SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (Fee Required)

For the fiscal year ended December 31, 1998

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (No Fee Required)

For the transition period from _____________ to ___________

Commission File Number 033-73270
Commission File Number 033-73270-1

TRANSTAR HOLDINGS, L.P.
TRANSTAR CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	13-3486874
DELAWARE	13-3745313
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

345 PARK AVENUE
NEW YORK, NEW YORK 10154
(Address and zip code of principal executive offices)

(212) 935-2626
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE
SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No
--- ---

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

DOCUMENTS INCORPORATED BY REFERENCE: NONE

TRANSTAR HOLDINGS, L.P.
TRANSTAR CAPITAL CORPORATION
FORM 10-K
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PART I

ITEM 1. BUSINESS

Transtar Holdings, L.P. is a Delaware limited partnership which was originally formed in 1988 as Blackstone Transportation Partners L.P. (BTP) for the sole purpose of holding voting stock and nonvoting stock of Transtar, Inc. (Transtar or the Company). BTP was renamed Transtar Holdings, L.P. (Holdings) in November 1993. Holdings has no operations of its own and owns 5,100 shares of voting stock and 5,100 shares of nonvoting stock of Transtar, representing a 51% voting and 53% economic interest in Transtar. Transtar Capital Corporation (TCC), a Delaware corporation, is a wholly owned subsidiary of Holdings. TCC has nominal assets and does not conduct any operations. TCC was formed in connection with an offering of 13 3/8% Senior Discount Notes. Separate consolidated financial statements of Transtar are included in this 10-K because Transtar is a majority owned subsidiary of Holdings which is not consolidated in the consolidated financial statements of Holdings. Holdings' earnings are derived primarily from its 53% economic interest in Transtar. Blackstone Transportation Company, Inc. (BTC), a Delaware corporation, is Holdings' sole general partner.

THE COMPANY

Transtar is a transportation holding company composed of two business groups: The Railroad Group and the Marine Group. The Railroad Group is composed of seven railroads Duluth, Missabe and Iron Range Railway Company (DMIR), Elgin, Joliet and Eastern Railway Company (EJ&E), Bessemer and Lake Erie Railroad Company (B&LE), Union Railroad Company (Union), The Lake Terminal Railroad Company (Lake Terminal), McKeesport Connecting Railroad Company (McKeesport), Birmingham Southern Railroad Company (Birmingham Southern), one dock facility-Pittsburgh & Conneaut Dock Company (P&C Dock) and one in-plant rail operation-Fairfield Southern Company, Inc. The Marine Group is composed of two shipping operations-Great Lakes Fleet (GLF) and Warrior and Gulf Navigation Company (WGN) and one salt water/fresh water dock facility-Mobile River Terminal (MRT). The Railroad Group and Marine Group accounted for approximately 70% and 30% of revenues, respectively, in 1998.

Transtar provides the sole rail access to, as well as the primary water transport for, nearly all the steel making plants of USX Corporation

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(USX), servicing US Steel (USS), USS Mining Co., L.L.C. (USM) and the USS/Kobe Steel Company (USS/Kobe) joint venture at Lorain, Ohio. Transtar derived 57% of its revenues in 1998 from serving these USX facilities. These services are provided under certain Transportation Services Agreements (See Item 13, Certain Relationships and Related Transactions for a discussion of these agreements, including their duration). Other steel-related customers generated an additional 19% of revenues, resulting in the steel industry accounting for 76% of Transtar's revenues in 1998. Movements of coal to utilities and other customers accounted for 13% of Transtar's revenues in 1998, while miscellaneous traffic accounted for the remaining 11%.

The shareholders of Transtar are Holdings, which owns a 51% voting and a 53% economic interest, USX, which owns a 49% voting and a 46% economic interest, and Transtar's management which owns a 1% economic interest. Management's direct interest has been reduced since Transtar's formation due to repurchases of 704 shares of nonvoting stock from retiring managers. Certain shares have been allocated to promoted managers in a stock option program. Including the effect of this program, economic ownership of management would be 5%.

OPERATIONS OVERVIEW

The Company's transportation groups service USX and other domestic steel producers by delivering raw materials, such as iron ore pellets (taconite), limestone, coal and coke, to steel producing facilities, by moving materials within certain steel plants and by transporting semi-finished and finished steel products from such facilities. The Company also hauls coal and other freight for numerous other customers.

Prior to December 1988, all of Transtar's subsidiaries were wholly owned by USX. Transtar was formed in December 1988 to purchase these companies from USX in a leveraged buyout. The Transtar subsidiaries carry a multitude of raw materials, semi-finished products, and finished goods in Alabama, Illinois, Indiana, Minnesota, Ohio, Pennsylvania, Wisconsin, and destinations on the Great Lakes.

RAILROAD GROUP

Each rail subsidiary is a regional or switching railroad with individual specialties. Revenues from USX represented approximately 53% of the Railroad Group's revenues in 1998. The following paragraphs describe Transtar's major rail subsidiaries and their operations.

DMIR

The DMIR is located in northeastern Minnesota and northwestern Wisconsin and includes two major storage and shipping facilities at Duluth and Two Harbors, Minnesota. It is the sole rail carrier serving USX's Minntac facility and also serves the taconite producing facilities of both EVTAC Mining and Ispat Inland Mining. The DMIR hauls taconite to its Two Harbors and Duluth docks where the taconite is loaded onto vessels for delivery to USX's Gary Works and Mon Valley facilities and other lower lake steel plants including the USS/Kobe's Lorain, Ohio facility. The DMIR also hauls taconite for interchange to long haul railroads.

EJ&E

The EJ&E is a belt railroad that encircles Chicago, Illinois. It is the sole serving carrier for USX's Gary, Indiana steel facility and transports inbound coal, coke and scrap and outbound semi-finished and finished steel. The EJ&E performs certain in-plant switching functions within the Gary Plant. It also provides rail services to numerous other customers in the Chicago area. The EJ&E provides trackage rights and haulage for other railroads.

B&LE

The B&LE services western Pennsylvania and northeastern Ohio and transports coal, ore and limestone. Its principal northbound traffic is steam coal destined for utility customers. The B&LE also delivers ore pellets via the Union to USX's Edgar Thomson Works.

UNION

The Union is located in the Mon Valley, approximately 12 miles east of Pittsburgh, Pennsylvania. It is the sole serving carrier for three USX

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facilities: the Clairton Coke Works, the Edgar Thomson Works and the Irvin Works. The Union transports coal, coke, ore, scrap and finished and semi-finished steel products. In addition, it provides USX with in-plant switching services at its Clairton Coke Works and maintenance services on USX's own rolling stock and track at its Mon Valley plants. The Union also handles coal for a variety of other customers at its river-to-rail transfer facility at Duquesne, Pennsylvania.

LAKE TERMINAL

The Lake Terminal is located in Lorain, Ohio and is the sole-serving rail carrier to the USS/Kobe facility there. The Lake Terminal also provided USS/Kobe with in-plant switching services as well as maintenance of track and equipment during 1998. USS/Kobe awarded the in-plant switching and maintenance of track and equipment to a competing company at the end of 1998.

BIRMINGHAM SOUTHERN/FAIRFIELD SOUTHERN

The Birmingham Southern is located in the Birmingham, Alabama area and is the sole-serving carrier for USX's Fairfield Works. It transports coal, coke, iron ore, semi-finished and finished steel and other products. Fairfield Southern, a Birmingham Southern subsidiary, provides all of the in-plant switching at Fairfield Works.

MARINE GROUP

The Marine Group is comprised of a Great Lakes shipping fleet and an inland barge operation. Revenues from USX represented approximately 65% of the Marine Group's revenues in 1998. The following paragraphs describe Transtar's marine subsidiaries and their operations.

GLF

The GLF owns nine lake vessels and operates two other vessels under long-term charter agreements. They operate in a market area throughout the five Great Lakes, extending from the western end of Lake Superior to the eastern end of Lake Ontario.

WGN/MRT

WGN, headquartered in Chickasaw, Alabama, operates on the Black Warrior-Tombigbee waterway and the Tennessee-Tombigbee waterway, utilizing a fleet of 248 barges (of which 183 are leased) and 20 towboats. MRT, WGN's subsidiary is a salt water/fresh water transfer facility located at Mobile, Alabama.

OPERATING REVENUES

Transtar's total operating revenues were $497.8 million in 1998. These revenues were primarily earned from the transportation of freight. The revenues incorporate traffic originated, terminated, and switched by rail operations as well as commodities transported by marine operations. Dock handling revenues were earned by both the rail and the marine operations.

Set forth below are freight revenues of Transtar by commodity groups for the years 1996 through 1998.

<TABLE>
<CAPTION>

	Year Ended December 31,					
	1998		1997		1996	
	$ (mil.)	%of total	$ (mil.)	% of total	$ (mil.)	% of total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Iron Ore	$200.1	40.2	$219.9	41.8	$206.1	40.5
Coal	61.4	12.3	58.5	11.1	61.0	12.0
Coke	39.4	7.9	43.6	8.3	39.3	7.7
Steel & General Merch.	142.8	28.7	148.1	28.2	146.2	28.7
Dock Handling	26.7	5.4	23.3	4.4	23.5	4.6
Trucking	1.3	.3	1.3	.2	1.0	0.2

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All other revenues	26.1	5.2	31.4	6.0	32.0	6.3
Total Revenues	$497.8	100.0	$526.1	100.0	$509.1	100.0

</TABLE>

EMPLOYEES

Transtar employed an average of 3,346 employees in 1998, virtually the same as 1997. Approximately 85% of Transtar's employees are covered by collective bargaining agreements.

GOVERNMENTAL REGULATION

The Company's subsidiaries are subject to environmental, safety, health and other regulations generally applicable to all businesses. In addition, the Company's rail subsidiaries, like other rail common carriers, are subject to regulation by the Surface Transportation Board, the Federal Railroad Administration, state departments of transportation and other state and local regulatory agencies. Government regulation of the railroad industry is a significant determinant of the competitiveness and profitability of railroads. Deregulation of certain rates and services under the Staggers Rail Act of 1980 (the Staggers Act) has substantially increased the flexibility of railroads to respond to market forces, but has also resulted in highly competitive and steadily decreasing rates. Various interests have sought and continue to seek reimposition of government controls on the railroad industry in areas deregulated in whole or in part by the Staggers Act. The Company's marine operations are subject to regulation by the U.S. Coast Guard. Additional regulation, changes in regulation, re-regulation and certain types of de-regulation of the industry through legislative, administrative, judicial or other action could materially affect the Company.

COMPETITION

The Company faces competition from railroads, motor carriers, shipping companies and inland barge operations depending upon the market served. The ability to compete for freight traffic is dependent upon rates charged, as well as the quality and reliability of the services provided.

ITEM 2. PROPERTIES

THE RAILROAD GROUP

Roadway, Yards and Structures

The Railroad Group has approximately 1,600 miles of track in operation, consisting of approximately 600 miles of first main track (route miles) and approximately 1,000 miles of additional main track, passing track, way switching track and yard switching track.

Principal railroad yard facilities owned by the Railroad Group are located at Two Harbors, Proctor, and Keenan, Minnesota; Joliet, Illinois; Gary, Indiana; Conneaut, Ohio; and Greenville, Pennsylvania.

The following table summarizes the Railroad Group's track and roadway activities for the periods indicated:

<TABLE>
<CAPTION>

	Year Ended December 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Track miles of rail laid	108	79	87
Ties inserted (thousands)	128	137	142
Track miles resurfaced	509	411	506

</TABLE>

The Railroad Group owns or leases the equipment described in the table

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below.

Description	Owned		Leased		Total	
	Units	Average Age	Units	Average Age	Units	Average Age
Locomotives:						
Road	115	33	20	27	135	32
Switcher	109	33	4	27	113	32
Total Locomotives	224	33	24	27	248	32
Freight Cars:						
Box	69	21	--	--	69	21
Gondola	3,641	27	987	20	4,628	25
Hopper	8,217	44	924	19	9,141	41
Flat	502	36	95	29	597	35
Total Freight Cars	12,429	38	2,006	20	14,435	35

Improvement and ongoing maintenance of roadway, structures and equipment are essential components of the Company's efforts to improve service and reduce operating costs. The Railroad Group has made the following capital expenditures in order to maintain and improve train service:

Railroad Capital Expenditures
(dollars in millions)

	Year Ended December 31,		
	1998	1997	1996
Roadway and structures	$15.5	$12.7	$11.6
Railroad equipment:			
Locomotives	1.0	0.7	0.4
Freight cars	5.7	5.8	2.1
Other	3.3	5.1	3.6
Total	$25.5	$24.3	$17.7

Capital expenditures for the Railroad Group for 1999 are expected to be approximately $17.4 million, of which approximately $9.8 million are anticipated for roadway and structures and approximately $3.4 million are for railroad equipment.

The following table shows the Railroad Group's expenses for ongoing maintenance and repairs of roadway, structures and railroad equipment (including administrative and inspection costs) for the periods indicated.

Railroad Maintenance Expenditures
(dollars in millions)

	Year Ended December 31,		
	1998	1997	1996
Roadway and structures	$37.0	$41.9	$38.0
Railroad equipment:			
Locomotives	23.4	23.2	21.4

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Freight cars	21.9	22.9	21.6
Other	10.0	8.3	8.4
Total	$92.3	$96.3	$89.4

</TABLE>

Future maintenance programs will be determined by track, locomotive and car requirements necessary to provide quality service at projected business levels. The Railroad Group maintains full service car and locomotive shops in Proctor, Minnesota; Joliet, Illinois; Gary, Indiana; and Greenville, Pennsylvania.

THE MARINE GROUP

The GLF owns nine vessels and leases two additional vessels under long-term charter agreements. All of the vessels are self-unloaders, with a total cargo capacity of 362,900 gross tons (GT) at mid-summer draft.

Included in this fleet are four large beam vessels, the Roger Blough, the Edwin H. Gott, the Edgar B. Speer, and the Presque Isle. These vessels are the maximum size beam permitted through the locks at Sault Ste. Marie. They range in size from 858 to 1,004 feet in length and are specifically designed for and dedicated principally to carrying taconite pellets for USX. The Edgar B. Speer and the Presque Isle are under long-term charter.

It also owns four intermediate size self-unloading carriers which are the John G. Munson, with a forward deck-mounted boom, the Arthur M. Anderson, the Cason J. Callaway and the Philip R. Clarke.

The remaining vessels are three smaller, self-unloading vessels. These include the George A. Sloan, the Calcite II and the Myron C. Taylor, which are the three shortest vessels in the fleet at just over 600 feet in length with a 60-foot beam. These vessels serve some of the smaller volume cargoes in the Great Lakes trade.

A list of the GLF's active vessels, all of which are dry bulk self-unloaders, is set forth in the table below.

<TABLE>
<CAPTION>

Vessel	Length (feet)	Capacity (GT)(1)		Year Acquired	Seasonal Capacity (M-GT) (2)
Ore Fleet					
<S>	<C>	<C>		<C>	<C>
Gott	1,004	62,200		1978	2,378
Speer(4)	1,004	62,200	(3)	1980	2,378
Presque Isle(4)	1,000	52,000		1973	1,930
Blough	858	44,000	(3)	1972	1,914
Anderson	767	25,300		1952	1,048
Callaway	767	25,300		1952	1,048
Clarke	767	25,300		1952	1,048
Stone Fleet					
Munson	768	25,600		1952	1,867
Sloan	620	15,600		1943	1,087
Calcite II	604	12,900		1929	964
Taylor	603	12,500		1929	1,005
Total		362,900			16,667

</TABLE>

(1) Measured in gross tons of iron ore or taconite pellets at mid-summer draft mark.

(2) Seasonal capacity in thousand gross tons (M-GT) for the ore fleet is for shipping between Duluth/Two Harbors, Minnesota and Gary, Indiana and for the stone fleet between Rogers City, Michigan and Gary, Indiana.

(3) Can be unloaded only at dedicated port facilities (Conneaut, Gary, and Indiana Harbor).

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(4) Leased vessels.

WGN owns 20 towboats and 65 barges and operates another 183 barges utilizing long-term lease arrangements.

Capital expenditures for the Marine Group were $0.9 million in 1998 and are expected to be approximately $3.3 million in 1999.

ITEM 3. LEGAL PROCEEDINGS

There have been no legal proceedings involving Holdings since its formation. Transtar and certain of its operating subsidiaries are defendants in lawsuits and actions incident to the normal conduct of its business. While the results of these lawsuits and actions cannot be predicted with certainty, Transtar believes the ultimate outcomes will not have a material adverse effect on the operations, liquidity, capital resources and financial position of Transtar.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders during 1998.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Holdings is a Delaware limited partnership and as such its partnership interests are privately held and are not freely transferable.

ITEM 6. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

	Transtar Holdings, L.P. As of and for the year ended December 31,				
	1998	1997	1996	1995	1994
	(dollars in millions)				
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Income Data:					
Income from equity in earnings of Transtar	$31.3	$36.3	$37.6	$31.1	$28.4
Interest and other financial expense	(24.1)	(21.3)	(18.8)	(16.6)	(14.7)
Income from continuing operations	9.6	17.1	19.6	13.8	13.0
Balance Sheet Data:					
Investment in Transtar	$54.3	$23.8	$ 0.5	$(15.4)	$(16.9)
Total assets	105.5	74.1	50.9	14.0	(9.4)
Long-term debt	192.7	169.3	148.8	130.7	114.8
Partners' equity (deficit)	(87.4)	(95.4)	(98.6)	(117.3)	(124.9)

</TABLE>

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<TABLE>
<CAPTION>

	Transtar, Inc. As of and for the year ended December 31,				
	1998	1997	1996	1995	1994
	(dollars in millions)				
<S>	<C>	<C>	<C>	<C>	<C>
Statement of Income Data:					
Operating revenues	$497.8	$526.1	$509.1	$494.5	$478.5
Operating expenses (excluding item shown below)(1)	367.5	376.3	360.4	352.1	331.7
Depreciation and amortization	25.5	26.8	26.4	26.7	27.7
Operating income	104.8	123.0	122.3	115.7	119.1
Other income (expense)	2.3	3.9	1.7	1.1	(8.7)
Interest income	1.5	1.0	1.0	1.2	1.0
Interest and other financial expense	(12.9)	(17.4)	(21.3)	(24.1)	(25.3)
Income before income taxes	95.7	110.5	103.7	93.9	86.1
Provision for income taxes	36.7	42.1	32.8	35.2	32.4
Income from continuing operations	$59.0	$68.4	$70.9	$58.7	$ 53.7
Other Data:					
Consolidated Cash Flow(2)	$138.0	$160.5	$152.5	$148.6	$149.9
Cash provided by operating activities	91.9	106.0	113.8	94.0	99.8
Cash provided by (used for) investing activities	(21.2)	(19.9)	(15.8)	(16.9)	1.2
Cash used for financing activities	(73.6)	(86.4)	(83.9)	(87.0)	(99.1)
Capital expenditures	26.4	25.6	19.6	20.3	13.7
Dividends paid	--	24.1	40.9	55.8	--
Non-cash interest(3)	0.6	0.7	0.7	0.8	1.0
Consolidated Cash Flow to cash interest	11.2x	9.6x	7.4x	6.4x	6.2x
Fixed charge coverage ratio(4)	10.7x	9.2x	7.2x	6.2x	5.9x
Ratio of earnings to fixed charges(5)	5.6x	5.4x	4.6x	4.1x	3.7x
Balance Sheet Data:					
Cash and cash equivalents	$21.4	$24.3	$24.7	$ 10.6	$ 20.5
Total assets	502.8	522.0	515.1	513.7	530.6
Long-term debt less current portion	66.3	128.8	196.4	265.2	329.0

</TABLE>

(1) Operating expenses include non-recurring charges (credits) of $3.5 million, $7.0 million, $(1.0) million and $(1.7) million for the years ended December 31, 1998, 1997, 1996, and 1994, respectively. These items relate to non-recurring labor costs, permanent impairments of certain assets and environmental credits.

(2) Consolidated Cash Flow represents earnings before interest expense, provision for income taxes, extraordinary item, cumulative effect of change in accounting principle, depreciation, amortization, special charges and non-cash SFAS 106 expenses related to other post-retirement benefits. Consolidated Cash Flow is a non-GAAP measure of performance and should not be considered as an alternative to net income, or any other GAAP measure of performance, or to cash flows from operating, investing or financing activities as a measure of liquidity. Consolidated Cash Flow is presented because it is a defined term in an indenture and because management believes it provides useful information regarding the Company's ability to service and/or incur debt.

(3) Non-cash interest represents amortization of debt issuance costs.

(4) Fixed Charge Coverage Ratio is equal to Consolidated Cash Flow to Fixed Charges. Fixed charges consist of interest expense and amortization of debt issuance costs.

(5) Earnings used in computing the ratio of earnings to fixed charges consist of income before income taxes, cumulative effect of change in accounting principle and extraordinary items, plus fixed charges. Fixed charges consist of interest expense, amortization of debt issuance costs, and a portion of operating lease rental expense that is representative of the interest factor.

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ITEM 7.

TRANSTAR HOLDINGS, L.P.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations is presented as an analysis of Transtar Holdings, L.P.'s (Holdings) equity investment in Transtar, Inc. (Transtar). Holdings' earnings are derived primarily from its 53% economic interest in Transtar. The following discussion should be read in conjunction with Holdings' Consolidated Financial Statements and Transtar's Consolidated Financial Statements and the related notes thereto included in Item 8 of Part II of this 10-K.

1998 VERSUS 1997 AND 1996

OVERALL

Substantially all of the earnings of Holdings consists of Holdings' share in the earnings of Transtar accounted for by the equity method. Holdings' equity earnings of Transtar were $31.3 million in 1998 compared to $36.3 million in 1997 and $37.6 million in 1996. For a discussion of the results of operations of Transtar, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" for Transtar.

In 1998, Holdings' net income totaled $9.6 million, a decrease of $7.5 million from $17.1 million in 1997 and a $10.0 million decrease from the $19.6 million recorded in 1996.

REVENUES AND EXPENSES

Holdings did not produce any revenues in 1998, 1997, or 1996. Holdings' operating expenses of $0.2 million in 1998 remained unchanged from 1997, and are $0.3 million less than the $0.5 million incurred in 1996. As a result of the accretion of certain discount notes sold by Holdings in December 1993, interest and other financial expenses grew from $18.8 million in 1996, to $21.3 million in 1997, and $24.1 million in 1998.

LIQUIDITY AND CAPITAL RESOURCES

On December 7, 1993, Holdings and Transtar Capital Corporation (TCC) issued $218 million aggregate principal amount of 13 3/8% Series A Senior Discount Notes due December 15, 2003. In 1994, Holdings and TCC exchanged the Series A Notes for Series B Notes (Notes). The first cash interest payment on the Notes is due on June 15, 2000.

Transtar declared no dividends during 1998.

On both October 30 and December 19, 1997, Transtar declared cash dividends in the amount of $625 per share on both its Class A Voting Common Stock and its Class B Nonvoting Common stock to holders of record of the stock on October 28 and December 17, 1997, respectively. During 1997, Holdings received $12.8 million representing its 53% economic interest in the Transtar dividends. Pursuant to an Indenture relating to the issuance of the Notes (the Notes Indenture), both dividend payments were deposited into an escrow account.

In February 1998 and 1997, in accordance with the Notes Indenture, Holdings offered to repurchase a portion of the Notes at a price equal to 101 % of the accreted value of such Notes on the date of purchase. The offer to purchase the Notes was made by a notice to holders of the Notes and was held open for 20 business days. During 1998, in accordance with the Notes Indenture and an agreement governing the escrow account, Holdings withdrew from the escrow account $0.7 million to distribute to its partners and $0.2 million to pay certain administrative expenses.

Funds in the escrow account are invested in cash equivalents and may only be released to pay interest and principal on Notes, make certain payments permitted under the Notes Indenture, purchase or optionally redeem Notes or to

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pay administrative expenses of Holdings. As of December 31, 1998 the escrow balance is $47.3 million. Interest earned on the escrow balance amounted to $2.6 million, $2.4 million, and $1.4 million in 1998, 1997 and 1996, respectively.

The only business activity of Holdings is its investment in Transtar. Holdings does not require any additional liquidity or capital resources, other than for professional fees and certain other administrative expenses, until the first interest payment is due on the Notes.

Future dividends of Transtar are governed by Transtar's bylaws which require unanimous approval by the Company's directors to declare a dividend or other distribution (absent a decision by an independent consultant breaking a deadlocked vote). Holdings and USX each have the right, pursuant to a Stockholders Agreement dated as of December 28, 1988, as amended (the Stockholders' Agreement), to designate certain directors to the board of directors of the Company. As such, Holdings' ability to cause the Company to declare and pay a dividend or other distribution is dependent upon the concurrence of USX.

TRANSTAR, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Transtar, Inc. (Transtar or the Company) is a holding company consisting of two business groups, the Railroad Group and the Marine Group.

1998 VERSUS 1997

OVERALL

Transtar reported net income of $59.0 million in 1998, compared to net income of $68.4 million in 1997. Transtar's results in 1998 were driven by weakening of the domestic steel industry due to lower priced imported steel and by revenue concessions granted in recently approved long-term Transportation Services Agreements with USX and USS/Kobe.

OPERATING REVENUES

Operating revenues in 1998 totaled $497.8 million, or $28.3 million less than in 1997. Revenue decreases of $9.0 million and $19.3 million were reported by the Railroad Group and Marine Group, respectively. The softening of the domestic steel market due to the increase of imported foreign steel, coupled with implementation of new Transportation Services Agreements in 1998 severely impacted revenues. Revenues generated by the transportation and handling of raw materials used in the steel production process, such as ore and coke, as well as outbound steel products all showed decreases from 1997 amounting to $34.9 million. Approximately one-third of this change was driven by rate reductions granted in the new Transportation Services Agreements. Demurrage revenues, resulting primarily from industry retention of railroad freight cars, increased $2.3 million. In spite of rate reductions included in the new Transportation Services Agreements, coal and associated dock handling revenues improved by $7.8 million, due to the increased demand for coal deliveries to Great Lakes customers and increased shipments from Alabama origins destined for export.

OPERATING EXPENSES

Operating expenses decreased $10.1 million from 1997 levels to $393.0 million in 1998. Contributing to the overall cost decrease were: 1) lower diesel fuel prices which contributed to a $7.0 million reduction in fuel expense; 2) favorable property tax adjustments recorded in 1998 which reduced state and local taxes by $1.2 million; 3) changes in asset lives which resulted in decreased depreciation expense of $1.3 million; 4) recognition in 1997 of $7.0 million of expense associated with a limited early retirement program and an accounting department consolidation; 5) increased recovery in 1998 of maintenance expenses which are shared with third parties in the amount of $2.7 million; 6) decreases in casualty expense and liability insurance of $2.3 million; 7) a $1.2 million reduction in shifting and towing expense and mobile equipment rentals on the barge lines; and 8) increased allocation of labor forces to capital improvement projects which reduced operating expenses by $1.5 million. Partially offsetting these cost decreases were: 1) increased labor expense of $6.3 million reflecting contractual wage increases, additional hours worked and higher health insurance costs; 2) additional lease cost of $0.8

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million reflecting new leases of freight cars and barges commencing during 1998; 3) reduced net car hire earnings (a contra-cost) of $1.1 million due to the weakened domestic steel market and fewer off-line loadings for a large portion of Transtar's gondola freight car fleet; and 4) recognition of $3.5 million of expense associated with a partial curtailment of services provided by the Lake Terminal Railroad due to a reduction in business at USS/Kobe, and further accounting department consolidation.

OTHER INCOME AND EXPENSE

Transtar's net interest expense decreased by $4.9 million in 1998 from 1997. This decrease is primarily attributed to the retirement of $72.0 million of term debt during 1998. Fewer land sales agreements by the Railroad Group in 1998 and decreased equity income recorded by the Marine Group resulted in a reduction of $1.5 million in other income.

PROVISION FOR INCOME TAXES

Transtar's provision for income taxes in 1998 was $36.7 million or a decrease of $5.4 million from 1997, and is directly related to the decline in before tax profit in 1998.

1997 VERSUS 1996

OVERALL

Transtar reported net income of $68.4 million in 1997, compared to net income of $70.9 million in 1996. Transtar's results in 1997 were driven by the economy's continued strength, particularly within the domestic steel industry, which shipped at record levels. Transtar's income before taxes in 1997 totaled $110.6 million or $6.9 million more than was earned in 1996. The decline in net income between years was a result of a $7.1 million reduction of prior years tax reserves that had been recognized in 1996.

OPERATING REVENUES

Operating revenues in 1997 totaled $526.1 million, or $17.0 million greater than in 1996. Revenue increases achieved by the Railroad Group and Marine Group were $10.4 million and $6.6 million, respectively. Domestic steel shipments increased by 3.8 percent in 1997 and Transtar shared in this improvement. Raw materials used in the steel production process, such as ore and coke, as well as outbound steel products all showed increases over 1996. Ore revenues improved by $13.8 million, coke revenues improved by $4.3 million and steel and general merchandise revenues improved by $1.9 million. Coal revenues decreased by $2.5 million primarily due to the diversion of certain shipments originating in Alabama to destinations not served by Transtar carriers.

OPERATING EXPENSES

Operating expenses increased $16.3 million from 1996 levels to $403.2 million in 1997. Contributing to cost increases were: 1) increased labor expense of $2.8 million reflecting contractual wage increases and increased operating labor and maintenance requirements; 2) increased repair and maintenance materials' expense of $3.4 million; 3) increases in state and local taxes of $1.6 million associated with increased earnings and favorable property tax adjustments recorded in 1996; 4) a lease cost increase of $0.9 million reflecting new leases involving freight cars, locomotives and barges commencing in late 1996 and during 1997; 5) a $7.0 million recognition of expense associated with a limited early retirement program and an accounting department consolidation; and 6) a $1.0 million reduction to cost recorded in the second quarter of 1996 resulting from the settlement of environmental litigation. Partially offsetting these cost increases was a decrease in diesel fuel prices which contributed to a $1.9 million reduction in fuel expense.

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TRANSTAR, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- (CONTINUED)

OTHER INCOME AND EXPENSE

Transtar's net interest expense decreased by $4.0 million in 1997 from 1996. This decrease is primarily attributed to the retirement of $62.0 million of term debt during 1997. Land sales in 1997 by the Railroad Group generated an additional $2.0 million of the before tax income.

PROVISION FOR INCOME TAXES

Transtar's provision for income taxes in 1997 was $42.1 million, or an increase of $9.4 million over 1996. In 1996, Transtar completed a review of its tax reserves and concluded that certain reserves were no longer necessary. This decrease in reserve requirements resulted in a credit of $7.1 million to the 1996 tax provision.

LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY

Transtar ended 1998 with cash and cash equivalents totaling $21.4 million, which was $2.9 million less than the $24.3 million it had at year end 1997. During 1998, Transtar retired $72.0 million of its term loan obligations compared to $62.0 million retired during 1997. Transtar paid no dividends in 1998 and paid dividends of $24.1 million to its shareholders in 1997. A 1997 amendment to its Credit Agreement permitted Transtar to pay dividends during 1997 not to exceed $25.0 million.

At December 31, 1998, Transtar had $124.0 million term loan obligations remaining, including $57.7 million due in June and December 1999. Transtar expects to repay its 1999 obligation from its operating cash flow.

On August 1, 1999, USX and USS/Kobe, along with several major steel companies, face the expiration of their labor agreements with the United Steelworkers of America. Their ability to negotiate an acceptable labor contract is essential to maintaining the level of Transtar's ongoing operations. A prolonged labor interruption at USX could have a material adverse effect on Transtar's operations, financial results and cash flow.

Contractual commitments in the amount of $45.0 million and $14.7 million have been made to acquire a tug barge vessel and to acquire components for the assembly of 280 freight cars, respectively, at December 31, 1998. Acquisition of the freight car components is in response to a commitment under the new Transportation Services Agreement with USX to spend up to $20.0 million to assure the continuance of in-plant coke movements at its Gary Works. It is anticipated that the freight cars and the tug barge will be financed by operating leases.

Transtar and certain of its operating subsidiaries are defendants in lawsuits and actions in which claims have been made against the Company. While the results of these lawsuits and actions cannot be predicted with certainty, the Company believes the ultimate outcomes will not have a material adverse effect on the operations, liquidity, capital resources, or financial position of Transtar.

CAPITAL RESOURCES

Net cash used for investing activities in 1998 of $21.2 million was $1.3 million more than 1997. This change reflects increased capital spending in 1998 of $0.8 million and a $0.5 million decrease in proceeds from disposition of assets.

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Cash used for financing activities in 1998 decreased $12.9 million from 1997. Cash used for term loan debt payments increased by $10.0 million from 1997. In 1998, Transtar repaid $72.0 million of its term debt obligations versus the $62.0 million it repaid in 1997 and the $23.0 million it repaid in 1996. In 1998, no dividends were paid to stockholders, compared with $24.1 million in 1997 and $40.9 million in 1996.

CAPITAL EXPENDITURES

Transtar's capital requirements during 1999 are forecasted to be approximately $20.7 million. Internally generated funds from operations are expected to be sufficient to fund Transtar's mandatory debt payments as well as future capital requirements.

In 1998, capital expenditures of $26.4 million increased $0.8 million from 1997. Capital expenditures in 1997 totaled $25.6 million, or $6.0 million more than in 1996. In addition to these capital expenditures, the Company spent $113.2 million in 1998, $117.6 million in 1997, and $110.6 million in 1996 for repair and maintenance of its facilities and equipment.

ENVIRONMENTAL MATTERS

Transtar is subject to federal, state, and local laws and regulations relating to the environment. These laws regulate discharges into the environment, as well as the handling, storage, transportation, and disposal of waste and hazardous materials. These laws also require responsible parties to undertake remediation of hazardous waste disposal sites. Transtar provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. Certain Transtar operating subsidiaries have been identified as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and are required to share the cost to remediate certain Superfund sites identified by the Environmental Protection Agency (EPA). In those instances where the probable costs of cleanup are estimable, Transtar has recorded a liability. At December 31, 1998 and 1997, accrued liabilities for remediation totaled $0.4 million. The Company has considered the other potentially responsible parties in determining this accrual. For the period 1989 through 1998, actual cash payments associated with environmental expense have totaled $10.2 million.

Transtar and USX have entered into an environmental indemnification agreement, whereby USX has agreed to indemnify Transtar against 75 percent of certain environmental claims, losses, liabilities, obligations, damages, deficiencies, costs, and expenses (collectively, Environmental Liabilities) in excess of $10 million. This environmental indemnification agreement covers Environmental Liabilities relating to certain assets and properties transferred by USX to Transtar upon the formation of Transtar, which Environmental Liabilities existed or occurred prior to such formation. Of the $10.2 million expended since 1988, $7.8 million is applicable to the $10 million threshold. Although it is not presently possible to estimate the ultimate amount of all remediation and compliance costs that might be incurred or the penalties that may be imposed, management does not believe these potential costs will have a material adverse effect on the Company.

