

A photograph of a CSX freight train traveling through a lush green forest. The train consists of two blue and yellow CSX locomotives, numbered 3244 and 3245, pulling several white CSX intermodal containers. The locomotives have the CSX logo in yellow on their blue sides. The train is on a gravel bed track, and the background is filled with dense green trees under a blue sky with light clouds. A semi-transparent grey box is overlaid in the upper right corner, containing the text "CSX CORPORATION" and "2017 RAIL TRENDS CONFERENCE".

CSX CORPORATION

2017 RAIL TRENDS CONFERENCE

Progressing Forward



APPENDICES

Non-GAAP Reconciliations

HOW TOMORROW MOVES



NON-GAAP INCOME STATEMENT RECONCILIATION

Year-to-Date Income Statement

Dollars in millions	GAAP	Adjustments	Non-GAAP
Revenue	\$ 8,545	\$ -	\$ 8,545
Expense			
Labor and Fringe	2,249	-	2,249
Materials, Supplies and Other	1,573	-	1,573
Fuel	621	-	621
Depreciation	978	-	978
Equipment and Other Rents	282	-	282
Restructuring Charge	296	(296)	-
Total Expense	5,999	(296)	5,703
Operating Income	2,546	296	2,842
Interest Expense	(406)	-	(406)
Other Income – Net	19	-	19
Income Taxes	(828)	(103)	(931)
Net Earnings	\$ 1,331	\$ 193	\$ 1,524
Earnings Per Share	\$ 1.45	\$ 0.21	\$ 1.66
Operating Ratio	70.2%	(350 bps)	66.7%

Note: Non-GAAP excludes a \$296 million restructuring charge and adjusts taxes for nondeductible executive compensation

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Progressing Forward



CSX AND PRECISION RAILROADING – AN UPDATE

MICHAEL RUTHERFORD • VICE PRESIDENT MERCHANDISE



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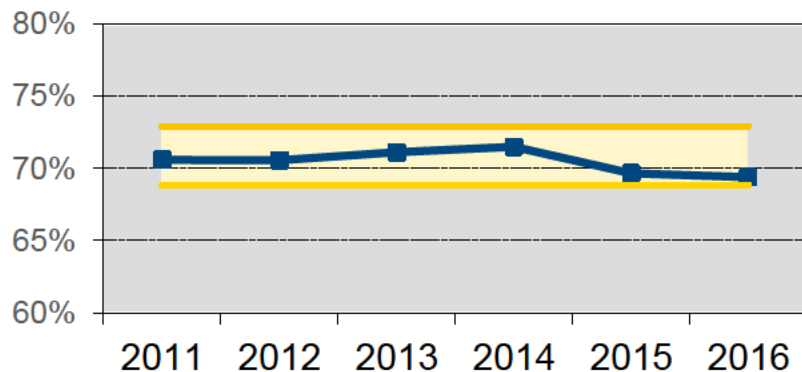
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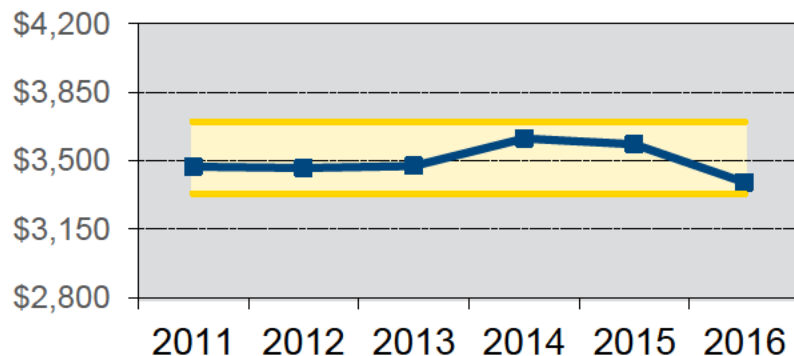
THE IMPERATIVE FOR CHANGE

CSX Historically Range Bound

CSX Operating Ratio



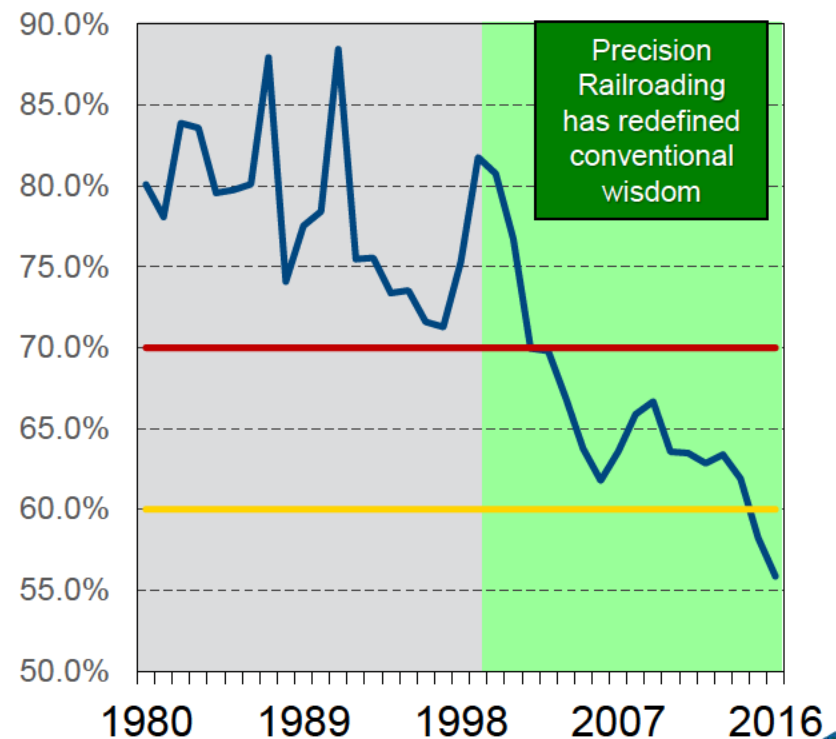
CSX Operating Income
Dollars in Millions



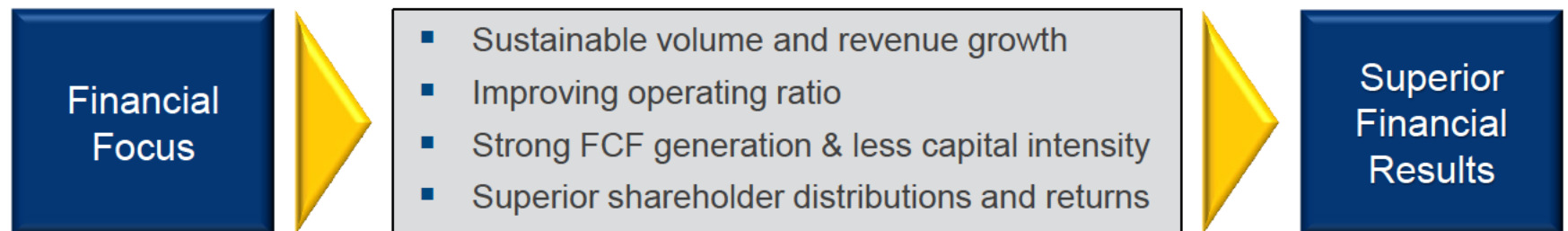
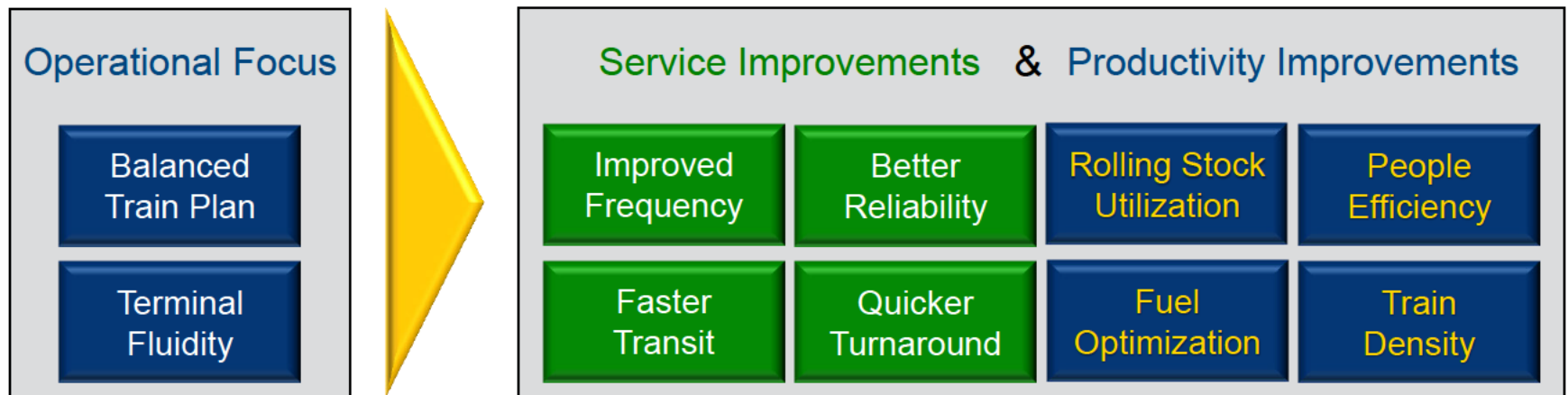
Redefining What is Possible

Operating Ratio

Best-in-Class Old Paradigm New Paradigm



“RAILROADING IS JUST A BUNCH OF PROCESSES”



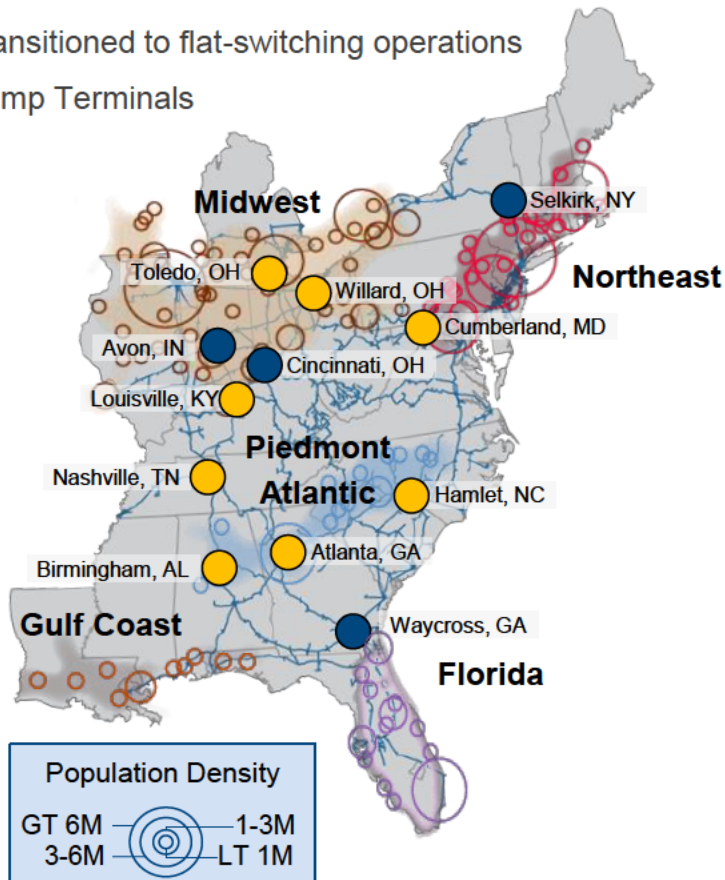
PSR BRINGS TRANSFORMATIVE CHANGE

CSX Hump Terminals

Transitioning operations to flat-switching

● Transitioned to flat-switching operations

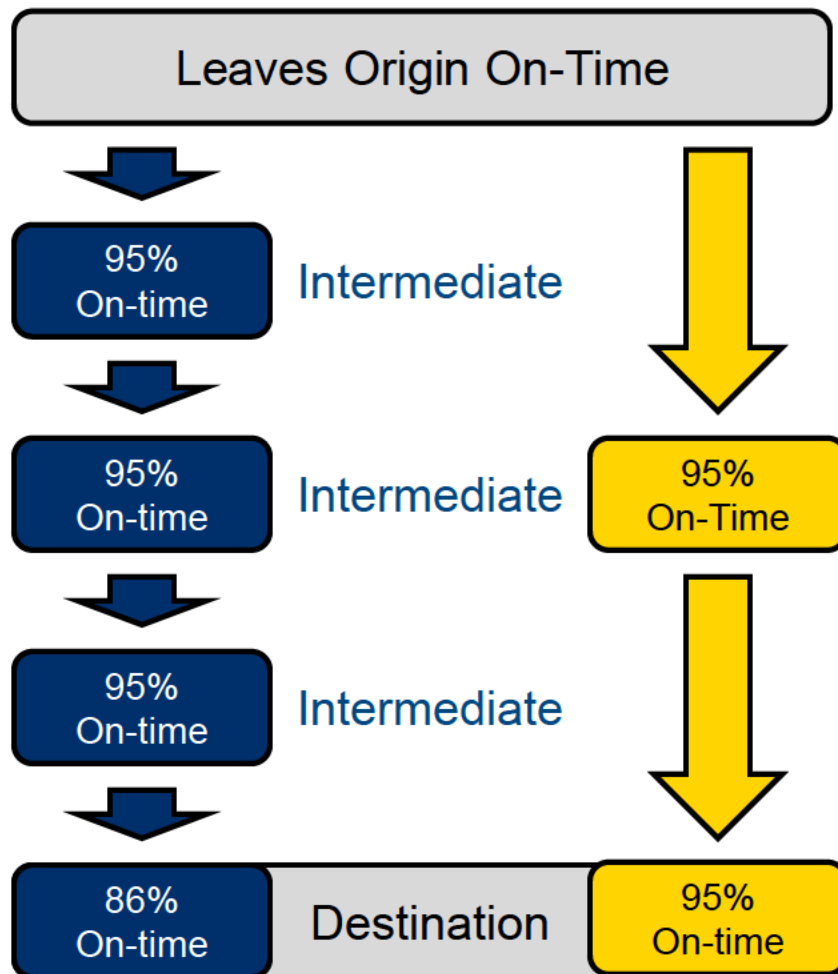
● Hump Terminals



- 'Just run the plan' *and mean it*
- Transitioning from hump yards supports radically different plan
 - From 12 to 4 hump yards today
- Faster, more reliable transit with fewer intermediate handlings
 - Strategic blocking moves cars farther, faster
- Streamlined operations allow for a streamlined organization
 - Reduced operating units from 9 to 4



PRECISION RAILROADING DRIVES SPEED, RELIABILITY



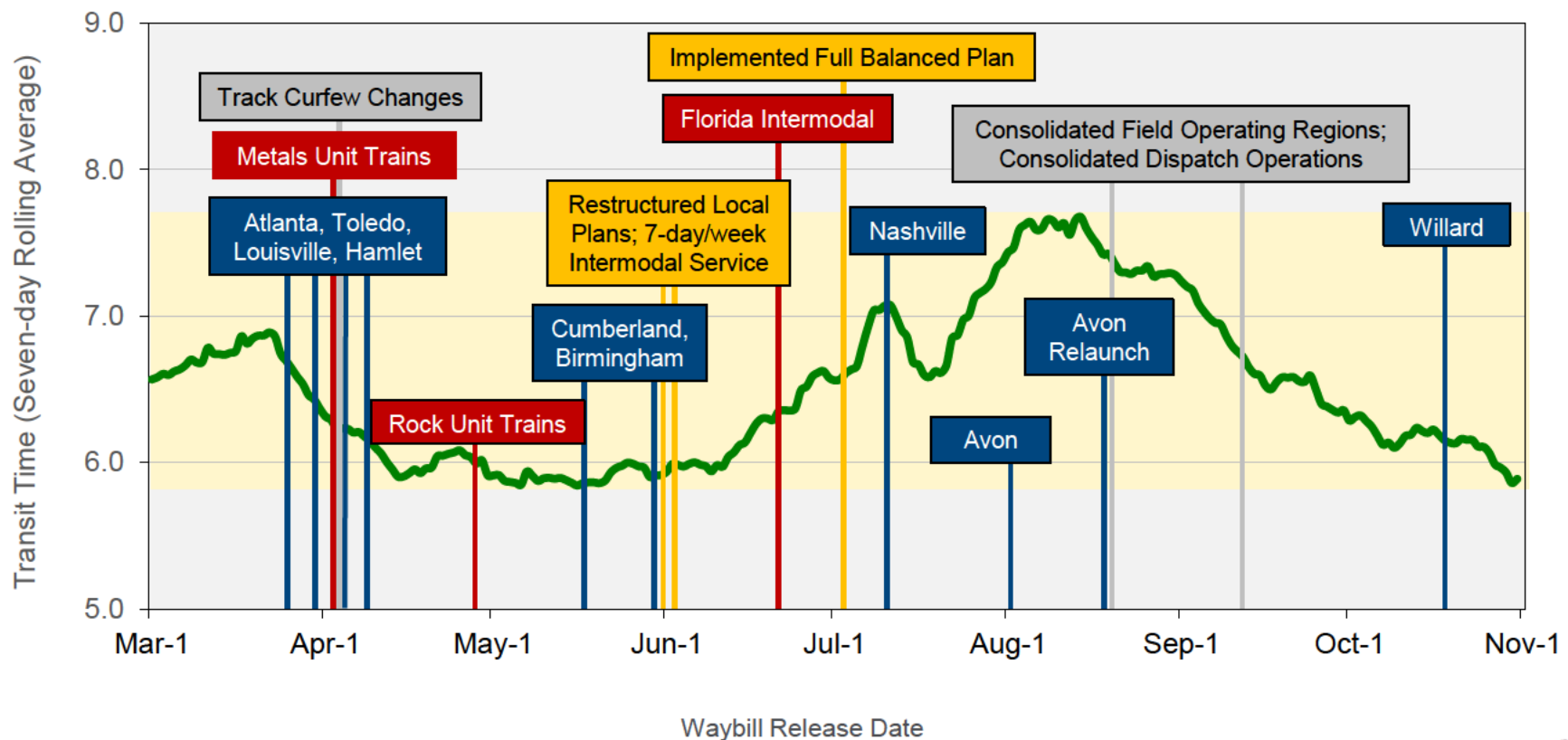
- Reducing intermediate handlings improves service
 - Speed of transit reduces inventory carrying costs
 - Streamlined service solution supports overall reliability
- Result – Faster, more reliable service over longer distances



SOLID RESULTS DESPITE ROLL-OUT CHALLENGES

Transit Time and Transformation Timeline

— Transit Time — Train Plan Changes — Hump Yard Conversions — Train Consolidations — Other Changes

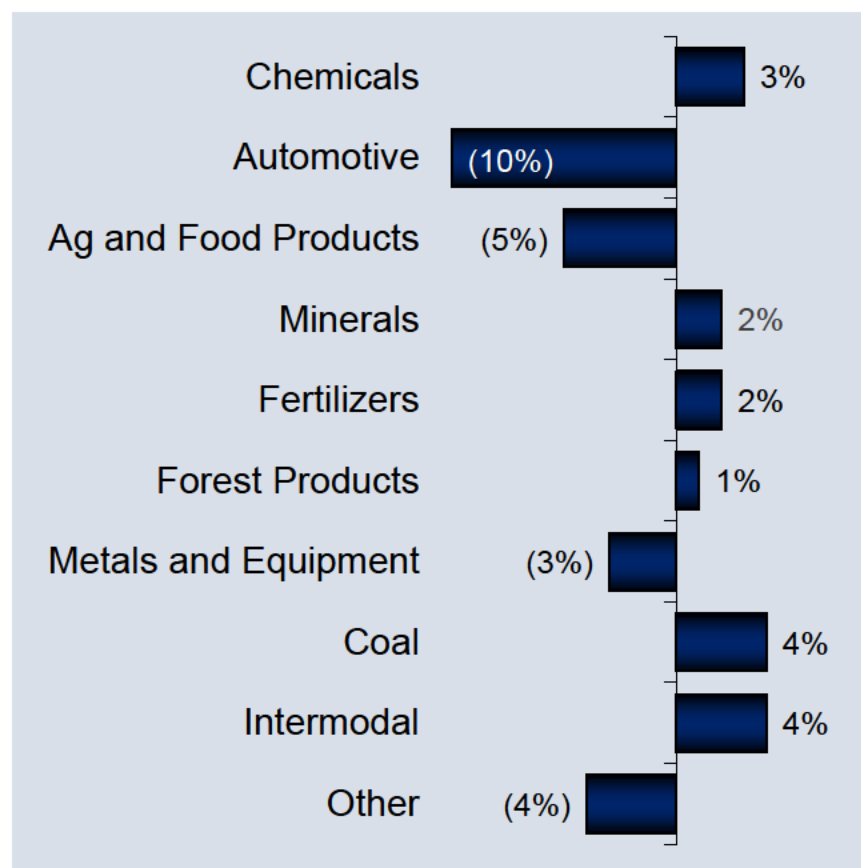


4TH QUARTER REVENUE PERFORMANCE

- **Chemicals supported by stable core markets**
 - Steady plastics and other chemicals offset by reduced waste moves
- **Automotive revenue declined as North American vehicle production fell**
 - Declines in line with U.S. vehicle production
- **Agricultural and Food Product revenue declined on lower volume**
 - Weak export markets
- **Coal strength centered in export market**
 - Boosted by global supply levels and pricing conditions
- **Intermodal revenue increase driven by International service**
 - Both new and existing customers contributed to increased port volumes, strong peak season

(a) Prior year revenue adjusted to exclude an extra fiscal week

Fourth Quarter Adjusted Revenue Flat Year over Year^(a)



FOURTH QUARTER HIGHLIGHTS

Volume 1,601K

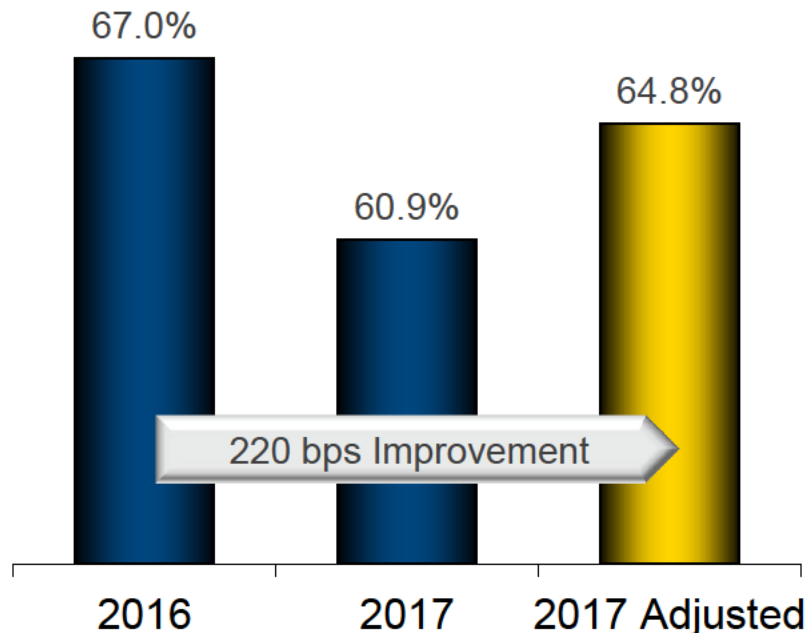
Revenue \$2,863M

Operating Income \$1,121M

Operating Ratio 60.9%

EPS \$4.62

Operating Ratio



- Successfully completed the design phase in 2017
- Current focus on execution
 - Strong emphasis on Carload and Intermodal
- Improvements in asset utilization benefit all CSX stakeholders
 - The network and terminals are fluid
 - Responding well to winter conditions
- Financial performance showing similar gains

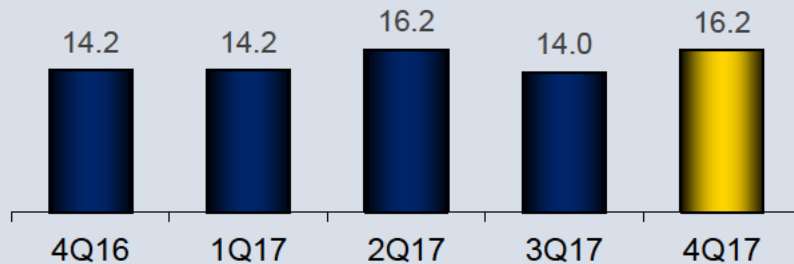
Note: Adjusted financials exclude impacts from restructuring and the tax reform benefit. See Appendix.



