

Fall 2008

INTERCHANGE

CSX Transportation and America's Short Lines: Connecting For Growth

Short Lines Lead the Charge to Profitable Growth

profitable
growth
in the future.

Combine this model with a CSX network that continues to operate safely and reliably and you have a powerful growth engine. Continuous improved communication between several CSX departments and our short line partners has led to higher levels of collaboration and better understanding of issues.

In an economy suffering through the housing crisis, reduced auto production, road construction, and consumer confidence, CSX's short line partners continue to foster business development and overall volume growth.

Through July 2008, versus the same seven months of 2007, our system-wide interline volumes with short line and regional railroads are up approximately one percent or 4,600 carloads. This compares favorably to an overall volume decline at CSX of 2.9 percent or 85,000 carloads. We appreciate our short line partners' commitment to growing the business, and look forward to a strong finish to 2008.

Major drivers of our positive variance with short lines are the coal, metals, agricultural products and fertilizer markets. In almost all cases, our positive variance with the short line industry in these commodity markets exceeds the rate of growth across CSX. Similarly, the rate of decline in other markets such as lumber and paper, construction materials, and automotive is not as severe with our short line partners as the rate of decline in the market.

The undeniable fact is that the short line model of intense sales and marketing focus, flexible operations and car management to meet customer needs, and a keen awareness of economic trends at the "local" level is working. As the economy strengthens, CSX is confident we're well-positioned with the short line industry to generate even higher levels of

Early in 2008, CSX returned to a short line business development group structure that will further improve customer and market growth, and CSX's overall short line relationship-building. Tony Giobbie in the Northeast and Mid-Atlantic Region, David Martin in the Midwest, and Gina Arnold in the Southeast are your primary contacts to advance business issues, assist with problem resolution, and identify process improvement opportunities.

CSX's Short Line Caucus Committee continues to be a guiding light on issues as diverse as business development, interchange service performance, safety, revenue settlement, car management, data integrity, and the legislative or regulatory climate. CSX meets with this group at least three times per year, and I encourage all short lines to utilize our caucus members to bring your short line industry concerns to our attention. Ken Pippin of the Carolina Southern is the chairman of the group, and Henry Lampe of the Chicago, SouthShore & South Bend is the vice chairman.

Last and not least, CSX remains committed to locating new rail customers at locations where service, long-term value, and long-term reliability will be optimized. In many cases, these sites are on short line or regional railroads. Cultivation of new customers is the lifeblood of our long-term success. Over the last four years, the percentage of CSX new customer announcements on short lines has grown every year. In 2007, almost 26 percent of CSX's industrial development team's new site announcements occurred on short line railroads. We don't believe any other Class I comes close to this percentage, and it is a testimony to our long-term commitment to the short line industry and the growth potential you bring to our network.

We wish everyone continued success in 2008, and look forward to an even more robust 2009.

— Len Kellermann

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CSX Provides Training to Short Lines

CSXT's Public Safety and Environment Department have held day-long hazardous material safety training classes for our short line partners across the CSX network since 2003. More than 225 short line representatives received the training.

The training held in the CSXT Safety Train classroom featured instructors who reviewed environmental regulations and compliance, waste management, hazardous material awareness and response, security planning and train accident prevention. Following classroom training, field exercises were held to demonstrate various tank car features and procedures to follow in case of chemical release. The training also included handouts, CD-ROMs and other reference material for short lines to take back to their railroads.

"The short line representatives asked questions and were grateful to learn our best practices related to safety," said Romano DeSimone, director-Chemical Safety. "We told them if you have a safety or environmental issue call us and use us as a resource."

New Long-Term Contract Established in a Short Haul Corridor

The Sequatchie Valley Railroad (SQVR) is currently well positioned to significantly increase its business with CSX. SQVR acquired a line from CSX in 1986. The line connects with CSX in Bridgeport, Ala. and runs all the way to Kimball, Tenn., and mainly handles inbound plastics and outbound wallboard from U.S. Gypsum.

CSX and SQVR have successfully negotiated a long-term contract to handle synthetic gypsum, a marketable byproduct of the scrubber system used to remove sulfur dioxide from coal burning plant emissions. The synthetic gypsum will be transported approximately 120 miles, from Georgia

Power in Stilesboro, Ga. to U.S. Gypsum in Bridgeport, Ala. Previously, this was a barge move from an alternative source. Now, the new short haul move will be handled by shuttle unit trains of 60 to 75 private rapid discharge open top hoppers provided by Georgia Power with CSX run-through power. This is the first major (2500+ car) synthetic gypsum move on CSX.

Synthetic gypsum is a substitute for mined gypsum rock which is used in the manufacture of wallboard. Other uses are for cement production and soil conditioning. Initial volume to the SQVR is expected to be at least 450 carloads for the

remainder of 2008. This volume is expected to increase to more than 3,000 carloads per year, with a long-term potential of more than 6,000 carloads per year.

