

RAILINC



2007 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.

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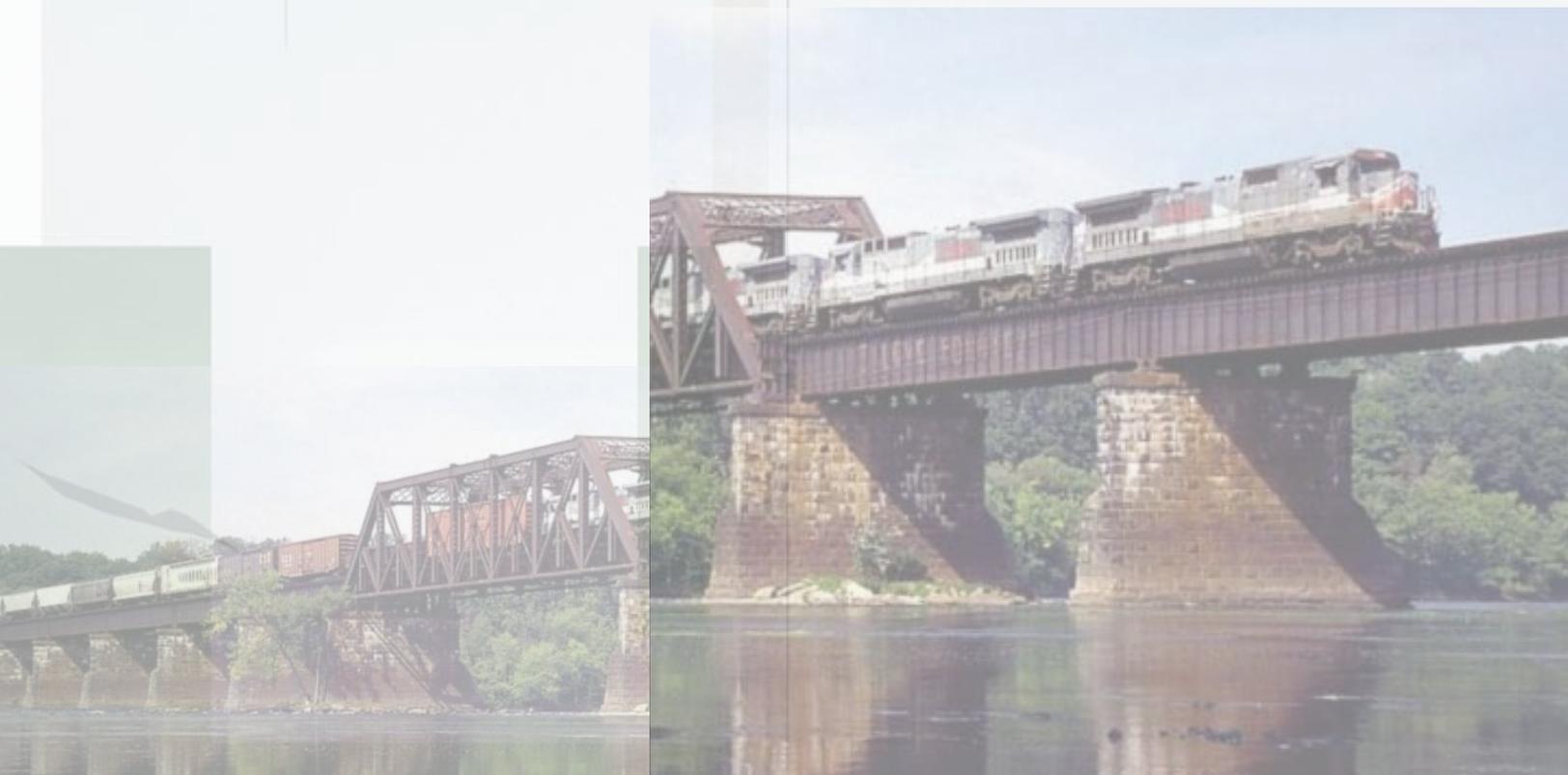
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Standing left to right

