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Ex Parte 722
July 22, 2015



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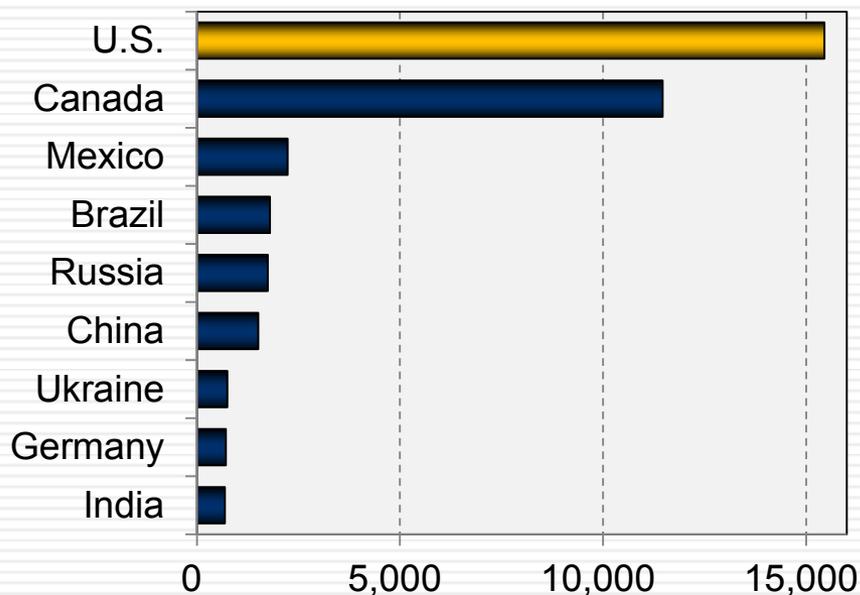
Four pillars of any revenue adequacy policy:

- Measure Progress – Don't Constrain it
- Address Replacement Cost Imperative
- Promote Differential Pricing
- Ensure Free Market Results to Foster Investment

