NCCC/BMWED & SMART-MD Negotiations

December 1, 2020

The Railroads' historic traffic mix continues to shift and the NCCC and BMWED & SMART-MD concur on its impact and future trends:

- The volume of high-margin coal traffic has declined and will continue to decline as the country shifts to other methods of energy production and the volume of low-margin intermodal traffic has increased – both in an absolute sense and as a percentage of overall traffic mix

- The intermodal segment presents the greatest opportunity to replace lost coal and other commodity volumes and provide future growth

- However, the intermodal segment is intensely competitive – especially with trucking – and is highly sensitive to both price and service levels with average revenue per unit approximately 50% of coal unit revenue

Fundamental industry and competitive dynamics support the Railroads' positions:

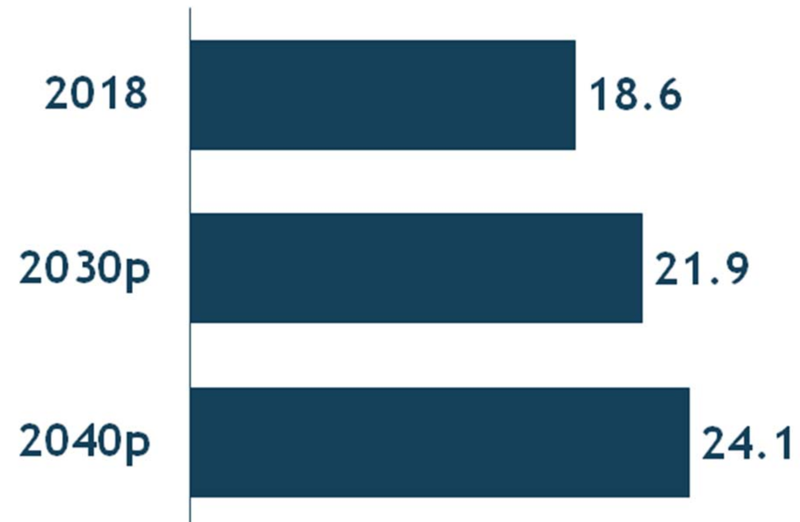
- Future **growth and profitability** is not assured, especially in uncertain economic environments, and Railroads must continue to adapt to vigorously compete in the freight marketplace, especially as competitors continue to evolve and implement new technologies
- Vigorous competition – achieved through market pricing and enhanced service levels – is necessary to protect and grow railroad market share and requires **disciplined cost control**
- Railroad profitability drives a **beneficial cycle** for all stakeholders over the long term as capital investment leads to overall safety and customer service enhancements, public interests are enhanced with environmentally-friendly freight transportation and privately-funded infrastructure, shareholder returns attract and retain capital, and above average employee pay and benefits and job security are supported
- To perpetuate this cycle, the **capital-intensive** nature of railroading requires cash flow – largely reflected in low Operating Ratios – to support massive investments into equipment and infrastructure
- In this beneficial cycle, employees should be **competitively compensated** for their skills and experience with total pay and benefits driven by market levels for comparable jobs and skills
- Rail employees have experienced **significant real wage growth** over the last several bargaining rounds, further increasing their preferred position compared to peers. The NCCC's direct compensation and benefit proposals will reflect the existing preferred position of rail employees.
- **Overall rail productivity** improvements have been driven by capital investments and the adoption of more efficient operating practices; these influences do not relate to or justify increases in employee compensation
- The National Health Care Plans are amongst the **most expensive plans** in the U.S. and should adopt mainstream norms to support the Plans' **long-term sustainability** and achieve **better health outcomes** for railroad employees and their families

The Economy & Competition

There is no guarantee that Railroads will maintain or increase our share of the freight transportation marketplace going forward without investments to improve service and the diligent control of costs

Freight demand is forecast to increase …

Billions of Tons of Freight Transported in the U.S.

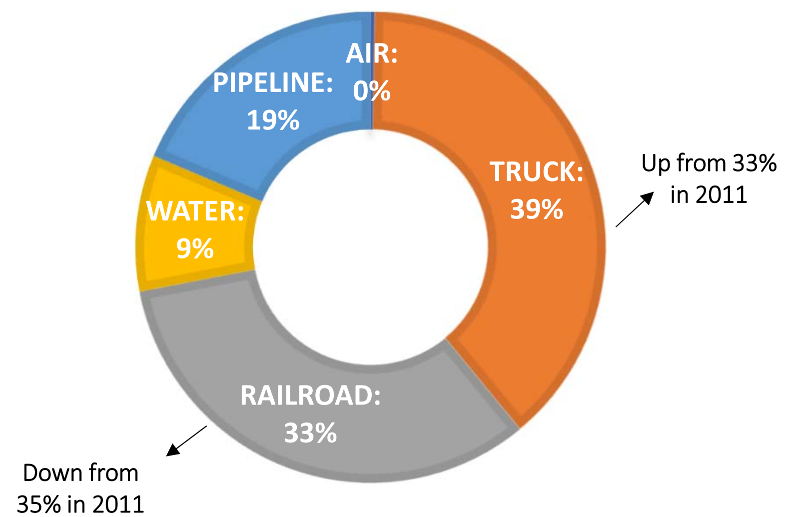


The U.S. DOT estimates that total U.S. freight movements will rise from around 18.6 billion tons in 2018 to 24.1 billion tons in 2040 – a 30% increase.