YEAR 2000

Transtar is committed to addressing the Year 2000 issue that could impact its existing computer and operating systems. Management continues to execute a plan which addresses mainframe information systems, non-information technology systems and third parties. A plan to identify and address Year 2000 issues as they apply to mainframe information systems was completed in mid-1997. An outside contractor was hired to assist in the implementation of the plan during 1997, 1998 and 1999. Transtar expects to spend approximately $4.1 million on

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mainframe applications, of which $3.2 million has already been incurred. Management believes that Transtar has made substantial progress in determining outside vendor Year 2000 compliance on all acquired software, and in formulating plans for ensuring that compliant versions of vendor code are implemented prior to the year 2000. The last component of the mainframe arena is hardware. Transtar has assessed the compliance of its mainframe components and, based on ongoing internal testing and review of information received from its vendors, believes that vendor compliance will meet its requirements. Comprehensive tests are scheduled for mid-1999, where hardware, system software and applications software will be combined in an advanced date scenario at Transtar's disaster recovery facility.

An assessment of non-information technology systems that are an integral part of Transtar's rail and marine operations was initiated during the fourth quarter of 1997 to determine the Year 2000 compliance status. This review encompassed train and process control systems, navigation systems, communication systems, as well as any other equipment in which embedded chip technology could create date functionality problems. This assessment has been substantially completed and recommendations have been made for upgrades and replacement, if necessary, to ensure Year 2000 compliance. Including non-information technology systems, Transtar expects to spend in excess of $5.1 million to become Year 2000 ready.

In order to ensure that third party vendors will be Year 2000 compliant, Transtar initiated a vendor compliance survey program during the second quarter of 1998. Follow-up contacts with major vendors have been completed and indicate that approximately three-fourths are either compliant or in the process of ensuring compliance. Transtar believes that alternate sources are available to replace those vendors who are unable to perform due to Year 2000 problems. Additionally, Transtar has modified the language of its purchase orders to require that all products with electrical/electronic elements come equipped with Year 2000 certified components.

While Transtar management believes that Transtar's critical information and operating systems will be Year 2000 ready, there can be no guarantee that it will be completely successful. Transtar's management has not yet quantified the impact of partial non-compliance or a likely worst case scenario on the operating results of Transtar. Formal contingency plans are being developed for those potential Year 2000 failures which would pose the greatest risks to Transtar's operations. No assurance can be given that the effect of any such partial non-compliance will not have a material adverse effect on the operating results of Transtar.

TRANSPORTATION SERVICES AGREEMENTS WITH USX

On June 30, 1998 Transtar reached agreement in principle with USX on new Transportation Services Agreements with final agreement reached December 21, 1998. (See Note 13 to Consolidated Financial Statements). The new Agreements were approved by the lending institutions who participate in Transtar's Credit Agreement on February 12, 1999. These agreements generally extend through December 31, 2004, and ensure Transtar's position as a participant at all of the US Steel and US Steel Mining facilities it presently services. Third parties will be permitted to handle certain volumes of selected commodities. The new Transportation Services Agreements rate reductions, including a $6.25 million revenue refund recorded in June 1998, reduced Transtar's operating revenues and operating income by $14.4 million in 1998. These revenue reductions are anticipated to have an approximate $15.0 million per year impact on future years operating revenues and operating income based on currently expected volume levels.

USS/KOBE STEEL MILLS

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Since 1895, the Lake Terminal Railroad (a Transtar subsidiary) has performed intra-plant switching of hot metal and other steel products within the USS/Kobe Steel mill, maintained the rail line that operates inside and around this facility, and provided maintenance services to USS/Kobe's freight car and locomotive fleet. In 1998 USS/Kobe elected to terminate the in-plant switching services provided by the Lake Terminal Railroad on tracks owned by USS/Kobe, as well as the maintenance services. As of December 29, 1998 under the terms of a new Transportation Services Agreement which extends through December 31, 2008, the Lake Terminal Railroad will provide interchange service between linehaul carriers and the in-plant rail provider for this facility. As a result, it is anticipated that Transtar will experience an annual decrease of approximately $8.0 million in revenues, with no material impact on operating income.

FORWARD-LOOKING STATEMENTS

Statements in this report that are not historical (including, but not limited to, statements regarding the future impact of the Transportation Services Agreements) are forward-looking statements subject to risk and uncertainties that could cause actual results to differ materially. Such risk and uncertainties include fluctuations in economies worldwide, in general, and the industries that Transtar serves, in particular, fluctuations in Transtar's customer demand for transportation and related services, changes in relationships with key customers (including the loss of certain major customers), changes in variations in weather and climatic patterns, competitive pressure from other carriers, changes in governmental regulations, changes in terms from lenders, ability to retain key management and to reach agreement on labor issues, or other factors identified in this report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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TRANSTAR HOLDINGS, L.P.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Partners of TRANSTAR HOLDINGS, L.P.

In our opinion, the consolidated financial statements of Transtar Holdings, L.P., as listed in the accompanying index on page 18 of the Annual Report on Form 10-K, present fairly, in all material respects, the financial position of Transtar Holdings, L.P. and its subsidiary, Transtar Capital Corporation (TCC), (together, "Holdings") at December 31, 1998, and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of Holdings' management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Transtar, Inc. is a significant equity investment of Holdings (as described in Note 1, page 23); accordingly, the financial statements of Transtar, Inc. should be read in connection with the consolidated financial statements of Holdings.

PricewaterhouseCoopers LLP
600 Grant Street
Pittsburgh, PA 15219

February 22, 1999

TRANSTAR HOLDINGS, L.P.

CONSOLIDATED BALANCE SHEET

<TABLE>
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	December 31, 1998	December 31, 1997
	(dollars in thousands)	
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 286	$ 260
Other current assets	8	--
Total current assets	294	260
Restricted cash (Note 4)	47,328	45,694
Investment in Transtar	54,258	23,825

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Other assets	3,629	4,367
Total assets	$105,509	$74,146
LIABILITIES		
Current liabilities:		
Accounts payable and other current liabilities	$ 205	$ 186
Long-term debt (Note 3)	192,736	169,330
Total liabilities	192,941	169,516
PARTNERS' EQUITY (DEFICIT)	(87,432)	(95,370)
Total liabilities and partners' equity (deficit)	$105,509	$74,146

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

TRANSTAR HOLDINGS, L.P.

<TABLE>
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CONSOLIDATED STATEMENT OF INCOME

<S>	For the year ended December 31, 1998 <C>	1997 <C>	1996 <C>
	(dollars in thousands)		
Revenues	$ --	$ --	$ --
Operating expenses:			
Selling, general and administrative expenses	198	236	551
Operating (loss)	(198)	(236)	(551)
Interest income	2,604	2,369	1,399
Interest and other financial expenses	(24,143)	(21,301)	(18,832)
(Loss) before equity in earnings of Transtar	(21,737)	(19,168)	(17,984)
Equity in earnings of Transtar	31,349	36,267	37,584
Net income	$ 9,612	$ 17,099	$ 19,600

CONSOLIDATED STATEMENT OF PARTNERS' EQUITY

	1998	1997	1996
Partners' equity (deficit), beginning of year	$(95,370)	$(98,606)	$(117,306)
Distribution to partners (Note 4)	(745)	(13,692)	(900)
Net income	9,612	17,099	19,600
Other adjustments to partners' equity (Note 5)	(929)	(171)	--
Partners' equity (deficit), end of year	$(87,432)	$(95,370)	$(98,606)

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

TRANSTAR HOLDINGS, L.P.

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CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
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	For the year ended December 31,		
	1998	1997	1996
	(dollars in thousands)		
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income	$ 9,612	$ 17,099	$ 19,600
Adjustments to reconcile net income to net cash used by operating activities:			
Amortization	--	345	380
Non-cash interest and other financial expenses	24,143	21,301	18,832
Non-cash interest income	(2,578)	(2,358)	(1,393)
Equity in earnings of Transtar	(31,349)	(36,267)	(37,584)
Changes in:			
Accounts payable	19	(543)	114
All other changes - net	(21)	(3)	(343)
Net cash used for operating activities	(174)	(426)	(394)
INVESTING ACTIVITIES:			
Dividends received	--	12,750	21,675
Net cash provided by investing activities	--	12,750	21,675
FINANCING ACTIVITIES:			
Restricted cash	--	(12,750)	(21,675)
Distribution to partners	(745)	(13,692)	(900)
Withdrawal from restricted cash	945	13,992	1,585
Net cash used for financing activities	200	(12,450)	(20,990)
Increase (decrease) in cash and cash equivalents	26	(126)	291
Cash and cash equivalents at beginning of period	260	386	95
Cash and cash equivalents at end of period	$ 286	$ 260	$ 386

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

TRANSTAR HOLDINGS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: BACKGROUND AND BASIS OF FINANCIAL STATEMENT PRESENTATION AND RELATED PARTIES

On December 28, 1988, agreements were executed forming a new holding company, Transtar, Inc. (Transtar). Transtar, in turn, purchased certain former directly or indirectly wholly owned subsidiaries (the transportation subsidiaries) of USX Corporation (USX). As a result of these agreements, Blackstone Capital Partners L.P. (BCP) and Blackstone Transportation Partners L.P. (BTP), investment partnerships (collectively, Blackstone) controlled by their general partner Blackstone Management Associates L.P. (BMA), owned a 51 percent economic and voting interest in Transtar. USX held a 44 percent economic and 49 percent voting interest, and the remaining 5 percent of Transtar's equity was held as nonvoting shares by a management stock trust. A Technical Services Agreement, an Agreement as to Tax Matters between Transtar and USX, and other ancillary agreements exist as a result of this transaction. Transportation Services Agreements with USX and other related parties which existed at the time of the transaction were renegotiated in 1998 (See Note 13 of the Transtar, Inc. Financial Statements for additional details).

BTP was originally formed in 1988 for the sole purpose of holding voting stock and nonvoting stock in Transtar. BTP was renamed Transtar Holdings, L.P. (Holdings) in November 1993. Additionally, in November 1993, BMA withdrew

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from its role as general partner of Holdings and substituted Blackstone Transportation Company, Inc. (BTC) as the general partner of Holdings. Transtar Capital Corporation, a Delaware corporation and wholly owned subsidiary of Holdings (TCC), was formed in connection with an Offering of 13 3/8% Series A Senior Discount Notes. In 1994, Holdings and TCC exchanged the Series A Notes for Series B Notes (Notes). Holdings and TCC have no operations of their own. TCC is a shell corporation which has nominal assets and equity and no liabilities, operations or cash flows. Accordingly, the financial statements of TCC are not presented because they do not provide material information to investors. Holdings owns 51 percent of the voting shares and 53 percent of the economic interest in the capital stock of Transtar.

The consolidated financial statements presented herein reflect the ownership by Holdings of the outstanding shares of Transtar capital stock formerly held by Blackstone. Since Holdings and BCP are under common control, the contribution of BCP's Transtar shares to Holdings has been accounted for in a manner similar to a pooling of interests.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation -- The consolidated financial statements of Holdings include the accounts of Holdings and TCC, a wholly owned subsidiary. The investment in Transtar, over which Holdings has significant influence in management and control, is accounted for using the equity method and is carried in the investment account at Holdings' share of net assets plus advances. A proportionate share of Transtar's income is included as equity in earnings of Transtar.

Cash and Cash Equivalents -- Cash and cash equivalents includes cash on hand and time deposits, certificates of deposit, high-grade commercial paper, and government securities, all purchased with maturities of three months or less, and all of which are carried at cost which approximates market.

Income Taxes -- No current or deferred United States federal income taxes or state income taxes have been provided for Holdings since, as a partnership, Holdings is not subject to such taxes.

Deferred Debt Issue Costs -- Deferred debt issue costs represent the unamortized portion of capitalized fees and expenses relating to issuance of the Notes on December 7, 1993. At that time, fees and expenses amounting to $7.0 million were capitalized. During 1994, additional fees amounting to $0.3 million were capitalized.

TRANSTAR HOLDINGS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 2: (CONTINUED)

Use of Estimates -- Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end and the reported amounts of revenues and expenses during the year.

NOTE 3: LONG-TERM DEBT

	Interest Rate (%)	Maturity	December 31, 1998	December 31, 1997
			(dollars in thousands)	
Series B Senior Discount Notes	13.375	2003	$192,736	$169,330
Less amount due within one year			--	--
Long-term debt due after one year			$192,736	$169,330

On December 7, 1993, Holdings and TCC (Issuers) issued $218 million aggregate principal amount of 13.375 percent Series A Senior Discount Notes due December 15, 2003. In 1994, Holdings and TCC exchanged the Series A Notes for

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Series B Notes (Notes). The Notes are the joint and several obligations of the Issuers. An original issue discount of $118 million will be amortized over a six year period commencing December 15, 1993 and ending December 15, 1999. Interest will be payable semi-annually in arrears on June 15 and December 15 commencing on June 15, 2000. The Notes have a principal at maturity of $218 million. The carrying value represents the principal at maturity less the unamortized discount. The fair value of the Notes at December 31, 1998 and 1997 was $214.8 million and $198.5 million, respectively. Fair value of the Notes is based on quoted market prices. The Notes are not guaranteed by Transtar or any of its subsidiaries and are subordinated to all existing and future liabilities of the Issuers' subsidiaries. Interest expense attributable to the Notes was $23.4 million, $20.6 million and $18.1 million in 1998, 1997 and 1996, respectively.

The Issuers will be dependent on sales of, or dividends or distributions on, Holdings' Transtar stock in order to meet their obligations under the Notes or new notes as applicable. Except as noted below, Transtar's December 7, 1993 Credit Agreement (the Credit Agreement) prohibits the payment of dividends exceeding $1.5 million annually by Transtar until the sixth anniversary of the issuance of the Notes or new notes, as applicable. Commencing on the sixth anniversary of the issuance of the Notes or new notes, the Credit Agreement will permit the payment of dividends sufficient to fund the next cash interest payment on the Notes or new notes so long as no default with respect to that Credit Agreement has occurred and is continuing at such time or would result from the payment of such dividends. Transtar's by-laws require unanimous approval of Transtar's directors to declare a dividend or other distribution (absent a decision by an independent consultant breaking a deadlocked vote). Holdings and USX each have the right, pursuant to a Stockholders Agreement dated as of December 28, 1988, as amended (the Stockholders Agreement), to designate certain directors to the board of directors of Transtar. As such, Holdings' ability to cause Transtar to declare and pay a dividend or other distribution is dependent upon the concurrence of USX.

On October 9, 1997, Transtar and the lending institutions that are party to the Credit Agreement approved an amendment that permitted Transtar to pay dividends during the fiscal year ending December 31, 1997 in an amount not to exceed $25.0 million. (See Note 4)

TRANSTAR HOLDINGS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE 4: RELATED PARTY TRANSACTIONS

On October 27, 1997, Transtar declared a cash dividend in the amount of $625 per share on both its Class A Voting Common Stock (Voting Stock) and its Class B Nonvoting Common Stock (Nonvoting Stock) to holders of record of the stock on October 27, 1997. Holdings received $6.4 million on October 30, 1997, representing its 53% economic interest in the Transtar dividend. Pursuant to an Indenture relating to the issuance of the Notes (the Notes Indenture), the dividend payment was paid into an escrow account. On December 16, 1997, Transtar declared a cash dividend of $625 per share on both its Voting Stock and its Nonvoting Stock to holders of record of the stock on December 16, 1997. Holdings received $6.4 million on December 19, 1997, representing its 53% economic interest in the Transtar dividend. In accordance with the Notes Indenture, this dividend was paid into the escrow account.

In February 1998, in accordance with the Notes Indenture, Holdings offered to repurchase a portion of the Notes at an offer price equal to 101% of the accreted value of such Notes on the date of purchase. The offer to purchase the Notes was made by a notice to holders of the Notes and was held open for 20 business days. No Notes were tendered for repurchase.

In February 1997, in accordance with the Notes Indenture and related to certain dividends paid into the escrow account in 1996, Holdings offered to repurchase a portion of the Notes at an offer price equal to 101% of the accreted value of such Notes on the date of purchase. The offer to purchase the Notes was made by a notice to holders of the Notes and was held open for 20 business days. No Notes were tendered for repurchase.

Funds in the escrow account are invested in cash equivalents and may only be released to pay interest and principal on the Notes, make certain payments permitted under the Notes Indenture, purchase or optionally redeem

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Notes or to pay administrative expenses of Holdings. In 1998, 1997 and 1996, in accordance with the Notes Indenture and an agreement governing the escrow account, Holdings withdrew from the escrow account $0.7 million, $13.7 million and $0.9 million, respectively, to distribute to its partners, and withdrew $0.2 million,$0.3 million and $0.7 million, respectively, to pay certain administrative expenses. Interest earned on the escrow balance amounted to $2.6 million, $2.4 million and $1.4 million in 1998, 1997 and 1996, respectively.

NOTE 5: PARTNERS' EQUITY

In 1998 and 1997, Holdings recorded adjustments to Partners Equity of $(0.9) million and $(0.2) million, respectively. These adjustments were recorded as a result of changes in ownership related to Transtar repurchases of treasury stock from its Management Stock Trust.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
TRANSTAR, INC.

In our opinion, the consolidated financial statements of Transtar, Inc., as listed in the accompanying index on page 18 of this Annual Report on Form 10-K, present fairly, in all material respects, the financial position of Transtar, Inc., and its subsidiaries (the Company) at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers LLP
600 Grant Street
Pittsburgh, PA 15219

February 22, 1999

TRANSTAR, INC.

CONSOLIDATED BALANCE SHEET

<TABLE>
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	December 31,	
	1998	1997

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	(dollars in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents (Note 2)	$ 21,428	$ 24,316
Accounts receivable from related parties (Note 13)	14,499	16,274
Accounts receivable from trade customers	48,368	56,459
Other current assets (Note 6)	10,181	9,726
Total current assets	94,476	106,775
Property, plant, and equipment, less accumulated depreciation (Note 7)	377,697	384,118
Operating parts and supplies	14,930	15,551
Other assets (Note 8)	15,701	15,548
Total assets	$502,804	$521,992
LIABILITIES		
Current liabilities:		
Accounts payable	$ 64,560	$ 73,663
Payroll and benefits payable	38,614	38,456
Accrued taxes	6,215	12,143
Accrued interest	1,146	2,177
Current portion of long-term debt (Note 9)	57,700	68,464
Other current liabilities	1,498	1,096
Total current liabilities	169,733	195,999
Long-term debt less current portion (Note 9)	66,300	128,766
Postretirement benefits other than pensions (Note 3)	110,425	106,270
Deferred credits and other liabilities (Note 11)	53,704	45,887
Total liabilities	400,162	476,922
STOCKHOLDERS' EQUITY		
Common stock (Note 12)	1,000	1,000
Paid-in capital (Note 12)	23,417	23,979
Retained earnings (deficit)	85,577	26,538
Treasury stock (Note 12)	(7,352)	(6,447)
Total stockholders' equity	102,642	45,070
Total liabilities and stockholders' equity	$502,804	$521,992

The accompanying notes are an integral part of these consolidated financial statements.

TRANSTAR, INC.

CONSOLIDATED STATEMENT OF INCOME

	For the year ended December 31,		
	1998	1997	1996
	(dollars in thousands)		
Revenues from related parties (Note 13)	$ 281,338	$ 309,206	$ 293,601
Revenues from others	216,479	216,909	215,525
Total revenues	497,817	526,115	509,126
Operating expenses (excluding items shown below)	355,146	363,784	348,188
Selling, general, and administrative expenses	12,370	12,558	12,190
Depreciation	25,519	26,820	26,483
Total operating expenses	393,035	403,162	386,861
Operating income	104,782	122,953	122,265
Other income	2,380	3,899	1,703

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Interest income	1,537	1,085	1,060
Interest and other financial expenses	(12,942)	(17,358)	(21,314)
Income before income taxes	95,757	110,579	103,714
Less provision for income taxes (Note 5)	36,718	42,134	32,783
Net income	$ 59,039	$ 68,445	$ 70,931

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Retained earnings (deficit), beginning of period	$ 26,538	$ (17,822)	$ (47,847)
Dividends paid (Note 12)	--	(24,085)	(40,906)
Net income	59,039	68,445	70,931
Retained earnings (deficit), end of period	$ 85,577	$ 26,538	$ (17,822)

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

TRANSTAR, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>
<CAPTION>

	For the year ended December 31,		
	1998	1997	1996
	(dollars in thousands)		
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Net income	$ 59,039	$ 68,445	$ 70,931
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	25,519	26,820	26,483
Non cash interest expense	554	652	731
Deferred taxes	5,740	5,879	(459)
Gain on sale of assets	(1,141)	(2,676)	(399)
Non cash postretirement benefits expense (Note 3)	4,253	3,781	4,759
Changes in:			
Accounts receivable	9,866	(7,787)	286
Accounts payable	(9,103)	7,633	14,648
Deferred credits	2,195	(183)	(4,708)
All other changes - net	(5,017)	3,387	1,526
Net cash provided by operating activities	91,905	105,951	113,798
INVESTING ACTIVITIES:			
Capital expenditures	(26,414)	(25,644)	(19,634)
Proceeds from the sale of assets	5,178	5,730	3,828
Net cash used for investing activities	(21,236)	(19,914)	(15,806)
FINANCING ACTIVITIES:			
Repayment of long-term borrowings	(72,000)	(62,002)	(23,013)
Repayments - revolver	--	--	(20,000)
Dividends paid	--	(24,085)	(40,906)
Payments to acquire treasury stock	(1,557)	(325)	--
Net cash used for financing activities	(73,557)	(86,412)	(83,919)
Increase (decrease) in cash and cash equivalents	(2,888)	(375)	14,073
Cash and cash equivalents at beginning of period	24,316	24,691	10,618

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Cash and cash equivalents at end of period	$ 21,428	$ 24,316	$ 24,691
	========	========	=========
SUPPLEMENTAL INFORMATION:			
Income taxes paid	$ 36,006	$ 35,537	$ 32,443
Interest paid	$ 13,242	$ 17,394	$ 22,003
NONCASH INVESTING AND FINANCING ACTIVITIES:			
New long-term borrowings - capital leases	$ (1,230)	$ 1,230	$ --
	========	========	=========

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

TRANSTAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: FORMATION OF HOLDING COMPANY AND RELATED PARTIES

On December 28, 1988, agreements were executed to form a new holding company, Transtar, Inc. (Transtar). Transtar, in turn, purchased certain former directly or indirectly wholly owned subsidiaries (the transportation subsidiaries) of USX Corporation (USX). As a result of these agreements, Blackstone Capital Partners, L.P. and Blackstone Transportation Partners, L.P. (BTP), investment partnerships (collectively, Blackstone) controlled by their general partner Blackstone Management Associates, L.P. (BMA), owned a 51 percent economic and voting interest in Transtar. USX held a 44 percent economic and 49 percent voting interest, and the remaining 5 percent of Transtar's equity was held as nonvoting shares by a management stock trust. A Technical Services Agreement, an Agreement as to Tax Matters between Transtar and USX, and other ancillary agreements exist as a result of this transaction. Transportation Services Agreements with USX and other related parties which existed at the time of the transaction were renegotiated in 1998. A significant part of Transtar's operations are with related parties (See Note 13). Transtar's operations are conducted in two business segments -- railroad operations and marine operations.

BTP was originally formed in 1988 for the sole purpose of holding voting stock and nonvoting stock in Transtar. In November 1993, BTP was renamed Transtar Holdings, L.P., a Delaware limited partnership (Holdings), which assumed ownership of BTP's then 51.8 percent economic interest and 51 percent voting interest in the capital stock of Transtar. Holdings has no operations of its own.

Since its formation, Transtar has repurchased certain shares of nonvoting stock from its management stock trusts and has recorded these shares as Treasury Stock. As of December 31, 1998 and 1997, Holdings owns 53 percent economic interest and 51 percent voting interest in the capital stock of Transtar; USX owns 46 percent economic interest and 49 percent voting interest; and the management stock trust holds the remaining 1 percent economic interest.

The Transtar transaction was accounted for as a purchase transaction prescribed by Accounting Principles Board Opinion (APB) No. 16 as modified by the Financial Accounting Standards Board's Emerging Issues Task Force Consensus No. 86-16, "Carryover of Predecessor Cost in Leveraged Buyout Transactions" (EITF 86-16). EITF 88-16, "Basis in Leveraged Buyout Transactions," subsequently superseded EITF 86-16. However, this transaction was completed prior to the effective date of EITF 88-16.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation -- The consolidated financial statements of Transtar include the accounts of Transtar and its subsidiaries. All significant intercompany transactions and balances have been eliminated from the consolidated financial statements.

Cash and Cash Equivalents -- Cash and cash equivalents include cash on hand and time deposits, certificates of deposit (CD), high-grade commercial paper, or government securities, all purchased with maturities of 3 months or less, and all of which are carried at cost which approximates market.

Operating Parts and Supplies -- Operating parts and supplies consist primarily of repair and replacement materials for railroad and marine equipment

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and facilities, and are carried at the lower of average cost or market, defined as replacement cost.

TRANSTAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 2: (CONTINUED)

Fuel Oil Hedging -- Transtar from time to time enters into agreements to hedge exposure to price fluctuations in connection with the purchase of fuels for propulsion. Such transactions are accounted for as part of the commodity being hedged and are settled on a monthly basis. (See additional information in Note 10.)

Interest Rate Hedging -- Transtar from time to time is party to interest rate protection agreements with several financial institutions to reduce the potential impact of increases in variable interest rates associated with the December 7, 1993, Credit Agreement and an amendment to the Credit Agreement dated March 12, 1997. If required, interest expense associated with these agreements is accrued monthly and settled quarterly. (See additional information in Notes 9 and 10.)

Property, Plant, and Equipment -- Properties acquired by Transtar at December 28, 1988 are stated at a combination of historical cost and fair value as a result of the accounting for the purchase transaction prescribed by APB 16, as modified by EITF 86-16. Subsequent property acquisitions are recorded at cost. Depreciation is generally computed on the straight-line method, utilizing a composite or grouped asset approach, based on estimated lives of the assets, which are generally from 3 to 50 years. Proceeds from the sale of those facilities depreciated on a group basis are credited to the depreciation reserve, which is subject to periodic adjustments through depreciation studies performed on a scheduled basis.

When facilities depreciated on an individual basis are sold, the difference between the selling price and the remaining undepreciated value is reflected in income. When nondepreciable assets are sold, any gain or loss is reflected in income.

Ordinary maintenance and repairs are charged to expense as incurred.

Deferred Dry Dock Costs -- USS Great Lakes Fleet, Inc. (a Transtar subsidiary) is required by the U.S. Coast Guard to inspect and perform certain maintenance on each of its lake-going vessels every 5 years. Costs to perform this operation (dry dock costs) are deferred and amortized on a straight-line basis over 60 months from the time each vessel is dry docked.

Deferred Lump-Sum Compensation -- Certain Transtar labor contracts contain provisions for compensation in the form of lump-sum payments. Lump-sum compensation that is determined to benefit future periods is deferred and amortized over the period of the contract in accordance with the provisions of EITF 88-23, "Lump-Sum Payments Under Union Contracts."

Acquisition Debit -- The Transtar transaction was accounted for as a business combination following the requirements of APB 16, as modified by EITF 86-16. These principles were used to determine the cost basis of Transtar. The difference between the purchase price and the new cost basis of Transtar resulted in the recognition of a $17.4 million acquisition debit in retained earnings in the consolidated financial statements.

Revenue Recognition -- Revenues are generally recognized upon completion of a service, usually a transportation movement.

Pension and Other Postretirement Benefits Costs -- Substantially all hourly and salary employees of Transtar are covered by qualified pension plans. Pension expense is based on a number of factors, including years of service, career earnings, and actuarial assumptions that are applied to plan assets and liabilities. Transtar accounts for pension

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NOTE 2: (CONTINUED)

costs in accordance with Statement of Financial Accounting Standards (SFAS) No. 87, "Employers' Accounting for Pensions." Transtar provides certain health care and life insurance benefits for retirees. Substantially all employees may become eligible for these benefits upon retirement. Transtar accounts for costs related to these benefits in accordance with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions."

In 1998, the Company adopted SFAS No. 132 "Employers Disclosures about Pensions and Other Postretirement Benefits." The provisions of SFAS No. 132 revise employers disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of these plans.

Insurance -- Transtar insures its rail, marine, property, and casualty exposures. Certain self-insured retentions are maintained. Catastrophic coverage is also carried. Costs resulting from noninsured losses are charged against income upon occurrence.

Postemployment Benefits -- Transtar provides certain benefits to former or inactive employees after employment but before retirement. Substantially all employees may become eligible for these benefits. Transtar accounts for costs related to these benefits in accordance with SFAS No. 112, "Employers' Accounting for Postemployment Benefits."

Use of estimates -- Generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year end and the reported amounts of revenues and expenses during the year.

New Accounting Standards -- The Financial Accounting Standards Board has issued a new accounting standard:

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" requires that companies recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Transtar plans to adopt the standard, effective with its first quarter 2000 financial statements, as required.

Reclassifications -- Certain reclassifications of prior years' data have been made to conform to 1998 classifications.

NOTE 3: PENSIONS AND OTHER POSTRETIREMENT BENEFITS

Effective January 1, 1989, Transtar adopted a noncontributory defined benefit plan covering substantially all employees and a defined benefit plan covering salary employees. Both plans recognize service and earnings as accrued under the predecessor USX plans, but contain offset provisions for the amount of pension benefits accrued as of December 28, 1988, the liability for which was retained by USX. Pension benefits for employees that retired prior to Transtar's formation on December 28, 1988 are the responsibility of USX. Assets of the plans generally consist of corporate debt and equity securities and government obligations.

Transtar provides certain medical and life insurance benefits to eligible retired employees and their dependents under defined benefit plans. The majority of benefits under provisions of these plans have not been prefunded. Medical and life insurance benefits for employees retired prior to Transtar's formation are obligations of USX. Assets of the plan generally consist of high quality corporate and government obligations.

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NOTE 3: (CONTINUED)

The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans.

	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
	(dollars in thousands)			
Change in benefit obligation:				
Benefit obligation at January 1	$137,125	$114,219	$91,849	$88,782
Service cost	7,377	6,508	1,771	1,777
Interest cost	9,858	8,826	6,406	6,639
Amendments	1,439	1,353	--	--
Curtailments	2,007	2,956	--	--
Actuarial (gain) loss	5,847	14,486	(168)	(1,355)
Benefits paid from plan assets	(10,935)	(11,223)	--	(10)
Benefits paid by company	--	--	(3,243)	(3,984)
Benefit obligation at December 31	$152,718	$137,125	$96,615	$91,849

	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
	(dollars in thousands)			
Change in plan assets:				
Fair value of plan assets at January 1	$ 97,551	$ 79,808	$ 214	$ 176
Actual return on plan assets	15,032	16,403	13	11
Company contributions	13,310	12,563	40	40
Benefits paid from plan assets	(10,935)	(11,223)	--	(10)
Administrative payments	--	--	(3)	(3)
Fair value of plan assets at December 31	$114,958	$ 97,551	$ 264	$ 214

NOTE 3: (CONTINUED)

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	Pension Benefits (a)		Other Postretirement Benefits	
	1998	1997	1998	1997
	(dollars in thousands)			
Funded status of the plans	$(37,760)	$(39,574)	$ (96,351)	$ (91,635)
Unrecognized prior service cost	3,188	3,499	746	993
Unrecognized net actuarial (gain) loss ...	33,156	32,436	(19,056)	(19,766)
Unrecognized net transition obligation ...	3,287	3,945	--	--
Prepaid (accrued) benefit cost	$ 1,871	$ 306	$(114,661)	$(110,408)

</TABLE>

(a) Includes a small plan that has an accumulated benefit obligation in excess of plan assets:

Accumulated benefit obligation	$(1,899)	$(1,462)
Projected benefit obligation	$(2,119)	$(1,770)
Plan assets	--	--

<TABLE>
<CAPTION>

	Pension Benefits		Other Postretirement Benefits	
	1998	1997	1998	1997
	(dollars in thousands)			
Weighted average assumptions as of December 31:				
Discount rate	6.75%	7.0%	6.75%	7.0%
Expected return on plan assets	11.0%	11.0%	6.0%	6.0%
Rate of compensation increase	3.6%	3.6%	4.0%	4.0%
Assumed health care cost trend rate	--	--	5.0%	5.0%

</TABLE>

The assumed health care cost trend rate in 1999 and thereafter is 5%

NOTE 3: (CONTINUED)

Net periodic pension and other postretirement benefit costs include the following components:

<TABLE>
<CAPTION>

	Pension Benefits			Other Postretirement Benefits		
	1998	1997	1996	1998	1997	1996
Service cost	$ 7,377	$ 6,508	$ 6,413	$ 1,771	$ 1,777	$ 1,954
Interest cost	9,858	8,826	7,829	6,406	6,639	6,486
Expected return on plan assets	(11,171)	(9,310)	(6,597)	(14)	(12)	(10)

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Amortization and deferrals	4,052	3,242	2,988	(667)	(619)	(251)
Benefit cost	$ 10,116	$ 9,266	$10,633	$ 7,496	$ 7,785	$ 8,179

</TABLE>

Pension

As a result of a reduction in business at The Lake Terminal Railroad (a Transtar subsidiary) Transtar, in addition to the benefit cost shown above, recognized a curtailment loss of $2.6 million in 1998. Also in addition to the benefits cost shown above, programs of early retirements and separations caused recognition of a curtailment loss of $4.0 million in 1997.

Transtar participates in certain defined benefit multi-employer plans of maritime unions. Expenses related to these plans amounted to $0.2 million, $1.0 million, and $1.1 million in 1998, 1997, and 1996, respectively. The company also sponsors certain defined contribution pension plans. Participation in these plans is available to substantially all salaried employees and to certain groups of hourly employees. Company contributions to the salary plan are based on matching of employee contributions up to certain limits specified by the provisions of the plan. The cost of this plan was $1.5 million, $1.5 million and $1.4 million in 1998, 1997 and 1996, respectively.

Other Postretirement Benefits

A one percentage point change in assumed health care cost trend rates would have the following effects:

	1% increase	1% decrease
	(in thousands)	
Effect on total of service and interest cost components	$ 1,242	$(1,000)
Effect on postretirement benefit obligation	$12,824	$(9,840)

TRANSTAR, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

NOTE 4: OPERATING SEGMENTS

Transtar adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" in 1998 which establishes new standards for reporting information about its operating segments. Transtar consists of two reportable segments: Railroad Group and Marine Group. The two reportable segments provide different services, have different methods of distributing their services and operate in different regulatory environments.

Railroad Group - This segment is composed of nine business units which are primarily railroad companies. The Railroad Group provides rail transport and material handling services for nearly all of the steel making plants of USX Corporation, servicing US Steel, USS Mining Co. and USS/Kobe Steel Company at Lorain, Ohio. Some of the business units provide rail service to other steel related customers, utilities, and miscellaneous other customers in the midwest, south and eastern United States.

Marine Group - This segment is composed of two shipping operations and one fresh water/saltwater dock facility that provide primary water transport for essentially the same USX facilities as the rail group, as well as utilities and miscellaneous other customers.

The accounting policies of the reportable segments are the same as those disclosed in Note 2. Transtar evaluates the performance of its operating segments based on the operating income of the respective business units.

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Summarized financial information concerning reportable segments is shown on the following table. The "Other" column includes non-allocated corporate related items and the elimination of inter-business unit transactions.

