



# A Rail Perspective on Freight

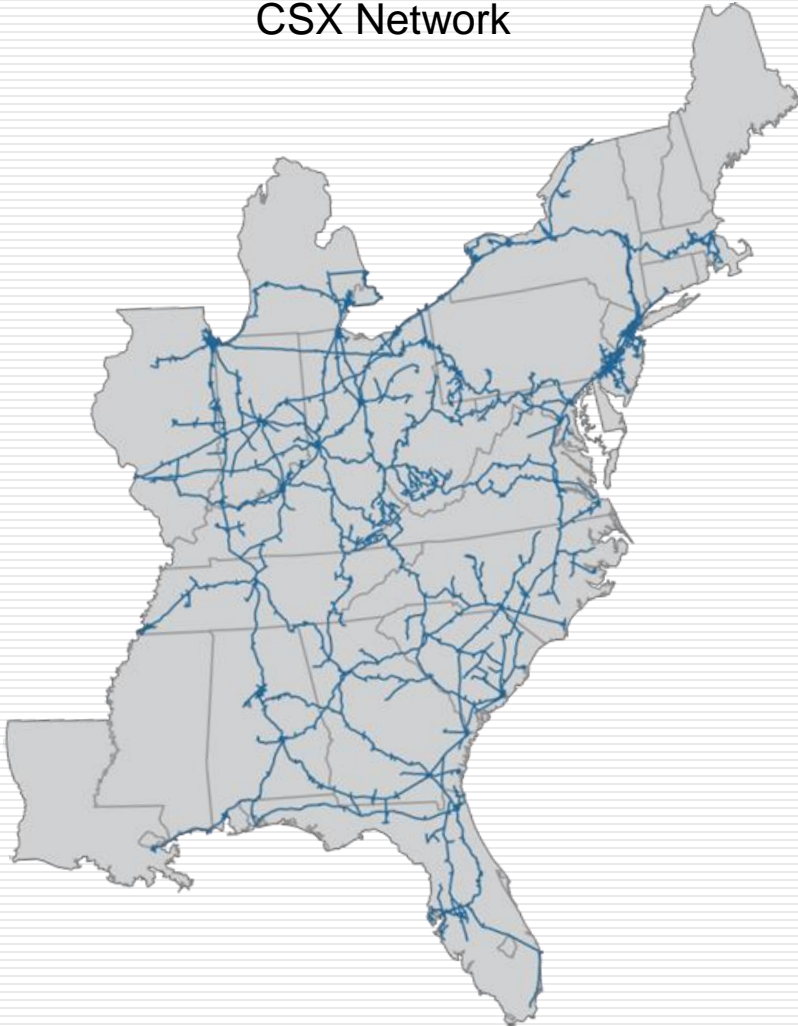
*Derrick Smith, VP – Emerging Markets*

January 21, 2016



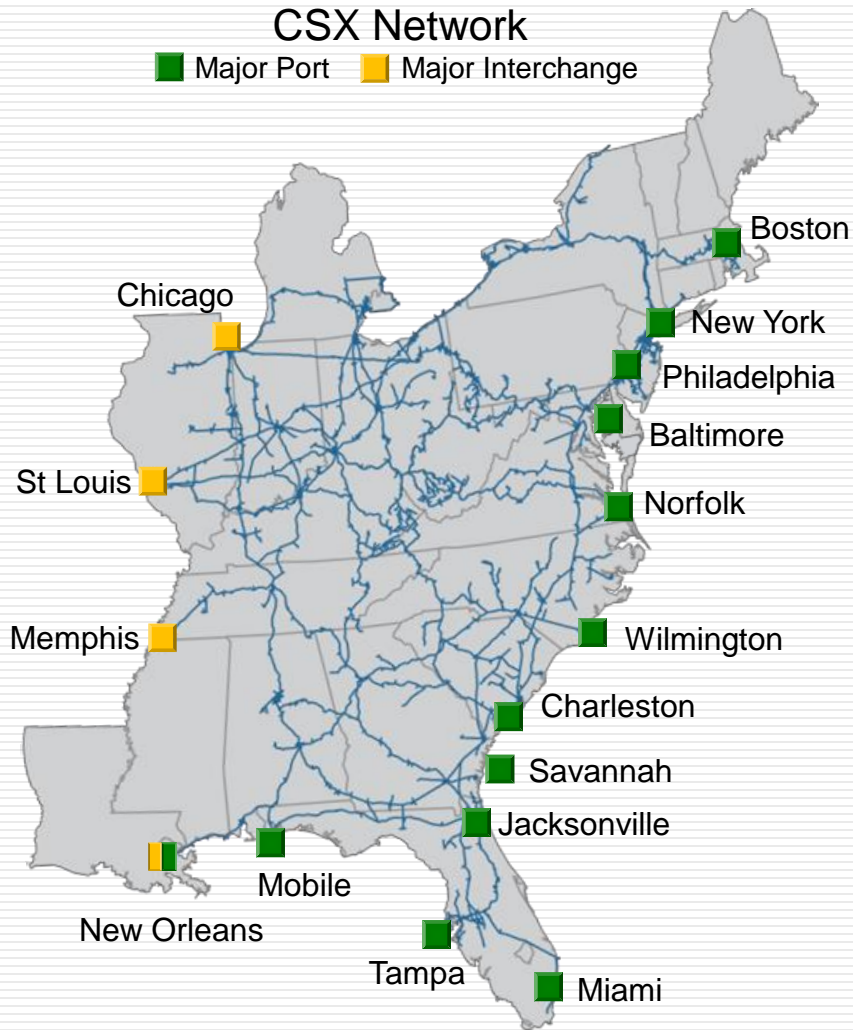
# CSX is one of main railroads in the Eastern U.S.

