



ASSOCIATION OF AMERICAN RAILROADS

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June 25, 2007



Honorable Vernon A. Williams
Secretary
Surface Transportation Board
395 E Street, S.W.
Washington, D.C. 20423

Re: Ex Parte No. 558 (Sub-No. 10), Railroad Cost of Capital – 2006

Dear Secretary Williams:

Please find enclosed an original and ten (10) copies of the Comments of the Association of American Railroads and Its Member Railroads in the proceeding referenced above. A copy of the same on a disk in MS Word format is also provided for the Board's convenience in addition to an Adobe PDF.

Please date-stamp the extra copy of the Comments and this letter, provided for that purpose, and return the same to the undersigned, via the individual hand delivering them.

Respectfully submitted,

Louis P. Warchot

Enclosures

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ORIGINAL

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

RAILROAD COST OF
CAPITAL — 2006

EX PARTE NO. 558 (Sub- No 10)



**COMMENTS OF THE ASSOCIATION OF AMERICAN RAILROADS
AND ITS MEMBER RAILROADS**

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June 25, 2007

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Verified Statements

Tab	Witness*	Subject
1	Craig F. Rockey	The railroads' market value capital structure, overall cost of capital, cost of common and preferred equity, and cost of all types of debt.

*Verified statements are referenced in these comments by witness name – viz., V.S. Rockey at _____.

**BEFORE THE
SURFACE TRANSPORTATION BOARD**

RAILROAD COST OF
CAPITAL — 2006

EX PARTE NO 558 (Sub- No. 10)

**COMMENTS OF THE ASSOCIATION OF AMERICAN RAILROADS
AND ITS MEMBER RAILROADS**

By order served May 16, 2007, the Surface Transportation Board (STB/Board) instituted this proceeding to determine the railroads' cost of capital for the year 2006. That determination, as the Board noted, will enable it to make the statutorily required (49 U.S.C. 10701 (d)(2), 10704(a)(2)) annual individual railroad revenue adequacy determination for 2006. The Board noted further that the cost of capital determination may also be used in various other STB railroad proceedings. See Ex Parte No. 558 (Sub-No. 10) *Railroad Cost of Capital – 2006* (Served May 16, 2007) (Slip Op. 1).

The railroads, through the Association of American Railroads (AAR), are submitting herewith their calculation of (1) the railroads' 2006 cost of common equity capital; (2) the railroads' 2006 current cost of preferred equity capital, (3) the railroads' current 2006 cost of debt capital and (4) the 2006 capital structure mix of the railroad industry on a market value basis.

AAR, through the attached verified statement of Craig F. Rockey, Vice President, Policy and Economics of the Association of American Railroads. This statement establishes the following:

1. The 2006 cost of debt capital is 5.97 percent (VS. Rockey pp. 2, 28, 29)
2. There is no preferred equity capital for 2006 (VS. Rockey p. 2, 28, 29).
3. The 2006 cost of common equity capital is 16.10 percent (VS. Rockey pp. 2, 14, 29).
4. The capital structure of the railroad industry is 22.8 percent debt, 0.0 percent preferred equity and 77.2 percent common equity. (VS. Rockey p. 2, 29)

From these data Mr. Rockey concludes that the overall railroad industry cost of capital for 2006 is 13.8 percent (V. S. Rockey pp. 2, 29).

I. Introduction

The sole purpose of this proceeding is to determine the railroad industry's cost of capital for 2006. Thus, while the revenue adequacy standards are not at issue in this proceeding, it has been held that the current cost of capital will continue to be the sole standard of revenue adequacy, and that the cost of capital will be computed using the current cost of debt and market value weights. See Ex Parte No. 393 (Sub-No. 1), *Standards for Railroad Revenue Adequacy*, 3 I.C.C. 2d 261 (1986), *aff'd sub nom., Consolidated Rail Corporation v. United States*, 855 F.2d 78 (3rd Cir. 1988).

II. The Cost of Common Equity Capital

The Discounted Cash Flow (DCF) methodology has been used in all previous cost of capital proceedings to determine the cost of equity. The validity of the DCF approach is recognized by nearly every rate of return analyst in the United States, and among federal and state regulatory agencies, the DCF model is the most widely used method for determining the cost of equity.¹ Mr. Rockey utilized the DCF methodology in his calculation of the cost of common equity in this proceeding.

Under the DCF methodology, the cost of common equity is determined by adding together the dividend yield (the expected dividend for the next period divided by the common stock price) and the expected growth rate. The dividend yield is computed using publicly available data from the stock market. In all cost of capital proceedings since 1982, the Board has determined the expected growth rate by using a truncated average of published long-term earnings growth forecasts by a large number of security analysts to obtain an estimate of the investors' consensus of earnings growth expectations. The use of analysts' forecasts to estimate the composite growth rate is the most accurate approach available. As the Board has properly recognized, this part of the DCF formula measures investors' expectations, and a consensus of analysts' forecasts is the best evidence of those expectations. V.S. Rockey at p. 10.

In cost of capital proceedings prior to Ex Parte No. 473, *Railroad Cost of Capital — 1987*, 4 I.C.C. 2d 621 (1988), the expected growth rate was calculated based on the consensus forecasts made by a group of prominent investment analysts who follow the rail industry.

¹ V.S. Rockey at 8, National Association of Regulatory Utility Commissioners, *Utility Regulatory Policy in United States and Canada 1995-1996*, at pp. 269, 530, 603, and 631 (December 16, 1996).

Commencing with Ex Parte No 473, however, the Board expressed a preference for use of consensus analyst five-year (long term) earnings per share growth rate forecasts published in Institutional Brokers Estimate System (IBES) reports² AAR has accordingly used IBES data in determining the expected growth rate in this proceeding. V.S. Rockey at p. 10-12

Based on a four-railroad composite (determined using established procedures) and the identical DCF procedures used in the last thirteen cost of capital proceedings, Mr. Rockey estimates that the cost of common equity capital for 2006 is 16.10 percent. V.S. Rockey at p. 14.

III. The Cost Of Preferred Equity Capital

Preferred stock is a hybrid security which has some characteristics of debt and some characteristics of equity. Its cost depends on its specific features. The methodology used by the Board in the last fourteen proceedings applies the following criteria:

- (a) Where the preferred is not convertible into common stock, and where the corporation is not required to redeem the preferred at specific times, the cost of preferred equity is equal to its current dividend yield
- (b) Where the preferred is not convertible but is subject to mandatory redemption providing holders of the instrument with a premium, the cost is equal to the current dividend yield, plus the present value of the premium.

² I/B/E/S International has been acquired by Thomson Financial, 195 Broadway, New York, N.Y. 10007. Thomson Financial has incorporated long term growth rates into its ThomsonOne financial database of financial results and analysts' reports.

- (c) Where the preferred is convertible at the option of the holder, and the market values of the preferred and common indicate that conversion is likely to occur or that the conversion right controls the price of the preferred, the preferred has the same cost as common equity.

Because the four-railroad composite had no preferred stock outstanding at the end of 2006, there is no 2006 cost of preferred equity capital. V.S. Rockey at p 2, 28.

IV. The Cost Of Debt

To determine the cost of debt, Mr. Rockey has computed the average current bond yield for all 62 of the publicly traded bonds (during 2006) of the sample railroads that comprise the composite railroad. This methodology is identical to that used in the last 16 cost of capital proceedings See *Ex Parte No 558 (Sub-No 9) Railroad Cost of Capital – 2005*, S.T.B. ____ (Served September 20, 2006). Under this approach, the bond yield is effectively based on a sample representing 76.3 percent of the total market value of the bonds issued by the railroads in the sample. As the Board has recognized, equipment trust certificates (ETCs) and conditional sales agreements (CSAs) are not actively traded in secondary markets. Their costs were therefore estimated by comparing them to the yields on Treasury securities that are actively traded.¹ This is the same methodology used by the Board in the last 19 proceedings. The composite current cost of debt is the market-weighted average cost of bonds, ETCs, and CSAs, plus a small flotation cost. Using the Board's established methodology, the railroads' 2006 cost of new debt is 5.97 percent V.S. Rockey at p 28

V. The 2006 Capital Structure Of The Railroad Industry and the Overall Cost Of Capital

Pursuant to the Board's May 14, 2007 decision, the market values of debt, preferred equity, and common equity were compiled to compute the 2006 capital structure of the railroad industry. The railroads' market value capital structure on a market value basis is 22.8 percent debt, 77.2 percent common equity capital, and 0.0 percent preferred equity capital. V.S. Rockey at p. 29. Based upon this capital structure, the overall 2006 cost of capital is 13.8 percent V.S. Rockey at p. 29

³ V.S. Rockey at 18-23

Conclusion

The Board should determine that the railroads' cost of capital for 2006 is 13.8 percent.

Respectfully submitted,



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Counsel for the Association of American Railroads
and Member Railroads

June 25, 2007

District of Columbia: SS
Subscribed and Sworn to before me,
this 22nd day of June, 2007

Pamela C. Nwosu, Notary Public, D.C.
My commission expires February 14, 2012



Certificate Of Service

I, Louis P. Warchot, hereby certify that on this 25th day of June 2007, I have served true and accurate copies of the foregoing Comments of the Association of American Railroads and Its Member Railroads upon all parties on the service list in this proceeding.



Louis P. Warchot

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**BEFORE THE
SURFACE TRANSPORTATION BOARD**

**EX PARTE NO. 558 (Sub-No. 10)
RAILROAD COST OF CAPITAL — 2006**

**VERIFIED STATEMENT
OF
CRAIG F. ROCKEY
VICE PRESIDENT — POLICY AND ECONOMICS
ASSOCIATION OF AMERICAN RAILROADS**

June 25, 2007

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**Verified Statement
of
Craig F. Rockey**

I. Introduction

My name is Craig F. Rockey. I am Vice President – Policy and Economics of the Association of American Railroads (AAR), with offices at 50 F Street, N.W.; Washington, DC 20001. The AAR is the trade association for the nation's railroads, as well as the railroads of Canada and Mexico. The AAR's United States railroad members, which include all of the Class I railroads, account for 95 percent of our nation's total railroad freight operating revenue.

The AAR serves as the central agency of the railroad industry for the collection and analysis of economic and financial data and it represents the industry in regulatory proceedings before the Surface Transportation Board ("STB" or "Board"). In particular, the AAR has participated in all of the STB proceedings addressing revenue adequacy standards and the annual cost of capital determinations.

Aside from other responsibilities, I have conducted or directed a wide range of analyses or projects addressing regulatory, legislative and internal issues relevant to the railroad industry. Furthermore, I have testified before federal, state, and local regulatory agencies, and have been an expert witness for the railroad industry on economic, statistical, and financial matters over the past 29 years. A summary of my qualifications and experience appears at the end of this statement.

In this submission, I am responding to the Board's decision of May 14, 2007 (served May 16), instituting the proceeding to determine the railroad industry's 2006 cost of capital — Ex Parte No. 558 (Sub-No. 10), *Railroad Cost of Capital — 2006* ("Ex Parte 558 Decision"). In my

statement, I calculate the cost of capital for the railroad industry using the procedures accepted in previous STB proceedings. This statement presents the details for calculating the necessary components for the overall cost of capital calculation: the market value capital structure, the cost of common equity capital, the cost of preferred equity capital, and cost of debt.

I conclude that the 2006 cost of capital for the railroad industry is 13.8 percent. This estimate is based on a cost of common equity capital of 16.10 percent; a current cost of debt of 5.97 percent; and market value weights for common equity and debt of 77.2 percent and 22.8 percent, respectively. There were no preferred stock issues outstanding in 2006. Therefore, the cost of preferred equity capital has not been calculated, and the market value weight for preferred equity capital is zero percent.

II. Determining the Cost of Capital

A. Defining the Cost of Capital

The cost of capital is the minimum rate of return on investment which the providers of capital require as a condition for undertaking an investment. In essence, it is the threshold rate of return on investment which makes capital investment attractive. The cost of capital necessarily incorporates investor expectations for a company's performance. If expected performance is low, however, cost of capital becomes an opportunity cost in that it recognizes what investors sacrifice by not investing their funds elsewhere. Investment funds generally flow to projects and companies where the expected returns are thought to at least equal the expected returns available from other investment opportunities, giving consideration to the relative (or commensurate) risk of investment.

As an example of the cost of capital, assume that an investment in a company is valued at \$1,000 and that the current rate of return on that investment generated by that company is \$100, equating to 10.0 percent. The investors in that company would generally not elect to keep their money in this company if, assuming equal risk, other investment opportunities offer expectations of greater returns. It may be that the cost of capital to this company is 15.0 percent, because that is the rate of return on investment required to attract investors and to keep investors from ultimately transferring their funds to alternative investments. In this case, the 15.0 percent return on investment to be found elsewhere is the opportunity cost, and thus, the cost of capital to the firm. Simply stated, that company's investors "demand" at least the 15.0 percent opportunity rate of return on investment or they will move their funds to alternative choices that provide such expectations. In general, higher interest rates will cause a company's cost of capital to be higher since competing investment opportunities will earn higher returns.

B. The Composite Railroad Approach

The STB has adopted a composite railroad approach to computing an industry-wide cost of capital. This approach relies upon data from a sample of railroads meeting criteria established by the Board in Ex Parte No. 458, *Railroad Cost of Capital — 1984*, 11 C.C. 2d 989, 1003–1004 (1985). The composite approach is both statistically and economically sound for several reasons. First, the current cost of investment-grade debt does not vary significantly among major railroads, because major railroads face similar market pressures from such forces as the economic climate, foreign trade policy, regulation and competition. Second, while there may be estimation errors associated with the direct measurement of the cost of equity for individual railroads, an industry-wide calculation tends to average out such errors. Third, financial theory indicates that, when computing the cost of capital based on current debt costs, increases (or decreases) in the

debt/equity ratio cause corresponding increases (or decreases) in the cost of equity that result in a constant current cost of capital. (This relationship stems from the fact that as the percentage of debt in the capital structure increases, the cost of equity increases as a result of the increased risk.) Use of an industry-wide debt/equity ratio and industry-wide costs of debt and equity are, therefore, appropriate.¹

C. Selection of Railroads for Analysis

Under the criteria established by the Board for individual firm inclusion in the composite railroad sample, a company must meet certain criteria. (Ex Parte 558 Sub-No 10 Decision)

The Board's criteria for inclusion in the sample are generally sound. First, as the Board has recognized, in order to determine the cost of equity using the DCF model, it is essential that the company has paid dividends throughout the year at issue and that the company's stock is actively traded on either the New York or American Stock Exchanges. These qualifications help to insure that the dividend yield component of the DCF model is accurately estimated.

Second, it is necessary to determine the cost of debt for the composite sample based on investment grade railroad debt issues² in order to avoid incorporating an estimate of the default premium associated with non-investment grade debt.

Finally, the composite must be representative of the railroad industry. The Board has determined that the company must operate a Class I railroad with at least 50 percent of its assets devoted to the railroad business.

¹ See, e.g., F. Modigliani and M. Miller, "The Cost of Capital, Corporation Finance and the Theory of Investment," *American Economic Review*, June 1958, p. 7; M. Miller, "Debt and Taxes," *Journal of Finance*, May 1977.

² Investment grade debt is defined as senior debt securities with a Rating of AAA to BBB.

This year there are four railroad corporations or holding companies in the sample under the Board's criteria: Burlington Northern Santa Fe Corporation, CSX Corporation, Norfolk Southern Corporation, and Union Pacific Corporation (see Table 1). The 2006 sample is composed of the same railroad entities that were included in the 2005 sample.

Table No. 1
Evaluation of Class I Railroads
Under Surface Transportation Board Selection Criteria
2006

Class I Railroad	Parent	Stock Symbol	Listed NYSE/ASE	Rail Assets		
				Dividends Throughout 2006	Account For At Least 50% of Parent	Adequate Debt Rating
BNSF	Burlington Northern Santa Fe Corp	BN	Yes	Yes	Yes	Yes
CSX	CSX Corporation	CSX	Yes	Yes	Yes	Yes
CNGT*	Canadian National Railway Co	CNI	Yes	—	Non-U S company	—
KCS	Kansas City Southern	KSU	Yes	No	Yes	No
NS	Norfolk Southern Corporation	NSC	Yes	Yes	Yes	Yes
SOO*	Canadian Pacific Railway Limited	CP	Yes	—	Non-U S company	—
UP	Union Pacific Corporation	UNP	Yes	Yes	Yes	Yes

* CNGT is Grand Trunk Corporation, and consists of most of the U S railroad operations of Canadian National Railway (CN). SOO is Soo Line Railroad, the western U S operations of Canadian Pacific Railway (CP). Following STB precedent, CN and Canadian Pacific were not included in the sample because both CN and CP are Canadian corporations – and the cost of capital proceeding is concerned with determining costs for U S railroads under STB jurisdiction.

As in past years, this year's sample includes a substantial percentage of both the revenues and assets of the entire rail industry. As shown in Table 2, based on 2006 Annual Report Form R-1, the four-firm composite accounts for 92.7 percent of the revenues and 89.8 percent of the assets of all Class I railroads in 2006. Accordingly, the sample is representative of the industry.

Table No. 2
Relative Size of the Railroad Composite Sample
Year 2006
from Annual Report Form R-1

Railroad	Revenue (\$000)	Assets (\$000)	Pct of Total Class I RR	
			Revenue	Assets
BNSF	\$14,810,893	\$34,527,358	28.4 %	26.4 %
CSX	8,601,641	22,700,582	16.5	17.4
NS	9,407,242	24,819,053	18.0	19.0
UP	15,546,373	35,330,381	29.8	27.0
Total	\$48,366,149	\$117,377,374	92.7	89.8
Total Class I	\$52,151,588	\$130,750,712	100.0 %	100.0 %

NOTE: Revenue and asset figures are from Annual Report Form R-1, submitted by Class I railroads to the STB at the end of March 2007 for the year 2006

D. Types of Railroad Capital

A firm's overall cost of capital is the opportunity cost of the funds available to the firm and to its investors. As an alternative to investing in a new project of average risk, a firm could repurchase a fraction of its outstanding securities at prevailing market prices. Because the expected rate of return on the total market value of a firm's outstanding securities reflects the opportunity cost of funds used in repurchasing such securities, the expected rate of return on the total market value of the firm's outstanding securities is equal to its overall cost of capital. The total capital of a firm generally includes common and preferred stock (equity), as well as debt. Each of these three sources of capital have different expected rates of return, and thus the overall cost of capital is a market value of the weighted average of the costs of common equity, preferred equity, and debt. In this statement, I calculate the market value for all three types of capital

Different approaches are used to estimate the costs of the three types of capital. In this statement, I estimate the cost of common equity employing the DCF method. The cost of debt is calculated from market-determined yields on debt outstanding. The cost of preferred equity

capital has not been calculated, since none of the representative companies had preferred stock outstanding at the end of 2006. Calculations for all three types of capital are based on average 2006 costs. I then compute the industry's overall cost of capital as a weighted average of the three costs using the market value for each type.

