

Railroad Perspective: *Past Defines the Future*



- **FMR Transportation Solutions is a non-asset based consulting group located in Roanoke, VA offering transportation management, supply chain analysis, logistical strategies, and consulting services designed to enhance client-based operations.**
- **Our goal is to offer single-source logistical support focused on transportation savings and improved asset utilization while increasing client value.**
- **FMR's business is based on building solid relationships with our customers while meeting their unique business requirements.**
- **The cornerstone of the FMR organization is the dedication and integrity demonstrated by it's founding partners.**

Outline

- ❑ Brief Railroad Regulatory History
- ❑ Railroad Traffic Volumes
- ❑ Issues Facing the Rail Industry
- ❑ 2017 Outlook
- ❑ Summary



This presentation contains forward-looking statements. These forward-looking statements may include statements of goals, intentions, earnings expectations, and industry expectations. Forward-looking statements are typically identified by words such as “believe,” “expect,” “anticipate,” “intend,” “outlook,” “estimate,” “forecast,” “project” and other similar words and expressions. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, which change over time. Forward-looking statements speak only as of the date they are made. Because forward-looking statements are subject to assumptions and uncertainties, actual results or future events could differ, possibly materially, from those that we anticipate in our forward-looking statements.

**“Those who fail to learn from history
are doomed to repeat it.”**

Paraphrased statement of Sir Winston Churchill

Significant Regulatory Actions Impacting the Railroad Industry

Transportation Act of 1958

- ✓ Revised Sec. 15a of the Interstate Commerce Act (rule of rate making).

Ingot Molds Court Decision (1965)

- ✓ ICC determined rail rate to be unlawful since it did not cover fully allocated costs and because it impinged upon the low cost mode's ability to assert its inherent cost advantage.

Regional Railroad Reorganization Act of 1973 (The "3-R" Act)

- ✓ Interim funding for bankrupt railroads; authorized creation of the Consolidated Rail Corporation (Conrail).

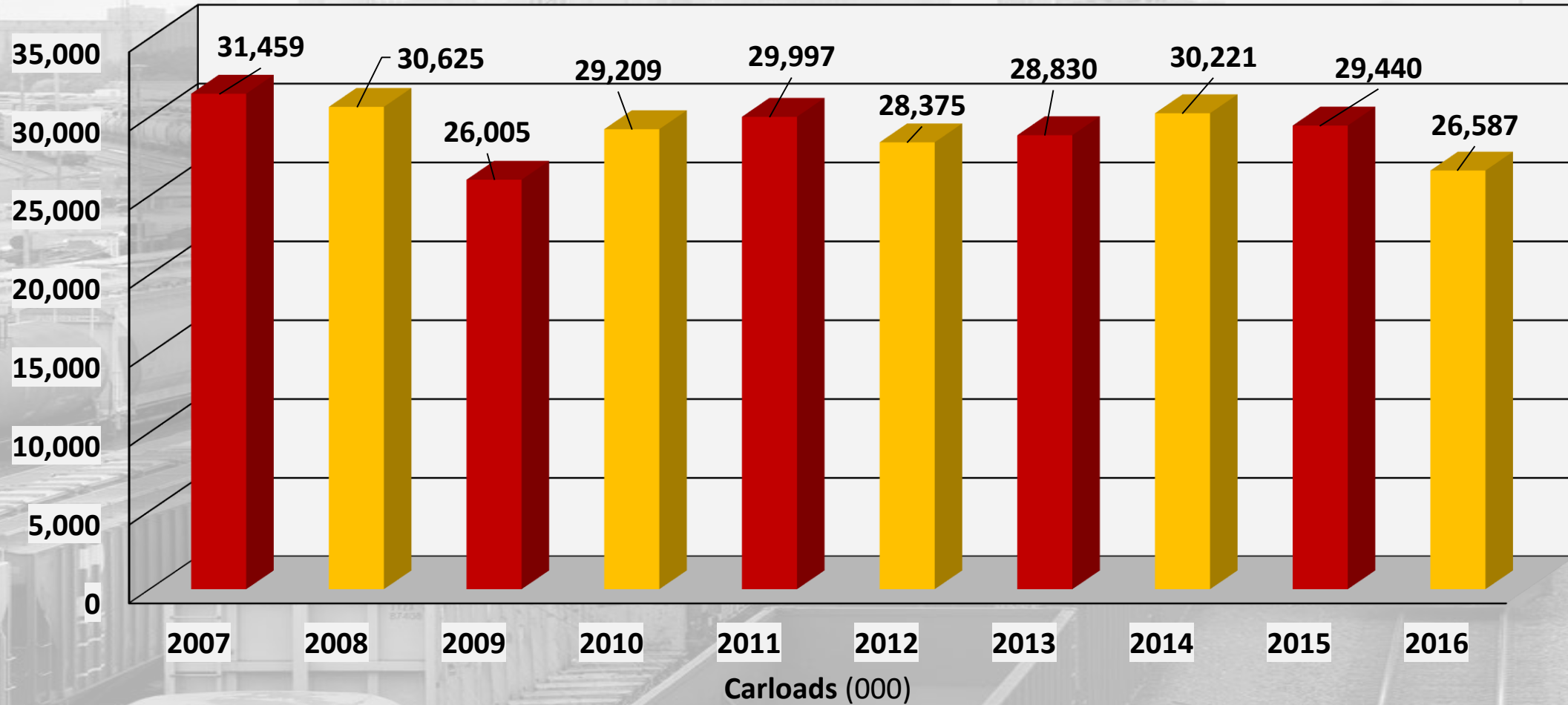
The Railroad Revitalization & Regulatory Reform Act of 1976 (The "4-R" Act)