CSX Network



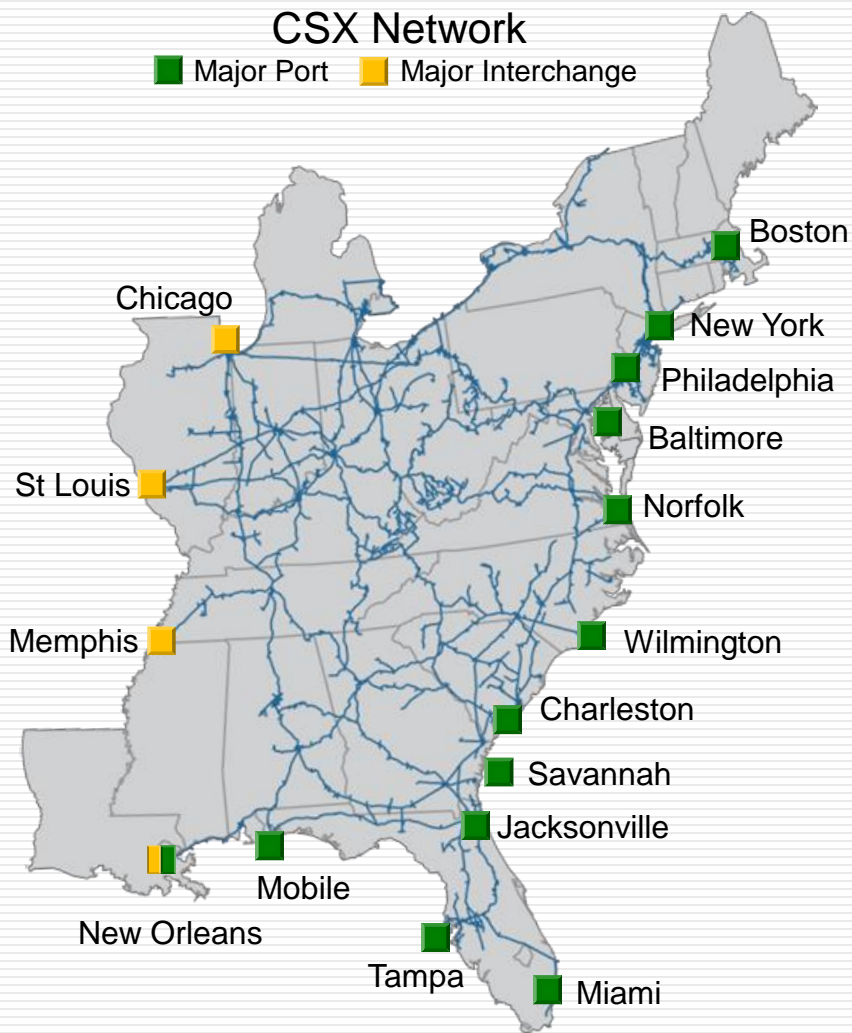
- CSX provides rail, intermodal, and rail-to-truck transload services
  - *Serving nation's economic and industrial growth for nearly 190 years*
- Superior network footprint in East
  - *Serves every major eastern metropolitan area*
  - *Connects to over 240 short-line RRs*

# Access to major ports & interchanges is an advantage

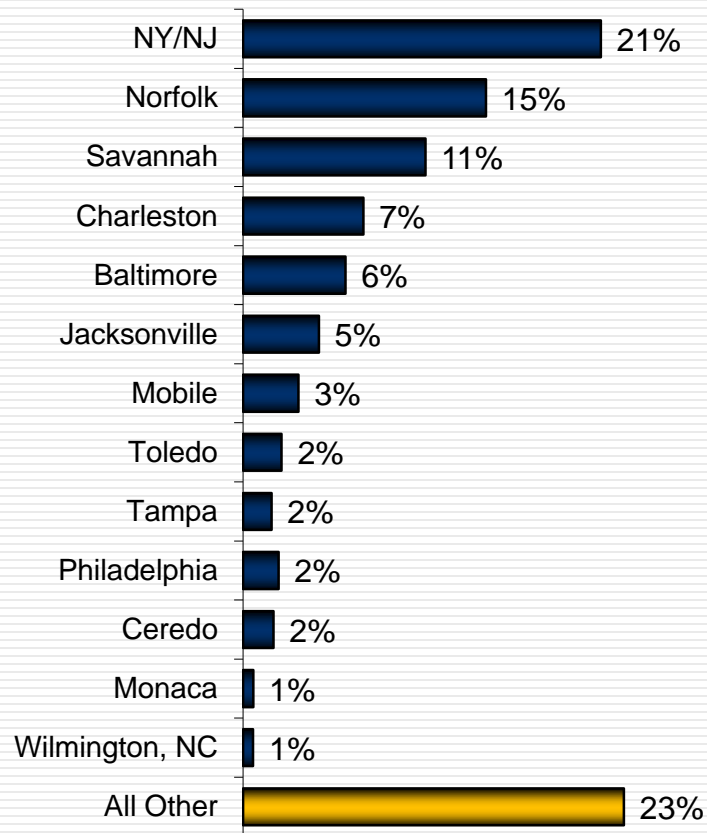


- CSX provides rail, intermodal, and rail-to-truck transload services
  - *Serving nation's economic and industrial growth for nearly 190 years*
- Superior network footprint in East
  - *Serves every major eastern metropolitan area*
  - *Connects to over 240 short-line RRs*
- Enables connection to West and globally
  - *Connects with Western and Canadian Class I rails*
  - *Connects to over 70 ocean, river, and lake ports*