NOTE 4: (CONTINUED)

	Railroad Group	Marine Group	Other	Total
1998				
Revenues - external customers	$349,618	$148,199	$ --	$497,817
Operating income	77,863	26,899	20	104,782
Depreciation	19,895	5,624	--	25,519
Interest and other financial expense	10,532	2,739	(329)	12,942
Income tax expense	27,366	9,326	26	36,718
Total assets	405,212	119,191	(21,599)	502,804
Capital expenditures	25,522	892	--	26,414
1997				
Revenues - external customers	$358,597	$167,518	$ --	$526,115
Operating income	86,893	36,313	(253)	122,953
Depreciation	20,070	6,750	--	26,820
Interest and other financial expense	13,904	3,684	(230)	17,358
Income tax expense	29,936	12,230	(32)	42,134
Total assets	414,443	122,855	(15,306)	521,992
Capital expenditures	24,387	1,257	--	25,644
1996				
Revenues - external customers	$348,248	$160,878	$ --	$509,126
Operating income	94,356	27,746	163	122,265
Depreciation	19,674	6,809	--	26,483
Interest and other financial expense	16,972	5,078	(736)	21,314
Income tax expense	24,841	7,925	16	32,782
Total assets	411,110	122,278	(13,018)	520,370
Capital expenditures	17,688	1,946	--	19,634

The majority of revenues earned are attributed to customers located in the United States and all assets are located in the United States. See Note 13 regarding information about major customers.

NOTE 5: INCOME TAXES

Components of income tax expense are as follows:

	1998	1997	1996
	(dollars in thousands)		

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Current federal	$ 27,239	$ 32,307	$ 29,316
Current state, local, and foreign	3,739	3,948	3,926
Deferred taxes	5,740	5,879	(459)
Total	$ 36,718	$ 42,134	$ 32,783

The reconciliation of the U.S. statutory income tax rate to the total provision is as follows:

	1998		1997		1996	
	(dollars in thousands)					
Statutory rate applied to income before tax	33,515	35.00%	$ 38,703	35.00%	$ 36,300	35.00%
State income tax after federal income tax impact	3,021	3.15	3,259	2.95	3,458	3.33
Revision of prior years tax provision estimates	--	--	--	--	(7,126)	(6.87)
Other, net	182	.19	172	.15	151	.15
Total	$ 36,718	38.34%	$ 42,134	38.10%	$ 32,783	31.61%

Deferred tax assets and liabilities are composed of the following:

	December 31, 1998		December 31, 1997	
	Assets	Liabilities	Assets	Liabilities
	(dollars in thousands)			
Accrual differences	$ 3,662	$ --	$ 5,573	$ --
Postretirement benefits	45,338	--	43,776	--
PP&E basis differences	--	75,638	--	70,212
Total	$49,000	$75,638	$49,349	$70,212
Net balance		$26,638		$20,863

NOTE 6: OTHER CURRENT ASSETS

	December 31,	
	1998	1997
	(dollars in thousands)	
Deferred tax asset	$ 4,661	$ 4,779
Supplies - current	1,670	1,536
Employee homes acquired	1,341	483
Prepaid insurance	1,151	1,278
Deferred lease costs - current	587	--

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Deferred compensation	271	1,111
Other current assets	500	539
Total	$10,181	$ 9,726

</TABLE>

NOTE 7: PROPERTY, PLANT, AND EQUIPMENT

<TABLE>
<CAPTION>

	December 31,	
	1998	1997
	(dollars in thousands)	
Railroad equipment	$ 413,264	$ 398,291
Lake vessels and related equipment	88,918	88,535
Barges, tows, and related equipment	36,112	35,855
Buildings	32,192	29,300
Other	3,971	11,678
Subtotal - depreciable property	574,457	563,659
Less - accumulated depreciation	(244,082)	(227,185)
Net depreciable property	330,375	336,474
Land	47,322	47,644
Property, plant, and equipment, less accumulated depreciation	$ 377,697	$ 384,118

</TABLE>

The above amounts include equipment leased under capital leases of zero and $1.2 million at December 31, 1998 and 1997, respectively. For capital lease assets, depreciation expense for the years ended December 31, 1998, 1997, and 1996 was $27 thousand, $2 thousand, and $8 thousand, respectively. Accumulated depreciation at December 31, 1998 and 1997 was zero. Transtar leases a variety of facilities and equipment, including marine vessels, railroad equipment, barges, office equipment, and office space. Some of these leases contain purchase and renewal options and a residual value guarantee at the end of their lease term. Rent expense for operating leases was $26.9 million, $26.8 million, and $25.6 million for 1998, 1997, and 1996, respectively.

NOTE 7: (CONTINUED)

Total commitments under operating leases are as follows: (dollars in thousands)

<TABLE>
<CAPTION>

Year	
1999	$ 21,626
2000	21,354
2001	18,225
2002	16,973
2003	15,949
Later years	89,476
Total minimum lease payments	$183,603

</TABLE>

NOTE 8: OTHER ASSETS

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	December 31, 1998	December 31, 1997
	(dollars in thousands)	
Long-term receivables and other investments	$ 5,429	$ 5,879
Deferred lease costs	4,188	4,201
Deferred dry dock costs	3,123	2,734
Deferred debt issue costs	398	952
Other deferred charges	2,563	1,782
Total	$15,701	$15,548

Deferred debt issue costs represent the unamortized portion of capitalized fees and expenses relating to the term loan and revolving credit facilities obtained in connection with a refinancing on December 7, 1993. Fees and expenses amounting to $4.2 million were capitalized and are being amortized over the life of the term loan.

NOTE 9: LONG-TERM DEBT

	Interest Rates (%)	Maturity	December 31 1998	December 31 1997
			(dollars in thousands)	
Term loan (a)	(b)	2000	$124,000	$196,000
Capital leases		--	--	1,230
Total long-term debt (c)			124,000	197,230
Less amount due within 1 year			(57,700)	(68,464)
Long-term debt due after 1 year ..			$ 66,300	$128,766

(a) This Credit Agreement with a group of lending institutions is dated December 7, 1993 and provides for a series of short-term variable rate loans over a 7 year life, which are secured by the stock of the Transtar subsidiaries. Principal payments are scheduled semi-annually on June 30 and December 31 in installments ranging from $20 million to $42 million. The first scheduled payment was due on June 30, 1994, and the last scheduled payment is due on December 31, 2000. Terms of the agreement require that the first $5 million of excess cash flow prepayments be applied in the inverse order of maturity and that sale leaseback prepayments be applied ratably over the remaining scheduled payment dates. All other voluntary or asset sale prepayments are to be applied in the order of maturity. In 1998, voluntary or asset sales prepayments of $72 million were applied to payments scheduled for June 30, 1998, December 31, 1998, and June 30, 1999. In 1997, voluntary or asset sales prepayments of $62 million were applied to payments scheduled for June 30, 1997, December 31, 1997 and June 30, 1998. Interest accrues at variable rates based on either an alternate base rate, an adjusted CD rate, or an adjusted London Interbank Offered Rate. Transtar periodically selects from these debt instruments to determine the variable rates of the loan. Interest rates are available in multiples of $1 million of borrowings in durations ranging from 1 day to 6 months.

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(b) Transtar's debt interest expense in 1998, 1997, and 1996 was $11.9 million, $16.3 million, and $20.2 million, respectively. The average effective rates for the comparable periods were 7.2 percent, 7.2 percent, and 7.1 percent, respectively. As required by the December 7, 1993 Credit Agreement, Transtar protected the variable interest rate on at least 40 percent of the outstanding term debt balance through March 12, 1997. An amendment to the Credit Agreement dated March 12, 1997 eliminated the interest rate protection covenant. Transtar had no interest rate protection agreements in place at December 31, 1998. During 1998, 1997 and 1996, there was no interest expense attributable to rate protection agreements.

(c) Required payments of long-term debt for 1999 and 2000 are $57.7 million and $66.3 million, respectively.

Transtar has a revolving credit agreement with a consortium of banks. This loan facility of up to $25 million is available for working capital and letter of credit purposes through December 31, 2000. Interest accrues at the same variable rates as the term debt. There is an annual commitment fee of 1/2 of 1 percent of the unused portion of the loan facility. Outstanding letters of credit are $0.9 million at December 31, 1998 and 1997. Transtar did not borrow from this facility in 1998 or 1997.

The above debt agreements contain certain restrictions on capital spending, levels of new indebtedness, and the payment of dividends, as well as certain financial covenant requirements.

NOTE 9: (CONTINUED)

On October 9, 1997, Transtar and the lending institutions that are party to the Credit Agreement approved an amendment that permitted Transtar to pay dividends during the fiscal year ending December 31, 1997 in an amount not to exceed $25.0 million. (See Note 12)

NOTE 10: FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of financial instruments has been determined by Transtar using the best available market information and appropriate valuation methodologies. However, considerable judgment was necessary in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that Transtar could realize in a current market exchange or the value that ultimately will be realized upon maturity or disposition. Additionally, because of the variety of valuation techniques permitted under SFAS No. 107, "Disclosures about Fair Values of Financial Instruments," comparability of fair values among entities may not be meaningful. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

<TABLE>
<CAPTION>

	December 31,			
	1998		1997	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(dollars in thousands)			
<S>	<C>	<C>	<C>	<C>
Assets:				
Cash and cash equivalents	$ 21,428	$ 21,428	$ 24,316	$ 24,316
Noncurrent receivables	2,236	2,236	3,081	3,081
Liabilities:				
Current maturities of long-term debt ..	57,700	57,700	68,464	68,464
Long-term debt	66,300	66,300	128,766	128,766
Off-balance-sheet financial instruments:				
Interest rate protection	--	--	--	--
Fuel oil hedges	--	(228)	--	--

</TABLE>

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The following methods and assumptions were used to estimate the fair value of those financial instruments for which it was practicable to estimate that value.

Cash and cash equivalents - The carrying amount for cash and cash equivalents approximates fair value.

Noncurrent receivables - The carrying amount for noncurrent receivables approximates fair value.

Current debt and long-term debt - The carrying amount of Transtar's borrowings under the credit facility and capital leases approximates fair value, because most of Transtar's borrowings have variable rates of interest.

NOTE 10: (CONTINUED)

Interest rate agreements - The fair value of interest rate protection agreements is the amount that Transtar would receive or pay to terminate the agreements, considering interest rates and remaining maturities based on quoted market prices or discounted cash flow methods, or the cost to replace the agreement. Transtar had no interest rate protection agreements in place at December 31, 1998 or 1997.

Fuel oil hedges - The fair value of fuel oil hedges is based on the futures index for NYMEX No. 2. Transtar had a fuel oil hedging agreement in place for 1.0 million gallons per month at December 31, 1998, and no fuel oil hedging agreements in place at December 31, 1997. Transtar generated expense of $0.3 million in 1998, no income or expense in 1997, and income of $0.4 million in 1996 as a result of fuel oil hedges.

NOTE 11: DEFERRED CREDITS AND OTHER LIABILITIES

<TABLE>
<CAPTION>

	December 31, 1998	December 31, 1997
	(dollars in thousands)	
Deferred taxes	$31,299	$25,642
Personal injuries	16,827	14,588
Deferred credits - leases	2,083	2,013
Other	3,495	3,644
Total	$53,704	$45,887

</TABLE>

NOTE 12: EQUITY

As of December 31, 1998 and 1997, Transtar had authorized and issued 10,000 shares of Class A Voting Common Stock (Voting Stock) with no par value and 10,000 shares of Class B Nonvoting Common Stock (Nonvoting Stock) with no par value. Holdings owns 5,100 shares of the Voting Stock and 5,100 shares of the Nonvoting Stock; USX owns 4,900 shares of the Voting Stock and 3,900 shares of the Nonvoting Stock; and 296 shares of the Nonvoting Stock are held by management stock trusts. An additional 704 shares of the Nonvoting Stock, previously repurchased from the management stock trusts, are being held as Treasury Stock at cost.

On October 27, 1997, Transtar declared a cash dividend of $625 per share on both its Voting Stock and its Nonvoting Stock to holders of record of the stock on October 27, 1997. The dividend of $12.0 million was paid on October 30, 1997. On December 16, 1997 Transtar declared a cash dividend of $625 per share on its Voting Stock and its Nonvoting Stock to holders of record of the stock on December 16, 1997. The dividend of $12.0 million was paid on December 19, 1997.

During 1994, Transtar implemented a stock option plan to promote the interests of Transtar and its stockholders by attracting and retaining key management employees. The total number of options granted in 1994 was 750, all

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of which were subject to a five-year vesting schedule commencing December 28, 1993, unless vesting was waived by Transtar's Compensation Committee. All options granted in 1994 have an exercise price of

NOTE 12: (CONTINUED)

$8,364.05, which was the estimated fair market value of the Company's common stock at the date of grant. The options became exercisable up to 20 percent per year and do not have an expiration date. Shares exercised were 103 and 48 in 1998 and 1997, respectively. As of December 31, 1998, there were 599 options vested and exercisable under the 1994 grant.

In 1996, Transtar adopted SFAS No. 123, "Accounting for Stock-Based Compensation." The statement defines a fair-value-based method of accounting for employee stock options, but allows companies to continue to record compensation cost using currently accepted recognition principles. Companies electing to continue using currently accepted recognition principles must make proforma disclosures of net income as if the fair-value-based method of accounting had been applied to options granted in fiscal years beginning after December 15, 1994. Transtar adopted the disclosure-only options under SFAS No. 123. In 1998, 105 options were granted under the plan, all of which are subject to a five-year vesting schedule commencing December 28, 1997. All options granted in 1998 have an exercise price of $24,687.80 which was the estimated fair market value of the Company's common stock at the date of grant. These options become exercisable up to 20 percent per year and do not have an expiration date. The effect on net income that would have been reflected in the income statement if the fair-value-based method of accounting had been used to account for the issuance of these options is immaterial. There were no options granted during the years 1995 through 1997.

NOTE 13: RELATED-PARTY TRANSACTIONS

The Transportation Services Agreements which existed at the formation of Transtar provided Transtar with certain rights including: (i) sole serving rail carrier status at USX's Minntac, Gary, Fairfield and Mon Valley facilities as well as USS/Kobe's Lorain facility; (ii) sole rights to perform specified USX in-plant switching services; (iii) sole serving Great Lakes Fleet bulk commodity carrier status for USX, including USS/Kobe; and (iv) primary inland barge operator status for the water transport of USX's commodities originating at or destined for Birmingham, Alabama. With respect to the services referred to in clause (i) above, the Transportation Services Agreements provided that such services would continue indefinitely as long as a non-Transtar rail carrier had not obtained access to the USX facility being served; with respect to the services referred to in clause (ii) above, the agreements were exclusive through 1998 and provided that such services would continue indefinitely so long as USX had not purchased from Transtar or otherwise obtained the Transtar track on which such services were provided; with respect to the services referred to in clause (iii) above, the agreements provided that such services would continue for a term ending on March 15,1999 for USS/Kobe and March 15, 2000 for the other USX facilities, which terms would have been automatically renewed for successive one-year periods unless either USX or Transtar had given the other at least three years prior written notice of termination; with respect to the services described in clause (iv) above, the agreements provided that such services would generally continue until December 28, 1998. The agreements also provided that USX should not, at any time, take any action (a) which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to any of the USX plants for which Transtar is the sole serving rail carrier or (b) which would in any way assist in and/or support any such rail carrier in any efforts to obtain such access; provided that USX could, after December 28, 1998, request that an independent arbitrator determine whether it is reasonable and equitable under the facts, circumstances and the regulatory and competitive conditions in effect at that time, at one or more facilities, for USX to seek access for a non-Transtar rail carrier.

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NOTE 13: (CONTINUED)

With respect to the services referred to in clause (ii) above, USS/Kobe Steel Company elected to terminate in-plant switching services provided by the Lake Terminal Railroad (a Transtar subsidiary) effective December 29, 1998. USS/Kobe has not purchased or otherwise obtained any Transtar track at this facility. In-plant switching services provided by parties other than Transtar will be performed on tracks currently owned by USS/Kobe. The annual impact on Transtar will be a revenue reduction of approximately $8.0 million, with no material impact on operating income.

With respect to the services referred to in clause (iii) above, USS/Kobe Steel Company, on March 14, 1996, provided written notice to terminate on March 15, 1999, the end of their primary term. USX on February 12, 1997 provided written notice of their intent to terminate effective March 15, 2000.

In December 1998, Transtar, USX and USS/Kobe (for USS/Kobe Great Lakes Fleet bulk commodity carrier service only) executed new Transportation Services Agreements which, among other things, extend the time and exclusivity periods of the original agreements. The new agreements were approved on February 12, 1999 by the lending institutions who participate in Transtar's Credit Agreement. The new agreements were retroactively effective July 1, 1998 and will extend through December 31, 2004 for the services referred to in clauses (i), (ii) and (iv) above, with the exception of rail and rail related services at USS/Kobe Steel (see below), and will extend through March 15, 2005 for the services referred to in clause (iii) above. With respect to the services referred to in clause (i) above, the new Transportation Services Agreements provide that such services will continue indefinitely as long as a non-Transtar rail carrier has not obtained access to the USX facility being served; with respect to the services referred to in clause (ii) above, the agreements are exclusive through 2004 and provide that such services will continue indefinitely so long as USX has not purchased from Transtar or otherwise obtained the Transtar track on which such services are provided. The new agreements cover all of the services currently provided by Transtar, except that a third party may provide transportation services for: with respect to the services referred to in clause (i) above, a maximum per year of forty percent of blast furnace burden tonnage destined for USX's Edgar Thomson facility in the Mon Valley; with respect to the services referred to in clause (iii) above, a maximum of six hundred thousand gross tons of iron ore pellets destined for USS/Kobe Steel in 1998 and through March 15, 1999, a maximum per year of ten percent of tonnage via the Great Lakes from March 16, 1999 through March 15, 2003 and a maximum per year of fifteen percent of tonnage via the Great Lakes from March 16, 2003 through March 15, 2005; and with respect to the services referred to in clause (iv) above, a maximum per year of ten percent of imported iron ore and coke tonnage destined for USX's Fairfield, Alabama facility, a maximum per year of ten percent of export coal tonnage originating at US Steel's Concord Preparation Plant and a maximum per year of ten percent of domestic coal tonnage via barge originating at US Steel's Concord Preparation Plant. The agreements provide that USX shall not, at any time, take any action (a) which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to any of the USX plants for which Transtar is the sole serving rail carrier or (b) which would in any way assist in and/or support any such rail carrier in any efforts to obtain such access; provided that USX may, after December 31, 2004, request that an independent arbitrator or mediator determine whether it is reasonable and equitable under the facts, circumstances and the regulatory and competitive conditions in effect at that time, at one or more facilities, for USX to seek access for a non-Transtar rail carrier. Transtar is required to acquire certain coke rail cars, not to exceed a maximum expenditure of $20 million. The agreements also provide for certain price concessions and market based price changes. USX is entitled to a refund of approximately $6.3 million (with an equal reduction in Transtar's operating income which was recognized in June 1998) for services provided during the first half of 1998. Including this refund, total price concessions for 1998 reduced Transtar's revenue and operating income by $14.4 million.

NOTE 13: (CONTINUED)

On December 29, 1998, Transtar and USS/Kobe executed a new Transportation Services Agreement for sole service carrier work including absorbed switching, single line movements and other related transportation services. This agreement was approved on February 12, 1999 by the lending institutions who participate in Transtar's Credit Agreement. The new agreement

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was effective December 29, 1998 and extends through December 31, 2008 for the sole service carrier work. In-plant scrap handling via rubber tire vehicles is under contract until July 31, 2000. The agreement provides that USS/Kobe shall not, during the term of the agreement, take any action (a) which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to the USS/Kobe Works or (b) which would in any way assist in and/or support any such rail carrier in any efforts to obtain such access. The agreement provides for market based price changes and no price concessions.

Transtar earns a significant portion of its revenues from transportation and related services provided to USX. For 1998, 1997, and 1996, transactions with USX represented 57 percent, 59 percent, and 58 percent of total revenues, respectively. Receivables from USX as of December 31, 1998 and 1997 represented 23 percent and 22 percent of total receivables, respectively. Terms of these transactions are similar to those of nonrelated customers.

On August 1, 1999, USX and USS/Kobe, along with several major steel companies, face the expiration of their labor agreements with the United Steelworkers of America. Their ability to negotiate an acceptable labor contract is essential to maintaining the level of Transtar's ongoing operations. A prolonged labor interruption at USX could have a material adverse effect on Transtar's operations, financial results and cash flow.

Transtar provides maintenance services to USX. Proceeds from services provided amounted to $5.8 million, $6.4 million, and $7.2 million for 1998, 1997, and 1996, respectively.

USX provided several corporate services associated with ongoing business activities of Transtar. Total expenses for these services were $ 0.8 million, $0.6 million, and $0.6 million for 1998, 1997, and 1996, respectively.

Transtar purchased materials from USX amounting to $0.6 million, $1.1 million, and $0.5 million, in 1998, 1997, and 1996, respectively. USX purchased materials from Transtar amounting to $0.5 million, $0.7 million and $0.8 million in 1998, 1997 and 1996, respectively.

Pursuant to an Asset Purchase Agreement related to the formation of Transtar in December 1988, Transtar reimbursed USX $1.0 million, $1.1 million, and $1.4 million for certain benefits paid to Transtar retirees by USX in 1998, 1997, and 1996, respectively.

Transtar pays, to USX and a Blackstone affiliate, a monitoring fee of 0.15 percent of consolidated revenue. Total monitoring fees (0.3 percent of revenue) paid and accrued were $1.5 million, $1.6 million, $1.5 million in 1998 1997, and 1996, respectively. These fees were accounted for as operating expense.

NOTE 14: COMMITMENTS AND OTHER CONTINGENCIES

Transtar is subject to federal, state, local, and foreign laws and regulations relating to the environment. These laws generally provide for control of pollutants released into the environment and require responsible parties to undertake remediation of hazardous waste disposal sites. Penalties may be imposed for noncompliance. Transtar provides for remediation costs and penalties when the responsibility to remediate is probable and the amount of associated costs is reasonably determinable. At December 31, 1998 and 1997, accrued liabilities for remediation totaled $0.4 million. For the period 1989 through 1998 actual cash payments associated with environmental expense have totaled $10.2 million.

Transtar and USX have entered into an environmental indemnification agreement, whereby USX has agreed to indemnify Transtar against 75 percent of certain environmental claims, losses, liabilities, obligations, damages, deficiencies, costs, and expenses (collectively, Environmental Liabilities) in excess of $10 million. This environmental indemnification agreement covers Environmental Liabilities relating to certain assets and properties transferred by USX to Transtar upon the formation of Transtar, which Environmental Liabilities existed or occurred prior to such formation. Of the $10.2 million expended since 1988, $7.8 million is applicable to the $10 million threshold. It is not presently possible to estimate the ultimate amount of all remediation

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costs that might be incurred or the penalties that may be imposed.

At year end 1998, a Transtar subsidiary had a commitment in the amount of $45 million to exercise its purchase option by March 29, 1999 on a lake vessel currently operated under a Bareboat Charter. It is anticipated that this vessel will be financed by operating lease.

At year end 1997, certain Transtar subsidiaries had purchase commitments in the amount of $3.9 million for the acquisition of rail and marine equipment. In January 1997, a Transtar subsidiary entered into an agreement to purchase 9.5 million net gallons of fuel oil per shipping season for the shipping seasons of 1997, 1998 and 1999. The purchase price for the fuel oil will be based upon market prices subject to certain minimum price provisions.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below is certain information about each of BTC's (Holdings' sole general partner) and TCC's executive officers and directors. Unless otherwise indicated, positions listed are for both BTC and TCC. Each executive officer holds office until his successor shall have been appointed or until his death, resignation or removal. The directors and executive officers of BTC and TCC receive no compensation.

Name	Age, Business Experience and Other Directorships
James J. Mossman President and Director	age 40, Director since November 1993 and President since November 1993; a Member of Blackstone Group Holdings (BGH) L.L.C.; a General Partner of BGH L.P. from 1990 to February 1996; Vice President of The Blackstone Group L.P. (The Blackstone Group) from 1987 to 1989. Mr. Mossman is a director of Collins & Aikman Corporation and Transtar.
Peter G. Peterson Director	age 72, Director since November 1993; Co-Founding Member of BGH L.L.C.; Co-Founding Partner of BGH L.P. from 1985 to February 1996; and, Chairman of The Blackstone Group since 1985. Mr. Peterson is a director of Sony Corporation and Transtar, and he is the Vice Chairman of the Federal Reserve Bank of New York. He is also Chairman of the Council on Foreign Relations, Chairman of the Institute for International Economics, and Founding President of The Concord Coalition.
Stephen A. Schwarzman Director	age 52, Director since November 1993; Co-Founding Member of BGH L.L.C.; Co-Founding Partner of BGH L.P. from 1985 to February 1996; and President & Chief Executive Officer of The Blackstone Group since 1985. Mr. Schwarzman is a director of Collins & Aikman Corporation and Transtar.
Howard A. Lipson Treasurer	age 35, Treasurer since November 1993; Mr. Lipson joined The Blackstone Group in 1988 and is a member of BGH L.L.C. Mr. Lipson is a director of Rose Hills, Inc., Prime Succession Holdings, Inc., AMF Group Inc., Graham Packaging, Allied Waste Industries, Volume Service, Inc., and Ritvik Holdings, Inc.

The following table sets forth certain information concerning the officers of Transtar.

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NAME	AGE	POSITION
Robert S. Rosati	60	President and Chief Executive Officer
Frank J. Habic	59	Vice President-Operations
Joseph W. Schulte	57	Vice President-Finance and Chief Financial Officer
James P. Bobich	54	Vice President-Administration
Rade Vignovic	64	Vice President-Marketing
Robert N. Gentile	47	Vice President-Law, General Counsel and Secretary

Mr. Rosati is President and Chief Executive Officer, a position he has held since January 1, 1994. Mr. Rosati had been Vice President-Finance and Chief Financial Officer of Transtar and its subsidiaries. Mr. Rosati had also been Comptroller of B&LE until December 1, 1988, when he was elected Vice President-Finance of the Railroads. His railroad experience of 33 years includes positions as Manager-Audit Division, Manager of Marketing, and Dock Superintendent with DM&IR, and Superintendent in the Transportation Department with EJ&E. Prior experience with the firm of Ernst & Ernst, Pittsburgh, Pa., 1960-1965. Mr. Rosati is a Director of the Transtar subsidiaries and is a member of the Pennsylvania Institute of Certified Public Accountants. He is a graduate of the University of Pittsburgh, BBA-1961 and attended the Graduate Business Program at the University of Minnesota-Duluth, 1976-1979.

Mr. Habic was elected Vice President-Operations of Transtar on July 1, 1993. He is responsible for the operations of all Transtar subsidiaries. His railroad experience encompasses 34 years. He held a succession of increasingly responsible Operating Department positions within the Railroad Group. He was appointed General Superintendent of Transportation of the EJ&E in 1978. He was appointed General Superintendent of The Pittsburgh & Conneaut Dock in 1983. In 1984, he was appointed General Manager of the B&LE and several shortline railroads. Mr. Habic is also a Director of the Transtar subsidiaries. He holds a B.S. from the U.S. Military Academy at West Point and an M.B.A. from Northwestern University.

Mr. Schulte is Vice President-Finance of Transtar and CFO. Mr. Schulte had previously been Comptroller of Transtar and its subsidiaries. Mr. Schulte had also been Comptroller of the Railroad Group beginning January, 1989. Since joining the Union Railroad in 1966, he progressed through various accounting positions on the Railroads. He was appointed Treasurer for the Railroads in 1981, Director of Internal Audit in 1983, and Comptroller of the DM&IR and EJ&E Railroads in 1985. Mr. Schulte is a Director of the Transtar subsidiaries and is a member of the American and Pennsylvania Institutes of Certified Public Accountants. He holds a B.S. in Accounting from The Pennsylvania State University.

Mr. Bobich was elected Vice President-Administration of Transtar on March 1, 1998. He began his career on the Bessemer and Lake Erie Railroad in the Information Systems Department and since then has held positions of increasing responsibility in accounting and information systems. In 1986, Mr. Bobich was named Treasurer of the Railroad subsidiaries and in 1989 was named Treasurer of Transtar, Inc. On July 1, 1997, he was appointed Assistant to President. He is a Director of the Transtar subsidiaries and is a 1966 graduate of Ohio University with a BBA in Accounting.

Mr. Vignovic is Vice President-Marketing of Transtar. Mr. Vignovic began his railroad career on the B&LE as a Cost Analyst in 1964. From 1967 on, Mr. Vignovic held a series of marketing positions within the Railroads. He was appointed Vice President-Marketing of all of the Railroads in 1994. Mr. Vignovic is a Director of all of the Transtar subsidiaries and is a member of the National Freight Traffic Association and the Traffic Clubs of Chicago and Pittsburgh. He holds a B.S. from Carnegie Mellon University and an MBA from the University of Chicago.

Mr. Gentile is General Counsel and Secretary of Transtar, and all of its subsidiaries, a position he has held since December 28, 1988. He is also Vice President-Law of Transtar, a position he has held since May 1, 1995. Mr. Gentile began his career with the Railroad Group in March 1979, holding

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positions of increasing importance within the Legal Department. He was appointed General Claim Agent in 1984, named Senior General Claim Agent in 1986. Mr. Gentile is a Director of all of the Transtar subsidiaries. Prior to joining the Railroad Group, Mr. Gentile was in private practice as a trial lawyer. Mr. Gentile is a member of the American, Pennsylvania and Allegheny County Bar Associations and American Corporate Counsel Association. He is a graduate of the University of Pittsburgh, BA-1973 (summa cum laude, Phi Beta Kappa), University of Pittsburgh, JD-1976, LaRoche College, MS-1984, University of Pittsburgh, MBA (Beta Sigma Gamma)-1989.

ITEM 11. EXECUTIVE COMPENSATION

The directors and executive officers of BTC (Holdings' sole general partner) and TCC receive no compensation but are reimbursed for travel and out-of-pocket expenses incurred in connection with their duties as directors and executive officers.

The following table provides certain summary information concerning the compensation paid or accrued by the Company on behalf of the Company's Chief Executive Officer and the four other most highly-compensated executive officers of the Company for the years ended December 31, 1998, December 31, 1997, and December 31, 1996:

TRANSTAR, INC.
SUMMARY COMPENSATION TABLE

<TABLE>
<CAPTION>

		ANNUAL COMPENSATION				LONG TERM COMPENSATION AWARDS		LONG TERM COMPENSATION PAYOUTS	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	SALARY & BONUS TOTAL ($)	OTHER ($) (1)	RESTRICTED STOCK AWARDS($)	OPTIONS (#)	LTIP PAYOUTS ($)	ALL OTHER COMPEN-SATION($) (2)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
R. S. Rosati	1998	275,000	350,000	625,000	13,544	0	0	0	29,628
President & Chief	1997	275,000	300,000	575,000	8,763	0	0	0	31,445
Executive Officer	1996	250,000	250,000	500,000	8,273	0	0	0	28,912
F. J. Habic	1998	204,000	156,000	360,000	3,893	0	0	0	21,162
Vice President-	1997	196,000	160,000	356,000	5,874	0	0	0	22,058
Operations	1996	190,000	154,000	344,000	3,780	0	0	0	22,434
J. W. Schulte	1998	182,000	124,000	306,000	7,505	0	0	0	18,019
Vice President-	1997	170,000	124,000	294,000	4,452	0	0	0	17,654
Finance and Chief	1996	160,000	115,000	275,000	3,501	0	0	0	16,713
Financial Officer									
R. Vignovic	1998	166,000	140,000	306,000	5,193	0	0	0	17,112
Vice President-	1997	155,000	113,000	268,000	5,121	0	0	0	17,907
Marketing	1996	145,000	105,000	250,000	4,034	0	0	0	16,043
R. N. Gentile	1998	165,000	112,000	277,000	5,655	0	0	0	13,880
Vice President-Law,	1997	157,000	115,000	272,000	5,346	0	0	0	14,186
General Counsel and	1996	152,000	109,000	261,000	6,694	0	0	0	14,323
Secretary									

</TABLE>

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(1) Includes health additive; executive tax assistance and financial planning; and imputed income for automobiles.

(2) This column includes amounts contributed or accrued in 1998 under the Transtar Salaried Savings Fund Plan and the related Supplemental Savings Plans ($14,892, $10,578, $9,662, $8,300, and $8,257 for Messrs. Rosati, Habic, Schulte, Vignovic and Gentile, respectively); annual imputed income associated with executive life insurance policies in 1998 ($1,951, $2,232, $1,031, $997, and $594 for Messrs. Rosati, Habic, Schulte, Vignovic and Gentile, respectively); and annual amounts attributable to split-dollar life insurance provided by Transtar in 1998 ($12,785, $8,352, $7,326, $7,815, and $5,029 for Messrs. Rosati, Habic, Schulte, Vignovic and Gentile,

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respectively).

STOCK OPTION PLAN

During 1994, Transtar implemented a stock option plan to promote the interests of Transtar and its stockholders by attracting and retaining key management employees. The total number of options granted was 750, all of which were subject to a 5-year vesting schedule commencing December 28, 1993. These options generally become exercisable at the vesting date and do not have an expiration date. The option price per share is $8,364.05, and each exercised option will be repurchased by the Company at a price calculated using a formula set forth in the stock option plan.

AGGREGATED 1998 OPTION EXERCISES AND DECEMBER 31, 1998 OPTION VALUES

NAME	NO. OF SHARES EXERCISED	VALUE REALIZED ($)	NO. OF EXERCISABLE OPTIONS AT DECEMBER 31, 1998	VALUE OF EXERCISABLE IN-THE-MONEY OPTIONS AT DECEMBER 31, 1998($)
R. S. Rosati	0	0	200	1,669,006
F. J. Habic	0	0	100	834,503
J. W. Schulte	0	0	100	834,503
R. Vignovic	0	0	100	1,464,228
R. N. Gentile	0	0	50	417,252

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The directors and executive officers of BTC (Holdings' sole general partner) and TCC receive no compensation. See 'Management--Compensation of Directors and Executive Officers.'

James J. Mossman, Peter G. Peterson and Stephen A. Schwarzman serve as directors of BTC (Holdings' sole general partner) and TCC. Transtar pays a monitoring fee of 0.15% of its consolidated revenue to Blackstone Management Partners L.P. James J. Mossman, Peter G. Peterson and Stephen A. Schwarzman are partners of Blackstone Management Partners L.P. Monitoring fees paid were approximately $747,000 for 1998, $789,000 for 1997, and $765,000 for 1996.

PENSION BENEFITS

Transtar, Inc. pension benefits are comprised of two defined benefits: the first, based on final earnings and the second, on career earnings. The following table shows the annual final earnings pension benefits for retirement at age 62 (or earlier under certain circumstances), for various levels of eligible earnings which would be payable to employees retiring with representative years of service based on a formula of a specified percentage (dependent on years of service) of average annual eligible earnings in the five consecutive years of the ten years prior to retirement in which such earnings were highest. Eligible earnings are base earnings and exclude any bonuses paid. As of December 31, 1998, Messrs. Rosati, Habic, Schulte, Vignovic, and Gentile have 33, 34, 32, 34, and 19 credited years of service, respectively.

