



SERVICE UPDATE

HOW TOMORROW MOVES



CSX SERVICE UPDATE

CSX remains relentless in its commitment to deliver the high level of service customers expect. In 2015, as in 2014, the keys to operational improvement will be resource additions in three critical areas: people, assets, and infrastructure, with continued focus on refining and enhancing operating processes. This update details the company's progress in these important areas.

EARLY SIGNS OF SERVICE IMPROVEMENTS

Through the first two weeks of 2015, CSX's on-time performance increased favorably versus the fourth quarter of last year, and reached the highest levels in nearly a year. While this improvement was somewhat aided by seasonally lower volumes and the company's annual turnover of its system track maintenance work, it was also a reflection of the company's decision to significantly reduce operating curtailments around the holidays. We appreciate our employees' dedication and are pleased to report that, with very limited exception, CSX was open for business through the holiday period.

This post-holiday uptick in performance is also helping the company remain fluid through the extreme winter weather that began last week. To that point, CSX has enacted Winter Response Plans to help mitigate potential service disruptions related to the arctic blast moving across the Northern Tier. The company's engineering and mechanical teams have been effective in minimizing issues resulting from the extreme weather. However, the blast — which brought subzero temperatures, dramatic wind chills, and heavy snow and ice — has produced an increase in frozen switches, broken rails, locomotive failures, and frozen lading, causing a moderate impact to rail operations.



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SERVICE IMPROVEMENT ACTIONS

Locomotives – Adding locomotives drives up on-time performance, aids in network fluidity, and supports ongoing growth

Locomotives remain CSX's most strained resource. To combat this challenge, the company continues to supplement its fleet by adding units through rebuilds, heavy repairs, leases, and new purchases:

- CSX is expanding its initiatives to return rebuilt and repaired engines to the active locomotive fleet. These programs will add a net 150 units over the course of 2015.
- CSX has made a significant, multi-year commitment to purchase 300 new locomotives, which will be received throughout 2015 and the first half of 2016.
- Leases remain a key part of CSX's locomotive strategy, with more than 200 leased engines currently in active service. CSX continues to actively pursue leasing opportunities and may bring on additional leases.

The company is confident that this substantial increase in its active locomotive fleet will help propel service improvements throughout 2015, enable further volume growth, and offset normal locomotive fleet attrition.

Crews – The ability to deploy additional train crews, especially in key geographies, increases on-time originations, improves on-time arrivals at customer destinations, and reduces terminal dwell

Promotion of new crew members into active service requires a six- to nine-month process, including recruiting, onboarding, classroom education, and on-the-job field training. CSX is pleased to report the positive impact of its aggressive 2014 hiring efforts, with the active, fully trained head count rising in December. The company expects this trend to accelerate through the early part of 2015 as CSX anticipates more than 800 conductors and 200 engineers will complete the training process and qualify for active service over the first four months of the year. These additional crews, combined with the locomotive fleet expansion, will be crucial to improving CSX's service performance.

Infrastructure – Increasing terminal and line-of-road capacity helps streamline interchanges, improve network throughput, and increase system velocity

To facilitate improved interchange fluidity between BNSF and CSX across the Northern Tier, the two companies jointly constructed a new connection at Smithboro, IL, east of St. Louis, MO. This alternative gateway opened last week to trains which otherwise would have needed to go to Chicago for interchange.

Process – Adjusting processes provides near-term relief and longer-term strategic improvement as volume grows, mix changes, and traffic patterns shift

To better understand the infrastructure and process requirements for meeting current and future demand for one of CSX's largest shippers utilizing the company's highly trafficked Northern Tier, CSX and the customer recently launched a significant industrial engineering effort. Through this study, CSX and its customer are creating operating and communications playbooks to facilitate service improvements on both a network and local level.

Local service frequency has long been a point of discussion between railroads and customers. Through CSX's Total Service Integration initiative, and at additional cost to CSX, local service frequency for most customers on six of the company's 10 Operating Divisions was increased to five days per week during the second half of 2014. The remaining four divisions will be targeted for increased local service frequency in 2015.

RECENT SERVICE DEVELOPMENTS

As the map below illustrates, CSX continues to invest in the railroad through maintenance programs which can temporarily impact train performance along specific segments of the network. CSX completed the last of these programs for 2014 by mid-December and will commence 2015 projects starting today. The map also visually indicates locations where CSX has experienced line-of-road and terminal congestion. It is important to note the comparisons on the map are drawn against 2013, when CSX's operating performance was at or near record levels. In addition, the map below reflects the areas of congestion experienced since the extreme winter weather hit the network during the latter part of last week.