- ✓ Established basic outlines of regulatory reform in the rail industry.
- ✓ Gave final approval for operation of Conrail (effective 4/1/76).

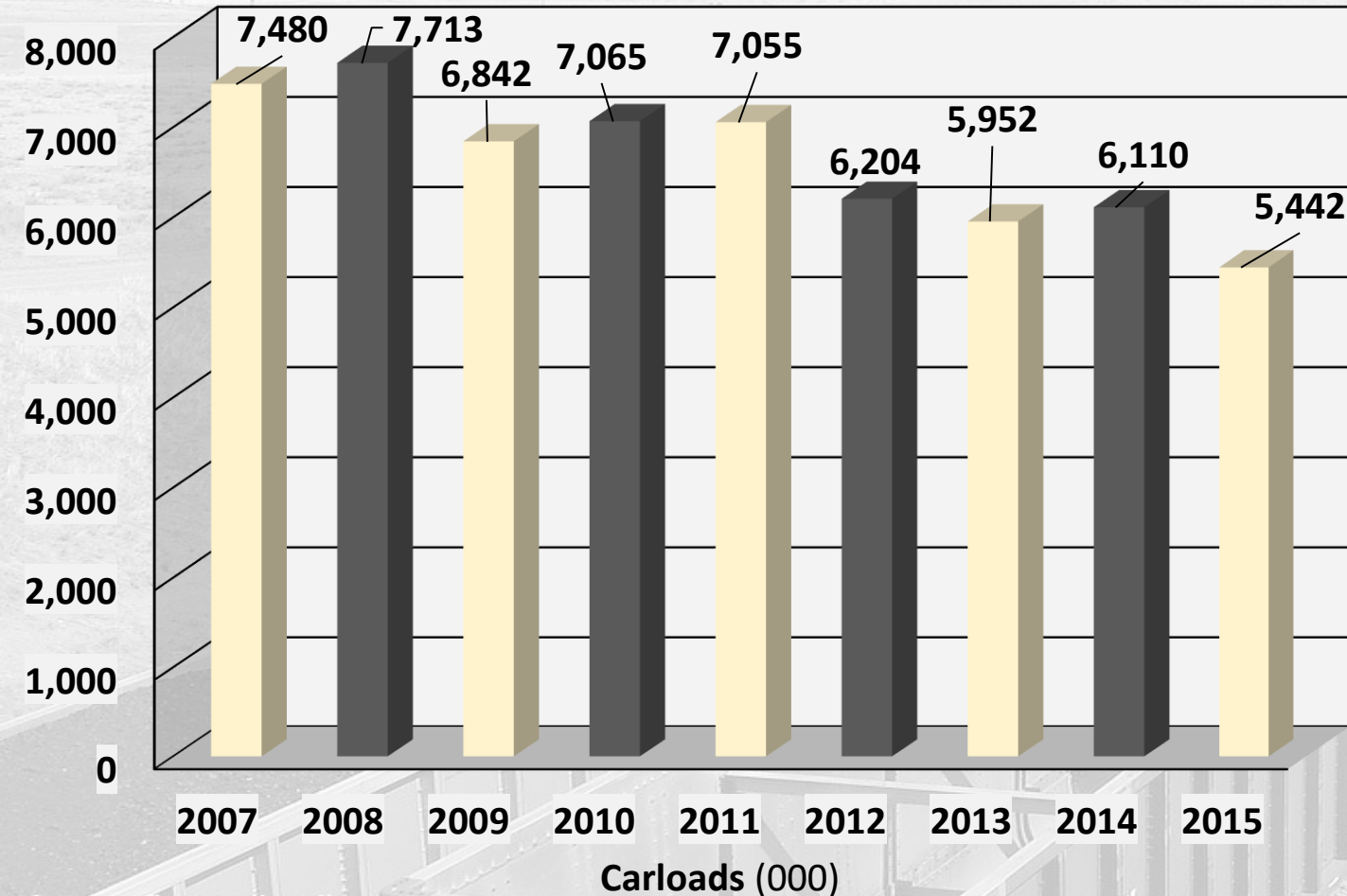
The Staggers Rail Act of 1980 (and its continuing impact)