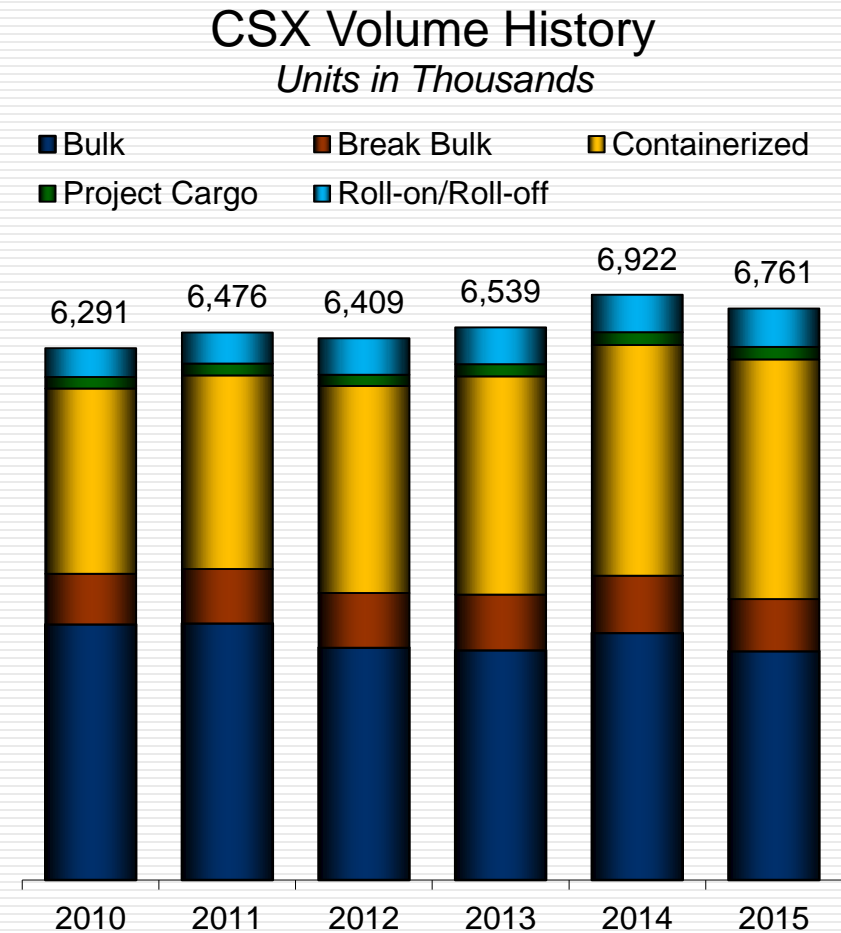
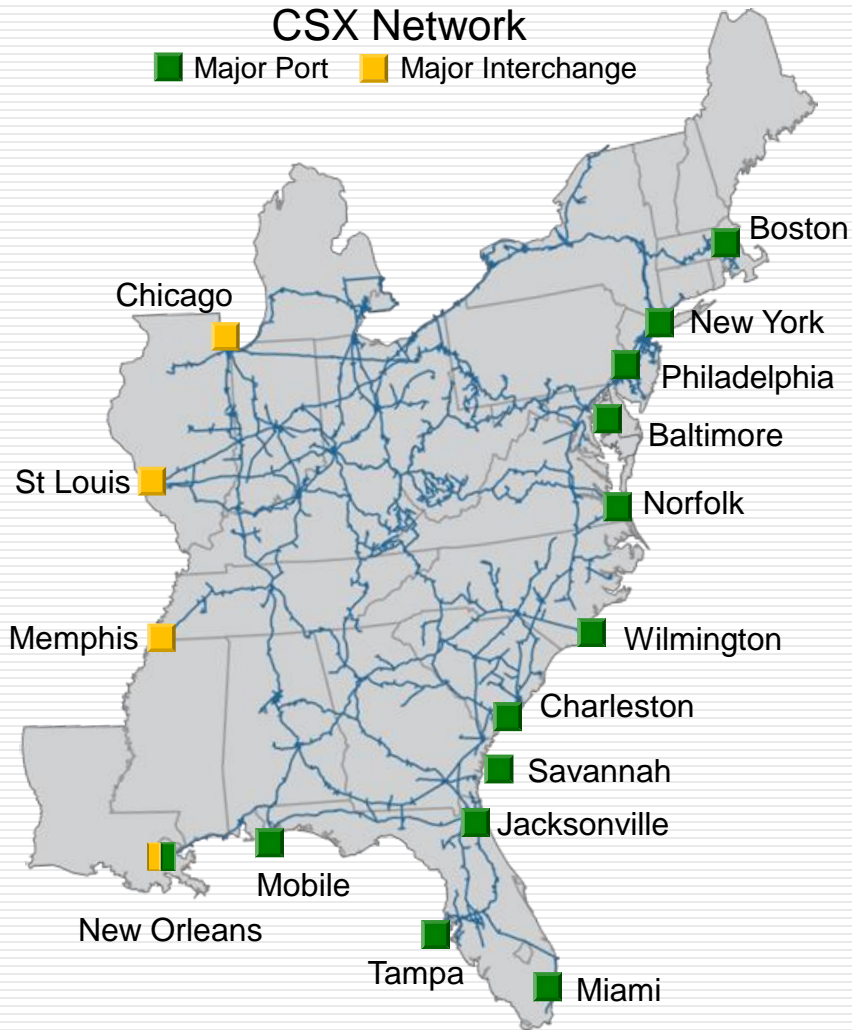
# Continues to serve a broad array of ports...