III. Common Equity Capital In 2006

A. The Market Value of Common Equity Capital

The market value for common equity capital was determined using stock prices and the number of shares outstanding. Appendix A shows each month's average daily stock price for each railroad with the number of shares outstanding. The daily stock prices used in the calculation were obtained from financial data bases, and averaged for each month. The number of shares outstanding were obtained from the railroads. A market value for each month was calculated using the average price and the number of shares outstanding. The average market value for the year is a simple average of the twelve months of market values.

Table 3 below summarizes the market value of common equity capital.

**Table No. 3
Average Market Value
For Common Equity in 2006**

Railroad Co.	Value (\$000)	Weight %
BNI	\$27,994,144.6	32.21 %
CSX	14,014,641.7	16.13
NSC	21,078,648.7	24.25
UNP	23,816,920.7	27.41
Total	\$86,904,355.7	100.00 %

B. The Discounted Cash Flow ("DCF") Method

The cost of equity is a measure of investor expectations, including the opportunity cost of investing in a share of a firm's stock; i.e., the expected rate of return that investors require on the market value (purchase price) of the stock in light of alternative investment opportunities of comparable risk. Because investor expectations are not directly observable, analysts have developed methods of inferring the cost of equity from available financial data. The DCF method used in this statement to compute the cost of equity — the same method which has been used in the Board's previous cost of capital proceedings — determines the rate of return that reconciles a firm's observed stock price with investors' expectations of future dividends and stock price appreciation. The DCF method is recognized as a valid approach to measuring the cost of equity by the overwhelming majority of financial experts in the country, and is widely used by federal and state regulatory agencies. See National Association of Regulatory Utility Commissioners, *Utility Regulatory Policy in United States and Canada 1995–96* at pages 269, 530, 603 and 631 (December 16, 1996).

The DCF methodology requires an estimate of expected growth in earnings (the "g" component of the DCF formula shown on page 9), and the Board has in past proceedings encouraged the use of growth rate data developed by the Institutional Brokers Estimate System (IBES) for this purpose.³ Accordingly, I have employed the DCF methodology using Thomson/IBES data, as relied on by the Board in its 2005 cost of capital determination in Ex Parte No. 558 (Sub-No. 9), *Railroad Cost of Capital — 2005* (September 2006)

³ The IBES data are available from Thomson Financial; 195 Broadway, New York, NY 10007. Thomson Financial has acquired I/B/E/S International.

The cost of equity under the DCF method is the discount rate which makes the present value of all expected returns from holding the stock, including both dividends and price appreciation, equal to the stock's current market value. In formulaic terms, under the DCF model the firm's cost of equity capital may be expressed as:

$$K = \frac{D_1}{P_0} + g$$

where:

K = the firm's cost of equity,

D_1 = the prospective annual dividend,

P_0 = the current price of the firm's stock, and

g = the expected rate of earnings growth.

The two terms in the formula, $\frac{D_1}{P_0}$ and g , correspond to the two forms of return from holding a stock — namely, dividends and price appreciation. The first term, $\frac{D_1}{P_0}$, is the expected dividend yield. The price appreciation component g arises from the growth in the firm's earnings and dividends over time. If the earnings of the firm grow at a rate of g , and if the earnings/price ratio of the firm's stock remains constant, the value of a share in the firm would also grow at a rate of g .

In the last 25 proceedings to determine the cost of capital, the STB used the current dividend yield, D_0 , multiplied by one plus one-half the growth rate, $\frac{D_0(1 + g/2)}{P_0}$, rather than one plus the full growth rate to estimate $\frac{D_1}{P_0}$. This multiplier was adopted by the Board on the assumption that dividends are paid annually. Actually, railroads pay quarterly dividends and thus

the agency's multiplier understates the expected dividend rate (see Appendix B), because it ignores the time value of money: i.e., the payment of four quarterly dividends over the next year is more valuable than a single year-end dividend equal to the sum of the quarterly dividends. However, I agree with the previous statement of Dr. Robert H. Litzenberger, then Professor of Finance, Wharton School, University of Pennsylvania, in his testimony in Ex Parte No. 473, *Railroad Cost of Capital -- 1987* on behalf of the railroad industry, that "... the use of the Commission's procedure is not a major source of bias..." Litzenberger Ex Parte No. 473 V.S. at 13.

1. Composite Growth Rate

In the past 25 proceedings to determine the cost of capital, the Board has used a consensus of security analysts' forecasts to obtain an estimate of the composite earnings growth rate. As the Board has recognized, the "g" component of the DCF formula measures investor's expectations, and a consensus of analysts' forecasts is the most accurate method available for estimating those expectations.

In its decision in Ex Parte No. 473, the Board expressed a preference for use of consensus analyst five-year earnings-per-share forecasts developed by IBES in lieu of the consensus five-year growth forecasts of prominent investment analysts that was employed in previous proceedings. I have, accordingly, employed Thomson Financial's IBES data in determining the composite growth rate in this proceeding. As in Ex Parte No. 491, *Railroad Cost of Capital -- 1990*, where the Board focused on the issue of a truncated average vs. an overall average forecast where sufficient forecasts are available for a sample railroad, I have employed a truncated average⁴ of IBES survey forecasts.

⁴ The Board has observed that a truncated average, which excludes the upper-most and lower-most

The methodology employed here, and shown in Appendix C, is identical to that employed and accepted by the STB in Ex Parte No. 491. The truncated average of the Thomson/IBES survey forecasts for each railroad was calculated for each month and then averaged over the 12-month period January 2006 through December 2006. From Thomson/IBES data, the following are determined for each sample railroad for each of the 12 sample months during 2006: a simple average, the highest forecast, the lowest forecast, and the number of forecasts. The number of forecasts upon which the IBES sample average was based varied between a monthly high of six to a monthly low of three. For each of the four railroads in the industry composite, the 2006 average of the IBES monthly mean growth forecasts (both simple and truncated) is provided in Table 4. Using the weights derived in Table 3, the composite growth estimate based on the truncated means is 14.75 percent.

**Table No. 4
Railroad Growth Rates – 2006**

Railroad	Simple Average	Truncated Average	Railroad Weights
BNI	14.56 %	14.87 %	0.3221
CSX	16.77	16.74	0.1613
NSC	15.13	15.34	0.2425
UNP	14.82	12.90	0.2741
Total			1.0000
Averages			
Unweighted	15.32	14.96	
Weighted	15.13 %	14.75 %	

As summarized in Table 4, the 14.75 percent composite growth estimate is calculated as follows.

forecasts, is more reliable than an overall average forecast 41 C.C. 2d at 628

- Step 1 A simple average rate of 15.32 percent is computed from the IBLS estimates based on monthly averages for each railroad;
- Step 2 The high and low rates are deleted in each month for each railroad and a truncated simple average of 14.96 percent is derived;
- Step 3 Railroad weights are calculated using average daily closing prices and the number of shares outstanding at the end of each quarter (as reported by the sample railroads) Quarterly data is adjusted with specific monthly data when there are new issues of common stock; and
- Step 4 The weights for each railroad are multiplied by each railroad's truncated average to derive a weighted-average, truncated growth rate of 14.75 percent

Thus, the Thomson/IBES consensus forecast provides an estimate of 14.75 percent for the average 2006 long-term growth expectations of investors

2. Composite Dividend Yield

Using the same methodology relied upon by the Board in prior proceedings, I have determined the 2006 dividend yield for the composite railroad as an average of the composite dividend yield for each month using the average of all daily closing stock prices for that month.⁵ Table 5 summarizes the calculation of the composite current dividend yield, and Appendix D provides more detail

⁵ Closing stock prices from the New York Stock Exchange were obtained from MSN Money (<http://moneycentral.msn.com>) as reported by Commodity Systems, Inc

Table No. 5
Current Dividend Yield – 2006

Railroad	Average Yield	Railroad Weights
BNI	1.200 %	0.3221
CSX	1.035	0.1613
NSC	1.396	0.2425
UNP	1.357	0.2741
Total		1.0000
Averages		
Unweighted	1.25	
Weighted	1.26 %	

The estimate of the 2006 average current dividend yield for the composite railroad is 1.26 percent.

3. Application of Data to DCF Model

The 14.75 percent growth rate and the 1.26 percent dividend yield for the composite railroad produces a 2006 average cost of equity capital estimate of 16.10 percent. That is:

$$\begin{aligned}
 K &= \left[\frac{D_0}{P_0} \times (1 + g/2) \right] + g \\
 &= [(1.26) \times (1.07375)] + 14.75 \\
 &= 16.10 \% ^n
 \end{aligned}$$

ⁿ The cost of common equity normally includes flotation costs because the net proceeds from the issues are reduced by both the underwriter's spread and the price pressure effect at the time of announcement of the stock issue. My calculation, however, does not include flotation costs. This is because the Commission has, in the past, allowed the inclusion of flotation costs for common equity only where a railroad has issued common equity capital in the year at issue — in this case, 2006. Ex Parte No. 506, 8 I.C.C. 2d at 414-415. No new common equity capital was issued by any of the composite railroads in 2006, and therefore flotation costs were not included in my calculation.

C. Conclusion as to Cost of Common Equity Capital

The average 2006 cost of equity estimate for the composite railroad is 16.10 percent. The procedures used to obtain these estimates are identical to those used by the Board to obtain the estimates in the most recent previous proceeding. These procedures provide consistent and reliable annual average cost of equity estimates.

IV. Debt Capital in 2006

The current cost of debt must be determined from the current market-determined yields on all debt outstanding. This approach is necessary, and in past Board Cost of Capital decisions⁷ has been accepted as appropriate, because

- (1) there is a lack of new issues from which to develop a representative current cost;
- (2) the stated rate of interest/dividend payment to the investor is not always the same as the cost to the railroad. For example, when securities are issued, the total amount paid by investors is seldom received by the firm. Administrative fees, such as compensation paid to investment bankers, reduce the proceeds to the firm. The effect of this is to increase the cost of the securities to the firm; and
- (3) the maturity mix and the type of security (equipment trust certificates, conditional sales agreements, long-term debt) of new security issues may be different from the average of existing securities. Because of the effect that length of maturity and type of security has on its current cost, the use of only new issues would not accurately measure the current cost.

⁷ Ex Parte Nos. 415, 436, 452, 458, 464, 466, 473, 478, 486, 491, 506, 513, 518, 523, 523 (Sub-No. 1), 558, 558 (Sub-No. 1), 558 (Sub-No. 2), 558 (Sub-No. 3), 558 (Sub-No. 4), 558 (Sub-No. 5), 558 (Sub-No. 6), 558 (Sub-No. 7), 558 (Sub-No. 8), and 558 (Sub-No. 9)

A. Bonds, Notes and Debentures

To determine the cost and market value of bonds, notes and debentures, I have used information on bond prices and yields as found in Standard & Poor's *Bond XpressFeed* data base.⁸ As in previous Cost of Capital determinations, my cost calculations are based on *all* bonds, notes, and debentures for the sample railroads which were publicly traded during the year at issue. The publicly traded bonds represent 76 percent of the market value of the bonds issued by the railroads in the sample.⁹ Appendix E details for each of the 62 publicly traded bonds an identification, maturity date, coupon, and amount outstanding; and it calculates the average 2006 yield and price for each bond based on a simple average of the monthly data. The market value of bonds, notes, and debentures includes both traded and non-traded securities. Appendix E also contains a summary for traded and non-traded bonds, notes, and debentures for each railroad.

1. Market Value of Bonds, Notes, and Debentures

Based on the identical methodology employed in previous Cost of Capital proceedings, the average market value for traded bonds, notes, and debentures has been calculated. Table 6 is a summary of the market value calculations.

⁸ Standard & Poor's (S&P) *Bond XpressFeed* provides financial and statistical data on approximately 6,200 corporate bonds, and is essentially an electronic version of the Standard & Poor's Bond Guide.

⁹ The only bonds not included in the *Bond XpressFeed* are bonds that are not publicly traded. There is no practical way to obtain yields and prices for bonds which are privately held.

Table No. 6
Bonds, Notes and Debentures
Average Market Value

Railroad Co.	Traded Value (\$000)	Non-Traded Value (\$000)	Total Value (\$000)	Weight Based on Traded
BNI	\$4,493,989	\$1,004,553	\$5,498,542	27.395 %
CSX	2,418,571	2,218,537	4,637,108	14.743
NSC	5,527,883	881,644	6,409,527	33.697
UNP	3,964,162	1,002,151	4,966,313	24.165
Total	\$16,404,605	\$5,106,885	\$21,511,490	100.000 %

The market value for traded bonds, notes, and debentures was computed using the average 2006 price for each traded bond as found in Appendix E. For each traded bond, an average price was calculated based on the simple average of monthly prices. The traded prices represent what the investor is willing to pay for the bond in relation to its coupon and maturity date. If a security was issued during the year, its value is pro-rated by the ratio of months outstanding to the twelve-month year.

The 2006 market value for all outstanding traded bonds, notes, and debentures issued by the composite railroad (comprising 62 issues) is summarized in the front of Appendix E, which lists book values for non-traded debt and lists details for each of the traded securities. Where market prices were not available, I assumed that investors would pay the "face value" on the bond. This assumption may slightly increase or decrease the market value of the particular issue depending upon the relationship of the instruments stated rate and the comparable market rate. However, this possible variation is not likely to significantly affect the overall estimate of the cost of debt capital because in this year 75.5 percent of the book value of bonds was priced at market.

The market values for bonds, notes, and debentures were derived by multiplying the average market price times the amount of debt outstanding¹⁰ as of December 31, 2006. The market value for bonds, notes, and debentures that traded was \$16,404.6 million.

2. Current Cost of Bonds, Notes, and Debentures

Table 7 summarizes the yield or cost of each railroad's debt (bonds, notes, and debentures), which, when weighted by the market value of the traded debt, determines the sample composite cost of bonds, notes and debentures. This weighted average is 5.796 percent.

Table No. 7
Bonds, Notes and Debentures
Weighted Current Cost

Railroad Co.	Weight	Current Cost
BNI	27.395 %	5.838 %
CSX	14.743	5.596
NSC	33.697	5.963
UNP	24.165	5.636
Total	100.000	5.796 %

As noted earlier, the current cost for bonds, notes, and debentures is based on traded instruments issued by the sample railroads. Appendix E contains the average yield for each of the 62 traded securities as found in Standard & Poor's *Bond XpressFeed* data base. The average yield for each security is a simple average of the twelve month-end yields found in *Bond XpressFeed*. The traded portion of Appendix E summarizes the yield or cost of each railroad's debt, which, when weighted by the market value of the traded debt, determines the sample composite cost of bonds, notes and debentures of 5.796 percent. The weights used in Table 7, calculated in Table 6, are also based on the traded portion of Appendix E.

¹⁰ Securities that were issued during the year were pro-rated by the ratio of the number of months outstanding to the twelve-month year, as done in past proceedings.

B. Equipment Trust Certificates

Equipment Trust Certificates (ETCs) are debt obligations that are secured by the particular equipment which is acquired with the instrument's proceeds. In the event of default, creditors may repossess and resell the equipment to pay off the debt obligations. Because ETCs are not actively traded in secondary markets, it is necessary to determine their cost by examining the return on other debt securities that are actively traded.

An ETC is generally serially issued. As such, each year during its life an equal amount (typically 1/15th) of the original amount must be retired. Consequently, an ETC may be thought of as a series of individual annually-retiring bonds. In fact, when ETCs are issued, each of the maturities is sold independently from the others. A serially issued debt instrument provides an investor with the ability to purchase only the maturities that interest him. To correctly compute the composite yield on a serially issued bond, the internal rate of return on the bond's principal and interest payments must be calculated.

As mentioned earlier, ETCs are not actively traded and their cost must be estimated by comparing them to the yield on other debt. To compare ETCs to other debt instruments, I compiled the yields to maturity (as detailed in Appendix F) for government bills, notes, and bonds having approximately the same maturities. A government yield curve for these securities (also in Appendix F) was prepared, which shows the relationship between the current costs, or yields to maturity, and maturity dates for government bonds (which, unlike ETCs, are actively traded in secondary markets).

These yield data have been adjusted by the Federal Reserve Board to reflect constant maturities. Thus, the data accurately reflect the 2006 relationships between yields and maturities. After determining the yields to maturity for government bonds of maturities similar to those of an

ETC, I adjusted those yields to reflect the risk associated with the ETCs as compared to government bonds. In Cost of Capital filings prior to Ex Parte No. 486, *Railroad Cost of Capital — 1989*, yield spreads between government bonds and ETCs were based on the publication *Analytical Record of Yields and Yield Spreads* prepared by the Bond Market Research Department of Salomon Brothers, Inc. However, Salomon Brothers has not compiled yields and yield spreads for ETCs since 1988. Accordingly, identical to the methodology approved by the Board for application in Ex Parte No. 486 and subsequent proceedings, yields and yield spreads used in this proceeding are based on new issues of ETCs by the sample railroads as compiled by the AAR.¹¹ (Identical to the methodology used in Ex Parte 486 and prior proceedings, the Salomon Brothers compilation of yields and yield spreads on comparable industrial instruments were used as a proxy for ETCs of the same rating¹² where there were no new ETC issues of a particular rating.)

Since 2000, no new ETCs have been issued by the sample railroads. Therefore, an alternative method of estimating yield spreads between government bonds and ETCs was necessary. I believe that the most recent historical yield spreads can be used to determine the current cost of ETCs. Consequently, I have determined the yield spread between ETCs and government bonds using an average of the spreads (government vs. BBB LTCs) used in the 1998,

¹¹ The only difference between the two methodologies is the specificity of the data base regarding the new issues. Salomon Brothers, Inc. included all new issues of LTCs (i.e., airlines, railroads, etc.) in computing yield spreads between government bonds and ETCs, while the AAR had included only new issues of ETCs by the sample railroads in computing yield spreads between government bonds and ETCs. Use of new issues of ETCs by the sample railroads is necessarily representative of the cost of ETCs because it is all-inclusive and reflects the actual cost of new ETC issuance.

¹² ETC's are rated by Standard & Poor's, a firm which specializes in analyzing and evaluating securities, according to the likelihood of a default by the railroad responsible to pay interest and to redeem the face value. The highest available rating, AAA, indicates the least risk of default. All other things being equal, investors will pay a higher price (or accept a lower yield) for a higher rated security than for a lower rated security.

1999, and 2000 Cost of Capital proceedings. The average spread between government bonds and new BBB ETCs for that period was 114 basis points. The yield spread of 114 basis points used for 2006 is the same yield spread used since 2001.

The methodology used is the same as the method employed and approved in previous proceedings to measure yield spread for ETCs. These risk-adjusted yields provide the basis to value each ETC.