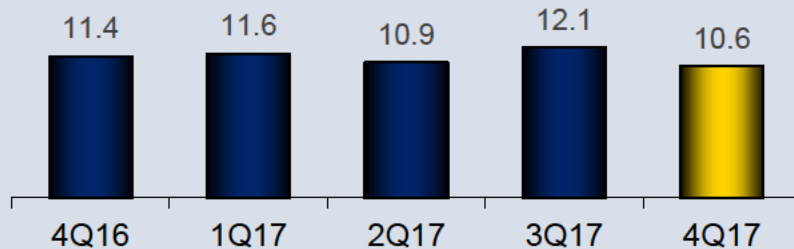
FALSE CHOICE BETWEEN SERVICE AND EFFICIENCY

Service

Train Velocity
(miles per hour)

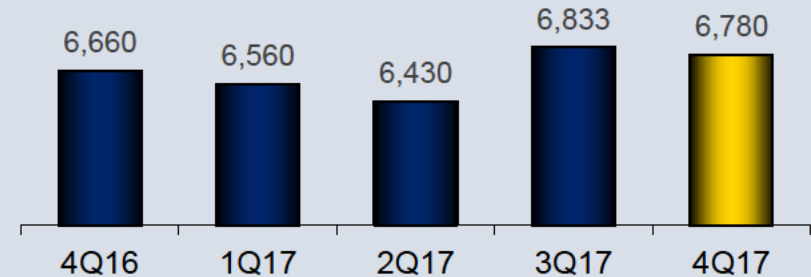


Terminal Car Dwell
(hours)

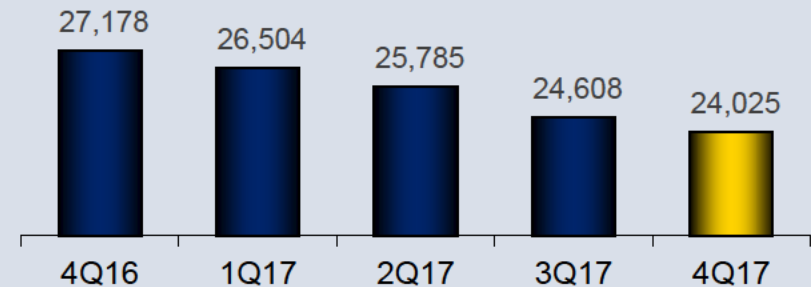


Efficiency

Train Length
(feet)



Average Total Employees

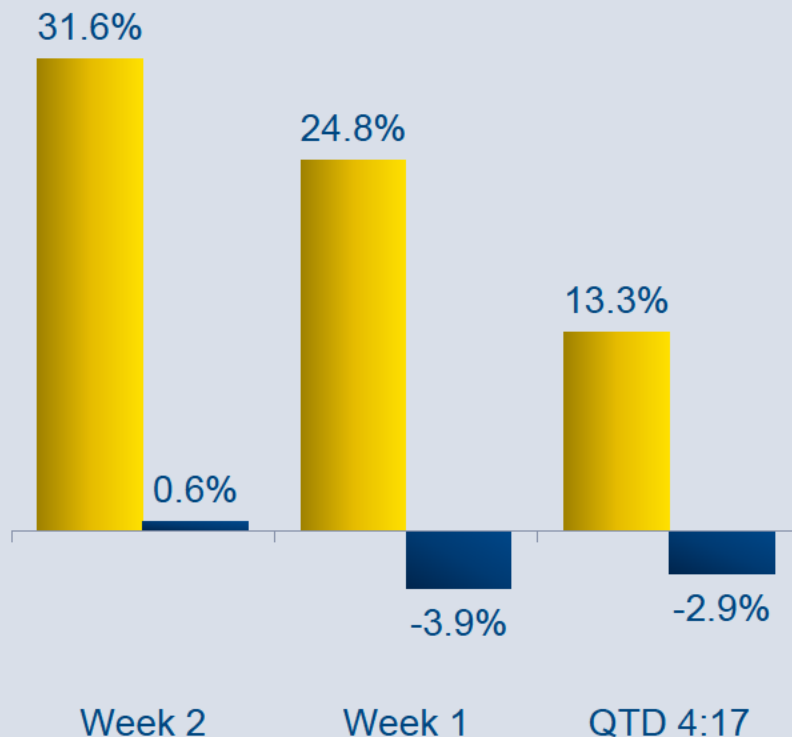


Note: See www.csx.com/servicemetrics for updated definitions of key performance measures

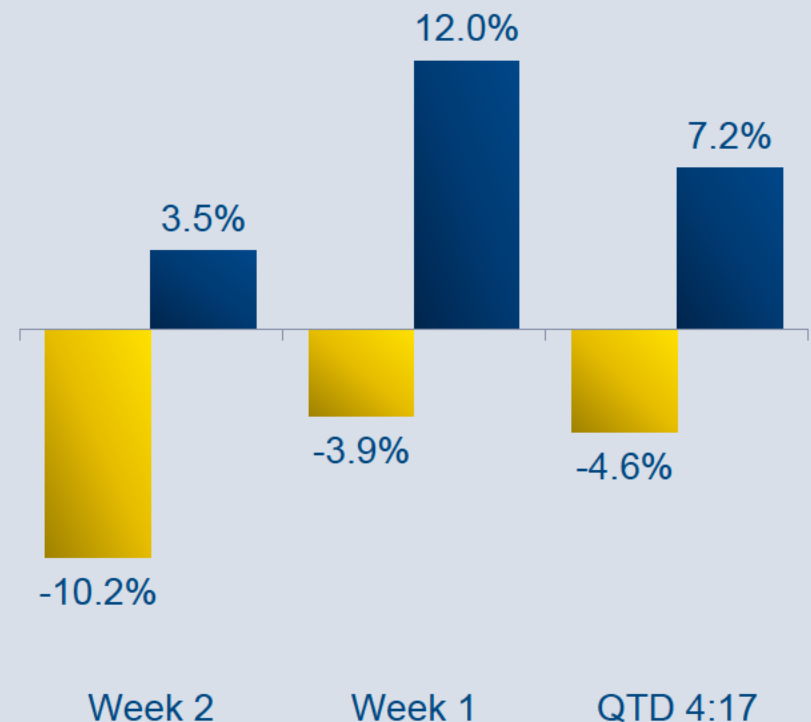


DELIVERING SUPERIOR SERVICE FOR SHIPPERS

Train Velocity (y/y) 



Terminal Dwell (y/y) 



Source: AAR

 CSX  Class I Railroads



WE ARE IN THIS TOGETHER

Change is a Team effort
– Customers included



- **Help cycle equipment quickly to avoid idle dwell**
 - *Do not allow cars to sit in the serving yard*
 - *Quickly load and unload to turn the cars*
 - *Release cars promptly in usable condition*

- **Reduce time at customer to make local service more predictable**
 - *Drop and hook is the ideal set up*
 - *Eliminate excessive switching or placement*
 - *Do not require mainline time to switch*

- **Plan with the end in mind**
 - *Pre-block cars to facilitate switching in transit*
 - *Update transit times to manage pipeline*



CSX TRANSFORMATION YIELDING RESULTS

- Precision Scheduled Railroading design phase is complete
 - *Implementing core tenets on an accelerated basis*
- Now focused on executing and refining operating plan
 - *Focus on execution and plan compliance*
- Network is performing at high levels despite winter storms
 - *Transition issues in Q3 slowed progress only temporarily*
- Significant opportunities lie ahead
 - *Operating model is already creating value for shippers*



CSX AND PRECISION RAILROADING – AN UPDATE

MICHAEL RUTHERFORD • VICE PRESIDENT MERCHANDISE



2018 SOUTHEAST RAIL FORUM

Michael Rutherford

CSX



[CSX]



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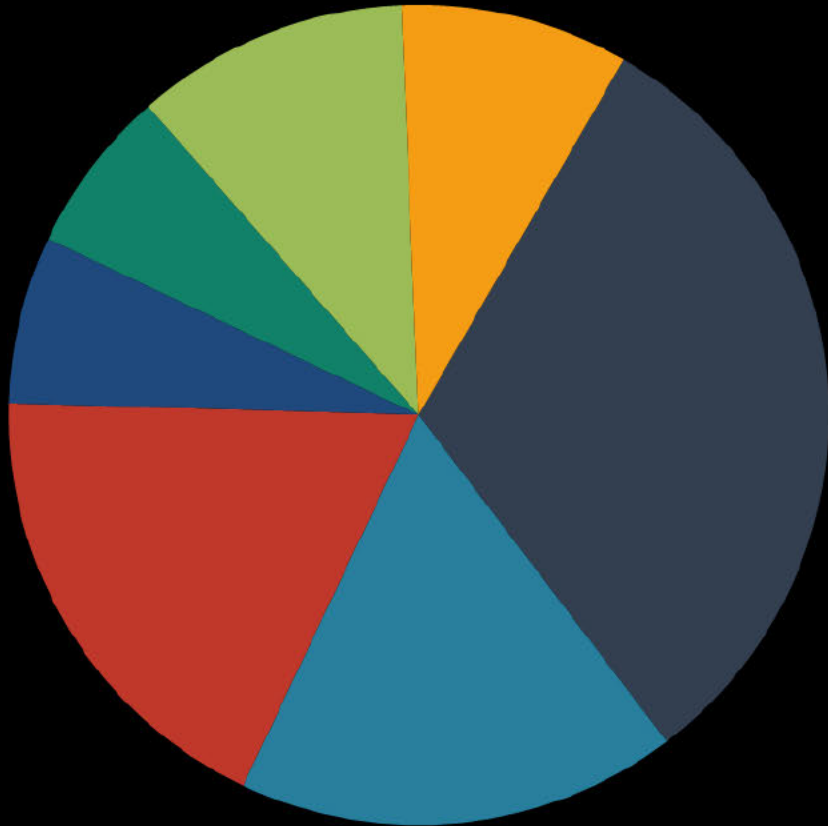


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FOR GROWTH



Merchandise represents
10% of revenue

Increasing value of
Scheduled Railroading

Increased emphasis on
load growth

« RAILROADING IS JUST A BUNCH OF PROCESSES »

Operate
Safely

Improve
Service

Drive Asset
Utilization

Control
Costs

Develop
People

Operational Focus

Balanced
Train Plan

Terminal
Fluidity

Service Improvements & Productivity Improvements

Improved
Frequency

Better
Reliability

Rolling Stock
Utilization

People
Efficiency

Faster
Transit

Quicker
Turnaround

Fuel
Optimization

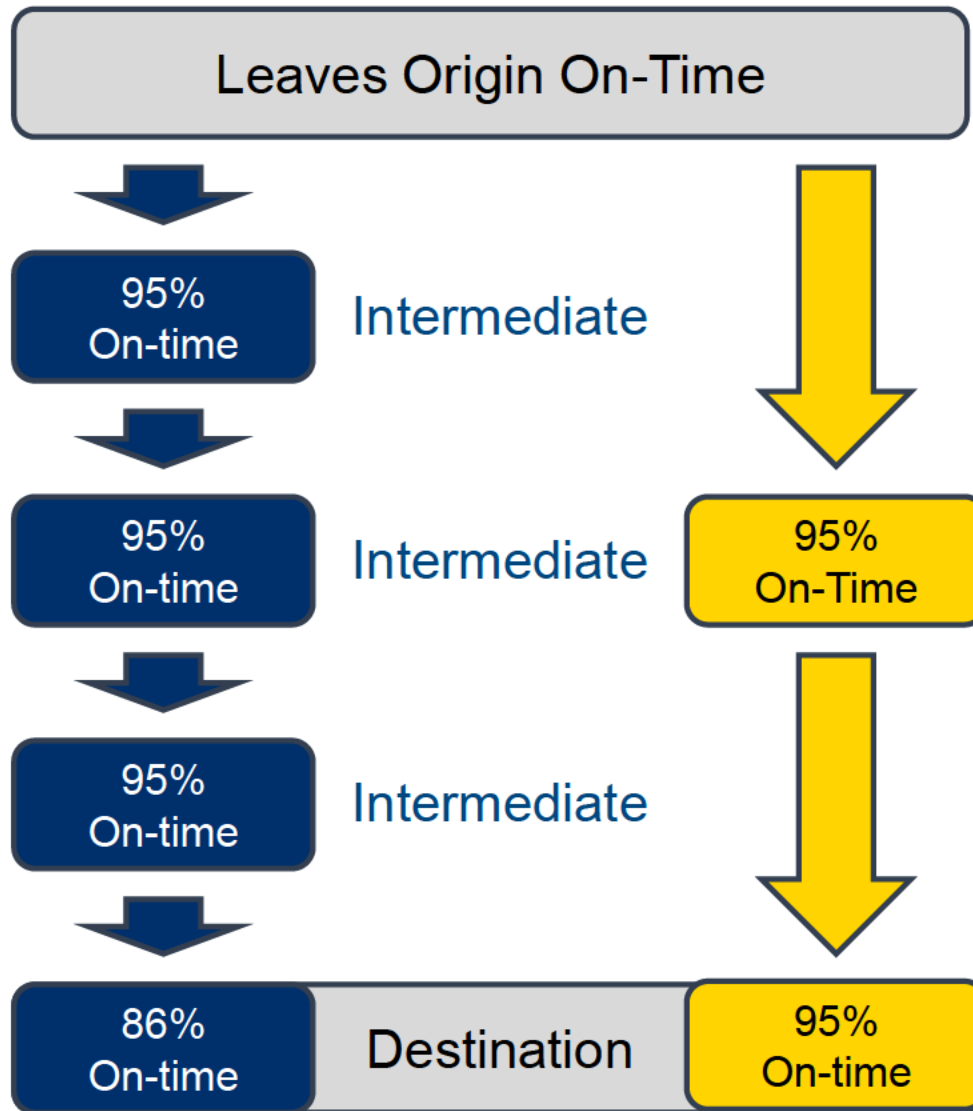
Train
Density

Financial
Focus

- Sustainable volume and revenue growth
- Improving operating ratio
- Strong FCF generation & less capital intensity
- Superior shareholder distributions and returns

Superior
Financial
Results

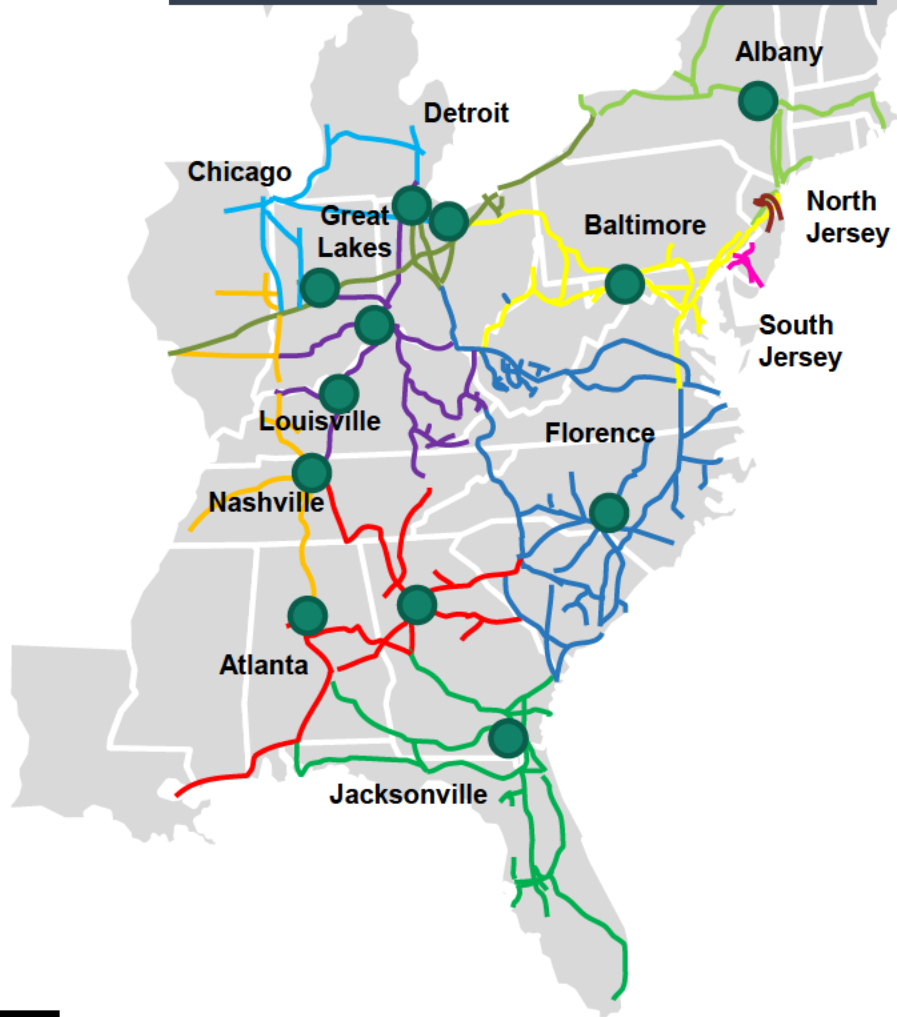
SCHEDULED RAILROADING DRIVES SPEED and RELIABILITY



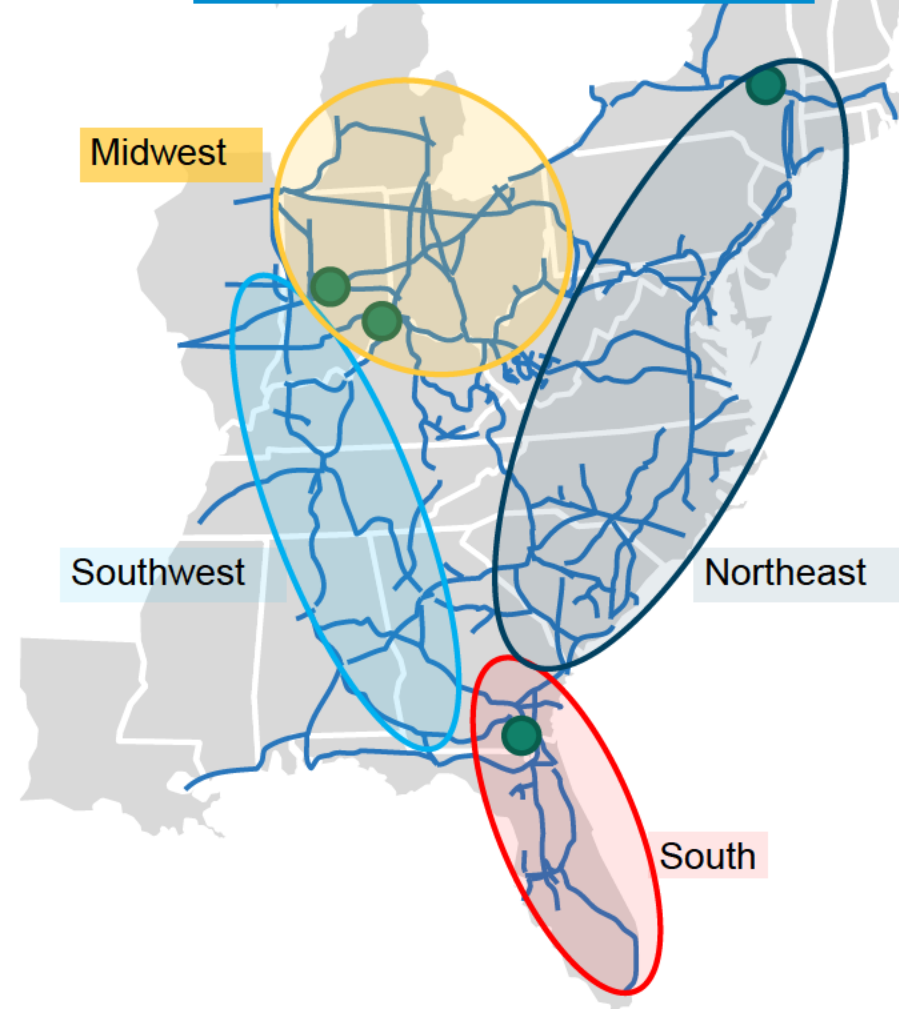
- Reducing intermediate handlings improves service
- Speed of transit reduces inventory carrying costs
- Streamlined service solution supports overall reliability
- Result – Faster, more reliable service over longer distances