E. Allen West, President and CEO
 Greg Hutt, AVP Industry Services
 Todd Bolon, VP Information Technology and CIO
 Treadwell Davison, Industry Strategic Initiatives
 Malcolm Clarke, VP Corporate Services and CFO

Seated left to right

Rebecca Hess, Director Human Resources
 Karen Folino, AVP Industry Support Services

TABLE OF CONTENTS

Message From The President	3-4
Rail Industry Relations	5
Industry-Guided Solutions	6-8
UMLER/Equipment Management Information System	6
Equipment Health Management System	6
AAR Embargo/Open & Prepay Station List Permit System	7
Chicago Traffic Barometer	7
Rate EDI Network (REN) Web Serving Carrier Reciprocal Switch (SCRS) Web . . .	8
Equipment Vision Support	8

Industry Support	9-13
Guardian	9
Next Generation Asset Tracking . . .	10
Automatic Equipment Identification (AEI) Site Reference Architecture	11
Messaging Services	12
Operational Excellence	13
Career Opportunities	14

INTRODUCTION

Railinc is a wholly-owned subsidiary of the Association of American Railroads. We are a leading provider of information technology and related services. Our extensive databases include an inventory of all rail freight equipment used in interline transportation within North America. We support one of the world's largest Electronic Data Interchange networks, over which some 7 million messages are transmitted each day.

On the following pages you will find the details of our accomplishments, products and services for 2007. It is our objective to be a trusted resource delivering value to railroads and their industry partners by providing a portfolio of significant, reliable, convenient, and innovative technology solutions at the lowest overall cost.

This document is intended to be a top-line summary for Railinc's key stakeholders—railroads, car owners, equipment suppliers and logistics service providers.

If you are interested in the services Railinc provides, or need additional information, please contact us.

MESSAGE FROM THE PRESIDENT

Railinc successfully completed significant transformations in 2007. The organization has been strengthened at every level ensuring we have the right people in the right positions supporting our customers and our strategy. Our alignment, customer focus and product development expertise help maximize the benefits the industry receives from our portfolio of products. We strive to provide a significant return on investment on products and projects and are committed to being the industry's first choice for responsive delivery of reliable IT solutions.

Railinc applications and messaging systems operated at superior levels in 2007, as validated via critical benchmarks. Also, industry projects driven by the Safety & Operations Management Committee (SOMC) and the Network Efficiency Management Committee (NEMC) were delivered with higher success criteria than ever before. These initiatives are projected to return millions

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of dollars in savings and productivity enhancements to the industry in the coming years.

One of the most significant undertakings in 2007 was the change of our pricing model. Upon approval by the Railinc Board in September, we rolled out a fairer and more equitable pricing structure for 2008. The changes simplified all pricing in the portfolio and overall, were well received by the industry.

Our product transformation is ongoing. We worked with our customers in early 2007 to better understand the value received and made adjustments based on specific feedback, thus ensuring wise investments to the betterment of the changing industry and the needs of our customers. We transitioned the RailSync product suite to RailSync LLC, a ShipXpress subsidiary in January. It is our objective to continue leveraging our strengths to enhance the services offered by our customers.

In 2007, Railinc worked on a number of projects supporting the 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 Management System (EHMS) – Industry system for vehicle condition monitoring and alerts**
- **AAR Embargo and Permit System – Enhancements to the 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 to take advantage of innovative technologies**

We have developed the underpinning of a future strategy for Railinc. As part of our commitment to achieve operational excellence, significant management attention is focused on our applications, infrastructure, and processes. Our goal is to focus on the areas that will add the most value to the industry and that complement, not conflict, with individual railroads’ and industry partners’ commercial and operational strategies.

We have examined our core competencies, strengths and weaknesses. We have done due diligence specific to individual products and our current offerings within the industry and future strategy. We will begin work with the industry in 2008 to roll out this new strategic direction and adjust as we receive feedback on our plans.

We are committed to additional initiatives that will improve the industry’s response to requirements for safety and security of all rail shipments. Railinc is committed to being a leader with regards to information standards and technologies with the goal of improving asset tracking and utilization.