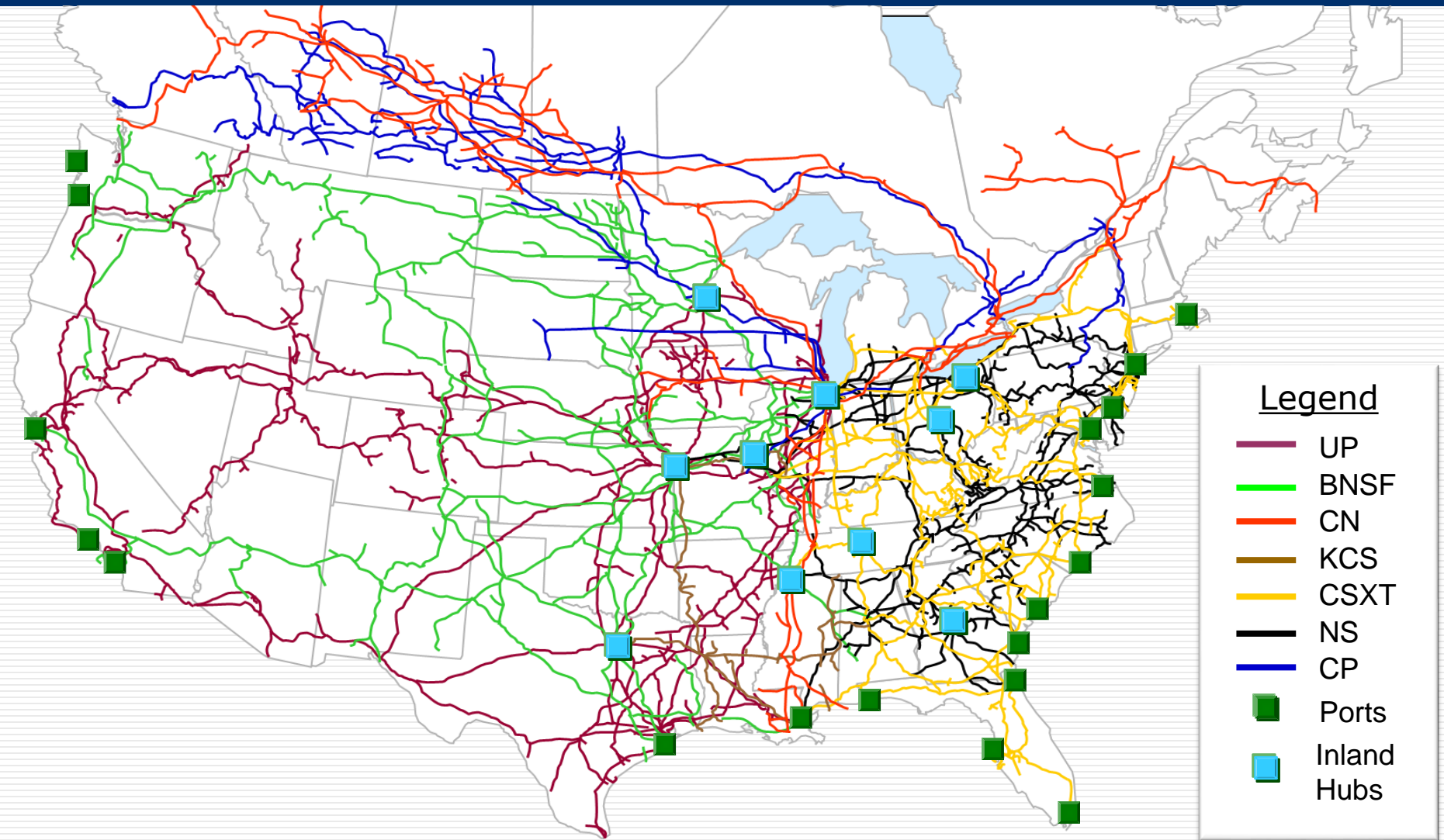
**CSX Volume by Port in Units**  
Full-Year 2015