A RADICALLY DIFFERENT FOOTPRINT KEY TO IMPLEMENTATION

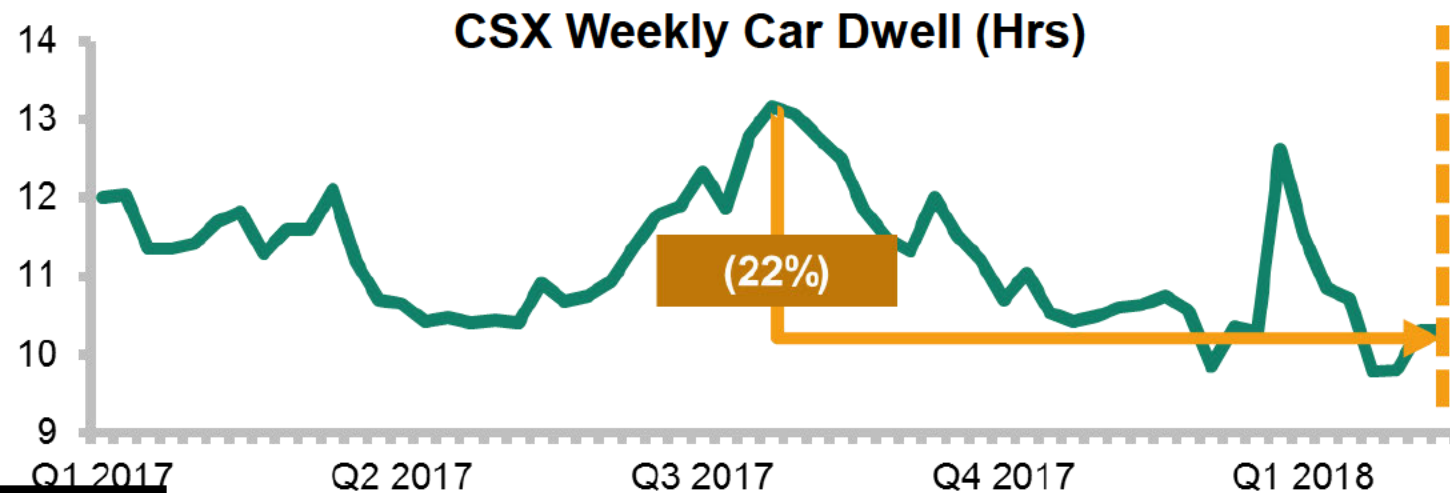
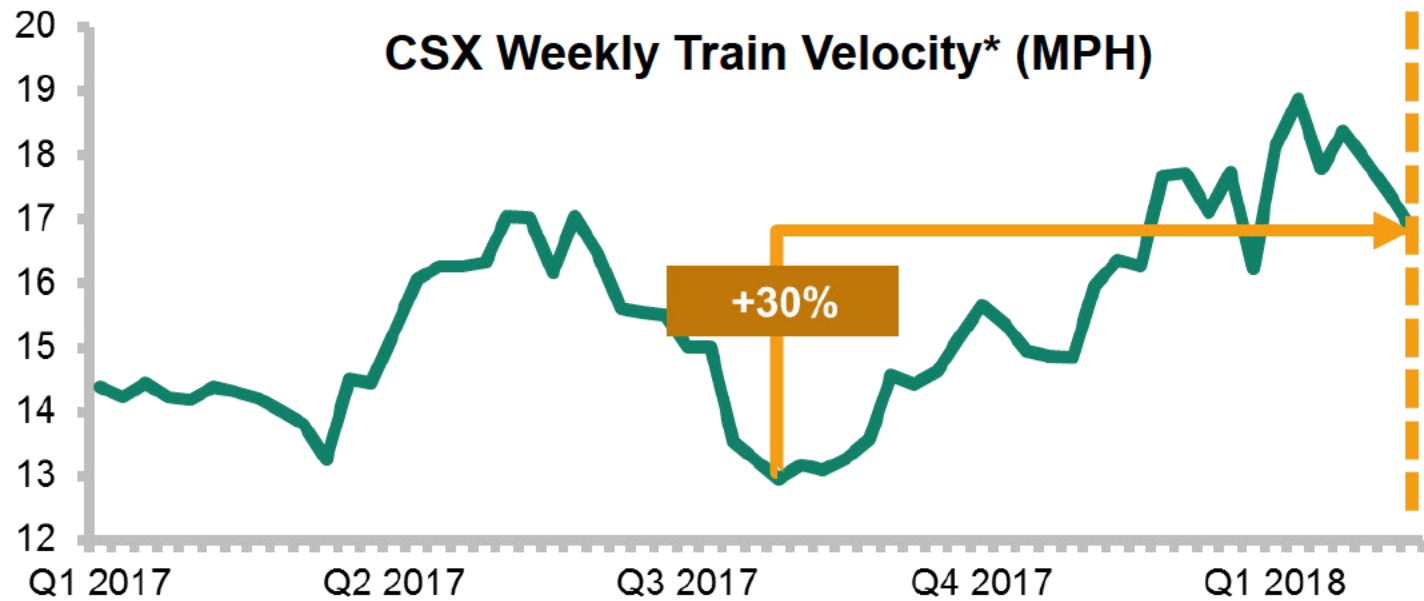
9 Divisions
12 Hump Yards



4 Regions
4 Hump Yards



DISRUPTIVE CHANGE FOR LONG-TERM IMPROVEMENT



- Unparalleled rebound in measures driven by scheduled railroading
- Improving measures drive virtuous cycle of capacity and utilization
- Plan is based on continuous improvement



Reduced Transit Time Yields Customer Benefits



- Use more low-cost rail
- Fewer inventory buffers
- Lower carrying-costs
- Better asset utilization

ALL TAKE CSX FROM GOOD TO GREAT



After

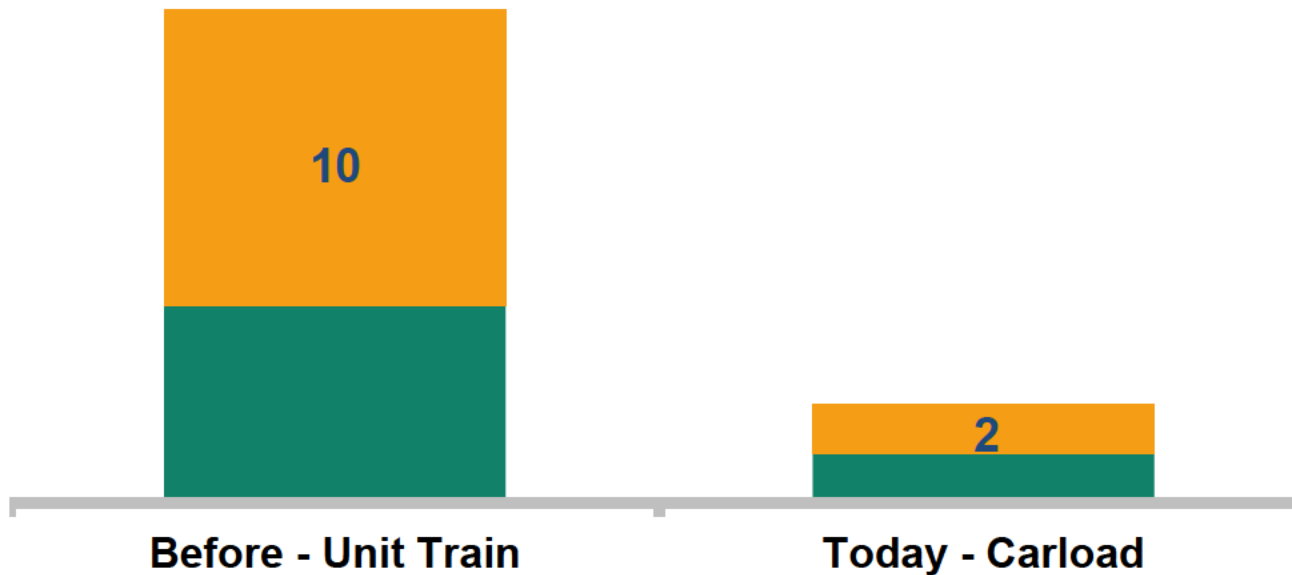


- Every car has a plan and not just the train that it is riding
- Trip Plan drives visibility and accountability
- Provides customers predictability and reliability
- Trip plans deliver consistent service product and asset utilization

SOME CUSTOMERS ALREADY ENJOYING TANGIBLE BENEFITS

Total Car Days Spent At Metals Customer

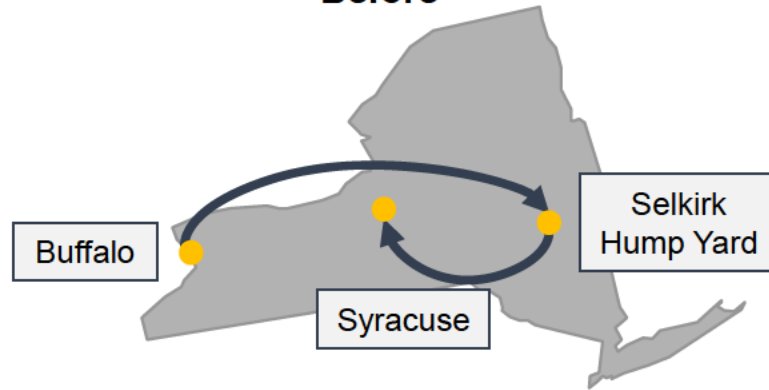
■ Loading Time ■ Unloading Time



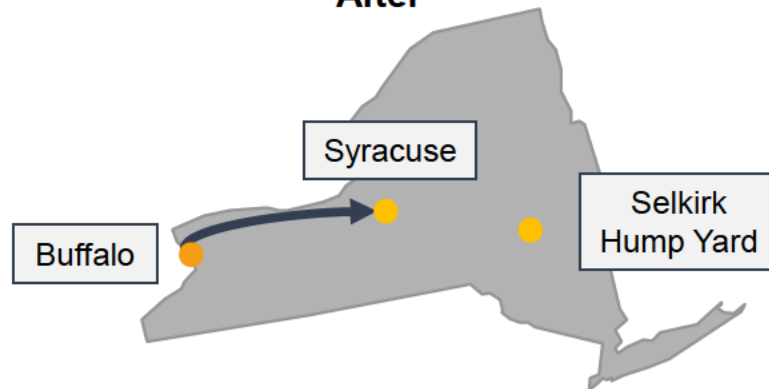
- Smoother car flows lead to more resilient supply chain
- Reduced fleet by >10%
- Freed up cars used to capture new business

A Streamlined Solution

Buffalo – Syracuse Customer
Before



Buffalo – Syracuse Customer
After



Obsession with Humps

- Excessive out-of-route miles
- Increased dwell and transit time

Direct Route Benefits

- Miles cut by two-thirds
- Transit time cut by half
- Costs cut by half

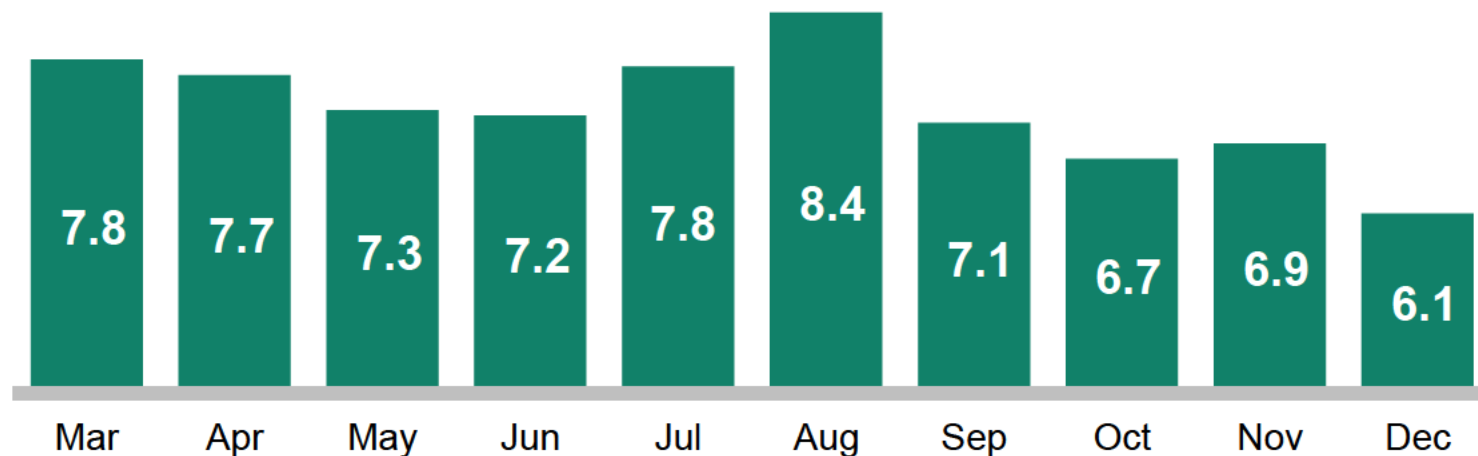
Won Highly Competitive
Business at Improved
Profitability

Consumer Products



- Better service supports better planning
- Eliminated bunching at destination
- Solid volume growth in 2017

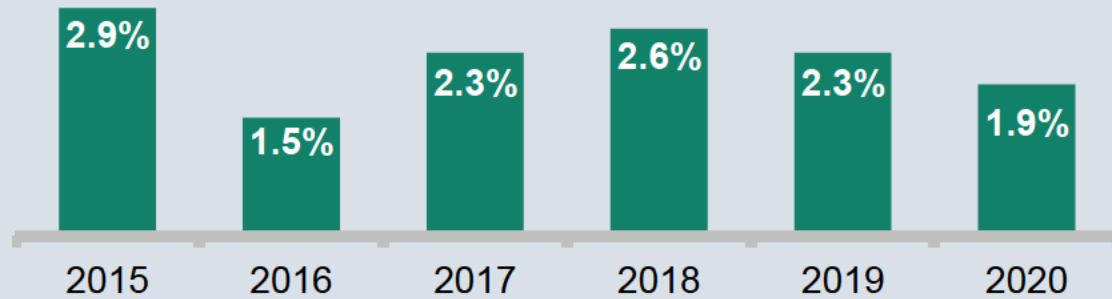
Average Customer Transit Days In 2017



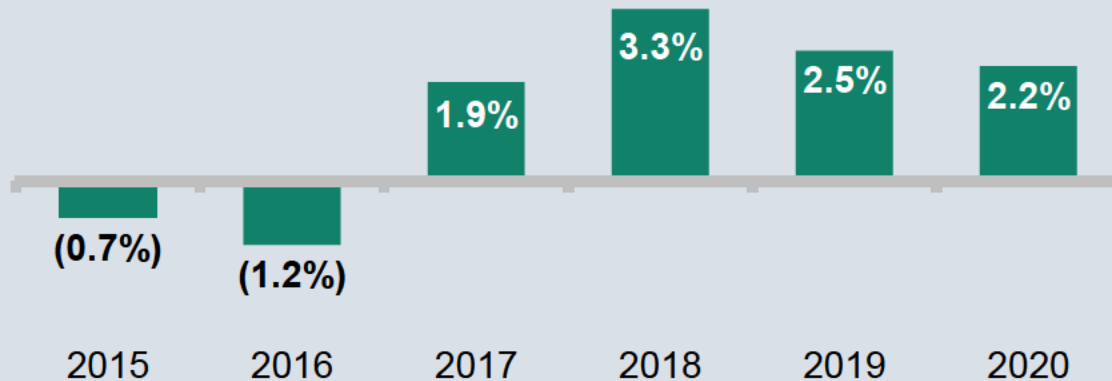
THE TIMING COULD NOT BE BETTER

Key Market Forecasts

U.S. Gross Domestic Product

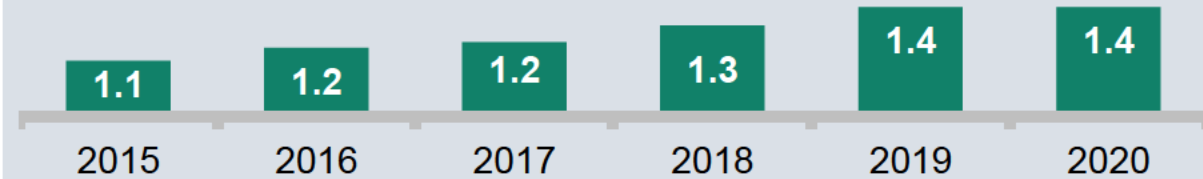


U.S. Industrial Production

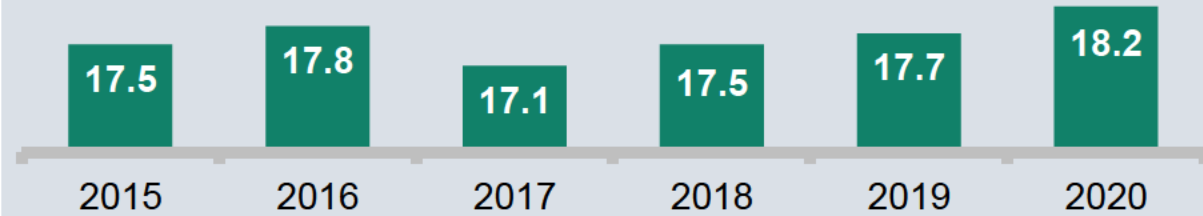


Key Merchandise Forecasts

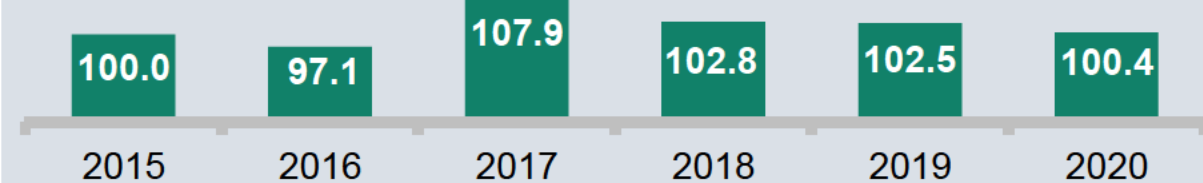
Housing Starts In Millions



Auto Production In Millions



Grain Production Indexed: Jan-2015 = 100

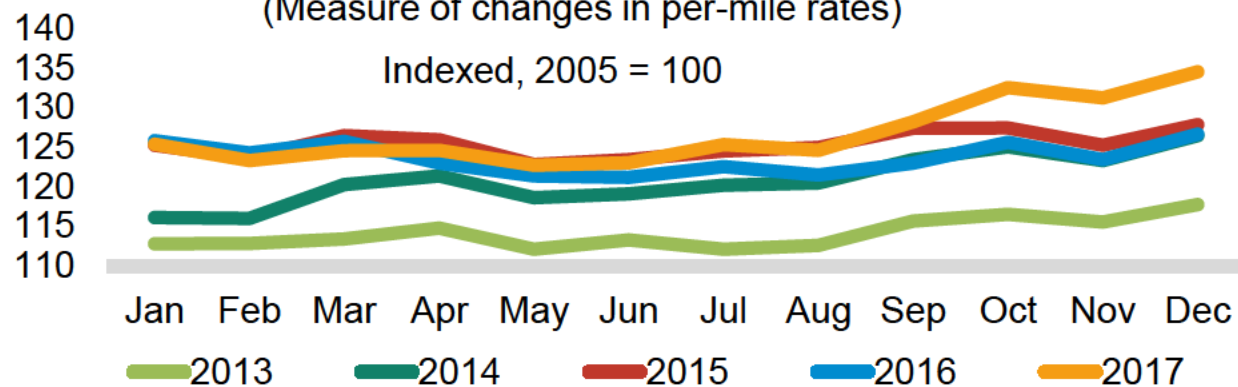


RAIL CAN CREATE VALUE IN A TIGHTENING TRUCK MARKET

Cass Truckload Linehaul Index

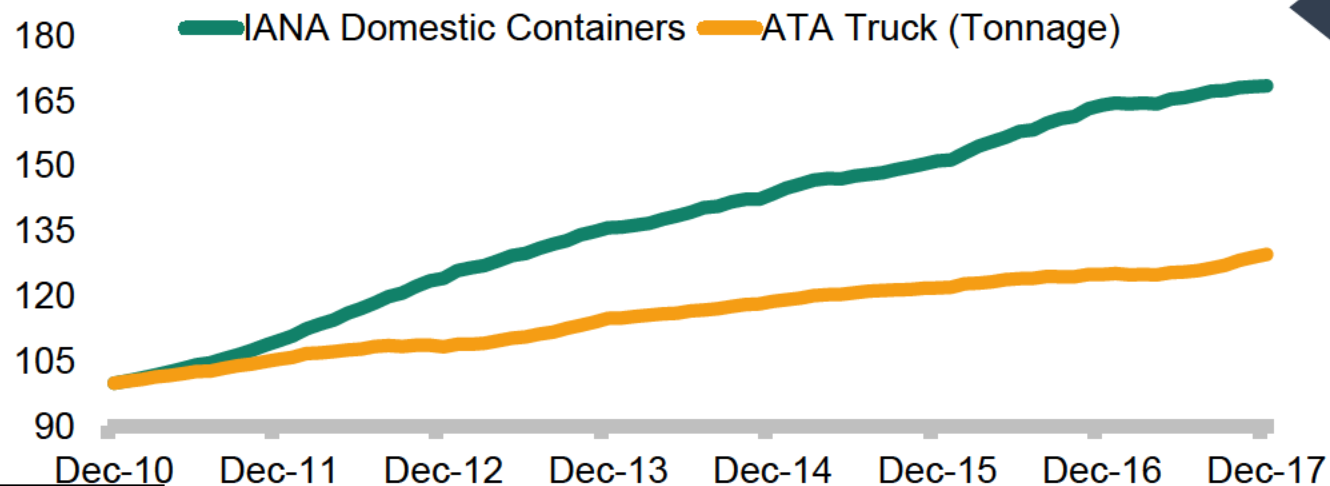
(Measure of changes in per-mile rates)

Indexed, 2005 = 100



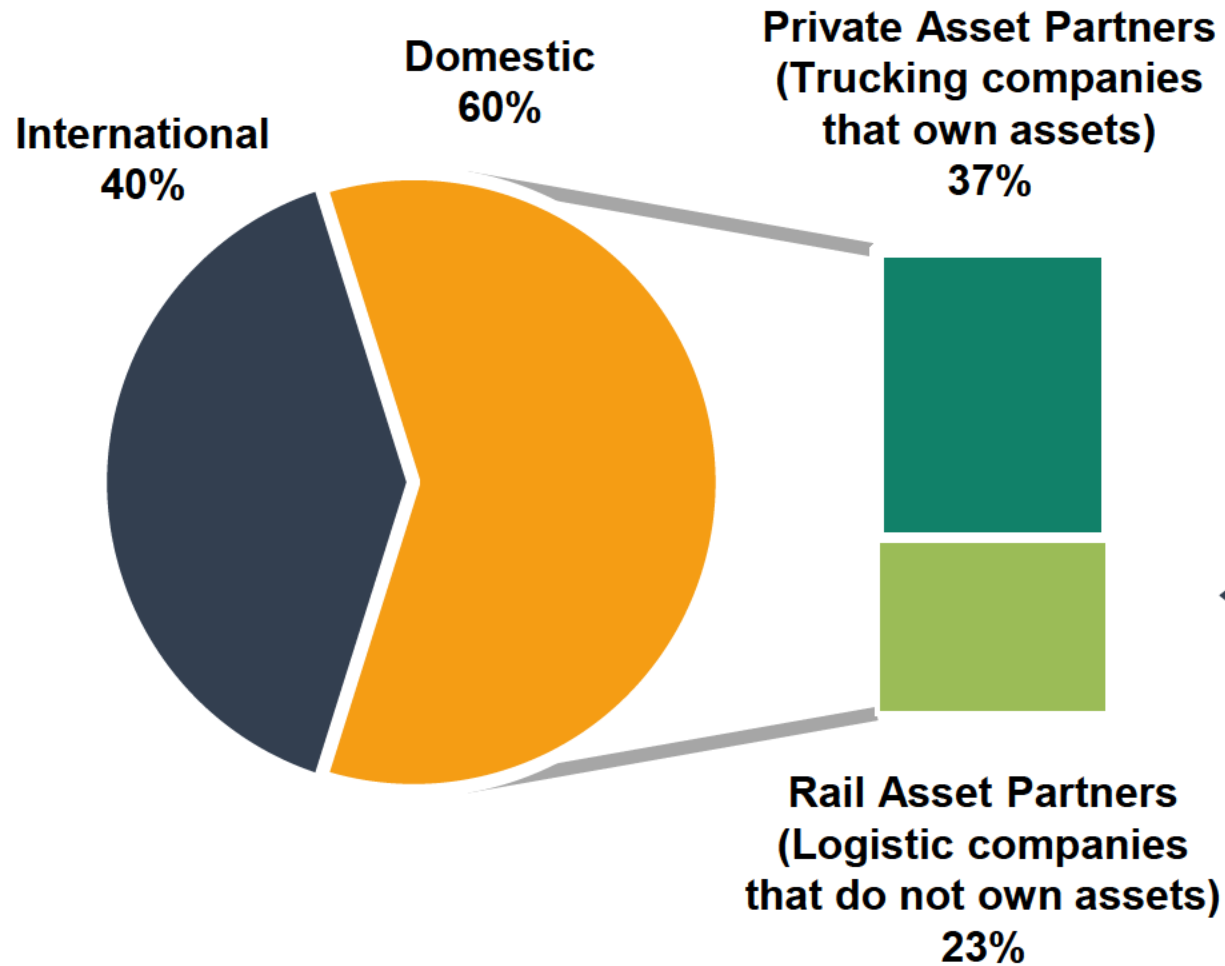
Domestic Intermodal Shipments Vs. Truck Tonnage