For 2008, Railinc plans to continue its initiatives of financial discipline and improvements in customer support. We will continue to develop our organization to support the industry of the future via process improvement and building on our core competencies. Appropriate investments will be made to our infrastructure in support of continued, reliable services. Major projects will evolve in support of rail asset management, service reliability, revenue management and security applications.

I am very proud of the progress we have made in 2007 and look forward to building on our strengths.



E. Allen West
President & CEO





RAIL INDUSTRY RELATIONS

All Eyes On Customer Service

The Rail Industry Relations program was a key initiative in 2007. The objective was to create a liaison between the railroads and Railinc – outside of the committee and product support structure.

In order to strengthen our core systems, we felt it necessary to take a detailed look at how our products and services are used. The established applications and services continue to provide significant value to the industry. However, we strive to continually improve and exceed expectations. This is why the Rail Industry Relations program was created and is an ongoing initiative.

Early on we focused on establishing the appropriate contacts at each Class I railroad and began building a network of working relationships with our largest customers. We strengthened our credibility with our key stakeholders by examining and quantifying the benefits of our products and services with them.

The Rail Industry Relations program is highlighted by the following positive impact on the customers served in 2007:

- **Enhanced operational efficiencies**
- **Improvements to data accuracy**
- **Streamlined communication processes throughout the organization**

The program began by focusing on Class I railroads. In 2008 the program will be expanding to reach our broader customer base. Railinc is committed more than ever to the core needs of rail carriers, equipment owners and suppliers. The Rail Industry Relations program is just one way that Railinc is clearly aligning itself with the industry.



UMLER/EQUIPMENT MANAGEMENT INFORMATION SYSTEM

Keeping Customers in Good Standings

The Umler/Equipment Management Information System (Umler/EMIS) Project is the overhaul of Umler, the industry's 40 year-old equipment registration and inventory management system.

Railinc's and the industry's largest IT project reached several major milestones in 2007. On January 6, 2007, we released version 3.0, which incorporated changes and enhancements for easier navigation, security and improved workflow. On March 20, 2007, the functional specifications were approved to continue development work on this multi-phase, multi-year project to re-engineer this essential system. On December 3, 2007, we released version 3.1. This established the technical infrastructure for Umler/EMIS's ground-breaking dynamic data model and business rule system that will allow for final migration of the legacy system.

Umler/EMIS phase-three development continues in 2008 to provide effective solutions to relevant needs, modernizing the mission-critical Umler system. Phase-three development efforts will be underway in 2008 with the completed solution tested and implemented in 2009, making Umler/EMIS the modernized, real-time system of record for industry railcar management. It will overcome long standing limitations of the legacy system, facilitating real-time, accurate and secure data exchange of equipment characteristics, inspection and car management information with all equipment owners, carriers, shops and other logistic partners by using the Web and other communication modes.

Umler/EMIS maximizes value to the industry by providing access to vital equipment-related information and making updates to the complex Umler records much easier.

EQUIPMENT HEALTH MANAGEMENT SYSTEM

Overall Accident Rates are in a Steady Decline

The Equipment Health Management System (EHMS) was developed by Railinc in 2004 to support the Advanced Technology Safety Initiative (ATSI). The system communicates alerts generated by early detection of wheel defects. The objective is to provide data that identifies developing defects and facilitates the prioritization of repairs before costly failures occur. In 2007 we re-engineered the EHMS to allow for rapid deployment of alerts from new detector technology.

Detectors on the side of tracks measure the force that each and every wheel places upon the rail. These billions of pieces of information are fed to a central system. The data is analyzed to plan preventative maintenance, thus improving overall railroad safety and efficiency. The reporting feature of EHMS captures repair history so that a repair is

done once, in a timely and efficient manner. Railinc is currently tracking over a million wheels on cars that have developing problems.

Monitoring the "stress state of the industry" is a key initiative. The critical, rapid deployment of information is expedited by a strategic alignment between detector suppliers and owners, carriers, and our sister company, Transportation Technology Center Inc. (TTCI). Working together allows for a streamlined and automated deployment of new alerts.