p – projected   Source: FHWA - *Freight Analysis Framework*, version 4.51

…yet rail market share has declined in recent years

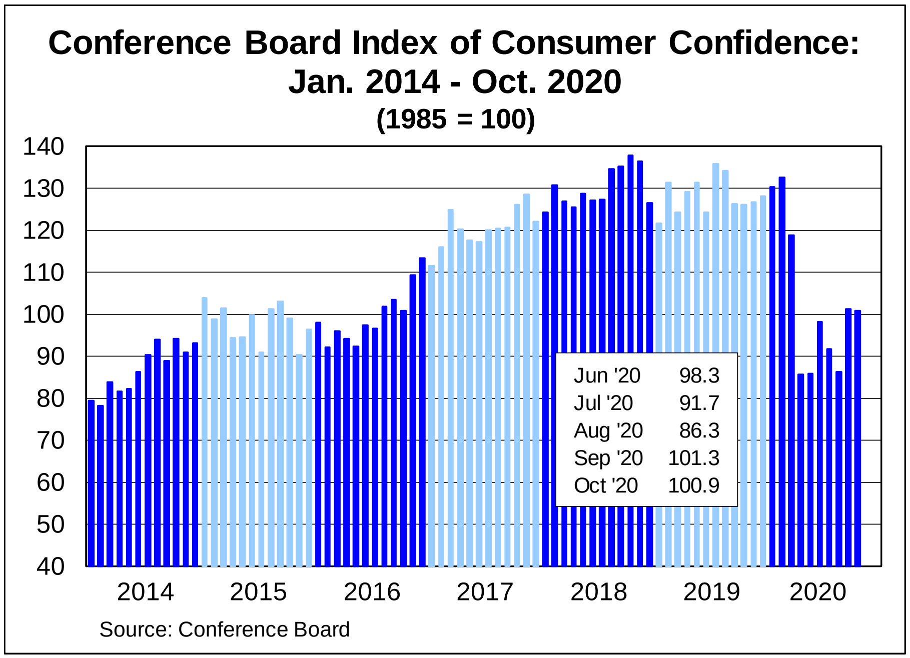
2018 Percentage of Total U.S. Ton-Miles of Freight By Mode

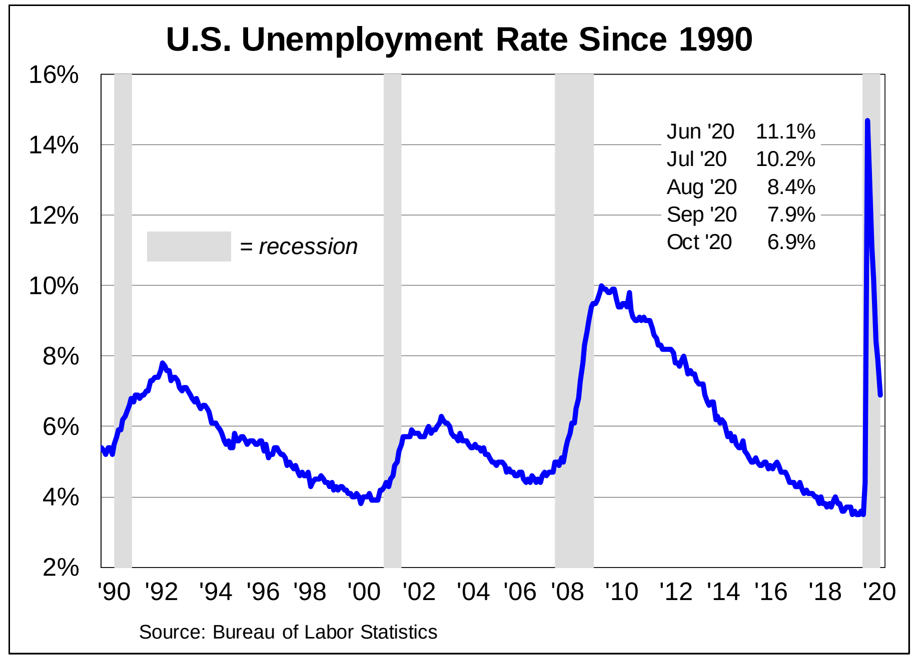


Source: U.S. Department of Transportation, Bureau of Transportation Statistics

Key economic indicators reveal the significant and potentially long-lasting impacts of the pandemic