# ...across a diverse portfolio of goods on network

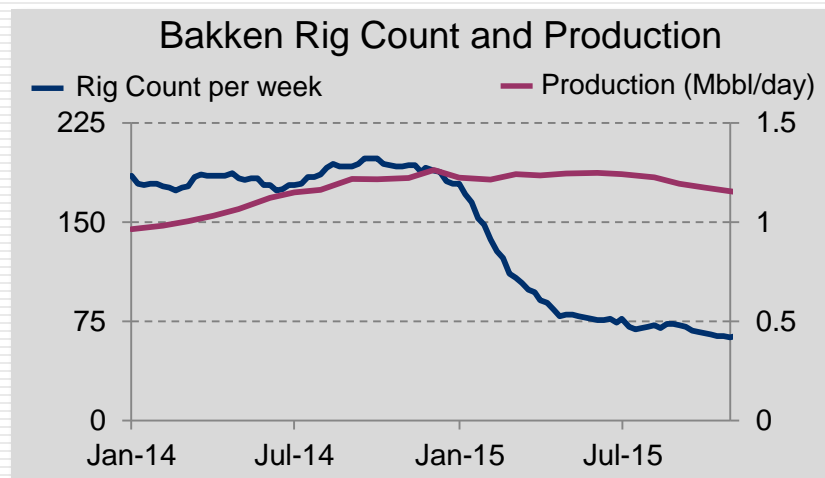
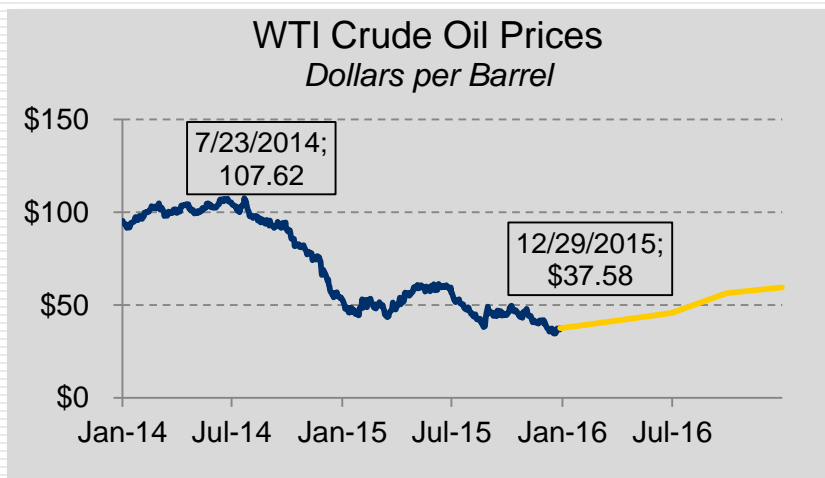
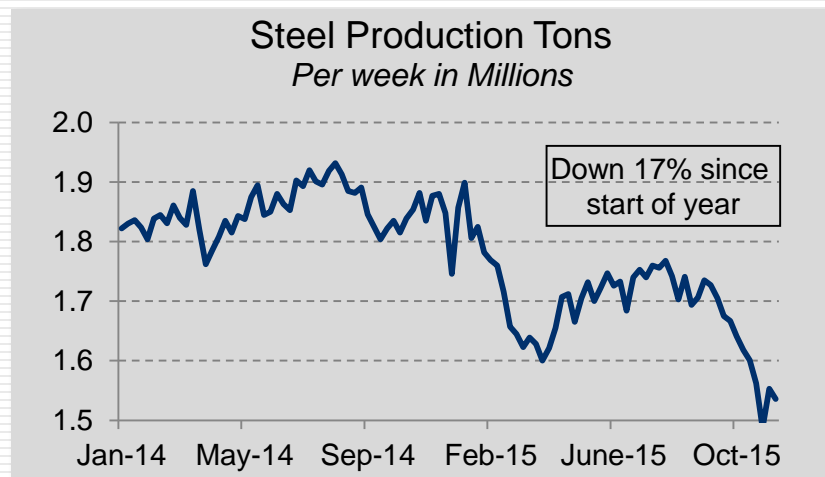
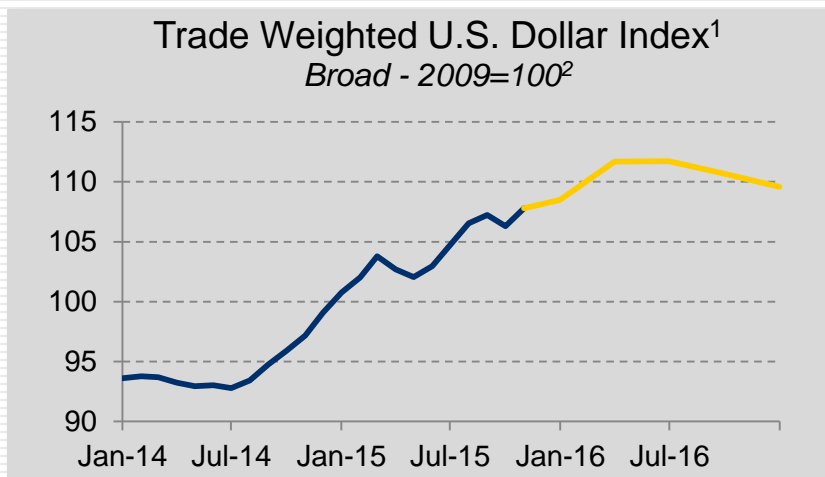


# Broader rail network interconnected, expands reach



Source: Datamyne and Zepol databases

# Rails are facing macro economic headwinds

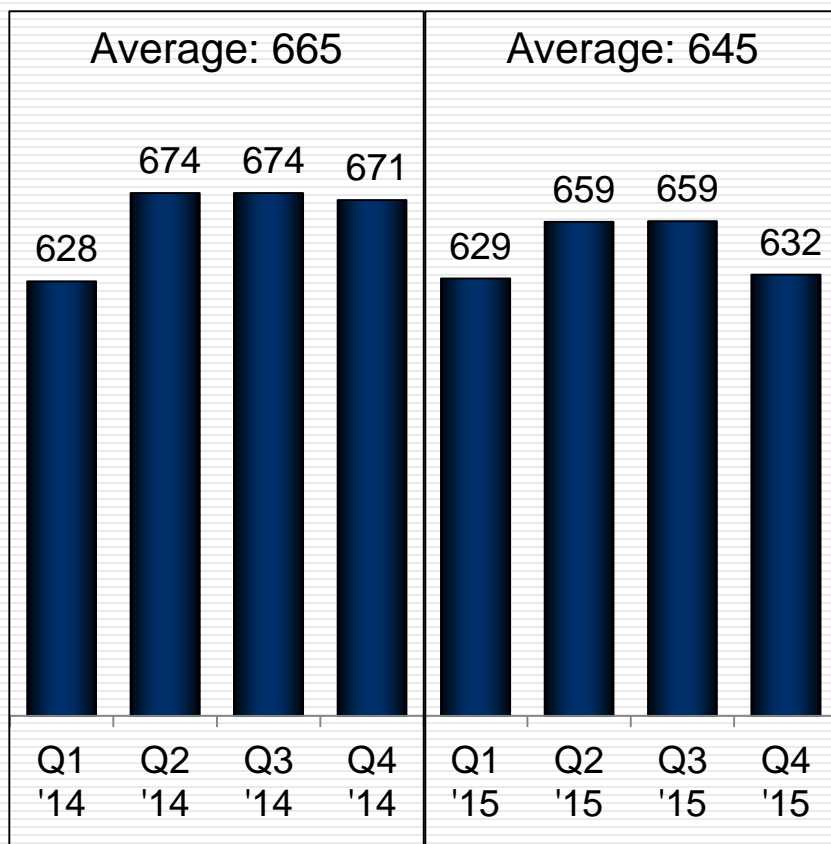


<sup>1</sup> Source: Federal Reserve Bank of St. Louis Economic Data

<sup>2</sup> Weighted average of the foreign exchange value of the U.S. Dollar against the currencies of a broad group of major U.S. trading partners.