Continuing to provide pro-active solutions, 2008 will see Railinc develop and implement a "data summary" concept which will allow for early communication of pertinent safety-related information ahead of the formalized AAR rule-making process that currently drives EHMS Alerts.



AAR EMBARGO/OPEN & PREPAY STATION LIST PERMIT SYSTEM

Easy-to-Access Audit Logs Outline History and Status for a Specific Embargo

North American rail service was significantly disrupted by three major hurricanes in 2005, emphasizing the need for more efficient embargo policies. An embargo is a temporary method of controlling traffic movements when congestion or other interference with operations such as track, bridge or physical impairments may warrant restrictions.

Railinc originally deployed the AAR Embargo and Permit System in 2006. This 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.

The new 2007 software release includes the following improvements:

- **Modifications to the GEO Tool that provides a geographic view of North America for embargoed freight stations, with “drill-down” capabilities**

- **A new, unique function for Open and Prepay Station (OPSL) notes management to aid shippers, consignees and railroad transportation personnel in the electronic exchange of information on operational issues associated with an embargo**
- **Improved reporting capabilities to identify the status of traffic affected by an embargo or permit**

The value of using this Internet tool offers the shipping public a central and searchable repository of embargoes and/or operational OPSL notes that may impact their scheduled shipment. The software offers use of the Internet, email and XML to react to an embargo that might impact their freight operations or their customers.

This release enhances the original integrated management application designed to handle every step of the embargo and permit process. With these innovations, railroads can issue instructions to temporarily control traffic movements, amend and cancel embargoes, and grant permits for movement to embargoed destinations.

CHICAGO TRAFFIC BAROMETER

Technology Solution Eases Traffic Flow

Inconsistent indicators often challenge the rail traffic destined to interchange in Chicago from various sources. Forecasts provided by eight railroads to the Chicago Transportation Coordination Office (CTCO) required an effective solution to a relevant need.

Railinc is delivering a reliable solution by utilizing industry data from central site to generate daily forecasts. The industry raw data is supplemented with detailed business knowledge and analysis from Railinc. This information is compiled into

spreadsheets which are delivered daily to the CTCO. This improved process consistently estimates interchange volumes one, two, and three days in advance.

Forecasts are detailed to six traffic categories. Significant value is achieved through enhanced planning for smoother traffic flow in Chicago. We anticipate that further adjustments will be made in 2008. This continued process improvement will enable delivery of an even more effective product.



RATE EDI NETWORK (REN) WEB SERVING CARRIER RECIPROCAL SWITCH (SCRS) WEB

Improved Data Quality and Cost Efficiencies

Railinc maintains the North American Rail Industry data standards. These Industry Reference Files (IRFs) are the building blocks for interline communication and are used to ensure consistent data interpretation.

The Serving Carrier/Reciprocal Switch (SCRS) Web site gives carriers the ability to update and retrieve information about customers, serving carriers and reciprocal switch charges in real time. This improves the accuracy of applied switch charges. The Rate EDI Network (REN) Web allows users to view, update, transmit and publish their private and public prices via the Internet, bringing efficiency and accuracy to the rating process.

In keeping with Railinc's commitment to our customers, REN Web and SCRS Web give participants convenient access to these services through an easy-to-use web portal. This enhanced functionality provides improved data accuracy and cost efficiencies.

EQUIPMENT VISION SUPPORT

Integrated Data Improves Business Intelligence

In order to achieve our vision of being an innovative rail industry partner, we evaluated our services and determined that many of our data stores are not integrated. Our "Equipment Vision" is to incorporate and integrate information from our large store of various railway equipment-related systems. Integrated data is transformed into business intelligence providing value and driving fact-based business decisions.

In the past, there was no easy way to bring streams of disparate equipment data together into meaningful reports and inquiry results. Technological advancements in the domains of data integration, data warehousing and data access have made such innovations possible. This initiative will allow Railinc to offer new data products and services that previously have been too difficult and costly to pursue.