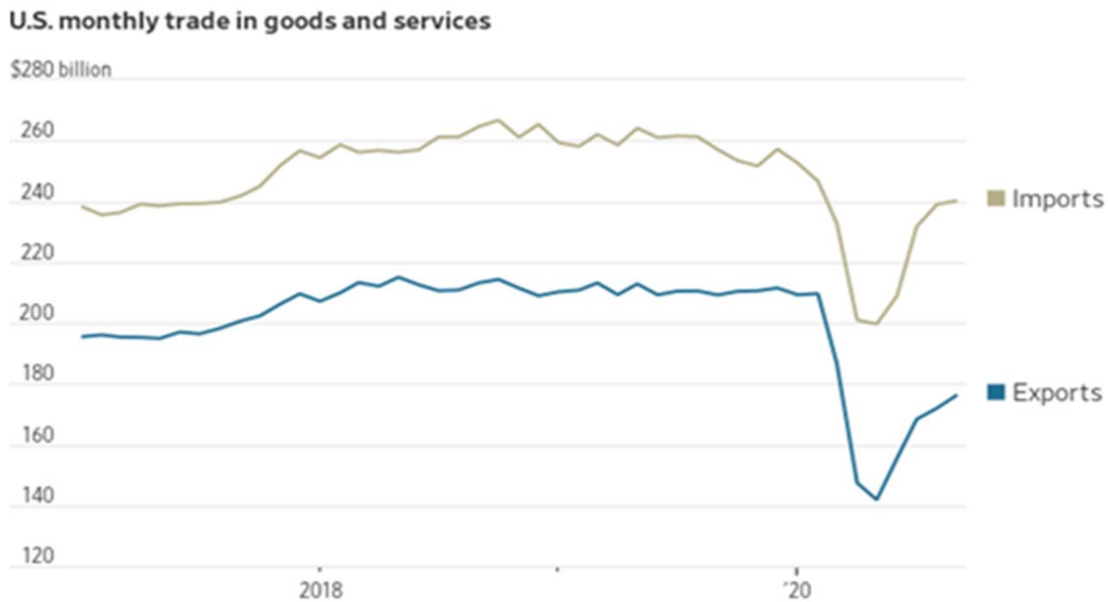
The initial recovery from the early lockdowns has been encouraging but consumer confidence and unemployment remain at their respective multi-year low or high; economic forecasts for returning to overall pre-pandemic levels of economic activity are uncertain but generally range between 1-3 years





International trade, which directly supports a huge portion of rail operations, has been significantly impacted by the pandemic

More than 40% of U.S. rail traffic and 50,000 rail jobs depend on international trade; following the initial recovery from the early lockdowns, the pace of the recovery has already slowed, and trade in many goods-related sectors remains depressed.

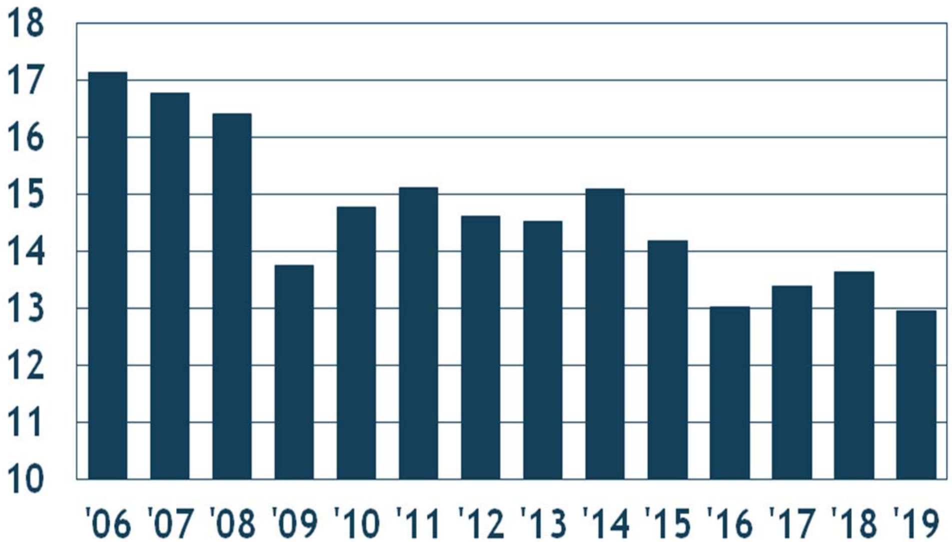


Source: U.S. Census Bureau, Wall Street Journal Logistics Report Nov 10, 2020

Rail volumes have declined in recent years, particularly higher-yield coal traffic, delivering a "revenue squeeze" that requires disciplined cost control to vigorously compete