TABLE OF PENSION BENEFITS

FINAL EARNINGS PENSION BENEFITS

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AVERAGE ANNUAL ELIGIBLE EARNINGS FOR HIGHEST FIVE CONSECUTIVE YEARS IN TEN-YEAR PERIOD PRECEDING RETIREMENT	ANNUAL BENEFITS FOR YEARS OF SERVICE 15 YRS.	20 YRS.	25 YRS.	30 YRS.	35 YRS.	40 YRS.
$125,000	$ 21,656	$ 28,875	$ 36,094	$ 43,313	$ 51,188	$ 59,063
150,000	25,988	34,650	43,313	51,975	61,425	70,875
175,000	30,319	40,425	50,531	60,638	71,663	82,688
200,000	34,650	46,200	57,750	69,300	81,900	94,500
225,000	38,981	51,975	64,969	77,963	92,138	106,313
250,000	43,313	57,750	72,188	86,625	102,375	118,125
300,000	51,975	69,300	86,625	103,950	122,850	141,750
350,000	60,638	80,850	101,063	121,275	143,325	165,375
400,000	69,300	92,400	115,500	138,600	163,800	189,000
450,000	77,963	103,950	129,938	155,925	184,275	212,625
500,000	86,625	115,500	144,375	173,250	204,750	236,250

Annual career earnings pension benefits are equal to 1% of total career eligible earnings plus a 30% supplement. The estimated annual career earnings benefits payable at normal retirement age 65, assuming no increase in annual earnings, will be $56,300 for Mr. Rosati, $48,430 for Mr. Habic, $45,070 for Mr. Schulte, $31,530 for Mr. Vignovic, and $60,040 for Mr. Gentile. Benefits from the final earnings and the career earnings reflected above are not subject to any reduction or offset for Social Security entitlements. Benefits from the final earnings reflected above are subject to a reduction or offset for a portion of Railroad Retirement entitlements. Benefits may be paid as an actuarially determined lump sum in lieu of monthly pensions under both the final earnings and career earnings provisions of the Plan.

In addition to the pension benefit described above, R. S. Rosati is entitled to the benefits shown in the table below based on bonuses paid under the Annual Incentive Compensation Plan upon retirement after age 60.

SUPPLEMENTAL PENSION BENEFITS

AVERAGE ANNUAL BONUS EARNINGS FOR THREE HIGHEST YEARS IN TEN-YEAR PERIOD PRECEDING RETIREMENT	ANNUAL BENEFITS FOR YEARS OF SERVICE 15 YRS.	20 YRS.	25 YRS.	30 YRS.	35 YRS.	40 YRS.
$100,000	$ 23,100	$ 30,800	$ 38,500	$ 46,200	$ 53,900	$ 61,600
200,000	46,200	61,600	77,000	92,400	107,800	123,200
300,000	69,300	92,400	115,500	138,600	161,700	184,800

EQUITY PARTICIPATION PLAN

Key management employees of Transtar and its subsidiaries are eligible to participate in Transtar's Equity Participation Plan. Under the Equity Participation Plan, Transtar's Board of Directors appoints a compensation committee with full power to administer the plan. Participants in the plan receive awards of restricted common stock of Transtar as determined in the discretion of the compensation committee.

CERTAIN TRANSACTIONS

Transtar pays to each of USX and Blackstone Management Partners L.P. a monitoring fee of 0.15% of Transtar's consolidated revenue. Total monitoring fees paid were approximately $1.5 million for 1998, $1.6 million for 1997 and $1.5 million for 1996.

On October 27, 1997, Transtar declared a cash dividend in the amount of $625 per share on both its Class A Voting Common Stock (Voting Stock) and its Class B Nonvoting Common Stock (Nonvoting Stock) to holders of record of the

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stock on October 27, 1997. Holdings received $6.4 million on October 30, 1997, representing its 53% economic interest in the Transtar dividend. Pursuant to an Indenture relating to the issuance of the Notes (the Notes Indenture), the dividend payment was paid into an escrow account. On December 16, 1997 Transtar declared a cash dividend of $625 per share on both its Voting Stock and its Nonvoting Stock to holders of record of the stock on December 16, 1997. Holdings received $6.4 million on December 19, 1997, representing its 53% economic interest in the Transtar dividend. In accordance with the Notes Indenture, this dividend was paid into the escrow account.

In February 1998, in accordance with the Notes Indenture, Holdings offered to repurchase a portion of the Notes at an offer price equal to 101% of the accreted value of such Notes on the date of purchase. The offer to purchase the Notes was made by a notice to holders of the Notes and was held open for 20 business days. No Notes were tendered for repurchase.

In February 1997, in accordance with the Notes Indenture and related to certain dividends paid into the escrow account in 1996, Holdings offered to repurchase a portion of the Notes at an offer price equal to 101% of the accreted value of such Notes on the date of purchase. The offer to purchase the Notes was made by a notice to holders of the Notes and was held open for 20 business days. No Notes were tendered for repurchase.

Funds in the escrow account are invested in cash equivalents and may only be released to pay interest and principal on the Notes, make certain payments permitted under the Notes Indenture, purchase or optionally redeem Notes or to pay administrative expenses of Holdings. In 1998, 1997 and 1996, in accordance with the Notes Indenture and an agreement governing the escrow account, Holdings withdrew from the escrow account $0.7 million, $13.7 million and $0.9 million, respectively, to distribute to its partners, and withdrew $0.2 million,$0.3 million and $0.7 million, respectively, to pay certain administrative expenses. As of December 31, 1998 the escrow balance is $47.3 million. Interest earned on the escrow balance amounted to $2.6 million, $2.4 million and $1.4 million in 1998, 1997 and 1996, respectively.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

THE ISSUERS

The following table and accompanying footnotes set forth the beneficial ownership of partnership interests of Holdings. TCC is a wholly owned subsidiary of Holdings.

<TABLE>
<CAPTION>

Name of Beneficial Owners	Type of Interest	Percentage of Class	Economic Interest (1)
<S>	<C>	<C>	<C>
BTC(2)	General Partnership	100.000%	1.000%
Blackstone entities(3)	Limited Partnership	91.574%	90.658%
Tyler Massachusetts L.P. ("Tyler")(4)	Limited Partnership	8.426%	8.342%
James J. Mossman(5)	General and Limited Partnership	0	0
Peter G. Peterson(5)	General and Limited Partnership	0	0
Stephen A. Schwarzman(5)	General and Limited Partnership	0	0
Howard A. Lipson(5)	General and Limited Partnership	0	0
All executive officers and directors as a group (4 persons)(5)	General and Limited Partnership	0	0

</TABLE>

(1) Represents percentage of total partnership interests (including general and limited partnership interests) in Holdings.

(2) BTC holds the sole general partnership interest in Holdings. The address of BTC is 345 Park Avenue, New York, New York 10154.

(3) The following Blackstone entities own 91.574% of the limited partnership interests in Holdings, which represents the following economic interests in Holdings: Blackstone Transportation Capital Partners L.P., 34.493%; Blackstone Domestic Capital Partners L.P., 33.880%; Blackstone Offshore Capital Partners L.P., 14.943%; Blackstone Family Investment Partnership I L.P., 5.987%; Blackstone Advisory

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Directors Partnership L.P., 0.843%; and Blackstone Management Associates L.P., 0.512%. The address of the Blackstone entities is 345 Park Avenue, New York, New York 10154.

(4) The address of Tyler is c/o Bain Venture Capital, 2 Copley Plaza, Boston, Massachusetts 02116.

(5) Messrs. Mossman, Peterson, Schwarzman and Lipson are affiliated with Blackstone in the capacities described under "Directors and Executive Officers of the Registrant". Partnership interests data for these individuals does not include any of the interests included in the above table beneficially owned by Blackstone.

THE COMPANY

The authorized and outstanding capital stock of the Company consists of 10,000 shares of Class A Voting Stock (Voting Stock), without par value, and 10,000 shares of Class B Nonvoting Stock (Nonvoting Stock), without par value. All of the voting and nonvoting stock of Transtar represents an equivalent economic interest in the Company.

The following table sets forth the ownership of Transtar as of December 31, 1998:

Shareholder	Voting Stock Owned	% of Voting Shares	Nonvoting Stock Owned	% of Non-voting Shares	% of Total Shares
Transtar Holdings, L.P. ..	5,100	51%	5,100	55%	53%
USX Corporation	4,900	49	3,900	42	46
Management	--	--	296	3	1
Total	10,000	100%	9,296	100%	100%

Management's direct interest has been reduced since Transtar's formation due to repurchases of 704 shares of nonvoting stock from retiring managers. Certain shares have been allocated to promoted managers in a stock option program. Including the effect of this program, total economic ownership of management would be 5 percent.

The Board of Directors of Transtar consists of five members, three of which are designated by Blackstone and two by USX pursuant to a Stockholders' Agreement.

As of December 31, 1998, all of the subsidiaries of Transtar were wholly owned, directly or indirectly, by Transtar.

The Company's by-laws provide that certain matters presented to the Board require unanimous approval of the directors, including, among other things: (a) any proposal which, if approved, (i) would require any stockholder entitled to vote (a "voting stockholder") to subscribe for additional shares of capital stock of the Company or contribute additional capital to the Company or would result in a diminution of any voting stockholder's proportionate voting power among stockholders if such voting stockholder failed to contribute additional capital voluntarily; (ii) would otherwise result in a diminution of a voting stockholder's proportionate voting power among stockholders; or (iii) results in the Company's subsidiaries being unable to perform adequately their obligations under any of the Transportation Services Agreements; (b) authorization or issuance of any shares of any equity security of the Company or any option, warrant, right or instrument convertible into any equity security of the Company or convertible or exchangeable into any option, warrant or right to receive any such equity security; (c) redemption of any stock of the Company; (d) any new borrowing by the Company or any subsidiary thereof (other than borrowings to finance specific capital expenditures approved in the annual capital budget), or the grant of any new lien, encumbrance or security interest in connection therewith on any material assets of the Company or such subsidiary not previously encumbered except in certain circumstances; (e) any merger, consolidation, liquidation or dissolution of the Company or sale of substantially all the assets thereof or sale of stock of any of the Company's

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subsidiaries; (f) the sale or merger of any direct or indirect subsidiary of the Company, or the sale of assets or discontinuance of operations of any direct or indirect subsidiary of the Company which in either case results in such subsidiary being unable to perform adequately its obligations under any of the Transportation Services Agreements, except for certain subsidiaries; (g) any amendment of any of the Transportation Services Agreements; (h) any expenditure or commitment in excess of $5,000,000 for the acquisition by the Company or any direct or indirect subsidiary thereof of any capital stock or other equity or ownership or proprietary interest in any other corporation, partnership, association, trust, joint venture or other entity, or of any debt obligation of any thereof; (i) any lease of real or personal property or any renewal thereof except for certain circumstances; (j) any sale and lease-back or any refinancing thereof; (k) any filing by the Company or any direct or indirect subsidiary thereof of a petition for protection under Federal bankruptcy statutes; (l) declaration of any dividend or other distribution to stockholders; and (m) selection of an independent consultant (the "Consultant").

In the event the members of the Board of Directors fail to agree unanimously on any matter for which unanimous approval is required, the by-laws provide that the Consultant shall render a decision on such matter which shall be binding, provided that the Consultant shall have no authority to render a decision on any of the matters covered by clauses (a), (b), (d), (e), (f) and (m) described above. If the Board of Directors fails to agree unanimously on any of the matters covered by clauses (a), (b), (d), (e), (f) and (m), the Company's by-laws do not specify how deadlocks are to be resolved. Therefore, the Board of Directors could remain deadlocked and would be unable to take any action on matters requiring unanimous approval.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

DEPENDENCE UPON USX

For the year 1998, approximately 57% of Transtar's revenues were derived from the provision of services to USX and its affiliates. Transtar's operating relationship with USX is governed by certain Transportation Services Agreements. These agreements, along with Transtar's exclusive rail access to virtually all USX's steel facilities and its integration within these facilities, provide some stability to Transtar's cash flows. The Transportation Services Agreements which existed at the formation of Transtar provided Transtar with certain rights including: (i) sole serving rail carrier status at USX's Minntac, Gary, Fairfield and Mon Valley facilities as well as USS/Kobe's Lorain facility; (ii) sole rights to perform specified USX in-plant switching services; (iii) sole serving Great Lakes Fleet bulk

commodity carrier status for USX, including USS/Kobe; and (iv) primary inland barge operator status for the water transport of USX's commodities originating at or destined for Birmingham, Alabama. With respect to the services referred to in clause (i) above, the Transportation Services Agreements provided that such services would continue indefinitely as long as a non-Transtar rail carrier had not obtained access to the USX facility being served; with respect to the services referred to in clause (ii) above, the agreements were exclusive through 1998 and provided that such services would continue indefinitely so long as USX had not purchased from Transtar or otherwise obtained the Transtar track on which such services were provided; with respect to the services referred to in clause (iii) above, the agreements provided that such services would continue for a term ending on March 15,1999 for USS/Kobe and March 15, 2000 for the other USX facilities, which terms would have been automatically renewed for successive one-year periods unless either USX or Transtar had given the other at least three years prior written notice of termination; with respect to the services described in clause (iv) above, the agreements provided that such services would generally continue until December 28, 1998. The agreements also provided that USX should not, at any time, take any action (a) which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to any of the USX plants for which Transtar is the sole serving rail carrier or (b) which would in any way assist in and/or support any such rail carrier in any efforts to obtain such access; provided that USX could, after December 28, 1998, request that an independent arbitrator determine whether it is reasonable and equitable under the facts, circumstances and the regulatory and competitive conditions in effect at that time, at one or more facilities, for USX to seek access for a non-Transtar rail carrier.

With respect to the services referred to in clause (ii) above, USS/Kobe Steel Company elected to terminate in-plant switching services provided by the Lake Terminal Railroad (a Transtar subsidiary) effective December 29, 1998. USS/Kobe has not purchased or otherwise obtained any Transtar track at this

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facility. In-plant switching services provided by parties other than Transtar will be performed on tracks currently owned by USS/Kobe. The annual impact on Transtar will be a revenue reduction of approximately $8.0 million, with no material impact on operating income.

With respect to the services referred to in clause (iii) above, USS/Kobe Steel Company, on March 14, 1996, provided written notice to terminate on March 15, 1999, the end of their primary term. USX on February 12, 1997 provided written notice of their intent to terminate effective March 15, 2000.

In December 1998, Transtar, USX and USS/Kobe (for USS/Kobe Great Lakes Fleet bulk commodity carrier service only) executed new Transportation Services Agreements which, among other things, extend the time and exclusivity periods of the original agreements. The new agreements were approved on February 12, 1999 by the lending institutions who participate in Transtar's Credit Agreement. The new agreements were retroactively effective July 1, 1998 and will extend through December 31, 2004 for the services referred to in clauses (i), (ii) and (iv) above, with the exception of rail and rail related services at USS/Kobe Steel (see below), and will extend through March 15, 2005 for the services referred to in clause (iii) above. With respect to the services referred to in clause (i) above, the new Transportation Services Agreements provide that such services will continue indefinitely as long as a non-Transtar rail carrier has not obtained access to the USX facility being served; with respect to the services referred to in clause (ii) above, the agreements are exclusive through 2004 and provide that such services will continue indefinitely so long as USX has not purchased from Transtar or otherwise obtained the Transtar track on which such services are provided. The new agreements cover all of the services currently provided by Transtar, except that a third party may provide transportation services for: with respect to the services referred to in clause (i) above, a maximum per year of forty percent of blast furnace burden tonnage destined for USX's Edgar Thomson facility in the Mon Valley; with respect to the services referred to in clause (iii) above, a maximum of six hundred thousand gross tons of iron ore pellets destined for USS/Kobe Steel in 1998 and through March 15, 1999, a maximum per year of ten percent of tonnage via the Great Lakes from March 16, 1999 through March 15, 2003 and a maximum per year of fifteen percent of tonnage via the Great Lakes from March 16, 2003 through March 15, 2005; and with respect to the services referred to in clause (iv) above, a maximum per year of ten percent of imported iron ore and coke tonnage destined for USX's Fairfield, Alabama facility, a maximum per year of ten percent of export coal tonnage originating at US Steel's Concord Preparation Plant and a maximum per year of ten percent of domestic coal tonnage via barge originating at US Steel's Concord Preparation Plant. The agreements provide that USX shall not, at any time, take any action (a) which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to any of the USX plants for which Transtar is the sole serving rail carrier or (b) which would in any way assist in and/or support any such rail carrier in any efforts to obtain such access; provided that USX may, after December 31, 2004, request that an independent arbitrator or mediator determine whether it is reasonable and

equitable under the facts, circumstances and the regulatory and competitive conditions in effect at that time, at one or more facilities, for USX to seek access for a non-Transtar rail carrier. Transtar is required to acquire certain coke rail cars, not to exceed a maximum expenditure of $20 million. The agreements also provide for certain price concessions and market based price changes. USX is entitled to a refund of approximately $6.3 million (with an equal reduction in Transtar's operating income which was recognized in June 1998) for services provided during the first half of 1998. Including this refund, total price concessions for 1998 reduced Transtar's revenue and operating income by $14.4 million.

On December 29, 1998, Transtar and USS/Kobe executed a new Transportation Services Agreement for sole service carrier work including absorbed switching, single line movements and other related transportation services. This agreement was approved on February 12, 1999 by the lending institutions who participate in Transtar's Credit Agreement. The new agreement was effective December 29, 1998 and extends through December 31, 2008 for the sole service carrier work. In-plant scrap handling via rubber tire vehicles is under contract until July 31, 2000. The agreement provides that USS/Kobe shall not, during the term of the agreement, take any action (a) which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to the USS/Kobe Works or (b) which would in any way assist in and/or support any such rail carrier in any efforts to obtain such access. The agreement provides for market based price changes and no price concessions.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1). FINANCIAL STATEMENTS
Financial Statements filed as part of this report are listed on the Index to Consolidated Financial Statements on page 18.

(a)(2). FINANCIAL STATEMENT SCHEDULES
Schedules are omitted because of the absence of the conditions under which they are required or because the information required by such omitted schedules is set forth in the financial statements or the notes thereto.

(a)(3). EXHIBITS

Footnote Ref.	Exhibit No	Description
(a)	3.1	Certificate of Incorporation of Transtar Capital Corporation, filed with the Secretary of State of the State of Delaware on November 23, 1993.
(a)	3.2	By-laws of Transtar Capital Corporation.
(a)	3.3	Certificate of Incorporation of Blackstone Transportation Company, Inc., the controlling general partner of Transtar Holdings, L.P. (Holdings), filed with the Secretary of State of the State of Delaware on November 23, 1993.
(a)	3.4	By-laws of Blackstone Transportation Company, Inc., the controlling general partner of Transtar Holdings, L.P.
(a)	3.5	Second Amended and Restated Agreement of Limited Partnership of Transtar Holdings, L.P.
(a)	3.6	Amended and Restated Certificate of Limited Partnership of Holdings
(a)	3.7	By-laws of Transtar, Inc.
(a)	4.2	Specimen Certificate of 13 3/8% Series B Senior Discount Notes due 2003 (the Notes) (included in Exhibit 4.3 hereto).
(a)	4.3	Indenture, dated as of December 7, 1993, among Holdings, TCC and the United States Trust Company of New York, as trustee, pursuant to which the Notes were issued.
(a)	10.3	Credit Agreement, dated as of December 7, 1993, among Transtar, Inc. and Chemical Bank as Agent and Issuing Bank thereunder.
(d)	10.3.1	Second amendment dated as of September 15, 1995 to the Credit Agreement dated as of December 7, 1993 among Transtar, Inc. and Chemical Bank as Agent and Issuing Bank thereunder.
(g)	10.3.2	Amendment and Waiver dated as of March 12, 1997 to the Credit Agreement dated as of December 7, 1993 among Transtar, Inc. and the Chase Manhattan Bank as Agent and Issuing Bank thereunder.
(g)	10.3.3	Third Amendment and Waiver dated as of October 9, 1997 to the Credit Agreement dated as of December 7, 1993 among Transtar, Inc. and the Chase Manhattan Bank as Agent and Issuing Bank thereunder.
(a)	10.4	Stockholders Agreement, dated as of December 28, 1988, by and among Blackstone Capital Partners L.P., Blackstone Transportation Partners L.P., USX Corporation and Transtar, Inc.
(a)	10.5	Transportation Services Agreement, dated December 28, 1988, between Transtar, Inc. and USX Corporation.

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	10.5.1	Transportation Services Agreement, dated July 1, 1998, between Transtar, Inc. and USX Corporation.
	10.5.2	Transportation Services Agreement, dated December 29, 1998, between Transtar, Inc. and USS/Kobe Steel Company.
(a)	10.6	Transportation Agreement, dated March 16, 1988, between USX Corporation and USS Great Lakes Fleet, Inc.

Footnote Ref.	Exhibit No	Description
	10.6.1	Transportation Services Agreement, dated July 1, 1998 between USS Great Lakes Fleet, Inc. and USX Corporation and USS/Kobe Steel Company.
(a)	10.7	Transportation Services Agreement, dated December 28, 1988, between Transtar, Inc. and U.S. Steel Mining.
	10.7.1	Transportation Services Agreement, dated July 1, 1998, between Transtar, Inc. and U.S. Steel Mining Co., LLC.
(a)	10.8	Management Stock Trust Agreement, dated December 28, 1988, between Transtar, Inc. and Pittsburgh National Bank.
(a)	10.10	Transtar, Inc. Equity Participation Plan, dated December 28, 1988, as amended.
(e)	10.13	Transtar, Inc. Savings Plan for Salaried Employees, effective January 1, 1989 as amended through January 1, 1996.
(a)	10.14	Transtar, Inc. Flexible Compensation Plan for Non-Represented Employees of Transtar, Inc. and Subsidiary Companies, effective January 1, 1989.
(e)	10.14.1	Transtar, Inc. Split Dollar Life Insurance Plan, effective July 1, 1994.
(a)	10.15	Layoff Unemployment Benefit Program for Non-Union Salaried Employees as amended January 1, 1989.
(e)	10.16	Transtar, Inc. Salaried Retirement Plan, effective January 1, 1989 as amended through January 1, 1996.
(g)	10.16.1	Second Amendment to the Transtar, Inc. Salaried Retirement Plan, effective January 1, 1997.
(g)	10.16.2	Fifth Amendment to the Transtar, Inc. Salaried Retirement Plan, effective January 1, 1998.
	10.16.3	Sixth Amendment to the Transtar, Inc. Salaried Retirement Plan, effective January 1, 1999.
(g)	10.17	Transtar, Inc. Non Tax-Qualified Pension Plan, effective January 1, 1994.
(g)	10.18	Transtar, Inc. Supplemental Thrift Program, effective January 1, 1994.
(g)	10.19	Transtar, Inc. Supplemental Pension Program, effective January 1, 1994.
(a)	10.20	Amendment No. 1 to Bareboat Charter, dated as of September 29, 1989, between PNC Leasing Corp and Transtar, Inc.
(a)	10.21	Bareboat Charter, dated as of June 1, 1990, between PNC Leasing Corp and Transtar, Inc.
(a)	10.22	Bareboat Charter Party, dated as of September 30, 1991, between Joy Finance Company and Transtar, Inc.
(a)	10.23	Lease Agreement, dated as of May 1, 1980, between GATX Leasing Corporation, successor to Gould Leasing Services,

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Inc., and Bessemer and Lake Erie Railroad Company.

(a)	10.24	Equipment Lease, dated as of May 30, 1980, between the Bessemer and Lake Erie Railroad Company and State Street Bank as Trustee.
(a)	10.25	Master Railcar Lease Agreement, dated as of April 30, 1993, between The CIT Group/Equipment Financing, Inc. and Elgin, Joliet and Eastern Railway Company.
(a)	10.26	Railroad Equipment Lease, dated as of November 15, 1989, between Elgin, Joliet & Eastern Railway Company and Mellon Financial Services Corporation #3.
(a)	10.27	Bareboat Charter, dated as of June 1, 1989, between PNC Leasing Corp and Transtar, Inc.
(a)	10.28	Amendment No. 1 to Indenture of Trust and First Preferred Ship Mortgage, dated March 19, 1982, between The Connecticut Bank and Trust Company, as Owner Trustee, and Mercantile-Safe Deposit and Trust Company, as Indenture Trustee.
(a)	10.29	Note Purchase Agreement, dated as of May 26, 1983.
(a)	10.30	Charter, dated as of September 1, 1980, between The Connecticut Bank and Trust Company and United States Steel Corporation.
(a)	10.31	Assignment Agreement and Supplement No. 2 to First Preferred Fleet Mortgage, dated as of December 3, 1987.
(a)	10.32	Assignment of Second Transportation Services Agreement, dated as of July 1, 1981, between United States Steel Corporation and USS Great Lakes Fleet, Inc.
(a)	10.33	Option Agreement, dated as of July 2, 1975, among Litton Industries, Inc. and Litton Industries Leasing Corporation and United States Steel Corporation.

Footnote Ref.	Exhibit No	Description
(a)	10.34	Release, dated as of July 2, 1975, between Litton Great Lakes Corporation and United States Steel Corporation.
(a)	10.35	Consent, dated as of December 21, 1988, from Xerox Corporation to USX Corporation.
(a)	10.36	Guaranty, dated as of December 27, 1988, from USX Corporation to Litton Industries, Inc., Litton Credit Corporation, Litton Great Lakes Corp. and Litton Industries Leasing Corporation.
(a)	10.37	Assignment of Engineering and Maintenance Agreement, dated as of July 1, 1991, between United States Steel Corporation and USS Great Lakes Fleet Services, Inc.
(a)	10.38	Lease Renewal, dated as of October 24, 1991, between USS Great Lakes Fleet, Inc. and Labovitz Enterprises.
(a)	10.40	Assignment of Leases, dated as of May 31, 1984, between Duluth, Missabe and Iron Range Railway Company and Joel Labovitz.
(a)	10.41	Indenture of Lease, dated as of April 7, 1982, between Duluth, Missabe and Iron Range Railway Company and USS Great Lakes Fleet Services, Inc.
(a)	10.42	Environmental Indemnification Agreement, dated as of December 28, 1988, among USX Corporation, Transtar and certain subsidiaries of Transtar.

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(b)	10.43	Settlement Agreement among Transtar, Inc., Bessemer and Lake Erie Railroad Company and USX Corporation dated October 6, 1994.
(f)	10.44.1	Transtar, Inc. Amended Stock Option Plan.
(c)	10.45	Equipment Lease Agreement dated as of July 15, 1994 between GATX Third Aircraft Corporation and Elgin, Joliet and Eastern Railway Company.
(c)	10.46	Bareboat Charter dated as of June 30, 1994 between GATX Third Aircraft Corporation and Transtar, Inc.
(e)	10.47	Master Equipment Lease Agreement dated as of December 28, 1995 between Birmingham Southern Railroad company and Nationsbanc Leasing Corporation of North Carolina.
(e)	10.48	Master Equipment Lease Agreement dated as of December 28, 1995 between Duluth, Missabe and Iron Range Railway company and Heller Financial Leasing, Inc.
	12.1	Statement of Computation of Ratio of Earnings to Fixed Charges.
(a)	21.1	Significant Subsidiaries of Transtar Holdings, L.P.
	27	Financial Data Schedule.

(a) Previously filed with Registration Statement No. 33-73270 under corresponding Exhibit number.

(b) Previously filed with Form 8-K on October 7, 1994.

(c) Previously filed with Form 10-K on March 24, 1995.

(d) Previously filed with Form 10-Q on November 1, 1995.

(e) Previously filed with Form 10-K on March 22, 1996.

(f) Previously filed with Form 10-K on March 21, 1997.

(g) Previously filed with Form 10-K on March 27, 1998.

(B). REPORTS ON 8-K

Holdings and TCC did not file any reports on Form 8-K during the quarter ended December 31, 1998.

(C). EXHIBITS

See Exhibits to this Form 10-K under separate cover.

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(d) OF THE ACT BY REGISTRANTS WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT.

Holdings and TCC have not sent an annual report or proxy material to their security holders. The only annual report to be sent to Holdings and TCC's securities holders will be a copy of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 15(a) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 25th of March, 1999.

TRANSTAR HOLDINGS, L.P.

By Blackstone Transportation Company, Inc.
its controlling general partner

By /s/ Howard A. Lipson

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----
Name: Howard A. Lipson
Title: Treasurer

TRANSTAR CAPITAL CORPORATION

By /s/ Howard A. Lipson

Name: Howard A. Lipson
Title: Treasurer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons in the capacities indicated on March 25, 1999.

SIGNATURES	TITLE
/s/ James J. Mossman James J. Mossman	Director and President (Principal Executive Officer) of BTC and TCC
/s/ Howard A. Lipson Howard A. Lipson	Treasurer (Principal Financial Officer and Principal Accounting Officer) of BTC and TCC
/s/ Stephen A. Schwarzman Stephen A. Schwarzman	Director of BTC and TCC
/s/ Peter G. Peterson Peter G. Peterson	Director of BTC and TCC

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

EXHIBITS
filed with
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1998

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TRANSTAR HOLDINGS, L.P.
TRANSTAR CAPITAL CORPORATION
(Exact name of registrant as specified in its charter)
6719
6719
(Primary Standard Industrial
Classification Code Number)

INDEX TO EXHIBITS

FOOTNOTE REF.	EXHIBIT NO	DESCRIPTION
(a)	3.1	Certificate of Incorporation of Transtar Capital Corporation, filed with the Secretary of State of the State of Delaware on November 23, 1993.
(a)	3.2	By-laws of Transtar Capital Corporation.
(a)	3.3	Certificate of Incorporation of Blackstone Transportation Company, Inc., the controlling general partner of Transtar Holdings, L.P. (Holdings), filed with the Secretary of State of the State of Delaware on November 23, 1993.
(a)	3.4	By-laws of Blackstone Transportation Company, Inc., the controlling general partner of Transtar Holdings, L.P.
(a)	3.5	Second Amended and Restated Agreement of Limited Partnership of Transtar Holdings, L.P.
(a)	3.6	Amended and Restated Certificate of Limited Partnership of Holdings
(a)	3.7	By-laws of Transtar, Inc.
(a)	4.2	Specimen Certificate of 13 3/8% Series B Senior Discount Notes due 2003 (the Notes) (included in Exhibit 4.3 hereto).
(a)	4.3	Indenture, dated as of December 7, 1993, among Holdings, TCC and the United States Trust Company of New York, as trustee, pursuant to which the Notes were issued.
(a)	10.3	Credit Agreement, dated as of December 7, 1993, among Transtar, Inc. and Chemical Bank as Agent and Issuing Bank thereunder.
(d)	10.3.1	Second amendment dated as of September 15, 1995 to the Credit Agreement dated as of December 7, 1993 among Transtar, Inc. and Chemical Bank as Agent and Issuing Bank thereunder.
(g)	10.3.2	Amendment and Waiver dated as of March 12, 1997 to the Credit Agreement dated as of December 7, 1993 among Transtar, Inc. and the Chase Manhattan Bank as Agent and Issuing Bank thereunder.

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(g)	10.3.3	Third Amendment and Waiver dated as of October 9, 1997 to the Credit Agreement dated as of December 7, 1993 among Transtar, Inc. and the Chase Manhattan Bank as Agent and Issuing Bank thereunder.
(a)	10.4	Stockholders Agreement, dated as of December 28, 1988, by and among Blackstone Capital Partners L.P., Blackstone Transportation Partners L.P., USX Corporation and Transtar, Inc.
(a)	10.5	Transportation Services Agreement, dated December 28, 1988, between Transtar, Inc. and USX Corporation.
	10.5.1	Transportation Services Agreement, dated July 1, 1998, between Transtar, Inc. and USX Corporation.
	10.5.2	Transportation Services Agreement, dated December 29, 1998, between Transtar, Inc. and USS/Kobe Steel Company.
(a)	10.6	Transportation Agreement, dated March 16, 1988, between USX Corporation and USS Great Lakes Fleet, Inc.
	10.6.1	Transportation Services Agreement, dated July 1, 1998 between USS Great Lakes Fleet, Inc. and USX Corporation and USS/Kobe Steel Company.
(a)	10.7	Transportation Services Agreement, dated December 28, 1988, between Transtar, Inc. and U.S. Steel Mining.
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(a)	10.8	Management Stock Trust Agreement, dated December 28, 1988, between Transtar, Inc. and Pittsburgh National Bank.
(a)	10.10	Transtar, Inc. Equity Participation Plan, dated December 28, 1988, as amended.
(e)	10.13	Transtar, Inc. Savings Plan for Salaried Employees, effective January 1, 1989 as amended through January 1, 1996.
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(e)	10.14.1	Transtar, Inc. Split Dollar Life Insurance Plan, effective July 1, 1994.

FOOTNOTE REF.	EXHIBIT NO	DESCRIPTION
(a)	10.15	Layoff Unemployment Benefit Program for Non-Union Salaried Employees as amended January 1, 1989.
(e)	10.16	Transtar, Inc. Salaried Retirement Plan, effective January 1, 1989 as amended through January 1, 1996.
(g)	10.16.1	Second Amendment to the Transtar, Inc. Salaried Retirement Plan, effective January 1, 1997.
(g)	10.16.2	Fifth Amendment to the Transtar, Inc. Salaried Retirement Plan, effective January 1, 1998.
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(g)	10.18	Transtar, Inc. Supplemental Thrift Program, effective January 1, 1994.
(g)	10.19	Transtar, Inc. Supplemental Pension Program, effective

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January 1, 1994.

(a)	10.20	Amendment No. 1 to Bareboat Charter, dated as of September 29, 1989, between PNC Leasing Corp and Transtar, Inc.
(a)	10.21	Bareboat Charter, dated as of June 1, 1990, between PNC Leasing Corp and Transtar, Inc.
(a)	10.22	Bareboat Charter Party, dated as of September 30, 1991, between Joy Finance Company and Transtar, Inc.
(a)	10.23	Lease Agreement, dated as of May 1, 1980, between GATX Leasing Corporation, successor to Gould Leasing Services, Inc., and Bessemer and Lake Erie Railroad Company.
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(a)	10.38	Lease Renewal, dated as of October 24, 1991, between USS Great Lakes Fleet, Inc. and Labovitz Enterprises.
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(b)	10.43	Settlement Agreement among Transtar, Inc., Bessemer and Lake Erie Railroad Company and USX Corporation dated October 6, 1994.

FOOTNOTE REF.	EXHIBIT NO	DESCRIPTION
(f)	10.44.1	Transtar, Inc. Amended Stock Option Plan.
(c)	10.45	Equipment Lease Agreement dated as of July 15, 1994 between GATX Third Aircraft Corporation and Elgin, Joliet and Eastern Railway Company.
(c)	10.46	Bareboat Charter dated as of June 30, 1994 between GATX Third Aircraft Corporation and Transtar, Inc.
(e)	10.47	Master Equipment Lease Agreement dated as of December 28, 1995 between Birmingham Southern Railroad company and Nationsbanc Leasing Corporation of North Carolina.
(e)	10.48	Master Equipment Lease Agreement dated as of December 28, 1995 between Duluth, Missabe and Iron Range Railway company and Heller Financial Leasing, Inc.
	12.1	Statement of Computation of Ratio of Earnings to Fixed Charges.
(a)	21.1	Significant Subsidiaries of Transtar Holdings, L.P.
	27	Financial Data Schedule.

(a) Previously filed with Registration Statement No. 33-73270 under corresponding Exhibit number.

(b) Previously filed with Form 8-K on October 7, 1994.

(c) Previously filed with Form 10-K on March 24, 1995.

(d) Previously filed with Form 10-Q on November 1, 1995.

(e) Previously filed with Form 10-K on March 22, 1996.

(f) Previously filed with Form 10-K on March 21, 1997.

(g) Previously filed with Form 10-K on March 27, 1998.

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1

EXHIBIT 10.5.1

TRANSPORTATION SERVICES AGREEMENT

DATED JULY 1, 1998

BY AND BETWEEN

USX CORPORATION - U. S. STEEL GROUP

AND

TRANSTAR, INC.