These new products will integrate current data from products such as TRAIN II, Umler/Equipment Management Information System (EMIS), Equipment Health Management System (EHMS),

Early Warning System (EW), Car Repair Billing System (CRB) and the Event Repository (ER).

"Equipment Vision" was developed in 2007 when the information that provides the building blocks for an integrated view was identified. An independent study was conducted with equipment owners of all classes to establish the relative value of integrated rail data and its relationship to business processes.

The phased roll-out of "Equipment Vision" will begin in 2008. In each phase we will work with customers to validate the assumptions and make the most efficient use of central site data.

INDUSTRY SUPPORT GUARDIAN

Critical Decisions Related to Safety and Security Are Made Easier

Complete hazardous material (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 specific to rail movement of hazardous material.

As the name implies, the Guardian System is a responsible caretaker of industry-wide information. We provide significant and enduring value to

railroads and government agencies by being the single secure source of this critical data. There is no need for railroads to expend resources to gather and provide this information individually.

This on-line database covers rail shipments of all hazardous materials. It supports approved industry personnel in performing their critical jobs of delivering a safe and secure rail transportation environment.





NEXT GENERATION ASSET TRACKING

Strategic Partnerships Deliver Innovative Solutions

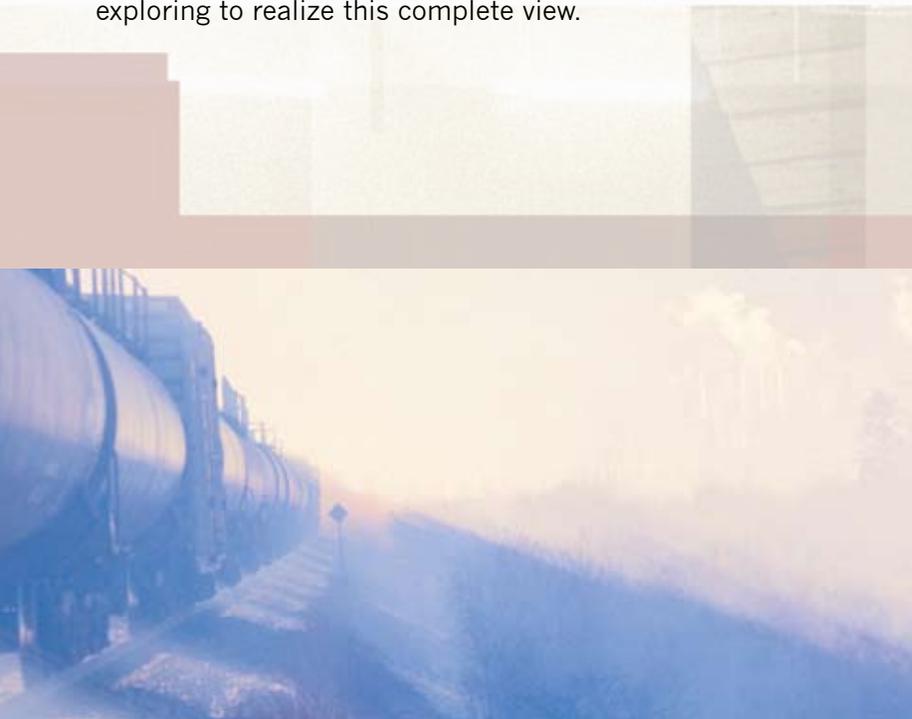
NASA has long been able to gather and analyze telemetry from their space missions. Monitoring items like temperature, vibration, pressure, etc., key systems on the Space Shuttle and other vehicles “beam back” data to NASA that allows them to assess operational conditions. The railroads have been doing remote monitoring, too. However, they have been limited to critical systems mainly due to financial limitations.

As is often the case with technology, economies of scale are beginning to drive down the price of remote equipment monitoring. With costs decreasing, there is an emerging ability to provide a complete view of rolling stock and shipments at any given point in time as they move through the railway network.