These pillars are essential to sound regulatory policy

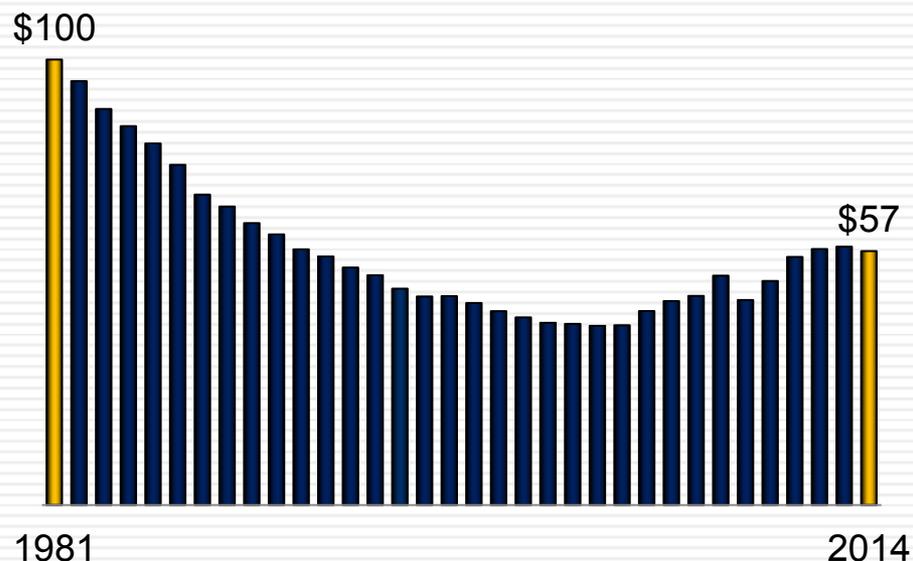
Success of the Staggers Act since 1980

Global Railroad Employee Productivity²
Tkm+Pkm per Employee



Globally, U.S. rails are most efficient

U.S. Freight Railroad Inflation-Adjusted Rates¹
Indexed: 1981 = \$100



2014 rail rates 43% lower than 1981

(1) Source: Association of American Railroads, 2015

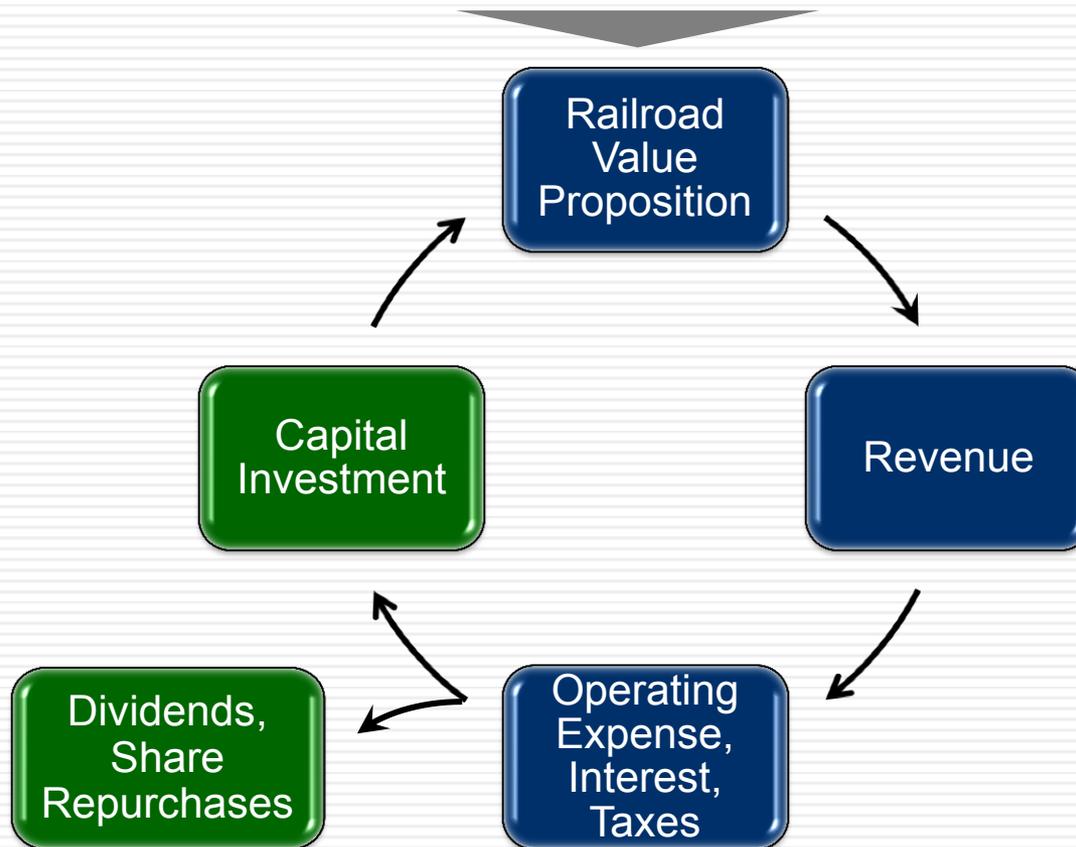
(2) Source: World Bank Railways Database, 2007

Tkm = Ton-km, refers to freight; Pkm = Passenger km, refers to passenger rail

Value creation for shareholders and U.S. economy

CSX Vision

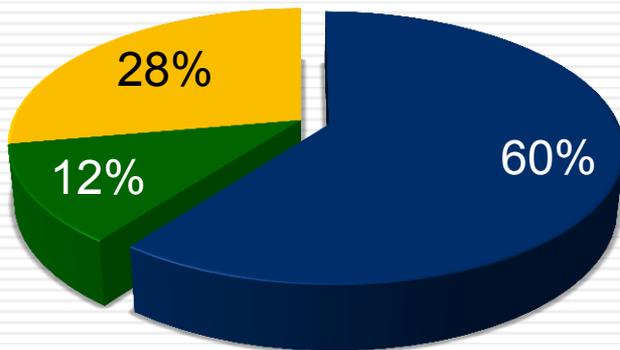
To be the safest, most progressive North American railroad, relentless in the pursuit of customer and employee excellence