Indexed, 2011 = 100



- Trucking demand and linehaul rates surged at the end of 2017
- Driver shortages are likely to continue
- Electronic Logging Device mandate will create more trucker challenges
- Diesel prices up \$0.44 per gallon YoY in January 2018

INTERMODAL MARKET POSITIONED FOR GROWTH



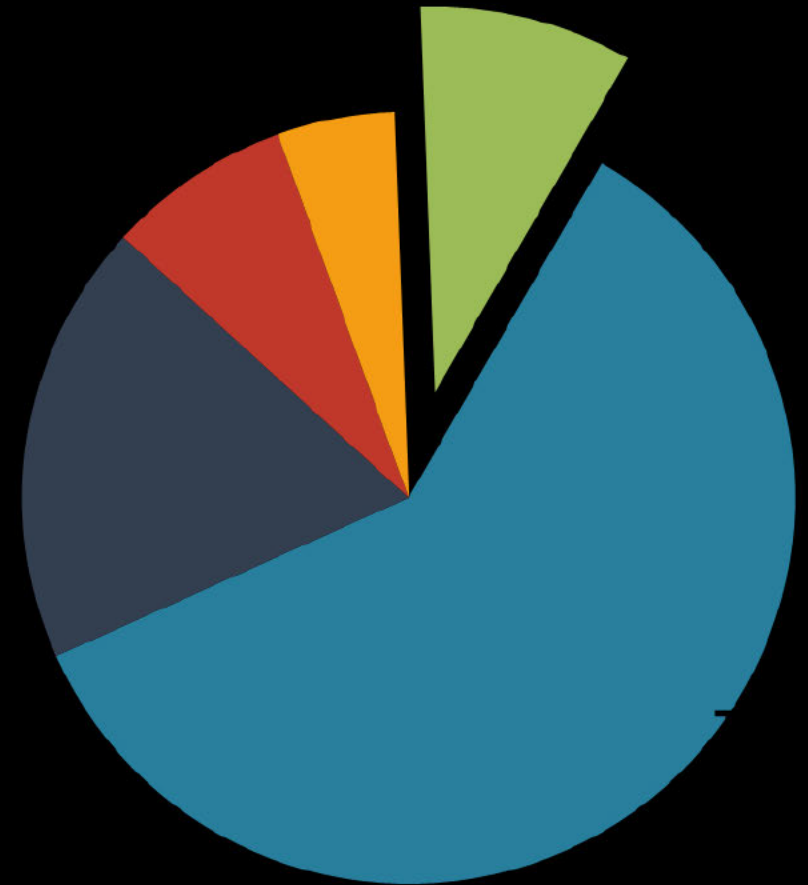
- Domestic driven by organic growth through highway conversions
- International driven by new capacity and consumer spending
- Scheduled Railroading drives:
 - Profitable growth
 - Pricing for value of our service
 - Strong margin expansion

UPSIDE OPPORTUNITY FOR RAIL

Improving Freight Economy
Expanding Economy
GDP/IDP
Tax Reform
Infrastructure Bill
Consumer Sentiment

Rail Conversion Opportunity
Tightening Truck Market
Rising Truck Load Rates
Modal Share Expansion

US Modal Shipment Tonnage



QUESTION &

ANSWER



PAPER & FOREST INDUSTRY TRANSPORTATION COMMITTEE

Michael Rutherford | **CSX SPRING 2018**





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Operate
Safely

Improve
Service

Drive Asset
Utilization

Control
Costs

Develop
People

Operational Focus

Balanced
Train Plan

Terminal
Fluidity

Service Improvements & Productivity Improvements

Improved
Frequency

Better
Reliability

Rolling Stock
Utilization

People
Efficiency

Faster
Transit

Quicker
Turnaround

Fuel
Optimization

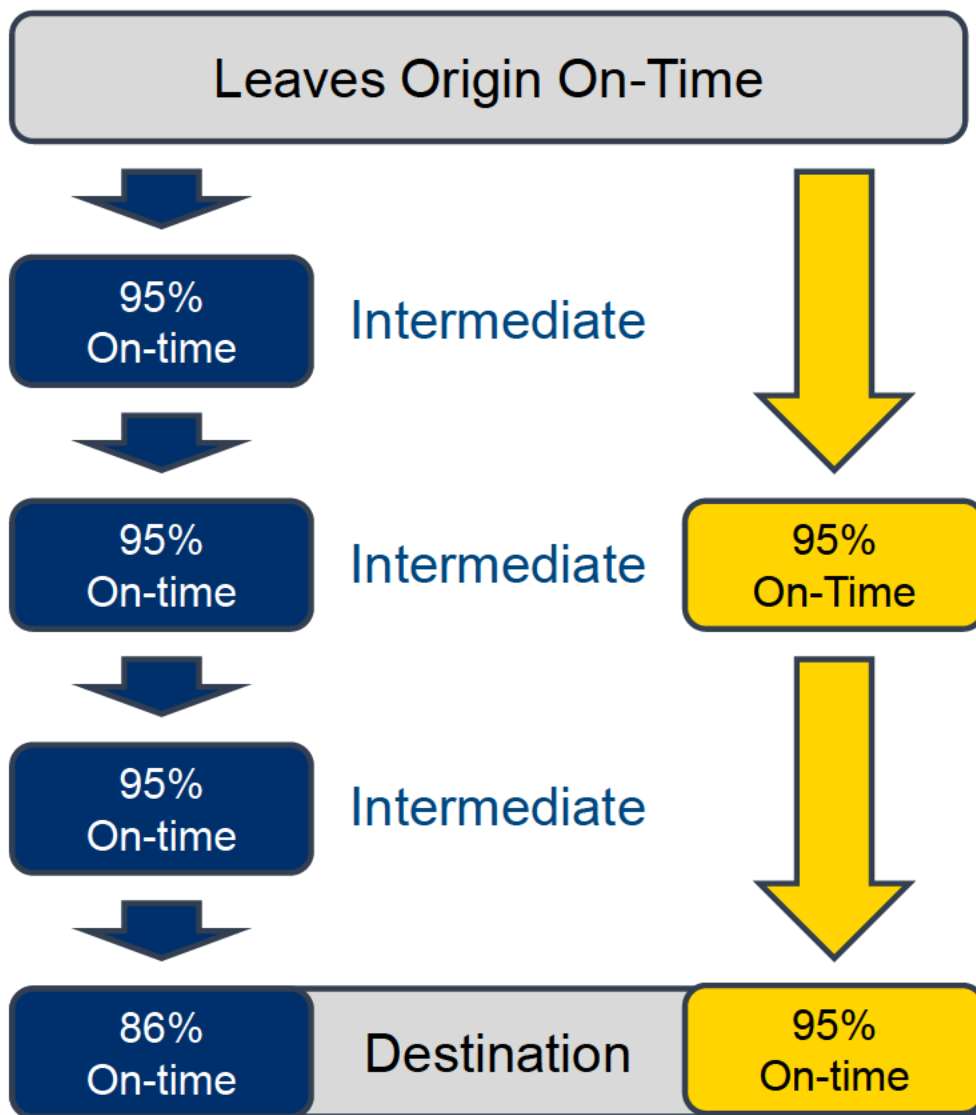
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Superior
Financial
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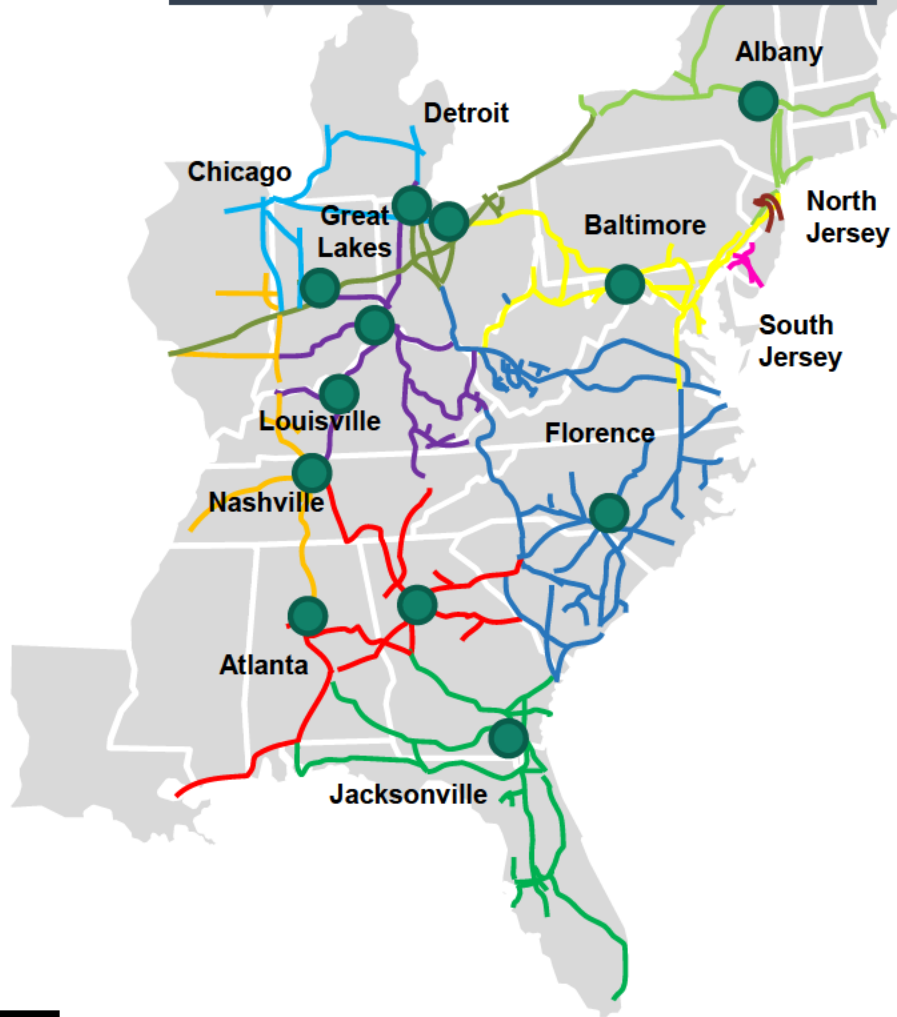
SCHEDULED RAILROADING DRIVES SPEED and RELIABILITY



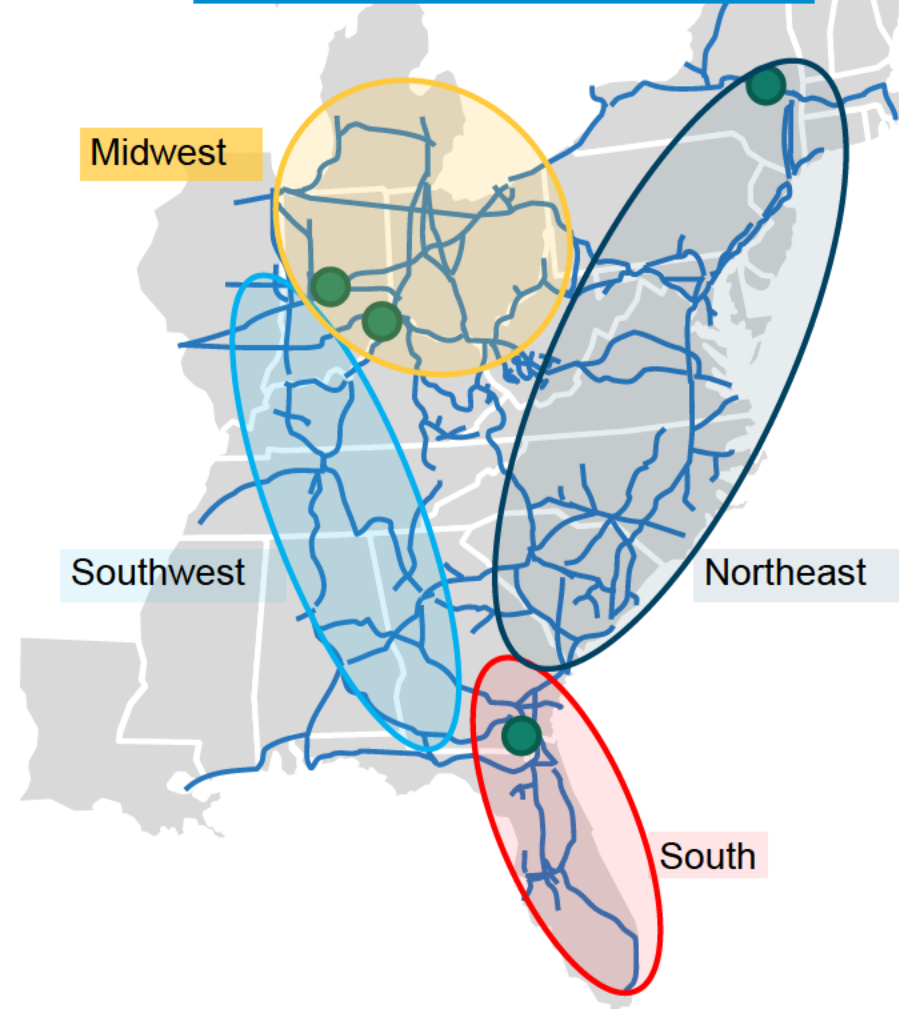
- Reducing intermediate handlings improves service
 - Speed of transit reduces inventory carrying costs
 - Streamlined service solution supports overall reliability
- Result – Faster, more reliable service over longer distances

A RADICALLY DIFFERENT FOOTPRINT KEY TO IMPLEMENTATION

9 Divisions
12 Hump Yards



4 Regions
4 Hump Yards





STILL DELIVERING RESULTS FOR CUSTOMERS

		Week 14 4/6/18 W/W	Week 14 4/6/18 Y/Y	Week 13 3/30/18 Y/Y	Week 12 3/23/18 Y/Y	1Q:18 Y/Y
TRAIN SPEEDS	CNI	(3.1%)	(16.8%)	(12.5%)	(12.6%)	(15.2%)
	CP	0.5%	(8.7%)	(8.7%)	(9.1%)	(7.9%)
	CSX	3.9%	14.4%	16.1%	17.1%	22.3%
	NSC	0.0%	(14.0%)	(14.4%)	(16.4%)	(16.2%)
	BNSF	(0.4%)	(0.4%)	0.0%	1.6%	2.8%
	UNP	0.8%	(2.0%)	(3.1%)	(3.1%)	(3.6%)
	KSU	1.1%	4.9%	1.1%	7.4%	0.2%
	Total	0.4%	(3.2%)	(3.1%)	(2.2%)	(2.5%)
DWELL TIMES	CNI	12.8%	46.2%	23.7%	24.2%	38.6%
	CP	2.7%	26.7%	17.5%	23.0%	10.7%
	CSX	(1.6%)	(0.4%)	0.7%	(6.3%)	(9.6%)
	NSC	0.4%	11.9%	12.4%	16.7%	19.5%
	BNSF	(1.8%)	(6.0%)	(1.1%)	(2.9%)	(6.4%)
	UNP	(1.0%)	7.8%	6.6%	11.2%	8.5%
	KSU	3.1%	(0.8%)	0.9%	(6.3%)	(1.3%)
	Total	2.1%	12.2%	8.7%	8.5%	8.6%

Reduced Transit Time Yields Customer Benefits



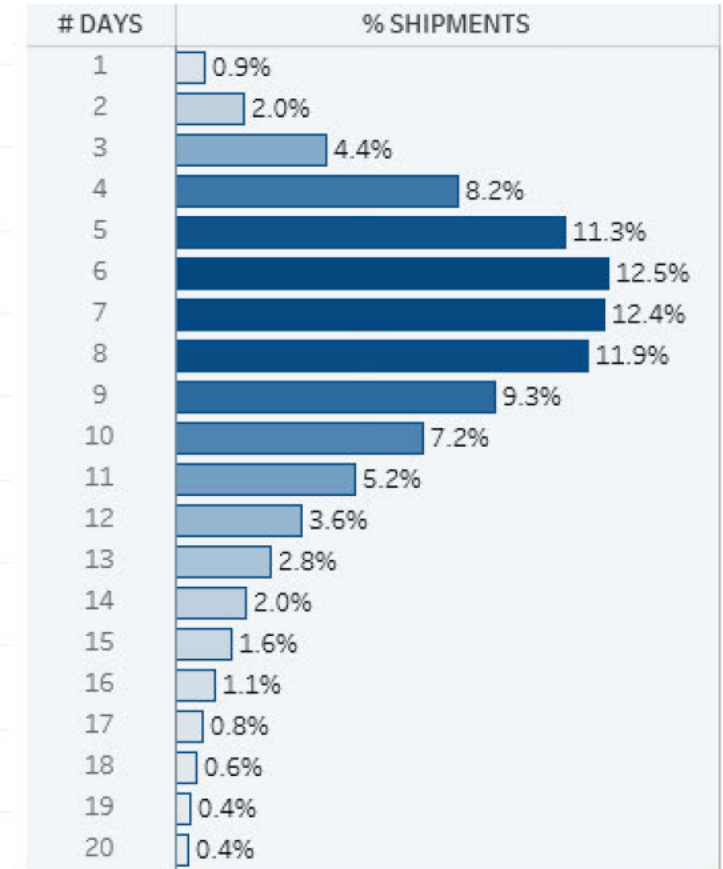
- Use more low-cost rail
- Fewer inventory buffers
- Lower carrying-costs
- Better asset utilization

PULPBOARD TRANSIT TIMES MUCH FASTER

Event Transit Time 7-DAY MOVING AVERAGE



% by days





After

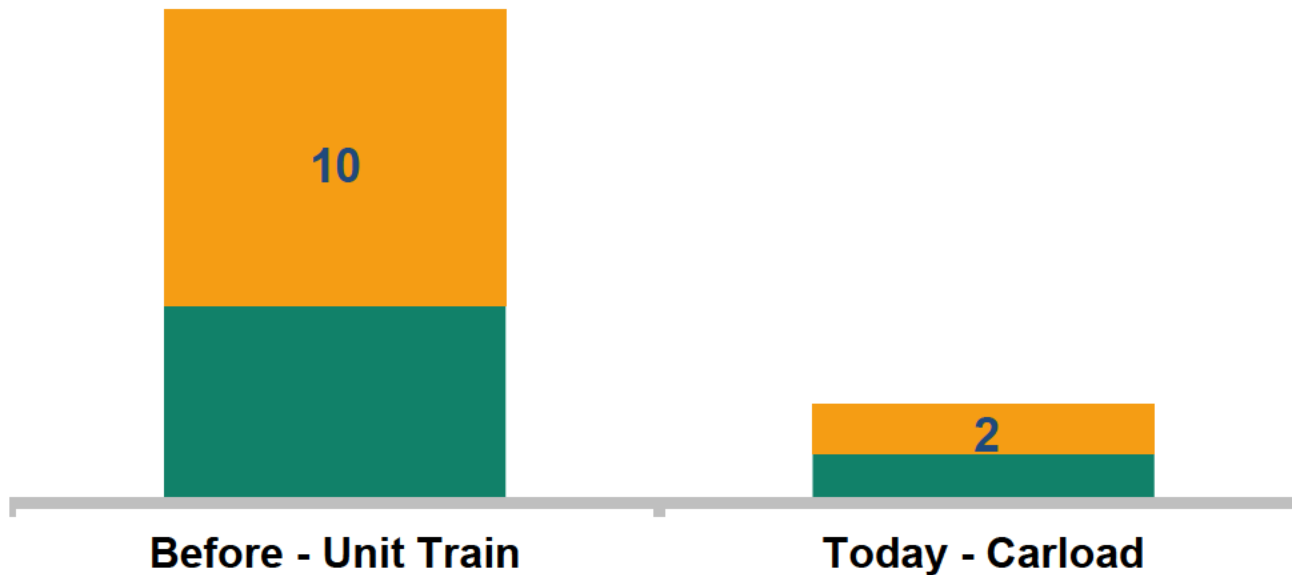


- Every car has a plan and not just the train that it is riding
- Trip Plan drives visibility and accountability
- Provides customers predictability and reliability
- Trip plans deliver consistent service product and asset utilization

SOME CUSTOMERS ALREADY ENJOYING TANGIBLE BENEFITS

Total Car Days Spent At Metals Customer

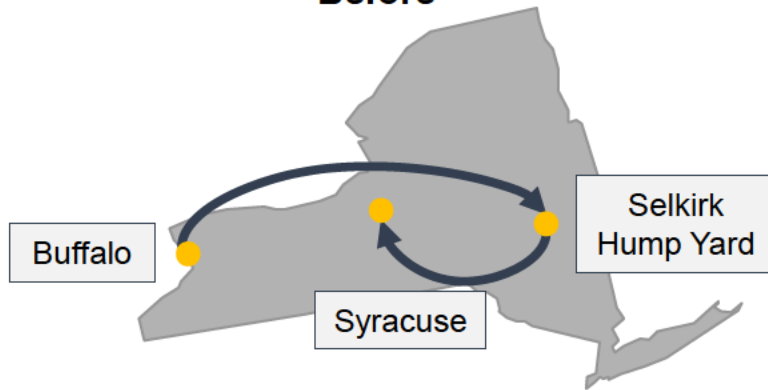
■ Loading Time ■ Unloading Time



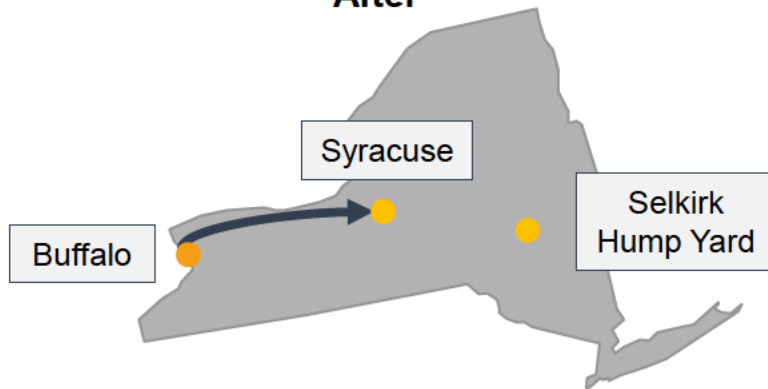
- Smoother car flows lead to more resilient supply chain
- Reduced fleet by >10%
- Freed up cars used to capture new business