- ✓ **Rates**
 - ICC/STB maintained the authority to set maximum rate levels.
 - Allowed for railroad contract rates.
 - Today's average rail rate is 42% lower (inflation-adjusted) than in 1980.
 - Enabled rail carriers to reinvest > \$600 billion into operations since 1980.
- ✓ **Ease of Abandonment**
 - Increased ease of Class-1 railroads to divest themselves of unprofitable and light density rail lines.
 - Re-emergence of Short Line Railroads.
 - Currently > 500 short line & regional railroads (approx. 48,000 total rail miles).
- ✓ **Safety (post 1980)**
 - Train accident rate reduced 78% (39% lower since 2000).
 - Employee injury rate 84% lower (down 48% since 2000).
 - Grade crossing accidents reduced 81% (42% lower since 2000).

Railroad Volume (Class-1)

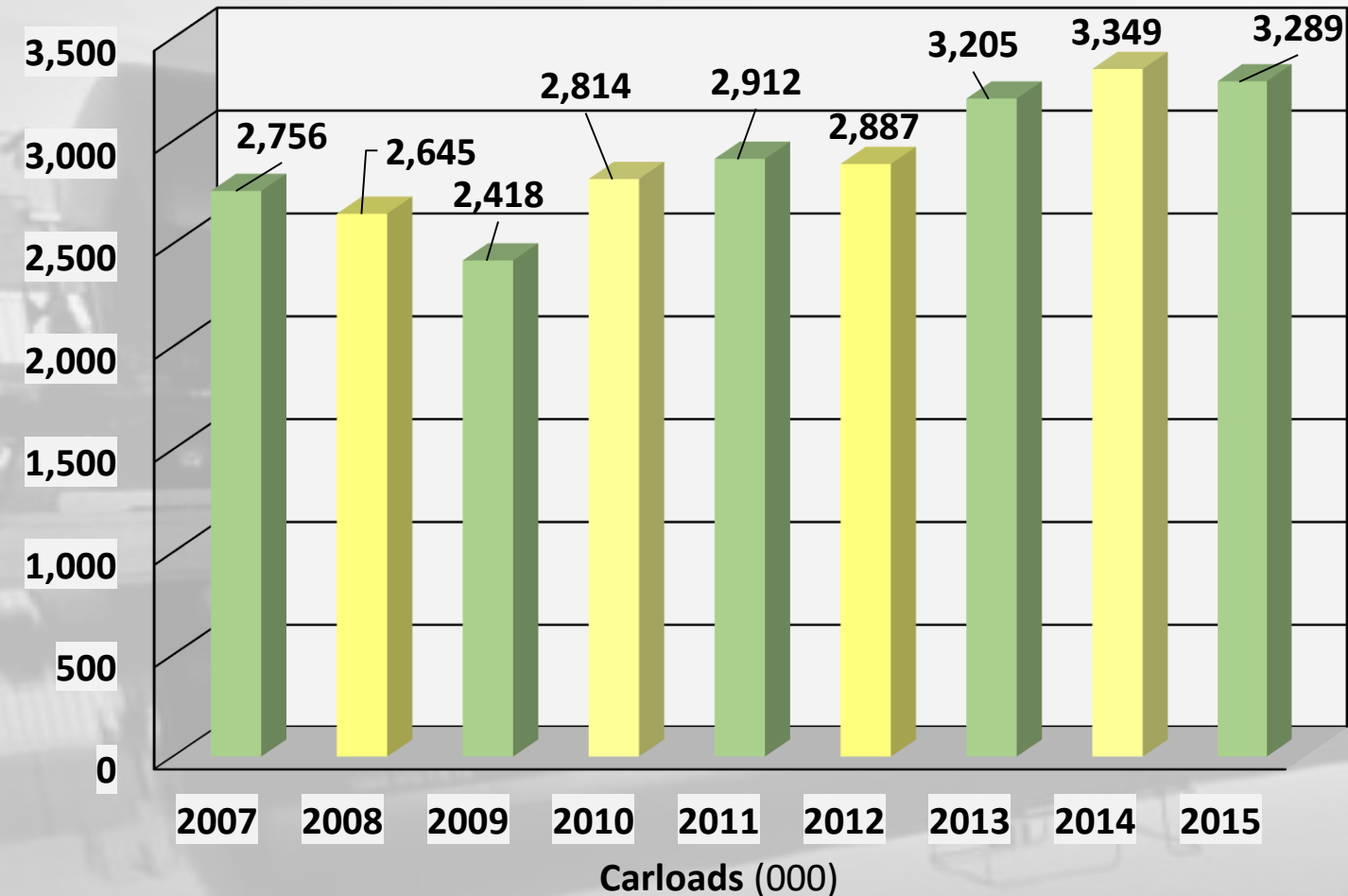


Coal Volume



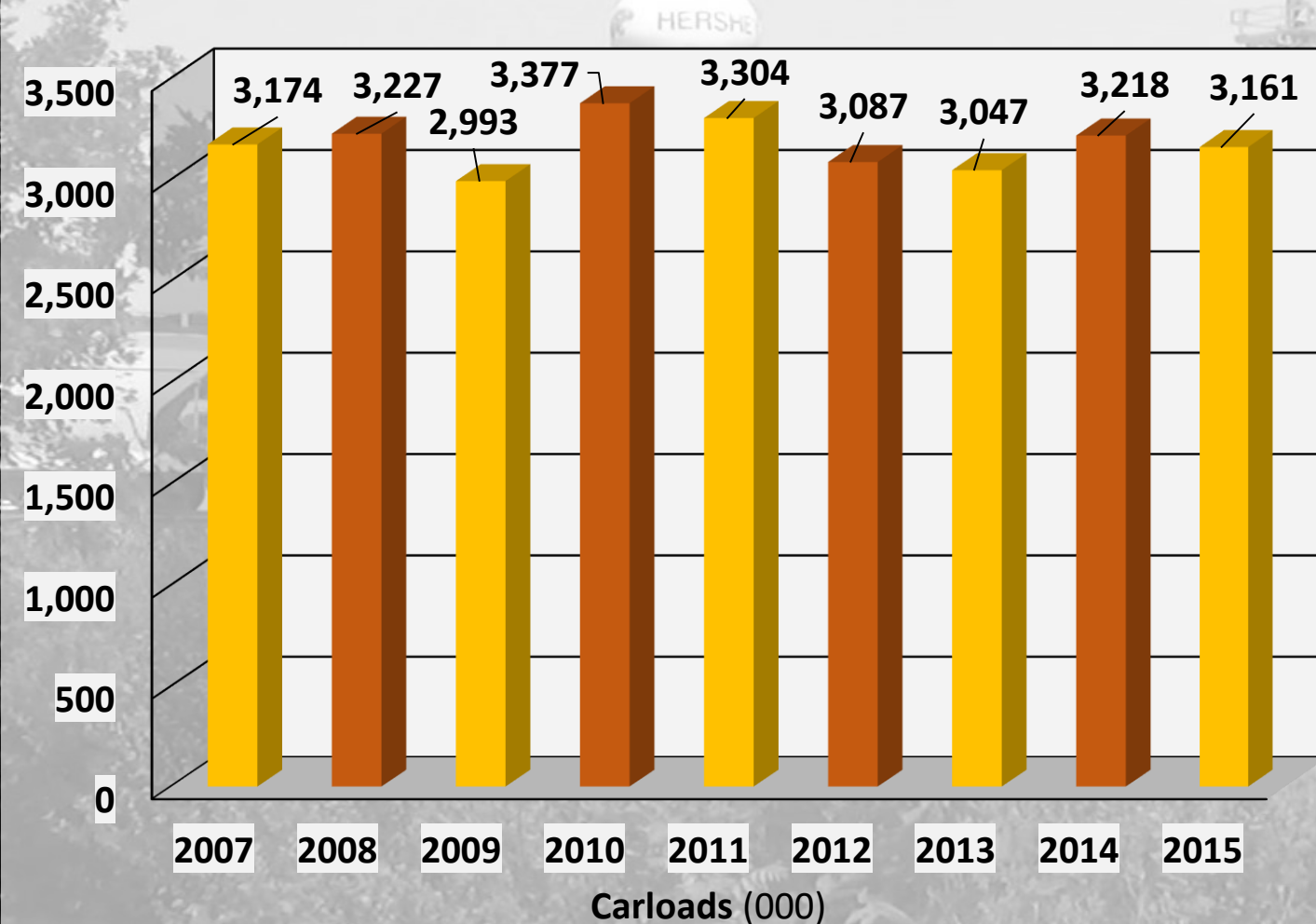
- **Steady decline (post 2008 peak)**
- **Reduced export coal**
- **Impact of natural gas**
- **300+ coal-fired units retired since 2012**