# Economic challenges yield declining rail traffic

U.S. Class I Average Weekly Volumes  
(in thousands)

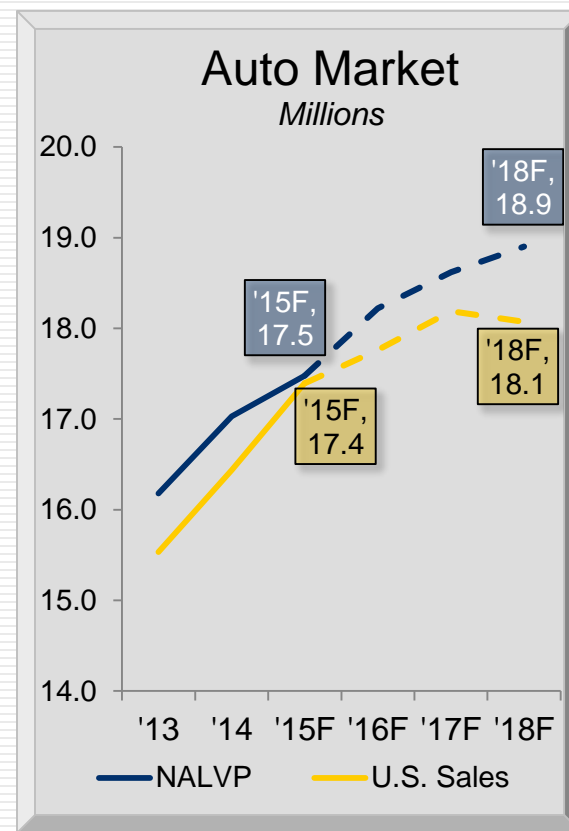
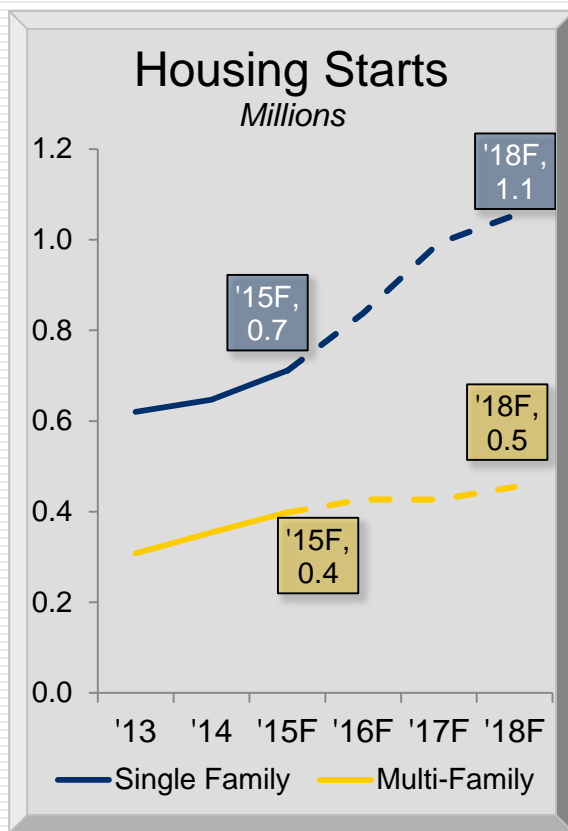
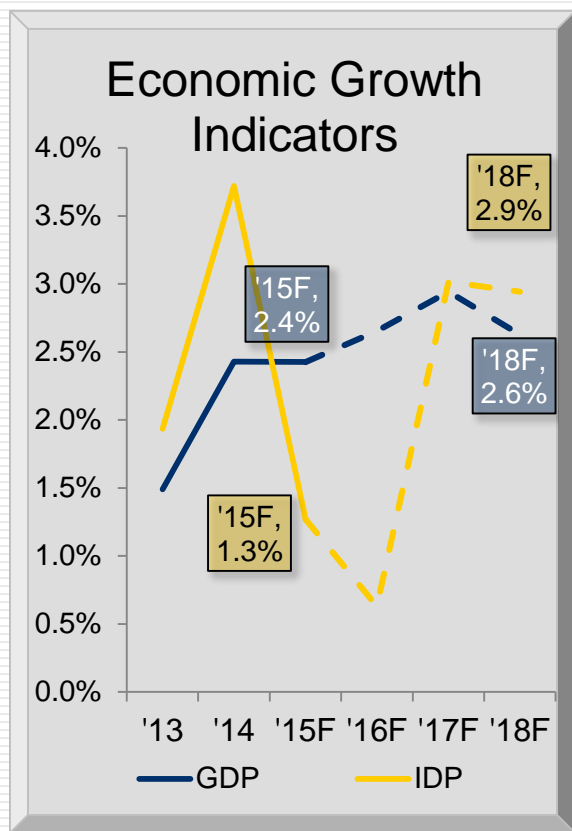


- U.S. Class I volumes down (3%) in 2015
  - Containerized volumes flat
  - All other down (5%)
  - Cass Freight Shipment Index down (3%)
- Believe 2016 will continue to be another challenging year
  - Strong U.S. dollar, low natural gas and oil prices