A Streamlined Solution

Buffalo – Syracuse Customer
Before



Buffalo – Syracuse Customer
After



Obsession with Humps

- Excessive out-of-route miles
- Increased dwell and transit time

Direct Route Benefits

- Miles cut by two-thirds
- Transit time cut by half
- Costs cut by half

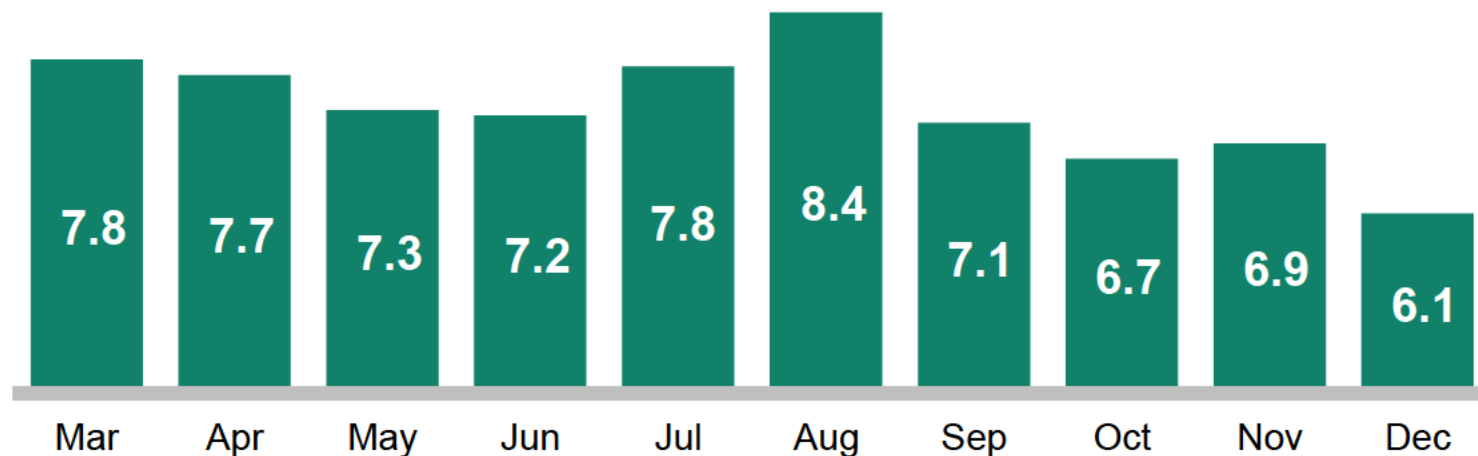
Won Highly Competitive
Business at Improved
Profitability

Consumer Products



- Better service supports better planning
- Eliminated bunching at destination
- Solid volume growth in 2017

Average Customer Transit Days In 2017



PARTNERSHIP IS KEY TO MAXIMIZING THE BENEFITS



- Cycle equipment quickly to avoid idle dwell
 - *Do not allow cars to sit in the serving yard*
 - *Quickly load and unload to turn the cars*
 - *Release cars promptly in usable condition*
- Reduce time at customer to make local service more predictable
 - *Drop and hook is the ideal set up*
 - *Eliminate excessive switching or placement*
 - *Do not require mainline time to switch*
- Plan with the end in mind
 - *Pre-block cars to facilitate switching in transit*
 - *Update transit times to manage pipeline*

YARD DEMURRAGE HAS LONG APPLIED TO CLOSED GATE

General Demurrage charges are assessed against both open and closed gate customers with differing rates of \$75 per/car day for private cars and \$150 per car/day for railroad cars

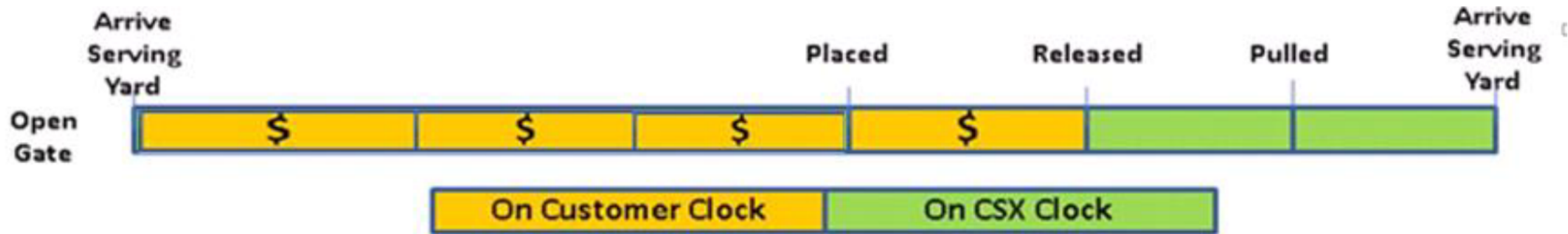


Debit days start at 00:01 the next day after CSXT notifies the customer of constructive placement of a rail car or actual placement of a railcar

This includes weekends, non-service days, and holidays

OPEN GATE YARD DEMURRAGE SERVES THE SAME PURPOSE

Open Gate Yard Demurrage begins to accrue at a rate of \$75 per day if CSX is unable to place a car to a customer facility on a scheduled service day due to customer inability to receive



CSX will assess credits against cars which a customer has capacity for but CSX fails to deliver on a scheduled service date. These credits are automatic and will be reflected as railroad misses on the Open Gate Yard Demurrage invoice.

(Note: These credits will only apply to the Open Gate Yard Demurrage invoice and not to the General Demurrage invoice)

PIPELINE MANAGEMENT ENABLES GROWTH WITH CURRENT FLEET

- Schedule report to be emailed automatically up to 6x's per day, 7-days per week
- Customize report parameters

Railcar Tracking	Historical Trace	Custom Reports	Pipeline & Jeopardy Reports	Shipment Tracking Map	Transit Times	Waybill Retrieval
------------------	------------------	----------------	-----------------------------	-----------------------	---------------	-------------------

Select Option:

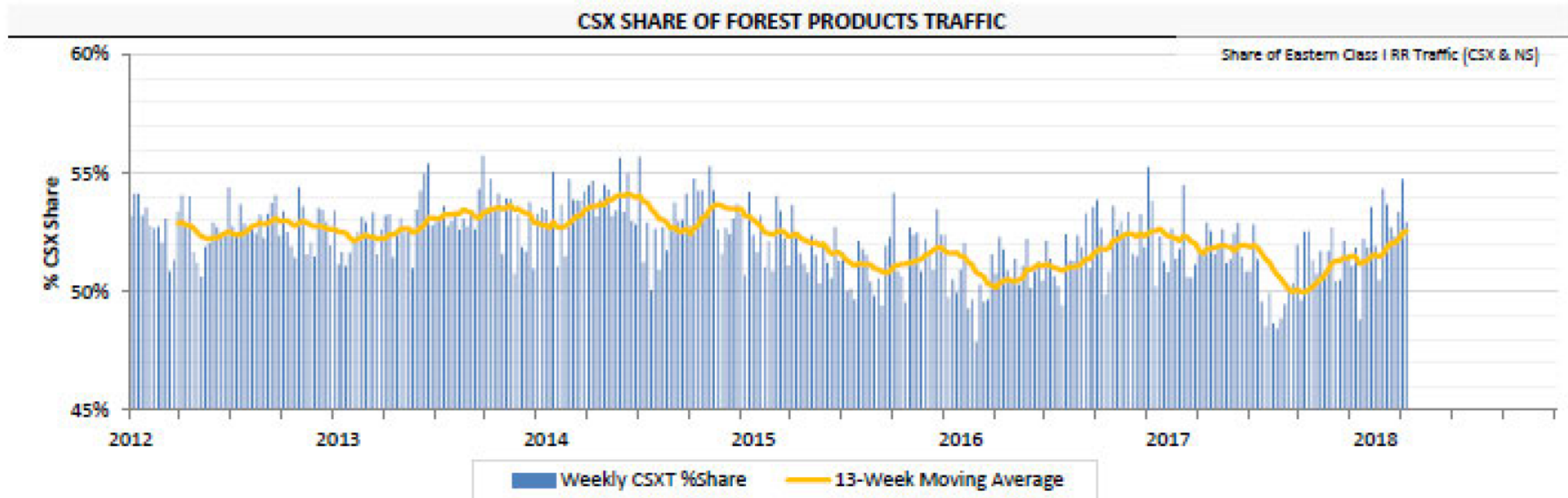
Download 

Report Name: CSX Parameter Trace Format: CSX Default Format

Displaying 1 - 38 of 38 equipment ids.

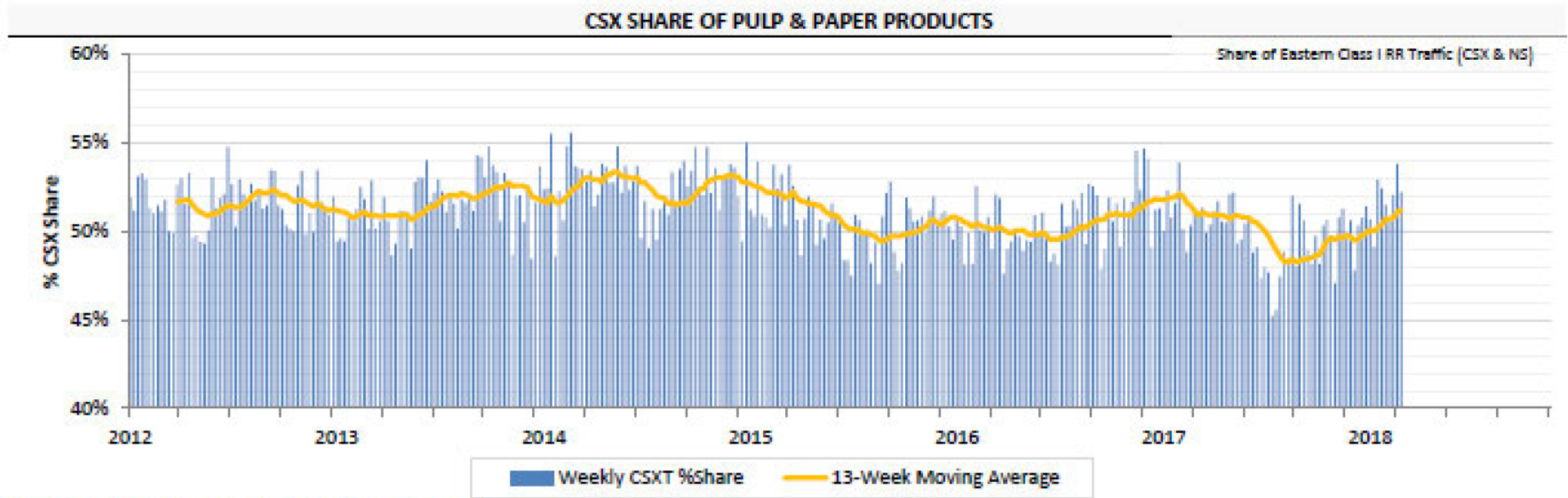
	EQUIPMENT ID	L/E	LAST EVENT	REPORTING	LAST EVENT				DESTINATION		
			DESCRIPTION		FULL CITY	STATE	DATE	TIME	FULL CITY	STATE	
<input type="checkbox"/>	TILX 5833	E	PLACED AT INDUSTRY	CSXT	EVANSVILLE	IN	2014-01-15	13:03	EVANSVILLE	IN	
<input type="checkbox"/>	CSXT 150144	E	DISMANTLED	CSXT	EVANSVILLE	IN	2011-08-05	05:00	EVANSVILLE	IN	
<input type="checkbox"/>	CSXT 160457	E	ARRIVED	CSXT	EVANSVILLE	IN	2014-01-23	15:16	EVANSVILLE	IN	
<input type="checkbox"/>	CSXT 150199	L	PLACED AT INDUSTRY	CSXT	ORLANDO	FL	2014-01-22	17:40	ORLANDO	FL	
<input type="checkbox"/>	CSXT 150181	L	CONSTRUCTIVELY PLACED	NYA	FRESH POND	NY	2014-01-21	06:17	BRENTWOOD	NY	
<input type="checkbox"/>	CSXT 150217	L	CONSTRUCTIVELY PLACED	NYA	FRESH POND	NY	2014-01-21	06:17	BRENTWOOD	NY	
<input type="checkbox"/>	CSXT 150153	L	CONSTRUCTIVELY PLACED	NYA	FRESH POND	NY	2014-01-21	06:17	BRENTWOOD	NY	
<input type="checkbox"/>	CSXT 160833	E	ORDERED PLACED BY CUSTOMER	CSXT	EVANSVILLE	IN	2014-01-23	11:48	EVANSVILLE	IN	
<input type="checkbox"/>	CSXT 160843	E	BAD ORDERED	CSXT	LOUISVILLE	KY	2014-01-24	04:37	EVANSVILLE	IN	
<input type="checkbox"/>	CSXT 160419	E	DEPARTED	CSXT	LOUISVILLE	KY	2014-01-24	07:56	EVANSVILLE	IN	ARRIVAL FINAL DESTINATION
<input type="checkbox"/>	CSXT 161044	E	DEPARTED	CSXT	LOUISVILLE	KY	2014-01-24	07:56	EVANSVILLE	IN	ARRIVAL FINAL DESTINATION

CSX REMAINS #1 IN THE EAST FOR FOREST PRODUCTS



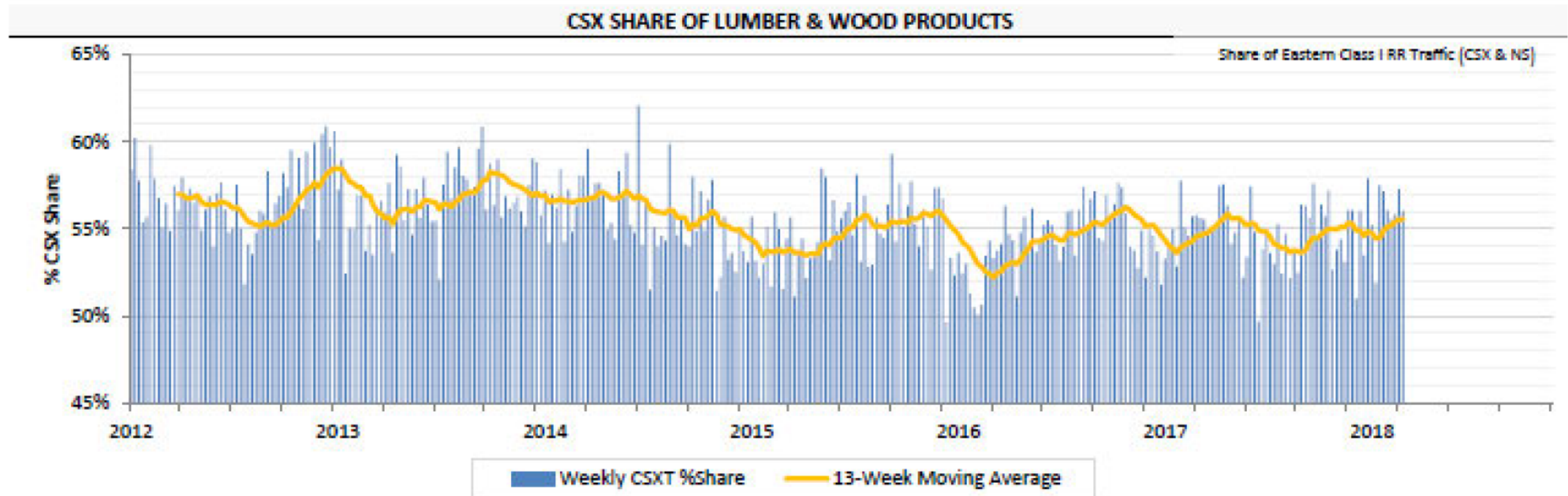
SOURCE: "Weekly Rail Traffic", American Association of Railroads

STRENGTHENING LEAD IN PULP & PAPER



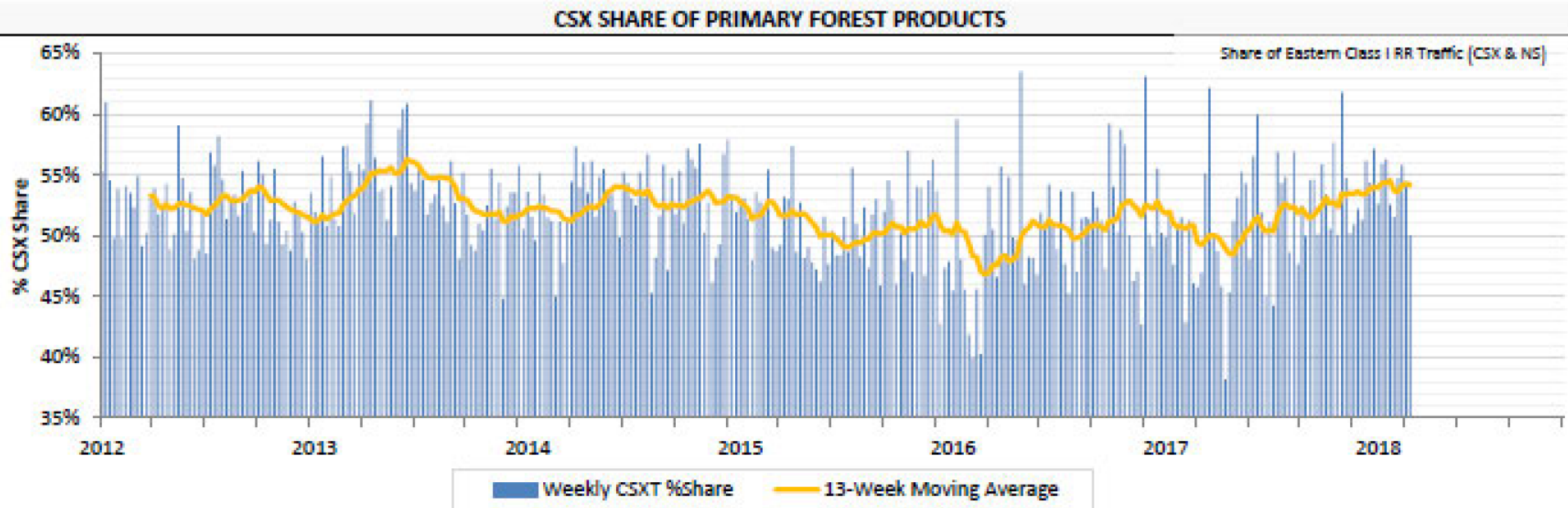
SOURCE: "Weekly Rail Traffic", American Association of Railroads