Using formulae suggested by Standard Security Calculation Methods,¹³ I determined the market value of each maturity comprising an ETC. In effect, these formulae make it possible to determine the price investors would pay in 2006 for the contractual interest payments and price appreciation for holding the instrument. It is the best possible evidence as to the current cost of

¹³The formulae used to value these bonds are standards of the security industry. They are

For bonds with less than six months to maturity.

$$DP = \left[\frac{100 + C/2}{1 - DY/360} \right] - \left[\frac{C}{2} * \frac{(180 - D)}{180} \right]$$

For bonds with six months or longer to maturity.

$$DP = \left[\frac{100}{(1 + Y/2)_{\text{EXP}}(N - 1 + D/180)} \right] + \left[\sum_{i=1}^N \frac{C/2}{(1 + Y/2)_{\text{EXP}}(K - 1 + D/180)} \right] - \left[C/2 \frac{(180 - D)}{180} \right]$$

Where.

DP	=	Dollar price of the bond
C	=	Coupon rate as a percent per year
D	=	Number of days from settlement date to coupon date
Y	=	Yield to maturity as a decimal per year
EXP	=	Raise the term on the left to the power indicated by the term on the right
N	=	Whole number of coupons payable plus 13
K	=	Compute for K, values 1 to N and sum the results

ETCs to the firm for the defined period. Computing the internal rate of return of the ETC prices and their associated cash flow streams established the current cost for ETCs. The weighted-average cost for all modeled Equipment Trust Certificates is shown in Table 8.

Table No. 8
Summary of Equipment Trust Certificates Modeled for 2006
(\$000)

Railroad	Amount Outstanding			Yield	Current Market Value	Current Interest Amount	No. ETC
	Beg.	Ending	Average				
BNSF	\$330,724	\$285,848	\$308,286	6.007%	\$315,007	\$18,922	11
CSX	\$301,420	\$249,438	\$275,429	6.001%	\$287,070	\$17,228	10
NS	\$165,300	\$143,220	\$154,260	5.998%	\$157,391	\$9,440	5
UP	\$172,756	\$152,868	\$162,812	6.020%	\$169,828	\$10,224	4
Total	\$970,200	\$831,374	\$900,787	6.006%	\$929,296	\$55,814	30

Weighing each railroad's yield by its current market value for modeled ETCs results in a current cost of 6.006 percent. A summary of each railroad's modeled LTC can be found in Appendix G, which includes a market value and a current yield. In addition, Appendix G also lists ETCs that were not modeled. ETCs can fail to be modeled for two reasons: (1) the instrument labeled by a railroad as an LTC does not have all of the characteristics typical of an ETC; or (2) the ETC has a floating rate (instead of fixed), making its rate for a particular future year uncertain. The market value of all modeled ETCs is \$929.3 million. Assuming the market value of non-modeled ETCs is the same as its book value results in a non-modeled market value of \$247.6 million, and a market value for both modeled and non-modeled ETCs of \$1,176.9 million.

C. Conditional Sales Agreements

Conditional Sales Agreements (CSAs) are another form of railroad financing that is treated by investors as debt securities because their interest obligations are essentially the same as

interest obligations on ETCs. Like ETCs, CSAs are not generally traded in secondary markets. Accordingly, as in prior proceedings, I determined their current cost from current yields on government bonds, in a similar manner to ETCs.

In Cost of Capital proceedings prior to Ex Parte No. 486, *Railroad Cost of Capital — 1989*, yield spreads for CSAs were estimated using the yield on new issues of CSAs and the Salomon Brothers, Inc. publication *Analytical Record of Yield and Yield Spreads* to determine the yields and yield spreads between government bonds, ETCs, and CSAs of similar rating.

However in 2006, as in 1989–1996 and 1998–2005, there were no issues of CSAs by the sample railroads. Therefore, an alternative method of estimating yield spreads was required. I believe that historical yield spread data can be used to determine the current cost of CSAs. Consequently, I have determined the yield spread for CSAs on the yield-spread relationship between ETCs and CSAs issued in 1997 and used in the 1997–2005 Cost of Capital proceedings. This is the most practical and accurate method available for determining the cost of CSAs. This alternative method of estimating yield spreads has been used and approved in prior proceedings.

In 1997, a new CSA was issued, the first since 1987. The yield spread of the new CSA over ETCs in 1997 was 32 basis points. I have used that yield spread and added it to the current ETC yield spread over government bonds of 114 basis points to estimate a 2006 CSA yield spread of 146 basis points over government bonds. Using this methodology, the current cost of Conditional Sales Agreements and their market value is shown in Table 9. Although the table is shown in thousands, interest rate calculations are based on the full interest amount [\$4,706,520] and full market value [\$74,488,741].

Table No. 9
Summary of Conditional Sales Agreements Modeled for 2006
(\$000)

Railroad	Amount Outstanding			Interest Rate	Current Market Value	Current Interest Amount	No. CSA
	Beg.	Ending	Average				
BNSF	\$0	\$0	\$0	—	\$0	\$0	0
CSX	79,593	68,222	73,908	6.318%	74,489	4,707	2
NS	0	0	0	—	0	0	0
UP	0	0	0	—	0	0	0
Total	\$79,593	\$68,222	\$73,908	6.318%	\$74,489	\$4,707	2

Weighing each railroad's yield by its current market value for modeled CSAs results in a current cost of 6.318 percent. A summary of each railroad's modeled CSA can be found in Appendix H, which includes a market value and a current yield. In addition, Appendix H also lists CSAs that were not modeled. Like an ETC, CSAs can fail to be modeled for two reasons: (1) the instrument labeled by a railroad as a CSA does not have all of the characteristics typical of a CSA, or (2) the CSA has a floating rate (instead of fixed), making its rate for a particular future year uncertain. The market value of all modeled CSAs is \$74.5 million. Assuming the market value of non-modeled CSAs is the same as its book value results in a non-modeled market value of \$47.9 million, and a market value for both modeled and non-modeled CSAs of \$122.4 million.

D. All Other Debt

I have listed All Other Debt as capital leases and miscellaneous debt such as commercial paper, demand deposits, and other instruments with extremely small amounts outstanding. Capital leases are contracts between two parties and as such take many forms.¹⁴ Since leases are not traded in the marketplace, their current cost is not directly observable. The lack of complete information with respect to leases necessitates that many assumptions be made to estimate their

¹⁴ See generally 49 C.F.R. 1201.2–20 for definitions.

current cost and their values. For market value purposes, capital leases have been included at book value. This is the only practical option available. While the cost of this form of debt is typically higher than that of more senior debt, I have elected to exclude computation of its specific cost from the overall cost of debt for the reasons stated above. Because the cost of capital calculation will assign this debt a cost based on traded or modeled securities (bonds, notes, debentures, ETCs and CSAs) that typically have a lower cost, the cost used for capital leases will be understated.

Miscellaneous debt, such as commercial paper, demand deposits, and various instruments with extremely small amounts outstanding were also excluded from the current cost computations. The book value (assumed market value) of capital leases plus miscellaneous debt is \$2,783.7 million; as a percent of the total market value of debt of the composite railroad, it is 10.9 percent. My treatment of capitalized leases and miscellaneous debt is the same approach accepted in prior Cost of Capital proceedings.

E. Market Value of Debt

Table 10 summarizes the total market value for each debt category. The total market value for traded and non-traded debt is \$25,594.5 million. Bonds, Notes, and Debentures (Bonds) account for about 84 percent of the total market value. About 76 percent of the Bonds' market value was determined by the results of trading throughout the year, while the remaining 24 percent was based upon the book value of non-traded Bonds.

Table No. 10
Market Value of Debt (\$000)

Type of Debt	Market Value	Percent of	
		Total	Subtotal
Bonds, Notes & Debentures	\$21,511,490	84.05 %	94.30 %
Equipment Trust Certificates	1,176,929	4.60	5.16
Conditional Sales Agreements	122,420	0.48	0.54
Subtotal	22,810,839	89.12	100.00 %
All Other Debt	2,783,685	10.88	
Total	\$25,594,524	100.00 %	

Current costs can be determined for three of the four debt categories — Bonds, Equipment Trust Certificates, and Conditional Sales Agreements. Therefore, a weighted average cost of debt uses weights based on three of the four debt categories (see subtotal column), while the total market value includes all four categories. The market value of debt, including traded and non-traded debt, is summarized in Appendix I.

F. Flotation Costs for Debt Capital

When new debt is issued by a negotiated offering or a competitive bid, the issuing firm pays a fee to the investment banking firm or firms handling the offer. These fees, typically referred to as flotation costs, cover the banker's administrative costs in handling the sale (e.g., sales costs, taxes, and profits). Flotation costs generally vary by type of security. For ETCs and CSAs, the fees are extremely small, but costs increase as the administrative burden and underwriting risk increase (i.e., in order of increasing cost — ETCs and CSAs, bonds and notes, convertible bonds, and preferred stock and common stock). As discussed below, flotation costs directly reduce the gross proceeds available to the issuing firm.

An example helps to illustrate how flotation costs permanently increase the cost of debt to the railroad. If a railroad sells a 10-year bond with an annual coupon of 15 percent and investors

are willing to pay \$98 for each \$100 in face value, the effective yield on the bond is 15.40 percent. Because the investment banker requires compensation (flotation costs) for his work, the railroad does not receive the full \$98 from the investors. If flotation costs reduce the net proceeds to say \$96, the effective cost to the railroad over the life of the bond is 15.82 percent. Therefore, flotation costs have increased the cost of debt from 15.40 to 15.82, or by 42 basis points. Proper accounting treatment requires the four dollars per \$100 (\$100 - \$96) to be amortized on a straight line basis over the life of the bond. In addition, the Uniform System of Accounts requires the annual amortization to be charged directly to Account No. 548, Amortization of Discount on Funded Debt, a fixed charge item. This results in fixed charges for the year totaling \$15.40 (\$15.00 coupon payment - amortization of \$0.20 discount + \$0.20 flotation costs). It is important to note that these flotation costs are not recovered through operating costs but are fixed charges each year during the life of the bond. Also, it is evident that in order to reflect the total current cost of debt, flotation costs must be included.

A regulated firm requires the opportunity to cover flotation costs before it will have an incentive to make future capital expenditures. Before creditors will lend their funds, they must be assured that the railroad will have the opportunity to earn returns sufficient to cover all costs.

Due to the low volume of railroad bonds, notes, and debentures issued during the last several years, current flotation costs cannot be accurately determined by relying on recent railroad-specific data. However, the SEC's most recent study of flotation costs¹⁵ provides data for 659 debt issues. It concludes that flotation costs as a percent of gross proceeds are 1.59

¹⁵ *Cost of Flotation of Registered Securities 1971-1972*. Securities and Exchange Commission, December 1974.

percent. On a 20-year bond, this equates to an increased yield of 0.16 percent. For purposes of measuring the flotation cost of bonds, I have used 0.16 percent.

The Securities and Exchange Commission (SEC) conducted a study of flotation costs using railroad ETC data for the years 1951, 1952 and 1955.¹⁶ In that study, the SEC determined that ETC flotation costs averaged 0.89 percent of gross proceeds. This SEC result equates to a 0.13 percent yield increase. For CSAs, neither recent nor historical data are publicly available. I have therefore adopted the ETC figure of 0.13 percent, which is the same flotation cost for CSAs used in previous Cost of Capital proceedings.

To compute the overall effect of flotation cost on debt, the market value weight of the debt outstanding is multiplied by the respective flotation cost. As shown in Table 11, flotation costs increase the cost of debt by approximately 16 basis points (0.158 percentage points). The weights for each type of debt are based on market values for debt (excluding All Other Debt), as found in Appendix I. All Other Debt is excluded from the weight calculation since a current cost of debt for that category has not been determined.

Table No. 11
Flotation Costs For Debt

Type of Debt	Market Weight	Flotation Cost
Bonds, Notes & Debentures	94.30%	0.160%
Equipment Trust Certificates	5.16%	0.130%
Conditional Sales Agreements	0.54%	0.130%
Total	100.00%	0.158%

G. Conclusion as to the Cost of Debt Capital

To determine the overall composite current cost of debt, I multiplied the current cost of each of three categories of debt times its market value proportion. Market values are properly

used in this connection because they represent the amounts on which the current cost must be paid. Table 12 shows the results of this calculation.

Table No. 12
Composite Current Cost Of Debt

Type of Debt	Market Weight	Current Cost
Bonds, Notes & Debentures	94.30%	5.796%
Equipment Trust Certificates	5.16%	6.006%
Conditional Sales Agreements	0.54%	6.318%
Subtotal	100.00%	5.810%
Flotation Costs		0.158%
Weighted Cost of Debt		5.968%
Weighted Cost of Debt (Rounded)		5.97%

The current weighted cost of debt before flotation costs is 5.810 percent. The addition of flotation costs results in a rounded cost of debt of 5.97 percent. Details for the calculation of the overall cost of debt are provided in Appendix J using weights calculated in Appendix I.

V. Preferred Equity Capital in 2006

Like 2003, 2004, and 2005, no preferred stock issues were outstanding at the end of 2006 for the railroad companies comprising the railroad composite sample. Therefore, no cost for preferred equity capital has been calculated, and the market value for preferred equity capital is zero.

¹⁶ *Cost of Flotation of Corporate Securities 1951-1955*, Securities and Exchange Commission, June 1957

VI. The Overall Cost of Capital In 2006

A. Determination of Market Value Weights

As shown in Appendix I and Appendix A, the market value of debt and common equity are \$25,594.5 million and \$86,904.4 million, respectively. As mentioned in Section V, Preferred Equity Capital in 2006, the sample railroad companies had no preferred stock issues outstanding at the end of 2006. Therefore, preferred equity capital has no weight in the overall cost of capital, and no cost was calculated. The figure for the market value of debt includes market values of bonds, notes, debentures, equipment trust certificates, and conditional sales agreements. Other debt and capitalized leases are included at their book value, because market values are difficult to determine (in some instances book values correspond to market values) and because these other instruments are a minimal portion of all railroad debt. Based on these calculations, the market value weights for debt and common equity are 22.8 percent and 77.2 percent, respectively.

B. The Overall Cost of Capital

Multiplying the cost of debt, the cost of common equity capital, and the cost of preferred equity capital by their respective market value proportions results in a 2006 average overall cost of capital of 13.8 percent, as shown below in Table 13.

Table No. 13
Weighted Current Cost of Capital

	Market Value (mil)	Reference	Capital Structure Weight	Current Cost
Debt	\$25,594.5	Appendix I & J	22.8 %	5.97 %
Common Equity	86,904.4	Table 3-5, text	77.2	16.10
Preferred Equity	0.0	Text	0.0	n/a
Total	\$112,498.9		100.0	13.79
Weighted Current Cost of Capital				or 13.8 %

VII. Qualifications Of Craig F. Rockey

My name is Craig F. Rockey. I am Vice President — Policy and Economics for the Association of American Railroads (AAR), with offices located at 50 F Street, N W., Washington, D C. 20001. Among other responsibilities, my duties include the collection, analysis, and presentation of economic data related to railroads and their economic environment. One of my principal duties is conducting and supervising economic, financial, statistical and cost studies dealing with various aspects of the rail industry.

During my employment with the AAR, I have presented testimony before the Surface Transportation Board/Interstate Commerce Commission, Public Service Commission of Indiana, New York Department of Transportation, Ohio Public Utilities Commission, Pennsylvania Public Utility Commission, the West Virginia Public Service Commission, and the Illinois Department of Revenue. I routinely prepare and provide rail industry economic, financial and cost data; oversee the creation of databases, publications, and reports, and evaluate regulatory, legislative, and internal issues. Preceding my employment with the AAR, I was Senior Associate with the Washington, D.C.-based economic consulting firm of Snavely, King and Associates, Inc. In that capacity I was responsible for various feasibility studies, special reports, and submissions to federal, state, and private organizations.

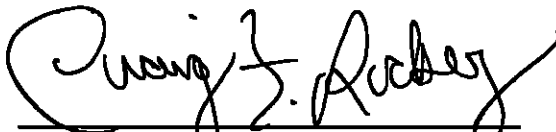
I hold a Bachelor of Science degree in Transportation Economics from the University of Maryland and have undertaken related course work subsequently. I have articles published in transportation journals, have co-authored a book entitled *Small Railroads*, am a member of various professional organizations, and have consulted for railroads in Africa, Asia, and North America.



VERIFICATION

WASHINGTON, D.C.)
) SS.

I, Craig F. Rockey, being duly sworn, state that I have read the
foregoing statement, that I know its contents, and that those contents
are true as stated


CRAIG F. ROCKEY

Subscribed and sworn to before me this 22nd day of
June 2007


Notary Public

My Commission expires:

Pamela C. Nwosu
Notary Public, District of Columbia
My Commission Expires 2/14/2012





**Calculation of Market Value for
Each Month and for Year
2006**

January

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$72 05	371,571,199	\$26,771,704,888	0 337645
CSX	\$25 71	436,405,038	11,219,973,527	0 141506
NSC	\$44 81	430,718,913	19,300,514,492	0 243418
UNP	\$82 50	266,634,735	21,997,365,638	0 277431
Total			\$79,289,558,544	1 000000

February

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$79 49	371,571,199	\$29,536,194,609	0 343594
CSX	\$26 79	436,405,038	11,691,290,968	0 136005
NSC	\$49 67	430,718,913	21,393,808,409	0 248874
UNP	\$87 54	266,634,735	23,341,204,702	0 271528
Total			\$85,962,498,687	1 000000

March

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$79 58	364,398,034	\$28,998,795,546	0 326649
CSX	\$28 85	443,172,312	12,785,521,201	0 144019
NSC	\$52 53	435,525,601	22,878,159,821	0 257705
UNP	\$89 76	268,649,934	24,114,018,076	0 271626
Total			\$88,776,494,643	1 000000

**Calculation of Market Value for
Each Month and for Year
2006**

April

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$83 92	364,398,034	\$30,580,283,013	0 323767
CSX	\$32 87	443,172,312	14,567,073,895	0 154228
NSC	\$55 10	435,525,601	23,997,460,615	0 254071
UNP	\$94 20	268,649,934	25,306,823,783	0 267934
Total			\$94,451,641,307	1 000000

May

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$78 63	364,398,034	\$28,652,617,413	0 309344
CSX	\$34 93	443,172,312	15,480,008,858	0 167128
NSC	\$53 77	435,525,601	23,418,211,566	0 252831
UNP	\$93 33	268,649,934	25,073,098,340	0 270698
Total			\$92,623,936,178	1 000000

June

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$76 04	391,934,975	\$29,802,735,499	0 330144
CSX	\$32 50	443,530,816	14,414,751,520	0 159681
NSC	\$50 65	434,634,158	22,014,220,103	0 243865
UNP	\$89 30	269,208,581	24,040,326,283	0 266310
Total			\$90,272,033,405	1 000000

**Calculation of Market Value for
Each Month and for Year
2006**

July

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$72 43	391,934,975	\$28,387,850,239	0 325020
CSX	\$32 41	443,530,816	14,374,833,747	0.164581
NSC	\$48 68	434,634,158	21,157,990,811	0 242244
UNP	\$87 00	269,208,581	23,421,146,547	0 268155
Total			\$87,341,821,344	1 000000

August

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$66 78	391,934,975	\$26,173,417,631	0 326965
CSX	\$30 28	443,530,816	13,430,113,108	0 167772
NSC	\$42 41	434,634,158	18,432,834,641	0 230268
UNP	\$81 77	269,208,581	22,013,185,668	0 274994
Total			\$80,049,551,048	1 000000

September

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$69 29	359,060,377	\$24,879,293,522	0 315579
CSX	\$31 21	435,181,651	13,582,019,328	0.172280
NSC	\$42 70	417,682,389	17,835,038,010	0 226227
UNP	\$83 65	269,463,616	22,540,631,478	0 285914
Total			\$78,836,982,339	1.000000

**Calculation of Market Value for
Each Month and for Year
2006**

October

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$77 65	359,060,377	\$27,881,038,274	0 318104
CSX	\$35 12	435,181,651	15,283,579,583	0 174375
NSC	\$48.14	417,682,389	20,107,230,206	0 229410
UNP	\$90 46	269,463,616	24,375,678,703	0 278110
Total			\$87,647,526,767	1 000000

November

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$76 48	359,060,377	\$27,460,937,633	0 308039
CSX	\$36 27	435,181,651	15,784,038,482	0 177055
NSC	\$51 10	417,682,389	21,343,570,078	0 239419
UNP	\$91 14	269,463,616	24,558,913,962	0 275486
Total			\$89,147,460,155	1 000000

December

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight
BNI	\$74 90	357,875,388	\$26,804,866,561	0 303042
CSX	\$35 55	437,763,589	15,562,495,589	0 175941
NSC	\$50 37	418,200,239	21,064,746,038	0 238147
UNP	\$92 61	270,172,290	25,020,655,777	0 282870
Total			\$88,452,763,965	1 000000

**Calculation of Market Value for
Each Month and for Year
2006**

Average For Year			
Railroad	Common Stock Price	Market Value	Railroad Weight
BNI	\$75.60	\$27,994,144,569	32.21%
CSX	\$31.87	\$14,014,641,651	16.13%
NSC	\$49.16	\$21,078,648,732	24.25%
UNP	\$88.61	\$23,816,920,746	27.41%
Total		\$86,904,355,699	100.00%

Note: Market Values are full float, weights are rounded



Discounted Cash Flow Model

The discounted cash flow (DCF) approach to the estimation of the cost of equity capital is similar to the method employed by an investor using fundamental analysis to value a common stock. The DCF approach estimates the firm's cost of equity capital as the rate that makes the discounted value of all future cash flows expected by investors equal to the current price of the firm's stock. The future cash flows expected by investors can be specified as a stream of expected dividends over a fixed investment horizon and the expected stock price at the end of that horizon.