Source: AAR weekly volumes



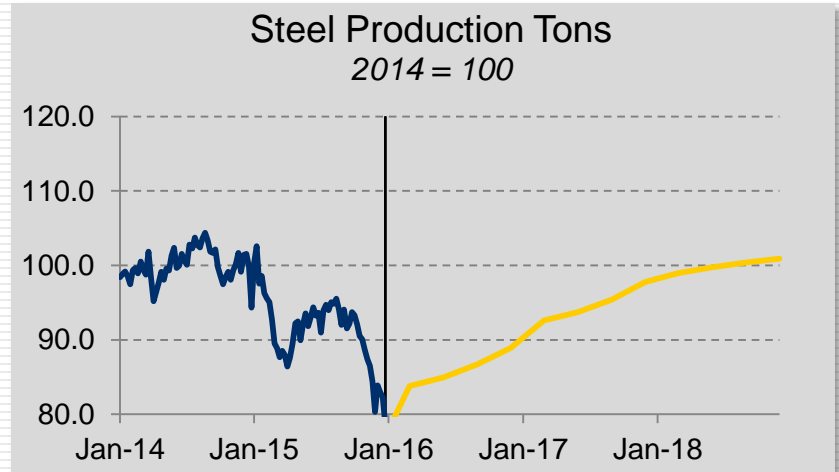
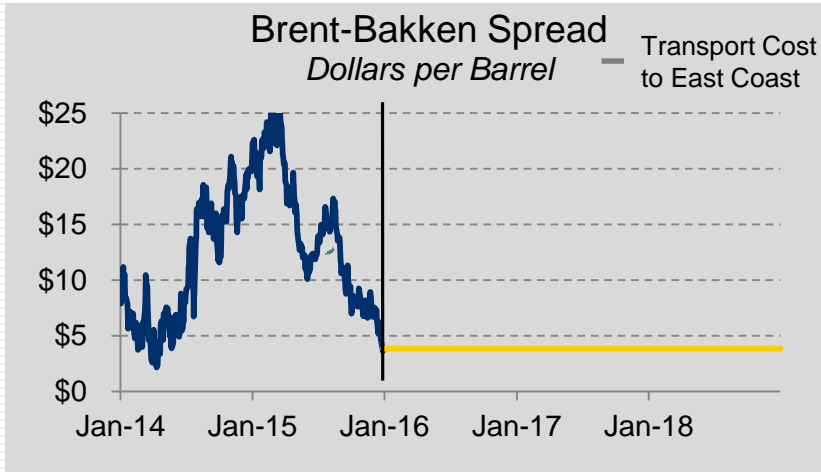
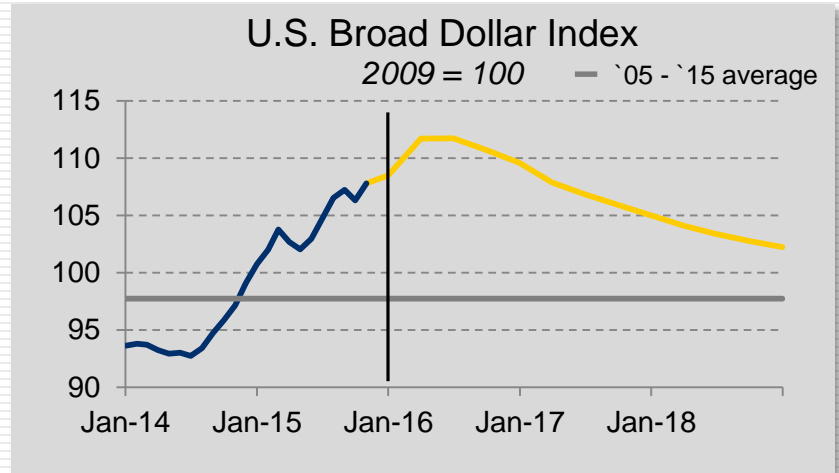
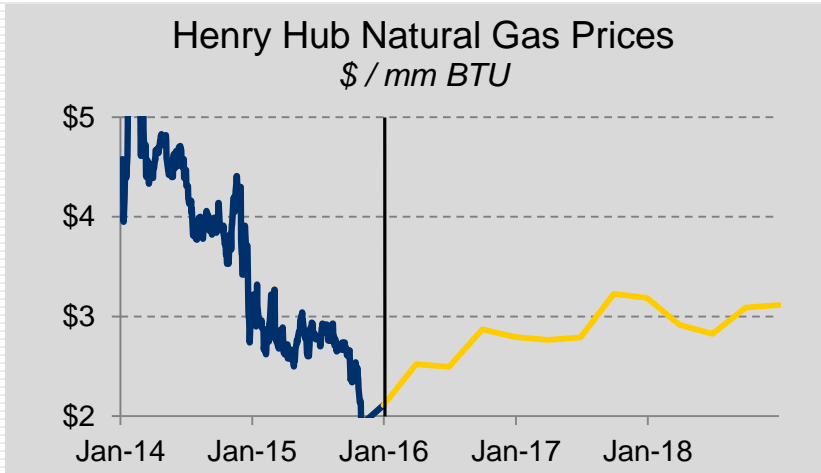
# Expect indicators to improve over next few years...



Average expected inflation of 1.9% from 2016-2018<sup>1</sup>

Source: Global Insight Economic Forecast January 2016  
<sup>1</sup>Global Insight's GDP Deflator

# ...however, key challenges expected to continue



Source: Global Insight Economic Forecast November 2015;  
 U.S. Dollar Inflation adjusted Broad Index;  
 Brent-Bakken forecast not available, straight-lined most recent actuals

# *Rail continues to add unique value to supply chain*

## Geography

- Track covering majority of eastern U.S.
- Access to large consumption areas
- Connection to ports, Canada, Mexico, and western U.S.