Motes are tiny wireless computers (about the size of a silver dollar) attached to sensors that are able to link up with many other Motes, forming a “smart network.” Wheel-bearing temperature, car weight, car location, and the like can be sent to back-office systems on a regular basis, greatly enhancing the detail and timeliness of information about railroad equipment. Motes are an emerging technology that the railroads are exploring to realize this complete view.

Railinc is currently playing a critical partnership role in two key research initiatives supporting this promising technology. The first project started in the summer of 2006 and was developed by IBM for Union Pacific. Lab demonstration (Phase One) was successful. The next phase will be the implementation of field deployments on actual rail cars.

The second project is driven by safety and security. Companies that transport hazardous materials are running pilots that put remote telemetry devices on the top of tank cars. Similar to the Motes project, these devices sense temperature, vibration, pressure, etc. However, they differ from Motes because Hazmat telemetry devices phone directly to their respective back offices (not through the railroads). The Association of American Railroads (AAR) has formed the Asset Condition and Visibility Task Force (ACVTF) to govern this data and has engaged Railinc to lead the standards development.



AUTOMATIC EQUIPMENT IDENTIFICATION (AEI) SITE-REFERENCE ARCHITECTURE

Clear Indications on How to Deliver Best-In-Class Solutions

The foundation of Automatic Equipment Identification (AEI) began in 1991 as a program to improve rail equipment tracking. Railroads and their customers rely on the AEI system to track the location and trip history of 99% of the continent's rail cars and locomotives. In 2007, the AAR utilized Railinc's expertise to research and aggregate the best practices used in the industry to build mission critical AEI sites.

Railinc, in conjunction with AAR Committee direction, has written clear architecture guidelines. The AEI Reference Guide documents standards on how to build reader sites where radio antennas read passing train car information.

The new requirements fall into three categories:

- **Generate and report accurate train consists**
- **Build and maintain sites to support mission critical systems**
- **Keep total costs of ownership as low as possible**

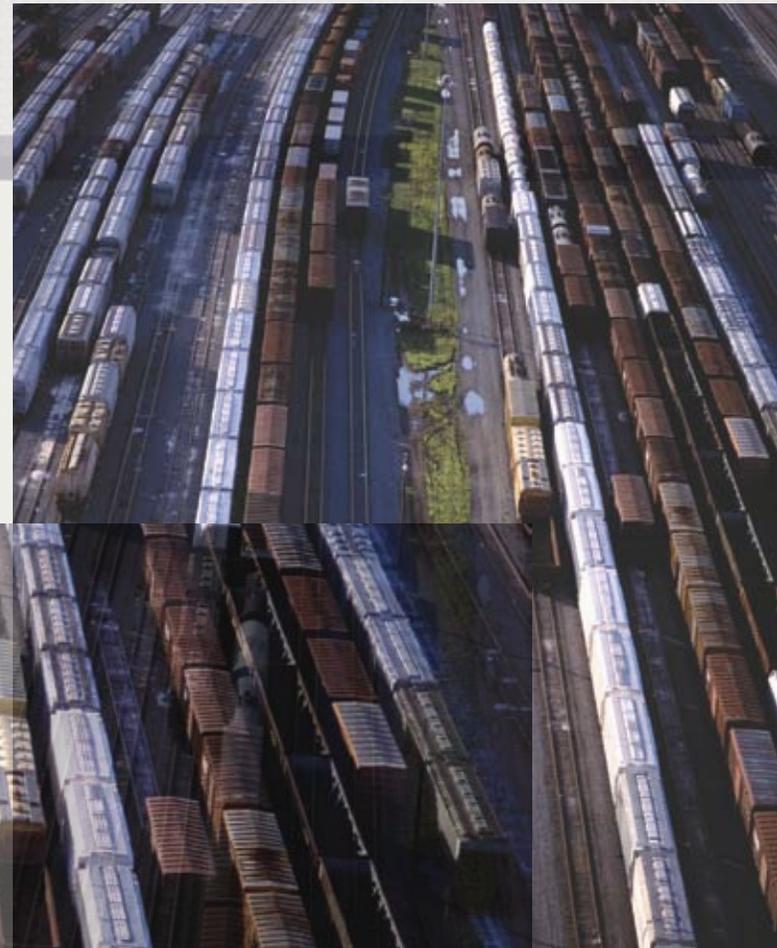
Historically, management of this important supply chain information was challenged due to lack of clear documentation. Employees working with AEI on a day-to-day basis largely "owned" this knowledge. With roles changing and retirement of employees looming in the railroads, much of the knowledge about AEI site architecture was in danger of being lost.