The most familiar model used to derive the cost of equity capital is based on the simplifying assumption that the firm pays dividends annually and the next dividend is one year hence.

The subsequent analysis assumes that over a fixed investment horizon:

- a) the firm's cost of capital, k , is constant;
- b) the firm's annual dividends per share grow at a constant rate, g ;
- c) annual earnings per share grow at the same rate as annual dividends per share; and
- d) the firm's price-earnings multiple is constant.

Under assumption (a), the price of the firm's stock may be expressed as:

$$P_0 = \left[\sum_{t=1}^n \frac{D_t}{(1+k)^t} \right] + \frac{P_n}{1+k}$$

where

- k = the firm's cost of equity capital;
- D_t = the firm's expected dividend t years hence.
- P_0 = the current price per share of the firm's stock, and
- g = the expected rate of growth in earnings and dividends over the investment horizon.

Under assumptions (b) and (c), the firm's dividend in year t is equal to:

$$2 \quad D_t = D_1(1+g)^{t-1}$$

where

D_1 = the firm's expected dividend one year hence.

Substituting the right hand side of equation (2) for D_t in equation (1), the price of the firm's stock may be expressed as:

$$3 \quad P_0 = D_1 \left[\sum_{t=1}^{t=n} \frac{(1+g)^{t-1}}{(1+k)^t} \right] + \frac{P_n}{(1+k)^n}$$

Since the firm's expected price-earnings ratio n years from now has been assumed to equal its current price-earnings ratio, the price of the firm's stock would be expected to grow at the same rate as its earnings.

$$4 \quad P_n = P_0(1+g)^n$$

Recall that $P_n = \frac{P_n}{E_n} E_n(1+g)^n$ and $\frac{P_n}{E_n} = \frac{P_0}{E_0}$. The term in square brackets on the right hand side of equation (3) is a geometric progression which can be expressed as.

$$5 \quad \left[\sum_{t=1}^{t=n} \frac{(1+g)^{t-1}}{(1+k)^t} \right] = \left(\frac{1}{k-g} \right) \left[1 - \frac{(1+g)^n}{(1+k)^n} \right]$$

Combining equation (5) with equations (3) and (4), and rearranging, gives equation (6).

$$6 \quad P_0 \left[1 - \frac{(1+g)^n}{(1+k)^n} \right] = D_1 \left(\frac{1}{k-g} \right) \left[1 - \frac{(1+g)^n}{(1+k)^n} \right]$$

Canceling the term in square brackets on both sides of equation (6) and solving for the cost of equity capital, k , yields equation (7).

$$7 \quad k = \frac{D_1}{P_0} + g$$

Although most firms pay quarterly dividends, the relation expressed by equation (7) is the formula most commonly used in the estimation of the firm's cost of equity capital. For the next yearly dividend term in equation (5), the Commission in Ex Parte No. 436 used an estimate of the sum of the next four expected quarterly dividends. It used the last quarter's annualized dividend rate times $(1 + 1/2 g)$.

Because railroads pay dividends quarterly, rather than annually, equation (7) gives a downward biased estimate of the cost of equity capital. Since there is a time value of money, quarterly dividends would be preferred by a shareholder to a single payment at year's end. The next three quarterly dividends would be worth $D_{11}(1+k)^{1/4}$, $D_{21}(1+k)^{1/2}$, and $D_{31}(1+k)^{3/4}$ dollars, respectively, when reinvested until year's end at the firm's cost of equity capital. The only difference between this model and the more familiar model that assumes annual dividends is the recognition of the value of receiving a dollar earlier rather than later. This assumption is implemented by modifying assumption (b), which did not explicitly specify the quarter-to-quarter growth rate of dividends, as follows:

- (b') The firm's quarterly dividends per share grow at a constant rate from one quarter to the corresponding quarter in the following year.

Assuming that the firm pays dividends quarterly, and that for the next n years earnings and dividends grow at a constant rate, g , the firm's first quarter dividend in year one, D_{11} , will be equal to its first quarter dividend in year zero times one plus the growth rate, i.e., $D_{11} = D_{10}(1+g)$. In general, the dividend in a given quarter would be equal to the product of the corresponding quarter's dividend in the prior year and one plus the rate of growth, i.e., $D_{1t} = D_{1,t-1}(1+g)$, $D_{2t} = D_{2,t-1}(1+g)$, $D_{3t} = D_{3,t-1}(1+g)$, and $D_{4t} = D_{4,t-1}(1+g)$. Under these conditions, the current market value of the firm's stock, P_0 , may be expressed as:

$$8 \quad P_0 = \sum_{t=1}^n \sum_{q=1}^4 \frac{D_{qt}(1+g)^{t-1}}{(1+k)^{t-(4-q)/4}} + \frac{P_n}{(1+k)^n}$$

The first term on the right hand side of equation (8) is a finite geometric progression whose solution is:

$$\frac{\sum_{q=1}^4 D_{q1} (1+k)^{[(4-q)/4]} }{k-g} \left[1 - \frac{(1+g)^n}{(1+k)^n} \right]$$

Under the assumption that $\frac{P_n}{E_n} = \frac{P_0}{E_0}$, and $P_n = \frac{P_n}{E_n} [E_n (1+g)^n] = P_0 (1+g)^n$, equation (6) reduces to:

$$9 \quad P_0 = \frac{D^*_{11}}{k-g}$$

where:

$$\begin{aligned} D^*_{11} &\equiv \sum_{q=1}^4 D_{q1} (1+k)^{[(4-q)/4]} \\ &= D_{11} (1+k)^{(1-4)/4} + D_{21} (1+k)^{(1-2)/4} + D_{31} (1+k)^{(1-1)/4} + D_{41} \\ &= D_{10} (1+k)^{(3/4)} + D_{20} (1+k)^{(1/2)} + D_{30} (1+k)^{(1/4)} + D_{40} \end{aligned}$$

Under the assumption that the firm pays quarterly dividends, the firm's cost of equity capital may be expressed as:

$$10 \quad k = \frac{D^*_{11}}{P_0} + g$$

For most firms, $D^*_{11} > D_{11} (1+g/2) = 4D_{40} (1+g/2)$. That is, $4D_{40} (1+g/2)$ is approximately equal to $(D_{10} + D_{20} + D_{30} + D_{40}) (1+g)$, which is less than D^*_{11} , which equals

$D_{10} (1+k) + D_{20} (1+k)^{(1/2)} + D_{30} (1+k)^{(1/4)} + D_{40} (1+g)$. Therefore, the Commission's procedure for estimating D_1 results in a slight understatement of the cost of equity capital.



Long-Term Growth Rates and Number of Analysts

Burlington Northern Santa Fe Corp. 2006

Month	Number of Estimates	High	Low	Mean	Truncated Average
January	6	20 00	8 00	13 83	13 75
February	5	20 00	10 00	15 00	15 00
March	4	20 00	10 00	15 75	16 50
April	5	19 00	10 00	14 86	15 10
May	5	19 00	10 00	14 86	15 10
June	6	19 00	10 00	14 55	14 58
July	6	17 10	10 00	14 35	14 75
August	6	17 10	10 00	14 35	14 75
September	6	17 10	10 00	14 35	14 75
October	5	17 10	10 00	14 26	14 74
November	5	17 10	10 00	14 26	14 74
December	5	17 10	10 00	14 26	14 74
Average				14.56	14.87

Note: Truncated Average is calculated by dropping high and low estimates and recalculating mean. All other monthly values reported by Thomson Financial.

Source: Thomson Financial
195 Broadway
New York, NY 10007

Long-Term Growth Rates and Number of Analysts

CSX Corporation 2006

Month	Number of Estimates	High	Low	Mean	Truncated Average
January	6	22 00	7 00	15 03	15 30
February	5	22 00	12 00	16 64	16 40
March	4	22 00	12 00	17 55	18 10
April	6	22 00	12 00	16 23	15 85
May	6	22 00	12 00	16 23	15 85
June	6	22 00	12 00	16 23	15 85
July	6	22 00	12 00	16 45	16 18
August	6	22 00	12 00	16 45	16 18
September	6	25 00	12 00	17 62	17 18
October	5	22 00	12 00	17 46	17 77
November	5	22 00	12 00	17 46	17 77
December	5	22 00	12 00	17 85	18 42
Average				16.77	16.74

Note Truncated Average is calculated by dropping high and low estimates and recalculating mean All other monthly values reported by Thomson Financial

Source Thomson Financial
195 Broadway
New York, NY 10007

Long-Term Growth Rates and Number of Analysts

Norfolk Southern Corporation 2006

Month	Number of Estimates	High	Low	Mean	Truncated Average
January	4	16 00	11 00	14 25	15 00
February	4	16 00	11 00	14 25	15 00
March	4	16 00	11 00	14 25	15 00
April	5	17 00	11 00	14 80	15 33
May	5	17 00	11 00	14 80	15 33
June	5	17 00	11 00	14 80	15 33
July	6	17 00	11 40	14 57	14 75
August	6	17 00	11 40	14 57	14 75
September	6	29 00	11 40	17.20	15 71
October	5	17 20	15 00	16 02	15 97
November	5	17 20	15 00	16 02	15 97
December	5	17 20	15 00	16 02	15 97
Average				15.13	15.34

Note Truncated Average is calculated by dropping high and low estimates and recalculating mean. All other monthly values reported by Thomson Financial.

Source Thomson Financial
195 Broadway
New York, NY 10007

Long-Term Growth Rates and Number of Analysts

Union Pacific Corporation 2006

Month	Number of Estimates	High	Low	Mean	Truncated Average
January	6	29 00	7 00	15 17	13 75
February	5	29 00	7 00	16 20	15 00
March	5	22 00	7 00	13 82	13 37
April	6	23 70	7 00	13 65	12 80
May	6	30 50	7 00	14 78	12 80
June	5	30 50	7 00	14 70	12 00
July	6	32 40	7 00	14 73	12 25
August	6	32 40	7 00	14 73	12 25
September	6	32 40	7 00	14 23	11 50
October	6	32 50	7 00	15 26	13 02
November	6	32 50	7 00	15 26	13 02
December	6	32 50	7 00	15 26	13 02
Average				14.82	12.90

Note Truncated Average is calculated by dropping high and low estimates and recalculating mean. All other monthly values reported by Thomson Financial.

Source Thomson Financial
195 Broadway
New York, NY 10007



**Calculation of Composite Current Dividend Yield
For Each Month and for Year
2006**

January

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$72.05	371,571,199	\$26,771,704,888	0.337645	\$0.2000	1.11%	0.37%
CSX	\$25.71	436,405,038	11,219,973,527	0.141506	\$0.0650	1.01%	0.14%
NSC	\$44.81	430,718,913	19,300,514,492	0.243418	\$0.1600	1.43%	0.35%
UNP	\$82.50	266,634,735	21,997,365,638	0.277431	\$0.3000	1.45%	0.40%
Total			\$79,289,558,544	1.000000			1.27%

February

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$79.49	371,571,199	\$29,536,194,609	0.343594	\$0.2000	1.01%	0.35%
CSX	\$26.79	436,405,038	11,691,290,968	0.136005	\$0.0650	0.97%	0.13%
NSC	\$49.67	430,718,913	21,393,808,409	0.248874	\$0.1600	1.29%	0.32%
UNP	\$87.54	266,634,735	23,341,204,702	0.271528	\$0.3000	1.37%	0.37%
Total			\$85,962,498,687	1.000000			1.17%

March

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$79.58	364,398,034	\$28,998,795,546	0.326649	\$0.2000	1.01%	0.33%
CSX	\$28.85	443,172,312	12,785,521,201	0.144019	\$0.0650	0.90%	0.13%
NSC	\$52.53	435,525,601	22,878,159,821	0.257705	\$0.1600	1.22%	0.31%
UNP	\$89.76	268,649,934	24,114,018,076	0.271626	\$0.3000	1.34%	0.36%
Total			\$88,776,494,643	1.000000			1.14%

Sources.

Daily Stock prices were obtained from financial databases, and averaged

Number of Shares of Stock and Dividends were obtained from railroads and SEC 10-K reports

Market Value is the Average Stock Price multiplied by the number of shares

Individual railroad weights are based on the Market Value

**Calculation of Composite Current Dividend Yield
For Each Month and for Year
2006**

April

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$83.92	364,398,034	\$30,580,283,013	0.323767	\$0.2000	0.95%	0.31%
CSX	\$32.87	443,172,312	14,567,073,895	0.154228	\$0.0650	0.79%	0.12%
NSC	\$55.10	435,525,601	23,997,460,615	0.254071	\$0.1600	1.16%	0.30%
UNP	\$94.20	268,649,934	25,306,823,783	0.267934	\$0.3000	1.27%	0.34%
Total			\$94,451,641,307	1.000000			1.07%

May

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$78.63	364,398,034	\$28,652,617,413	0.309344	\$0.2000	1.02%	0.31%
CSX	\$34.93	443,172,312	15,480,008,858	0.167128	\$0.0650	0.74%	0.12%
NSC	\$53.77	435,525,601	23,418,211,566	0.252831	\$0.1600	1.19%	0.30%
UNP	\$93.33	268,649,934	25,073,098,340	0.270698	\$0.3000	1.29%	0.35%
Total			\$92,623,936,178	1.000000			1.09%

June

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$76.04	391,934,975	\$29,802,735,499	0.330144	\$0.2000	1.05%	0.35%
CSX	\$32.50	443,530,816	14,414,751,520	0.159681	\$0.0650	0.80%	0.13%
NSC	\$50.65	434,634,158	22,014,220,103	0.243865	\$0.1600	1.26%	0.31%
UNP	\$89.30	269,208,581	24,040,326,283	0.266310	\$0.3000	1.34%	0.36%
Total			\$90,272,033,405	1.000000			1.14%

Sources

Daily Stock prices were obtained from financial databases, and averaged.

Number of Shares of Stock and Dividends were obtained from railroads and SEC 10-K reports

Market Value is the Average Stock Price multiplied by the number of shares

Individual railroad weights are based on the Market Value

**Calculation of Composite Current Dividend Yield
For Each Month and for Year
2006**

July

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$72.43	391,934,975	\$28,387,850,239	0.325020	\$0.2500	1.38%	0.45%
CSX	\$32.41	443,530,816	14,374,833,747	0.164581	\$0.1000	1.23%	0.20%
NSC	\$48.68	434,634,158	21,157,990,811	0.242244	\$0.1800	1.48%	0.36%
UNP	\$87.00	269,208,581	23,421,146,547	0.268155	\$0.3000	1.38%	0.37%
Total			\$87,341,821,344	1.000000			1.38%

August

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$66.78	391,934,975	\$26,173,417,631	0.326965	\$0.2500	1.50%	0.49%
CSX	\$30.28	443,530,816	13,430,113,108	0.167772	\$0.1000	1.32%	0.22%
NSC	\$42.41	434,634,158	18,432,834,641	0.230268	\$0.1800	1.70%	0.39%
UNP	\$81.77	269,208,581	22,013,185,668	0.274994	\$0.3000	1.47%	0.40%
Total			\$80,049,551,048	1.000000			1.51%

September

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$69.29	359,060,377	\$24,879,293,522	0.315579	\$0.2500	1.44%	0.46%
CSX	\$31.21	435,181,651	13,582,019,328	0.172280	\$0.1000	1.28%	0.22%
NSC	\$42.70	417,682,389	17,835,038,010	0.226227	\$0.1800	1.69%	0.38%
UNP	\$83.65	269,463,616	22,540,631,478	0.285914	\$0.3000	1.43%	0.41%
Total			\$78,836,982,339	1.000000			1.47%

Sources.

Daily Stock prices were obtained from financial databases, and averaged

Number of Shares of Stock and Dividends were obtained from railroads and SEC 10-K reports

Market Value is the Average Stock Price multiplied by the number of shares

Individual railroad weights are based on the Market Value

**Calculation of Composite Current Dividend Yield
For Each Month and for Year
2006**

October

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$77 65	359,060,377	\$27,881,038,274	0 318104	\$0 2500	1.29%	0 41%
CSX	\$35 12	435,181,651	15,283,579,583	0 174375	\$0 1000	1 14%	0 20%
NSC	\$48 14	417,682,389	20,107,230,206	0 229410	\$0 1800	1 50%	0 34%
UNP	\$90 46	269,463,616	24,375,678,703	0 278110	\$0 3000	1.33%	0 37%
Total			\$87,647,526,767	1 000000			1.32%

November

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$76 48	359,060,377	\$27,460,937,633	0 308039	\$0 2500	1 31%	0 40%
CSX	\$36 27	435,181,651	15,784,038,482	0 177055	\$0 1000	1 10%	0.20%
NSC	\$51 10	417,682,389	21,343,570,078	0 239419	\$0 1800	1 41%	0.34%
UNP	\$91 14	269,463,616	24,558,913,962	0 275486	\$0 3000	1 32%	0 36%
Total			\$89,147,460,155	1 000000			1.30%

December

Railroad	Avg. Common Stock Price	Number Of Shares	Market Value	Weight	Dividend Paid	Dividend Yield	Weighted Yield
BNI	\$74 90	357,875,388	\$26,804,866,561	0 303042	\$0 2500	1 34%	0 40%
CSX	\$35 55	437,763,589	15,562,495,589	0 175941	\$0 1000	1 13%	0 20%
NSC	\$50 37	418,200,239	21,064,746,038	0 238147	\$0 1800	1 43%	0 34%
UNP	\$92 61	270,172,290	25,020,655,777	0 282870	\$0 3000	1 30%	0 37%
Total			\$88,452,763,965	1 000000			1.31%

The Simple Average of the 12 monthly dividend yields is: 1.26%
The Simple Average of the 12 monthly market values is: \$86,904,355,699

Sources.