"SQVR was a major contributor to the success of this project," CSX Market Manager Jim Langston said. "The short line acquired CSX's Bridgeport yard and spent considerable money on rail,

ties and ballast in the yard and the track serving U.S. Gypsum." The SQVR is also providing tailored local service for U.S. Gypsum to facilitate unloading of the unit train, and its return to CSX, all in less than 18 hours. CSX also reinstalled a

signaled power switch to the main line to facilitate movement off the main of the inbound and outbound trains, thereby minimizing interference with network operations.

"This project several years in the making was the result of a collaborative effort by various CSX departments, SQVR, Georgia Power and U.S. Gypsum," said Brian Jackson, director-Utility Coal for CSX.

"The partnership with CSX and these customers has resulted in our ability to capture a short haul move and thousands of carloads of new business," SQVR President Dick Abernathy said.

"SQVR was a major contributor to the success of this project"

**— Jim Langston
CSX Market Manager**

20th Annual Short Line Workshop Returns to World Golf Village

CSX is proud to announce its 20th Annual Short Line Workshop, to be held March 8-10, 2009 at the World Golf Village in St. Augustine, Fla. Our program will feature informative presentations by senior leaders. Chairman, President and Chief Executive Officer Michael Ward will be the keynote speaker. Short line participants will also have the opportunity to network with CSX personnel during our popular trade show and have one-on-one meetings during private break out sessions. Registration information and a tentative agenda will be available in early December. We encourage all short line employees who have regular dealings with CSX to attend the workshop, and hope to see you in St. Augustine in March.

The Race Is On For CSX's Sixth Annual Short Line Awards



Commemorative plaques will be awarded to the interline or junction settlement roads that deliver the greatest amount of growth in their volumes with CSX in absolute volume and percentage terms. Similarly, two awards go to the switch carriers whose business growth with CSX is greatest in volume and percentage terms.

Winners will be announced at CSX's 20th Annual Short Line Workshop, scheduled for March 8-10, 2009 in St. Augustine, Fla.

Results through July

INTERLINE OR JUNCTION:		Volume (carloads)	Percentage
Evansville & Western	+8,283	Columbus & Greenville	+437%
Elgin, Joliet & Eastern	+3,987	Falls Road	+205%
Transkentucky Transportation	+3,028	RJ Corman, West OH Line	+129%

SWITCH:		Volume (carloads)	Percentage
Patapsco & Back Rivers Railroad	+4,746	Pittsburgh & McKees Rock Railroad	+262%
Cleveland Works Railroad	+2,499	Cleveland Works Railroad	+251%
Golden Isles Terminal Railroad	+2,411	Alton & Southern	+207%

Success Achieved in the Northeast Region

Twelve years ago, the world was a very different place. In 1996, oil was plentiful and prices were low. Conrail was the dominant Class I railroad in the Northeast.

That was the situation when Specialty Minerals, Inc. (SMI), formerly Pfizer Company, began shipping their product by rail. Located on the Housatonic Railroad (HRR) in Canaan, Conn., SMI produces high performance dolomite limestone, favored by building product manufacturers for its hardness and density characteristics, but especially for its unique whiteness and consistency. In Salem, N.J., the receiver was Mannington Mills, a floor tile manufacturer, served by the Southern Railroad of New Jersey (SRNJ).

SMI secured the use of a small fleet of pressure differential covered hoppers and signed a contract with Conrail, the HRR and SRNJ to move the limestone 300 miles in a lane very competitive with trucks.

By 2002, annual rail volume had reached a peak of almost 600 cars. By 2008, however, the volume had slipped and the contract needed to be renewed.

Rian Nemeroff, HRR vice president-Marketing & Sales, knew that current revenue and fuel factors might threaten this business, which was critical to his short line railroad. However, he wasn't

simply interested in retaining the business; he wanted more. So he reached out to Sara Bowen, market manager-Limestone at CSX, and his counterpart at the SRNJ. Together, they helped craft a strategy to update the revenue factors for all concerned, while at the same time providing an incentive for SMI to reverse the declining trend of their rail shipments to Salem.

This summer, SMI signed a multi-year contract renewal. It includes a volume commitment with a graduated sliding scale of rates. In July 2008, the volume of rail shipments in this lane was the highest ever, and SMI is on track to achieve an optimal combination of service and price. All three railroads have proposed that Mannington use the savings to help justify a capital investment needed to decrease the unloading time in Salem, thus increasing the efficiency of the remaining fleet of leased covered hoppers.

This story is a great example of how CSX, together with its short line partners, successfully worked to build profitable rail business in a truck competitive, short-haul market.



