

IOWA PACIFIC

DISPATCH



First Quarter 2009

2008 is **BANNER YEAR SYSTEMWIDE**

Iowa Pacific Holdings finished 2008 with a bang. Systemwide, the company saw record carloads with a strong finish during the fourth quarter.

In 2008, carloads were 40 percent greater than they were in 2007, said Steve Gregory, vice president of marketing. Even without including major acquisitions that took effect during the year, 2008 numbers were up 22 percent from the year before.

“The statistics are positive in terms of our value and growth,” he said. “In the fourth quarter, we outperformed most of our fellow railroads.”

In addition to enhancing existing properties across the system, employees successfully welcomed new additions. This included acquisitions on the Arizona Eastern Railway and West Texas & Lubbock Railway, and a new contract with Chicago Terminal Railroad.

These acquisitions were located within the market area of existing properties. The additions created new opportunities for growth and synergy.

“Our people’s ability to absorb those and operate them successfully was vital to our 2008 performance,” Gregory said.

As the company moves forward, it faces difficult times with a struggling economy that takes its toll nationwide.

The drop in market prices for many commodities including copper and oil reflects changing global markets and reduced demand, which means a drop in shipments. While the current environment

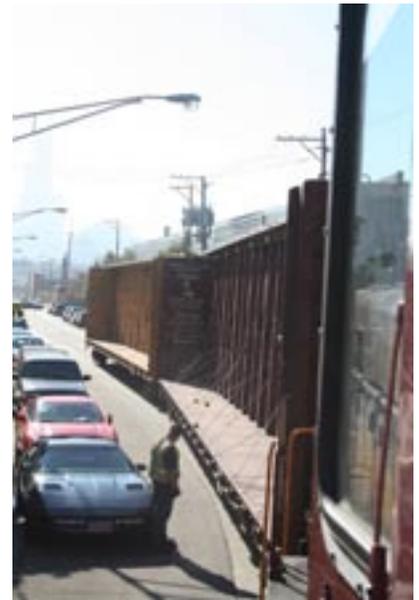
makes it very difficult to assess the long-term implications, “The management team firmly believes we have right markets, railroads and people to weather the storm and resume growth when the economy rebounds,” Gregory said.

The company continues to make adjustments systemwide until business picks up again. As part of this business development, marketing and sales efforts have increased as the company looks for positive short- and long-term prospects for all of the railroads.

Employees can do their part during these tough times. Everyone can look for new ways to accomplish jobs efficiently and save money. At the same time, Gregory said employees must focus on being as safe as possible.

People can take pride in the success 2008 brought as they move forward.

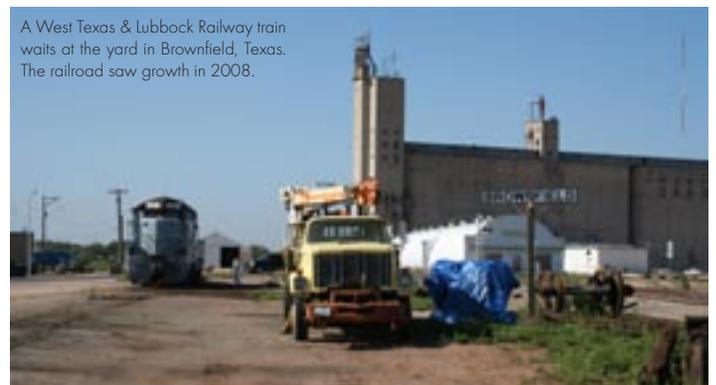
“Everybody contributed to the performance in 2008,” he said. “We took advantage of our opportunities and everybody helped out.”



A Chicago Terminal Railroad train makes its way through the Windy City. An acquisition on the railroad helped Iowa Pacific Holdings have high carloads in 2008.



An Arizona Eastern Railway train awaits its next journey. The AZER expanded in 2008.