Daily Stock prices were obtained from financial databases, and averaged
 Number of Shares of Stock and Dividends were obtained from railroads and SEC 10-K reports
 Market Value is the Average Stock Price multiplied by the number of shares
 Individual railroad weights are based on the Market Value

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Appendix E
Bonds, Notes and Debentures

Summaries

Burlington Northern & Santa Fe Corporation	E-1
CSX Corporation	E-4
Norfolk Southern Corporation	E-7
Union Pacific Corporation	E-10

Individual Bonds, Notes, and Debentures

Burlington Northern & Santa Fe Corporation	E-13
CSX Corporation	E-37
Norfolk Southern Corporation	E-49
Union Pacific Corporation	E-62

Burlington Northern Santa Fe Corporation
December 31, 2006

Type	Description	No. CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
					Used				
				Traded					
1 Note	MTN00005	1 12189QAB6	6 530%	07/15/37	\$170,100	106 124	\$180,517	6 090%	\$10,993
2 Notes	MTN00010	2 12189TAM6	6 125%	03/15/09	202,026	101 935	205,935	5 330%	10,976
3 Notes	MTN00014	3 12189TAT1	6 750%	07/15/11	400,000	105 726	422,902	5 420%	22,921
4 Notes	MTN00015	4 12189TAU8	5 900%	07/01/12	300,000	102 292	306,875	5 440%	16,694
5 Notes	MTN00016	5 12189TAV6	4 300%	07/01/13	250,000	93 324	233,310	5 460%	12,739
6 Notes	MTN00017	6 12189TAW4	4 875%	07/01/15	250,000	95 577	238,941	5 530%	13,213
7 Debentures	DEB00004	7 12189TAA2	7 000%	12/15/25	350,000	111 580	390,529	5 990%	23,393
8 Debentures	DEB00005	8 12189TAB0	6 875%	02/15/16	175,000	108 900	190,575	5 660%	10,787
9 Debentures	DEB00006	9 12189TAD6	7 290%	06/01/36	200,000	116 862	233,724	6 060%	14,164
10 Debentures	DEB00007	10 12189TAF1	7 250%	08/01/97	200,000	112 273	224,546	6 460%	14,506
11 Debentures	DEB00008	11 12189TAG9	6 875%	12/01/27	200,000	110 205	220,409	6 020%	13,269
12 Debentures	DEB00009	12 12189TAJ3	6 700%	08/01/28	200,000	108 331	216,662	6 020%	13,043
13 Debentures	DEB00010	13 12189TAN4	6 750%	03/15/29	200,000	109 156	218,312	6 010%	13,121
14 Debentures	DEB00011	14 12189TAK0	7 082%	05/13/29	200,000	112 790	225,580	6 050%	13,648
15 Debentures	DEB00012	15 12189TAQ7	8 125%	04/15/20	200,000	120,909	241,818	5 890%	14,243
16 Debentures	DEB00013	16 12189TAR5	7 950%	08/15/30	275,000	124 436	342,199	6 020%	20,600
17 Debentures	DEB00014	17 12189TAX2	6 200%	08/15/36	300,000	104 802	104,802	5 850%	6,131
18 Debentures	SFP - Debentures	18 12189TWQ1	8 750%	02/25/22	200,000	127 895	255,790	5 980%	15,296
19 Mortgages	Bond Ser K	19 121899CD8	6 550%	01/01/20	3,978	100 321	3,991	6 510%	260
20 Mortgages	Bond Ser L	20 121899CC0	3 800%	01/01/20	6,195	79 500	4,925	6 050%	298
21 Mortgages	Bond Ser M	21 121899CH9	3 200%	01/01/45	12,998	52 896	6,875	6 580%	452
22 Mortgages	Bond Ser N	22 121899CF3	8 150%	01/01/20	2,506	115 167	2,886	6 450%	186
23 Mortgages	Bond Ser O	23 121899CE6	6 550%	01/01/20	15,378	100 450	15,447	6 500%	1,004
24 Mortgages	Bond Ser P	24 121899CG1	8 150%	01/01/20	5,566	115 682	6,439	6 410%	413
25									
26									
27									
28									
29									
30									
Total					\$4,318,747	\$4,118,747	\$4,493,989	5.838%	\$262,350

Burlington Northern Santa Fe Corporation
December 31, 2006

Type		Description	No.	CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
							Year-End	Used			
1	Notes	MTN000012			7 125%	12/15/10	292,065	292,065	292,065	100 000	
2	Note	WAS00001	BNAL Washgtn		No Int.	10/01/11	174	174	174	100 000	
3	Jr Sub Notes	Hybrid Debt Securities			6 613%	12/15/55	500,000	500,000	500,000	100 000	
4	Mortgage	GOB00001	Topeka GOB		10 320%	01/01/14	19,599	19,599	19,599	100 000	
5	Mortgage	N P General Lien Bond		665585JP1	3 000%	01/01/47	34,479	34,479	34,479	100 000	
6	Mortgage	MOT00001	Empire of Am		8 625%	10/01/08	2,036	2,036	2,036	100 000	
7	Mortgage	MOT00002	Lincoln Nat'l		8 625%	08/01/09	2,869	2,869	2,869	100 000	
8	Financing Oblig	Joliet Arsenal			6 967%	08/01/22	138,231	138,231	138,231	100 000	
9	Financing Oblig	Amory Sale			No Int	01/01/32	15,100	15,100	15,100	100 000	
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30											
Total							\$1,004,553	\$1,004,553	\$1,004,553		\$1,004,553

Burlington Northern Santa Fe Corporation
December 31, 2006

Type	Description	No.	CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Market		Interest Cost (\$ 000)
							Year-End	Used	
1	Notes								
2									
3									
4									
5									
6									
7									
8									
9									
10									
						Matures In 2007			
				7 875%	04/15/07	299,803			
Total						\$299,803			

Total Traded and Not Traded	Grand Totals	\$5,323,300	\$5,123,300	\$5,498,542
Grand Total (for reconciliation to carrier data only)		\$5,623,103		

From BNSF:

Total Notes	\$2,164,168
Total Debentures	2,700,000
Junior Subordinated Notes/Hybrid Debt Securities	500,000
Total Mortgages	105,604
Financing Obligations	153,331
Total	\$5,623,103

CSX Corporation
December 31, 2006

Type	Description	No.	CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Average		Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
							Year-End	Used			
Traded											
1	Notes	25	126408BR3	6 250%	10/15/08	\$400,000		400,000	\$407,262	5 380%	\$21,911
2	Debenture	26	126408AM5	8 625%	05/15/22	\$115,712		115,712	\$148,239	5 880%	\$8,716
3	Debenture	27	126408AQ6	8 100%	09/15/22	\$93,591		93,591	\$114,893	5 900%	\$6,779
4	Notes	28	126408GC1	4 875%	11/01/09	\$200,000		200,000	\$196,641	5 430%	\$10,678
5	Notes	29	126408AP8	6 750%	03/15/11	\$500,000		500,000	\$525,872	5 470%	\$28,765
6	Notes	30	126408GB3	6 300%	03/15/12	\$400,000		400,000	\$414,894	5 520%	\$22,902
7	Notes	31	126408GF4	5 300%	02/15/14	\$200,000		200,000	\$196,400	5 590%	\$10,979
8	Med Term Notes	32	12641LBM4	6 590%	05/19/08	\$50,000		50,000	\$50,692	5 780%	\$2,930
9	Med Term Notes	33	12641LBN2	6 500%	06/02/08	\$40,000		40,000	\$40,506	5 770%	\$2,337
10	Med Term Notes	34	12641LBT9	5 860%	10/06/08	\$3,000		3,000	\$3,008	5 730%	\$172
11	Med Term Notes	35	12641LBU6	6 800%	12/01/28	\$200,000		200,000	\$218,242	6 050%	\$13,204
12	Med Term Notes	36	126408GH0	6 000%	10/01/36	\$400,000		100,000	\$101,922	5 860%	\$5,973
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30											
Total						\$2,602,303	\$2,302,303		\$2,418,571	5.596%	\$135,346

CSX Corporation
December 31, 2006

Type	Description	No. CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)		Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
					Year-End	Used				
Not Traded										
1	Debentures		7 900%	05/01/17	384,769	384,769	100 000	384,769		
2	Debentures		7 950%	05/01/27	272,614	272,614	100 000	272,614		
3	Debentures		7 250%	05/01/27	83,312	83,312	100 000	83,312		
4	Debentures		8 300%	05/01/32	150,000	150,000	100 000	150,000		
5	Notes		5 500%	08/01/13	300,000	300,000	100 000	300,000		
6	Med Term Notes		9 780%	02/14/11	7,500	7,500	100 000	7,500		
7	Med Term Notes		9 870%	02/12/21	10,000	10,000	100 000	10,000		
8	Med Term Notes		6 400%	09/16/08	25,000	25,000	100 000	25,000		
9	Med Term Notes		4 400%	10/25/35	73,304	73,304	100 000	73,304		
10	Convertible		1 000%	10/30/21	472,759	472,759	100 000	472,759		
11	Del Dot		3 910%	03/01/10	4,321	4,321	100 000	4,321		
12	Pen Port		6 000%	12/01/12	17,100	17,100	100 000	17,100		
13	TORCO		6 450%	12/15/21	29,700	29,700	100 000	29,700		
14	CRR Tax Note		4 520%	03/31/35	23,100	23,100	100 000	23,100		
15	30 Yr Tax Note		9 750%	06/01/20	227,171	227,171	100 000	227,171		
16	50 Yr Tax Note		7 875%	05/01/43	99,989	99,989	100 000	99,989		
17	Floating Rate	New 5/26/2006	6 200%	05/01/13	60,000	35,000	100 000	35,000		
18	Payable to CEEDCSXT and Other	Reclassified			1,809	1,809	100 000	1,809		
19	Advances		0 000%		1,089	1,089	100 000	1,089		
20										
21										
22										
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25										
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27										
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30										
Total					\$2,243,537	\$2,218,537		\$2,218,537		

CSX Corporation
December 31, 2006

Type	Description	No. CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
					Year-End	Used			
				Matures In 2007					
1	Debentures CSX Corp		7 450%	05/01/07	450,000				
2	Med Term Notes CSX Corp		6 350%	09/17/07	20,000				
3	Monon Bond CSXT and Other		6 000%	01/01/07	3,093				
4									
5									
6									
7									
8									
9									
10									
Total					\$473,093				

Total Traded and Not Traded	Grand Totals	\$4,845,840	\$4,520,840	\$4,637,108
Grand Total (for reconciliation to carrier data only)		\$5,318,933		

From CSX:

Long-Term Debt Corporate	\$4,851,561
Long-Term Debt CSXT and Other	467,372
Total	\$5,318,933

Norfolk Southern Corporation
December 31, 2006

	Type	Description	No.	CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$'000)	Average Price		Market Value (\$'000)	Average Yield	Interest Cost (\$'000)
								Year-End	Used			
1	Debentures	Conrail	37	209864AT4	9 750%	06/15/20	\$313,741	313,741	125 002	\$392,182	6 920%	\$27,139
2	Med Term Notes	Series A NSC	38	655844AA6	9 000%	03/01/21	83,372	83,372	129 366	107,855	5 960%	6,428
3	Med Term Notes	Senior	39	655844AL2	6 200%	04/15/09	400,000	400,000	102 097	408,387	5 360%	21,890
4	Med Term Notes	Senior	40	655844AN8	8 625%	05/15/10	300,000	300,000	111 025	333,075	5 390%	17,953
5	Med Term Notes	Senior	41	655844AP3	6 750%	02/15/11	300,000	300,000	105 348	316,045	5 410%	17,098
6	Med Term Notes	Senior	42	655844AQ1	7 250%	02/15/31	500,008	500,008	116 159	580,803	5 990%	34,790
7	Med Term Notes	Senior 2105	43	655844AV0	6 000%	03/15/05	300,000	300,000	93 752	281,256	6 400%	18,000
8	Med Term Notes	Senior	44	655844AX6	5 640%	05/17/29	350,000	350,000	95 952	335,831	5 970%	20,049
9	Med Term Notes	CR NSC 2025	45	655844AW8	5 590%	05/17/25	366,620	366,620	96 345	353,219	5 910%	20,875
10	Med Term Notes	CR NSC 2017	46	655844AE8	7 700%	05/15/17	550,000	550,000	115 976	637,869	5 700%	36,359
11	Med Term Notes	CR NSC 2027	47	655844AJ7	7 800%	05/15/27	440,000	440,000	121 303	533,731	6 000%	32,024
12	Med Term Notes	CR NSC 2037	48	655844AF5	7 050%	05/01/37	716,600	716,600	114 300	819,071	6 030%	49,390
13	Med Term Notes	CR NSC 2097	49	655844AK4	7 900%	05/01/97	350,000	350,000	122 445	428,559	6 450%	27,642
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Total							\$4,970,341	\$4,970,341		\$5,527,883	5.963%	\$329,637

Norfolk Southern Corporation
December 31, 2006

	Type	Description	No.	CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Used		Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
								Year-End					
						Not Traded							
1	Debentures	Conrail		209864AU1	7 875%	2043	138,085	138,085		100 000	138,085		
2	Revenue Bonds	NS Rwy Marine Terminal			5 300%	08/15/13	27 200	27 200		100 000	27,200		
3	Notes	Senior			6 000%	04/30/08	200,000	200,000		100 000	200,000		
4	Notes	CR NSC 2014			5 257%	05/01/14	431,456	431,456		100 000	431,456		
5	Bond	NSC Poca Dev Timber			8 250%	10/01/19	75,734	75,734		100 000	75,734		
6	Zero Coupon	NSC Poca Dev Timber				10/01/19	9,169	9,169		100 000	9,169		
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Total							\$881,644	\$881,644			\$881,644		\$881,644

Norfolk Southern Corporation
December 31, 2006

Type	Description	No. CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000) Year-End	Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
						Used			
1	Med Term NotesCR NSC 2007	655844AH1	7 350%	Matures in 2007 05/15/07	340,325				
2									
3									
4									
5									
6									
7									
8									
9									
10									
Total					\$340,325				

Total Traded and Not Traded	\$5,851,985	\$5,851,985	\$6,409,527
Grand Total (for reconciliation to carrier data only)	\$6,192,310		

From NS:

Income Debentures	\$451,826
Marine Terminal Facility Rev Bonds	27,200
NSC Medium Term Notes	2,800,000
NSC Conrail Notes	2,828,381
Poca Dev Timber LLC bonds	84,903
Total	\$6,192,310

Union Pacific Corporation
December 31, 2006

Type	Description	No.	CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Average		Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
							Year-End	Used			
Traded											
1	Debentures	50	907818CU0	6 250%	05/01/34	\$246,456	246,456	103 471	\$255,010	5 990%	\$15,275
2	Debentures	51	907818CF3	6 625%	02/01/29	595,117	595,117	107 769	641,353	5 990%	38,417
3	Debentures	52	907818AZ1	7 000%	02/01/16	249,492	249,492	109 642	273,549	5 680%	15,538
4	Debentures	53	907818BY3	7 125%	02/01/28	247,962	247,962	112 823	279,759	6 050%	16,925
5	Notes	54	907818CQ9	3 875%	02/15/09	249,747	249,747	96 489	240,977	5 340%	12,868
6	Notes	55	907818CV8	4 875%	01/15/15	249,600	249,600	95 245	237,732	5 580%	13,265
7	Notes	56	907818CT3	5 375%	05/01/14	249,498	249,498	98 876	246,694	5 550%	13,692
8	Notes	57	907818CN6	6 125%	01/15/12	298,930	298,930	102 884	307,551	5 500%	16,915
9	Notes	58	907818CP1	6 500%	04/15/12	324,656	324,656	104 893	340,541	5 490%	18,696
10	Notes	59	907818BX5	6 625%	02/01/08	299,854	299,854	101 754	305,113	5 420%	16,537
11	Notes	60	907818CK2	6 650%	01/15/11	399,115	399,115	104 626	417,576	5 470%	22,841
12	Notes	61	907818BA5	7 250%	11/01/08	249,963	249,963	104 077	260,154	5 330%	13,866
13	Notes	62	907818CG1	7 375%	09/15/09	149,840	149,840	105 548	158,153	5 430%	8,588
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29											
30											
Total						\$3,810,230	\$3,810,230		\$3,964,162	5.636%	\$223,423

Union Pacific Corporation
December 31, 2006

Type		Description	No.	CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)	Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
Not Traded											
1	Debentures				5 375%	06/01/33	198,473	100 000	198,473		
2	Notes				3 625%	06/01/10	298,991	100 000	298,991		
3	Tax Exempt				Variable	2010 - 2026	156,540	100 000	156,540		
4	Med Term Notes Series B				9 2-9 3%	2005 - 2020	7,409	100 000	7,409		
5	Med Term Notes Series C				9 5-10 0%	2005 - 2020	44,124	100 000	44,124		
6	Med Term Notes Series D				9 17-9 4%	2005 - 2011	10,000	100 000	10,000		
7	Debt Security	KFW Loan			7 310%	12/15/12	74,376	100 000	74,376		
8	RR Tax Exempt	Albany County			2 550%	12/01/15	8,000	100 000	8,000		
9	Gen Inc	MP Series A		606198LF4	4 750%	01/01/20	29,905	100 000	29,905		
10	Gen Inc	MP Series B		606198LG2	4 750%	01/01/30	29,209	100 000	29,209		
11	Debentures	MP		606198LH0	5 000%	01/01/45	96,025	100 000	96,025		
12	Debentures	MP C&E			5 000%	01/01/54	1,641	100 000	1,641		
13	Debt Security	IDCCA			3 000%	11/01/08	921	100 000	921		
14	Debt Security	Illinois DOT			3 000%	12/31/19	18,228	100 000	18,228		
15	Debt Security	Illinois DOT			3 000%	03/14/18	1,668	100 000	1,668		
16	Debt Security	Iowa DOT			3 000%	12/31/09	146	100 000	146		
17	Debt Security	ITCF 1999			5 750%	11/01/14	26,495	100 000	26,495		
18											
19											
20											
21											
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23											
24											
25											
26											
27											
28											
29											
30											
Total							\$1,002,151	\$1,002,151	\$1,002,151		\$1,002,151