Documenting and preserving AEI site requirements was a major goal of the effort. It is also hoped that this architectural reference will allow new vendor entry into the AEI market, spurring innovation and driving down costs.

The AEI Reference Guide can be found at:

<http://www.railinc.com/view.cfm?cnid=375>

We will continue to work with the AEI Committee to ensure that these clear guidelines deliver maximum value to the industry.



MESSAGING SERVICES

More Service Flexibility at a Lower Cost

The Railinc Messaging Services (RMS) project is a new software and hardware technology implementation that will replace the existing version of Railinc's core message switching application. RMS will provide the industry with a high-performance, flexible and feature-rich messaging platform. Message flow and trading partner configuration will be readily available through web-accessible customer self-service tools. As needs change, RMS will enable Railinc to increase the messaging features and options available to customers.

In 2007, Railinc focused on building the core functionality needed for the new message switch. The 2007 deliverables were developed and tested for quality assurance both internally by Railinc and with industry participants. In the implementation phase, we set objectives to exercise key components of the enhanced system and selected initial message sets to minimize risk. The first phase of RMS was successfully implemented in December 2007.

This major work will continue throughout 2008 as we migrate existing trading partner data traffic to RMS. Railinc plans to retire its older message switch at the end of 2008.



OPERATIONAL EXCELLENCE

Cost Effective, Adaptable and Aligned with the Needs of our Customers

A Service Oriented Architecture (SOA) was adopted in 2007 enhancing the development and offerings of applications from Railinc. In addition, we implemented a “Center of Excellence” approach to deliver the most cost-effective services to the railroad industry. This new business process is an example of our commitment to continuous improvement.

We have utilized a “road map” strategy that outlines the tactics required to close the gaps between current and future needs. Metrics have been defined and are monitored on a timely basis. These metrics measure how much each service costs to build, how many times the service is used and the financial savings or return with each use. The transition to SOA offers a new, comprehensive way of designing and building applications and provides specific guidance to initiate innovative service opportunities.

During 2007 we focused other efforts as well toward Operational Excellence with the intent of lowering the cost and improving the quality and convenience associated with using Railinc products. Pricing reviews and ongoing responsive, reliable IT solutions continue to be key objectives.

The new external customer test environment is another way Railinc is demonstrating Operational Excellence. Customer testing is critical to the development and implementation of products (new and improved) that provide effective solutions to relevant needs.

Further Operational Excellence work in 2007 included the upgrade and expansion of our application supporting AAR Special Car Order 90. “SCO90” enables more efficient return of empty freight cars, resulting in both fewer missed loading opportunities and fewer empty miles. Railroad car management systems have become much more sophisticated in recent years allowing the original SCO90 application to be re-built and expanded to deliver more interline transportation benefits. Implementation of the new SCO90 application enhances asset utilization and car management by, among other things, expanding the number of empty freight cars that can be directly routed back to Umler Pool assignments or to railroads that lease privately marked freight cars

CAREER OPPORTUNITIES

Our people are what make Railinc a great company. We employ smart, creative and passionate individuals working in the areas of information technology, business and finance.

A career at Railinc puts you among other talented individuals who are committed to turning thoughts and ideas into real products and services. If you have a desire to use your expertise at the very highest level, there could be an opportunity for you.