A West Texas & Lubbock Railway train waits at the yard in Brownfield, Texas. The railroad saw growth in 2008.

WTL takes passengers to the North Pole



Thomas the Tank Engine will make its first ever appearance on the West Texas & Lubbock Railway this April. The railroad worked with the Mount Hood Railroad during the holidays with the Polar Express event.

The West Texas & Lubbock Railway gave children and families the opportunity of a lifetime this holiday season.

For the first time, the railroad took passengers aboard the Polar Express during a monthlong event in partnership with the Mount Hood Railroad. About 25,000 people rode the specialty passenger train, said Michelle Marquart, general manager of Mount Hood Railroad.

“It was very festive and a wholesome, wonderful family event,” she said.

The Lubbock Polar Express ride was like others held nationwide. The train takes its passengers on a memorable journey, based on Chris Van Allsburg’s legendary book.

Children are invited to wear their pajamas as they travel to the North Pole. They drink hot chocolate and eat

cookies while they listen to the story of the Polar Express.

Santa and his elves greet the children at the North Pole. On the ride back to the depot, each child receives a special Christmas bell of his or her own while they sing carols.

The WTL train crews played a vital part in the Lubbock Polar Express’ success. A conductor and locomotive engineer team ran two trains a night for about six days a week, said Fred Krebs, WTL general manager.

By 5 a.m. the next morning, a fresh train crew was on call to keep freight operations moving during the month-long event. The morning crews worked efficiently to ensure jobs were completed in a timely manner to ensure engines were available for the Polar Express at night.

“Operationally, we never skipped a beat,” Krebs said. “Every train left on time and every train got back on time.”

The Polar Express will be back again next year, Marquart said, as the railroad plans to make it an annual event.

In April, West Texas will have another first time specialty event when Thomas the Tank Engine comes to town. Marquart expects crowds of about 40,000 people to attend.

For more information about the Thomas the Tank Engine event or to book passage, visit www.westtexas-special.com.

Track Enhancements

A much needed makeover on the Arizona Eastern Railway’s Clifton-Lordsburg line already makes a big difference.

The tie and resurfacing project means the railroad can move freight at a faster speed and provide better customer service, said Dennis Giacoletti, general manager. The railroad will better fulfill the needs of its customers by delivering freight with accuracy and precision.

“It is a definite improvement to handle the velocity of the freight from when we purchased the line a year ago on March 4,” he said.

When the railroad first purchased the line, it was forecasted to move about 400 cars per month. At the time, the track could handle the velocity and maintenance. When the velocity nearly tripled, Giacoletti said the railroad needed to improve the track to handle the increase in business.

During the six month project, Balfour Contracting and All American Contracting installed 35,000 ties along the territory. The contractors worked around train schedules, which allowed operations to continue.

The railroad has not had a derailment on the Clifton-Lordsburg line in more than six months, which can be attributed to the enhancements.

“The projects are a proven factor,” he said.



Take an adventure

Looking for a one-of-a-kind experience?

Climb aboard the Rio Grande Scenic Railroad and see what unique adventure awaits. The train features historic passenger cars, such as the 1950s-era Pullman coaches and a 1930s-era observation car.

Take advantage of any of the upcoming events this year on the RGSR’s calendar:

Easter Bunny Train and Egg Hunt	April 11
Throw Momma On the Train, Mother’s Day Brunch	May 10
Rio Grande Railroad Days	May 23-25
Second Annual Rails & Ales Brewfest	June 27
Fourth of July Firecracker Express	July 4
Mountain Music Show	July 10-12 July 17-19 July 24-26 July 31-Aug. 2
Alamosa Early Iron Festival	Sep. 4-6
Second Annual Rails & Ales Oktoberfest	Oct. 3
Pumpkin Patch Ride	Oct. 24

Pumpkin Patch Ride
North Pole Express

Oct. 31
Nov. 27-28
Dec. 5
Dec. 12
Dec. 19

For more information about events, visit the RGSR online at www.riograndescenicrailroad.com, or call 877-726-RAIL to make a reservation today.