Union Pacific Corporation
December 31, 2006

Type	Description	No. CUSIP	Coupon Rate	Maturity Date	Amt. Outstanding (\$000)		Average Price	Market Value (\$ 000)	Average Yield	Interest Cost (\$ 000)
					Year-End	Used				
1	Notes									
2	Med Term Notes Series E	907818CM8	5 750%	10/15/07	343,820					
3		90782EGV0	6 790%	11/09/07	300,000					
4										
5										
6										
7										
8										
9										
10										
Total					\$643,820					

Total Traded and Not Traded	Grand Totals	\$4,812,381	\$4,812,381	\$4,966,313
Grand Total (for reconciliation to carrier data only)		\$5,456,201		

From UP:

Debentures, Notes, Tax Exempt, and Medium Term Notes for UP Corp	5,169,587
Misc LTD (2nd page) including KFW, RR Tax Exempt, CNW, MP, DOT, others, for UP RR	216,721
Removal of MP Debt Discount not in Traded, Not Traded, or Matures in 2007	\$108,935
Removal of SP Purch Acct Debt Premium not in Traded, Not Traded, or Matures in 2007	-39,042
Total	\$5,456,201

Burlington Northern Santa Fe Corporation
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1

Type:	Note
Description:	MTN00005
CUSIP:	12189QAB6
Coupon Rate:	6.530%
Maturity Date:	7/15/37
Amount Outstanding (\$ 000)	\$170.100
Months Outstanding	12

End of Month	Price	Yield
January	111.123	5.76 %
February	112.373	5.68
March	104.807	6.18
April	101.057	6.44
May	101.059	6.44
June	101.605	6.40
July	102.972	6.31
August	105.791	6.11
September	107.390	6.00
October	108.125	5.95
November	110.545	5.79
December	106.645	6.05
Average	106.124	6.09 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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2

Type:	Notes
Description:	MTN00010
CUSIP:	12189TAM6
Coupon Rate:	6 125%
Maturity Date:	3/15/09
Amount Outstanding (\$ 000)	\$202,026
Months Outstanding	12

End of Month	Price	Yield
January	103 045	5 05 %
February	102 638	5 17
March	102 136	5 33
April	101 909	5 39
May	101 401	5 57
June	101 084	5 68
July	101 471	5 51
August	101 891	5 31
September	101 993	5 24
October	101 965	5 23
November	102 108	5 13
December	101 579	5 35
Average	101 935	5 33 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation

3

Type:	Notes
Description:	MTN00014
CUSIP:	12189TAT1
Coupon Rate:	6.750%
Maturity Date:	7/15/11
Amount Outstanding (\$ 000)	\$400,000
Months Outstanding	12

End of Month	Price	Yield
January	107.231	5.20 %
February	106.652	5.31
March	105.447	5.54
April	105.280	5.56
May	104.670	5.68
June	104.266	5.76
July	104.996	5.58
August	105.693	5.40
September	106.086	5.29
October	106.166	5.25
November	106.655	5.11
December	105.564	5.35
Average	105.726	5.42 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation

4

Type:	Notes
Description:	MTN00015
CUSIP:	12189TAU8
Coupon Rate:	5.900%
Maturity Date:	7/1/12
Amount Outstanding (\$ 000)	\$300,000
Months Outstanding	12

End of Month	Price	Yield
January	103.536	5.24 %
February	103.635	5.21
March	102.065	5.50
April	101.197	5.66
May	100.792	5.74
June	100.548	5.79
July	101.482	5.60
August	102.359	5.42
September	102.903	5.30
October	103.008	5.27
November	103.577	5.15
December	102.397	5.39
Average	102.292	5.44 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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-5

Type:	Notes
Description:	MTN00016
CUSIP:	12189TAV6
Coupon Rate:	4.300%
Maturity Date:	7/1/13
Amount Outstanding (\$ 000)	\$250,000
Months Outstanding	12

End of Month	Price	Yield
January	94.637	5.17 %
February	94.452	5.21
March	92.694	5.53
April	91.943	5.68
May	91.539	5.77
June	91.429	5.80
July	92.368	5.64
August	93.372	5.47
September	94.047	5.36
October	94.282	5.32
November	95.085	5.19
December	94.042	5.39
Average	93.324	5.46 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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6

Type:	Notes
Description:	MTN00017
CUSIP:	12189TAW4
Coupon Rate:	4.875%
Maturity Date:	7/1/15
Amount Outstanding (\$ 000)	\$250,000
Months Outstanding	12

End of Month	Price	Yield
January	97.138	5.27 %
February	97.156	5.27
March	95.285	5.55
April	93.872	5.77
May	93.664	5.81
June	93.272	5.88
July	94.141	5.75
August	95.721	5.51
September	96.524	5.39
October	96.615	5.38
November	97.608	5.22
December	95.922	5.50
Average	95.577	5.53 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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7	Type:	Debentures
	Description:	DEB00004
	CUSIP:	12189TAA2
	Coupon Rate:	7.000%
	Maturity Date:	12/15/25
	Amount Outstanding (\$ 000)	\$350,000
	Months Outstanding	12

End of Month	Price	Yield
January	114.810	5.74 %
February	115.684	5.67
March	110.958	6.04
April	107.928	6.29
May	107.330	6.34
June	107.779	6.30
July	108.938	6.20
August	111.566	5.98
September	112.032	5.94
October	113.745	5.80
November	115.743	5.64
December	112.444	5.90
Average	111.580	5.99 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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8	Type:	Debentures
	Description:	DEB00005
	CUSIP:	12189TAB0
	Coupon Rate:	6.875%
	Maturity Date:	2/15/16
	Amount Outstanding (\$ 000)	\$175,000
	Months Outstanding	12

End of Month	Price	Yield
January	110.818	5.46 %
February	110.830	5.45
March	108.369	5.75
April	107.157	5.90
May	106.652	5.96
June	106.236	6.01
July	107.406	5.85
August	109.324	5.59
September	110.026	5.49
October	110.110	5.47
November	110.875	5.36
December	108.996	5.60
Average	108.900	5.66 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation

9

Type:	Debentures
Description:	DEB00006
CUSIP:	12189TAD6
Coupon Rate:	7.290%
Maturity Date:	6/1/36
Amount Outstanding (\$ 000)	\$200,000
Months Outstanding	12

End of Month	Price	Yield
January	120.145	5.86 %
February	121.734	5.76
March	115.944	6.12
April	111.906	6.39
May	111.856	6.39
June	112.725	6.33
July	114.107	6.24
August	116.983	6.05
September	118.507	5.95
October	118.949	5.92
November	121.834	5.74
December	117.651	6.00
Average	116.862	6.06 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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10	Type:	Debentures
	Description:	DEB00007
	CUSIP:	12189TAF1
	Coupon Rate:	7.250%
	Maturity Date:	8/1/97
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield :
January	116.871	6.20 %
February	118.381	6.12
March	111.321	6.51
April	106.901	6.78
May	106.434	6.80
June	107.066	6.76
July	108.673	6.67
August	112.010	6.47
September	113.933	6.36
October	114.830	6.30
November	117.801	6.15
December	113.054	6.40
Average	112.273	6.46 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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11

Type:	Debentures
Description:	DEB00008
CUSIP:	12189TAG9
Coupon Rate:	6.875%
Maturity Date:	12/1/27
Amount Outstanding (\$ 000)	\$200,000
Months Outstanding	12

End of Month	Price	Yield
January	113.878	5.75 %
February	114.802	5.68
March	109.874	6.05
April	106.481	6.32
May	106.109	6.35
June	106.699	6.30
July	107.667	6.22
August	110.287	6.01
September	111.686	5.90
October	111.408	5.92
November	113.479	5.76
December	110.085	6.02
Average	110.205	6.02 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation

12	Type:	Debentures
	Description:	DEB00009
	CUSIP:	12189TAJ3
	Coupon Rate:	6.700%
	Maturity Date:	8/1/28
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	111.905	5.75 %
February	112.833	5.68
March	107.892	6.05
April	104.493	6.32
May	104.121	6.35
June	104.483	6.32
July	105.587	6.23
August	108.079	6.03
September	109.477	5.92
October	110.109	5.87
November	112.205	5.71
December	108.785	5.97
Average	108.331	6.02 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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13	Type:	Debentures
	Description:	DEB00010
	CUSIP:	12189TAN4
	Coupon Rate:	6.750%
	Maturity Date:	3/15/29
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	112.554	5.76 %
February	113.510	5.69
March	108.487	6.06
April	105.029	6.33
May	104.646	6.36
June	105.382	6.30
July	106.506	6.21
August	109.066	6.01
September	110.496	5.90
October	111.139	5.85
November	113.280	5.69
December	109.775	5.95
Average	109.156	6.01 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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14	Type:	Debentures
	Description:	DEB00011
	CUSIP:	12189TAK0
	Coupon Rate:	7.082%
	Maturity Date:	5/13/29
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	116.819	5.76 %
February	117.794	5.69
March	112.476	6.07
April	109.177	6.32
May	108.519	6.37
June	108.499	6.37
July	109.763	6.27
August	112.366	6.07
September	113.827	5.96
October	114.489	5.91
November	116.668	5.75
December	113.080	6.01
Average	112.790	6.05 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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15	Type:	Debentures
	Description:	DEB00012
	CUSIP:	12189TAQ7
	Coupon Rate:	8 125%
	Maturity Date:	4/15/20
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	124 158	5 63 %
February	123 845	5 65
March	121 242	5 88
April	118 835	6 10
May	118 026	6 17
June	117 951	6 17
July	118 711	6 09
August	121 347	5 83
September	122 333	5 73
October	122 455	5 71
November	122 349	5 71
December	119 658	5 96
Average	120 909	5 89 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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16	Type:	Debentures
	Description:	DEB00013
	CUSIP:	12189TAR5
	Coupon Rate:	7.950%
	Maturity Date:	8/15/30
	Amount Outstanding (\$ 000)	\$275,000
	Months Outstanding	12

End of Month	Price	Yield
January	128 577	5 76 %
February	129 798	5 68
March	124 340	6 03
April	120 368	6 30
May	119 349	6 37
June	120 026	6 32
July	121 428	6 22
August	124 602	6 00
September	126 211	5 89
October	126 926	5 84
November	129 351	5 68
December	122 256	6 15
Average	124 436	6 02 %

Source Standard & Poor's XpressFeed - Bond Package

Burlington Northern Santa Fe Corporation

177

Type:	Debentures
Description:	DEB00014
CUSIP:	12189TAX2
Coupon Rate:	6.200%
Maturity Date:	8/15/36
Amount Outstanding (\$ 000)	\$300,000
Months Outstanding	4

End of Month	Price	Yield
January	Not Traded	- %
February	Not Traded	-
March	Not Traded	-
April	Not Traded	-
May	Not Traded	-
June	Not Traded	-
July	Not Traded	-
August	Not Traded	-
September	104.181	5.90
October	105.190	5.82
November	106.809	5.72
December	103.029	5.97
Average	104.802	5.85 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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18	Type:	Debentures
	Description:	SFP - Debentures
	CUSIP:	121897WQ1
	Coupon Rate:	8.750%
	Maturity Date:	2/25/22
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	131.805	5.70 %
February	132.598	5.63
March	127.353	6.04
April	124.449	6.28
May	124.832	6.24
June	123.534	6.35
July	125.100	6.21
August	127.784	5.97
September	128.850	5.87
October	129.273	5.83
November	131.374	5.65
December	127.786	5.94
Average	127.895	5.98 %

Source Standard & Poor's XpressFeed -- Bond Package

Burlington Northern Santa Fe Corporation
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19	Type:	Mortgages
	Description:	Bond Ser K
	CUSIP:	121899CD8
	Coupon Rate:	6 550%
	Maturity Date:	1/1/20
	Amount Outstanding (\$ 000)	\$3,978
	Months Outstanding	12

End of Month	Price	Yield
January	Not Traded	- %
February	Not Traded	-
March	Not Traded	-
April	Not Traded	-
May	Not Traded	-
June	101 750	6 35
July	98 125	6 76
August	100 000	6 54
September	100 000	6 55
October	100 000	6 55
November	100 000	6 55
December	102 375	6 28
Average	100 321	6 51 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
--

20	Type:	Mortgages
	Description:	Bond Ser L
	CUSIP:	121899CC0
	Coupon Rate:	3.800%
	Maturity Date:	1/1/20
	Amount Outstanding (\$ 000)	\$6,195
	Months Outstanding	12

End of Month	Price	Yield
January	81.000	5.80 %
February	81.000	5.81
March	81.000	5.83
April	81.000	5.84
May	80.000	5.96
June	80.000	5.98
July	80.000	5.99
August	80.000	6.00
September	78.000	6.26
October	78.000	6.27
November	78.000	6.29
December	76.000	6.57
Average	79.500	6.05 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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21	Type:	Mortgages
	Description:	Bond Ser M
	CUSIP:	121899CH9
	Coupon Rate:	3 200%
	Maturity Date:	1/1/45
	Amount Outstanding (\$ 000)	\$12 998
	Months Outstanding	12

End of Month	Price	Yield
January	56 250	6 18 %
February	55 250	6 29
March	55 250	6 29
April	52 000	6 68
May	49 000	7 07
June	50 875	6 82
July	53 000	6 56
August	51 000	6 81
September	51 000	6 82
October	53 250	6 54
November	54 500	6 40
December	53 375	6 53
Average	52 896	6 58 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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22	Type:	Mortgages
	Description:	Bond Ser N
	CUSIP:	121899CF3
	Coupon Rate:	8 150%
	Maturity Date:	1/1/20
	Amount Outstanding (\$ 000)	\$2,506
	Months Outstanding	12

End of Month	Price	Yield
January	118 625	6 13 %
February	117 625	6 22
March	120 000	5 99
April	114 000	6 58
May	114 750	6 49
June	114 750	6 49
July	114 750	6 49
August	114 750	6 48
September	110 125	6 96
October	113 500	6 59
November	113 500	6 59
December	115 625	6 36
Average	115 167	6 45 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation

23

Type:	Mortgages
Description:	Bond Ser O
CUSIP:	121899CE6
Coupon Rate:	6.550%
Maturity Date:	1/1/20
Amount Outstanding (\$ 000)	\$15,378
Months Outstanding	12

End of Month	Price	Yield
January	Not Traded	- %
February	Not Traded	-
March	102.250	6.30
April	98.375	6.73
May	99.000	6.66
June	99.000	6.66
July	99.500	6.60
August	99.500	6.61
September	99.500	6.61
October	102.625	6.25
November	103.125	6.20
December	101.625	6.36
Average	100.450	6.50 %

Source Standard & Poor's XpressFeed – Bond Package

Burlington Northern Santa Fe Corporation
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24	Type:	Mortgages
	Description:	Bond Ser P
	CUSIP:	121899CG1
	Coupon Rate:	8 150%
	Maturity Date:	1/1/20
	Amount Outstanding (\$ 000)	\$5,566
	Months Outstanding	12

End of Month	Price	Yield
January	Not Traded	- %
February	125 000	5 53
March	125 000	5 53
April	125 000	5 52
May	107 000	7 32
June	107 000	7 32
July	110 000	6 98
August	113 750	6 58
September	113 750	6 58
October	112 000	6 75
November	117 000	6 23
December	117 000	6 22
Average	115 682	6 41 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

25

Type:	Notes
Description:	CSX Corp
CUSIP:	126408BR3
Coupon Rate:	6.250%
Maturity Date:	10/15/08
Amount Outstanding (\$ 000)	\$400,000
Months Outstanding	12

End of Month	Price	Yield
January	102.839	5.10 %
February	102.403	5.25
March	102.123	5.34
April	101.807	5.45
May	101.372	5.62
June	101.079	5.73
July	101.459	5.53
August	101.795	5.34
September	101.872	5.27
October	101.810	5.26
November	101.823	5.21
December	101.403	5.41
Average	101.815	5.38 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

26

Type:	Debenture
Description:	CSX Corp
CUSIP:	126408AM5
Coupon Rate:	8.625%
Maturity Date:	5/15/22
Amount Outstanding (\$ 000)	\$115,712
Months Outstanding	12

End of Month	Price	Yield
January	131.514	5.64 %
February	132.438	5.56
March	127.466	5.95
April	124.180	6.22
May	123.604	6.26
June	123.827	6.23
July	125.337	6.10
August	128.231	5.85
September	129.601	5.73
October	130.125	5.68
November	132.051	5.52
December	128.954	5.76
Average	128.111	5.88 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

27	Type:	Debenture
	Description:	CSX Corp
	CUSIP:	126408AQ6
	Coupon Rate:	8 100%
	Maturity Date:	9/15/22
	Amount Outstanding (\$ 000)	\$93,591
	Months Outstanding	12

End of Month	Price	Yield
January	126 298	5 64 %
February	127 230	5 56
March	122 350	5 95
April	119 121	6 22
May	118 487	6 27
June	118 658	6 25
July	119 981	6 13
August	122 600	5 90
September	123 909	5 78
October	124 549	5 72
November	126 501	5 56
December	123 447	5 80
Average	122 761	5 90 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

28	Type:	Notes
	Description:	CSX Corp
	CUSIP:	126408GC1
	Coupon Rate:	4.875%
	Maturity Date:	11/1/09
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	98.899	5.19 %
February	98.468	5.33
March	97.867	5.53
April	97.724	5.59
May	97.376	5.72
June	97.185	5.81
July	97.881	5.59
August	98.555	5.37
September	98.868	5.27
October	98.918	5.26
November	99.202	5.17
December	98.903	5.29
Average	98.321	5.43 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

29

Type:	Notes
Description:	CSX Corp
CUSIP:	126408AP8
Coupon Rate:	6.750%
Maturity Date:	3/15/11
Amount Outstanding (\$ 000)	\$500,000
Months Outstanding	12

End of Month	Price	Yield
January	106.579	5.26 %
February	106.281	5.31
March	105.035	5.57
April	104.528	5.67
May	104.157	5.74
June	103.759	5.82
July	104.449	5.64
August	105.231	5.43
September	105.512	5.34
October	105.578	5.30
November	105.984	5.17
December	104.999	5.40
Average	105.174	5.47 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

30	Type:	Notes
	Description:	CSX Corp
	CUSIP:	126408GB3
	Coupon Rate:	6.300%
	Maturity Date:	3/15/12
	Amount Outstanding (\$ 000)	\$400,000
	Months Outstanding	12

End of Month	Price	Yield
January	105.140	5.30 %
February	104.844	5.35
March	103.496	5.60
April	102.910	5.70
May	102.385	5.80
June	102.079	5.86
July	103.065	5.65
August	103.765	5.50
September	104.239	5.39
October	104.314	5.36
November	104.816	5.24
December	103.629	5.48
Average	103.724	5.52 %