Chemicals Volume



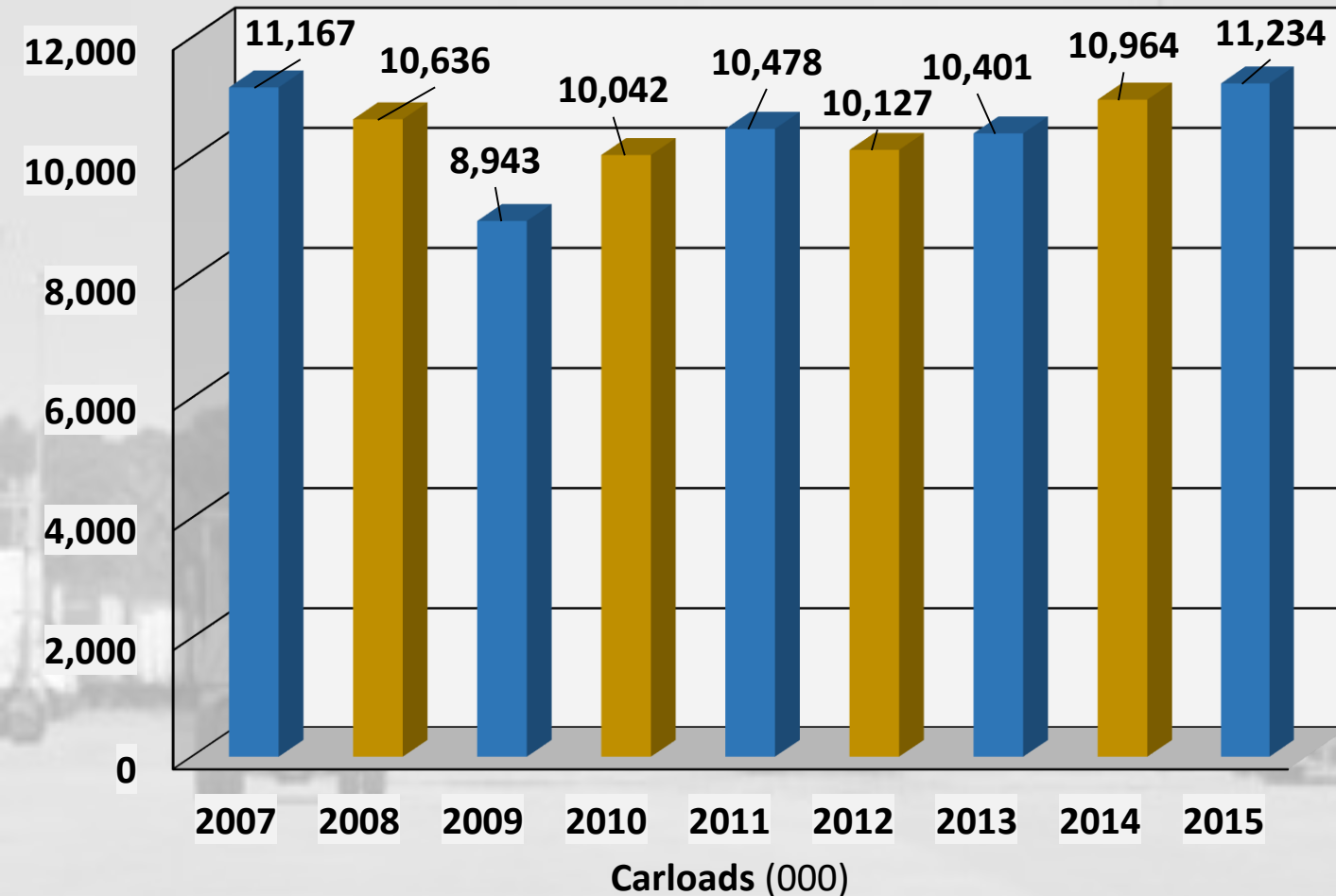
- Growth in Crude & NGL (2012 thru 2015)
- Strengthened petrochemical and resins market