AS WELL AS LEAD IN LUMBER & WOOD PRODUCTS



SOURCE: "Weekly Rail Traffic", American Association of Railroads

EVEN LEADING IN PRIMARY FOREST PRODUCTS

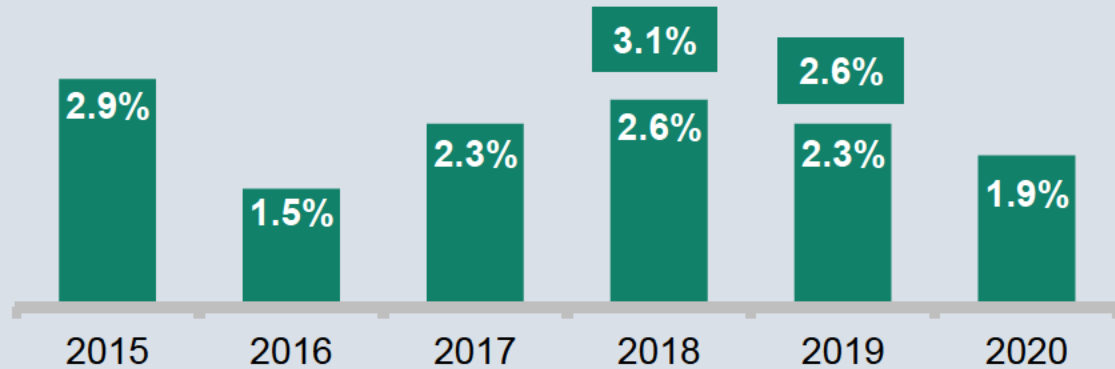


SOURCE: "Weekly Rail Traffic", American Association of Railroads

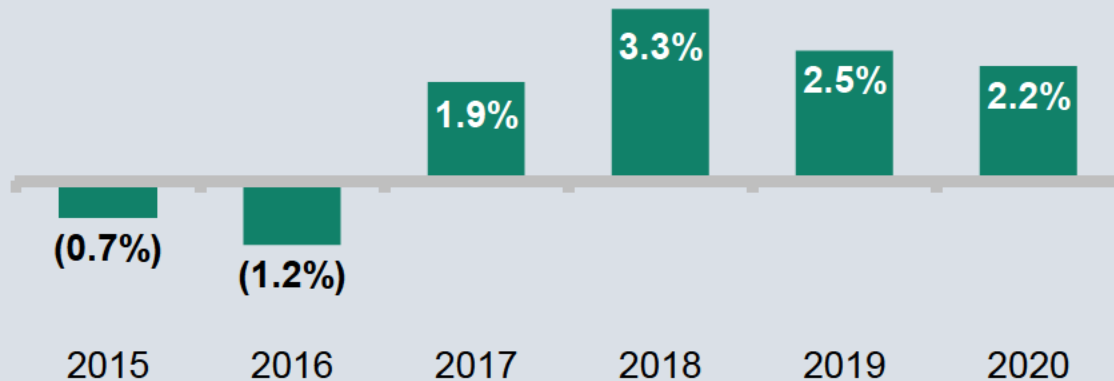
THE TIMING COULD NOT BE BETTER

Key Market Forecasts

U.S. Gross Domestic Product

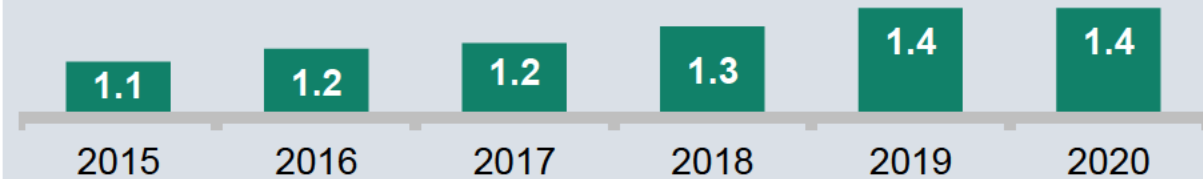


U.S. Industrial Production

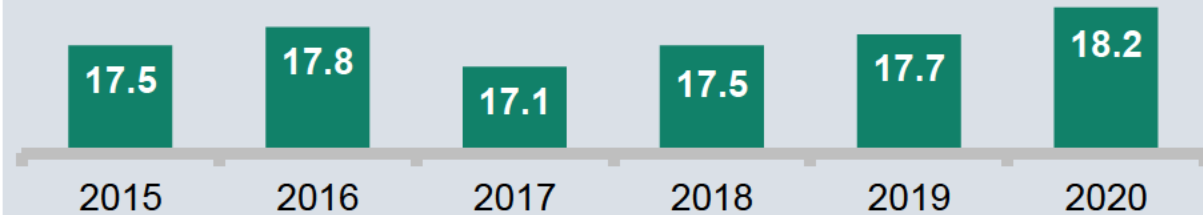


Key Merchandise Forecasts

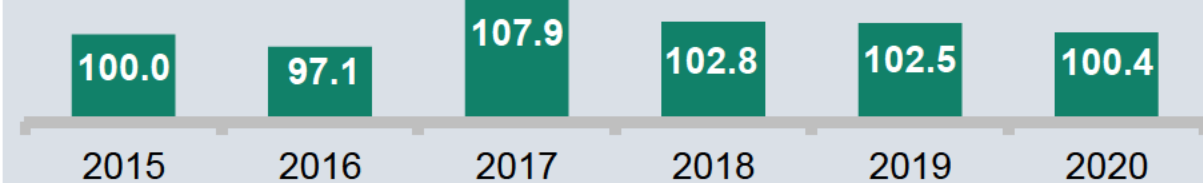
Housing Starts In Millions



Auto Production In Millions



Grain Production Indexed: Jan-2015 = 100



RAIL VOLUMES REFLECT A MORE ROBUST MARKET

U.S. Rail Traffic¹

Week 14, 2018 – Ended April 7, 2018

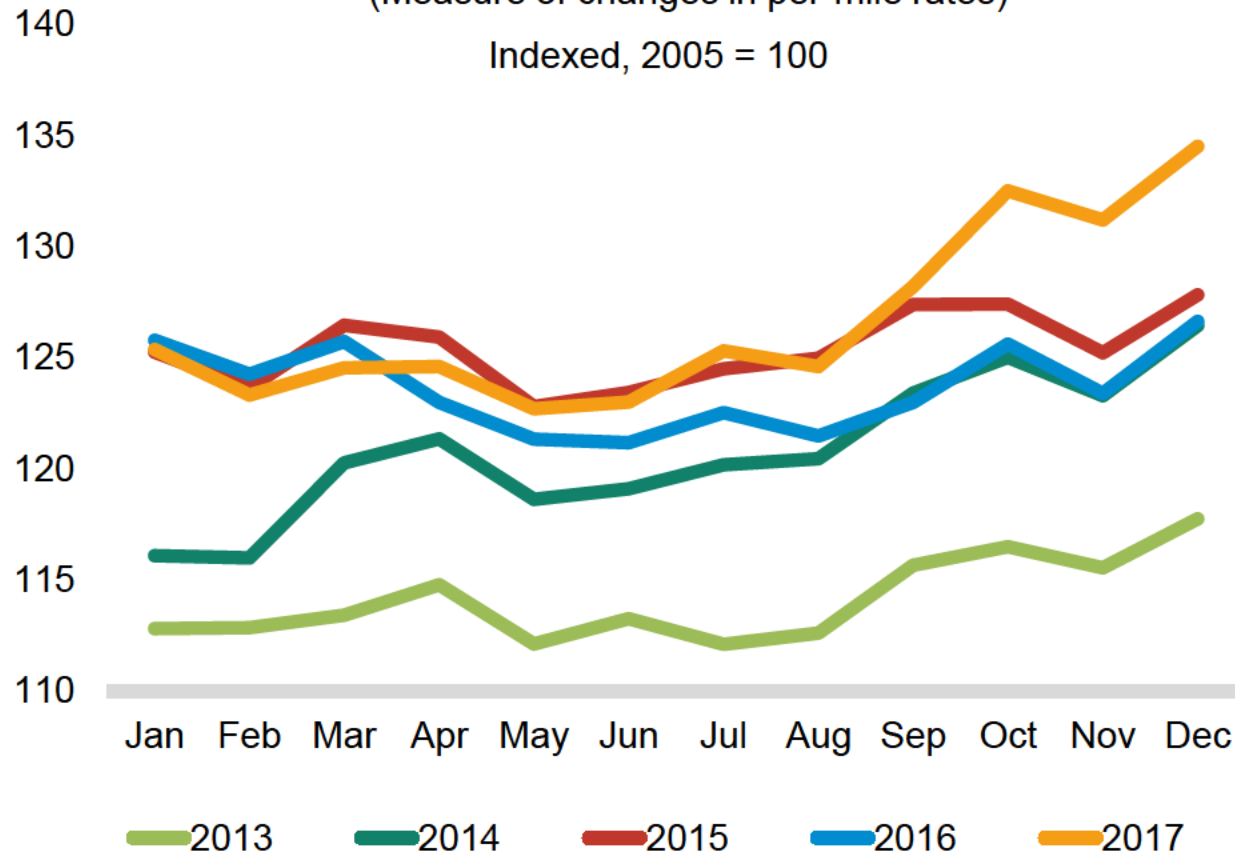
	This Week		Year-To-Date		
	Cars	vs 2017	Cumulative	Avg/wk ²	vs 2017
Total Carloads	261,898	4.6%	3,558,097	254,150	0.1%
Chemicals	33,694	6.8%	452,343	32,310	3.4%
Coal	81,476	8.7%	1,170,539	83,610	0.0%
Farm Products excl. Grain, and Food	16,382	4.0%	225,122	16,080	-0.5%
Forest Products	9,870	-0.7%	140,317	10,023	0.7%
Grain	25,419	6.9%	315,622	22,544	-3.0%
Metallic Ores and Metals	23,401	11.6%	298,155	21,297	1.7%
Motor Vehicles and Parts	17,103	-4.2%	230,063	16,433	-6.0%
Nonmetallic Minerals	35,567	-1.6%	452,786	32,342	1.6%
Petroleum and Petroleum Products	9,899	-1.3%	143,114	10,222	3.0%
Other	9,087	-3.5%	130,036	9,288	-3.4%
Total Intermodal Units	263,007	3.1%	3,759,388	268,528	5.3%
Total Traffic	524,905	3.8%	7,317,485	522,678	2.7%

¹ Excludes U.S. operations of Canadian Pacific, CN and GMXT.

² Average per week figures may not sum to totals as a result of independent rounding.

Cass Truckload Linehaul Index

(Measure of changes in per-mile rates)
Indexed, 2005 = 100



- Trucking demand and linehaul rates surged at the end of 2017
- Driver shortages are likely to continue
- Electronic Logging Device mandate will create more trucker challenges
- Diesel prices up \$0.44 per gallon YoY in January 2018

UPSIDE OPPORTUNITY FOR RAIL

Improving Freight Economy

Expanding Economy

GDP/IDP

Tax Reform

Infrastructure Bill

Consumer Sentiment

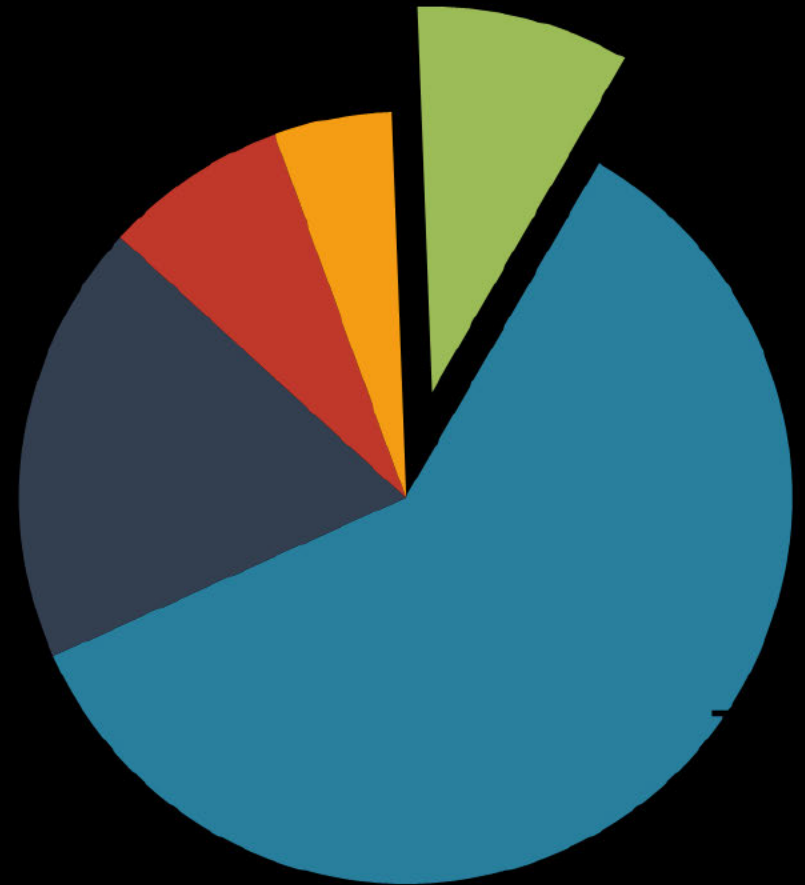
Rail Conversion Opportunity

Tightening Truck Market

Rising Truck Load Rates

Modal Share Expansion

US Modal Shipment Tonnage



QUESTION & ANSWER





Reflections on the Road Ahead

Michael Rutherford • Senior Vice President • American PetroLog
NEARS Fall Conference • 22 September 2020

Overview of American PetroLog

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2



Inc.5000
N° **544** 2020
AMERICA'S FASTEST-GROWING PRIVATE CO®

- Originally provided transportation solutions in the Gulf Coast region for the petrochemical and biodiesel markets
- Quickly became a key government supply chain partner, including FEMA as well as US military and space programs
- Expanded operations to include a wide array of services for a variety of dry and liquid bulk freight commodities



MC 909875



IANA
INTERMODAL ASSOCIATION
OF NORTH AMERICA

CAGE Code 7H1W0



NTTC
NATIONAL TANK TRUCK CARRIERS

Hazmat Cert 082515 700 002X

TDANA
TRANSLOAD DISTRIBUTION ASSOCIATION OF NORTH AMERICA



SCAC - APEL

DUNS 079894347



Specialty Chemicals



Agricultural Chemicals



Fuels



Dry Bulk

**PETROLEUM
LOGISTICS**



Aviation Fuel



Missile Fuel



Rocket Propellants



**Dedicated Contracts
(GOCO & COCO)**

**GOVERNMENT
SERVICES**



Transloading



Bulk Storage



Dedicated Fleets



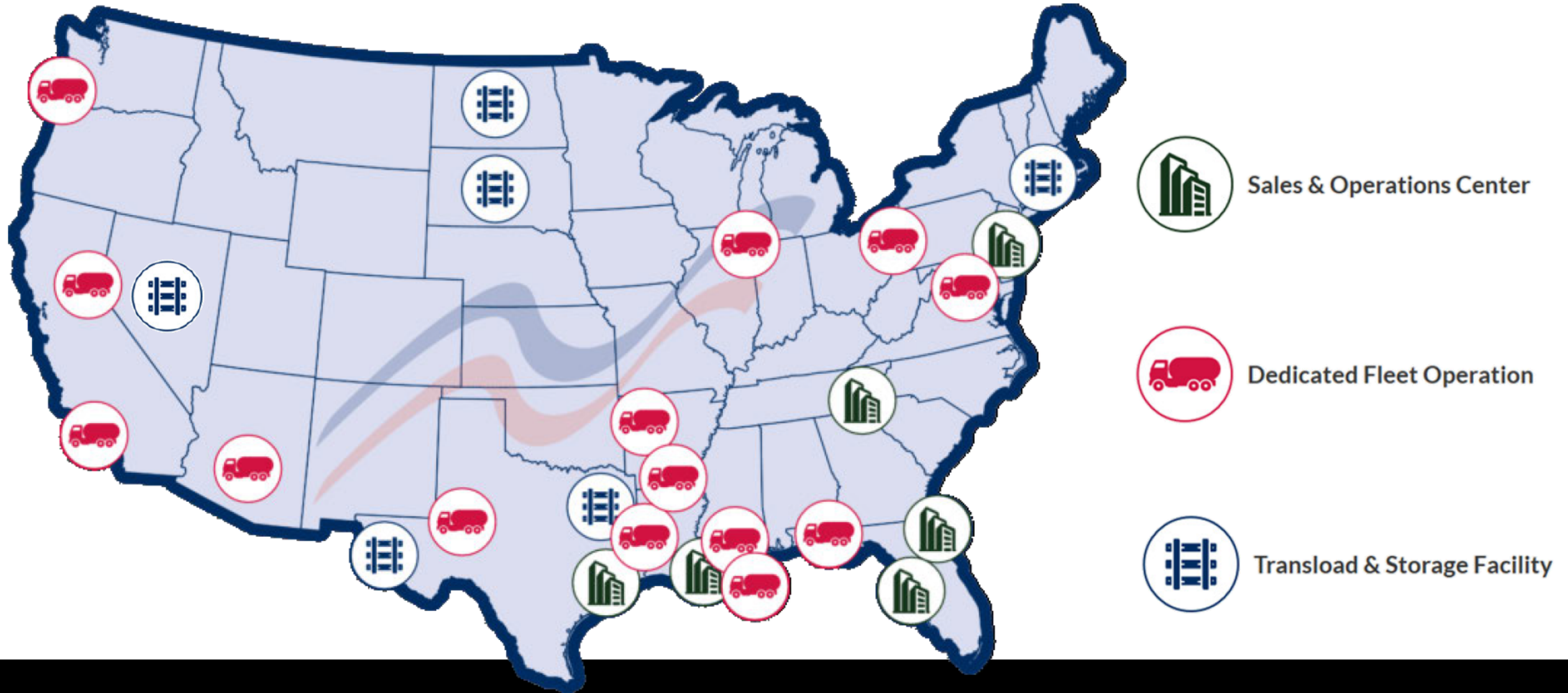
**Domestic & International
ISO Tanks**

**SUPPLY CHAIN
MANAGEMENT**

Now coast-to-coast and beyond

We get to yes!®

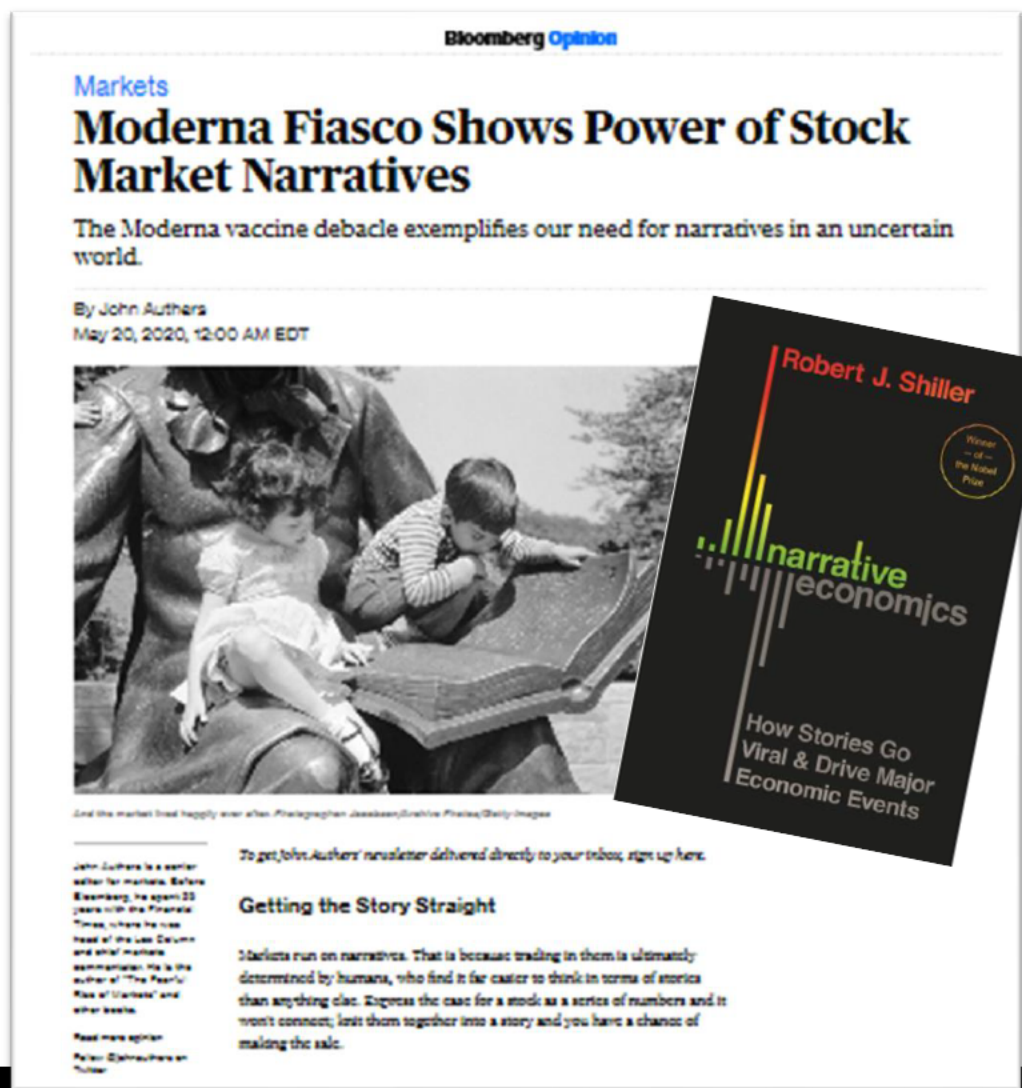
4





In the fog of the current pandemic

- Most companies in the S&P 500 are not providing guidance for future quarters
- Corporations are reporting a lot of “good news, bad news” stories that are not easy to reconcile
- Analyst estimates vary widely, indicating they “have just given up”



- Yale Nobel Laureate Robert Shiller devoted an entire book released just last year to the topic
- True or false, stories drive the economy by driving our decisions
- The pandemic coinciding with elections in the US and elsewhere fuels contrasting narratives
- Heightened uncertainty gives narratives an outsized level of influence

Which narratives matter most
for the future of rail?

4 post-COVID supply chain narratives to monitor

We get to yes!®

7



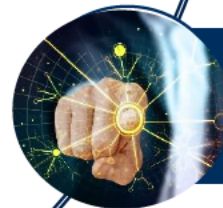
Future of global sourcing



e-Commerce implications



Next chapter for PSR

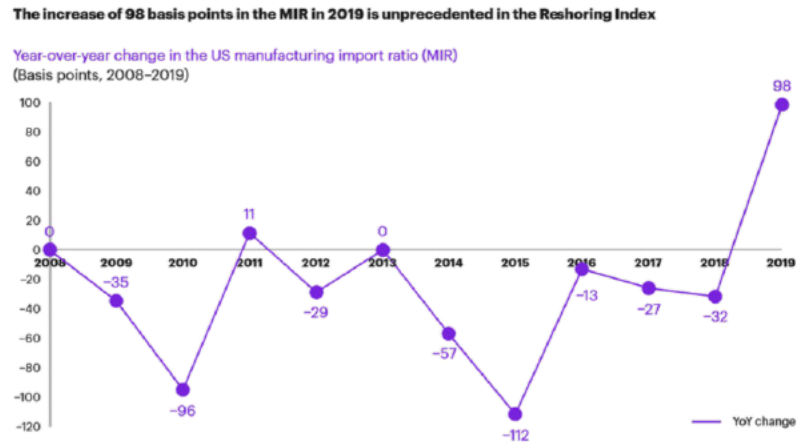
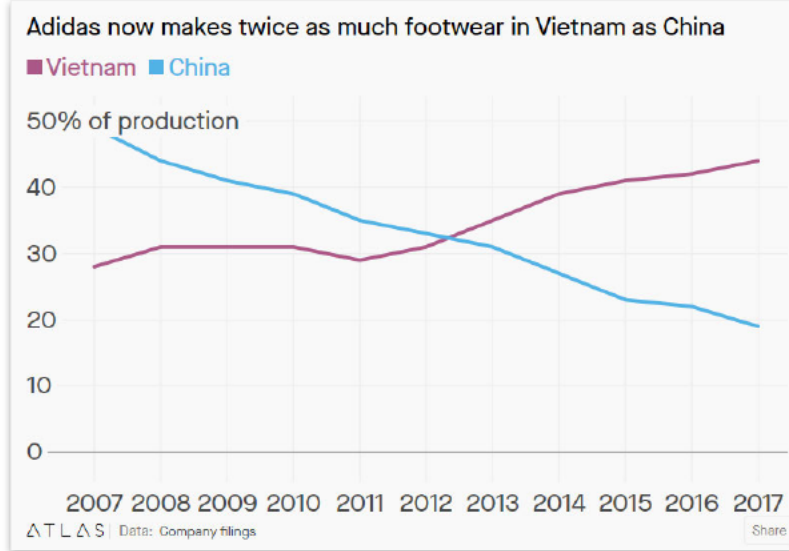


Promise of Industry 4.0

Global sourcing is shifting away from China

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8



- China is less desired as 'the world's factory'
 - *'China plus many' strategy as labor costs rise*
 - *Diversified sourcing is a growing concern generally, after Fukushima and now COVID*
- China's risk profile continues its long slide
 - *Forced technology transfers under increased scrutiny*
 - *'Made in China 2025' with domestic content quotas*
 - *'Debt trap diplomacy' aspects of Belt & Road with potential military applications*
 - *'Mask diplomacy' with a combination of donations for concessions and threats of embargoes*

China's share of manufacturing imports to US dropped to 56% last year from 67% in 2013

Different possibilities with different implications

We get to yes!®

9



Southeast Asia

Other Asian LCCs,
most notably Vietnam



Near-Shoring

Mexico by far the biggest
winner in the Americas



Reshoring

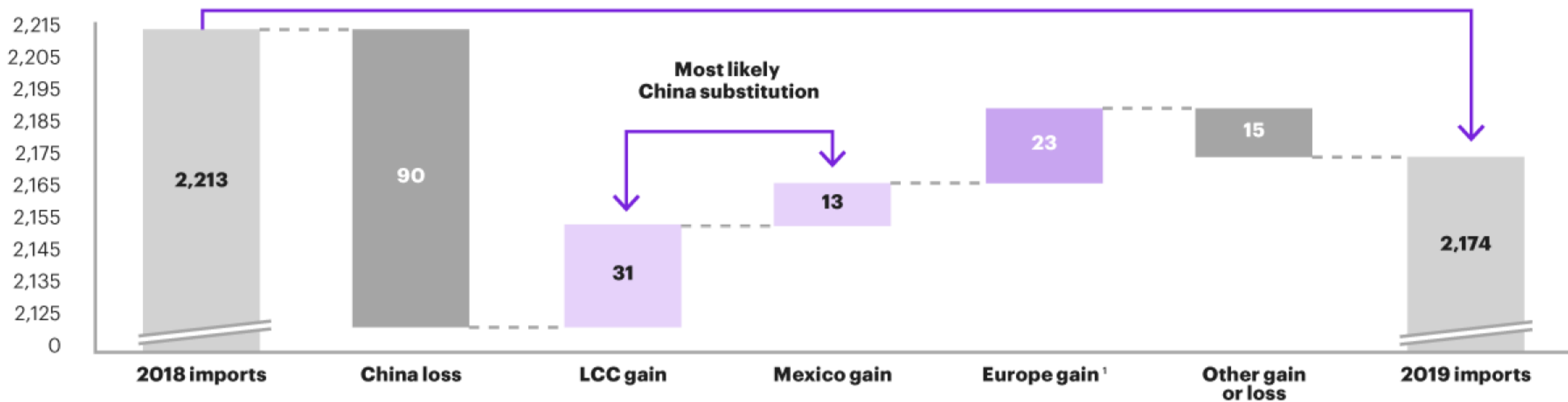
Thus far less likely due to
lack of available labor



Other Asian LCCs and Mexico benefiting most

We get to yes!®

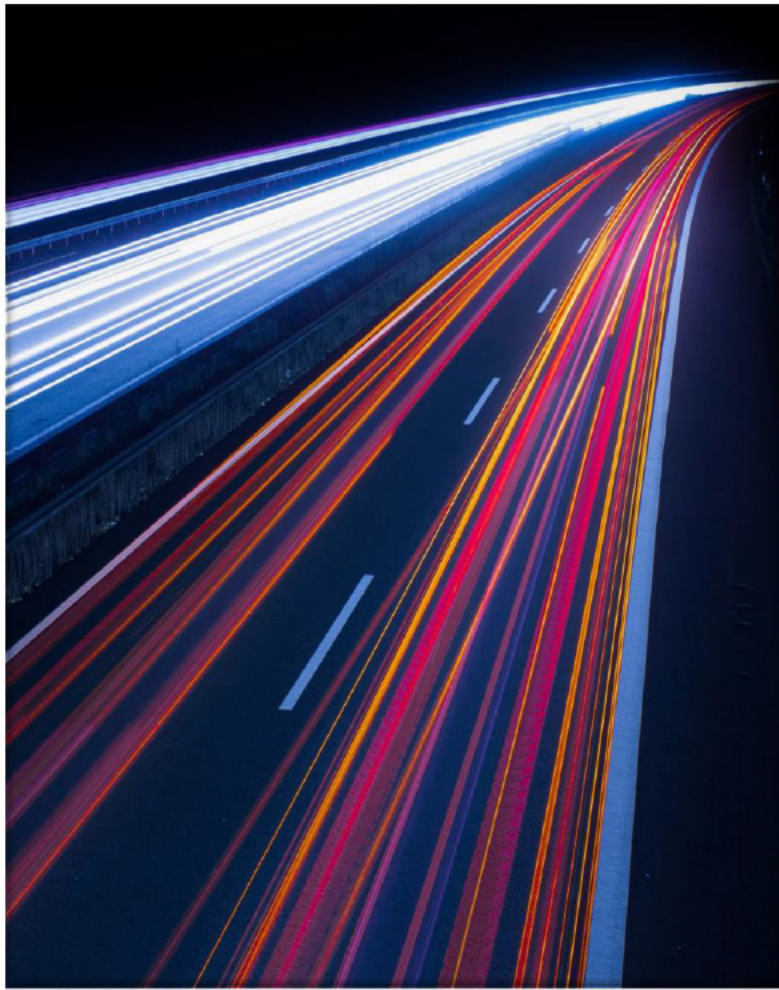
US manufacturing import mix change (Real \$ billion, 2018–2019)



Note: LCC is low-cost country.