2

TRANSPORTATION SERVICES AGREEMENT
BETWEEN USX CORPORATION - U. S. STEEL GROUP
AND
TRANSTAR, INC.
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TRANSPORTATION SERVICES AGREEMENT

This Agreement, made and concluded this 21st day of December, 1998, but effective the 1st day of July 1998, by and between USX CORPORATION - U. S. STEEL GROUP (hereinafter "USS"), a Delaware corporation with offices at 600 Grant Street, Pittsburgh, Pennsylvania 15219, and TRANSTAR, INC. (hereinafter "Transtar"), a Delaware corporation with offices at 135 Jamison Lane, Monroeville, Pennsylvania 15146.

W I T N E S S E T H:

WHEREAS, Transtar is the shareholder of certain transportation operating companies including the Duluth, Missabe and Iron Range Railway Company (hereinafter "DMIR"), the Elgin, Joliet and Eastern Railway Company (hereinafter "EJ&E"), the Bessemer and Lake Erie Railroad Company (hereinafter "Bessemer"),

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Union Railroad Company (hereinafter "Union"), McKeesport Connecting Railroad Company (hereinafter "McKeesport"), Birmingham Southern Railroad Company (hereinafter "Birmingham Southern") and its subsidiary Fairfield Southern Company, Inc. (hereinafter "Fairfield Southern"), Warrior and Gulf Navigation Company (hereinafter "WGN") and its subsidiary Mobile River Terminal Company (hereinafter "Mobile River" and collectively the "Transtar Units"); and

WHEREAS, USS and Transtar are parties to a Transportation Services Agreement dated December 28, 1988 (hereinafter the "1988 TSA"); and

WHEREAS, USS and Transtar desire to enter into a new Transportation Services Agreement to set forth the terms of a commercial business relationship between USS and the Transtar Units and to replace the 1988 TSA;

NOW, THEREFORE, the parties hereto, intending to be legally bound, and in consideration of the mutual agreements herein contained, hereby agree as follows:

1. SCOPE. This Agreement sets forth the understanding of the parties concerning transportation and transportation-related services to be provided to USS by Transtar Units. More specific transportation contracts, tariffs, purchase orders or other agreements may be executed, issued and/or published by USS and the individual Transtar Units in order to implement this Agreement. To the extent required by law, such individual agreements shall be filed with the Surface Transportation Board ("STB") and/or the appropriate state agency.

This Agreement also sets forth the respective rights and obligations of USS and Transtar concerning regulated rail service at certain non-operating facilities as described in Section 20.

2. TERM. This Agreement shall become effective on July 1, 1998 and shall remain in effect through December 31, 2004 ("Initial Term"). At the end of the Initial Term of this Agreement or at the end of the Additional Term established in Section 3 herein, if any of the services previously performed by any Transtar Unit pursuant to this Agreement are subject to competitive bidding, the Transtar Unit shall be offered an opportunity to participate in any competitive bidding for such services.

3. ADDITIONAL TERM. Following the expiration of the Initial Term of this Agreement, all of its terms and/or conditions, insofar as they apply to the service referenced in Sections 6(a) and 7(a), and insofar as they apply to service referenced in Sections 6(c) and 7(c) which is provided on track owned by a Transtar Unit, shall continue to apply to the Union, McKeesport, EJ&E, DMIR and Birmingham Southern (hereinafter "Sole Service Carriers"). If during the Additional Term, a non-Transtar rail carrier obtains access to the USS Mon Valley Works, USS Clairton Works, Gary Works, Minntac, the Camp-Hill Corporation facility, or Fairfield Works (hereinafter "USS Facilities"), USS shall have the

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option of canceling this Agreement, in whole or in part, insofar as it applies to the service referenced in Sections 6(a), 6(c), 7(a) and 7(c) herein which is provided by the Sole

Service Carrier at the facility so accessed. If during the Additional Term, USS purchases or otherwise obtains railroad track from a Transtar Unit on which service referenced in Sections 6(c) and 7(c) is provided, then USS shall have the option of canceling this Agreement, in whole or in part, insofar as it applies to the service provided on such track.

During the Initial Term or the Additional Term, USS shall not take any action which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to any of the USS Facilities or which would in any way assist and/or support any such rail carrier in any efforts to obtain such access; provided, however, that, during the Additional Term, USS may request non-binding mediation pursuant to Section 15 and/or request that an arbitrator, pursuant to the provisions set forth in Section 16 herein, determine whether it is reasonable and equitable for USS to seek competitive access, under the facts, circumstances and the regulatory and competitive conditions in effect at that time, at the USS Facility where USS seeks competitive access.

4. INTENT OF AGREEMENT. The parties hereto intend that they shall mutually benefit from the rates, terms, conditions and provisions of this Agreement and that no party shall be either unreasonably enriched or unreasonably harmed by any

implementation and/or interpretation of said rates, terms, conditions and provisions. In addition, the parties hereto agree and intend that the rates, terms and conditions (including, but not limited to, payment and drafting terms) in effect as of the effective date of this Agreement shall continue in effect except as modified by this or other agreements of the parties and that no party to this Agreement shall seek to change rates, terms and conditions through the arbitration procedures set forth in Section 16 hereof, unless there is a material change in existing facts and circumstances that causes the party seeking such change to suffer a gross inequity. This Agreement, and all agreements implementing this Agreement, shall be administered and interpreted in order to fulfill the intent stated in this Section 4. Any arbitrator considering disputes pursuant to Section 16 hereof shall render a decision which fulfills the intent stated in this Section 4.

5. EXISTING CONTRACTS. All existing contracts, purchase orders and other agreements between USS and the Transtar Units shall remain in effect for the terms stated therein. To the extent that any conflict exists between Sections 6 or 7 of this Agreement and the rate or service provisions of any such contract, purchase order or other agreement, the terms of this Agreement shall supersede and take precedence, provided, however, that every reasonable

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effort shall be made to construe such provisions consistently, and that nothing contained in this Agreement shall be construed or implemented to shorten the term of any such contract, purchase order or other agreement.

6. RATES, TERMS AND/OR CONDITIONS FOR SERVICE.

(a) Rail Service by Sole Service Carriers. Initial Base Rates, terms and/or conditions for all Sole Service Carrier services shall be those in effect in contracts, tariffs or other agreements as of the effective date of this Agreement. The rates between USS and Sole Service Carriers set forth in Exhibits I and III attached to this Agreement (including single-line and joint-line switching and single-line and joint-line line-haul services) together with other rates in effect as of the effective date of this Agreement shall be referred to herein as "Initial Base Rates." Any new rates established during the term of this Agreement shall be deemed "Base Rates" as of the date they are established.

Initial Base Rates and Base Rates for single-line and joint-line switching and single-line line-haul service shall be adjusted annually to be effective January 1, 1999 and each January 1 thereafter in accordance with the procedures set forth in Section 6(h) herein. Joint-line Initial Base Rates and joint-line Base Rates shall be adjusted in

accordance with the procedures set forth in Section 6(i) herein.

(b) Single Line Bessemer Service. Initial Base Rates, terms and/or conditions for services shall be those in effect in contracts, tariffs or other agreements as of the effective date of this Agreement. The rates between USS and Bessemer set forth in Exhibit II shall be referred to herein as "Initial Base Rates." During the Initial Term of this Agreement, any changes, modifications, additions and/or deletions to the terms and/or conditions for the rail single line service provided by Bessemer under this Agreement, shall be negotiated in good faith by the parties and upon agreement implemented either through tariffs, contracts or other agreements. Prior to December 1, 1998 and each December 1 thereafter through December 1, 2003, USS and Bessemer shall in good faith negotiate revised rates which shall be competitive with rates available to USS at that time from viable competitors of the Bessemer capable of offering the same or substantially similar services and volumes to USS. In the event the parties fail to reach agreement by December 1, the preceding year's rates will be used in the interim until agreement is reached. Either party shall have the right to request non-binding mediation pursuant to Section 15 and invoke the arbitration procedures set forth in Section 16

herein and request that the appropriate competitive rates for the succeeding year be determined through those procedures. Any interim rates will be revised retroactively to whatever rates were agreed upon in non-binding mediation or were determined through the arbitration procedures set forth in Section 16. If USS advises Bessemer that any third party buying unloading and/or storage services at Conneaut is permitted by contract to pass on Bessemer charges for such services to USS, then Bessemer charges to such third party shall not exceed the charges and conditions including payment terms, excluding drafting, which

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would have applied if USS had purchased the service directly. Such tonnage will be considered as USS tons in meeting the volume commitment in Section 7(b).

(c) In-Plant Rail Switching Service. Initial Base Rates, terms and/or conditions for in-plant rail switching services shall be those in effect in contracts, tariffs or other agreements as of the effective date of this Agreement. The in-plant rail switching rates between USS and Union, EJ&E, Birmingham Southern, Fairfield Southern, and McKeesport (hereinafter "In-Plant Rail Switching Service Carriers") referenced in Exhibit III together with other rates in effect as of the effective date of this Agreement shall be referred to herein as "Initial Base Rates." Any new rates established

during the term of this Agreement shall be deemed "Base Rates" as of the date they are established. Unless otherwise agreed by the parties, the Base RCAF-U for any such Base Rate shall be the most recent RCAF-U published prior to agreement upon the Base Rate.

Initial Base Rates and Base Rates for In-Plant Rail Switching Carriers shall be adjusted annually to be effective January 1, 1999 and each January 1 thereafter in accordance with the procedures set forth in Section 6(h) herein.

Existing in-plant rail switching services provided by USS plant personnel and Transtar Units are identified on the attached Exhibit IV.

(d) In-Plant Rubber Tire Service. The in-plant rubber tire services identified on Exhibit V shall be provided pursuant to the terms and conditions of the purchase orders or other agreements in effect as of the effective date of this Agreement. Upon the expiration of any such purchase order or agreement, USS shall have the option to subject the rubber tire service involved to competitive bidding; provided, however, that Transtar Units shall be offered an opportunity to participate in any competitive bidding of such services.

(e) Miscellaneous In-Plant Services. During the Initial Term of this Agreement, USS shall have the option to subject all or any such services as set forth in Exhibit VI to competitive bidding; provided, however, that Transtar Units

shall be offered an opportunity to participate in any competitive bidding for the services set forth in Exhibit VI and any additional transportation and transportation related services required by USS.

(f) WGN. Rates between USS and WGN set forth in Exhibits VII and VIII together with other rates in effect as of the effective date of this Agreement shall be referred to herein as "Initial Base Rates." Any new rates established during the term of this Agreement shall be deemed "Base Rates" as of the date they are established. Initial Base Rates as adjusted and, unless otherwise agreed by the parties, Base Rates as adjusted, shall be subject to the Fuel Cost Adjustment set forth in Exhibit IX. Upon request for any new service required by USS, WGN shall offer rates, terms and/or conditions which are competitive with the rates, terms and/or conditions offered by viable competing water carriers or stevedores for similar services in the same geographic area. Base Rates for commodities other than iron ore, iron ore pellets and coke shall be established

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by mutual agreement of the parties and, failing such agreement, by the dispute resolution procedures set forth in Sections 15 and 16 of this Agreement. Prior to December 1, 1999 and each December 1 thereafter through December 1, 2003, USS and WGN shall in good faith negotiate adjusted Initial Base Rates and adjusted Base

Rates which shall be competitive with rates available to USS at that time from viable competitors of WGN capable of offering the same or substantially similar services and volumes to USS. In the event the parties fail to reach agreement by December 1 on adjusted Initial Base Rates or adjusted Base Rates, the preceding year's rates will be used as interim rates. If after good faith negotiations, the parties fail to reach agreement on the amount of the annual adjustment to the Initial Base Rates set forth in Exhibit VIII, such Initial Base Rates shall be adjusted up or down by one hundred percent (100%) of the cumulative percentage change between the October 1998 Producer Price Index All Commodities Unadjusted ("PPI-U") and the most recent October PPI-U published prior to the January 1 effective date of the adjusted Initial Base Rate, provided however, that the adjusted Initial Base Rate shall never fall below the originally established level.

If after good faith negotiations, the parties fail to reach agreement on the amount of the annual adjustment to the Base Rates, Base Rates shall be adjusted up or down by one hundred percent (100%) of the cumulative percentage change between the PPI-U published immediately prior to the effective date of the Base Rate and the most recent October PPI-U published prior to the January 1 effective date of the

adjusted Base Rate, provided however, that the adjusted Base Rate shall never fall below the originally established level.

Neither party shall have the right to request non-binding mediation pursuant to Section 15 and invoke the arbitration procedures set forth in Section 16 to request that an adjusted Initial Base Rate or adjusted Base Rate be agreed upon or determined through these procedures unless the party is able to prove it has suffered a gross inequity as a result of the implementation of the adjusted Initial Base Rate or the adjusted Base Rate. In no event shall the dispute resolution procedures result in the adjusted Initial Base Rate ever falling below the Initial Base Rate or the adjusted Base Rate ever falling below the originally established Base Rate. Any interim rates will be revised retroactively to whatever rates were agreed upon through non-binding mediation or were determined through the dispute resolution procedures set forth in Section 16.

(g) Mobile River. Rates between USS and Mobile River set forth in Exhibit X together with other rates in effect as of the effective date of this Agreement shall be referred to herein as "Initial Base Rates." Any new rates established during the term of this Agreement shall be deemed "Base Rates" as of the date they are established. Upon request for any new service required by USS, Mobile River shall offer stevedoring

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rates, terms and/or conditions competitive with those offered by similar facilities for similar service in the same geographic area. Base Rates for commodities other than iron ore, iron ore pellets and coke shall be established by mutual agreement of the parties and, failing such agreement, by the dispute resolution procedures set forth in Sections 15 and 16 of this Agreement. Prior to December 1, 1998 and each December 1 thereafter through December 1, 2003, USS and Mobile River shall in good faith negotiate adjusted Initial Base Rates and adjusted Base Rates which shall be competitive with rates available to USS at that time from viable competitors of Mobile River capable of offering the same or substantially similar services and volumes to USS in the Mobile area. In the event the parties fail to reach agreement by December 1 on adjusted Initial Base Rates or adjusted Base Rates, the preceding year's rates will be used as interim rates. If after good faith negotiations, the parties fail to reach agreement on the amount of the annual adjustment to the Initial Base Rates set forth in Exhibit X, such Initial Base Rates shall be adjusted up or down by one hundred percent (100%) of the cumulative percentage change between the October 1997 Producer Price Index All Commodities Unadjusted ("PPI-U") and the most recent October PPI-U published prior to the January 1 effective date of the adjusted Initial Base Rate, provided however, that the adjusted Initial Base Rate shall never fall below the originally established level. If after good faith negotiations, the parties fail to reach agreement on the amount of the annual adjustment to the Base Rates, Base Rates shall be adjusted up or down by one hundred percent (100%) of the cumulative percentage change between the PPI-U published immediately prior to the effective date of the Base Rate and the most recent October PPI-U published prior to the January 1 effective date of the adjusted Base Rate,

provided however, that the adjusted Base Rate shall never fall below the originally established level.

If after good faith negotiations, the parties fail to reach agreement on the amount of the annual adjustment to the Base Rates, Base Rates shall be adjusted up or down by one hundred percent (100%) of the cumulative percentage change between the PPI-U published immediately prior to the effective date of the Base Rate and the most recent October PPI-U published prior to the January 1 effective date of the adjusted Base Rate, provided however, that the adjusted Base Rate shall never fall below the originally established level.

Neither party shall have the right to request non-binding mediation pursuant to Section 15 and invoke the arbitration procedures set forth in Section 16 to request that an adjusted Initial Base Rate or Base Rate be agreed upon or determined through these procedures unless the party is able to prove it has suffered a gross inequity as a result of the implementation of the adjusted Initial Base Rate or the adjusted Base Rate. In no event shall the dispute resolution procedures result in the adjusted Initial Base Rate ever falling below the Initial Base Rate or the adjusted Base Rate ever falling below the originally established Base Rate. Any interim rates will be revised retroactively to whatever rates were agreed upon through non-binding mediation or were determined through the dispute resolution procedures set forth in Section 16.

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If USS advises Mobile River that any third party buying unloading and/or storage services at Mobile River is permitted by contract to pass on Mobile River charges for such service to USS, then Mobile River charges to such third party shall not exceed the charges and conditions including payment terms, excluding drafting, which would have applied if USS had purchased the service directly. Such tonnage will be considered as USS tons in meeting the volume commitments in Section 7(g).

(h) Adjustments to Initial Base Rates, Terms and Conditions and Base Rates, Terms and Conditions on Single-Line and Joint-Line Switching and Single-Line Line-Haul Service. The Initial Base Rates and Base Rates for single-line and joint-line switching and single-line line-haul service for Sole Service Carrier and Fairfield Southern services shall be adjusted annually, to be effective January 1, 1999 and each January 1 thereafter. Such adjustments, as well as any other increases, decreases, changes, modifications, additions and/or deletions to Initial Base Rates, terms and/or conditions and Base Rates, terms and/or conditions for any such rail service during the Initial or any Additional Term shall be negotiated in good faith by the parties and upon agreement implemented either through tariffs, contracts or other agreements. If,

after good faith negotiation during the Initial Term the parties fail to reach agreement on the amount of the annual adjustment to the Initial Base Rates and Base Rates, then (1) the Initial Base Rates shall be adjusted up or down by eighty percent (80%) of the amount of the percentage change between the 4th quarter 1997 Rail Cost Adjustment Factor, unadjusted for productivity ("RCAF-U") of 1.00, as rebased by the STB and published in Ex Parte No. 290 (Sub No. 5) (98-1) Table A decided on or about December 12, 1997 ("Base RCAF-U") and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted Initial Base Rate , provided however, that the adjusted Initial Base Rate shall never fall below the Initial Base Rate and (2) the Base Rates shall be adjusted up or down by eighty percent (80%) of the amount of the percentage change between the most recent RCAF-U published prior to the time that the Base Rate was established and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted Base Rate, provided however, that the adjusted Base Rate shall never fall below its original established level. (See examples in Exhibits XVIII and XIX attached to this Agreement.)

At the end of the Initial Term, Transtar shall elect whether to apply the maximum cumulative allowable rate adjustment to any rate in effect on December 31, 2004 to be adjusted and to become effective January 1, 2005.

If after good faith negotiations during the Additional Term of this Agreement, the parties fail to reach agreement on the amount of the annual adjustment to the Initial Base Rates and the Base Rates, then (1) the Initial Base Rates and adjusted Initial Base Rates in effect prior to January 1, 2005 shall be adjusted up or down by one hundred percent (100%) of the amount of the percentage change between the 4th quarter 2003 Rail Cost Adjustment Factor ("RCAF-U") as published by the STB ("Base RCAF-U") and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted

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Initial Base Rate, provided however, that the Initial Base Rate and adjusted Initial Base Rate shall never fall below their January 1, 2004 level and (2) the Base Rates and adjusted Base Rates established prior to January 1, 2005 shall be adjusted up or down by one hundred percent (100%) of the amount of the percentage change between the 4th Quarter 2003 RCAF-U and the most recent 4th Quarter RCAF-U published prior to the January 1 effective date of the adjusted Base Rate, provided however, that the Base Rate and adjusted Base Rate shall never fall below their most recent level prior to

January 1, 2005 and (3) any Base Rates established during the Additional Term of this Agreement shall be adjusted up or down by one hundred percent (100%) of the amount of the percentage change between the most recent RCAF-U published prior to the time that the Base Rate was established and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted Base Rate, provided, however, that such adjusted Base Rate shall never fall below its originally established level. Such adjusted Initial Base Rates and adjusted Base Rates shall be implemented effective each January 1 for the ensuing year.

Neither party shall have the right to invoke the dispute resolution procedures set forth in Sections 15 and 16 to request an appropriate rate adjustment be determined through these procedures, unless the party is able to prove it has suffered a gross inequity as a result of the implementation of the adjusted Initial Base Rate or the adjusted Base Rate. In no event during the Initial Term of this Agreement shall the dispute resolution procedures result in the adjusted Initial Base Rate ever falling below the Initial Base Rate or the adjusted Base Rate ever falling below its original established level. In no event during the Additional Term of this Agreement shall the dispute resolution procedures result in the Initial Base Rate and the adjusted Initial Base Rate ever falling below the January 1, 2004

level, the Base Rate and adjusted Base Rate in effect on January 1, 2005 ever falling below their January 1, 2005 level and the Base Rate and adjusted Base Rate established during the Additional Term ever falling below their originally established level. During the Initial and Additional Term of this Agreement, per car rates reflected in this Agreement for single-line and/or in-plant coke movements may be adjusted upward proportionally to the increase in car carrying capacity or cube size whenever such car carrying capacity or cube size increases by more than 5%. During the Additional Term, such adjustments may be sought for movement of any other commodities but may be implemented if mutually agreed upon by the parties or, failing such agreement, pursuant to the dispute resolution procedures set forth in Sections 15 and 16 of this Agreement. Any arbitrator considering a request for such an adjustment shall attempt to follow prevailing practice in the rail industry.

(i) Adjustments to Joint-Line Rates. Sole Service Carrier earnings on existing joint line rates may be adjusted up or down by an amount not to exceed the same percentage increase or decrease as implemented by the trunk line for its portion of earnings on the through rate, provided the Sole Service Carrier's earnings shall never fall below its earnings under the joint-line Initial Base Rate as may be adjusted as

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set forth in Section 6(j) and provided Sole Service Carrier's earnings shall never fall below its earnings under the originally established joint-line Base Rates as may be adjusted as set forth in Section 6(j). The dollar amount of Sole Service Carrier earnings shall equal the dollar amount of its earnings under the joint-line Initial Base Rate or the joint-line Base Rate, as may be adjusted as set forth in Section 6(j), while the adjusted Initial Base Rate is equal to or lower than the joint-line Initial Base Rate or the adjusted Base Rate is equal to or lower than the originally established joint-line Base Rate. Once the adjusted rate exceeds the Initial Base Rate or Base Rate, Sole Service Carrier earnings shall be the same percentage of the adjusted joint-line Initial Base Rate or the adjusted joint-line Base Rate as Sole Service Carrier percentage under the Initial Base Rate or the originally established Base Rate except as may be adjusted as set forth in Section 6(j). (See examples in Exhibits XX and XXI attached to this Agreement.) If there is more than one other line-haul carrier included in the joint rate with the Sole Service Carrier, Sole Service Carrier earnings may be adjusted by an amount not to exceed the weighted average percentage of the other participating carriers. With respect to new joint line rates, Sole Service Carriers shall not seek requirements that are higher than earnings on existing rates

for movements of the same commodities from the same or a comparable junction point to the same or comparable destination in similar quantities and equipment. USS shall have the right to audit Sole Service Carrier records to ensure compliance with this provision, provided however, such audit shall be conducted by an independent auditor to be nominated by USS, subject to written approval by the Transtar Unit to be audited, which approval shall not be unreasonably withheld. The auditor shall only certify to USS whether Sole Service Carrier was in compliance and shall keep all information confidential. Sole Service Carriers shall notify USS whenever a division of a joint-line rate deviates from the percentage division in effect at the time the Initial Base Rate or Base Rate was established. Transtar and Sole Service Carriers hereby consent to USS requesting, and trunk line carriers advising, only whether the division has changed or whether the Transtar Unit has priced its division on a new movement in accordance with existing rates for movement of the same commodities from the same or a comparable junction point to the same or comparable destination in similar quantities and equipment. Under no circumstances do Transtar or the Sole Service Carriers consent to the trunk lines disclosing the amount or the percentage of the divisions or of USS requesting the same.

(j) Car Hire Adjustments to Rail Earnings. With respect to Sole Service Carriers earnings for services specified in this Agreement, Transtar shall have the right to make adjustments as necessary for increases in cost of rail cars forced upon Transtar or Transtar Units by others pursuant to

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car hire deprescription or revisions to Car Hire Rules or Car Service Regulations. Transtar shall provide USS with reasonable supporting documentation for any adjustment pursuant to this Section at the time such adjustment is proposed.

(k) Regulatory Change. Any new laws and/or regulations which become effective during the Initial Term or Additional Term of this Agreement, which place new obligations on Transtar rail or barge carriers, including, but not limited to, obligations with respect to competitive access and/or obligations to quote segments of joint line movements, and which apply to rail and/or barge service provided to USS' competitors, shall be applicable to service provided hereunder.

(l) Drafting. Drafting procedures applicable to shipments via Transtar Units to and from USS may be modified, as desired by USS, acting in its sole discretion, in accordance with the following schedule:

No Earlier Than:	Transtar Unit
7-1-2000	BLE, URR
7-1-2001	EJ&E
7-1-2002	BS, FS
7-1-2003	WGN, MRT
7-1-2004	DMIR

In those instances where drafting procedures are modified, appropriate procedures will be put into place by the parties which provide for payment within fifteen (15) days of receipt of billing.

(m) Determination of Competitive Rates Under Certain Circumstances. During the term of this Agreement if the combined rate of WGN, MRT and BS, as adjusted (excluding any FS rate) for transportation from Mobile to Fairfield Works is not reasonably competitive with a bona fide offer for such transportation from a viable competitor of the Transtar Units (including any mode or any transportation group offering joint service in conjunction with one or more Transtar Units) capable of providing transportation from Mobile to Fairfield Works on a sustained and continual basis, then either party may invoke the dispute resolution procedures set forth in Sections 15 and 16 to request that a competitive combined Transtar Unit rate be agreed upon or determined through these procedures.

7. TRANSPORTATION COMMITMENTS. (a) Rail Service by Sole Service Carriers. During the Initial Term and the Additional Term of this Agreement, USS shall ship via rail Transtar Units

one hundred percent (100%) of the rail traffic originating or terminating at the Clairton Works, Gary Works, Fairfield Works, Mon Valley Works and Minntac and one hundred percent (100%) of USS-controlled rail traffic originating or terminating at Camp-Hill Corporation.

If USS does not ship one hundred percent (100%) of the coke shipments originating at Clairton Works during the Initial Term via URR, USS shall pay URR

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liquidated damages of $1.60 for each net ton of coke which originates at Clairton and does not move via URR during said Initial Term, provided however, such liquidated damages shall not exceed $1,920,000 in any single calendar year.

(b) Bessemer. During each calendar year of the Initial Term of this Agreement, USS shall ship via Bessemer not less than sixty percent (60%) of the Mon Valley Works' total ore burden (regardless of source) including but not limited to blast furnace trim, iron ore and/or iron ore pellets. For the six (6) month period July 1, 1998 through December 31, 1998, calendar year 1998 shipments will be used to judge performance.

If USS ships less than the minimum percentage, it shall pay Bessemer liquidated damages of $2.00 GT, escalated in accordance with the provisions of Section 12 herein, for each ton less than the minimum percentage, within thirty (30) days of receipt of billing for such liquidated damages.

(c) In-Plant Rail Switching Service. During the Initial Term and Additional Term of this Agreement, Transtar Units shall have the right to provide one hundred percent (100%) of the in-plant rail switching services identified on the attached Exhibit IV as being provided by them at the effective date of this Agreement, so long as such in-plant rail switching services are required by USS from any source provided that Transtar Units shall have the right to 100% of any new rail switching service at facilities currently served by Transtar Units that develops during the Initial Term and Additional Term of this Agreement which USS chooses not to provide or perform with their forces. USS may, at any time, in its sole discretion, choose to have such rail transportation services provided by a non-rail mode. During the Initial Term and Additional Term of this Agreement USS shall grant to Transtar a right of first refusal to provide any new or additional rail transportation services required by USS at facilities currently served by Transtar Units. Such right of first refusal shall pertain only to the rail transportation service and shall not apply to any construction of new railroad track and/or maintenance of any such track. USS shall retain, at all times, the right to subject track construction and/or track maintenance to competitive bidding. USS shall notify a Transtar Unit in

writing that such service will be required and shall designate reasonable specifications required for such service. The Transtar Unit shall advise in writing within thirty (30) days of receipt of such notice if it is willing and able to provide the service in accordance with the specifications. A negative response or a failure to respond in thirty (30) days shall cause the Transtar Unit to lose its right of first refusal and permit USS to subject such service to competitive bidding. Following receipt of notice by USS that the Transtar Unit desires to provide the service, USS and the Transtar Unit shall promptly meet to negotiate, in good faith, rates for such service which are competitive with rates available to USS from third parties capable of providing such service on a continual and sustained basis with financial resources adequate to provide such services. If the parties fail to reach an Agreement within thirty (30) days of the commencement of negotiations, either party may subject the dispute to the dispute resolution procedures set forth in Sections 15 and 16 herein in order to have an appropriate competitive rate established pursuant to those procedures. USS shall retain, at all times, the right to choose, in its sole discretion, to provide rail transportation service at any new facility with its own employees.

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(d) In-Plant Rubber Tire Service. Transtar Units shall have the right to provide one hundred percent (100%) of the in-plant rubber tire services identified on the attached Exhibit V pursuant to the terms and conditions of the purchase orders or other agreements in existence on the effective date of this Agreement. Following the expiration of any existing purchase orders or other agreements, such services may be subject to competitive bid, provided, however, Transtar Units shall be permitted to participate in bidding. Transtar Units shall also be permitted to participate in bidding for new or additional rubber tire services of the nature identified in Exhibit V required by USS.

(e) Miscellaneous In-Plant Services. Transtar Units shall be permitted to participate in bidding for miscellaneous in-plant services identified in Exhibit VI. Transtar Units shall also be permitted to participate in bidding new or additional transportation-related in-plant services.

(f) WGN. During each calendar year of the Initial Term of this Agreement, USS shall ship via WGN not less than ninety percent (90%) of its iron ore, iron ore pellets, and coke received from ocean vessels at Mobile for shipment to Fairfield Works. For the six (6) month period July 1, 1998 through December 31, 1998, calendar year 1998 shipments will be used to judge performance.

If during the Initial Term of this Agreement any significant change occurs to the type of commodity used to source Fairfield Works' iron requirements, then WGN and USS shall meet and in good faith negotiate a rate for any significant iron substitute tonnage received by ocean vessel at Mobile for transshipment to Fairfield Works. If the parties are unable to agree upon a rate, the matter shall be submitted to dispute resolution pursuant to Sections 15 and 16 of this Agreement. Following any such significant change, the movements of such iron substitute tonnage shall be subject to the same ninety percent (90%) requirement as the iron ore, iron ore pellets and coke tonnage.

If USS ships less than ninety percent (90%)via WGN, it shall pay WGN liquidated damages of $2.00 NT escalated in accordance with the provisions of Section 12 herein, for each ton less than this minimum percentage within thirty (30) days of receipt of billing for such liquidated damages.

(g) Mobile River. During each calendar year of the Initial Term of this Agreement, USS shall provide Mobile River not less than ninety percent (90%) of its iron ore, iron ore pellets, and coke unloaded from ocean vessels at Mobile, Alabama for movement to Fairfield Works. For the six (6) month period July 1, 1998 through December 31, 1998, calendar year 1998 shipments will be used to judge performance.

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If during the Initial Term of this Agreement any significant change occurs to the type of commodity used to source Fairfield Works' iron requirements, then WGN and USS shall meet and in good faith negotiate a rate for any significant iron substitute tonnage received by ocean vessel at Mobile for transshipment to Fairfield Works. If the parties are unable to agree upon a rate, the matter shall be submitted to dispute resolution pursuant to Sections 15 and 16 of this Agreement. Following any such significant change, the movements of such iron substitute tonnage shall be subject to the same ninety percent (90%) requirement as the iron ore, iron ore pellets and coke tonnage.

If USS ships less than ninety percent (90%) via Mobile River, it shall pay Mobile River liquidated damages of $.85 NT escalated in accordance with the provisions of Section 12 herein, for each ton less than this minimum percentage within thirty (30) days of receipt of billing for such liquidated damages.

(h) Bid Terms. From and after the effective date of this Agreement, neither Transtar nor any of the Transtar Units shall be required to indemnify or hold harmless any party to this Agreement as a condition to bidding for, or being awarded the right to provide, transportation or transportation-related services, whether such services are within the scope of any Transportation Services Agreement or otherwise, and the

absence of any such indemnity or hold harmless provision in any such bid shall not be taken into consideration to determine the competitiveness of such bid. The intent of this provision is (1) to relieve Transtar and the Transtar Units from the requirement of indemnifying or holding harmless any other party to this Agreement in contracts, agreements, sales and purchase orders for transportation or transportation-related services that are amended or entered into upon and after the effective date of this Agreement and (2) to abolish the requirement that Transtar or the Transtar Units undertake such indemnification or hold harmless obligations in order to be deemed competitive in bidding for, or as a precondition to be awarded the right to provide, such transportation and transportation-related services. In lieu of any such hold harmless and indemnification agreements, Transtar Units shall be obligated to agree to apportion liability pursuant to the terms of that certain Memorandum of Understanding Regarding Financial Responsibility dated December 21, 1998 as such Memorandum may be amended from time to time.

8. SERVICE LEVELS. During the Initial Term and the Additional Term of this Agreement, Transtar Units shall maintain service levels which are reasonably required to provide service hereunder and in a manner consistent with and competitive with other carriers in the area. The originating rail Transtar Unit shall be responsible for arranging for car

supply consistent with the availability of rail cars from other carriers, provided that the Transtar Unit rail carrier may not require USS to utilize Transtar Unit hopper cars for coke shipments in lieu of otherwise available more efficient rail cars. The Transtar Unit shall have car ownership obligations on in-plant and single-line switching and line-haul movements but shall have no car ownership obligations when it functions as a switch carrier on interline freight movements. Any dispute between the parties concerning service levels shall be referred to dispute resolution in accordance with the provisions of Sections 15

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and 16 hereof.

9. MAINTENANCE OF TRANSPORTATION ASSETS. Transtar Units shall maintain in good and serviceable condition those transportation assets used to provide service to USS pursuant to this Agreement, including, but not limited to, way and structures, locomotives, railcars, signaling systems, tugs, barges, rubber tire equipment and transshipment facilities.

EJ&E shall acquire sufficient high cube coke racks to protect present Gary Works' in-plant coke movements subject to a maximum expenditure of $20 million. EJ&E shall direct its best efforts to acquire said cars by December 31, 2000 or sooner, if possible.

During the remainder of 1998, BLE and USS shall jointly study the issue of fines generation during the rail-lake-rail movement and attempt to identify a mutually agreeable solution. If the parties are unable to agree upon a solution by December 31, 1998, USS shall have the option, at any time thereafter during the Initial Term of this Agreement, upon reasonable notice in writing to BLE, to require BLE to construct a screening facility at Conneaut subject to a maximum expenditure of $2 million.

DMIR will replace individual ore cars used to provide services to USS under this Agreement when replacement is necessary. The cost for any DMIR ore cars replaced shall be borne by DMIR without any increase in the transportation rate other than that provided in Section 6(h). DMIR shall not invoke the force majeure provisions of Section 25 because of a failure of the Federal Railroad Administration to grant any waiver authorizing continued use of any of the ore cars now existing.

Any dispute between the parties concerning maintenance of transportation assets shall be referred to the dispute resolution procedures in accordance with the provisions of Sections 15 and 16 hereof.

10. MAINTENANCE OF INTERCHANGES. Transtar Units shall maintain interchanges, gateways and/or terminals operable as of the date of this Agreement which are reasonably required to provide service hereunder. Any dispute between the parties concerning maintenance of interchanges, gateways and/or terminals shall be referred to dispute resolution in accordance with the provisions of Sections 15 and 16 hereof.