AG Volumes



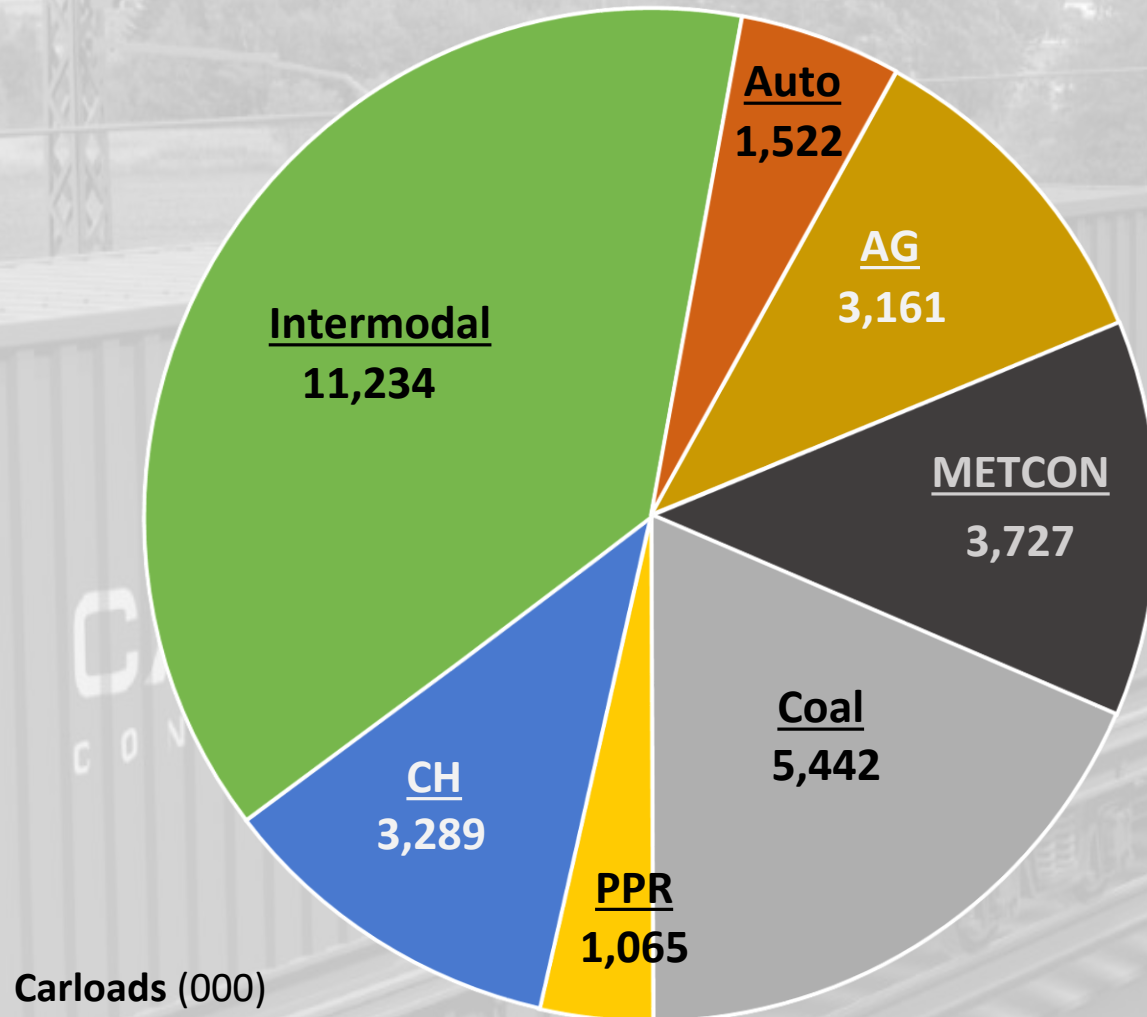
- 2007 - 2008 record corn demand
- 2012 & 2013 US drought severely limited domestic grain production