¹ Most likely due to increase in demand for European-specific imports (for example, luxury cars)

Sources: United States International Trade Commission, United States Department of Commerce Bureau of Economic Analysis; Kearney analysis



- Time is BIG money for e-retailers like Amazon
 - *RBC Capital predicted Amazon shares would rally 50% on 1-day Prime shipping last year*
 - *Growing emphasis on same-day shipping*
- Inventory carrying costs seem destined to rise
 - *Forward deploying inventories with more, smaller warehouses near urban centers for same-day deliveries*
 - *Redundancies offer more fulfillment options supporting greater supply chain resiliency, especially with COVID*
 - *Convergence of online with brick-and-mortar retail*

How will managers reconcile this with the belief that inventories are 'fundamentally evil'?

The dials for serving US East Coast consumers

We get to yes!®

12

CAUSE

1. Global sourcing will diversify away from China, resulting in less trans-pacific shipping
2. Southeast Asia will continue to enjoy gains, driving East Coast port volume growth in the near-term
3. E-commerce will favor near-shoring over time with Mexico likely to be the biggest winner



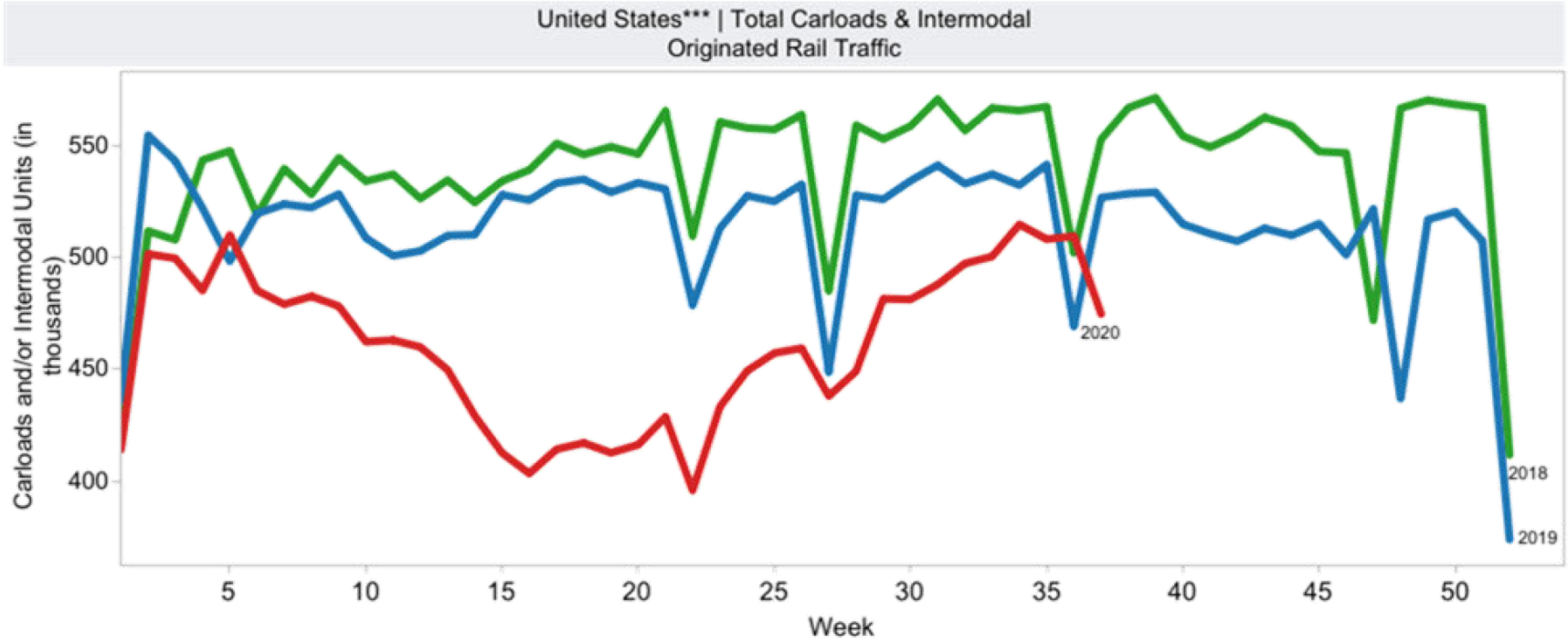
EFFECT

1. Despite the situation in SoCal today, the best days for West Coast ports and mini-landbridge are likely behind us
2. Challenge for Canadian and Western mini-landbridge with mixed impacts back East
3. Favors Mexican and US interline rail shipments in both directions

Volume growth remains a concern at US railroads

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13



* Canadian traffic includes the U.S. operations of Canadian railroads.

** Mexican traffic includes the U.S. operations of Mexican railroads. Comparable railroad figures are not available for Weeks 1-26, 2017.



How may PSR impact rail growth prospects?

We get to yes!®

14



- Network balance constraints on intermodal markets
- Future of short-haul intermodal still unclear
 - *Container import growth at East Coast ports*
 - *Average length of haul in trucking now 500 miles down from 800 miles, 62% of what it was in 2005*
- Interline opportunities from near-shoring to Mexico
 - *Positive for both Intermodal and Merchandise*
 - *Streamlined operations facilitate faster, more reliable service across longer distances*

Source: Fleet Owner, February 2019.

Growth prospects more compelling for merchandise commodities than for intermodal

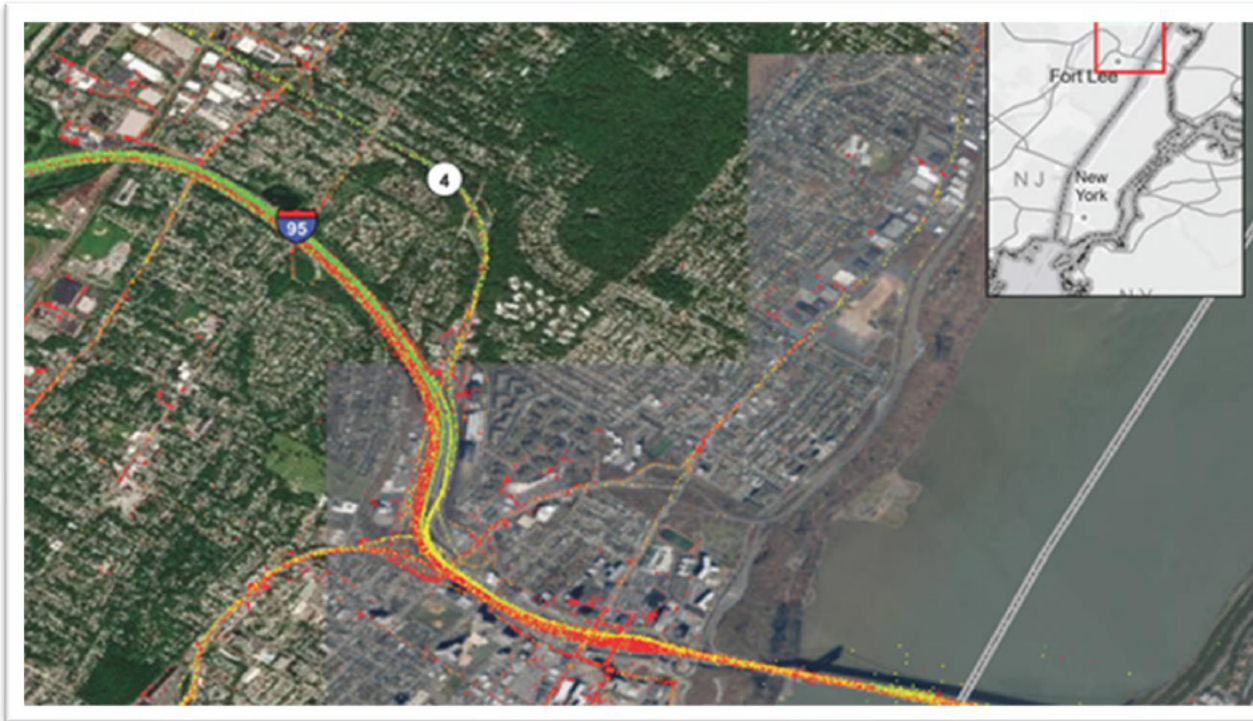


- 3rd parties fill in void from PSR divestments
 - *Low-volume density branch lines to short line railroads*
 - *UP decision to exit the Cold Connect in Rotterdam-NY*
- Canadian rails expanding market reach in Eastern US
 - *Acquisitions like CP's CMQ and CN's Massena line*
 - *Partnering to introduce new transloading capabilities*
- CN's acquisitions of TransX and H&R Transport in the intermodal temperature-controlled segment in 2019, stand out as important exceptions



- Nationwide trucks represent just 7% of urban traffic, but 28% of the congestion
- 90% of goods in the region move by truck
- 1.5 million packages delivered daily in NYC
- TomTom estimates that traffic congestion increases the average NYC transit by 37%

Source: Curbed, "How your online shopping snarls traffic on city streets" (1/10/2019)
NYT, "1.5 Million Packages a Day: The Internet Brings Chaos to N.Y. Streets" (10/28/2019)



Transport Topics

Top 100 Truck Bottlenecks in 2020

#1 Fort Lee, NJ @ I-95 and SR4

#29 Queens, NY along I-495

#31 Brooklyn, NY on I-278 @ Belt Parkway

Heavy truck traffic is becoming a major quality of life issue in big cities

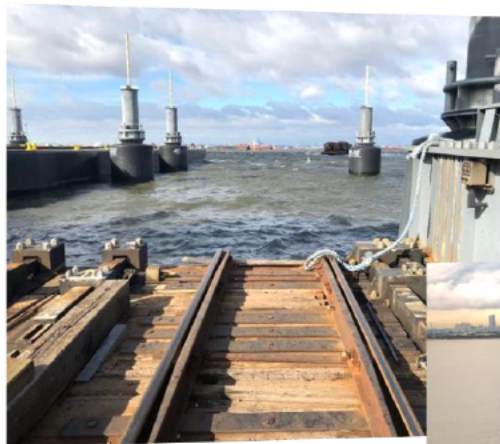
Getting to Brooklyn has never been easier

We get to yes!®

18



- Only transloading facility 'for hire' in NYC at the 65th Street Rail Yard in Brooklyn
- Competitive dual-served access via Conrail
- Same-day delivery for transload from interchange at Conrail hub in Oak Island Yard
- Streamlined service is faster, more reliable
 - *More direct service via rail barge across harbor*
 - *Avoids passenger and waste rail routes*
 - *Avoids city bridges and traffic congestion*



- Great short line capacity
 - *2 new high capacity carfloats (18 railcars = 72 trucks)*
 - *Carfloat M-F service, multiple times per day*
 - *Just 45-minutes to go ~4-miles across harbor*
- Great transloading site with rail access
 - *15 acres of outdoor storage space with room for expansion*
 - *3,000' of track for transloading + 5,000' for storage*
 - *24/7 monitoring via the Brooklyn Army Terminal*
- Easy access to major truck routes

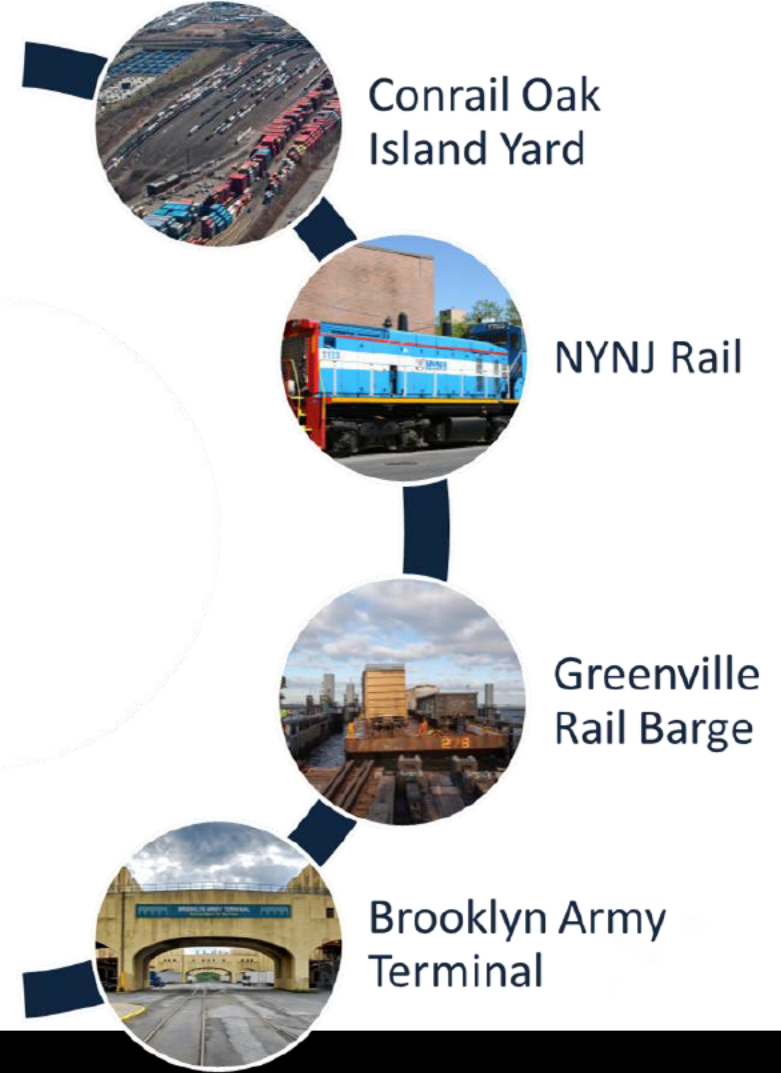


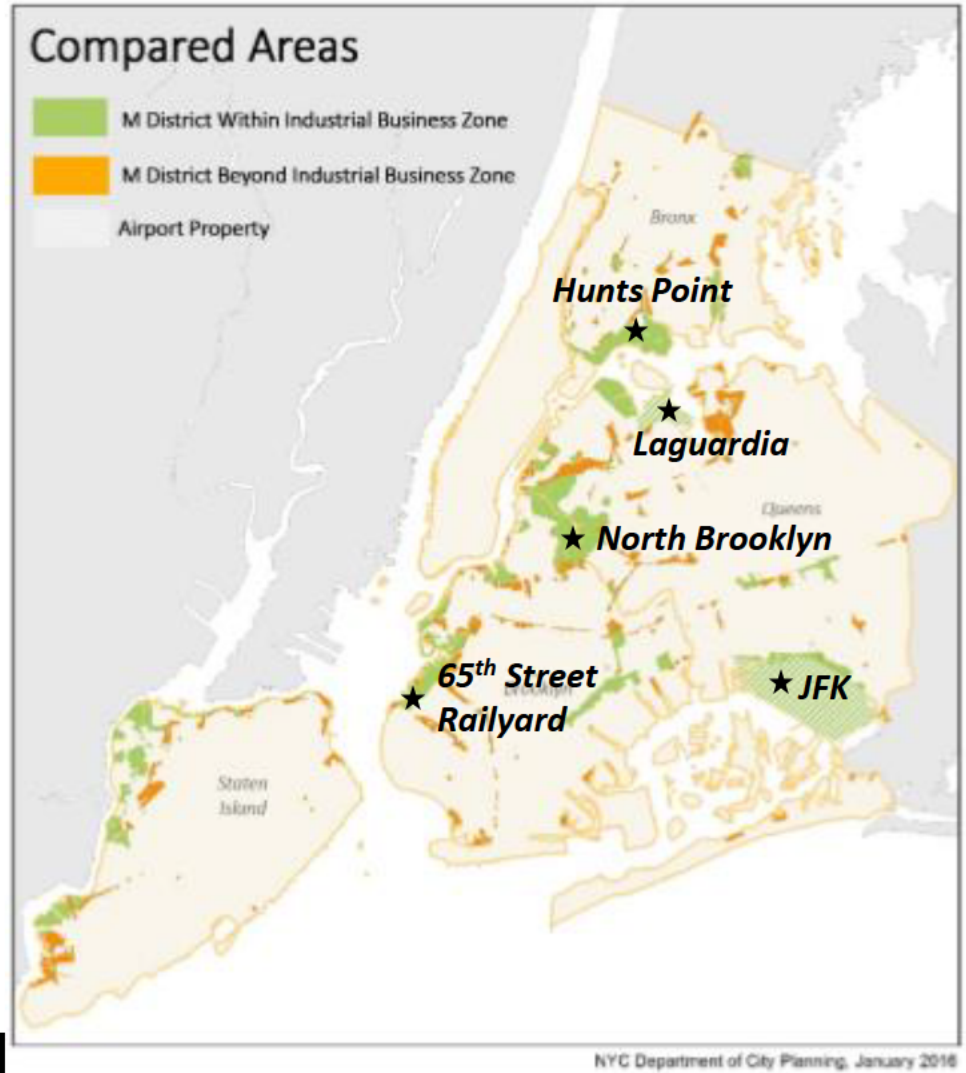
One-of-a-kind access in Brooklyn

We get to yes!®

20

Industrial Business Zones
(Business Support Services & Relocation Tax Credit)





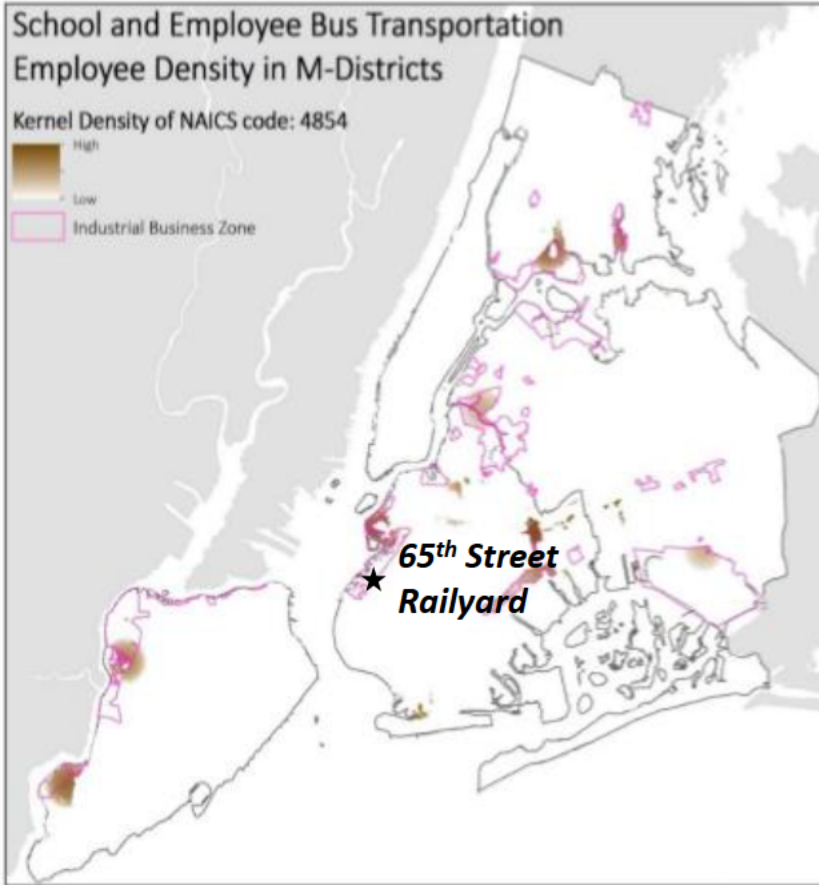
- NYC is seeking opportunities for new job centers outside transit strained Manhattan
- North Brooklyn Industrial Business Zone (IBZ)
 - 3rd largest industrial zone in NYC along Newtown Creek
 - 43% of all industrial employment in NYC
 - Just 14-miles from 65th Street Railyard
- Growing industrial sectors tied to local economy
 - Largest sectors are Specialty Trade Contractors, Grocery Wholesale and Transportation
 - Food, Furniture and Construction
 - Manufacturing stable after declines
 - Municipal customers like water treatment plants



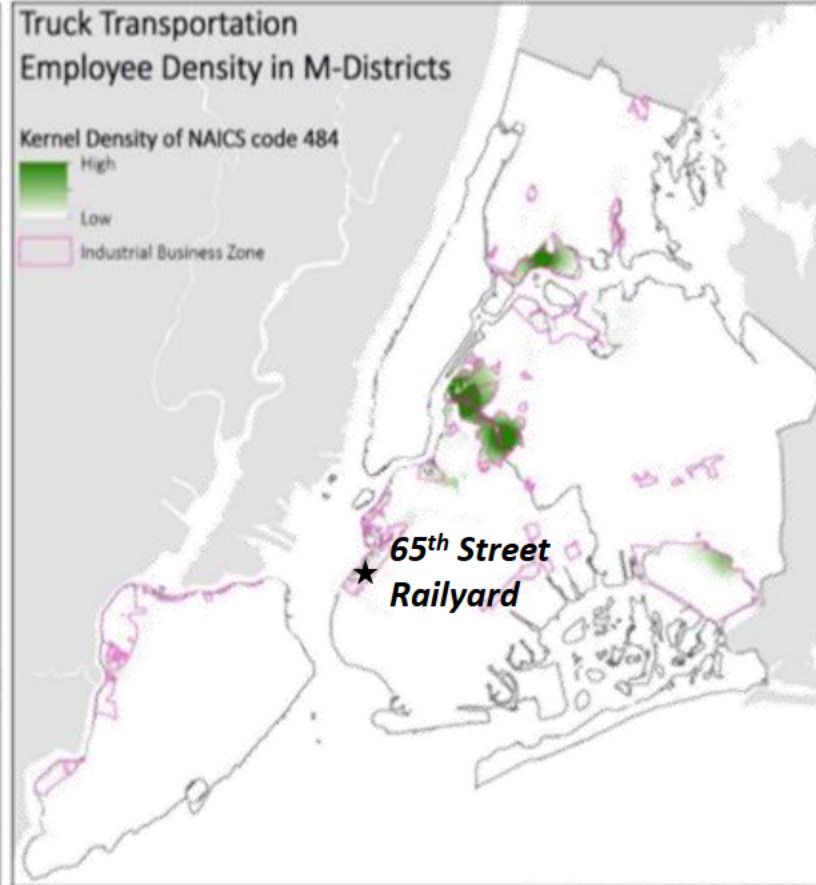
Various fleets located in the Brooklyn IBZ