11. AUDIT. Each party shall have the right to audit the other's records insofar as necessary to ensure compliance with all of the terms and conditions of this Agreement. Except as provided in Section 6(i) herein, such audits shall be performed by an internal or external auditor, provided however, that the party being audited shall have the right to require that any audit be conducted by a mutually agreeable independent auditor and that the details of the information examined in such audit be kept confidential from the party requesting the audit, except to the extent necessary to resolve any controversy that is pursued in good faith. The first $20,000 of cumulative total audit expense annually incurred for audit services required by either party to be performed by independent auditors shall be shared equally by the parties. Thereafter, such audit expense shall be borne by the party requesting the audit.

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12. LIQUIDATED DAMAGES. The parties acknowledge that in light of the nature of the investments and expenditures to be made by Transtar and the Transtar Units to comply with obligations under this Agreement, the actual damages which will be sustained in the event of a failure of USS to meet its obligations under Sections 7(a), (b), (f) and (g) are uncertain and difficult to ascertain. Accordingly, the parties have agreed to appropriate measures of liquidated damages for each ton below the applicable minimum percentages set forth in Sections 7(a) (pertaining to Clairton coke shipments only),(b), (f) and (g).

Liquidated damages provided in Section 7(b), shall be adjusted annually during the Initial Term of this Agreement, to be effective January 1, 1999 and each January 1 thereafter, up or down by eighty percent (80%) of the amount of the percentage change between the 4th Quarter 1997 Rail Cost Adjustment Factor, unadjusted for productivity ("RCAF-U") of 1.00, as rebased by the STB and published in Ex Parte No. 290 (Sub No. 5) (98-1) Table A decided on or about December 12, 1997 ("Base RCAF-U") and the most recent 4th Quarter RCAF-U published prior to the January 1 effective date of the adjusted liquidated damages and shall never fall below the initial liquidated damages.

Liquidated damages provided in Sections 7(f) and 7(g) shall be adjusted annually during the Initial Term of this Agreement to be effective January 1, 1999 and each January 1 thereafter up or down by one hundred percent (100%) of the cumulative percentage change between the October 1997 PPI-U and the most recent PPI-U published immediately prior to the January 1 effective date of the adjusted liquidated damages but shall never fall below the originally established level.

If during the Initial Term of this Agreement, USS, for any reason other than force majeure, fails to meet any of its volume commitments set forth in Sections 7(b), (f) and (g) hereof for any given calendar year other than the final calendar year of the Initial Term, USS may, in lieu of paying liquidated damages, make up the deficit volume during the immediately succeeding calendar year by shipping such deficit volume plus an additional 10% of the deficit volume over the Transtar Unit to which the volume commitment was made, in addition to shipping its annual volume commitment for such succeeding year. If any portion of the deficit volume plus an additional 10% of the deficit volume has not been shipped by the end of the immediately succeeding calendar year, USS shall pay the liquidated damages (as then escalated) for such portion no later than thirty (30) days after billing by the

Transtar Unit. It is the intent of the parties that the provisions of the final paragraph of this Section 12 shall not apply to the volume commitment set forth in Subsection 7(a) pertaining to Clairton coke shipments.

13. SEVERABILITY. It is the desire of the parties hereto that this

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Agreement be enforced to the fullest extent permissible under the laws and public policies to be applied thereto. Accordingly, if any particular portion of this Agreement shall be adjudicated to be void, invalid or unenforceable, this Agreement shall be deemed to be amended to delete herefrom the portion thus adjudicated to be void, invalid, or unenforceable, unless such change alters the purpose and intent of this Agreement, in which case this Agreement shall be null and void.

14. INEQUITIES. The parties intend that they shall mutually benefit from the terms, conditions and provisions of this Agreement. If any party suffers a gross inequity resulting from such terms, conditions or provisions, or from a substantial change in circumstances or conditions, the parties shall negotiate in good faith to resolve or remove such inequity. In the event the parties fail to reach an agreement concerning any alleged gross inequity, the dispute shall be referred to the dispute resolution procedures of Sections 15 and 16 hereof. It is mutually understood and agreed, however,

that nothing herein shall be construed to relieve any party of any of its obligations under this Agreement or under any related transportation contract, purchase order or other agreement. The parties further agree that, unless otherwise required by law, no party shall assert or cause to be asserted in any suit, action, proceeding or other adjudication that any of the terms, conditions or provisions of this Agreement are or will be unenforceable, unjust, unreasonable, unreasonably discriminatory, preferential or prejudicial, or otherwise in violation of any provision of any act or statute or any rule, order or regulation thereof.

15. MEDIATION. At any time prior to the start of sworn testimony in arbitration, provided under Section 16 of this Agreement, a party may submit a dispute arising hereunder to non-binding mediation. The mediator shall be selected by the party submitting the dispute with or without the concurrence of the other party. Neither submission of a dispute to mediation nor conclusion of the mediation process shall be a condition precedent to exercise of the arbitration procedures available to the parties under this Agreement. If a dispute is submitted to mediation:

1) the parties shall mediate the dispute in good faith;

2) mediation shall occur in Allegheny County, Pennsylvania;

3) final decision makers for each party on any matter in dispute shall personally attend all mediation sessions;

4) the mediator shall have complete control of the mediation timing and process, provided, however, that the mediation shall conclude no later than fourteen (14) calendar days from the day of the initial meeting between the mediator and the parties;

5) all agreements reached in mediation shall be reduced to writing before concluding the mediation process;

6) the parties may jointly agree to have the mediator make a final and binding decision;

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7) no discovery will be taken during the mediation process;

8) the mediation process shall be confidential and each party participating shall have the right to designate any information provided to the mediator as "Confidential and Proprietary."

16. ARBITRATION. All disputes arising under this Agreement shall be referred to binding arbitration conducted expeditiously in accordance with Center for Public Resources Rules for Non-Administered Arbitration of Business Disputes ("CPR Rules") by a three person panel of arbitrators, each party choosing one arbitrator and the two arbitrators so chosen selecting a third, neutral arbitrator. The failure or inability of either party to choose an arbitrator or of the

arbitrators chosen by the parties to select a third neutral arbitrator shall be resolved in accordance with the CPR Rules. Arbitration shall be conducted at a mutually convenient location in Allegheny County, Pennsylvania or at such other location as the parties may agree. The award in writing signed by any two of the arbitrators shall be final and binding. In order to resolve any disputes hereunder, the arbitrators shall implement the specific rights and obligations set forth in this Agreement while fulfilling the intent stated in Section 4 hereof. Either party shall have the right to seek, and the arbitrators shall determine, declaratory relief of the nature generally set forth in the Uniform Declaratory Judgments Act (as in effect in the Commonwealth of Pennsylvania and as the same may be amended from time to time) including, but not limited to, questions of construction of this Agreement, or a declaration of rights, status or other legal relations hereunder. The arbitrators shall apply the substantive statutory and common law of the Commonwealth of Pennsylvania to the dispute and the evidentiary laws of the Commonwealth of Pennsylvania to the arbitration proceeding. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-16, and judgment upon the award entered by the arbitrators may be entered by any court having jurisdiction thereof. The arbitrators shall not award damages in excess of compensatory

damages. The costs and expenses of the arbitration (other than attorneys' fees, if any) shall be borne one-half by USS and one-half by the Transtar Unit. The arbitrators shall be permitted to review existing documents or records of any party to the extent that, in the sole discretion of the neutral arbitrator, such documents and/or records are deemed to be relevant and to the extent the parties are permitted by law or by contract to convey such documents or records to the arbitrator. Either party shall have the right to designate any information sought in discovery or provided to the arbitrators at their request as confidential and/or proprietary in which case the neutral arbitrator shall determine whether the information sought shall be disclosed in discovery or, if such information is provided to the arbitrators at their request, shall not convey such information to the other party.

17. ASSIGNMENT. No party to this Agreement shall assign or transfer this Agreement or any interest herein, other than to the lenders providing financing to Transtar, Inc. (which lenders will act through a single agent) without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the provisions of this Section 17, this Agreement shall inure to the benefit of and be binding upon the successors and

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assigns to the parties. USS shall not directly or indirectly sell, transfer or

otherwise dispose of all or a substantial portion of the assets of any facility served by Transtar Units during the term of this Agreement to any party which intends to operate a facility at that location for the production of steel or steel-related products, unless the purchaser, acquiror or other transferee of such facility assumes, in a writing reasonably satisfactory to Transtar, all of the rights and obligations set forth in this Agreement.

18. NOTICES. Unless otherwise specified herein, any and all notices under this Agreement shall be in writing and shall be delivered to the party entitled to receive the same: (1) by hand delivery; (2) by registered or certified mail, return receipt requested; (3) by overnight delivery service which provides proof of delivery; or (4) by telecopy, with a duplicate copy sent via first class mail, postage pre-paid addressed as follows:

If to USS:

USX Corporation-U. S. Steel Group
600 Grant Street - Room 2382
Pittsburgh, Pennsylvania 15219-2749
Attention: Director - Raw Materials Planning,
Procurement and Distribution
Phone: 412-433-3620
Fax: 412-433-3624

USX Corporation-U. S. Steel Group
600 Grant Street - Room 460
Pittsburgh, Pennsylvania 15219-2749
Attention: General Manager-Distribution and Logistics
Phone: 412-433-3155
Fax: 412-433-3085

USX Corporation-U. S. Steel Group
600 Grant Street - Room 431
Pittsburgh, Pennsylvania 15219-2749
Attention: General Manager-Purchasing
Phone: 412-433-2460
Fax: 412-433-2449

If to a Transtar Unit:

Transtar, Inc.
135 Jamison Lane
Monroeville, Pennsylvania 15146
Attention: Vice President-Marketing
Phone: 412-829-3420
Fax: 412-829-6603

19. LAW GOVERNING. This Agreement shall be construed in accordance with

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the laws of the Commonwealth of Pennsylvania excluding its conflict of laws provision.

20. NON-OPERATING FACILITIES. During the Initial Term and Additional Term of this Agreement, USS shall not initiate or participate in any activity or discussions adverse to the sole common carrier railroad status of the respective rail Transtar Units at the non-operating facilities identified on Exhibit XI provided, however, that USS shall not be required to forego sale of any such non-operating facility in any instance where the buyer, as a condition of the sale and after discussions with Transtar representatives, refuses to accept a sole serving carrier for the facility. If any potential buyer expresses interest in rail service, USS shall refer such buyer to the appropriate Transtar Unit. During such term, the respective Transtar Units shall not take any action to abandon

their common carrier obligation to provide rail service at any of the facilities identified on Exhibit XI unless they have obtained the prior written consent of USS.

21. RELATIONSHIP OF PARTIES. The relationship between USS and Transtar Units under this Agreement shall be that of independent contractors. Nothing in this Agreement shall be deemed to constitute a relationship of agency, joint venture, partnership, or any relationship other than that specified.

22. INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES. In no event shall a party be liable for any indirect, special or consequential damages as a result of a breach of any provision of this Agreement.

23. ENTIRETY OF AGREEMENT; AMENDMENTS. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. No change, modification, or alteration of this Agreement shall be effective unless reduced to writing and signed by the parties. Waiver of any breach of the Agreement by a party shall not be construed as a waiver of any other breach.

24. MUTUAL RELEASE. The parties fully release and discharge each other from all claims, known and unknown, arising under the 1988 Agreement which any party may have against any other party to this Agreement. This provision is not intended to apply to personal injury or property damage

claims that either party may have against the other.

25. FORCE MAJEURE. The parties understand that performance by a party may be interrupted or delayed by an occurrence outside of its control, including but not limited to the following: an act of God, war, riot, sovereign conduct, equipment failure, strikes, lockouts, conduct of third parties, or other similar causes beyond the reasonable control of the parties. If that should occur, such party shall be excused from performance for as long as it is reasonably necessary to cure the Force Majeure condition. In case of any dispute as to the reasonableness of a resulting delay in performance, the parties shall submit the matter to dispute resolution in accordance with the procedures set forth in Sections 15 and 16.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

USX CORPORATION - U. S. STEEL GROUP

By /s/ Paul J. Wilhelm

Title: President

TRANSTAR, INC.

By /s/Robert S. Rosati

Title: President

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EXHIBIT 10.5.2

TRANSPORTATION SERVICES AGREEMENT

DATED DECEMBER 29, 1998

BY AND BETWEEN

USS/KOBE STEEL COMPANY

AND

TRANSTAR, INC.

TRANSPORTATION SERVICES AGREEMENT
BETWEEN USS/KOBE STEEL COMPANY
AND
TRANSTAR, INC.
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TRANSPORTATION SERVICES AGREEMENT

This Agreement, made and concluded as of the 29th day of December 1998, by and between USS/KOBE STEEL COMPANY (hereinafter "USS/KOBE"), an Ohio General Partnership with offices at 1807 East 28th Street, Lorain, Ohio 44055, and TRANSTAR, INC. (hereinafter "Transtar"), a Delaware corporation with offices at 135 Jamison Lane, Monroeville, Pennsylvania 15146.

W I T N E S S E T H:

WHEREAS, Transtar is the shareholder of certain transportation operating companies including The Lake Terminal Railroad Company (hereinafter "Lake Terminal"); and

WHEREAS, USS/KOBE and Transtar are parties to a Transportation Services Agreement dated December 28, 1988 (hereinafter the "1988 TSA"); and

WHEREAS, USS/KOBE and Transtar desire to enter into a new Transportation Services Agreement to set forth the terms of a commercial business relationship between USS/KOBE and Lake Terminal and to replace the 1988 TSA;

NOW, THEREFORE, the parties hereto, intending to be legally bound, and in consideration of the mutual agreements herein contained, hereby agree as follows:

1. SCOPE. This Agreement sets forth the understanding of the parties concerning transportation and transportation-related services to be provided to USS/KOBE by Lake Terminal. More specific transportation contracts, tariffs, purchase orders or other agreements may be executed, issued and/or published by USS/KOBE and Lake Terminal in order to implement this Agreement. To the extent required by law, such individual agreements shall be filed with the Surface Transportation Board ("STB") and/or the appropriate state agency.

2. TERM. This Agreement shall become effective on December 29, 1998 and shall remain in effect through December 31, 2008.

3. COMPETITIVE ACCESS. During the Term of this Agreement, USS/KOBE shall not take any action which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to the USS/KOBE Works or which would in any way assist and/or support any such rail carrier in any efforts to obtain such access, provided however, that after January 1, 2007, USS/KOBE is permitted to take any action necessary to enable it to evaluate the transportation service options and to make arrangements for the continuation of such services following the Term of this Agreement, provided further, that such

actions would have no effect upon the transportation services provided under this Agreement during its Term.

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4. INTENT OF AGREEMENT. The parties hereto intend that they shall mutually benefit from the Base Rates, terms, conditions and provisions of this Agreement and that no party shall be either unreasonably enriched or unreasonably harmed by any implementation and/or interpretation of said Base Rates, terms, conditions and provisions. In addition, the parties hereto agree and intend that the rates, terms and conditions (including, but not limited to, payment terms) in effect as of the effective date of this Agreement shall continue in effect except as modified by this or other agreements of the parties and that no party to this Agreement shall seek to change Base Rates, terms and conditions through the arbitration procedures set forth in Section 15 hereof, unless there is a material change in existing facts and circumstances that causes the party seeking such change to suffer a gross inequity. This Agreement, and all agreements implementing this Agreement, shall be administered and interpreted in order to fulfill the intent stated in this Section 4. Any arbitrator considering disputes pursuant to Section 15 hereof shall render a decision which fulfills the intent stated in this Section 4.

5. EXISTING CONTRACTS. All existing contracts, purchase orders and other agreements between USS/KOBE and Lake Terminal shall remain in effect for the terms stated therein. To the extent that any conflict exists between Sections 6 or 7 of this Agreement and the rates or service provisions of any such contract, purchase order or other agreement, the terms of this Agreement shall supersede and take precedence, provided, however, that every reasonable effort shall be made to construe such provisions consistently, and that nothing contained in this Agreement shall be construed or implemented to shorten the term of any such contract, purchase order or other agreement. A list of existing Purchase Orders, Contracts and Agreements is attached to this Agreement and marked Exhibit I.

6. RATES, TERMS AND/OR CONDITIONS FOR SERVICE.

(a) Rail Service by Sole Service Carrier. Initial Base Rates, terms and/or conditions for all Sole Service Carrier services shall be those in effect in contracts, tariffs or other agreements as of the effective date of this Agreement. The rates between USS/KOBE and Sole Service Carrier set forth in Exhibits II and III attached to this Agreement (including absorbed switching, single-line movements and other related transportation services) shall be referred to herein as "Initial Base Rates." Any new rates

established during the term of this Agreement shall be deemed "Base Rates" as of the date they are established. Unless otherwise agreed by the parties, the Base RCAF-U for any such Base Rate shall be the most recent RCAF-U published prior to agreement upon the Base Rate.

Initial Base Rates and Base Rates for absorbed switching movements shall be adjusted annually to be effective January 1, 2000 and each January 1 thereafter in accordance with the procedures set forth in Section 6(d) herein.

(b) In-Plant Rubber Tire Service. The in-plant rubber tire services identified on Exhibit IV shall be provided pursuant to the terms and conditions of the purchase orders or other agreements in effect as of the effective date of this Agreement. Upon the expiration of any such purchase order or agreement,

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USS/KOBE shall have the option to subject the rubber tire service involved to competitive bidding; provided, however, that Lake Terminal shall be offered an opportunity to participate in any competitive bidding of such services.

(c) Miscellaneous In-Plant Services. During the Term of this Agreement, Lake Terminal shall be offered an opportunity to participate in any competitive bidding for any additional transportation and transportation related services required by USS/KOBE.

(d) Adjustments to Initial Base Rates, Terms and Conditions and Base Rates, Terms and Conditions on Absorbed Switching Rail Rates, Single-Line Rates and Other Related Transportation Service Rates. The Initial Base Rates and Base Rates for absorbed switching, single-line and other related transportation service for Sole Service Carrier services shall be adjusted annually, to be effective January 1, 2000 and each January 1 thereafter. Such adjustments, as well as any other increases, decreases, changes, modifications, additions and/or deletions to Initial Base Rates, terms and/or conditions and Base Rates, terms and/or conditions for any such rail service shall be negotiated in good faith by the parties and upon agreement implemented either through tariffs, contracts or other agreements. If, after good faith negotiation the parties fail to reach agreement on the amount of the annual adjustment to the Initial Base Rates and Base Rates, then such (1) Initial Base Rates shall be adjusted up or down by one hundred percent (100%) during the Term of this Agreement of the amount of the percentage change between the 4th quarter 1998 Rail Cost Adjustment Factor, unadjusted for productivity ("RCAF-U") of 1.003, as rebased by the STB and published in Ex Parte No. 290 (Sub No. 5)(98-1) Table A decided on or about December 12, 1997 ("Base RCAF-U") and the most recent 4th quarter RCAF-U published prior to the January 1 effective date

of the adjusted Initial Base Rate, provided however, that the adjusted Initial Base Rate shall never fall below the Initial Base Rate and (2) Base Rates shall be adjusted up or down by one hundred (100%) during the Term of this Agreement of the amount of the percentage change between the most recent RCAF-U published prior to the time that the Base Rate was established and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted Base Rate, provided, however, that the Adjusted Base Rate shall never fall below its original established level. (See examples in Exhibits V and VI attached to this Agreement.)

Such adjusted Initial Base Rates and adjusted Base Rates shall be implemented effective each January 1 for the ensuing year. Neither party shall have the right to invoke the dispute resolution procedures set forth in Sections 14 and 15 to request an appropriate rate adjustment be determined through these procedures, unless the party is able to prove it has suffered a gross inequity as a result of the implementation of the adjusted Initial Base Rate or the adjusted Base Rate. In no event shall the dispute resolution procedures result in the adjusted Initial Base Rate ever falling below the Initial Base Rate or the adjusted Base Rate ever falling below its original established level. Through December 31, 2004, per car rates reflected in this Agreement

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may be adjusted upward proportionally to the increase in car carrying capacity or cube size whenever such car carrying capacity or cube size increases by more than five percent (5%). After December 31, 2004, such adjustments may only be implemented if mutually agreed upon by the parties or, failing such agreement, shall be established pursuant to the dispute resolution procedures set forth in Sections 14 and 15 of this Agreement. Any arbitrator considering a request for such an adjustment shall attempt to follow prevailing practice in the rail industry.

(e) Car Hire Adjustments to Rail Earnings. With respect to Sole Service Carrier earnings for services specified in this Agreement, Lake Terminal shall have the right to make adjustments as necessary for increases in cost of rail cars forced upon Transtar or Lake Terminal by others pursuant to car hire deprescription or revisions to Car Hire Rules or Car Service Regulations. Transtar shall provide USS/KOBE with reasonable supporting documentation for any adjustment pursuant to this Section at the time such adjustment is proposed.

7. TRANSPORTATION COMMITMENTS.

(a) Rail Service by Sole Service Carrier. During the Term of this Agreement, USS/KOBE shall ship via rail Lake Terminal one hundred percent (100%) of the rail traffic originating or terminating at the USS/KOBE Works.

(b) In-Plant Rail Switching Service. During the Term of this Agreement, Lake Terminal shall have the right to bid on any in-plant switching services so long as such in-plant rail switching services are required by USS/KOBE from any source.

(c) In-Plant Rubber Tire Service. Lake Terminal shall have the right to provide one hundred percent (100%) of the in-plant rubber tire services identified on the attached Exhibit II pursuant to the terms and conditions of the purchase orders or other agreements in existence on the effective date of this Agreement. Following the expiration of any existing purchase orders or other agreements, such services may be subject to competitive bid, provided, however, Lake Terminal shall be permitted to participate in bidding. Lake Terminal shall also be permitted to participate in bidding for new or additional rubber tire services.

(d) Miscellaneous In-Plant Services. Lake Terminal shall be permitted to participate in bidding for miscellaneous transportation related in-plant services.

(e) Bid Terms. From and after the effective date of this Agreement, neither Transtar nor Lake Terminal shall be required to indemnify or hold harmless any party to this Agreement as a condition to bidding for, or being awarded the

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right to provide, transportation or transportation-related services, whether such services are within the scope of any Transportation Services Agreement or otherwise, and the absence of any such indemnity or hold harmless provision in any such bid shall not be taken into consideration to determine the competitiveness of such bid. The intent of this provision is (1) to relieve Transtar and Lake Terminal from the requirement of indemnifying or holding harmless any other party to this Agreement in contracts, agreements, sales and purchase orders for transportation or transportation-related services that are amended or entered into upon and after the effective date of this Agreement and (2) to abolish the requirement that Transtar or Lake Terminal undertake such indemnification or hold harmless obligations in order to be deemed competitive in bidding for, or as a precondition to be awarded the right to provide, such transportation and transportation-related services. In lieu of any such hold harmless and indemnification agreements, Lake Terminal shall be obligated to agree to apportion liability pursuant to the terms of that certain Memorandum of Understanding Regarding Financial Responsibility (attached as Exhibit VII to this Agreement) as such Memorandum may be amended from time to time.

8. SERVICE LEVELS. During the Term of this Agreement,

Lake Terminal shall maintain service levels which are reasonably required to provide service hereunder in a manner consistent with and competitive with other carriers in the area. Lake Terminal shall be responsible for arranging for car supply consistent with the availability of rail cars from other carriers, provided that Lake Terminal shall have no car ownership obligations when it functions as a switch carrier on interline freight movements. Any dispute between the parties concerning service levels shall be referred to dispute resolution in accordance with the provisions of Sections 14 and 15 hereof.

9. MAINTENANCE OF TRANSPORTATION ASSETS. Lake Terminal shall maintain in good and serviceable condition those transportation assets used to provide service to USS/KOBE pursuant to this Agreement, including, but not limited to, way and structures, locomotives, railcars, signaling systems, and rubber tire equipment.

Any dispute between the parties concerning maintenance of transportation assets shall be referred to the dispute resolution procedures in accordance with the provisions of Sections 14 and 15 hereof.

10. MAINTENANCE OF INTERCHANGES. Lake Terminal shall maintain interchanges, gateways and/or terminals operable as of the date of this Agreement which are reasonably required to

provide service hereunder. Any dispute between the parties concerning maintenance of interchanges, gateways and/or terminals shall be referred to dispute resolution in accordance with the provisions of Sections 14 and 15 hereof.

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11. AUDIT. Each party shall have the right to audit the other's records insofar as necessary to ensure compliance with all of the terms and conditions of this Agreement. Such audits shall be performed by an internal or external auditor, provided however, that the party being audited shall have the right to require that any audit be conducted by a mutually agreeable independent auditor and that the details of the information examined in such audit be kept confidential from the party requesting the audit, except to the extent necessary to resolve any controversy that is pursued in good faith. The first $20,000 of cumulative total audit expense annually incurred for audit services required by either party to be performed by independent auditors shall be shared equally by the parties. Thereafter, such audit expense shall be borne by the party requesting the audit.

12. SEVERABILITY. It is the desire of the parties hereto that this Agreement be enforced to the fullest extent permissible under the laws and public policies to be applied thereto. Accordingly, if any particular portion of this Agreement shall be adjudicated to be void, invalid or unenforceable, this Agreement shall be deemed to be amended to delete herefrom the portion thus adjudicated to be void,

invalid, or unenforceable, unless such change alters the purpose and intent of this Agreement, in which case this Agreement shall be null and void.

13. INEQUITIES. The parties intend that they shall mutually benefit from the terms, conditions and provisions of this Agreement. If any party suffers a gross inequity resulting from such terms, conditions or provisions, or from a substantial change in circumstances or conditions, the parties shall negotiate in good faith to resolve or remove such inequity. In the event the parties fail to reach an agreement concerning any alleged gross inequity, the dispute shall be referred to the dispute resolution procedures of Sections 14 and 15 hereof. It is mutually understood and agreed, however, that nothing herein shall be construed to relieve any party of any of its obligations under this Agreement or under any related transportation contract, purchase order or other agreement. The parties further agree that, unless otherwise required by law, no party shall assert or cause to be asserted in any suit, action, proceeding or other adjudication that any of the terms, conditions or provisions of this Agreement are or will be unenforceable, unjust, unreasonable, unreasonably discriminatory, preferential or prejudicial, or otherwise in violation of any provision of any act or statute or any rule, order or regulation thereof.

14. MEDIATION. At any time prior to the start of sworn testimony in arbitration, provided under Section 15 of this Agreement, a party may submit a dispute arising hereunder to non-binding mediation. The mediator shall be selected by the party submitting the dispute with or without the concurrence of the other party. Neither submission of a dispute to mediation nor conclusion of the mediation process shall be a condition precedent to exercise of the arbitration procedures available to the parties under this Agreement. If a dispute is submitted to mediation:

1) the parties shall mediate the dispute in good faith;

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2) mediation shall occur in Lorain County, Ohio;

3) final decision makers for each party on any matter in dispute shall personally attend all mediation sessions;

4) the mediator shall have complete control of the mediation timing and process, provided, however, that the mediation shall conclude no later than fourteen (14) calendar days from the day of the initial meeting between the mediator and the parties;

5) all agreements reached in mediation shall be reduced to writing before concluding the mediation process;

6) the parties may jointly agree to have the mediator make a final and binding decision;

7) no discovery will be taken during the mediation process;

8) the mediation process shall be confidential and each party participating shall have the right to designate any information provided to the mediator as "Confidential and Proprietary."

15. ARBITRATION. All disputes arising under this Agreement shall be referred to binding arbitration conducted expeditiously in accordance with Center for Public Resources Rules for Non-Administered Arbitration of Business Disputes ("CPR Rules") by a three person panel of arbitrators, each party choosing one arbitrator and the two arbitrators so chosen selecting a third, neutral arbitrator. The failure or inability of either party to choose an arbitrator or of the arbitrators chosen by the parties to select a third neutral arbitrator shall be resolved in accordance with the CPR Rules. Arbitration shall be conducted at a mutually convenient location in Lorain County, Ohio or at such other location as the parties may agree. The award in writing signed by any two of the arbitrators shall be final and binding. In order to resolve any disputes hereunder, the arbitrators shall implement the specific rights and obligations set forth in this Agreement while fulfilling the intent stated in Section 4 hereof. Either party shall have the right to seek, and the arbitrators shall determine, declaratory relief of the nature generally set forth in the Uniform Declaratory Judgments Act (as in effect in the State of Ohio and as the same may be

amended from time to time) including, but not limited to, questions of construction of this Agreement, or a declaration of rights, status or other legal relations hereunder. The arbitrators shall apply the substantive statutory and common law of the State of Ohio to the dispute and the evidentiary laws of the State of Ohio to the arbitration proceeding. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-16, and judgment upon the award entered by the arbitrators may be entered by any court having jurisdiction thereof. The arbitrators shall not award damages in excess of compensatory damages. The costs and expenses of the arbitration (other than attorneys' fees, if any) shall be borne one-half by USS/KOBE and one-half by Lake Terminal. The arbitrators shall be permitted to review existing documents or records of any party to the extent that, in the sole discretion of the

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neutral arbitrator, such documents and/or records are deemed to be relevant and to the extent the parties are permitted by law or by contract to convey such documents or records to the arbitrator. Either party shall have the right to designate any information sought in discovery or provided to the arbitrators at their request as confidential and/or proprietary in which case the neutral arbitrator shall determine whether the information sought shall be disclosed in discovery or, if such information is

provided to the arbitrators at their request, shall not convey such information to the other party.

16. ASSIGNMENT. No party to this Agreement shall assign or transfer this Agreement or any interest herein, other than to the lenders providing financing to Transtar, Inc. (which lenders will act through a single agent) without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the provisions of this Section 16, this Agreement shall inure to the benefit of and be binding upon the successors and assigns to the parties. USS/KOBE shall not directly or indirectly sell, transfer or otherwise dispose of all or a substantial portion of the assets of any facility served by Lake Terminal during the term of this Agreement to any party which intends to operate a facility at that location for the production of steel or steel-related products, unless the purchaser, acquiror or other transferee of such facility assumes, in a writing reasonably satisfactory to Lake Terminal, all of the rights and obligations set forth in this Agreement.

17. NOTICES. Unless otherwise specified herein, any and all notices under this Agreement shall be in writing and shall be delivered to the party entitled to receive the same: (1) by hand delivery; (2) by registered or certified mail, return receipt requested; (3) by overnight delivery service which provides proof of delivery; or (4) by telecopy, with a

duplicate copy sent via first class mail, postage pre-paid addressed as follows:

If to USS/KOBE:

USS/KOBE Steel Company
1807 East 28th Street
Lorain, Ohio 44055
Attention: Vice President Finance & Administration
Phone: 440-277-2401
Fax: 440-277-3552

If to a Transtar Unit:

Transtar, Inc.
135 Jamison Lane
Monroeville, Pennsylvania 15146
Attention: Director of Marketing
Phone: 412-829-3434
Fax: 412-829-6603

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18. LAW GOVERNING. This Agreement shall be construed in accordance with the laws of the State of Ohio excluding its conflict of laws provision.

19. RELATIONSHIP OF PARTIES. The relationship between USS/KOBE and Lake Terminal under this Agreement shall be that of independent contractors. Nothing in this Agreement shall be deemed to constitute a relationship of agency, joint venture, partnership, or any relationship other than that specified.

20. INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES. In no event shall a party be liable for any indirect, special or consequential damages as a result of a breach of any provision of this Agreement.

21. ENTIRETY OF AGREEMENT; AMENDMENTS. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. No change, modification, or alteration of this Agreement shall be effective unless reduced to writing and signed by the parties. Waiver of any breach of the Agreement by a party shall not be construed as a waiver of any other breach.

22. MUTUAL RELEASE. The parties fully release and discharge each other from all claims, known and unknown, arising under the 1988 Agreement which any party may have against any other party to this Agreement. This provision is not intended to apply to personal injury or property damage claims that either party may have against the other.

23. ALLOCATION OF FINANCIAL RESPONSIBILITY. During the Term of this Agreement and notwithstanding any provision set forth in any of the Real Estate Agreements referenced in the Agreement Concerning Leases, Licenses and Easements (attached as an Exhibit to this Agreement) to the contrary, financial responsibility for personal injuries (including death) and property damage sustained by employees of USS/KOBE and Lake Terminal shall be allocated among the parties to this

Agreement according to the terms of that certain Memorandum of Understanding Regarding Financial Responsibility (attached as an Exhibit to this Agreement) as such Memorandum may be amended from time to time.

Lake Terminal and USS/KOBE will each indemnify and save harmless the other, from and against any and all obligations, liabilities, claims and demands for damage to property or injuries to any persons (other than employees of the Lake Terminal or USS/KOBE), which may be asserted against the party indemnified hereunder to have arisen as a result, in whole or in part, of the negligent acts or omissions of the party providing such indemnity. Nothing set forth herein is intended to indemnify Lake Terminal or USS/KOBE for its own causal negligence or other legal fault, nor to require either Lake Terminal or USS/KOBE to extend indemnity beyond the pro rata portion of its causal negligence or other legal fault, nor is anything set forth herein intended to modify the preceding paragraph of this Section 23 of this Agreement or the Memorandum of Understanding Regarding Financial Responsibility (MOU) previously entered into between Lake Terminal and USS/KOBE.

Lake Terminal and USS/KOBE acknowledge that the MOU addresses only those situations where property damage or personal injury is sustained by an employee of either the Lake

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Terminal or USS/KOBE and that this provision of the Agreement applies only to those incidents which occur within the confines of the USS/KOBE Works.

24. FORCE MAJEURE. The parties understand that performance by a party may be interrupted or delayed by an occurrence outside of its control, including but not limited to the following: an act of God, war, riot, sovereign conduct, equipment failure, conduct of third parties, or other similar causes beyond the reasonable control of the parties. If that should occur, such party shall be excused from performance for as long as it is reasonably necessary to complete performance. In case of any dispute as to the reasonableness of a resulting delay in performance, the parties shall submit the matter to dispute resolution in accordance with the procedures set forth in Sections 14 and 15.

In the event of any concerted action by Lake Terminal organized labor that results in an interruption to the interchange services ("Service") performed by Lake Terminal at the USS/KOBE Works pursuant to this Agreement, Lake Terminal will employ reasonable best efforts to continue to provide Service to USS/KOBE during the interruption.

Such "reasonable best efforts" include, but are not necessarily limited to (1) cooperation and communication with USS/KOBE aimed at efficiently and effectively restoring

uninterrupted Service to the USS/KOBE Works; (2) pursuit of those legal actions and remedies which, in the reasonable opinion of counsel for Lake Terminal, would prove prudent for Lake Terminal to exercise under the circumstances; (3) having due regard for its own management and labor relations policies, pursuing resolution of the underlying dispute, if any, which gives rise to the interruption of Service; (4) exercise of reasonable best efforts to provide qualified management or other personnel available to perform the service; and (5) in the unlikely event of a secondary boycott, picketing or related activities directed at USS/KOBE, Lake Terminal or any of its contractors which spreads beyond Lake Terminal, using its influence and contacts in the railroad and transportation industries to discourage, limit, work around or terminate such activity.

Nothing set forth in this Agreement is intended as a guarantee by Lake Terminal of uninterrupted Service to the USS/KOBE Works nor is anything set forth in this Agreement intended as agreement by the parties that strikes, lockouts or similar events are not events of force majeure for purposes of this Section 24 of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to

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be executed as of the day and year first above written.