Intermodal Volume



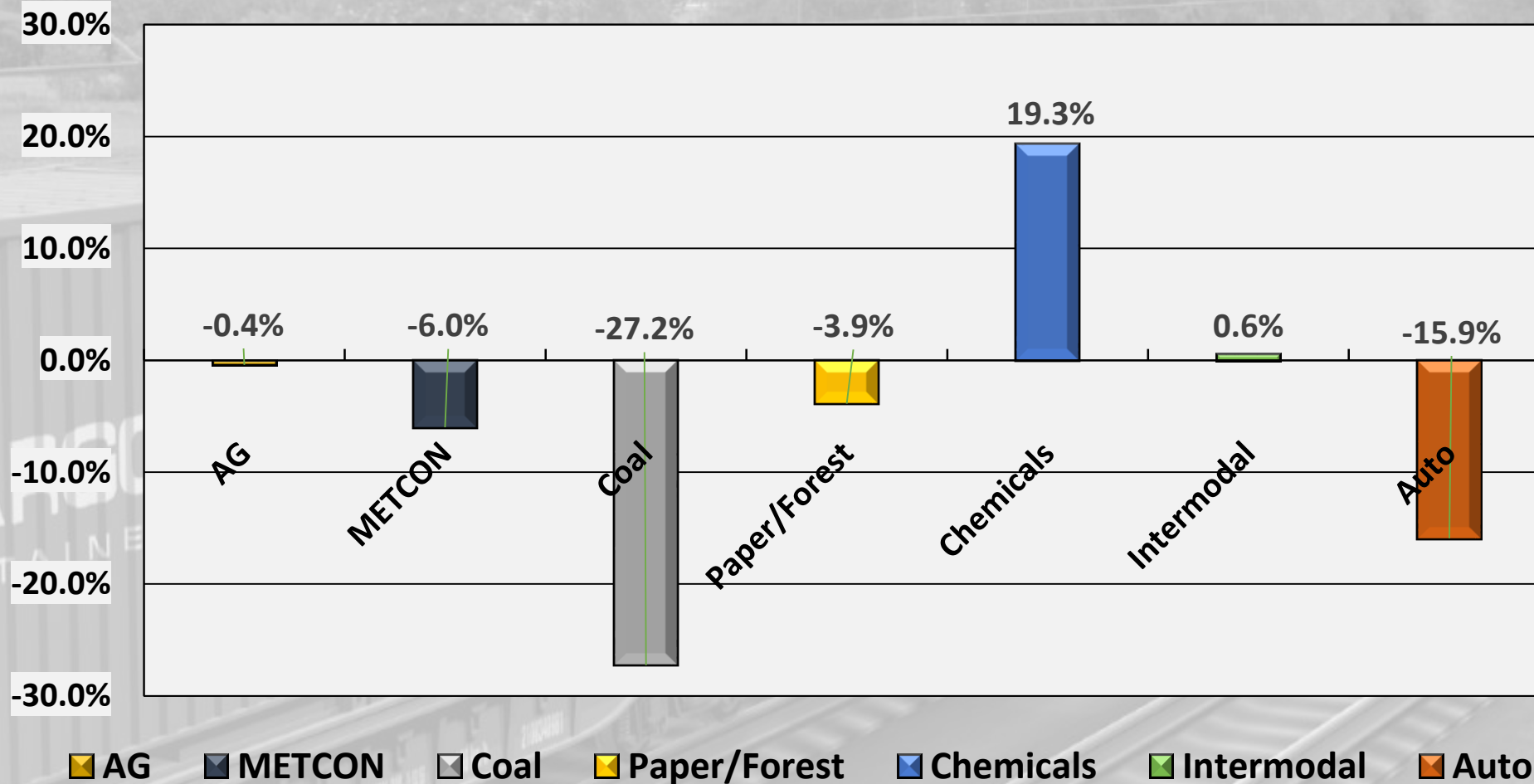
- **Steady growth**
(pre & post recession)
- **Growth via highway conversions**
- **Increased CapEX**
(routes, new or expanded terminals)

