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Testimony before the Surface Transportation Board

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Thank you Mr. Chairman. I am delighted to be here this morning to share with you the CSX view on the Conrail transaction and the oversight period that is now drawing to a close.

My testimony this morning won't read like one of those old O. Henry short stories – always in doubt, right up to the surprise ending. I will tell you right at the outset today the three points that make up my message:

We believe the Conrail transaction to be a success... We believe the Board's 5-year oversight period that followed the transaction has achieved its objectives; and that we are now at a time when additional oversight is unnecessary – and the ordinary authority of the STB is more than sufficient to ensure that the public good continues to be served.

Our success is a credit to the Board – both for your oversight role and for your role in the development of the Safety Integration Plan. And, it's a credit to my colleagues on the CSX team, and at Conrail and NS as well – who, despite our otherwise fierce competitive

relationship, made sure this transaction was a success for all concerned, especially rail customers and the American consumer.

From the outset, we saw the Conrail Transaction as a tremendous strategic opportunity. The challenge was to achieve something that had never been done before – divide a Class I railroad, integrate it effectively and create a competitively balanced eastern railroad system. I believe that working with the STB, and with NS, we have risen to the challenge.

When you look at what has been achieved over the past five years – on behalf of our customers, short line partners, employees, and the public -- as well as our own long-term growth – and then compare it to the objectives, it is clear the Transaction has been a success.

- We set out to extend market reach into the northeast and within the Midwest, growing traffic and replacing exclusivity with competition.
- We set out to provide customers with two balanced rail competitors in the East.
- We set out to improve efficiency.
- We set out to make significant capital investments to improve the infrastructure.

- We set out to shift traffic from other modes to our railroad, easing the burden on U.S. highways, with all the benefits that entails for the environment and transportation safety.

By any one of those measures, the transaction was a positive – by all of those measures, taken together, a success that strengthens transportation in the United States.

Without question, this Transaction has done what we said it would do: It has brought balanced rail competition to the major markets of the Mid-Atlantic and Northeast -- areas formerly served solely by Conrail.

Mr. Chairman, CSX also takes enormous pride that we executed this complex transaction safely – the most important task faced by any railroad. That was something that was drilled into me from my first day on the Chessie System 27 years ago, and it is fundamental at CSX today.

In the rail business, you can't talk about service without taking about safety. Good operations are safe operations – period. I believe we set the pattern on Split Date – a direct result of more than a year of intense planning and preparation. I managed the integration effort for CSXT, and it was a major challenge. We had trains on new routes, and crews on new territories. We had to face overnight changeovers in information systems with tremendous potential for error. All of this had to be accomplished in the unforgiving railroad environment. We came through the split safely. That achievement

speaks not just to the commitment of our managers, but also to the dedication of our crews, dispatchers, yardmasters, and indeed all of the 34,000 employees of CSX. And, it demonstrates the extraordinary level of cooperation between Norfolk Southern and CSX.

Mr. Chairman, you know me – I always tell it like it is. The fact is, after two years of hard-won improvements in 2001 and 2002, our safety record slipped in 2003. There are no excuses for this. Just as we have with our operational changes, we have put renewed accountability on our managers to restore the safety levels we have achieved before, and set our sights on taking home the Harriman Award – the rail industry's award for the nation's safest railroad.

What I want to do for the next few minutes is take a deeper look at the five objectives I outlined and describe how the Transaction has worked to the overall benefit of all stakeholders.

Opening New Markets

First, Mr. Chairman, is the goal of opening new markets. It was strategically vital for CSX to extend its market reach into the Northeast. The largest consumer market in the country, and the largest port on the east coast, was just out of reach. We knew we had to be there. The Conrail acquisition gave us the opportunity.

Our ability to compete in northeastern markets – and our enhanced capacity in the Midwest – has been pivotal to an important element in our competitive strategy: Increased modal conversions – moving traffic from trucks and barges over to rail.

Mr. Chairman, you've heard a lot about truck-to-rail conversions, but we're winning business from water carriers too. Here's a quick snapshot of the kinds of moves we've been able to make since the Conrail transaction:

- With USX in the first quarter, we moved more than 1,200 cars of coking coal from Bessemer, PA to Gary, Indiana. This movement displaced four 25,000-ton vessels.
- Working with General Mills, we are moving an anticipated 1500 carloads of wheat from two Great Lakes locations to Buffalo, displacing 20 barges a year.

On the truck side of modal conversions, intermodal traffic will continue to be our biggest growth market for the foreseeable future. As more goods are produced overseas and shipped to the United States in containers, CSX Intermodal is in an excellent position to move them. For CSX, intermodal traffic is up 11% since the Transaction was completed. This is the result of strong increases in east-west traffic and the infrastructure investments we made to ensure our physical plant could provide the capacity necessary to meet new customer demand.