We get to yes!®

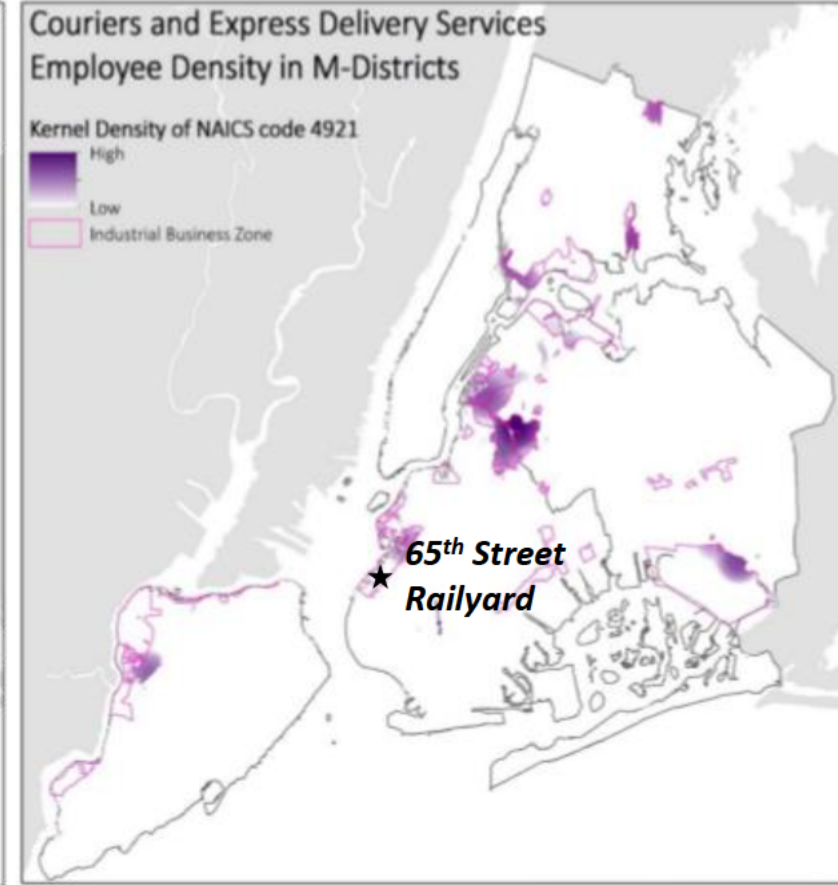
22



NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014



NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014

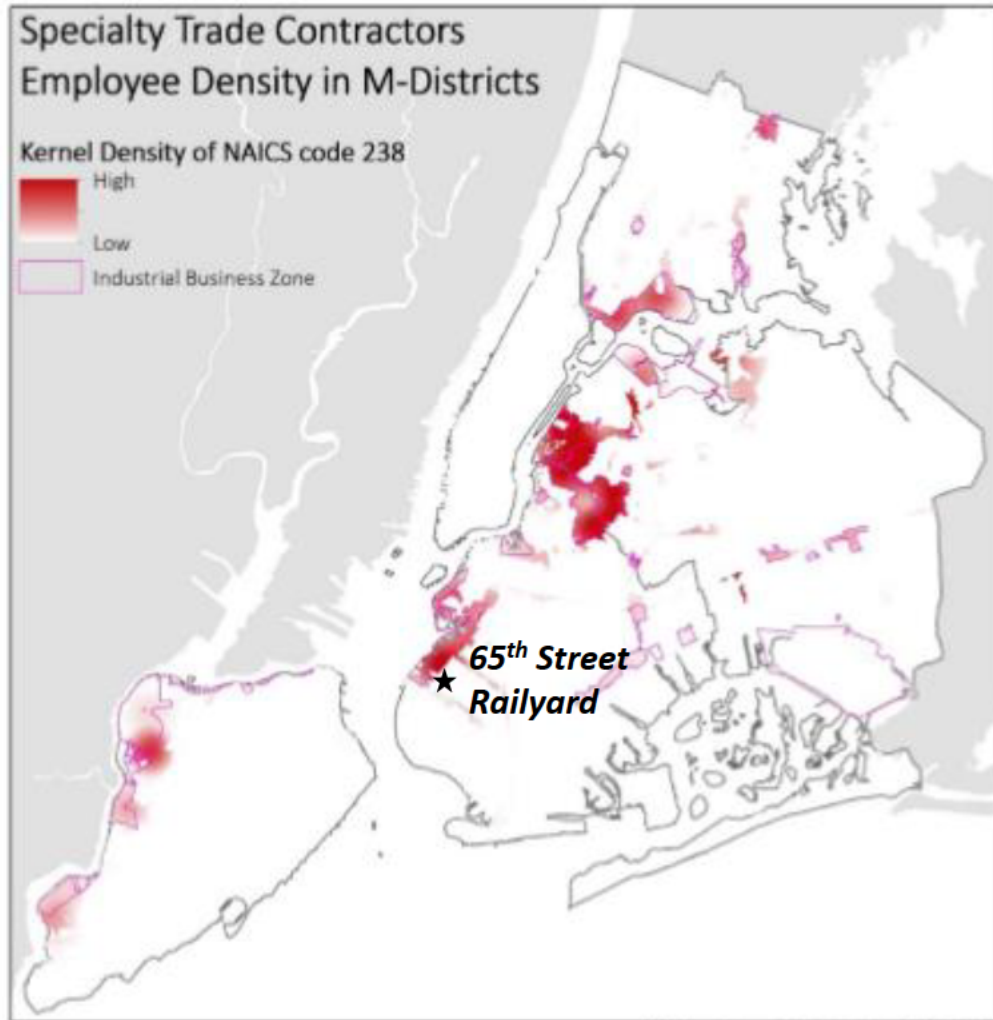


NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014

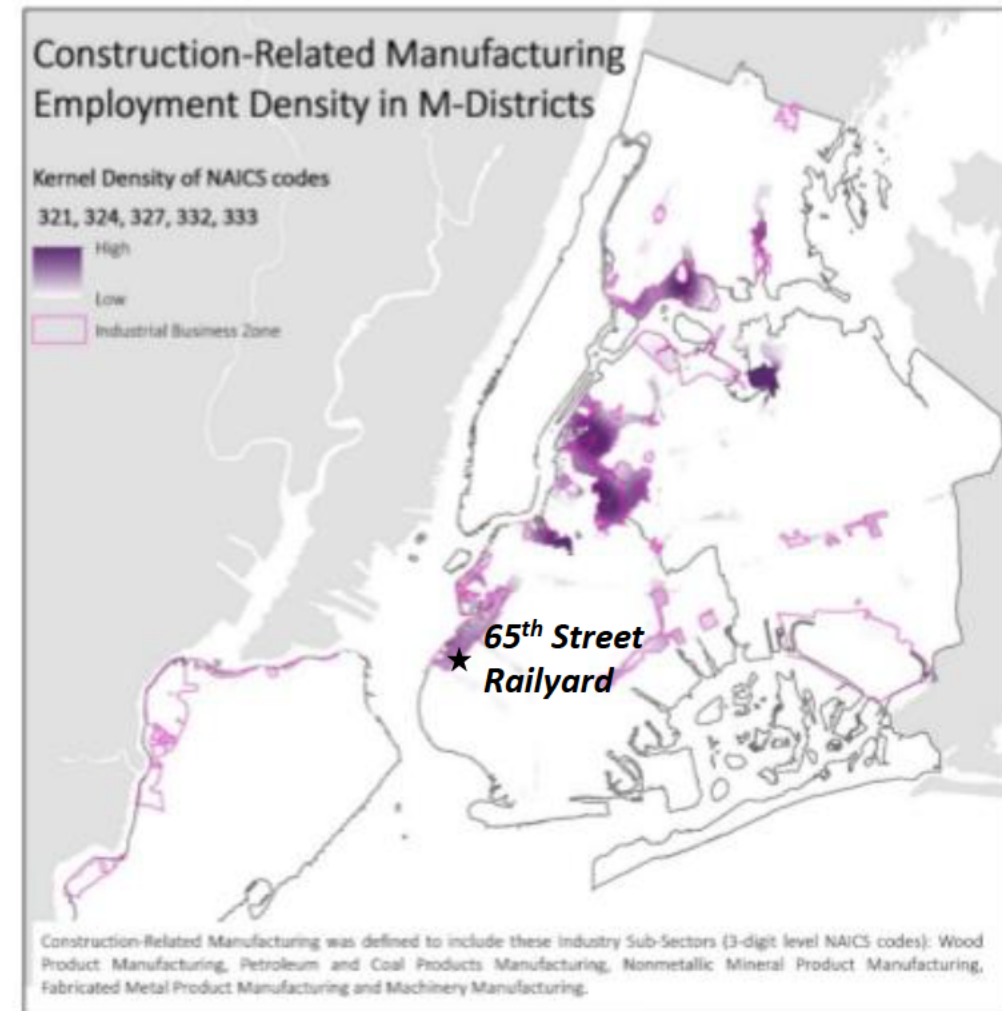
Local construction figures prominently

We get to yes!®

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NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014

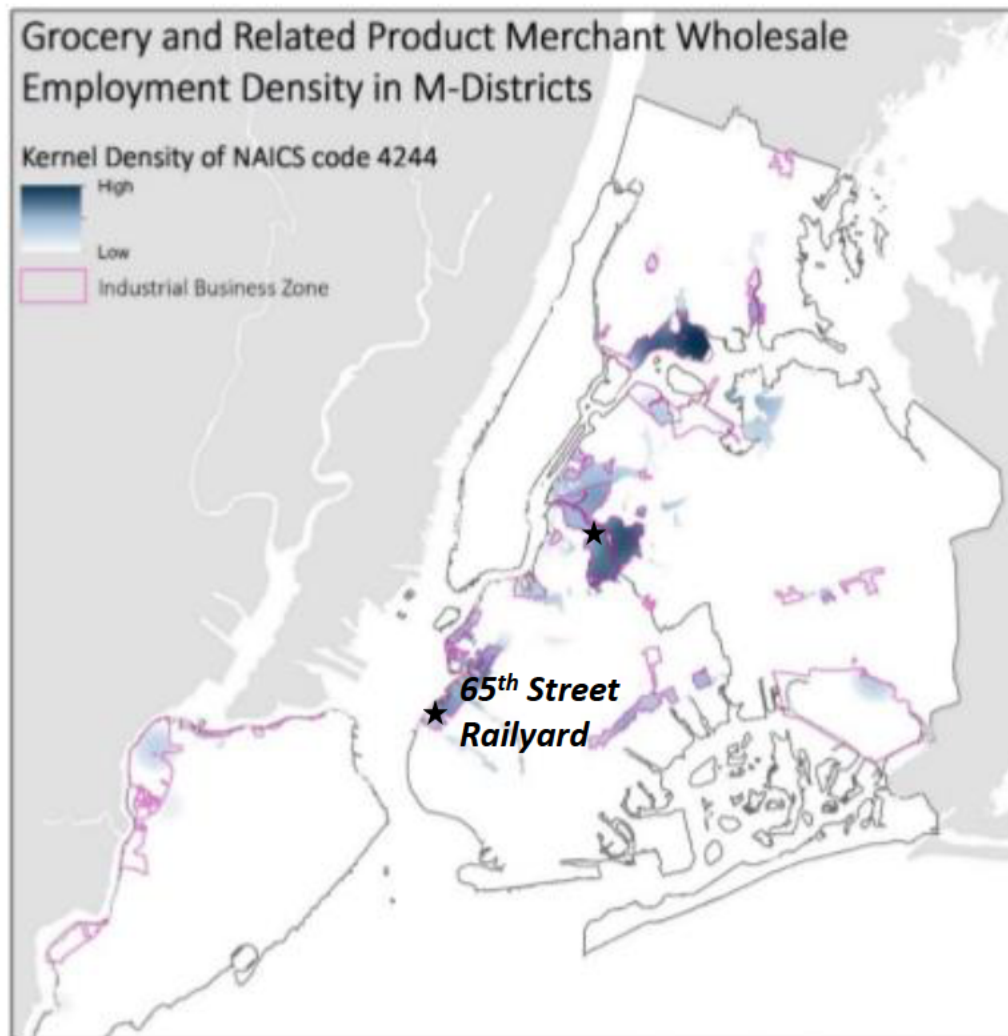


NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014

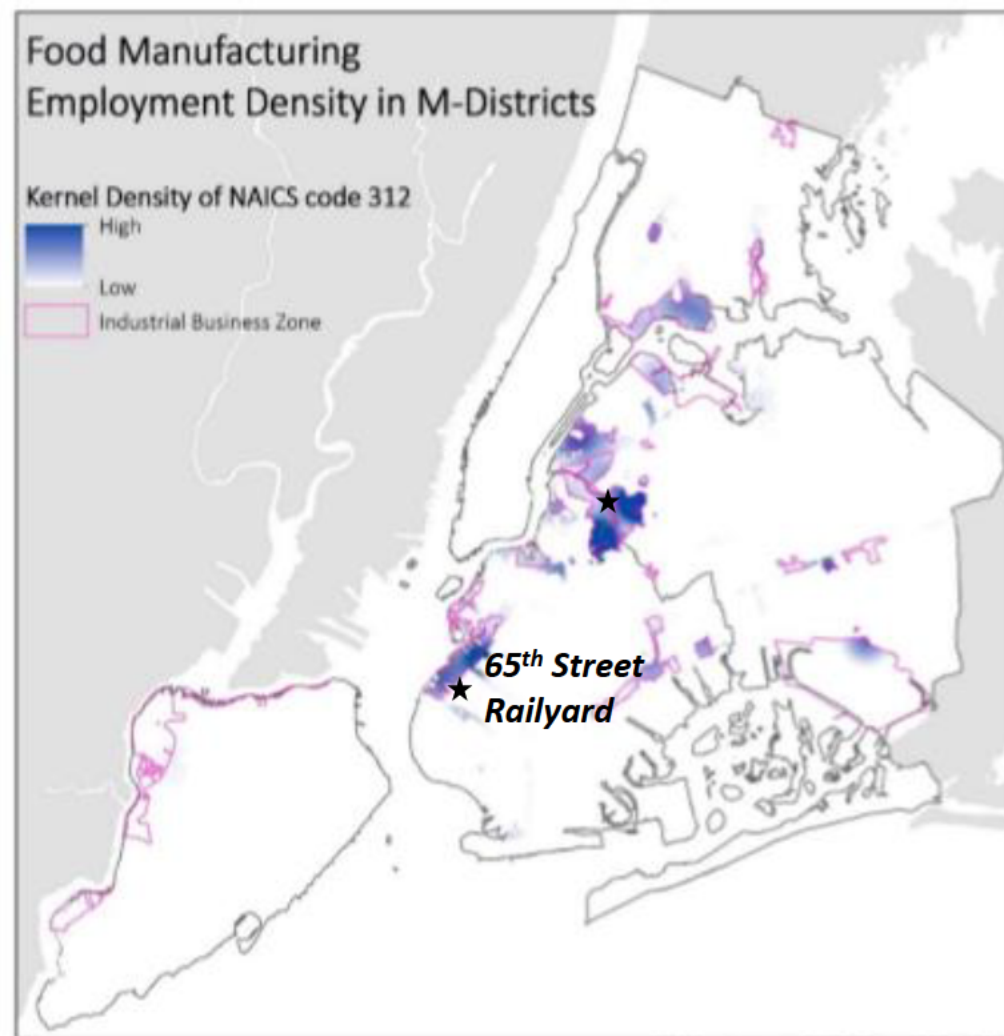
NYC does not rely on Hunts Point alone

We get to yes!®

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NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014

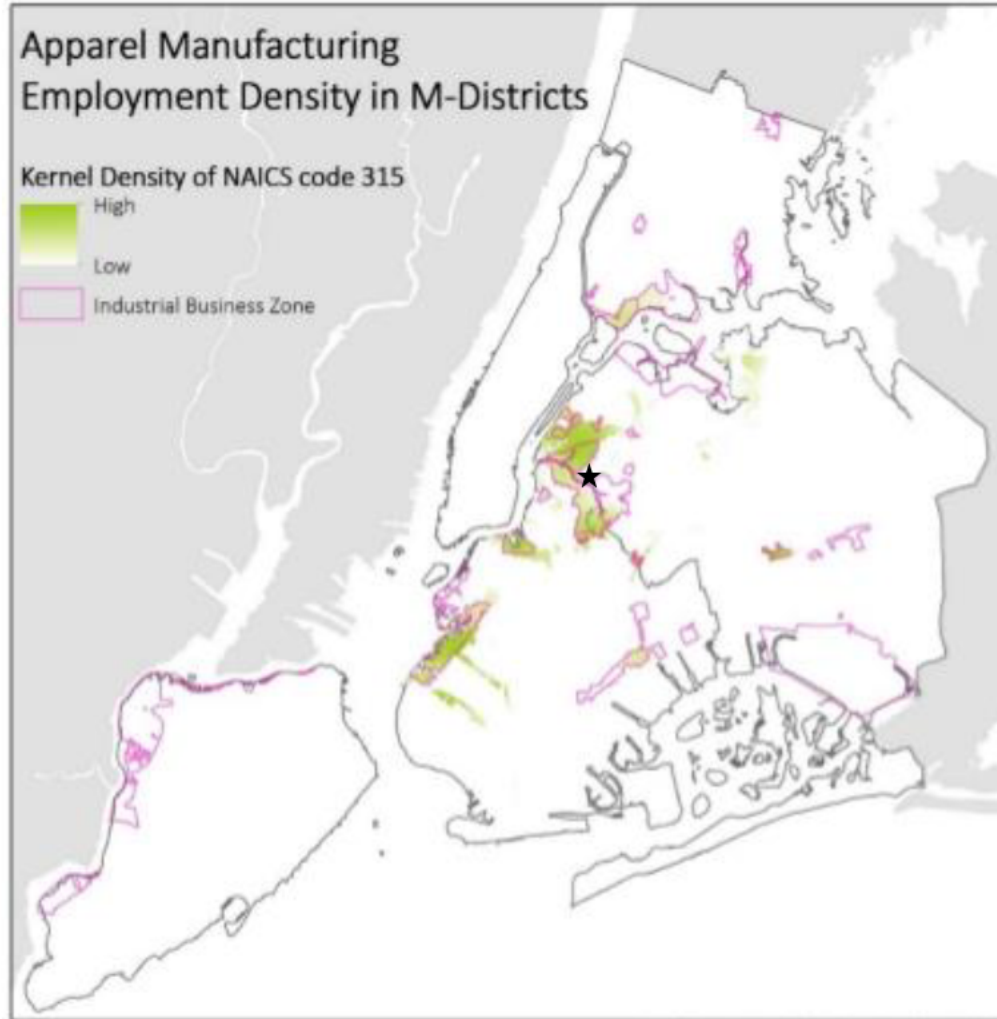


NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014

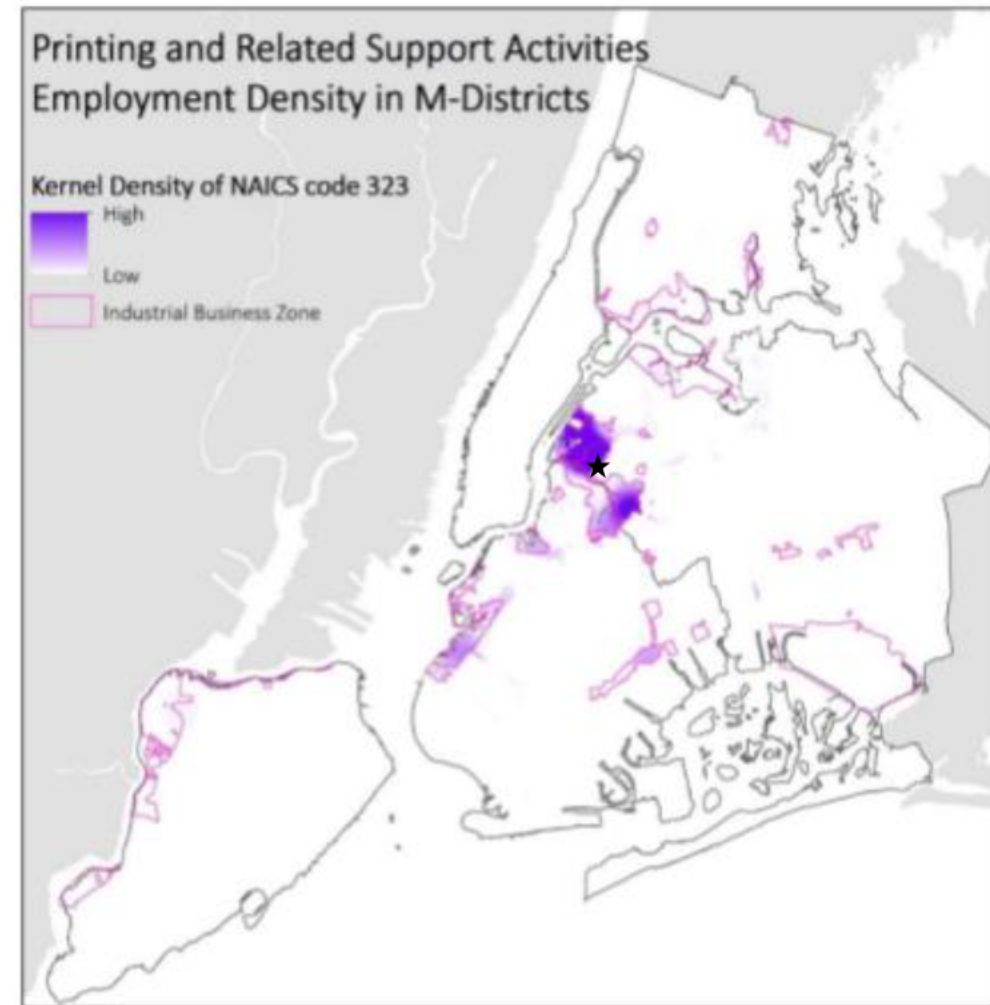
Other industries include apparel, printing

We get to yes!®

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NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014



NYC Department of City Planning, March 2016
Data Source: NYSDOL Quarterly Census of Employment & Wages, 3rd Quarter 2014

- Focuses on long-term potential of the digital transformation on sourcing and production
- Combines real-time insights with small-scale efficiencies, especially in large urban centers
 - *Big data, cloud computing and the Internet of Things*
 - *Robotics, automation and 3D printing*
- Transportation would specialize in raw materials with finished goods reserved for the last mile
 - *Personalized implants and prosthetics in healthcare*
 - *Product customization like 'Nike by You'*
- Enables reshoring while reducing the need to carry excess inventories close to the final market

“Technological advances and new ways of doing business are shaping a new manufacturing system, with a focus on smaller, more flexible production.”

NYC / EDC

“Imagination is everything.
It is the preview of life’s
coming attractions.”

Albert Einstein



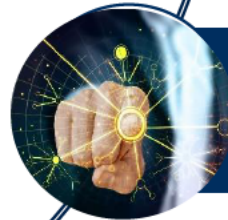
Near-shoring to Mexico



Need for speed



3rd party providers key



Urban manufacturing



Michael Rutherford

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