A steam engine pulls the Rio Grande Scenic Railroad train. RGSR events provide new adventures for railroad enthusiasts.

Meet the customers

Customers are the most important part of the railroad industry. Iowa Pacific Holdings takes pride in the service and support it gives to all of its customers.

Iowa Pacific is pleased to introduce and welcome some of the newest customers to join the family.



Francis Drilling Fluids

Francis Drilling Fluids offers a range of products and services to assist its customers with drilling fluids and related services.

FDF is building a facility in Kermit, Texas, which should employ about 15 people when completed, said Ray Brown, pneumatics department manager. The railroad is critical to help FDF meet its customers needs.

“We bring a lot of product in by rail,” he said. “Short lines look like the way to go.”

FDF works with the Texas-New Mexico Railroad to ship frac sand for oil fields in the area. In the future, FDF hopes to add cement transloading and bayrite material. Brown said working with the railroad has been a positive experience.

The company’s products include drilling, completion and specialized fluids, which it delivers to customers across the Gulf Coast region and beyond. It has locations in Arkansas, Louisiana, Oklahoma, Texas and Wyoming. The company also provides various services and environmental support.



Haller-Phillips Inc.

Haller-Phillips Inc. supplies industrial construction products to customers nationwide. The company provides service and products to industries, such as oil, gas and manufacturing sites. In addition, it supplies materials to various industrial construction

projects.

Haller-Phillips has bulk railroad facilities in Artesia, New Mexico and Seagraves, Texas.

LeRoy Williams, Haller-Phillips president, said the railroad plays an important part in helping the company complete its mission — to provide quality products to its customers.

“You do a good job,” he said.

The relationship between the company and the West Texas-Lubbock Railroad is still new. The first carloads moved in early 2009, with the railroad moving crushed coal slag from Lubbock to Seagraves, Texas.

In addition to supplying coal slag, Haller-Phillips products include: blasting abrasives and equipment, steel products, tools, hardware, lumber and painting equipment. The company has distribution centers in Hobbs, N.M., and Odessa, Texas.



Zeox Corp.

New customer Zeox Corp. develops, processes and distributes non-metallic minerals, such as advanced zeolites. The company has global distribution with emerging markets throughout Asia, Canada and the United States.

Headquartered in Peachland, British Columbia, Zeox has plants and deposits across Canada and the United States. Under the company’s umbrella, Zeox Mineral Materials Corp., it has key locations in Arizona, Montana and Nevada.

The locations are logistically placed along the railroad, said LuVerne E.W. Hogg, Zeox’s director, president and chief executive officer. The railroad helps the company serve its market.

“Rail is how we move the bulk of our materials,” he said. “The railway, for us, is absolutely essential.”

Zeox’s products include building material admixtures to enhance properties in cement-based products, cement applications in oil and gas wells and catalytic applications to separate oil from oil sands. In addition, a key market includes environmental remediation applications for air, soil, water and nuclear waste.

British American acquisition diversifies company’s opportunity

Iowa Pacific Holdings continues to find new opportunities and ventures for the company.

In summer 2008, Iowa Pacific took charge of three new business ventures in England under British American Railway Services. The transaction added two short line railroads and a track maintenance/ locomotive leasing company to the Iowa Pacific family. “Our belief is that there is a lot of opportunity there for growth of light density short line freight,” said Steve Gregory, Iowa Pacific vice president of marketing.

Dartmoor Railway, Weardale Railway and RMS Locotec, maintain independence from the U.S. properties. Kevin Busath and Mark Westerfield, U.S.-based Iowa Pacific employees, work with the British work force.

The United Kingdom puts a strong and growing emphasis on environmentally sustainable transportation options, he said. All levels of government are encouraging companies to move freight off of the roads and onto railways.

