re-using services helps to speed the development of applications by eliminating the need to develop the function provided by the service again and again. Additional benefits include the enforcement of business rules in a consistent fashion and improved application quality by reusing

pre-tested services. Data quality can also be enhanced through the consistent application of edit rules which do not vary from implementation to implementation.

Railinc has defined more than 30 services that call upon Industry Reference File (IRF) information, perform equipment and equipment pool operations, and report equipment repairs. The equipment and equipment pool operations are also available to external customers as Web services. Some applications have begun to integrate these services, including the Embargo Permit and Reciprocal Switch applications.

Long-Term Equipment-Centric Systems Vision

Railinc Enterprise Architects and members of the Industry Architecture Standing Committee have developed a long-term architectural vision for equipment-related industry systems. The objective is to allow Railinc systems to better support the goals of the industry.

For example, a key industry goal is to enhance network safety and efficiency by taking advantage of new technology that can assess the condition of in-service equipment. The vision supports this goal by allowing the integration of more timely information about in-service equipment. Other industry goals supported by the vision include proactive rail equipment maintenance, maximized car utilization and equitable processes for reporting and payment of car hire compensation.

The foundation of this architecture is the “system of record” responsible for managing all access to information such as equipment attributes, repairs, and equipment alerts, through the use of reusable services.

The vision, shared with a number of industry organizations, has been well received. It includes both short- and long-term recommendations and Railinc is on its way to implementing both.

With the creation of a method outlined in the equipment systems vision to call services from mainframe-based applications for the access of information managed by mid-range systems, Railinc will be able to move data from one platform to another more flexibly.

Microsoft® Windows® SharePoint® Services Support Committee Work

To support rail industry committee work, Railinc implemented the Microsoft SharePoint Services document management and collaboration tool in June 2006. SharePoint allows documents to be entered once and used across the enterprise. In other words, multiple versions of the same document are not housed on individual personal computers. Committee members can update a document in SharePoint and alerts will be sent automatically to other committee members that a change has been made, eliminating the need to send documents via email. The permission feature prevents unauthorized deletion and/or changes to documents. Version control ensures the most current version is being used and historical versions are archived.

In 2007, SharePoint Portal will be released which includes enhanced content management, across-site search capabilities and integration with Microsoft products such as Office, Project and Outlook.

Successful Third Annual SAS 70 Type II Examination

For the third consecutive year, Railinc successfully completed a Statement on Auditing Standards (SAS) 70 Type II examination. The SAS 70 audit validates internal controls and operational procedures for securing and protecting data exchanges with Railinc customers.

Over a six-month period, the SAS 70 Type II Report thoroughly evaluated the integrity and security of Railinc's systems, procedures and internal controls critical to processing information and millions of confidential financial transactions.

Specifically, the following four systems were examined:

- Railroad Clearinghouse (RCH)
- Interline Settlement System (ISS)
- Rate EDI Network (REN)
- Liability Continuity System (LCS)

Additionally, physical and logical security measures, network access and monitoring, systems development, change management and customer service were evaluated.

A favorable Type II audit is a key requirement for customers. Regulations, such as the Sarbanes-Oxley Act, require credible proof that service providers possess effective internal controls, high security standards and tight quality controls. Customers can feel confident that Railinc meets or exceeds the highest standards for processing, protecting and securing their data.

Data Transfer Processes to Eliminate Computer Tapes

Ever-changing technologies and the nature of Railinc's services call for better data transfer methods. To improve file security and reduce physical space and hardware requirements, Railinc's goal was to replace one of the oldest and most costly ways to handle data: magnetic tapes.

Norfolk Southern Corporation took the lead in participation as part of a data center relocation effort by discontinuing the use of magnetic tapes for file exchanges with all external companies. Data files exchanged with Railinc are encrypted and use a secure private FTP connection that employs security certificates.

Railinc is actively working with several partners in the industry to completely replace magnetic tapes by the end of 2007.

Retired Product Line



Retired Product Line

In line with its strategic decision to reaffirm its core values and mission, Railinc announced in April 2006 that it would renew focus on its core product lines while no longer selling or marketing its RailSync suite of products.

The RailSync product suite was built during the last several years to assist the railroad industry in eliminating tracking information “black holes” in the non-mechanized segment of the short line and regional railroad community.

A Web-based solution was developed, which included a transportation management system (Command); a wireless mobile component (Mobile Command); a railroad Interline Settlement System (ISS) interface system (Concur); and a car hire system (Control); all targeted at the short line and regional railroad community.

Railinc actively sought buyers for the RailSync product suite to ensure continuity of service for the short line customer base and will conclude this process in 2007.



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