

CSX CEO Michael J. Ward Remarks to Virginia Port Authority Board of Commissioners

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PUBLIC SESSION

Welcome

- Thank you for the opportunity to be with you today. At CSX, we are highly optimistic about the future of the Port of Virginia.
- We are investing significant amounts of capital in to our network, because we believe world class rail service is the key to spur growth at your port and bring more CSX business to Hampton Roads.
- As we move forward and grow together, you can count on CSX as a committed partner.

Overview/Background on CSX in Virginia

- We operate and maintain more than 2,000 miles of track in Virginia, and employ over 1,220 Virginians.
- Last year, we handled nearly 1.2 million carloads of freight in Virginia and invested more than \$71 million in our network in the Commonwealth.

CSX Port Strategy

- In 2008, CSX began to sharply refocus on growing our presence at the Port of Virginia, specifically in the intermodal business.
- At that time, the terminals at Hampton Roads represented CSX's largest presence at any east coast port in terms of revenues due to the export coal business.
- But we recognized the Port of Virginia's huge future growth potential. Due to Virginia's strong pro-business climate, your port's channel depth and VPA's commitment to moving 50% of port cargo by rail, CSX made a conscious decision to strengthen our presence here.
- Since that time, we have supported port growth through network investments, expanded presence in the region, attracting new rail-served business and expanding the business of existing customers.

Coal

- CSX has been serving the coal terminals at Newport News since 1881. Export coal remains a core part of our business, and a major driver of economic benefits in the Hampton Roads region.

- Beginning in 2008, the demand for Appalachian coal in the seaborne market has created strong and consistent coal traffic delivered to Newport News.
- In 2011, CSX delivered a record 26 million tons to the Pier IX and DTA coal terminals. Based on 2012 half-year totals and projections, we expect those volumes to increase this year.
- With global demand for energy and steel production forecasted to grow, we believe that the strong demand for export coal through Newport News to continue.

Intermodal

- Our export coal business has been historically strong in Hampton Roads, but our intermodal, presence was considerably smaller here. In 2008, we were moving less than 10,000 containers a year through Portsmouth, and held only 3% of the containerized market share.
- But thanks to the efforts of the state government, who promoted competitive rail access into the APM Terminal for both Class I railroads serving Virginia, we saw a tremendous opportunity to grow our business here.
- In 2012, we ushered in a new era of partnership between CSX and The Port of Virginia.
- In January, we achieved on-dock status at APM Terminal and opened the Kilby marshaling yard in Suffolk. Kilby Yard is a key component of our National Gateway, and has created import and export growth at the Port of Virginia.
- Kilby is used for six day a week service to and from our new, state-of-the-art Northwest Ohio terminal, which will enhance discretionary cargo growth at the port.
- Kilby also hosts daily direct service from Chicago, carrying exports from Maersk Line, one of the world's largest shipping lines.
- Because of these initiatives, we expect to haul close to 20% of the container rail market share in 2012, and we are committed to working with you to continue to increase those volumes in the future.

National Gateway

- We believe our National Gateway project will strengthen the Port of Virginia, giving it the access to CSX's double-stack network to Midwest markets that is current enjoyed by New York and Savannah.
- These markets are important to Virginia because they are the main destination for discretionary cargo. Double-stacked trains can deliver more freight with fewer trains, increasing efficiency while reducing rail line and highway congestion

- The Gateway is a \$900 million public-private partnership that will clear 61 overhead obstructions in six states from North Carolina to Ohio, and build or enhance six intermodal terminals using the latest technology.
- When it's complete, it will efficiently connect Virginia and the Port to markets in the Midwest and Southeast, creating new opportunities for market growth.
- The National Gateway directly connects the Port of Virginia to CSX's Northwest Ohio Terminal Facility, an efficient and technologically-advanced 185-acre world-class intermodal freight distribution hub that serves as a good match for the APM Terminal.
- The Northwest Ohio terminal allows CSX to combine freight from Virginia with freight from other origination points, resulting in faster and more reliable transit time to key markets such as Chicago, Cincinnati, Cleveland and Detroit.
- The terminal also creates greater connectivity to western railroads, allowing cross-country freight to bypass Chicago and reduce transit times. At full capacity, the terminal can handle over 30 trains per day and move close to 2 million containers and trailers per year.
- One very important clearance for Virginia is the Virginia Avenue Tunnel, a 110-year old single-stack, single track railroad tunnel that runs through southeast Washington DC.
- Without clearing this tunnel, Virginia will remain locked out of CSX's double-stacked network, while Baltimore will enjoy the benefits of double-stack efficiencies. The tunnel project is currently in the federal environmental review process, and we hope to have it cleared for double stack service by 2015.
- We see this project as so important to our mutual growth at the Port of Virginia that in May 2011 we decide to commit an additional \$160 million of CSX capital to make sure Virginia joined our double-stack network as soon as possible.
- This additional capital expenditure increases CSX's overall National Gateway financial commitment to nearly \$600 million.
- And we are very appreciative of the ongoing support from Virginia, our largest state funding partner among the Gateway states. Virginia has provided \$24 million for the Virginia Avenue Tunnel projects, as well as funding for Kilby yard and other clearance work in Virginia.

Break bulk/Bulk/Ro-Ro

- On non-container traffic, we are working to identify long-term, sustainable business at the Newport News and Portsmouth terminals.
- We are developing an action plan with VIT to capture more cargo at Newport News. Our primary targets are paper/pulp/forest products and metals commodities. When the National Gateway is complete, we hope we can bring additional automobile and machinery business to the Newport News.

- And we continue to work with the Port Authority staff to maximize the use of the Portsmouth Terminal. We were pleased that the Board approved the contract with EcoFuels recently, and we are working on attracting additional agricultural, paper/pulp/forest product tenants.

CSX Commitment to Environment/Involvement in Hampton Roads Community

- With our growing commercial presence in the Hampton Roads, we have also increased our charitable and community presence. Since 2009, CSX has invested \$750,000 into the Hampton Roads region, partnering with charitable, environmental and civic groups to help improve regional quality of life.
- We are nationally recognized leaders in green business practices and corporate governance, and are the only US railroad listed in the 2012 Dow Jones Sustainability Index.
- And volunteerism among our employees is a core value at CSX. Coming in off I-264 to Waterside Drive this morning you may have noticed one of our recent projects in the medians of Norfolk's downtown "gateway," which the CSX team completely replanted in 2011.

Closing/Q&A

- In summary, CSX has a lot to be excited about in Hampton Roads and we are highly optimistic about the future of the Port of Virginia. We are committed to partnering with you to deliver world class rail service, which we believe is the key to your future growth. I'd be happy to take any questions you may have.