Source Standard & Poor's XpressFeed -- Bond Package

CSX Corporation

31	Type:	Notes
	Description:	CSX Corp
	CUSIP:	126408GF4
	Coupon Rate:	5.300%
	Maturity Date:	2/15/14
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	99.675	5.34 %
February	99.535	5.37
March	97.788	5.65
April	96.565	5.85
May	96.152	5.92
June	95.929	5.97
July	97.051	5.78
August	98.402	5.56
September	99.107	5.44
October	99.284	5.41
November	100.204	5.26
December	98.706	5.52
Average	98.200	5.59 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

32	Type:	Med Term Notes
	Description:	CSX Corp
	CUSIP:	12641LBM4
	Coupon Rate:	6.590%
	Maturity Date:	5/19/08
	Amount Outstanding (\$ 000)	\$50,000
	Months Outstanding	12

End of Month	Price	Yield
January	102.293	5.50 %
February	101.876	5.67
March	101.489	5.83
April	101.524	5.79
May	101.179	5.94
June	100.869	6.09
July	101.153	5.89
August	101.352	5.74
September	101.400	5.67
October	101.299	5.69
November	101.277	5.67
December	100.894	5.90
Average	101.384	5.78 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

33	Type:	Med Term Notes
	Description:	CSX Corp
	CUSIP:	12641LBN2
	Coupon Rate:	6.500%
	Maturity Date:	6/2/08
	Amount Outstanding (\$ 000)	\$40,000
	Months Outstanding	12

End of Month	Price	Yield
January	102.135	5.50 %
February	101.717	5.67
March	101.346	5.82
April	101.377	5.78
May	101.036	5.94
June	100.732	6.08
July	101.033	5.89
August	101.243	5.73
September	101.299	5.66
October	101.207	5.68
November	101.229	5.63
December	100.840	5.87
Average	101.266	5.77 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation		
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34	Type:	Med Term Notes
	Description:	CSX Corp
	CUSIP:	12641LBT9
	Coupon Rate:	5.860%
	Maturity Date:	10/6/08
	Amount Outstanding (\$ 000)	\$3 000
	Months Outstanding	12

End of Month	Price	Yield
January	100.931	5.47 %
February	100.468	5.66
March	100.206	5.77
April	100.172	5.78
May	99.808	5.94
June	99.574	6.05
July	99.995	5.85
August	100.338	5.68
September	100.454	5.61
October	100.438	5.61
November	100.513	5.56
December	100.160	5.75
Average	100.255	5.73 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

35	Type:	Med Term Notes
	Description:	CSX Corp
	CUSIP:	12641LBU6
	Coupon Rate:	6.800%
	Maturity Date:	12/1/28
	Amount Outstanding (\$ 000)	\$200,000
	Months Outstanding	12

End of Month	Price	Yield
January	112.010	5.84 %
February	113.081	5.76
March	107.879	6.15
April	104.736	6.40
May	104.733	6.40
June	105.455	6.34
July	106.938	6.22
August	109.870	5.99
September	110.510	5.94
October	111.155	5.89
November	113.281	5.73
December	109.804	5.99
Average	109.121	6.05 %

Source Standard & Poor's XpressFeed – Bond Package

CSX Corporation

36	Type:	Med Term Notes
	Description:	CSX Corp
	CUSIP:	126408GH0
	Coupon Rate:	6.000%
	Maturity Date:	10/1/36
	Amount Outstanding (\$ 000)	\$400,000
	Months Outstanding	3

End of Month	Price	Yield
January	Not Traded	- %
February	Not Traded	-
March	Not Traded	-
April	Not Traded	-
May	Not Traded	-
June	Not Traded	-
July	Not Traded	-
August	Not Traded	-
September	Not Traded	-
October	101.954	5.86
November	103.825	5.73
December	99.986	6.00
Average	101.922	5.86 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

37	Type:	Debentures
	Description:	Conrail
	CUSIP:	209864AT4
	Coupon Rate:	9.750%
	Maturity Date:	6/15/20
	Amount Outstanding (\$ 000)	\$313,741
	Months Outstanding	12

End of Month	Price	Yield
January	127.997	6.68 %
February	128.753	6.60
March	124.451	7.00
April	121.699	7.26
May	121.371	7.29
June	121.708	7.25
July	122.820	7.13
August	125.080	6.89
September	126.149	6.78
October	126.535	6.74
November	128.095	6.58
December	125.363	6.83
Average	125.002	6.92 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation		
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38	Type:	Med Term Notes
	Description:	Series A NSC
	CUSIP:	655844AA6
	Coupon Rate:	9 000%
	Maturity Date:	3/1/21
	Amount Outstanding (\$ 000)	\$83,372
	Months Outstanding	12

End of Month	Price	Yield
January	132 722	5 72 %
February	132 599	5 73
March	128 945	6 02
April	126 354	6 24
May	125 494	6 31
June	125 203	6 33
July	126 813	6 18
August	129 680	5 92
September	130 741	5 82
October	130 877	5 79
November	132 515	5 65
December	130 449	5 81
Average	129 366	5 96 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

39	Type:	Med Term Notes
	Description:	Senior
	CUSIP:	655844AL2
	Coupon Rate:	6.200%
	Maturity Date:	4/15/09
	Amount Outstanding (\$ 000)	\$400,000
	Months Outstanding	12

End of Month	Price	Yield
January	103.312	5.06 %
February	102.702	5.24
March	102.251	5.38
April	101.969	5.46
May	101.471	5.63
June	101.068	5.77
July	101.694	5.51
August	102.120	5.31
September	102.159	5.27
October	102.120	5.26
November	102.411	5.10
December	101.884	5.31
Average	102.097	5.36 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

40	Type:	Med Term Notes
	Description:	Senior
	CUSIP:	655844AN8
	Coupon Rate:	8.625%
	Maturity Date:	5/15/10
	Amount Outstanding (\$ 000)	\$300,000
	Months Outstanding	12

End of Month	Price	Yield
January	113.087	5.17 %
February	112.304	5.32
March	111.185	5.54
April	110.742	5.61
May	110.125	5.72
June	109.694	5.79
July	110.302	5.56
August	110.915	5.33
September	111.117	5.21
October	111.033	5.17
November	111.307	5.02
December	110.490	5.19
Average	111.025	5.39 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

41	Type:	Med Term Notes
	Description:	Senior
	CUSIP:	655844AP3
	Coupon Rate:	6.750%
	Maturity Date:	2/15/11
	Amount Outstanding (\$ 000)	\$300,000
	Months Outstanding	12

End of Month	Price	Yield
January	107.287	5.09 %
February	106.240	5.30
March	105.532	5.44
April	104.603	5.63
May	104.160	5.72
June	103.775	5.80
July	104.501	5.61
August	105.308	5.39
September	105.704	5.27
October	105.732	5.23
November	106.173	5.10
December	105.166	5.33
Average	105.348	5.41 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

42	Type:	Med Term Notes
	Description:	Senior
	CUSIP:	655844AQ1
	Coupon Rate:	7.250%
	Maturity Date:	2/15/31
	Amount Outstanding (\$ 000)	\$500,008
	Months Outstanding	12

End of Month	Price	Yield
January	119.465	5.77 %
February	120.808	5.68
March	115.619	6.02
April	111.851	6.29
May	111.171	6.34
June	111.036	6.35
July	112.797	6.22
August	115.993	5.99
September	117.847	5.86
October	119.002	5.78
November	121.524	5.61
December	116.792	5.93
Average	116.159	5.99 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

43	Type:	Med Term Notes
	Description:	Senior 2105
	CUSIP:	655844AV0
	Coupon Rate:	6.000%
	Maturity Date:	3/15/05
	Amount Outstanding (\$ 000)	\$300,000
	Months Outstanding	12

End of Month	Price	Yield
January	97.401	6.15 %
February	99.501	6.02
March	92.317	6.50
April	88.632	6.77
May	88.369	6.78
June	88.893	6.74
July	90.504	6.62
August	93.760	6.39
September	95.395	6.29
October	96.463	6.21
November	99.002	6.06
December	94.787	6.32
Average	93.752	6.40 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

44	Type:	Med Term Notes
	Description:	Senior
	CUSIP:	655844AX6
	Coupon Rate:	5.640%
	Maturity Date:	5/17/29
	Amount Outstanding (\$ 000)	\$350,000
	Months Outstanding	12

End of Month	Price	Yield
January	98.300	5.77 %
February	99.706	5.66
March	95.028	6.04
April	92.252	6.28
May	91.821	6.31
June	92.864	6.22
July	93.343	6.18
August	96.072	5.95
September	97.300	5.85
October	98.178	5.78
November	99.938	5.64
December	96.619	5.91
Average	95.952	5.97 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

45	Type:	Med Term Notes
	Description:	CR NSC 2025
	CUSIP:	655844AW8
	Coupon Rate:	5.590%
	Maturity Date:	5/17/25
	Amount Outstanding (\$ 000)	\$366,620
	Months Outstanding	12.0

End of Month	Price	Yield
January	98.646	5.70 %
February	99.707	5.61
March	95.338	6.00
April	92.803	6.24
May	92.622	6.25
June	93.158	6.20
July	94.014	6.12
August	96.617	5.88
September	97.732	5.78
October	98.523	5.71
November	99.997	5.59
December	96.980	5.85
Average	96.345	5.91 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

46	Type:	Med Term Notes
	Description:	CR NSC 2017
	CUSIP:	655844AE8
	Coupon Rate:	7.700%
	Maturity Date:	5/15/17
	Amount Outstanding (\$ 000)	\$550,000
	Months Outstanding	12

End of Month	Price	Yield
January	117.931	5.54 %
February	118.388	5.48
March	115.840	5.75
April	114.006	5.95
May	113.324	6.02
June	113.079	6.04
July	114.302	5.88
August	116.298	5.64
September	116.832	5.57
October	116.839	5.56
November	118.574	5.36
December	116.301	5.60
Average	115.976	5.70 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

47

Type:	Med Term Notes
Description:	CR NSC 2027
CUSIP:	655844AJ7
Coupon Rate:	7.800%
Maturity Date:	5/15/27
Amount Outstanding (\$ 000)	\$440,000
Months Outstanding	12

End of Month	Price	Yield
January	124.643	5.77 %
February	125.464	5.71
March	120.004	6.10
April	117.081	6.32
May	116.540	6.35
June	116.383	6.36
July	118.434	6.20
August	121.605	5.96
September	123.220	5.84
October	123.884	5.79
November	126.086	5.64
December	122.286	5.90
Average	121.303	6.00 %

Source: Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

48

Type:	Med Term Notes
Description:	CR NSC 2037
CUSIP:	655844AF5
Coupon Rate:	7.050%
Maturity Date:	5/1/37
Amount Outstanding (\$ 000)	\$716,600
Months Outstanding	12

End of Month	Price	Yield
January	117.504	5.82 %
February	118.948	5.73
March	112.672	6.13
April	109.218	6.36
May	108.684	6.40
June	109.275	6.35
July	111.449	6.21
August	114.662	5.99
September	116.572	5.87
October	117.459	5.82
November	120.035	5.66
December	115.117	5.96
Average	114.300	6.03 %

Source Standard & Poor's XpressFeed – Bond Package

Norfolk Southern Corporation

49	Type:	Med Term Notes
	Description:	CR NSC 2097
	CUSIP:	655844AK4
	Coupon Rate:	7.900%
	Maturity Date:	5/1/97
	Amount Outstanding (\$ 000)	\$350,000
	Months Outstanding	12

End of Month	Price	Yield
January	127.505	6.18 %
February	129.161	6.10
March	121.464	6.49
April	116.648	6.76
May	116.303	6.79
June	115.956	6.81
July	118.025	6.68
August	122.206	6.46
September	124.314	6.34
October	125.301	6.29
November	128.538	6.14
December	123.923	6.37
Average	122.445	6.45 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

50

Type:	Debentures
Description:	
CUSIP:	907818CU0
Coupon Rate:	6.250%
Maturity Date:	5/1/34
Amount Outstanding (\$ 000)	\$246,456
Months Outstanding	12

End of Month	Price	Yield
January	106.060	5.81 %
February	107.953	5.68
March	102.543	6.05
April	99.476	6.28
May	99.080	6.32
June	98.948	6.33
July	100.514	6.21
August	103.620	5.98
September	105.155	5.86
October	105.862	5.82
November	107.866	5.68
December	104.571	5.91
Average	103.471 *	5.99 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

51	Type:	Debentures
	Description:	
	CUSIP:	907818CF3
	Coupon Rate:	6.625%
	Maturity Date:	2/1/29
	Amount Outstanding (\$ 000)	\$595,117
	Months Outstanding	12

End of Month	Price	Yield
January	110.813	5.77 %
February	112.138	5.67
March	106.884	6.06
April	103.583	6.32
May	103.434	6.33
June	103.047	6.36
July	105.245	6.18
August	107.877	5.98
September	109.275	5.87
October	110.027	5.81
November	112.136	5.66
December	108.772	5.90
Average	107.769	5.99 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

52	Type:	Debentures
	Description:	
	CUSIP:	907818AZ1
	Coupon Rate:	7 000%
	Maturity Date:	2/1/16
	Amount Outstanding (\$ 000)	\$249,492
	Months Outstanding	12

End of Month	Price	Yield
January	111 658	5 47 %
February	111 418	5 49
March	109 664	5 70
April	107 898	5 92
May	107 389	5 98
June	107 195	6 00
July	107 984	5 89
August	109 889	5 63
September	110 588	5 53
October	110 669	5 51
November	111 582	5 38
December	109 774	5 61
Average	109 642	5 68 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

53	Type:	Debentures
	Description:	
	CUSIP:	907818BY3
	Coupon Rate:	7.125%
	Maturity Date:	2/1/28
	Amount Outstanding (\$ 000)	\$247,962
	Months Outstanding	12

End of Month	Price	Yield
January	115.937	5.83 %
February	117.108	5.74
March	112.461	6.08
April	108.968	6.35
May	108.547	6.38
June	108.629	6.38
July	110.083	6.26
August	112.833	6.04
September	114.215	5.94
October	114.814	5.89
November	116.901	5.74
December	113.385	5.99
Average	112.823	6.05 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

54

Type:	Notes
Description:	
CUSIP:	907818CQ9
Coupon Rate:	3.875%
Maturity Date:	2/15/09
Amount Outstanding (\$ 000)	\$249,747
Months Outstanding	12

End of Month	Price	Yield
January	96.250	5.22 %
February	96.364	5.21
March	96.180	5.32
April	96.283	5.32
May	95.654	5.62
June	95.600	5.70
July	96.344	5.43
August	96.697	5.32
September	96.988	5.23
October	97.115	5.22
November	97.356	5.16
December	97.032	5.36
Average	96.489	5.34 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

55	Type:	Notes
	Description:	
	CUSIP:	907818CV8
	Coupon Rate:	4.875%
	Maturity Date:	1/15/15
	Amount Outstanding (\$ 000)	\$249,600
	Months Outstanding	12

End of Month	Price	Yield
January	96.749	5.33 %
February	96.559	5.36
March	94.694	5.64
April	93.485	5.83
May	92.881	5.94
June	92.931	5.94
July	93.914	5.79
August	95.544	5.54
September	96.403	5.41
October	96.481	5.41
November	97.464	5.26
December	95.837	5.52
Average	95.245	5.58 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

56	Type:	Notes
	Description:	
	CUSIP:	907818CT3
	Coupon Rate:	5.375%
	Maturity Date:	5/1/14
	Amount Outstanding (\$ 000)	\$249,498
	Months Outstanding	12

End of Month	Price	Yield
January	100.384	5.31 %
February	100.115	5.35
March	98.244	5.64
April	97.070	5.83
May	96.980	5.85
June	96.942	5.86
July	97.963	5.70
August	98.995	5.53
September	99.770	5.41
October	99.939	5.38
November	100.825	5.24
December	99.286	5.49
Average	98.876	5.55 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

57

Type:	Notes
Description:	
CUSIP:	907818CN6
Coupon Rate:	6 125%
Maturity Date:	1/15/12
Amount Outstanding (\$ 000)	\$298,930
Months Outstanding	12

End of Month	Price	Yield
January	104 487	5 23 %
February	103 933	5 33
March	102 691	5 57
April	101 762	5 75
May	101 381	5 83
June	101 088	5 89
July	102 014	5 68
August	102 946	5 48
September	103 547	5 34
October	103 642	5 31
November	104 098	5 20
December	103 020	5 43
Average	102 884	5 50 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

58	Type:	Notes
	Description:	
	CUSIP:	907818CP1
	Coupon Rate:	6.500%
	Maturity Date:	4/15/12
	Amount Outstanding (\$ 000)	\$324,656
	Months Outstanding	12

End of Month	Price	Yield
January	106.618	5.23 %
February	105.958	5.34
March	104.486	5.61
April	103.892	5.71
May	103.058	5.87
June	103.008	5.87
July	104.161	5.63
August	105.212	5.41
September	105.610	5.31
October	105.590	5.30
November	106.102	5.18
December	105.018	5.39
Average	104.893	5.49 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

59	Type:	Notes
	Description:	
	CUSIP:	907818BX5
	Coupon Rate:	6.625%
	Maturity Date:	2/1/08
	Amount Outstanding (\$ 000)	\$299,854
	Months Outstanding	12

End of Month	Price	Yield
January	102.952	5.05 %
February	102.452	5.26
March	102.074	5.41
April	101.956	5.43
May	101.577	5.61
June	101.310	5.74
July	101.520	5.55
August	101.543	5.47
September	101.641	5.33
October	101.407	5.43
November	101.452	5.31
December	101.161	5.50
Average	101.754	5.42 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

60	Type:	Notes
	Description:	
	CUSIP:	907818CK2
	Coupon Rate:	6.650%
	Maturity Date:	1/15/11
	Amount Outstanding (\$ 000)	\$399,115
	Months Outstanding	12

End of Month	Price	Yield
January	105.979	5.26 %
February	105.307	5.39
March	104.226	5.62
April	103.906	5.69
May	103.874	5.68
June	103.404	5.78
July	104.057	5.60
August	104.833	5.39
September	105.056	5.31
October	105.076	5.28
November	105.275	5.21
December	104.513	5.39
Average	104.626	5.47 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation		
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81	Type:	Notes
	Description:	
	CUSIP:	907818BA5
	Coupon Rate:	7.250%
	Maturity Date:	11/1/08
	Amount Outstanding (\$ 000)	\$249,963
	Months Outstanding	12

End of Month	Price	Yield
January	105.401	5.11 %
February	104.972	5.22
March	104.748	5.25
April	104.544	5.29
May	104.049	5.43
June	103.664	5.55
July	103.487	5.57
August	103.724	5.40
September	103.800	5.30
October	103.684	5.28
November	103.660	5.22
December	103.191	5.39
Average	104.077	5.33 %

Source Standard & Poor's XpressFeed – Bond Package

Union Pacific Corporation

62	Type:	Notes
	Description:	
	CUSIP:	907818CG1
	Coupon Rate:	7.375%
	Maturity Date:	9/15/09
	Amount Outstanding (\$ 000)	\$149,840
	Months Outstanding	12