USS/KOBE STEEL COMPANY

By /s/ George F. Babcoke

Title: President

THE LAKE TERMINAL RAILROAD COMPANY

By /s/ Rade Vignovic

Title: V.P. - Marketing

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1

EXHIBIT 10.6.1

TRANSPORTATION SERVICES AGREEMENT

DATED JULY 1, 1998

BY AND BETWEEN

USX CORPORATION - U. S. STEEL GROUP
AND
USS/KOBE STEEL COMPANY
ON THE ONE HAND

AND

USS GREAT LAKES FLEET, INC.
ON THE OTHER HAND

2

TRANSPORTATION SERVICES AGREEMENT

BY AND BETWEEN
USX CORPORATION - U. S. STEEL GROUP
AND
USS/KOBE STEEL COMPANY
ON THE ONE HAND
AND
USS GREAT LAKES FLEET, INC.
ON THE OTHER HAND

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TRANSPORTATION AGREEMENT

THIS AGREEMENT made and concluded this 21st day of December, 1998 but effective the 1st day of July, 1998, by and between USX CORPORATION - U. S. STEEL GROUP, a Delaware corporation with an office at 600 Grant Street, Pittsburgh, Pennsylvania 15219-2749 (hereinafter referred to as "USS")and USS/KOBE STEEL COMPANY, an Ohio general partnership with an office at 1807 East 28th Street, Lorain, Ohio 44055 (hereinafter referred to as "USS/KOBE") each referred to herein as a "SHIPPER" or collectively as "SHIPPERS," party of the first part, on the one hand, and USS GREAT LAKES FLEET, INC., a Delaware corporation with an office at 400 Missabe Building, Duluth, Minnesota 55802-1990 (hereinafter referred to as "CARRIER"), party of the second part.

W I T N E S S E T H:

WHEREAS, CARRIER owns and operates a fleet of vessels for the transportation of various dry bulk commodities on the Great Lakes; and

WHEREAS, SHIPPERS desire to have CARRIER provide certain vessel transportation services originating on the Great Lakes required by SHIPPERS for domestically sourced iron ore, iron pellets, taconite ore used for blast furnace trim, and limestone (excluding and excepting both the taconite ore used for blast

furnace trim and the limestone that are purchased by USS/KOBE on a delivered basis) (hereinafter "COMMODITIES") and other dry bulk commodities which the parties may agree to include within this agreement; and

WHEREAS, CARRIER is willing to provide said transportation services to SHIPPERS.

NOW, THEREFORE, in consideration of the mutual promises and covenants hereinafter set forth the parties hereto, intending to be legally bound, agree as follows:

1. TERM.

This Agreement shall be effective on July 1, 1998 and shall remain in effect until March 15, 2005 (2004 SHIPPING SEASON).

2. TRANSPORTATION.

For purposes of this Agreement, the term "DECLARED TONNAGE" means the total tons of COMMODITIES forecasted for shipment on the Great Lakes in SHIPPERS' Official Annual Business Plan as of November 30 of the prior calendar year ("BUSINESS PLAN") (as reflected in the USS Raw Materials Balance Sheets which shall include the latest information available from USS/KOBE) for consumption, purchase, exchange or use by SHIPPERS during the SHIPPING SEASON.

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During each SHIPPING SEASON and absent consent of CARRIER, SHIPPERS may ship via third parties other than CARRIER no more than the following percentages of the DECLARED TONNAGE set forth in SHIPPERS' BUSINESS PLAN ("THIRD PARTY TONNAGE"):

SHIPPING SEASON	THIRD-PARTY TONNAGE
1998	600,000 GT*
1999	10%
2000	10%
2001	10%
2002	10%
2003	15%
2004	15%

*Given that this Agreement begins July 1, 1998, THIRD PARTY TONNAGE for 1998 SHIPPING SEASON will be expressed as and limited to 600,000 GT of pellets to Lorain.

That portion of the DECLARED TONNAGE set forth in SHIPPERS' BUSINESS PLAN which exceeds THIRD PARTY TONNAGE during the SHIPPING SEASON ("CARRIER'S TONNAGE") shall be offered to CARRIER for transportation between the ports listed in Exhibit A and such other ports as may be agreed upon ("PORTS"). The term "CARRIER'S TONNAGE" does not include USS tonnage sold to or exchanged to third parties where USS does not control the transportation of such tonnage under the terms of sale or exchange, but does include all tonnage purchased by or exchanged to USS. In those sales to and exchanges to third parties where USS does not control the transportation of tonnage, USS shall use reasonable efforts to induce the third party to utilize services of CARRIER for transportation of all such tonnage.

SHIPPERS shall make tonnage available to CARRIER for transportation at dockside in monthly quantities sufficient to meet the INITIAL FORECAST or any UPDATED FORECAST in such manner reasonably calculated to maximize use of CARRIER'S vessels, and to permit CARRIER to transport all CARRIER'S tonnage during the SHIPPING SEASON, SHIPPERS giving due consideration to CARRIER'S available capacity of Class I and Class II vessels listed on Exhibit B (including CARRIER'S ability to charter) and seasonal weather conditions as well as the maximum monthly quantities established in Article 4(c). Except as provided in Articles 4(e) and 4(f) of this Agreement if, during any SHIPPING SEASON, SHIPPERS ship via third parties other than CARRIER any

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amount in excess of THIRD PARTY TONNAGE without first offering those tons to CARRIER for transportation, then SHIPPERS shall pay CARRIER LIQUIDATED DAMAGES of one dollar and ninety-six cents ($1.96 NT), as escalated in accordance with the following paragraph of this Article 2 for every net ton of THIRD PARTY TONNAGE so shipped, payable no later than fifteen (15) days from receipt of invoice at the end of the SHIPPING SEASON.

If during the Term of this Agreement, SHIPPERS, for any reason other than force majeure, fail to meet any of the volume commitments set forth in Section 2 hereof for any given SHIPPING SEASON other than the final SHIPPING SEASON of the Term, shippers may, in lieu of paying LIQUIDATED DAMAGES, make up the deficit volume during the immediately succeeding SHIPPING SEASON

by shipping such deficit volume plus an additional 10% of the deficit volume via CARRIER, in addition to shipping its annual volume commitment for such succeeding SHIPPING SEASON. If any portion of the deficit volume plus an additional 10% of the deficit volume has not been shipped by the end of the immediately succeeding SHIPPING SEASON, SHIPPERS shall pay the LIQUIDATED DAMAGES (as then escalated) for such portion no later than thirty (30) days after the end of such immediately succeeding SHIPPING SEASON.

LIQUIDATED DAMAGES shall be adjusted annually to be effective January 1, 2000 and each January 1 thereafter up or down by the amount of the cumulative percentage change between the October 1998 Producers Price Index, All Commodities Unadjusted, published by the Bureau of Labor Statistics, U.S. Department of Labor (PPI-U) and the most recent October PPI-U. If the PPI-U is not available, then another Index mutually agreed to by the parties shall be used. LIQUIDATED DAMAGES as adjusted shall never fall below the initial charges of $1.96 NT.

In each SHIPPING SEASON, CARRIER shall use all reasonable efforts to provide suitable and sufficient vessel capacity owned, leased or chartered by CARRIER required to transport CARRIER'S TONNAGE, provided that a nominated vessel may enter, depart and lie in all of said PORTS always safely afloat. CARRIER shall make the vessels listed on Exhibit B,

attached hereto and made a part hereof, available for transportation of CARRIER'S TONNAGE and may charter vessel capacity to transport CARRIER'S TONNAGE.

It is anticipated and intended (a) that SHIPPERS will advise CARRIER of their requirements for transportation on the Great Lakes of dry bulk materials other than COMMODITIES and for transportation on the Great Lakes between Great Lakes ports other than those listed on Exhibit A; (b) that if CARRIER can provide said services, CARRIER will propose competitive rates and (c) that if mutual agreement is reached on all points, said requirements will be tendered and transported pursuant to the provisions of this Agreement.

3. SHIPPING SEASON.

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(a) For purposes of this Agreement, a SHIPPING SEASON is that period extending from March 16 of one year through March 15 of the succeeding year or such shorter period commencing March 16 or later that is determined by the official seasonal opening and closing of navigating routes required for the transportation in question. A SHIPPING SEASON consists of an "EARLY SEASON" that starts at the commencement of the SHIPPING SEASON and lasts until April 7; a "REGULAR SEASON" that starts on April 8 and extends through December 19 and an "EXTENDED SEASON" that starts on December 20 and extends to the end of the SHIPPING SEASON. Each SHIPPING SEASON shall be designated by the year in which it commences, e.g., 1998 SHIPPING SEASON commences March 16, 1998.

(b) CARRIER shall not be required to provide service hereunder during the EARLY SEASON, if CARRIER determines, in its sole discretion, that weather conditions are not conducive to effective and efficient operations during all or any portion of such period, provided however, SHIPPERS may require CARRIER to commence providing service hereunder during the EARLY SEASON if (1) SHIPPERS agree to pay EXTENDED SEASON surcharges as set forth in Article 10; or (2) if two of the three major fleets operating on the Great Lakes (i.e. American Steamship, Oglebay Norton and/or Interlake) commence operations prior to April 8 from Head-of-the-Lakes PORTS to lower lake PORTS, in which case EXTENDED SEASON surcharges shall not be applicable to that portion of the EARLY SEASON during which two of the three major fleets operate. Any forecasted CARRIER'S TONNAGE not transported by CARRIER during the EARLY SEASON due to CARRIER's decision not to provide service shall be deferred for shipment by CARRIER to such times during the balance of the SHIPPING SEASON as mutually designated by CARRIER and SHIPPERS.

(c) CARRIER shall provide service hereunder during the EXTENDED SEASON, without assessing EXTENDED SEASON surcharges, as long as CARRIER, in its sole discretion, determines that weather conditions permit effective and efficient operations. If CARRIER decides to cease operations during any

EXTENDED SEASON, it shall provide SHIPPERS not less than five days advance notice of such cessation. SHIPPERS shall have the right to require CARRIER to provide service after the date specified in such notice, but EXTENDED SEASON surcharges, as set forth in Article 10, shall apply to any vessels loaded after expiration of the 5-day period. Once notified of CARRIER'S intent to cease EXTENDED SEASON operations, SHIPPERS shall also have the right to utilize the vessel capacity of third parties still operating during the EXTENDED SEASON, and any DECLARED TONNAGE transported by such third parties during the EXTENDED SEASON shall be excluded from LIQUIDATED DAMAGES.

4. DECLARATION OF QUANTITIES.

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SHIPPERS' INITIAL FORECAST and any UPDATED FORECAST shall contain a monthly distribution of CARRIER'S TONNAGE which, when considering CARRIER'S available vessel capacity (including CARRIER'S ability to charter) and seasonal weather conditions, is reasonably calculated to permit CARRIER to transport during the SHIPPING SEASON all tonnage that SHIPPERS must make available to the CARRIER under this Agreement.

(a) On or before November 30 of each year, SHIPPERS shall provide CARRIER with their BUSINESS PLAN showing the amounts of DECLARED TONNAGE, THIRD PARTY TONNAGE, and CARRIER'S TONNAGE that SHIPPERS intend to transport under this Agreement, each detailed by COMMODITIES and loading and discharging PORTS

for the succeeding SHIPPING SEASON. On or before February 15 of each year SHIPPERS shall provide an initial written forecast ("INITIAL FORECAST") to CARRIER detailing by COMMODITIES and loading and discharging PORTS their requirements for transportation of CARRIER'S TONNAGE and THIRD-PARTY TONNAGE by month and showing their distribution for each month of the SHIPPING SEASON including tonnage SHIPPERS intend to transport during the EARLY SEASON and EXTENDED SEASON. SHIPPERS and CARRIER shall confer and attempt to agree upon a mutually acceptable distribution.

(b) At least 10 days prior to the beginning of each month of the SHIPPING SEASON, SHIPPERS shall provide an updated written forecast ("UPDATED FORECAST") setting forth CARRIER'S TONNAGE and THIRD-PARTY TONNAGE detailed by COMMODITIES and loading and discharging PORTS that they will require to be transported during each remaining month of the SHIPPING SEASON, including tonnage they will require to be transported during the EXTENDED SEASON.

(c) The maximum amount of tonnage which SHIPPER may require to be transported by CARRIER in any given month is as follows:

<TABLE>
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	Vessel Capacity in (Gross) Tons Per Month (000's)	
	Class I#	Class II*
<S>	<C>	<C>
March (25 through 31)	210	--
April	875	240
May	1,040	315
June	1,040	315
July	1,040	315
August	1,040	315
September	1,040	315

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October	1,040	315
November	875	240
December (through 20th)	640	130

</TABLE>

#Two Harbors to Gary. Two Harbors to Conneaut is 90% of these figures.

*Two Harbors to Lorain in Class II vessels.

SHIPPERS will designate and may prioritize monthly tonnage for movement during the month and CARRIER will use reasonable efforts to move such tonnage and to give priority to any portion designated as a priority shipment by SHIPPERS.

(d) The INITIAL FORECAST shall be superseded by any UPDATED FORECAST agreed upon by CARRIER and SHIPPERS. An UPDATED FORECAST shall be superseded by any subsequent UPDATED FORECAST agreed upon by CARRIER and SHIPPERS.

(e) If SHIPPERS' requirements during any SHIPPING SEASON exceed the DECLARED TONNAGE set forth in SHIPPERS' BUSINESS PLAN ("EXCESS DECLARED TONNAGE"), such EXCESS DECLARED TONNAGE shall be offered to, and, if accepted, shall be transported by, CARRIER in accordance with the terms of this Agreement. CARRIER will use reasonable efforts to arrange

charter to supplement its capacity for movement of any EXCESS DECLARED TONNAGE, contingent upon SHIPPERS right to approve any charter rates that exceed CARRIERS' rates. Any portion of EXCESS DECLARED TONNAGE not accepted by CARRIER for transportation may be shipped via third parties other than CARRIER and will not be subject to LIQUIDATED DAMAGES.

(f) If during any month of a SHIPPING SEASON, CARRIER fails to transport the amount of tonnage made available to it by SHIPPERS for shipment and accepted by CARRIER for transportation, then SHIPPERS shall defer such amount for shipment by CARRIER during the balance of the SHIPPING SEASON, as set forth in subsequent UPDATED FORECASTS. If CARRIER does not agree it will be able to transport such tonnage, SHIPPERS may ship such amount via third parties other than CARRIER and such tonnage offered to and transported by third parties will not be subject to LIQUIDATED DAMAGES.

5. LOADING AND DISCHARGING OBLIGATIONS.

SHIPPERS shall specify the Great Lakes loading PORT and discharging PORT for each cargo, shall provide a berth at each port for the nominated vessel, and shall make all arrangements for delivery of the cargo to the loading PORT. Loading of COMMODITIES aboard CARRIER'S vessels shall be accomplished by the SHIPPERS under the supervision of the Master of the vessel. Each shipment shall be a minimum cargo size as set forth in Exhibit C.

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CARRIER shall transport each cargo from one safe berth at loading PORT to one safe berth at discharging PORT and will deliver COMMODITIES to SHIPPERS or to SHIPPERS' designee free end of boom ex-self-unloader. Without limiting the duties and responsibilities of CARRIER hereunder, CARRIER will:

a. Comply with specifications and procedures required of vessels loading or discharging COMMODITIES at the designated PORTS and facilities and be responsible for all charges imposed upon vessels loading or discharging at such PORTS and facilities.

b. Prepare and issue all bills of lading, if any, and other documents, notices and reports required in connection with the transportation and discharge of COMMODITIES. Weights of cargoes shall be determined according to established practice at the various PORTS of loading or in such other manner as shall be mutually agreed upon, but in any case shall reflect actual weight to a degree reasonably practical.

6. LOADING AND DISCHARGING.

SHIPPERS shall load each entire cargo and shall accept deliveries from self-unloading vessels day and night, Saturdays, Sundays and holidays included. SHIPPERS shall diligently act to have facilities for the loading and receipt of cargoes available and in good operating order upon the arrival of any vessels and to load and receive cargo with all reasonable

dispatch. CARRIER shall also diligently act to cause facilities for the loading and receipt of cargoes that are owned or controlled by companies affiliated with CARRIER to be available and in good operating order upon the arrival of any vessels and to load and receive cargo with all reasonable dispatch.

7. FREIGHT AND RATES.

Freight shall be based on bill of lading weights and shall be paid at the rates required by this Article 7, as adjusted for changes in the price of fuel pursuant to Article 9. Freight shall be earned by CARRIER as the cargo is loaded and shall be due and payable by SHIPPERS within fifteen (15) days of receipt of billing, cargo and/or vessel lost or not lost. Affreightment rates and related Benchmark Fuel Price for the 1998 and 1999 SHIPPING SEASONS are set forth in Exhibit C attached hereto and made a part hereof.

Affreightment rates and related Benchmark Fuel Price for the Year 2000 SHIPPING SEASON and each succeeding SHIPPING SEASON shall be agreed upon annually before the beginning of the SHIPPING SEASON through good faith negotiations conducted by CARRIER and SHIPPERS commencing in November of the prior year. The affreightment rates negotiated by the parties shall be competitive with affreightment rates offered for transportation services of sizable magnitude by major competitors of CARRIER who are capable of providing

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such services on a sustained basis, as indicated by the financial health and operational capabilities of said competitors, as well as other

indicators of ability. The parties acknowledge as of the effective date of this Agreement the major competitors of CARRIER are American Steamship Company, The Interlake Steamship Company, and Oglebay Norton Company. If an agreement has not been reached on affreightment rates by January 1, the dispute may be referred to the dispute resolution procedures in accordance with the provisions of Articles 18 and 19 herein.

If an agreement has not been reached by March 15, the dispute will be referred to arbitration and appropriate competitive rates for the pertinent SHIPPING SEASON shall be determined through those procedures. In all cases, the preceding year's rates will be used in the interim until agreement is reached or appropriate competitive rates are determined through the dispute resolution procedures set forth in Articles 18 and 19 herein. Any interim rates shall be revised retroactively to the rates agreed upon by the parties or determined by the arbitration procedures set forth in Article 19. Any balance due charges owed to CARRIER or refunds owed to SHIPPERS, shall be paid within thirty (30) days of the date new rates are agreed upon or established.

8. SCOPE OF ACTIVITIES.

Unless otherwise mutually agreed, in the event CARRIER should undertake movements (other than charters to other transportation companies) of iron ore, pellets or stone in sizable quantities (quantities in any SHIPPING SEASON in excess

of 1.5% of CARRIER'S TONNAGE of iron ore, pellets or stone, for said SHIPPING SEASON) which are destined for end use in blast furnaces other than SHIPPERS' and/or by pellet producers other than USS, then the rates, terms and conditions applicable to said services shall not be more favorable to such other shippers than would be the rates, terms and conditions hereunder. If such services are being provided by CARRIER on a basis more favorable to such other shippers than the rates, terms and conditions then in effect under this Agreement, the rates, terms and conditions for a like amount of similar service provided hereunder shall be modified so that they are comparable to the rates, terms and conditions provided to such other shipper.

9. FUEL COST ADJUSTMENT.

The BASE AFFREIGHTMENT RATES set forth on Exhibit C are based on the weighted average price of fuels including any handling and delivery costs where applicable of $0.4213 per gallon (Benchmark Fuel Price). Following each month during a SHIPPING SEASON, CARRIER shall determine the value of the Fuel Cost Adjustment. The Fuel Cost Adjustment is the difference between the

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Benchmark Fuel Price and the CARRIER's actual weighted average cost for fuel purchases during such month multiplied by the number of gallons consumed during voyages hereunder which commenced during such month. Determination of the Fuel Cost Adjustment is illustrated by the following formula:

<TABLE>
<CAPTION>

<S>	<C>		<C>		<C>
	[		($0.4213)	]	Total Gallons
Fuel Cost	[Actual Weighted		Benchmark	]	Consumed
Adjustment =	Average Fuel Cost	-	Fuel Price	] x	During Month
	[Per Gallon		Per Gallon	]	for SHIPPER's cargo

</TABLE>

CARRIER and SHIPPERS will share equally in the Fuel Cost Adjustment such that if the Fuel Cost Adjustment is a positive amount, SHIPPERS shall pay fifty percent (50%) of the Fuel Cost Adjustment within thirty (30) days of receipt of notice of the determination. CARRIER shall supply supporting documentation for calculation and determination of the charges. If the value of the Fuel Cost Adjustment is a negative amount, CARRIER shall issue a credit to SHIPPERS within thirty (30) days of the determination representing fifty percent (50%) of the Fuel Cost Adjustment. It is the intent of the parties, that CARRIER and SHIPPERS share in the risks of rising or the benefit of declining fuel prices through the Fuel Cost Adjustment Procedure. An example of the application of the Fuel Cost Adjustment Procedure set forth in Exhibit D.

10. EXTENDED SEASON FREIGHT SURCHARGE.

The applicable affreightment rate surcharge and fuel cost adjustment will be assessed pursuant to the provisions of Article 3 for all tonnage carried on voyages identified in Article 3 as requiring an EXTENDED SEASON freight surcharge when the number of hours actually used in completing said voyage exceeds the number of hours set forth below by using the following table and formulas:

<TABLE>
<CAPTION>

ORIGIN	DESTINATION	ALLOWED HOURS
<S>	<C>	<C>
Two Harbors/Silver Bay	Gary	148.0
Duluth	Gary	149.5
Marquette	Gary	112.0
Escanaba	Gary	76.0

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Two Harbors/Silver Bay	Lorain	159.0
Duluth	Lorain	160.5
Marquette	Lorain	120.0
Escanaba	Lorain	107.0
Two Harbors/Silver Bay	Conneaut	161.0
Duluth	Conneaut	162.5
Marquette	Conneaut	126.5
Escanaba	Conneaut	114.0
Rogers City/Cedarville	All Ports	76.8

</TABLE>

<TABLE>
<CAPTION>

<S>	<C>		<C>		<C>
EXTENDED SEASON Surcharge for a Voyage =	[Actual Voyage Hours - 1.00] / [Allowed Hours	x	0.71 (Freight Rate)	x	Number of Tons on the Voyage

</TABLE>

SHIPPERS shall also be surcharged for and reimburse CARRIER for the expenses of any ice breaker or special tug service required for the navigation of a voyage any part of which occurs during the EXTENDED SEASON. For purpose of this Article 10 a voyage shall be deemed to commence upon departure of the nominated vessel from the port of discharging its prior cargo and shall terminate upon completion of discharging the cargo hereunder.

11. AUDIT.

SHIPPERS AND CARRIER shall each have the right to audit the other's records insofar as necessary to ensure compliance with all of the terms and conditions of this

Agreement. Such audits shall be performed by an internal or external auditor, provided however, that the party being audited shall have the right to require that any audit be conducted by a mutually agreeable independent auditor and that the details of the information examined in such audit be kept confidential from the party requesting the audit, except to the extent necessary to resolve any controversy that is pursued in good faith. The first $20,000 of cumulative total audit expense annually incurred for audit services required by any party to be performed by independent auditors shall be shared equally by the parties. Thereafter, such audit expense shall be borne by the party requesting the audit.

12. LIENS.

CARRIER shall have a lien on cargo shipped pursuant to this Agreement for any and all freight, expenses, charges, indemnity or other monies due to the CARRIER hereunder with respect to such cargo or any part thereof. If

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a vessel is under charter to the CARRIER, then the CARRIER shall defend, indemnify and hold the SHIPPERS harmless from any lien on cargo exercised by the owner or chartered owner of the vessel arising from the failure of the CARRIER to discharge its obligations under such charter.

13. LIBERTIES.

Any vessel provided or intended to be provided hereunder shall have liberty to bunker en route, to call at any ports in any order for any reasonable purpose, to tow or assist vessels in all situations, and to deviate for the purpose of saving life or property. Such vessel shall have the liberty to comply with any directions or recommendations, whether as to departure, arrival, routes, ports of call, stoppages, destinations, loading, discharging or otherwise, given by any governmental authority or by any person or body acting or purporting to act as or with the authority of any government. If in complying with such directions or recommendations anything is done or is not done, it shall not be deemed a deviation.

If a vessel puts into any port in distress or there is an interruption of the voyage, CARRIER shall immediately notify SHIPPERS of same. SHIPPERS may name an agent at such port to whom the cargo shall be consigned, if it is to be discharged at such port. CARRIER shall likewise immediately notify SHIPPERS if cargo or any part thereof must be jettisoned.

14. FORCE MAJEURE.

Neither CARRIER nor SHIPPERS, nor any vessel provided hereunder, nor the Master, owner or chartered owner of any such vessel shall be liable for damage, injury, delay, or breach of this Agreement resulting from any condition of force majeure, except as otherwise provided in this Agreement.

Force majeure shall be deemed to exist, if for any reason beyond the control of the party declaring force majeure, performance hereunder is rendered impossible or the Master, owner or chartered owner of the vessel considers it unsafe, imprudent or unlawful to proceed to or reach or enter the loading or discharging port without undue delay or expense whether or not such condition is a temporary one. The term "force majeure" shall include, but is not limited to, the following: act or state of war or warlike operations; civil commotion, revolution, insurrection or riots; government requisition, embargo, allocation, control or other restrictions; seizure under legal process; governmental directions or recommendations; the operation of international law; strikes, lock-outs, work stoppages, labor shortages, or other labor disruptions of any nature; act of God; perils of the sea or other waters; accidents or casualties whether or not involving a vessel hereunder which limit the efficient operation of such vessel; ice or frost; fire on land or water; weather conditions; act, neglect or default of the Master, mariner, pilot or the servants of the shipowner or vessel operator; equipment failure; accident, break-down or damage to any vessel provided or intended to be provided pursuant

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to this Agreement, unless resulting from unseaworthiness caused by want of due diligence on the part of CARRIER, owner or chartered owner of the vessel.

Notwithstanding the occurrence of a condition of force majeure, both CARRIER and SHIPPERS shall perform such of their duties and obligations hereunder as conditions will reasonably permit. The party whose performance is affected by any such occurrence shall promptly notify the other party thereof, giving reasonable particulars regarding its commencement, nature and expected duration, and shall take all reasonable steps to mitigate and terminate said condition.

If a condition of force majeure occurs, CARRIER and SHIPPERS shall, after consultation when possible, act to mitigate the cost impact of such occurrences to their mutual best interests, provided however, no party to this Agreement shall be obligated to settle any strike, lockout, work stoppage, or labor dispute, except as such party deems advisable in its sole discretion.

15. LIMITATION OF THE CARRIER'S LIABILITY.

Transportation performed pursuant to this Agreement shall be subject to the provision of the Carriage of Goods by Sea Act of the United States, approved April 16, 1936, except to the extent modified by this Agreement; nothing in this Agreement, however, shall be deemed a surrender by CARRIER of any of its rights or immunities or an increase of any of its responsibilities or liabilities under said Act or any other law applicable to this Agreement. Owners and chartered owners of any vessels employed in the service of SHIPPERS under this Agreement

shall have all the rights, immunities and limitations of liability provided to carriers by the Carriage of Goods by Sea Act of the United States. If the operation of any term of this Agreement is repugnant to said Act to any extent, such term shall be deemed void to that extent, but no further.

CARRIER may provide all or part of the transportation herein contemplated by means of vessels chartered or to be chartered by CARRIER from others. CARRIER shall be exempt from liability, however, for any delay or failure of performance caused directly or indirectly by any condition beyond its reasonable control which prevents or hinders it from chartering or keeping under charter vessel tonnage suitable and sufficient for the transportation which the CARRIER has undertaken to provide for SHIPPERS and other parties prior to CARRIER'S becoming aware, or having reason to know, that it would be unable to obtain or keep adequate vessel capacity under charter.

16. GENERAL AVERAGE.

In the event of accident, danger, damage or disaster before or after the commencement of the voyage, resulting from any cause whatsoever,

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whether due to negligence or not, for which, or for the consequences of which, the CARRIER is not responsible, by statute, contract or otherwise, the goods, shippers, consignees or owners of the goods shall contribute with the CARRIER in general average to the payment of any sacrifices,

losses or expenses of a general average nature that may be made or incurred and shall pay salvage and special charges incurred in respect of the goods. If a salving ship is owned or operated by the CARRIER, salvage shall be paid for as fully as if such salving ship or ships belonged to strangers. This Article shall apply only in circumstances where general average shall be applicable under this Agreement.

17. BILLS OF LADING.

The transportation of cargo pursuant to this Agreement shall be subject to the terms appearing in the "American Form 1942 Bill of Lading for Bulk Cargoes Other than Grain and Seed" attached hereto as Exhibit E, the terms of which are incorporated herein by this reference and which shall apply whether or not said form is actually issued with regard to any given shipment. Should there be any inconsistency between the terms so incorporated and the other terms of this Agreement, this Agreement shall prevail.

18. MEDIATION.

At any time prior to the start of sworn testimony in arbitration, provided under Article 19 of this Agreement, either party may submit a dispute arising hereunder to non-binding mediation. The mediator shall be selected by the parties from a panel of candidates provided by JAMS of Pittsburgh, Pennsylvania or such other mediation service acceptable to the parties. Neither submission of a dispute to a mediation nor conclusion of the mediation process shall be a

condition precedent to exercise of the arbitration remedy available to the parties under this Agreement. If a dispute is submitted to mediation:

1) the parties shall mediate the dispute in good faith;

2) mediation shall occur in Allegheny County, Pennsylvania.

3) final decision makers for each party on any matter in dispute shall personally attend all mediation sessions;

4) the mediator shall have complete control of the mediation timing and process, provided however, that the mediation shall conclude no later than fourteen (14) calendar days from the day of the initial meeting between the mediator and the parties;

5) all agreements reached in mediation shall be reduced to writing before concluding the mediation process;

6) the parties may jointly agree to have the mediator make a final and

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binding decision;

7) no discovery will be taken during the mediation process;

8) the mediation process shall be confidential and each party shall have the right to designate any information provided to the mediator as "Confidential and Proprietary."

19. ARBITRATION.

All disputes arising under this Agreement shall be referred to binding arbitration conducted expeditiously in accordance with CPR Rules for Non-Administered Arbitration of Business Disputes ("CPR Rules") by a three person panel of arbitrators, each party choosing one arbitrator and the two

arbitrators so chosen selecting a third, neutral arbitrator. The failure or inability of either party to choose an arbitrator or of the arbitrators chosen by the parties to select a third neutral arbitrator shall be resolved in accordance with the CPR Rules. Arbitration shall be conducted at a mutually convenient location in Allegheny County, Pennsylvania or at such other location as the parties may agree. The award in writing signed by any two of the arbitrators shall be final and binding. Either party shall have the right to seek, and the arbitrators shall determine, declaratory relief of the nature generally set forth in the Uniform Declaratory Judgments Act (as in effect in the Commonwealth of Pennsylvania and as the same may be amended from time to time) including, but not limited to, questions of construction of this Agreement, or a declaration of rights, status or other legal relations hereunder. The arbitrators shall apply the substantive statutory and common law of the Commonwealth of Pennsylvania to the dispute and the evidentiary laws of the Commonwealth of Pennsylvania to the arbitration proceeding. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-16, and judgment upon the award entered by the arbitrators may be entered by any court having jurisdiction thereof. The arbitrators shall not award damages in excess of compensatory damages. The costs and expenses of the arbitration (other than attorneys' fees, if any)

shall be borne one-half by each party. The arbitrators shall be permitted to review existing documents or records of any party to the extent that, in the sole discretion of the neutral arbitrator, such documents and/or records are deemed to be relevant and to the extent the parties are permitted by law or by contract to convey such documents or records to the arbitrator. Either party shall have the right to designate any information sought in discovery or provided to the arbitrators at their request as confidential and/or proprietary in which case the neutral arbitrator shall determine whether the information sought shall be disclosed in discovery or, if such information is provided to the arbitrators at their request, shall not convey such information to the other party.

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20. NOTICES.

All notices, communications and payments to SHIPPERS or CARRIER pertaining to this Agreement shall be deemed sufficiently made if in writing and delivered (i) in person to an office of the intended recipient, or (ii) by registered or certified mail, return receipt requested; or (iii) by overnight delivery service which provides proof of delivery; or (iv) by telecopy, with a duplicate copy sent via first class mail, postage prepaid, addressed as follows or to such other address as SHIPPERS or CARRIER shall designate in writing:

If to SHIPPERS:

USX Corporation-U. S. Steel Group
600 Grant Street - Room 2382
Pittsburgh, Pennsylvania 15219-2749
Attention: Director - Raw Materials Planning,
Procurement and Distribution
Phone: 412-433-3620
Fax: 412-433-3624

USS/KOBE Steel Company
1807 East 28th Street
Lorain, Ohio 44055
Attention: Vice President-Finance and Administration
Phone: 440-277-2401
Fax: 440-277-3552

If to CARRIER:

USS Great Lakes Fleet, Inc.
400 Missabe Building
Duluth, Minnesota 55802-1990
Attention: Director of Marketing
Phone: 218-723-2424
Fax: 218-723-2455

21. CHOICE OF LAW.

To the extent the law of a state of the United States of America will govern this Agreement, the law of the Commonwealth of Pennsylvania shall apply, without regard to the principles therein pertaining to the conflicts of laws.

22. INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES.

In no event shall either party be liable for any indirect, special or consequential damages as a result of a breach of any provision of this Agreement.

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23. ENTIRETY OF AGREEMENT; AMENDMENTS.

The Transportation Agreement between SHIPPERS and CARRIER dated March 16, 1988, is superseded as of the effective date of this Agreement and is of no further force and effect. This Agreement constitutes the entire Agreement of the parties with respect to the subject matter hereof. No change, modification or alteration of this Agreement shall be effective unless reduced to writing and signed by the parties hereto. Waiver by either party of any breach of this Agreement, shall not be construed as a waiver of any other breach.

24. ASSIGNMENT.

Neither party to this Agreement shall assign or transfer this Agreement or any interest herein, other than to the lenders providing financing to Transtar, Inc. (which lenders will act through a single agent), without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the provisions of this Article 24, this Agreement shall inure to the benefit of and be binding upon the successors and assigns to the parties. Neither SHIPPER shall directly or indirectly sell, transfer or otherwise dispose of all or a substantial portion of the assets of the facilities served by CARRIER during the term of this Agreement to any party which intends to operate these facilities for the production of steel or steel-related products, unless the purchaser, acquiror or other transferee of such facilities assumes, in a writing

reasonably satisfactory to CARRIER, all of the rights and obligations set forth in this Agreement.

25. RELATIONSHIP OF PARTIES.

The relationship between SHIPPERS and CARRIER under this Agreement shall be that of independent contractors. Nothing contained in this Agreement shall be deemed to constitute a relationship of agency, joint venture, partnership, or any relationship other than that specified.

26. HEADINGS.

The headings in this Agreement are inserted for ease of reference only and shall in no way be used to interpret any of the terms or the intent of this Agreement.

27. MUTUAL RELEASE.

The parties fully release and discharge each other from all claims, known and unknown, arising under the 1988 Agreement which either party may have against the other party to this Agreement. This provision is not intended to apply to personal injury or property damage claims that either party may have against the other.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day and year first above written.

USX CORPORATION - U. S. STEEL GROUP

By /s/ Paul J. Wilhelm

Title: President

USS/KOBE STEEL COMPANY

By /s/ George F. Babcoke

Title: President

USS GREAT LAKES FLEET INC.

By /s/ Robert S. Rosati

Title: President

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EXHIBIT 10.7.1

TRANSPORTATION SERVICES AGREEMENT

DATED JULY 1, 1998

BY AND BETWEEN

U. S. STEEL MINING CO., LLC

AND

TRANSTAR, INC.