Balanced approach to cash deployment

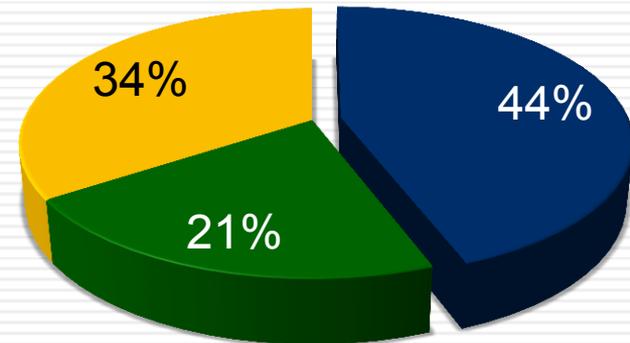
CSX Cash Deployment 2005-14 Average

- Capital Investment
- Dividends
- Share Repurchases



S&P 500 Cash Deployment¹ 2005-14 Average

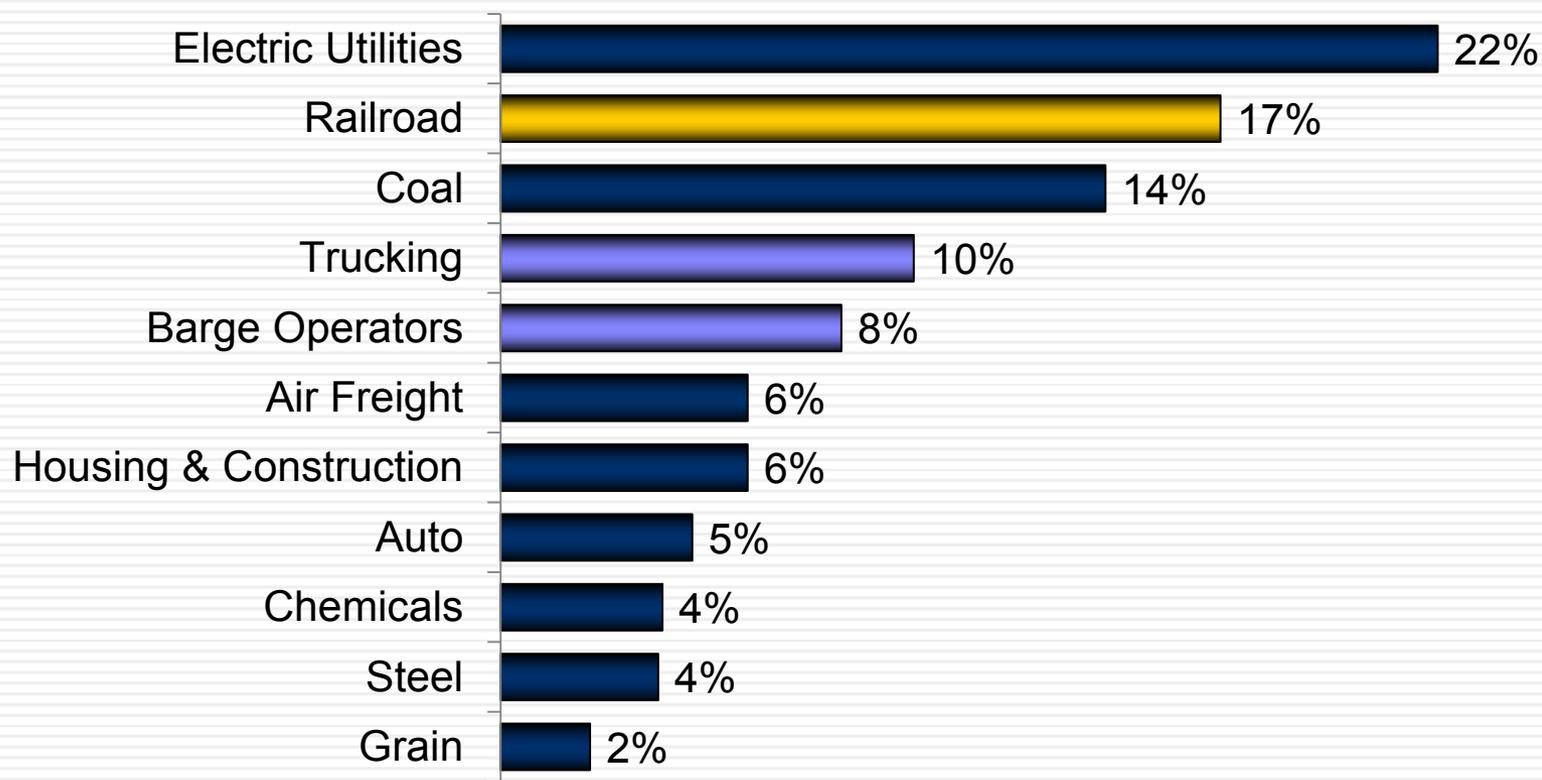
- Capital Investment
- Dividends
- Share Repurchases