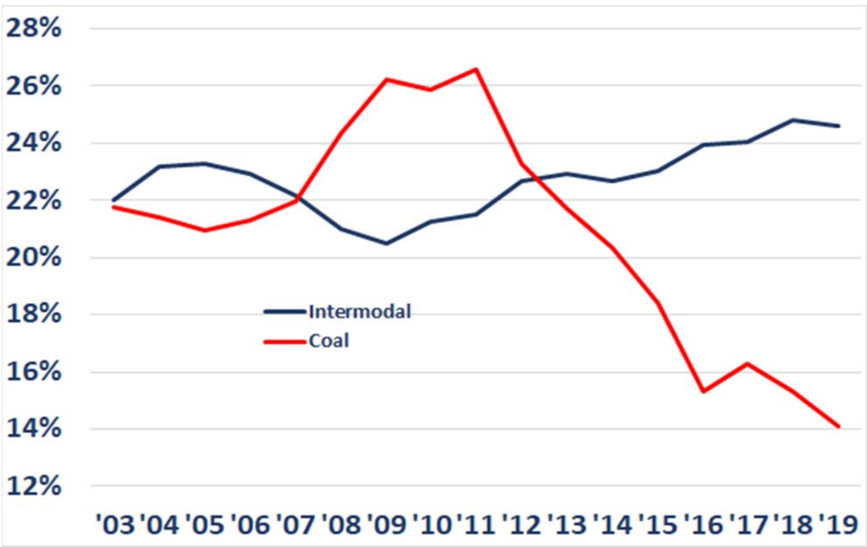
The combination of lower volumes and the loss of coal traffic requires Railroads to be efficient to retain and attract traffic, particularly the highly price-sensitive intermodal units; these competitive pressures will only grow as the trucking industry achieves advancements in fuel efficiency, platooning, and autonomous operations.

Total U.S. Rail Carloads (MM)



Data are originations, do not include intermodal, and do not include the U.S. operations of CN, CP, and GMXT. Source: AAR *Rail Time Indicators*

Coal vs. Intermodal as % of U.S. Rail Revenue



Data for BNSF, CSX, KCS, NS, and UP combined. Source: company reports, AAR

Railroad Expenses & Capital Investments

Labor costs account for one-third of Railroad operating expenses, making this the single largest component of operating costs, and which requires prudent and disciplined control of cost increases

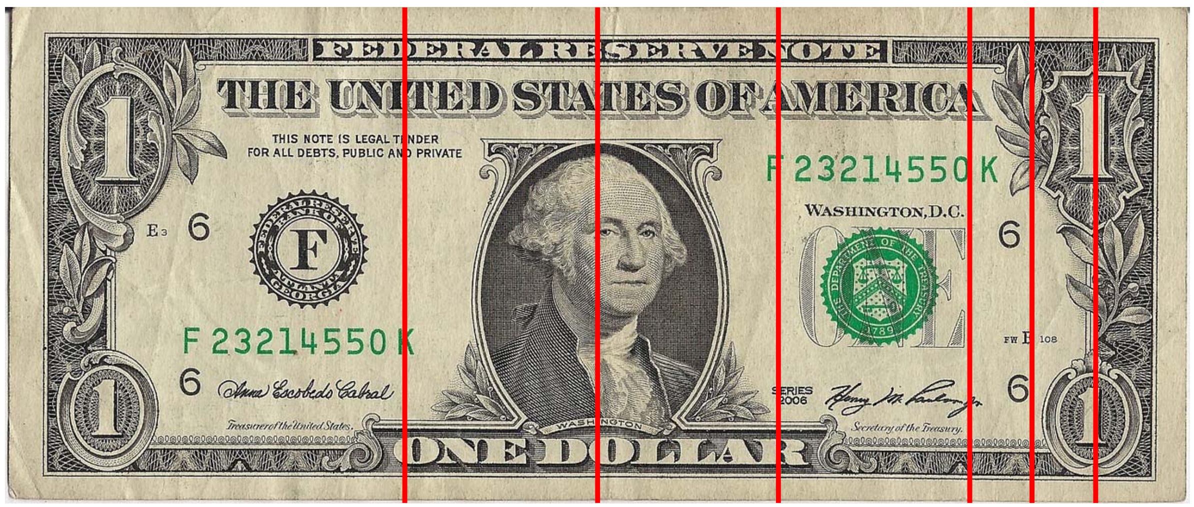
Labor (33.4¢)

Depreciation (16.3¢)

Materials & supplies excl. fuel (5.0¢)

Other (7.5¢)

Labor cost as a proportion of total operating costs in 2019 remained near the 2007-2018 average of 33.8¢