2015 Rail Segment Volume



- **Intermodal comprised 38% of rail volume in 2015 (compared to 32% in 2008)**
- **Coal comprised 19% of rail volume in 2015 (compared to 25% in 2008)**

Segment Volume ('15 vs '07)



Issues Facing the Railroad Industry

- ❑ Political and Economic Uncertainties
- ❑ Changing Commodity Mix
- ❑ Increased Regulation and “Open Access”
- ❑ Investment in Positive Train Control (“PTC”)
- ❑ Electronically-Controlled Pneumatic Brake Mandate (“ECP”)

2017 Commodity Outlook

Intermodal

- ✓ Tightening truck capacity
- ✓ Growth forecast above GDP
- ✓ Challenged international market

Coal

- ✓ Coal comps encouraging with market normalization
- ✓ Natural gas pricing pressures
- ✓ Export favorable due to global supply pressure

Industrial Products

- ✓ Gains in plastics and associated feed stocks
- ✓ Continued crude and NGL headwinds (*pipelines*)
- ✓ Flat auto market
- ✓ Optimistic grain harvest (*increased exports*)
- ✓ Modest gains in construction & housing
- ✓ Improvement in metals
- ✓ Phosphates/fertilizers growth

2017 Railroad Outlook

Operations

- ✓ Reduced CapEX
- ✓ Continued focus on productivity gains
- ✓ Ongoing asset rationalization
- ✓ Continued alignment of resources with demand

Economic Picture

- ✓ 2 ½ - 3% volume growth
- ✓ RPU growth > rail inflation

Investor Expectations

- ✓ Deliver shareholder value (*long-term*)
- ✓ Improved operating ratio
- ✓ Judicious cost control management

Closing Thoughts

While 2017 should show modest growth, the railroads are going through a difficult period and are somewhat reinventing themselves. The challenges of a changing commodity mix and potential regulatory mandates are significant, and any attempt to increase regulation will ultimately be detrimental to the rail industry. Today's railroads are more efficient, productive and safer than ever before. However, increased regulation could impede the railroads' ability to earn the capital needed to continue reinvestment in their infrastructure, which would impact service and safety. This would be harmful to the railroads, to rail shippers, and to the public as a whole. So as we look to 2017 and to the future of America's rail system, let's not ignore the lessons learned, or lessons that should have been learned from the past.

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Thank You.....