Iowa Pacific intends to take advantage of fundamental differences in the U.K.’s railway organization that will allow its railways to run across track nationwide, given regulatory approval, Gregory said. This means the railroads would be able to operate between points that are not part of their line.

By comparison, U.S. the short lines are dependent on Class 1 railroads such as BNSF Railway and Union Pacific Railroad.

“There is a lot of room for growth,” Gregory said.

Work complete on new facility

Construction on the new car and locomotive shop in Alamosa, Colo., is complete and the facility is ready for occupation.

The shop will be a work site for both steam and mechanical employees working on maintenance and capital projects for the San Luis & Rio Grande Railroad and the Rio Grande Scenic Railroad.

“The facility means we can make repairs indoors instead of outside,” said Mike McConville, vice president of operations.

Teams can now work effectively around the clock regardless of weather conditions. The shop will shelter Alamosa’s employees from the subzero winter climate.

The new shop enhances the railroads’ ability to work on long-term capital projects.

The shop features a single run-through track, servicing pit and can comfortably hold two locomotives.

The shop’s four-person steam engine team and three diesel locomotive mechanics maintain four diesel locomotives and one steam engine. An additional steam engine is expected to be operational by mid-season 2009.

Ground broke on the 26,000 square-foot facility in January 2008. The project’s completion is a welcome addition to the area.

This newsletter appears under the direction of the president. For news coverage, contact Laura at the newsletter office by phone at 402-475-6397, mail to 1845 S. 11TH ST, LINCOLN, NE 68502-2211 or e-mail laura@newslink.com. This material is intended to be an overview of the division news. If there are any discrepancies between this newsletter and any collective bargaining process, insurance contracts or other official documents, those documents will govern. Iowa Pacific Holdings continue to maintain and reserves the right, at any time, to alter, suspend, discontinue or terminate all plans and programs described in this newsletter. This newsletter is not an employment contract or any type of employment guarantee.

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Taking pride in enhancing quality service

For the Texas-New Mexico Railroad and West Texas & Lubbock Railway, customer service is critical to success. The railroads recognize that safety and efficiency go hand-in-hand with keeping customers happy.

By keeping employees in top shape and trains moving efficiently, the railroads are able to ensure customers get their freight to its destination in a timely manner, said Hans Grosstueck, general superintendent.

Grosstueck and General Manager Fred L. Krebs conduct efficiency testing, during which they monitor crews from a distance to ensure they work properly.

“If they’re not being safe, they’re not efficiently getting the work done,” Krebs said.

The railroads abide by FRA mandates and checks to ensure crews wear appropriate safety equipment and travel at correct speeds, he said. Department supervisors work to ensure requirements are met.

Grosstueck said train crews work hard to keep customer relations in top shape. Crews maintain a professional relationship with customers and talk with them regularly.

The railroad goes the extra mile to

meet customers’ needs.

“If a customer calls and wants a special move, we do everything in our power to see that it happens,” he said.

The railroads’ equipment underwent maintenance and modifications to provide better service for customers. Last spring and summer, steps were taken to get locomotives at 100 percent performance.

Randy Brashears, mechanic, joined Iowa Pacific in March 2008 and helped enhance locomotives, which focused on the engines’ electrical systems. Wheel and water issues were also corrected, he said.

The railroad also hired an electric contractor to assist.

According to Brashears, having the locomotives at 100 percent has improved how the railroads are able to work. Locomotives in peak condition means the railroads are able to move freight without having to pull harder or double up machines when fewer are needed.

Brashears plans to keep locomotives operating at a high level. Every morning, before the crews arrive, he checks the equipment.

“At 100 percent, everybody is happy,” he said.



Randy Brashears, mechanic, left, and Hans Grosstueck, general superintendent, stand next to one of the enhanced locomotives.



Fred Krebs, general manager, says providing quality service to customers is an important priority for the Texas-New Mexico Railroad and West Texas & Lubbock Railway.