End of Month	Price	Yield
January	107.265	5.14 %
February	106.562	5.31
March	105.738	5.52
April	105.555	5.54
May	105.006	5.68
June	104.466	5.82
July	104.831	5.66
August	105.167	5.50
September	105.313	5.40
October	105.552	5.26
November	105.850	5.09
December	105.271	5.25
Average	105.548	5.43 %

Source Standard & Poor's XpressFeed – Bond Package

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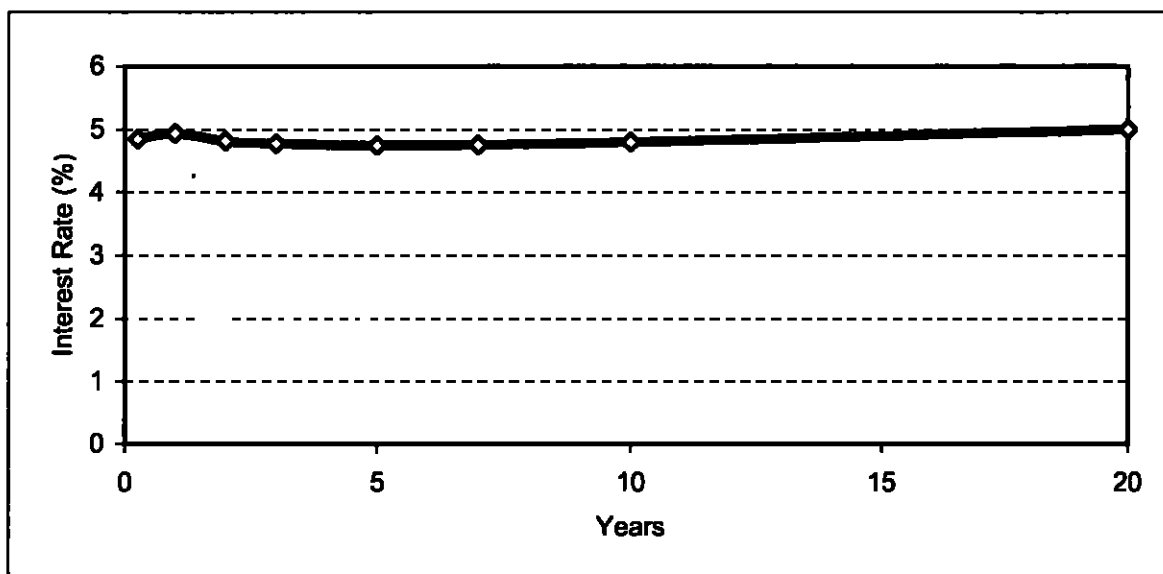
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Interest Rates on Selected Government Instruments

Yield In Percent Per Annum, Constant Maturity Rates for 2006

	3 Month	1 Year	2 Year	3 Year	5 Year	7 Year	10 Year	20 Year
January	4.34	4.45	4.40	4.35	4.35	4.37	4.42	4.65
February	4.54	4.68	4.67	4.64	4.57	4.56	4.57	4.73
March	4.63	4.77	4.73	4.74	4.72	4.71	4.72	4.91
April	4.72	4.90	4.89	4.89	4.90	4.94	4.99	5.22
May	4.84	5.00	4.97	4.97	5.00	5.03	5.11	5.35
June	4.92	5.16	5.12	5.09	5.07	5.08	5.11	5.29
July	5.08	5.22	5.12	5.07	5.04	5.05	5.09	5.25
August	5.09	5.08	4.90	4.85	4.82	4.83	4.88	5.08
September	4.93	4.97	4.77	4.69	4.67	4.68	4.72	4.93
October	5.05	5.01	4.80	4.72	4.69	4.69	4.73	4.94
November	5.07	5.01	4.74	4.64	4.58	4.58	4.60	4.78
December	4.97	4.94	4.67	4.58	4.53	4.54	4.56	4.78
Average	4.85	4.93	4.82	4.77	4.75	4.76	4.79	4.99



Source: Federal Reserve statistical release H 15, Treasury Constant Maturities, Nominal

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Equipment Trust Certificates for BNSF

Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current (\$000)	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1 ATSF Series X	7/1/08	14,301	9,534	11,918	6 020%	1 01264	12,068	726
2 BNSF Series Y	7/15/08	1,300	867	1,084	6 020%	1 01084	1,095	66
3 ATSF Series Z	9/15/08	6,612	4,408	5,510	6 020%	1 00302	5,527	333
4 BNSF Series AA (BN	2/15/09	15,180	11,385	13 283	6 001%	1 03629	13,765	826
5 BNSF Series BB	11/1/09	16,568	12,426	14,497	6 002%	1 05709	15,325	920
6 BNSF Series AA (AT	9/24/11	13,410	11,175	12,293	5 989%	1 04537	12,850	770
7 BNSF 1999A	5/1/14	29,988	26,656	28,322	5 998%	1 00840	28,560	1,713
8 BNSF 1999 KFW	6/28/16	87,534	79,576	83,555	6 014%	1 04945	87,687	5,274
9 BNLC Dec98 KFW	1/2/2016	71,632	64,897	68,265	6 014%	0 99720	68,073	4,094
10 BNLC 2000 KFW	4/19/15	33,440	30,096	31,768	6 004%	1 08274	34,397	2,065
11 BNLC 2005-1 (1993 PT	01/02/12	40,759	34,828	37,793	5 989%	0 94359	35,661	2,136
12				—			—	—
13				—			—	—
14				—			—	—
15				—			—	—
Total		\$330,724	\$285,848	\$308,286	6.007%		\$315,007	\$18,922

Note

This list contains ETCs that can be used in the AAR's model to determine market value. Some debt instruments labeled as ETCs do not have all of the characteristics typical of an ETC, and therefore cannot be modeled. For example, ETCs with variable rates cannot be modeled.

Non-Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
1 BNLC - Barbados	04/16/12	28,847	25 773
2 BNLC - 1992 ETC	07/14/13	22,261	19,479
3 BNLC - 1995A PTT(K	07/01/13	6,630	6,082
4 BNLC - 1995B PTT(G	01/02/13	2 350	1,618
5 BNLC - 1999 EDC	09/30/09	10,904	8,222
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Total		\$70,992	\$61,174

Equipment Trust Certificates for BNSF (continued)

Entire ETC Current – Not Used for Cost or Market Value

ETC ID	Maturity	Balance 2006 (\$000)	
		Beg.	Ending
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15			
Total		\$0	\$0

Grand Totals (for reconciliation to carrier data)

	Balance For 2006 (\$000)	
	Beg.	Ending
Total Modeled	\$330,724	\$285,848
Total Non-Modeled	70,992	61,174
Sub Total	401,716	347,022
Total All Current	0	0
Grand Total	401,716	347,022
From BNSF:		
Total ETCs		\$347,022
Difference		\$0

Equipment Trust Certificates for CSX

Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1 ETC CSX Series A 226	3/16/08	14,700	9,800	12,250	6.020%	1.00960	12,368	745
2 ETC CSX Series A 227	11/15/09	10,400	7,800	9,100	6.001%	1.05575	9,607	577
3 ETC CSX Series B 228	3/15/10	19,500	15,600	17,550	5.989%	1.04808	18,394	1,102
4 ETC CSX Series A 231	3/15/11	22,800	19,000	20,900	5.989%	1.03016	21,530	1,290
5 ETC CSX Series A 233	5/15/08	26,720	11,938	19,329	6.020%	1.06011	20,491	1,234
6 ETC CSX Series B 236	2/15/14	45,000	40,000	42,500	5.998%	0.99468	42,274	2,536
7 ETC CSX Series B 237	4/15/14	36,000	32,000	34,000	5.998%	1.01634	34,556	2,073
8 ETC CSX Series B 238	6/15/14	33,300	29,600	31,450	5.998%	1.04985	33,018	1,980
9 ETC CSX Series B 239	4/1/15	51,000	45,900	48,450	6.004%	1.09044	52,832	3,172
10 ETC CSX Series B 240	4/1/15	42,000	37,800	39,900	6.004%	1.05263	42,000	2,522
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Total		\$301,420	\$249,438	\$275,429	6.001%		\$287,070	\$17,228

Note

This list contains ETCs that can be used in the AAR's model to determine market value. Some debt instruments labeled as ETCs do not have all of the characteristics typical of an ETC, and therefore cannot be modeled. For example, ETCs with variable rates cannot be modeled.

Non-Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
1 ETC CSX Series A 230	07/14/13	19,000	15,200
2 ETC CSX Series A 234	07/01/13	24,000	20,000
3 ETC CSX Series A 235	01/02/13	40,000	35,000
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Total		\$83,000	\$70,200

Equipment Trust Certificates for CSX (continued)

Entire ETC Current – Not Used for Cost or Market Value

ETC ID	Maturity	Balance 2006 (\$000)	
		Beg.	Ending
1 ETC CSX Series A 223	3/1/07	7,600	3,800
2 ETC CSX Series A 224	8/1/07	8,100	4,050
3 ETC CSX Series A 225	11/1/07	4,000	2,000
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Total		\$19,700	\$9,850

Grand Totals (for reconciliation to carrier data)

	Balance For 2006 (\$000)	
	Beg.	Ending
Total Modeled	\$301,420	\$249,438
Total Non-Modeled	83,000	70,200
Sub Total	384,420	319,638
 Total All Current	 19,700	 9,850
Grand Total	404,120	329,488
 From CSX:		
Total ETCs	\$404,120	\$329,488
Difference		\$0

Equipment Trust Certificates for NS

Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1 NSR Series E	11/15/08	7,710	5,140	6,425	6.020%	1.00259	6,442	388
2 NSR Series F	9/15/09	11,040	8,280	9,660	6.001%	1.04092	10,055	603
3 NSR Series H	7/15/13	33,600	29,400	31,500	5.992%	0.98338	30,977	1,856
4 NSR Series I	4/1/14	56,700	50,400	53,550	5.998%	1.00643	53,894	3,233
5 NSR Series J	7/1/14	56,250	50,000	53,125	5.998%	1.05456	56,023	3,360
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11				—			—	—
12				—			—	—
13				—			—	—
14				—			—	—
15				—			—	—
Total		\$165,300	\$143,220	\$154,260	5.998%		\$157,391	\$9,440

Note
This list contains ETCs that can be used in the AAR's model to determine market value. Some debt instruments labeled as ETCs do not have all of the characteristics typical of an ETC, and therefore cannot be modeled. For example, ETCs with variable rates cannot be modeled.

Non-Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
1 NSR-Series K	3/15/2008	127,884	116,259
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Total		\$127,884	\$116,259

Equipment Trust Certificates for NS (continued)

Entire ETC Current – Not Used for Cost or Market Value

ETC ID	Maturity	Balance 2006 (\$000)	
		Beg.	Ending
1 NSR Series D	8/1/07	8,440	4,220
2 NSR-Series L	2/15/07	41,376	37,927
3 TCS Note - 9801*	5/1/2007	2,051	1,025
4 TCS Note - 9802*	5/1/2007	2,006	998
5 TCS Note - 9803*	11/1/2007	1,962	969
6 TCS Note - 9804*	11/1/2007	2,003	989
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Total		\$57,838	\$46,128

Grand Totals (for reconciliation to carrier data)

	Balance For 2006 (\$000)	
	Beg.	Ending
Total Modeled	\$165,300	\$143,220
Total Non-Modeled	127,884	116,259
Sub Total	293,184	259,479
Total All Current	57,838	46,128
Grand Total	351,022	305,607
 From NS:		
Total ETCs		\$305,607
Difference		\$0

Equipment Trust Certificates for UP

Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1 ETC UPC Series C	2/1/12	29,050	24,900	26,975	5.989%	1.07000	28,863	1,729
2 ETC UPC Series G	6/15/11	32,610	27,175	29,893	5.989%	1.03996	31,087	1,862
3 ETC UPC Series H	12/1/11	28,200	23,500	25,850	5.989%	1.02271	26,437	1,583
4 ETC UPC Series I	2/23/19	82,896	77,293	80,094	6.052%	1.04178	83,441	5,050
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11				--			--	--
12				--			--	--
13				--			--	--
14				--			--	--
15				--			--	--
Total		\$172,756	\$152,868	\$162,812	6.020%		\$169,828	\$10,224

Note

This list contains ETCs that can be used in the AAR's model to determine market value. Some debt instruments labeled as ETCs do not have all of the characteristics typical of an ETC, and therefore cannot be modeled. For example, ETCs with variable rates cannot be modeled.

Non-Modeled ETCs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
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Total		\$0	\$0

Equipment Trust Certificates for UP (continued)

Entire ETC Current – Not Used for Cost or Market Value

ETC ID	Maturity	Balance 2006 (\$000)	
		Beg.	Ending
1 ETC UPC Series 1992-1 SP	4/2/07	9,371	4,685
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15			
Total		\$9,371	\$4,685

Grand Totals (for reconciliation to carrier data)

	Balance For 2006 (\$000)	
	Beg.	Ending
Total Modeled	\$172,756	\$152,868
Total Non-Modeled	0	0
Sub Total	172,756	152,868
 Total All Current	 9,371	 4 685
Grand Total	182,127	157,553
 From UP:		
Total ETCs		\$157,553
Difference		\$0

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Conditional Sales Agreements for BNSF

Modeled CSAs

CSA ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1				--			--	--
2				--			--	--
3				--			--	--
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5				--			--	--
6				--			--	--
7				--			--	--
8				--			--	--
9				--			--	--
10				--			--	--
Total		\$0	\$0	\$0	--		\$0	\$0

Note

This list contains CSAs that can be used in the AAR's model to determine market value. Some debt instruments labeled as CSAs do not have all of the characteristics typical of a CSA, and therefore cannot be modeled. For example, CSAs with variable rates cannot be modeled.

Non-Modeled CSAs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
1			
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10			
Total		\$0	\$0

	Balance For 2006 (\$000)	
	Beg.	Ending
Current CSAs Not Used	0	0
Grand Total All CSAs	\$0	\$0

Conditional Sales Agreements for CSX

Modeled CSAs

CSA ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1 CSX 422	10/22/12	35,827	30,709	33,268	6.318%	1.01422	33,741	2,132
2 CSX 423	4/16/2012	43,766	37,513	40,640	6.318%	1.00266	40,748	2,575
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4				--			--	--
5				--			--	--
6				--			--	--
7				--			--	--
8				--			--	--
9				--			--	--
10				--			--	--
Total		\$79,593	\$68,222	\$73,908	6.318%		\$74,489	\$4,707

Note
This list contains CSAs that can be used in the AAR's model to determine market value. Some debt instruments labeled as CSAs do not have all of the characteristics typical of a CSA, and therefore cannot be modeled. For example, CSAs with variable rates cannot be modeled.

Non-Modeled CSAs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
1 CSA 424	Sept 2014	53,923	47,931
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10			
Total		\$53,923	\$47,931

	Balance For 2006 (\$000)	
	Beg.	Ending
Current CSAs Not Used	0	0
Grand Total All CSAs	\$133,516	\$116,153

Conditional Sales Agreements for NS

Modeled CSAs

CSA ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1				—			—	—
2				—			—	—
3				—			—	—
4				—			—	—
5				—			—	—
6				—			—	—
7				—			—	—
8				—			—	—
9				—			—	—
10				—			—	—
Total		\$0	\$0	\$0	—		\$0	\$0

Note

This list contains CSAs that can be used in the AAR's model to determine market value. Some debt instruments labeled as CSAs do not have all of the characteristics typical of a CSA, and therefore cannot be modeled. For example, CSAs with variable rates cannot be modeled.

Non-Modeled CSAs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
1			
2			
3			
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9			
10			
Total		\$0	\$0

	Balance For 2006 (\$000)	
	Beg.	Ending
Current CSAs Not Used	0	0
Grand Total All CSAs	\$0	\$0

Conditional Sales Agreements for UP

Modeled CSAs

CSA ID	Maturity	Balance For 2006 (\$000)			Current Valuation		Current	
		Beg.	Ending	Avg O/S	Interest Rate	Valuation Factor	Market Value	Interest
1				—			—	—
2				—			—	—
3				—			—	—
4				—			—	—
5				—			—	—
6				—			—	—
7				—			—	—
8				—			—	—
9				—			—	—
10				—			—	—
Total		\$0	\$0	\$0	—		\$0	\$0

Note
This list contains CSAs that can be used in the AAR's model to determine market value. Some debt instruments labeled as CSAs do not have all of the characteristics typical of a CSA, and therefore cannot be modeled. For example, CSAs with variable rates cannot be modeled.

Non-Modeled CSAs

ETC ID	Maturity	Balance For 2006 (\$000)	
		Beg.	Ending
1			
2			
3			
4			
5			
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8			
9			
10			
Total		\$0	\$0

	Balance For 2006 (\$000)	
	Beg.	Ending
Current CSAs Not Used	0	0
Grand Total All CSAs	\$0	\$0

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2006 Market Value of Debt (\$000)

Type of Debt	Market Value			Percent		
	Traded or Modeled	Non-Traded or Non-Modeled	Total	Traded or Modeled	of Subtotal	of Total
Bonds, Notes & Debent	\$16,404,605	\$5,106,885	\$21,511,490	76 26%	94 30%	84 05%
Equipment Trust Certifs	\$929,296	\$247,633	\$1,176,929	78 96%	5 16%	4 60%
Conditional Sales Agmts	\$74,489	\$47,931	\$122,420	60 85%	0 54%	0 48%
Sub Total	\$17,408,390	\$5,402,449	\$22,810,839	76 32%	100 00%	89 12%
All Other — Capital Leases		\$2,091,121	\$2,091,121			8 17%
All Other — Misc Debt		\$692,564	\$692,564			2 71%
Total Market Value			\$25,594,524			100 00%

General Notes:

Bonds, Notes, and Debentures from Appendix E

Equipment Trust Certificates from Appendix G

Conditional Sales Agreements from Appendix H

Capital Leases and Miscellaneous Debt listed in work papers

Bonds, Notes, and Debentures that did not trade were assigned a market value equal to their book value

Some ETCs and CSAs could not be modeled because they did not have all of the typical characteristics necessary for the model. Those that could not be modeled were assigned a market value equal to their book value.

The All Other debt category, including capital leases and miscellaneous debt, was assigned a market value equal to its book value, and totals to \$2,783,685 thousand

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2006 Current Cost of Debt

Type of Debt	Reference	Appendix I Weight	Current Cost	Weighted Cost
Type of Instrument				
Bonds, Notes & Debentures	Appendix E	94.30%	5.796%	5.466%
Equipment Trust Certificates	Appendix G	5.16%	6.006%	0.310%
Conditional Sales Agreements	Appendix H	0.54%	6.318%	0.034%
Total Without Floatation Costs		100.00%		5.810%
Floatation Costs				
Bonds, Notes & Debentures	SEC Study	94.30%	0.16%	0.151%
Equipment Trust Certificates	SEC Study	5.16%	0.13%	0.007%
Conditional Sales Agreements	SEC Study	0.54%	0.13%	0.001%
Total Floatation Costs		100.00%		0.158%
Weighted Cost of Debt				5.968%
Weighted Cost of Debt (rounded)				5.97%