## Capacity

- Continued investment to improve network fluidity, support growth
- Investments and availability of crews, locomotives and equipment

## Long Haul Cost Effectiveness

- Competitive economics, economies of scale vs. truck
- Speed of transit vs. barge

# Port characteristics enabling success with rail

## Physical

- Compatibility with required infrastructure, operating practices, standards
  - *Traffic density and train lengths*
  - *Heavy axle loading, vertical clearances*

## Fiscal

- Resources to invest in rail
  - *Class I capital expenditures focused on core network*
  - *Customers unlikely to pay full cost of port rail infrastructure*

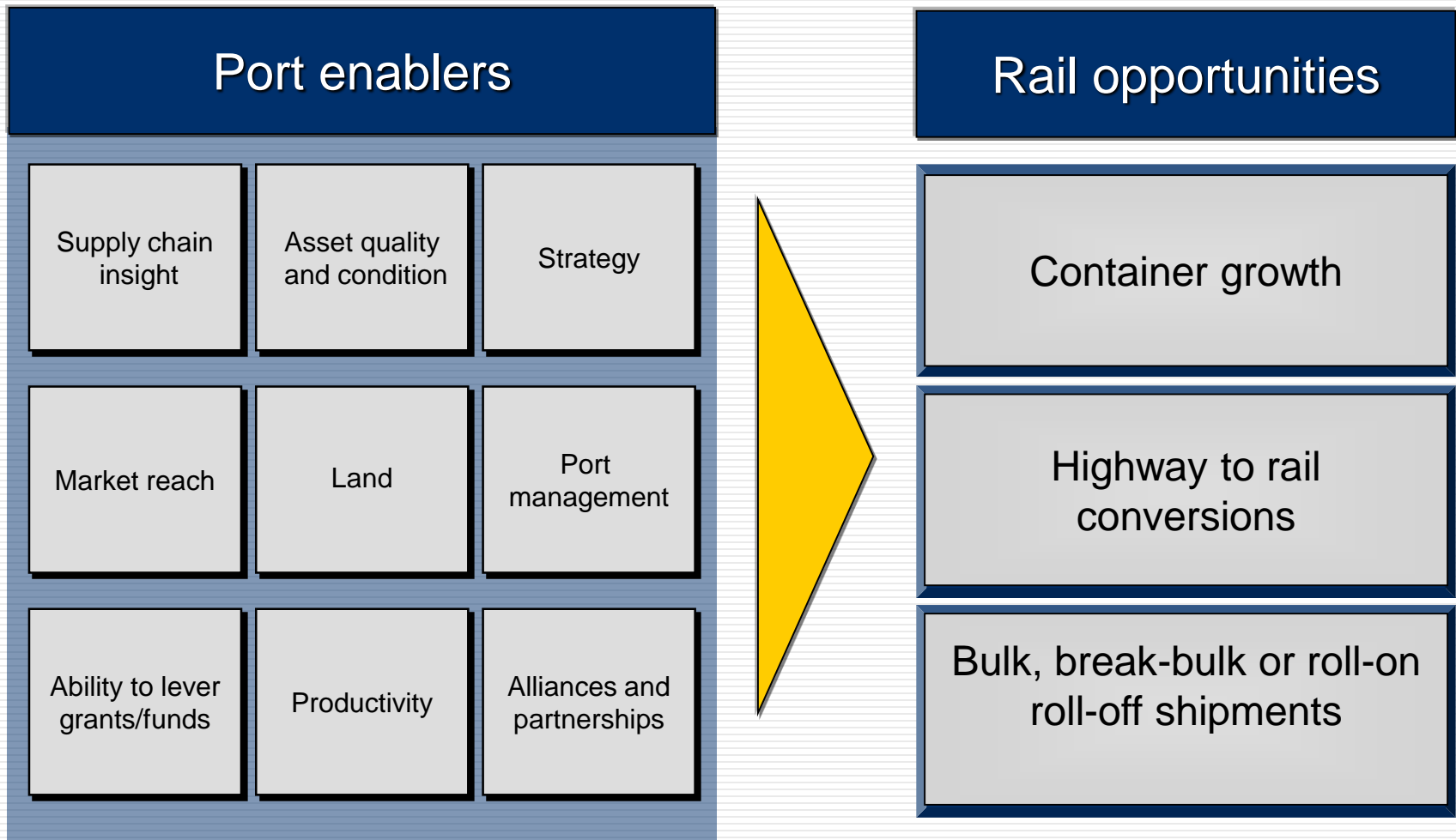
## Commercial

- Insight to markets and what customers value
  - *Proactive business development*
  - *Increased supply chain complexity and information availability*

## Institutional

- Alignment with county/state on business priorities
  - *Funding*
  - *Land use*

# Strategies that lever strengths lead to new business



# Key drivers for main segments of business

## Bulk

- Main driver is low commodity prices
- Sustained headwinds from coal, coke, and iron ore
- Baltic Dry Index at lowest in 30 years

## Break Bulk

- Strong U.S. dollar and international demand
- Steel imports from global oversupply

## Containerized

- U.S. dollar, truck competition
- Low container shipping rates
- Global containerization trend to continue

## Project

- Competitive economics, economies of scale vs. truck
- “Bigger is better” manufacturing trend

## Roll-on/Roll-off

- NALVP production for exports
- Increased auto production within Mexico

# *Rail plays a vital role in the success of ports*

- Provides a key link for both containerized and non-containerized cargo
- Enables ports to shape supply chains and address stakeholder needs
- Unlocks port and overall economic development opportunities



# A Rail Perspective on Freight

*"It Starts with the Customer"*