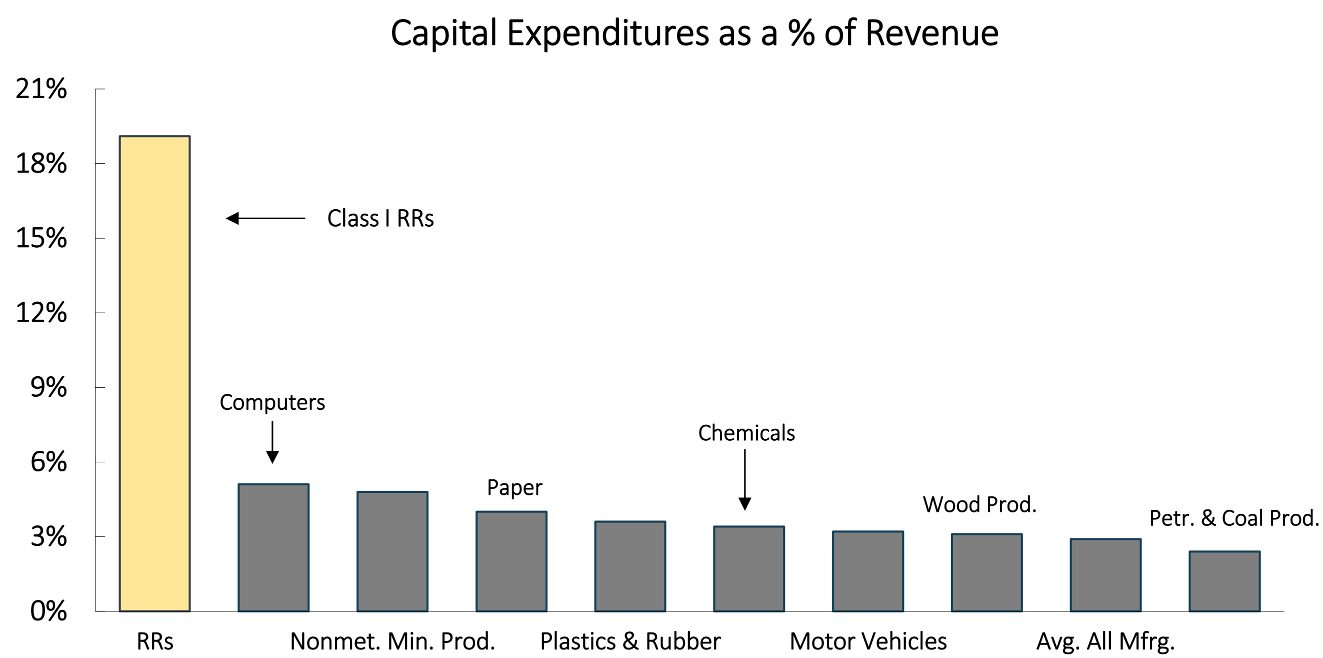
Fuel (14.6¢)

Purchased services (17.8¢)

Equipment rents (5.3¢)

Figures are for Class I railroads in 2019; Source AAR

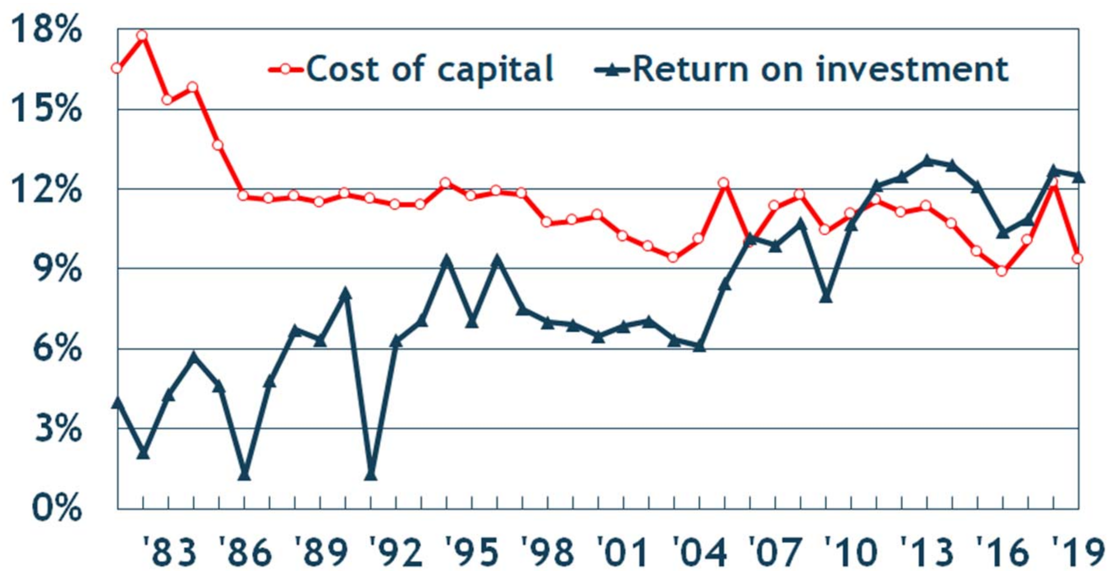
The capital-intensive nature of railroading requires profitability and cash flow to support massive investments into equipment and infrastructure



Figures are average 2007-2016 Sources: Census Bureau, AAR

Return on Investment, a key piece of the beneficial cycle, has only recently begun to exceed the Railroads' cost of capital