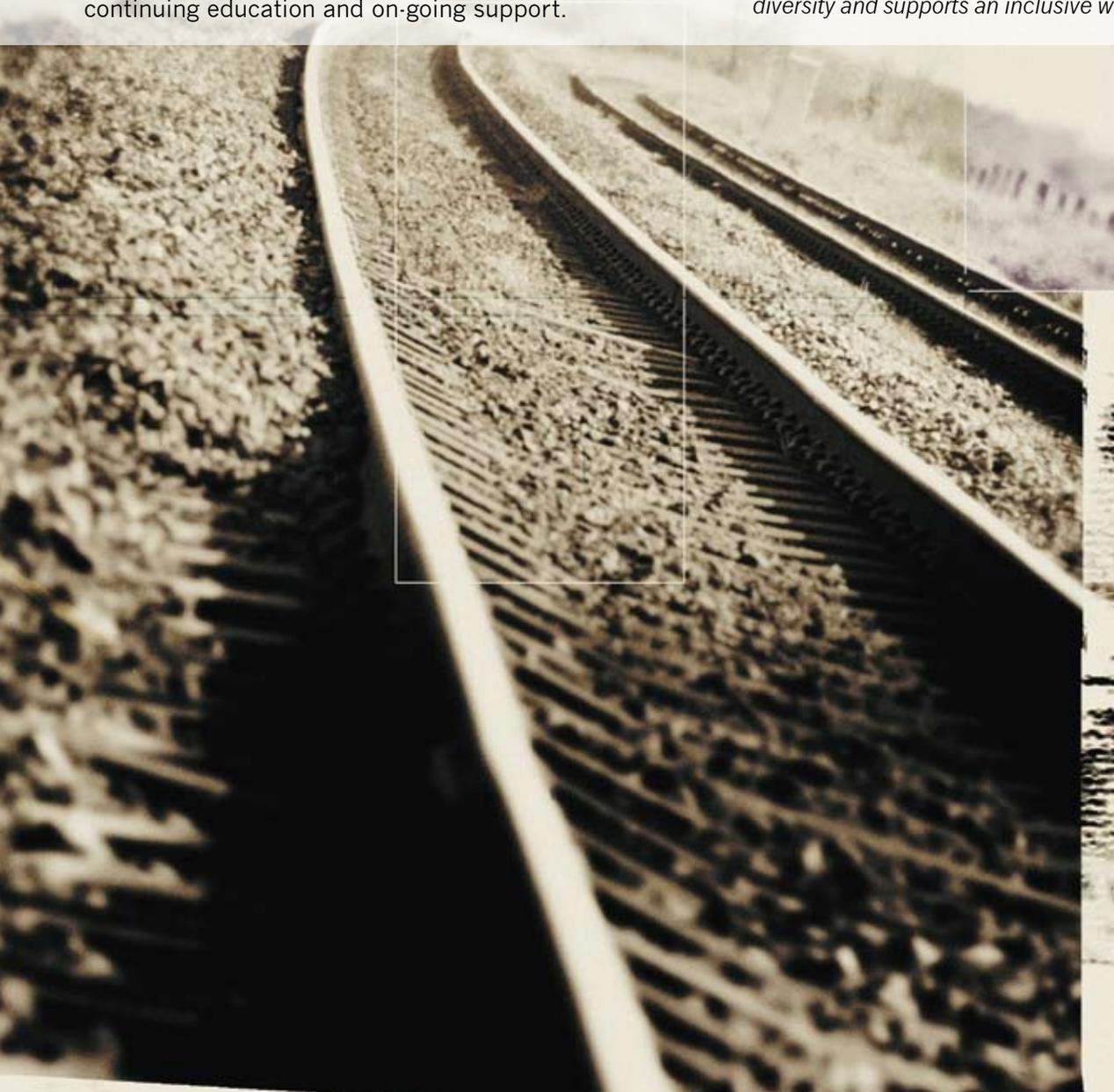
Quality of life in the workplace and employee satisfaction are key initiatives. We place a high value on learning by providing plenty of on-site training, continuing education and on-going support.

We encourage employee excellence and satisfaction through the following workplace objectives:

- **Provide an environment that balances work and personal life**
- **Encourage collaborative professional relationships**
- **Offer a rich array of individual and family benefits**

Sound interesting? To learn more visit us at www.railinc.com

Railinc is an equal opportunity employer, embraces diversity and supports an inclusive work environment.





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