(1) Source: Capital IQ, as prepared by Morgan Stanley, July 2015

U.S. rail industry requires higher capital investment

U.S. Industry Comparison: Capital Investment¹ *10-yr median Capital Expenditure / Sales*

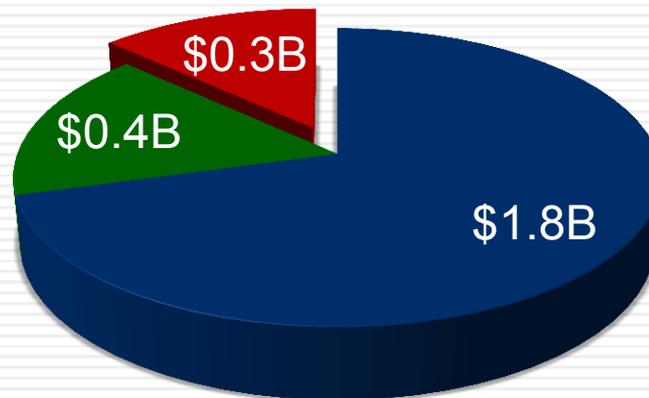


(1) Source: Credit Suisse analysis, June 2015; 10 year median from 2005-14

Capital investment of \$2.5 billion in 2015

CSX 2015 Capital Investment Total = \$2.5 billion¹

- Infrastructure & Equipment Replacement
- Growth & Productivity Investments
- PTC & Regulatory



80%+ of capital investment in replacement and PTC

(1) Planned 2015 capital investment; actual results may differ

Asset replacement costs are 3-4 times book value

Track



Per Track Mile¹

Depreciated Cost: \$0.4M

3x

Replacement Cost: \$1.1M

Locomotives



Per Locomotive

Depreciated Cost: \$0.6M

4x

Replacement Cost: \$2.2M

Freight Cars



Per Freight Car

Depreciated Cost: \$31K

3x

Replacement Cost: \$100K

Note: Depreciated and replacement costs represent averages across each asset class
(1) Track mile costs are limited to the costs for rail, ties and ballast along existing right of way