CSX Commercial Metrics

as of July 25, 2008
(CSX system-wide)

	Carload Volume	Change from 2007
Coal Coke & Iron Ore	1,071,796	+15,295
Emerging Markets	251,711	-35,166
Automotive	208,577	-43,729
Agriculture	249,994	+17,816
Food & Consumer	116,709	-9,987
Forest Products	188,409	-23,058
Metals	215,803	+2,460
Chemicals	296,904	-10,331
Phosphates & Fertilizer	209,255	+1,753
Total	2,809,158	-84,947

Industrial Development: Preparing For The Future

2008 industrial development activity, though slower than the record pace in 2007, still exhibits strength in many sectors. While it will be later in the recovery cycle before projects related to the housing market reappear, there are many projects “in play” supporting the auto industry. Volkswagen recently announced their new assembly plant in Chattanooga, Tenn. and Audi continues to look for its first U.S. assembly plant. Each will spawn a number of supplier projects. Renewable fuels is another area of strength with projects in ethanol, bio-diesel, and wind energy. Other markets with good project activity are in the food and chemicals markets, especially in perishables, plastics, asphalt, and propane distribution.

The number of projects locating on short line served sites as opposed to CSX direct served sites has remained steady. Through July, 12 of 54 announced projects (22 percent) were located on CSX served short lines.

These projects should produce a total of 20,735 carloads at full production, representing 31 percent of the carloads of all projects announced. This reinforces the trend of the past four years of larger and larger projects locating on sites served by short lines. The statistic speaks volumes to the growing confidence that industries and their site selection consultants have in the ability of short lines to provide the level of service they demand.

There has been a resurgence of potential projects in industry groups which have been hit hard by the economic downturn. These industry groups are sensing that the time is right to lay the groundwork for a rebound in the marketplace. In the rail industry, it is equally important to work on issues which will support our customers’ return to higher levels of project activity and traffic. It is imperative that work be done on industrial site development, interchange, and service issues which will allow us to enjoy the better times ahead.

The Southeast Slowly Rebounds

Traffic volumes in the southeast have rebounded since the start of the year. At the end of January, volume was trending downward by 5 percent, as compared to same period in 2007. Thanks to collaborative growth initiatives between CSX and its short line partners, at the end of July volume was down by just 2 percent, or 3,487 carloads.

The commodity composition in the southeast is diverse, but paper and forest products, metals and coal are by far the dominant commodities. Plastics, lumber and southern aggregates continue to show a negative growth trend. The weak construction industry is a major contributor to the sluggish volume trends we are experiencing in some commodity groups. Even though we are experiencing a decline in some areas, scrap metal, iron and steel sheets, coal and alcoholic beverages are the driving forces behind the current turnaround.

Another driving force for improvement is the continued collaborative effort with our short line partners. Our regional development team continues to work closely with short lines to cultivate new and profitable growth opportunities, and deliver service and equipment solutions that enable

growth. One such opportunity that has greatly impacted our volume trend is the new SeverStal steel mill in Columbus, Miss., served by the Columbus & Greenville Railway (CAGY). The CAGY, which was recently acquired by

Genesee & Wyoming, connects with CSX at Brookwood, Ala. Our regional development team was involved since the site selection process and worked with the CAGY, the customer and CSX’s metals marketing team to bring this project to fruition. This



new plant receives inbound scrap and ships outbound finished steel coils. This is a great testimony to how CSX and its short line partners can work together to identify and develop new business opportunities, and deliver service and equipment solutions that enable growth.

Currently, we have a number of other viable opportunities in our pipeline that are promising growth drivers for both CSX and our connecting short lines. With these projects on the way, we are confident the southeast will continue its rebounding trend throughout the remainder of 2008. Our Short Line and Regional Development team is ready to assist our short line partners with any new opportunities as we stand united for growth.



Useful Information From CSX Transportation For Short Line Railroads

Workshops Enhance ShipCSX Tools

We continue to use feedback from our short line partners and customers to improve our existing e-business offerings and develop new tools. Our most valuable feedback is gathered at our e-business workshops. We have held past workshops in Orlando, Fla., Nashville, Tenn., Baltimore, Md., and this year, in Chicago from September 29-October 1. From feedback garnered at these workshops we have made enhancements to existing tools and created some new offerings, including:

- Historical Track & Trace
 - Trace events for the previous 15 months
 - Retrieve the corresponding waybill for print
 - Data secured by waybill participants
- ShipCSX Mobile
 - Access ShipCSX from your cell phone
 - Trace trains and railcars

- Retrieve Railcar specs (UMLER)
- Confirm Coal Reservation details
- Junction Settlement & Switch Settlement Statements Online
 - View & download CSX statements
 - Upload statements directly to CSX
 - Submit exceptions online

Don't forget about our other tools:

- Car Order
 - Order cars up to six weeks in advance
 - Easily cancel or modify orders
- Parameter Trace
 - Create reports based on filters
 - Schedule reports to be delivered via e-mail
- Railroad Pricing Documents
 - See new or updated price documents for your road

- Get notified via e-mail of updates
- Download the Frontmatter and workbook data
- ISA Tool (Interline Service Agreement)
 - View your short line profile
 - Scorecard shows CSXT performance at your interchanges
 - Easy to read graph available on screen or as a PDF

Our goal is to make doing business with CSX easier. If you need any assistance with ShipCSX or any electronic offering please call us at 1-877-ShipCSX and choose option 2, then 1. We are staffed Monday through Friday from 7am to 6pm EST, and offer after hours support through on call.