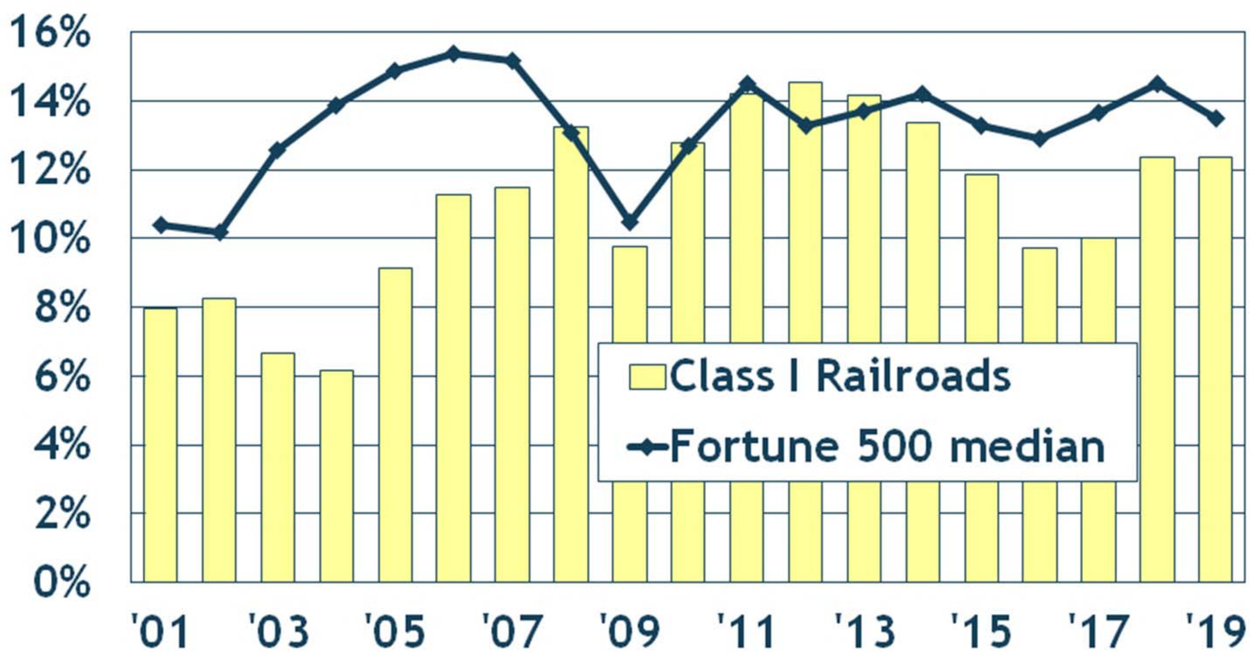
Class I RR Cost of Capital* vs. Return on Investment



*In 2006, the Surface Transportation Board significantly changed the method by which it calculates the rail industry cost of capital.
ROI and COC were adjusted to account for tax effects in 2017. Source: STB

Railroad return on equity – a key investment metric – remains below Fortune 500 median levels

Return on Equity: Freight RRs vs. Fortune 500

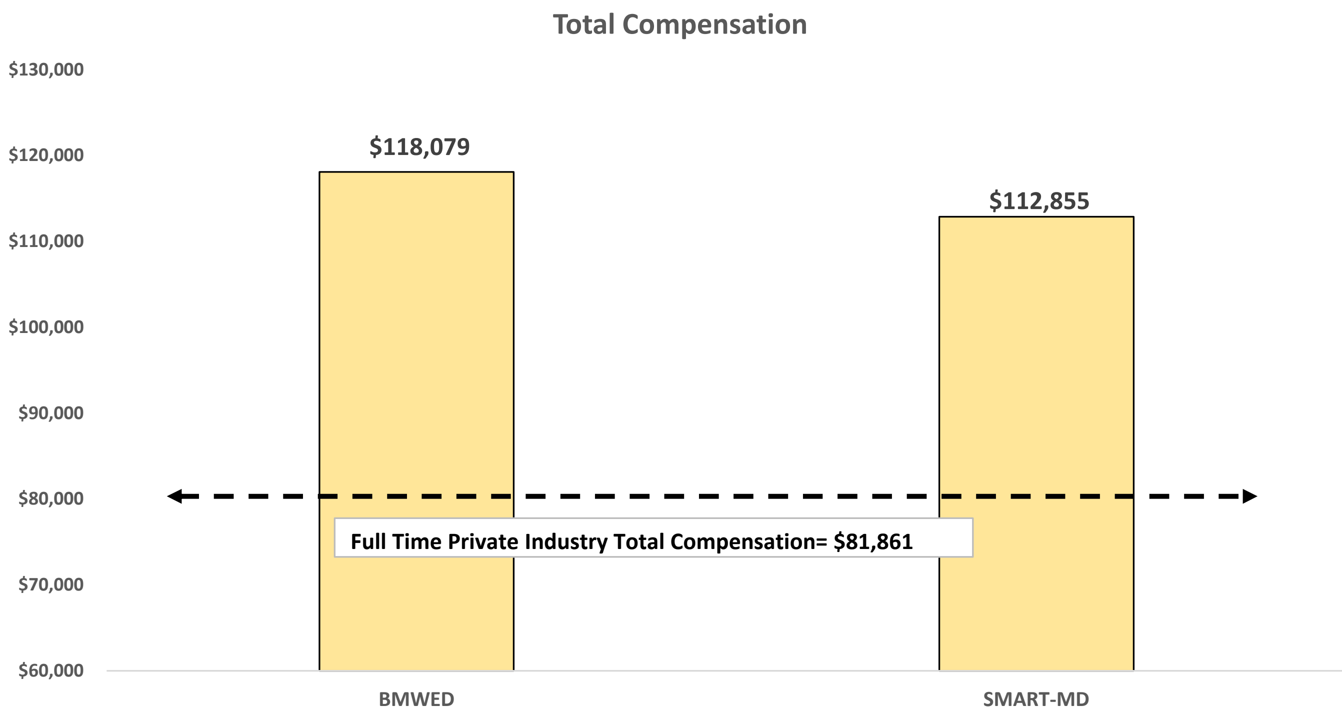


According to Forbes, Return on equity (ROE) is *"A measure of performance that indicates how much profit the company was able to generate for each dollar invested by shareholders."*