Major infrastructure costs ~40 times book value

Bay St. Louis Bridge



Year in Service: 1967

Depreciated Cost: \$2 million

38x

Replacement Cost: \$75+ million

Virginia Avenue Tunnel



Year in Service: Late 19th Century

Depreciated Cost: \$6 million

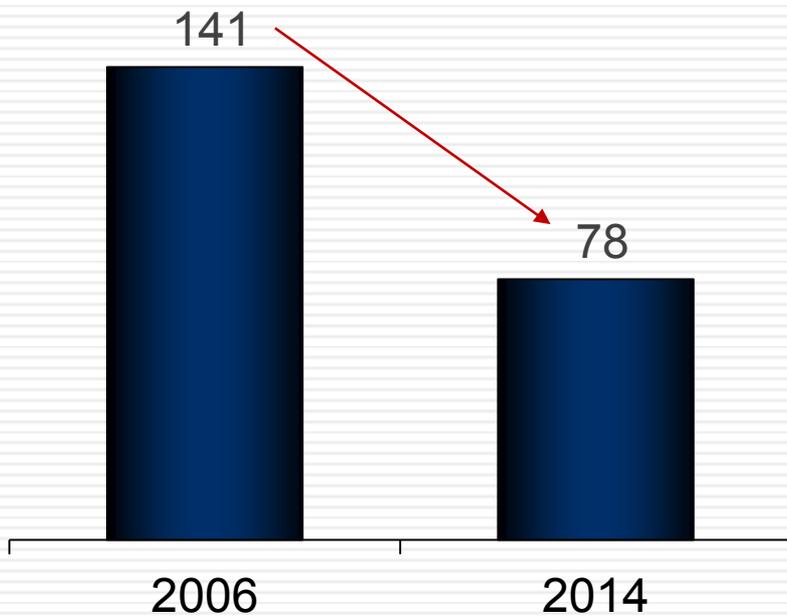
42x

Replacement Cost: \$250+ million

Investments aligned to evolving business mix

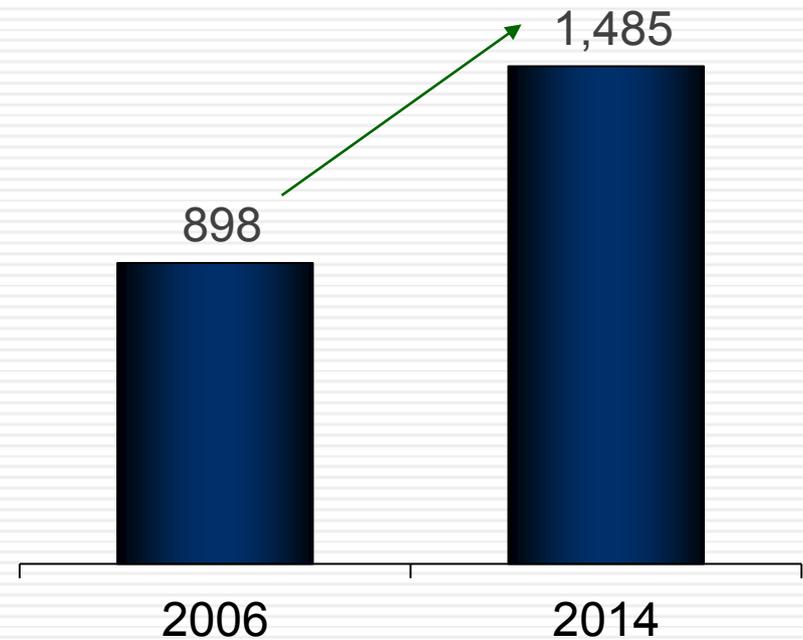
Utility Coal Volume
Tonnage in Millions

(45%) Decrease



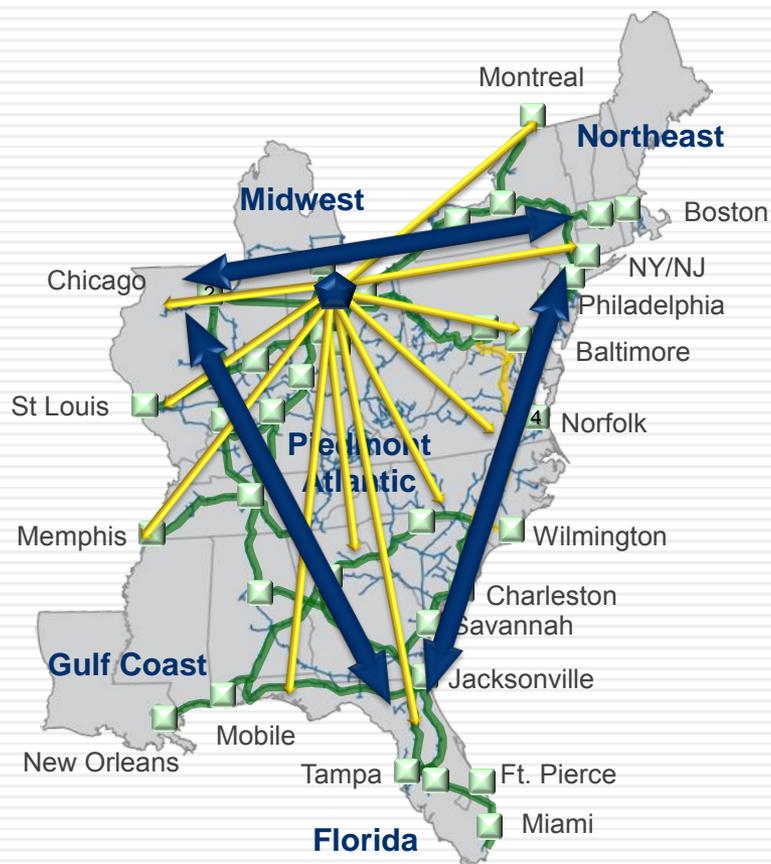
Domestic Intermodal Volume
Carloads in Thousands