TRANSPORTATION SERVICES AGREEMENT
BETWEEN U. S. STEEL MINING CO., LLC
AND
TRANSTAR, INC.
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TRANSPORTATION SERVICES AGREEMENT

This Agreement, made and concluded this 21st day of December, 1998, but effective the 1st day of July 1998, by and between U. S. STEEL MINING CO., LLC (hereinafter "USM"), a Delaware Limited Liability Company with offices at 600 Grant Street, Pittsburgh, Pennsylvania 15219-2749, and TRANSTAR, INC. (hereinafter "Transtar"), a Delaware corporation with offices at 135 Jamison Lane, Monroeville, Pennsylvania 15146.

W I T N E S S E T H:

WHEREAS, Transtar is the shareholder of certain transportation operating companies including Birmingham Southern Railroad Company (hereinafter "Birmingham Southern") and its subsidiary Fairfield Southern Company, Inc. (hereinafter "Fairfield Southern"), and Warrior and Gulf Navigation Company (hereinafter "WGN") and its subsidiary Mobile River Terminal Company (hereinafter "Mobile River" and collectively the "Transtar Units"); and

WHEREAS, USM and Transtar are parties to a Transportation Services Agreement dated December 28, 1988 (hereinafter the "1988 TSA"); and

WHEREAS, USM and Transtar desire to enter into a new Transportation Services Agreement to set forth the terms of a commercial business relationship between USM and the Transtar Units and to replace the 1988 TSA;

NOW, THEREFORE, the parties hereto, intending to be legally bound, and in consideration of the mutual agreements herein contained, hereby agree as follows:

1. SCOPE. This Agreement sets forth the understanding of the parties concerning transportation and transportation-related services to be provided to USM by Transtar Units. More specific transportation contracts, tariffs, purchase orders or other agreements may be executed, issued and/or published by USM and the individual Transtar Units in order to implement this Agreement. To the extent required by law, such individual agreements shall be filed with the Surface Transportation Board ("STB") and/or the appropriate state agency.

2. TERM. This Agreement shall become effective on July 1, 1998 and shall remain in effect through December 31, 2004 ("Initial Term"). At the end of the Initial Term of this Agreement or at the end of the Additional Term established in Section 3 herein, if any of the services previously performed by any Transtar Unit pursuant to this Agreement are subject to competitive bidding, the Transtar Unit shall be offered an opportunity to participate in any competitive bidding for such services.

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3. ADDITIONAL TERM. Following the expiration of the Initial Term of this Agreement, all of its terms and/or conditions, insofar as they apply to the Birmingham Southern service referenced in Sections 6(a), 6(e), 6(f) and 7(a), shall continue to apply to Birmingham Southern. If during the Additional Term, a non-Transtar rail carrier obtains access to the Concord Preparation Plant, USM shall have the option of canceling this Agreement, in whole or in part, insofar as it applies to the service referenced in Sections 6(a) and 7(a) herein which is provided by Birmingham Southern. During the Initial Term or the Additional Term, USM shall not take any action which would in any way, either directly or indirectly, encourage any non-Transtar rail carrier to attempt to obtain access to the Concord Preparation Plant or which would in any way assist and/or support any such rail carrier in any efforts to obtain such access; provided, however, that, during the Additional Term, USM may request non-binding mediation pursuant to Section 15 and/or request that an arbitrator, pursuant to the provisions set forth in Section 16 herein, determine whether it is reasonable and equitable, under the facts, circumstances and the regulatory and competitive conditions in effect at that time at the Concord Preparation Plant, for USM to seek competitive access.

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4. INTENT OF AGREEMENT. The parties hereto intend that they shall mutually benefit from the rates, terms, conditions and provisions of this Agreement and that no party shall be either unreasonably enriched or unreasonably harmed by any implementation and/or interpretation of said rates, terms, conditions and provisions. In addition, the parties hereto agree and intend that the rates, terms and conditions (including, but not limited to, payment and drafting terms) in effect as of the effective date of this Agreement shall continue in effect except as modified by this or other agreements of the parties and that no party to this Agreement shall seek to change rates, terms and conditions through the arbitration procedures set forth in Section 16 hereof, unless there is a material change in existing facts and circumstances that causes the party seeking such change to suffer a gross inequity. This Agreement, and all agreements implementing this Agreement, shall be administered and interpreted in order to fulfill the intent stated in this Section 4. Any arbitrator considering disputes pursuant to Section 16 hereof shall render a decision which fulfills the intent stated in this Section 4.

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5. EXISTING CONTRACTS. All existing contracts, purchase orders and other agreements between USM and the Transtar Units shall remain in effect for the terms stated therein. To the extent that any conflict exists between Sections 6 or 7 of this Agreement and the rates or service provisions of any such contract, purchase order or other agreement, the terms of this Agreement shall supersede and take precedence provided, however, that every reasonable effort shall be made to construe such provisions consistently, and that nothing

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contained in this Agreement shall be construed or implemented to shorten the term of any such contract, purchase order or other agreement.

6. RATES, TERMS AND/OR CONDITIONS FOR SERVICE.

(a) Birmingham Southern Service. Initial Base Rates, terms and/or conditions for all Birmingham Southern services shall be those in effect in contracts, tariffs or other agreements as of the effective date of this Agreement. The rate between USM and Birmingham Southern set forth in Exhibit I attached to this Agreement together with other rates in effect as of the effective date of this Agreement (including single-line and joint-line line-haul rates) shall be referred to herein as "Initial Base Rates." Any new rates established during the term of this Agreement shall be deemed "Base Rates" as of the date they are established.

Initial Base Rates and Base Rates for single-line movements shall be adjusted annually to be effective January 1, 1999 and each January 1 thereafter in accordance with the procedures set forth in Section 6(e) herein. Joint-line Initial Base Rates and joint-line Base Rates shall be adjusted in accordance with the procedures set forth in Section 6(f) herein.

(b) Fairfield Southern Transportation. Initial Base Rates, terms and/or conditions for all Fairfield Southern service shall be those in effect pursuant to the Agreement, executed simultaneously herewith, between USM and Fairfield Southern. The rates between USM and Fairfield Southern set forth in Exhibit II together with other rates in effect as of the effective date of this Agreement shall be referred to herein as "Initial Base Rates." Any new rates established during the term of this Agreement shall be deemed "Base Rates" of the date they are established.

Initial Base Rates and Base Rates for Fairfield Southern service shall be adjusted annually to be effective January 1, 1999 and each January 1 thereafter in accordance with the procedures set forth in Section 6(e) herein.

(c) Miscellaneous Fairfield Southern Service. During the Initial Term of this Agreement, USM shall have the option to subject all or any such miscellaneous Fairfield Southern services except track maintenance to competitive bidding. Track maintenance may be subjected to competitive bidding at any time after December 31, 2001. Fairfield Southern shall be offered an opportunity to participate in any competitive bidding for such miscellaneous and track maintenance services and any additional transportation and transportation-related services required by USM.

(d) WGN. Rates between USM and WGN set forth in Exhibit III and Exhibit IX together with other rates in effect as of the effective date of this Agreement shall be referred to herein as "Initial Base Rates." Any new rates established during the term of this Agreement shall be deemed "Base Rates" as of the date they are established. Initial Base Rates and adjusted Initial Base Rates and, unless otherwise agreed by the parties Base Rates and adjusted Base Rates, shall be subject to the Fuel Cost Adjustment set forth in Exhibit IV. Upon request for any new service required by USM, WGN shall offer rates, terms and/or conditions which are competitive with the rates, terms and/or conditions

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offered by viable competing water carriers or stevedores for similar services in the same geographic area. Prior to December 1, 1999 and each

December 1 thereafter through December 1, 2003, USM and WGN shall in good faith negotiate adjusted Initial Base Rates and adjusted Base Rates which shall be competitive with rates available to USM at that time from viable competitors of WGN capable of offering the same or substantially similar services and volumes to USM.

If after good faith negotiations, the parties fail to reach agreement on the amount of the annual adjustment to the Export Coal Initial Base Rates set forth in Exhibit III and Exhibit IX, such Export Coal Initial Base Rates shall be adjusted up or down by one hundred percent (100%) of the cumulative percentage change between the October 1998 Producer Price Index All Commodities Unadjusted ("PPI-U") and the most recent October PPI-U published prior to the January 1 effective date of the adjusted Export Coal Initial Base Rate, provided however, that the adjusted Export Coal Initial Base Rate shall never fall below the originally established level.

If after good faith negotiations, the parties fail to reach agreement on the amount of the annual adjustment to the Export Coal Base Rates, such Export Coal Base Rates shall be adjusted up or down by one hundred percent (100%) of the cumulative percentage change between the PPI-U published immediately prior to the effective date of the Export Coal Base Rate and the most recent October PPI-U published prior to the January 1 effective date of the

adjusted Export Coal Base Rate, provided however, that the adjusted Export Coal Base Rate shall never fall below the originally established level. Neither party shall have the right to invoke the dispute resolution procedures set forth in Sections 15 and 16 to request an appropriate rate adjustment be determined through these procedures, unless the party is able to prove it has suffered a gross inequity as a result of the implementation of the adjusted Export Coal Initial Base Rate or adjusted Export Coal Base Rate. In no event shall the dispute resolution procedures result in the adjusted Export Coal Initial Base Rate ever falling below the Export Coal Initial Base Rate or the adjusted Export Coal Base Rate ever falling below its original established level.

If after good faith negotiations the parties fail to reach agreement on the amount of the annual adjustment to the Domestic Coal Initial Base Rates and Domestic Coal Base Rates, either party shall have the right to request non-binding mediation pursuant to Section 15 and invoke the arbitration procedures set forth in Section 16 to request that an adjusted Initial Base Rate or adjusted Base Rate be agreed upon or determined through these procedures. In no event shall the dispute resolution procedures result in the adjusted Domestic Coal Initial Base Rate ever falling below the Domestic Coal Initial Base Rate or the adjusted

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Domestic Coal Base Rate ever falling below its original established level. Any interim rates will be revised retroactively to whatever rates were agreed upon through non-binding mediation or were determined through the dispute resolution procedures set forth in Section 16.

(e) Adjustments to Initial Base Rates, Terms and Conditions and Base Rates, Terms and Conditions to Birmingham Southern Single-Line Rates and Fairfield Southern Rates. The Initial Base Rates and Base Rates for Birmingham Southern single-line service and Fairfield Southern rail service shall be adjusted annually, to be effective January 1, 1999 and each January 1 thereafter. Such adjustments, as well as any other increases, decreases, changes, modifications, additions and/or deletions to Initial Base Rates, terms and/or conditions and Base Rates, terms and/or conditions for any such rail service during the Initial or any Additional Term shall be negotiated in good faith by the parties and upon agreement implemented either through tariffs, contracts or other agreements. If, after good faith negotiation during the Initial Term of this Agreement the parties fail to reach agreement on the amount of the annual adjustment to the Initial Base Rates and Base Rates, then (1) the Initial Base Rates shall be adjusted up or down by eighty percent (80%) of the amount of the percentage change between the 4th quarter

1997 Rail Cost Adjustment Factor, unadjusted for productivity ("RCAF-U") of 1.00, as rebased by the STB and published in Ex Parte No. 290 (Sub No. 5) (98-1) Table A decided on or about December 12, 1997 ("Base RCAF-U") and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted Initial Base Rate, provided however, that the adjusted Initial Base Rate shall never fall below the Initial Base Rate and (2) the Base Rates shall be adjusted up or down by eighty percent (80%) of the amount of the percentage change between the most recent RCAF-U published prior to the time that the Base Rate was established and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted Base Rate, provided however, that the adjusted Base Rate shall never fall below its original established level. (See examples in Exhibits V and VI attached to this Agreement.)

At the end of the Initial Term, Transtar shall elect whether to apply the maximum cumulative allowable rate adjustment to any rate in effect on December 31, 2004 to be adjusted and to become effective January 1, 2005.

If, after good faith negotiations during the Additional Term of this Agreement, the parties fail to reach agreement on the amount of the annual adjustment to the Initial Base Rates and Base Rates, then (1) the Initial Base

Rates and adjusted Initial Base Rates in effect prior to January 1, 2005 shall be adjusted up or down by one hundred percent (100%) of the amount of the percentage change between the 4th quarter 2003 Rail Cost Adjustment Factor ("RCAF-U") as published by the STB ("Base RCAF-U") and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted

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Initial Base Rate, provided however, that the Initial Base Rate and adjusted Initial Base Rate shall never fall below their January 1, 2004 level and (2) the Base Rates and adjusted Base Rates established prior to January 1, 2005 shall be adjusted up or down by one hundred percent (100%) of the amount of the percentage change between the 4th Quarter 2003 RCAF-U and the most recent 4th Quarter RCAF-U published prior to the January 1 effective date of the adjusted Base Rate, provided however, that the Base Rate and adjusted Base Rate shall never fall below their most recent level prior to January 1, 2005 and (3) any Base Rates established during the Additional Term of this Agreement shall be adjusted up or down by one hundred percent (100%) of the amount of the percentage change between the most recent RCAF-U published prior to the time that the Base Rate was established and the most recent 4th quarter RCAF-U published prior to the January 1 effective date of the adjusted Base Rate, provided, however, that the adjusted Base Rate shall never fall below its originally

established level. Such adjusted Initial Base Rates and Base Rates shall be implemented effective each January 1 for the ensuing year.

Neither party shall have the right to invoke the dispute resolution procedures set forth in Sections 15 and 16 to request an appropriate rate adjustment be determined through these procedures, unless the party is able to prove it has suffered a gross inequity as a result of the implementation of the adjusted Initial Base Rate or adjusted Base Rate. In no event during the Initial Term of this Agreement shall the dispute resolution procedures result in the adjusted Initial Base Rate ever falling below the Initial Base Rate or the adjusted Base Rate ever falling below its original established level. In no event during the Additional Term of this Agreement shall the dispute resolution procedures result in the Initial Base Rate and the adjusted Initial Base Rate ever falling below the January 1, 2004 level, the Base Rate and adjusted Base Rate in effect on January 1, 2005 ever falling below their January 1, 2005 level and the Base Rate and adjusted Base Rate established during the Additional Term ever falling below their originally established level.

(f) Adjustments to Joint-Line Rates. Birmingham Southern earnings on existing joint line rates may be adjusted up or down by an amount not to exceed the same percentage

increase or decrease as implemented by the trunk line for its portion of earnings on the through rate, provided Birmingham Southern's earnings shall never fall below its earnings under the joint-line Initial Base Rate as may be adjusted as set forth in Section 6(g)and provided Birmingham Southern earnings shall never fall below its earnings under the originally established joint-line Base Rate as may be adjusted as set forth in Section 6(g). The dollar amount of Birmingham Southern's earnings shall equal the dollar amount of its earnings under the joint-line Initial Base Rate or the joint-line Base Rate as may be adjusted as set forth in Section 6(g) while the adjusted Initial Base Rate is equal to or lower than the joint-line Initial Base Rate or the adjusted Base

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Rate is equal to or lower than the originally established joint-line Base Rate. Once the adjusted Base rate exceeds the Initial Base Rate or Base Rate, Birmingham Southern's earnings shall be the same percentage of the adjusted joint-line Initial Base Rate or the adjusted joint-line Base Rate as Birmingham Southern's percentage under the Initial Base Rate or the originally established Base Rate except as may be adjusted as set forth in Section 6(g). (See examples in Exhibits VII and VIII attached to this Agreement.) If there is more than one other line-haul carrier included in the joint rate with Birmingham Southern, Birmingham Southern's earnings may be

adjusted by an amount not to exceed the weighted average percentage of the other participating carriers. With respect to new joint line rates, Birmingham Southern shall not seek earnings requirements that are higher than earnings on existing rates for movements of the commodities from the same or a comparable junction point to the same or comparable destination in similar quantities and equipment. USM shall have the right to audit Birmingham Southern's records to ensure compliance with this provision, provided however, such audit shall be conducted by an independent auditor to be nominated by USM, subject to written approval by Birmingham Southern which approval shall not be unreasonably withheld. The auditor shall only certify to USM whether Birmingham Southern was in compliance and shall keep all information confidential. Birmingham Southern shall notify USM whenever a division of a joint-line rate deviates from the percentage division in effect at the time the Initial Base Rate or Base Rate was established. Transtar and Birmingham Southern thereby consent to USM requesting, and trunk line carriers advising, only whether the division has changed or whether Birmingham Southern has priced its division on a new movement in accordance with the existing rates for movement of commodities from the same or a comparable junction point to the same or comparable destination in similar quantities and

equipment is unreasonable. Under no circumstances do Transtar or Birmingham Southern consent to the trunk lines disclosing the amount or the percentage of the divisions or of USM requesting the same.

(g) Car Hire Adjustments to Birmingham Southern Earnings. With respect to Birmingham Southern's earnings for services specified in this Agreement, Birmingham Southern shall have the right to make adjustments as necessary for increases in cost of rail cars forced upon Birmingham Southern by others pursuant to car hire deprescription or revisions to Car Hire Rules or Car Service Regulations. Transtar shall provide USM with reasonable supporting documentation for any adjustments pursuant to this Section at the time such adjustments are implemented.

(h) Regulatory Change. Any new laws and/or regulations which become effective during the Initial Term or Additional Term of this Agreement, which place new obligations on Transtar rail or barge carriers, including, but not limited to, obligations with respect to competitive access and/or obligations to quote segments of joint-line movements, and which apply to rail and/or barge service provided to USS' competitors, shall be applicable to service provided hereunder.

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(i) Drafting. Drafting procedures applicable to shipments via Birmingham Southern and WGN to and from the Concord Preparation Plant may be modified, as desired by USM, acting in its sole discretion, no earlier than July 1, 2002 for Birmingham Southern and July 1, 2003 for WGN.

In those instances where drafting procedures are modified, appropriate procedures will be put into place by the parties which provide for payment within fifteen (15) days of receipt of billing.

(j) Determination of Competitive Rates Under Certain Circumstances. During the term of this Agreement, if the combined rate of WGN and BS, as escalated (excluding any FS rate) for transportation from Concord Preparation Plant to Mobile is not reasonably competitive with a bona fide offer for such transportation from a viable competitor of the Transtar Units (including any mode or any transportation group offering joint service in conjunction with a Transtar Unit) capable of providing transportation from Concord Preparation Plant on a sustained and continual basis, then either party may invoke the dispute resolution procedures set forth in Sections 15 and 16 to request that a competitive combined Transtar Unit rate be agreed upon or determined through these procedures.

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7. TRANSPORTATION COMMITMENTS. (a) Birmingham Southern Rail Service. During the Initial Term and any Additional Term of this Agreement, USM shall ship via Birmingham Southern one hundred percent (100%) of the rail traffic originating or terminating at the Concord Preparation Plant.

(b) Fairfield Southern Transportation Service. During the Initial Term of this Agreement, Fairfield Southern shall have the right to provide one hundred percent (100%) of the rail transportation service specified in the Agreement executed simultaneously herewith, so long as such rail transportation services are required by USM from any source.

(c) Miscellaneous Fairfield Southern Services. Fairfield Southern shall be permitted to participate in bidding for miscellaneous and track maintenance services and shall also be permitted to participate in bidding for new or additional transportation and transportation-related services required by USM.

(d) WGN. During each calendar year of the Initial Term of this Agreement, USM shall ship via WGN not less than ninety percent (90%) of USM coal tonnage for export and originating at the Concord Preparation Plant ("Export Coal").

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During each calendar year of the Initial Term of this Agreement, USM shall ship via WGN not less than ninety percent (90%) of USM coal tonnage shipped by barge to domestic destinations and originating at the Concord Preparation Plant for which USM controls the routing ("Domestic Coal"). In addition, USM will use all reasonable efforts to control the routing thereby maximizing the use of WGN transportation services. For the six (6) month period July 1, 1998 through December 31, 1998, calendar year 1998 shipments will be used to judge performance.

If USM ships less than ninety percent (90%) of Export Coal or less than ninety percent (90%) of Domestic Coal shipped by barge for which it controls routing, it shall pay WGN liquidated damages of $2.00 NT, escalated in accordance with the provisions of Section 12 herein, for each ton less than the minimum percentage within thirty (30) days of receipt of billing for such liquidated damages.

(e) Bid Terms. From and after the effective date of this Agreement, neither Transtar nor any of the Transtar Units shall be required to indemnify or hold harmless any party to this Agreement as a condition to bidding for, or being awarded the right to provide, transportation or transportation related services, whether such services are within the scope of any Transportation Services Agreement or otherwise, and the absence of any such indemnity or hold

harmless provision in any such bid shall not be taken into consideration to determine the competitiveness of such bid.

8. SERVICE LEVELS. During the Initial Term and the Additional Term of this Agreement, Transtar Units shall maintain service levels which are reasonably required to provide service hereunder and in a manner consistent with and competitive with other carriers in the area. When Birmingham Southern functions as the origin carrier in a joint-line movement, it shall be responsible for arranging for car supply consistent with the availability of rail cars from other carriers. Birmingham Southern shall have car ownership obligations on single-line movements. Any dispute between the parties concerning service levels shall be referred to dispute resolution in accordance with the provisions of Sections 15 and 16 hereof.

9. MAINTENANCE OF TRANSPORTATION ASSETS. Transtar Units shall maintain in good and serviceable condition those transportation assets used to provide service to USM pursuant to this Agreement, including, but not limited to, way and structures, locomotives, railcars, signaling systems, tugs, barges, and transshipment facilities.

Any dispute between the parties concerning maintenance of transportation assets shall be referred to the dispute resolution procedures in accordance with the provisions of Sections 15 and 16 hereof.

10. MAINTENANCE OF INTERCHANGES. Birmingham Southern shall maintain interchanges, gateways and/or terminals operable as of the date of this Agreement which are reasonably required to provide service hereunder. Any dispute between the parties concerning maintenance of interchanges, gateways

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and/or terminals shall be referred to dispute resolution in accordance with the provisions of Sections 15 and 16 hereof.

11. AUDIT. Each party shall have the right to audit the other's records insofar as necessary to ensure compliance with all of the terms and conditions of this Agreement. Except as provided in Section 6(f) herein, such audits shall be performed by an internal or external auditor, provided however, that the party being audited shall have the right to require that any audit be conducted by a mutually agreeable independent auditor and that the details of the information examined in such audit be kept confidential from the party requesting the audit, except to the extent necessary to resolve any controversy that is pursued in good faith. The first $20,000 of cumulative total audit expense annually incurred for audit services required by either party to be performed by independent auditors shall be shared equally by the parties. Thereafter, such audit expense shall be borne by the party requesting the audit.

12. LIQUIDATED DAMAGES. The parties acknowledge that in light of the nature of the investments and expenditures to be made by Transtar and WGN to comply with obligations under this Agreement, the actual damages which will be sustained in the event of a failure of USM to meet its obligations under Section 7(d) are uncertain and difficult to ascertain. Accordingly, the parties have agreed to appropriate measures of liquidated damages for each ton below the applicable minimum percentage set forth in Section 7(d).

Liquidated damages shall be adjusted annually, to be effective January 1, 1999 and each January 1 thereafter, up or down by 100% of the amount of the cumulative percentage change between the October 1997 Producer Price Index All Commodities Unadjusted ("PPI-U") and the most recent October PPI-U, published prior to the January 1 effective date of the adjusted liquidated damages and that the adjusted rate shall never fall below the initial liquidated damages. The adjusted liquidated damages shall never fall below $2.00 NT.

If during the Initial Term of this Agreement, USM, for any reason other than force majeure, fails to meet any of its volume commitments set forth in Section 7(d) hereof for any given calendar year other than the final calendar year of the Initial Term, USM may, in lieu of paying liquidated damages, make up the deficit volume during the immediately

succeeding calendar year by shipping such deficit volume plus an additional 10% of the deficit volume over the Transtar Unit to which the volume commitment was made, in addition to shipping its annual volume commitment for such succeeding year. If any portion of the deficit volume plus an additional 10% of the deficit volume has not been shipped by the end of the immediately succeeding calendar year, USM shall pay the liquidated damages (as then escalated) for such portion no later than thirty (30) days after billing by WGN. It is the intent of the parties that the provisions of the final paragraph of this Section 12 shall not apply to the volume commitment set forth in Section 7(a) and 7(b).

13. SEVERABILITY. It is the desire of the parties hereto that this Agreement be enforced to the fullest extent permissible under the laws and public policies to be applied thereto. Accordingly, if any particular portion of this Agreement shall be adjudicated to be void, invalid or unenforceable, this Agreement shall be deemed to be amended to delete herefrom the portion thus

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adjudicated to be void, invalid, or unenforceable, unless such change alters the purpose and intent of this Agreement, in which case this Agreement shall be null and void.

14. INEQUITIES. The parties intend that they shall mutually benefit from the terms, conditions and provisions of this Agreement. If any party suffers a gross inequity resulting from such terms, conditions or provisions, or from a substantial change in circumstances or conditions, the parties shall negotiate in good faith to resolve or remove such inequity. In the event the parties fail to reach an agreement concerning any alleged gross inequity, the dispute shall be referred to the dispute resolution procedures of Section 15 and 16 hereof. It is mutually understood and agreed, however, that nothing herein shall be construed to relieve any party of any of its obligations under this Agreement or under any related transportation contract, purchase order or other agreement. The parties further agree that, unless otherwise required by law, no party shall assert or cause to be asserted in any suit, action, proceeding or other adjudication that any of the terms, conditions or provisions of this Agreement are or will be unenforceable, unjust, unreasonable, unreasonably discriminatory, preferential or prejudicial, or otherwise in violation of any provision of any act or statute or any rule, order or regulation thereof.

15. MEDIATION. At any time prior to the start of sworn testimony in arbitration provided under Section 16 of this Agreement, a party may submit a dispute arising hereunder

to non-binding mediation. The mediator shall be selected by the party submitting the dispute with or without the concurrence of the other party. Neither submission of a dispute to mediation nor conclusion of the mediation process shall be a condition precedent to exercise of the arbitration procedures available to the parties under this Agreement. If a dispute is submitted to mediation:

1) the parties shall mediate the dispute in good faith;

2) mediation shall occur in Allegheny County, Pennsylvania;

3) final decision makers for each party on any matter in dispute shall personally attend all mediation sessions;

4) the mediator shall have complete control of the mediation timing and process, provided, however, that the mediation shall conclude no later than fourteen (14) calendar days from the day of the initial meeting between the mediator and the parties;

5) all agreements reached in mediation shall be reduced to writing before concluding the mediation process;

6) the parties may jointly agree to have the mediator make a final and binding decision;

7) no discovery will be taken during the mediation process;

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8) the mediation process shall be confidential and each party shall have the right to designate any information provided to the mediator as "Confidential and Proprietary."

16. ARBITRATION. All disputes arising under this Agreement shall be referred to binding arbitration conducted expeditiously in accordance with Center for Public Resources Rules for Non-Administered Arbitration of Business Disputes ("CPR Rules") by a three-person panel of arbitrators, each party choosing one arbitrator and the two arbitrators so chosen selecting a third, neutral arbitrator. The failure or inability of either party to choose an arbitrator or of the arbitrators chosen by the parties to select a third neutral arbitrator shall be resolved in accordance with the CPR Rules. Arbitration shall be conducted at a mutually convenient location in Allegheny County, Pennsylvania or at such other location as the parties may agree. The award in writing signed by any two of the arbitrators shall be final and binding. In order to resolve any disputes hereunder, the arbitrators shall implement the specific rights and obligations set forth in this Agreement while fulfilling the intent stated in Section 4 hereof. Either party shall have the right to seek, and the arbitrators shall determine, declaratory relief of the nature generally set forth in the Uniform Declaratory Judgments Act (as in effect in the State

of Alabama and as the same may be amended from time to time) including, but not limited to, questions of construction of this Agreement, or a declaration of rights, status or other legal relations hereunder. The arbitrators shall apply the substantive statutory and common law of the State of Alabama to the dispute and the evidentiary laws of the State of Alabama to the arbitration proceeding. The arbitration shall be governed by the United States Arbitration Act, 9 U.S.C. Sections 1-16, and judgment upon the award entered by the arbitrators may be entered by any court having jurisdiction thereof. The arbitrators shall not award damages in excess of compensatory damages. The costs and expenses of the arbitration (other than attorneys' fees, if any) shall be borne one-half by USM and one-half by the Transtar Unit. The arbitrators shall be permitted to review existing documents or records of any party to the extent that, in the sole discretion of the neutral arbitrator, such documents and/or records are deemed to be relevant and to the extent the parties are permitted by law or by contract to convey such documents or records to the arbitrator. Either party shall have the right to designate any information sought in discovery or provided to the arbitrators at their request as confidential and/or proprietary in which case the neutral arbitrator shall determine whether the information sought

shall be disclosed in discovery or, if such information is provided to the arbitrators at their request, shall not convey such information to the other party.

17. ASSIGNMENT. No party to this Agreement shall assign or transfer this Agreement or any interest herein, other than to the lenders providing financing to Transtar, Inc. (which lenders will act through a single agent) without the prior written consent of the other party, which consent shall not be unreasonably withheld. Subject to the provisions of this Section 17, this

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Agreement shall inure to the benefit of and be binding upon the successors and assigns to the parties. USM shall not directly or indirectly sell, transfer or otherwise dispose of all or a substantial portion of the assets of the Concord Preparation Plant during the term of this Agreement, unless the purchaser, acquiror or other transferee assumes, in a writing reasonably satisfactory to Transtar, all of the rights and obligations set forth in this Agreement.

18. NOTICES. Unless otherwise specified herein, any and all notices under this Agreement shall be in writing and shall be delivered to the party entitled to receive the same: (1) by hand delivery; (2) by registered or certified mail, return receipt requested; (3) by overnight delivery service which provides proof of delivery; or (4) by telecopy, with a

duplicate copy sent via first class mail, postage pre-paid addressed as follows:

If to USM:

U. S. Steel Mining Co., LLC
600 Grant Street - Room
Pittsburgh, Pennsylvania 15219-2749
Attention: Manager-Commercial Distribution & Traffic
Phone: 412-433-4638
Fax: 412-433-5839

If to WGN:

Warrior & Gulf Navigation
50 Viaduct Road
Chickasaw, Alabama 36611
Attention: Director of Marketing
Phone: 334-452-6019
Fax: 334-452-6014

If to Birmingham Southern/Fairfield Southern:

Birmingham Southern/Fairfield Southern
6200 E. J. Oliver Boulevard
Fairfield,, Alabama 35064
Attention: Director of Marketing
Phone: 205-783-2640
Fax: 205-783-2463

19. LAW GOVERNING. This Agreement shall be construed in accordance with the laws of the State of Alabama excluding its conflict of laws provision.

20. RELATIONSHIP OF PARTIES. The relationship between USM and Transtar Units under this Agreement shall be that of independent contractors. Nothing in this Agreement shall be deemed to constitute a relationship of agency, joint venture, partnership, or any relationship other than that specified.

21. INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES. In no event shall a party be liable for any indirect, special or consequential damages as a result of a breach of any provision of this Agreement.

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22. ENTIRETY OF AGREEMENT; AMENDMENTS. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof. No change, modification, or alteration of this Agreement shall be effective unless reduced to writing and signed by the parties. Waiver of any breach of the Agreement by a party shall not be construed as a waiver of any other breach.

23. MUTUAL RELEASE. The parties fully release and discharge each other from all claims, known and unknown, arising under the 1988 Agreement which either party may have against any other party to this Agreement. This provision is not intended to apply to personal injury or property damage claims that either party may have against the other.

24. FORCE MAJEURE. The parties understand that performance by a party may be interrupted or delayed by an occurrence outside of its control, including but not limited to the following: an act of God, war, riot, sovereign conduct, equipment failure, strikes, lockouts, conduct of third parties or other similar causes beyond the reasonable control of the parties. If that should occur, such party shall be excused from performance for as long as it is reasonably necessary to

cure the Force Majeure condition. In case of any dispute as to the reasonableness of a resulting delay in performance, the parties shall submit the matter to dispute resolution in accordance with the procedures set forth in Sections 15 and 16.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

U. S. STEEL MINING CO., LLC

By /s/ George T. Weber, Jr.

Title: President

TRANSTAR, INC.

By /s/ Robert S. Rosati

Title: President

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EXHIBIT 10.16.3

SIXTH AMENDMENT

TO THE

TRANSTAR, INC.

SALARIED RETIREMENT PLAN
(As Amended and Restated Effective January 1, 1989)

Effective January 1, 1999, the following revision is adopted by the Transtar, Inc. Salaried Retirement Plan.

APPENDIX A, Subsection (a) shall be amended as follows:

(a) Normal wages and salaries for services performed, including incentive, shift differential, out-of-line differential, and Sunday, holiday and overtime premium payments applicable to such services, but excluding any cost-of-living payment and the amount resulting from a Cost-of-Living Adjustment included in the base hourly or salary rates on or after May 1, 1974 other than the first thirty-nine cents ($.39) per hour for hourly paid employees and the first sixty-eight dollars ($68) per month for salaried employees. Effective January 1, 1997, Participants whose rolled into base Cost-of-Living Adjustment excluded from Pensionable Earnings prior to January 1, 1997 exceeds six hundred dollars ($600.00) per month shall have such exclusion reduced prospectively to six hundred dollars ($600.00) per month. Effective January 1, 1998, Participants whose rolled into base Cost-of-Living Adjustment excluded from Pensionable Earnings prior to January 1, 1998 exceeds four hundred fifty dollars ($450.00) per month shall have such exclusion reduced prospectively to four hundred fifty dollars ($450.00) per month. EFFECTIVE JANUARY 1, 1999, PARTICIPANTS WHOSE ROLLED INTO BASE COST-OF-LIVING ADJUSTMENT EXCLUDED FROM PENSIONABLE EARNINGS PRIOR TO JANUARY 1, 1999 EXCEEDS THREE HUNDRED DOLLARS ($300.00) PER MONTH SHALL HAVE SUCH EXCLUSION REDUCED PROSPECTIVELY TO THREE HUNDRED DOLLARS ($300.00) PER MONTH. The preceding shall be modified for Participants covered by a collective bargaining agreement that provides for a deviation in the method of determining normal wages and salaries. Effective August 11, 1986, the amount of any temporary reduction in any Participant's salary will be included in Pensionable Earnings for pension purposes; provided, however, that the temporary reduction included in Pensionable Earnings shall be reduced by any subsequent salary increase.

IN WITNESS WHEREOF, Transtar, Inc. has caused this Amendment to be

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executed by its duly authorized officers this 11th day of January , 1999.

ATTEST:

By /s/ R. N. Gentile

TRANSTAR, INC.

By /s/ J. W. Schulte

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EXHIBIT 12.1

TRANSTAR, INC.

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(In thousands)

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	For the year ended December 31,				
	1998	1997	1996	1995	1994
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Income before income taxes, extraordinary item and change in accounting principle......................	$ 95,757	$110,579	$103,714	$93,915	$86,102
Fixed charges:					
Interest expense and amortization of debt issuance costs........................	$ 12,942	$ 17,358	$ 21,314	$24,144	$25,253
Interest expense on rentals	7,904	7,976	7,854	6,057	6,225
Total fixed charges	$ 20,846	$ 25,334	$ 29,168	$30,201	$31,478
Earnings before income taxes, extraordinary item, change in accounting principle and fixed charges....................................	$116,603	$135,913	$132,882	$124,116	$117,580
Ratio of earnings to fixed charges	5.59	5.36	4.56	4.11	3.74

</TABLE>

Income for the years 1994, 1996, 1997 and 1998 includes non-recurring charges (credits) of $(1.7) million, $(1.0) million, $7.0 million and $3.5 million, respectively.

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