Return on equity = net profit / shareholders' equity. Source: AAR, *Fortune* magazine

Rail Employee Compensation & Benefits

Rail employees represented by the BMWED & SMART-MD unions receive higher compensation than the average US worker, and remain among the highest paid industry groups.



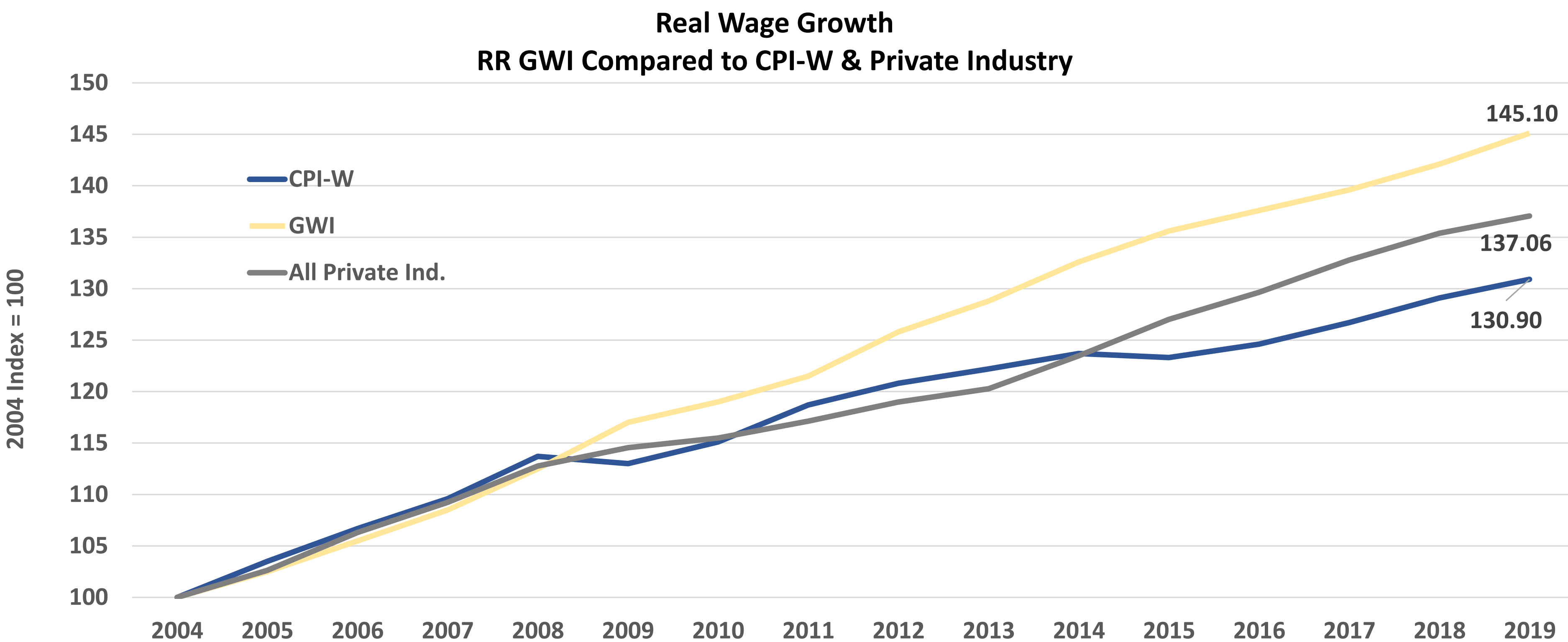
Source: 2019 A300 Class I RR Wage Statistics , BLS EMPLOYER COSTS FOR EMPLOYEE COMPENSATION – DECEMBER 2019 & NRLC

94% of US workers are employed in industries with lower total average compensation than the railroad industry, including:

- Legal services
- Chemical products mfg.
- Air, water, truck, and transit transportation
- Transportation equipment mfg.
- Motion picture & sound recording
- Mining
- Electrical equipment & components mfg.
- State and local government
- Primary metal mfg.
- Construction

Source: US. Dept. of Commerce Bureau of Economic Analysis National Income & Product Accounts, 2019; per FTE

