

State of the Economy

- These are Historic times
- Quick deceleration of the economy
 - Best month ever October '08
 - Worst month ever January '09
 - Rapid decline in volume Q4 08 (Nov, Dec)
- Best guess on when it will turn around?
- Different estimates on effects stimulus spending may have
 - Federal DOT estimates 21,000 jobs per \$1 billion of spending
- Infrastructure needs in the US between \$2 & \$3 trillion long-term

State of Watco Companies

■ Railroads

- Volume up 6% October '08 YTD
- Volume down 0.2% December YTD
- Through January '09 volumes down -20%
- Through February '09 volumes down -9%
- Should see improvement starting Q2-Q3 because of grain movements & hopefully stimulus spending in infrastructure
- Currently grain isn't moving because of lack of demand
 - Exports down 40%, only making money in grain storage
- What grain is moving wants to get to water as soon as possible because of the decline in ocean shipping rates
- First time ever poultry has declined 6 months in a row; people are trading down from chicken to bread

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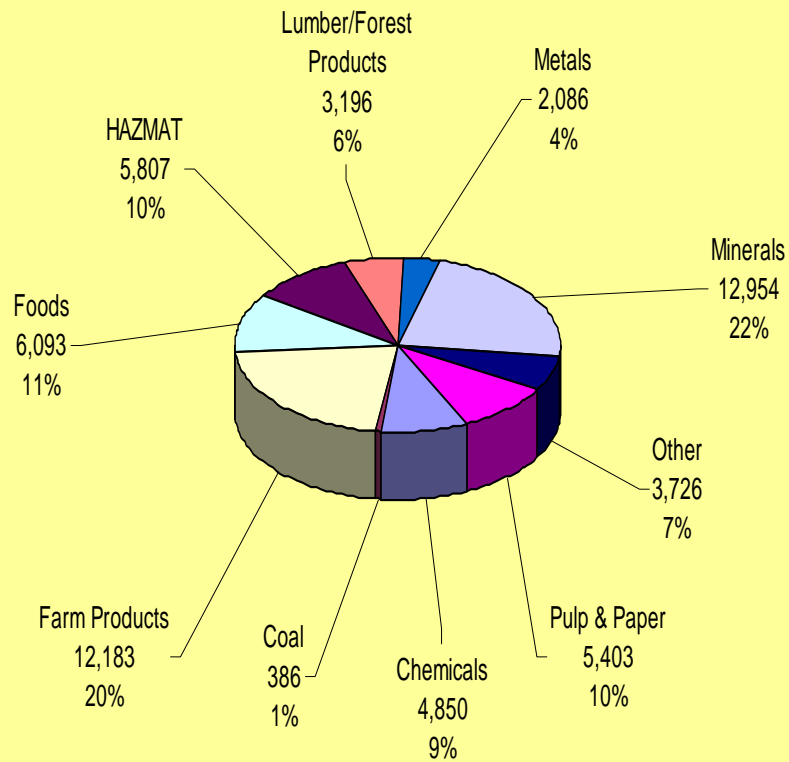
■ Railroads

- Agriculture is experiencing a hangover from the Ethanol Euphoria, which made them believe they would never have a down market
- Still moving drilling pipe & sand though not as large amounts; tied to the price of oil
- Storage business is very strong
 - Class 1's have large numbers of cars in storage; UP has 600 miles of cars stored
- Pricing has remained strong, causing some shifts to trucks
- Time to understand new demands on our Customers supply chains & change our service accordingly
- A lot of interest from Customers wanting to save money on freight movements by shipping by rail

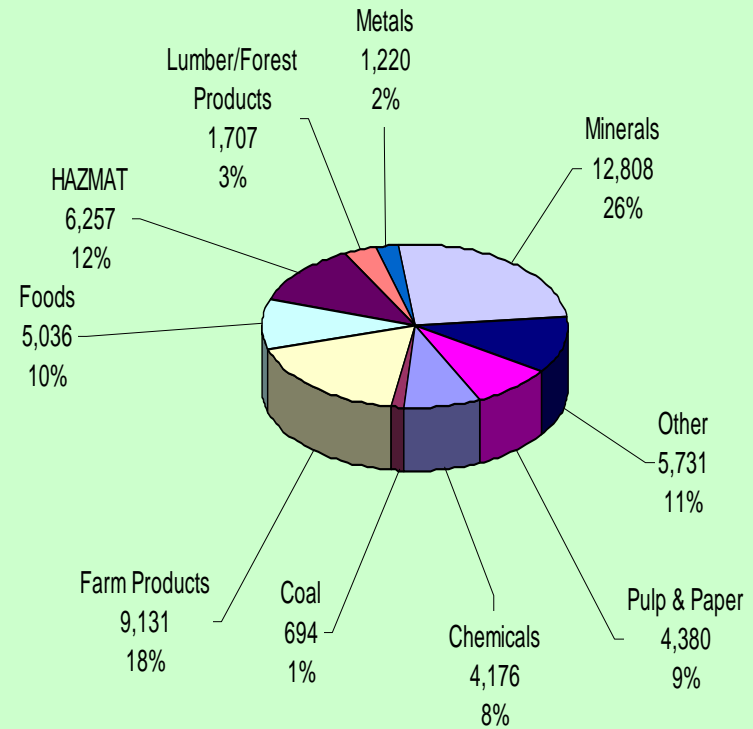


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2008 YTD Freight Volume by Commodity (as of 3/4)



2009 YTD Freight Volume by Commodity (as of 3/4)



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■ Switching

- Seeing new growth opportunities as Customers are looking for ways to cut costs.
- Seeing 1 to 2 new switching opportunities per week
 - -43 degrees in Edmonton in March!
- Switching should grow through this slow economy

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■ Transload-Intermodal

- Currently the majority of our volume is tied to housing market
 - Started slow in '08, but by mid '08 began to see improvement
 - Ended with worst month of the year in December '08
- Looking to diversify into other non-cyclical commodities like food, infrastructure metals & minerals, plastics, aggregates & petroleum products, energy
- Focused effort to create new service products for our Customers, including Class I Customers, should lead to much improved 2009

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■ New & Future Opportunities

- Grand Elk Railroad started March 8th, 2009
 - NS spinoff from Grand Rapids to Elkhart in the heart of the rust belt
- Numerous opportunities in switching, car cleaning & repair, transload-intermodal
- Crude oil “pipeline on rail” from field to refinery
- Austin Western Railroad
 - New commuter operation in the middle of a freight railroad

State of Watco Companies

- How to keep growing & improving through slow economy
 - Control costs
 - Understand our Customers' changing markets & adapt quickly by changing our service to meet their needs
 - Be very disciplined in how we spend our Capital dollars
 - Focus now more than ever on our Foundation Principles
 - Improve Customer Satisfaction
 - Improve Profitability
 - Do both with a Long-Term perspective
 - During times like these we build relationships that last a lifetime. We go to war together, we survive, we grow, and we prosper together.

Questions

- What does the future hold?