65% Increase



Growth investments create public benefits

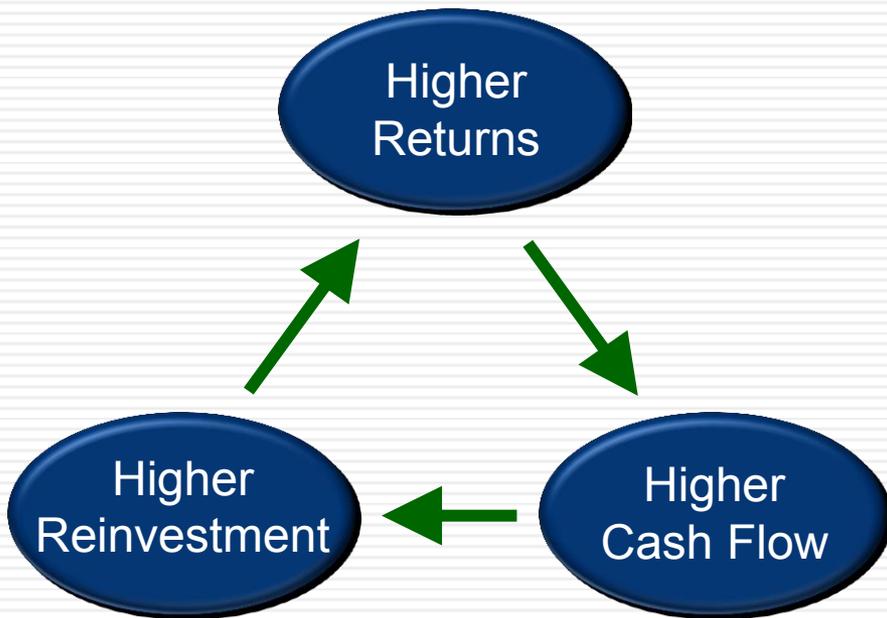
NW Ohio Intermodal Terminal



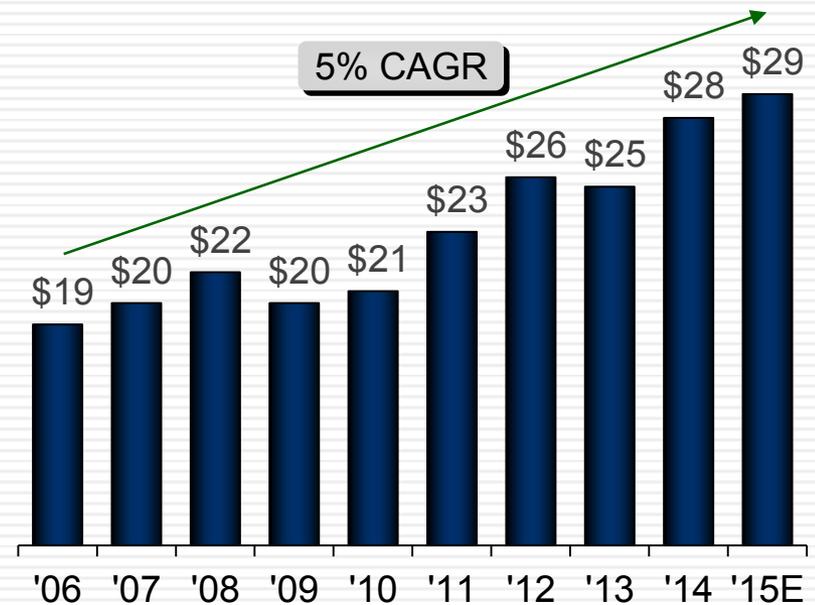
\$200M+ investment in new terminal

Higher returns create investment opportunities

“Virtuous” Investment Framework



Class I Railroad Spend on Infrastructure & Equipment¹ *Dollars in Billions*

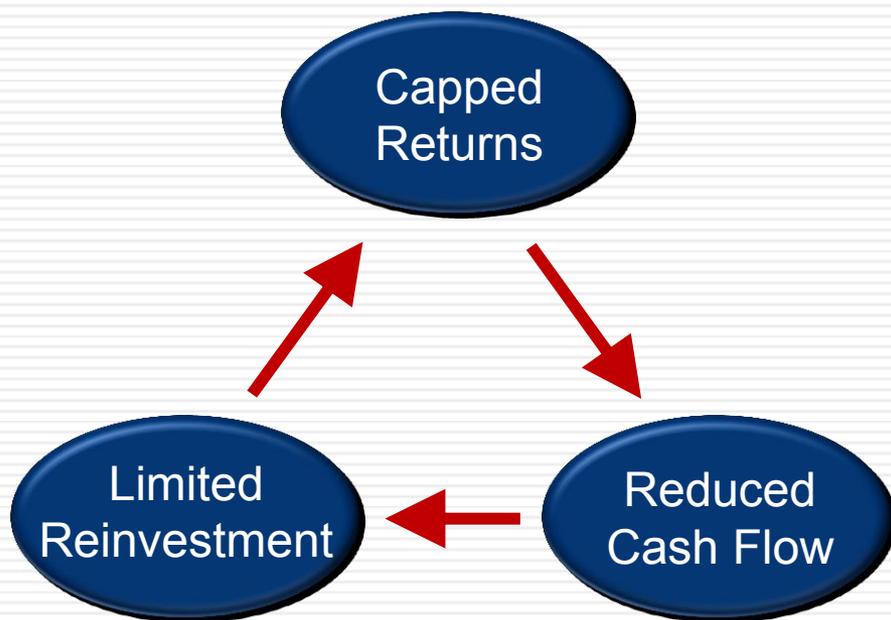


Returns above cost of capital needed to reinvest and grow business

(1) Capital investment plus maintenance expense; source: Association of American Railroads, 2015

Constrained returns **lessen** public benefits

“Vicious” Investment Framework



Impact of Constrained Return

Less investment

Less efficiency

Less reliable service

Less resources

Constrained returns would drive under-investment and limit growth

Summary: Four pillars of revenue adequacy

- Measure Progress – Don't Constrain it
- Address Replacement Cost Imperative
- Promote Differential Pricing
- Ensure Free Market Results to Foster Investment

These pillars are essential to sound regulatory policy



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