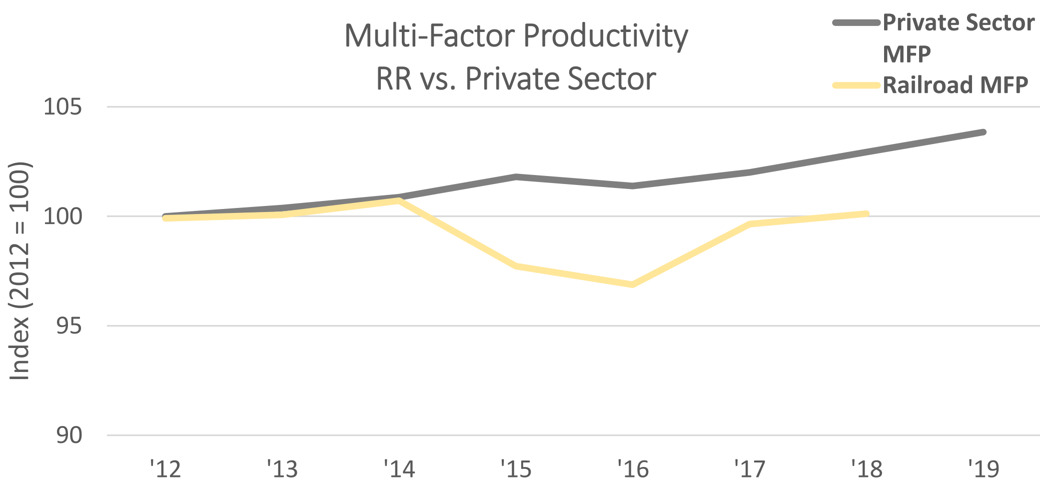
Rail employees have experienced significant growth in real wages over the last three rounds that puts rail employees in a preferred position versus peers



Source: Bureau of Labor Statistics

Overall productivity improvements in the railroad industry do not justify increases in employee compensation

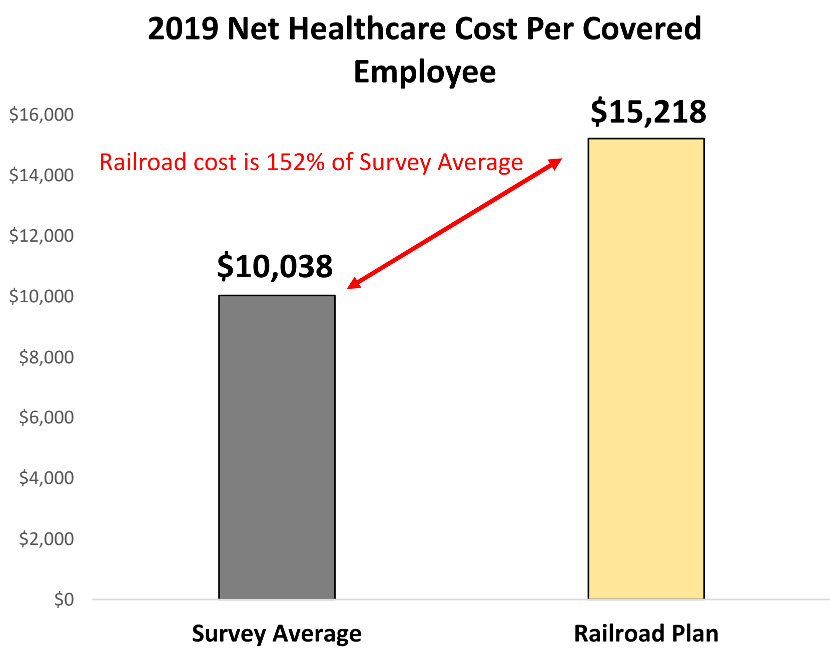
- Multi-factor productivity is the correct measure of productivity because it considers the combined impact of all inputs involved in production, not just a single factor such as output-per-hour-worked.
- Modern Railroad productivity improvements have largely resulted from capital investments in infrastructure, equipment, and technology, along with the implementation of operational changes. Examining only changes in output-per-hour-worked does not account for the various factors of productivity.
- Railroad multi-factor productivity has leveled off and even fallen in recent years while productivity in the private sector has increased. As a result, the freight railroad industry now faces a challenge to keep pace with the productivity growth in the broader U.S. economy.



Since 2015, the Railroad Industry has underperformed in Multi-Factor Productivity against the private sector.

Source: Bureau of Labor Statistics

The Railroad Health Plans are amongst the most expensive the in the U.S. and should adopt mainstream provisions to support their long-term sustainability and achieve better health outcomes



(Plan Cost Per Employee Minus the Employee Contribution)

1. The U.S. health care system is complex for consumers to navigate, leading to unnecessary expense and inefficiency
2. Member engagement in the Plan is very low and leads to the twin failures of poor health outcomes, including rates of chronic conditions far above norms, and elevated waste (poor decisions)
3. Dependent enrollment in the Plans, which drives 65% of Plan cost, is far in excess of employer norms
4. Static Plan benefit features cause cost sharing to erode each year
5. Benefit delivery is suboptimal and utilization rates of new programs to achieve better health outcomes are well below average

Surveys: Willis Towers Watson, Aon, and PwC

The Beneficial Cycle

Railroad profitability drives a beneficial cycle for all stakeholders