As an example, we invested \$2.3 million last year to expand our Bedford Park Intermodal Terminal to address increasing customer demand and operating constraints.

In addition, to complement our B&O capacity project, which I will discuss later, we constructed the 59th Street Intermodal Terminal in Chicago, to meet the market growth of the Conrail transaction.

In addition to growing our business through modal shifts, CSXT is reaching new markets with new services.

Take the new market we're making as we move municipal solid waste – from the Northeast, which is home to the greatest concentration of consumption in the country, to underutilized landfills in the southern U.S. This is a market that didn't exist for us four years ago. Now, building on the economies and efficiency of rail – it's grown to \$120 million last year, a new record.

There's also TRANSFLO, our integrated provider of logistics management, distribution services, and bulk transloading. We have a TRANSFLO terminal within 50 miles of every major metropolitan city on our 23-state system. By enabling customers to reach buyers who don't have rail sidings, TRANSFLO has enabled us to grow our market position in the northeast.

Another example is ExpressLane, a CSXT/UP service that moves perishable goods quickly across the country in temperature-controlled boxcars that preserve fruits,

vegetables, and other time-sensitive products – and get them to their intended markets while consumers still have plenty of time to enjoy them.

We're proud of this kind of innovation. And we recognize that the STB's Conrail decision helped make its success possible.

Balanced Rail Competition in the East

The second objective of the Transaction that I mentioned, Mr. Chairman, was to bring balanced rail competition to the East. This has yielded significant benefits, according to many who feel the impact every day – including port authorities such as the Port Authority of New York and New Jersey, and NIT League members and shippers.

When you look at the competitive service the East now enjoys, it's important to keep in mind that it benefits the region as a whole, not just those areas that see direct rail-to-rail competition. If a major retailer, for example, is looking to locate a warehouse in the region, the fact that it has two Class I railroads competing to provide service widens the options. This is exactly what balanced competition in the East means.

I think all of us involved recognized from the outset that the Transaction would present unique challenges. As you know, Mr. Chairman, we spent a great deal of time in Trenton last month talking about operations in the Shared Asset Areas – a true success story, as two fierce competitors have proven that they can work together. Three carriers operating

in the Shared Asset Areas – on infrastructure designed for only one -- is an example of the difficulties we faced – and how successfully we have followed through.

Mr. Chairman, we've seen the operating cooperation in the Shared Asset Areas replicated in other areas on our system. Consider the rail service for shippers in the Monongahela Coal Area. Christopher Marsh of Consol Energy is here today, and I know he will be speaking about our success there. As you know, Conrail's former Monongahela Railroad properties were conveyed to Norfolk Southern, but CSX paid to have full and equal access to the mines served on the line. Obviously, this presented challenging operational issues – two operators sharing what is mostly single-track railroad, with relatively few passing sidings. In addition, it is often complicated to load at a mine, and MGA lines are often blocked.

The solution? CSXT agreed to an operating arrangement under which NS conducts all operations on the line, using CSXT locomotives to position our coal cars for our customers. It was not an easy decision – giving our competitor sole control over service to a number of our customers. Ultimately, this required trust in our competitor, the NS...but the success of this operation demonstrates that that trust was well founded.

Increased Efficiency

Mr. Chairman, we have pursued another of our goals – increased efficiency – in several ways.

First and foremost, consider the benefits afforded many shippers through new, single-line service. By eliminating interchange between CSXT and Conrail, we reduced costs and reduced transit times...and the development of more direct routes resulted in increased commercial opportunities for shippers. In addition, our expanded network and development of more direct routes have made CSX competitive with trucks in the intermodal business, TRANSFLO, waste products, produce, and many other markets.

We've also improved car handling -- reducing handlings between CSXT and CN, BN, and UP between 5 and 12 per cent -- due to Gateway Optimization, largely made possible by the Conrail Transaction. The increased volumes help us move more "run-through" trains, without interchanges that add an average 24-hour delay. We've also been able to expand our "pre-blocking" capability -- where blocks of cars can be handed off between carriers as single units. Our customers have benefited by reduced handling damage, improved transit times, and the introduction of new competitive products made possible by improved utilization of assets.

Infrastructure Investments

Another of our objectives was to make significant capital investments in infrastructure. We proposed about 50 capital projects in our Transaction Application -- and we've completed almost all of them, from the construction and upgrading of mainline tracks, connection tracks, and sidings; to the installation of new signaling systems, control systems and the expansion and upgrade of many yards and intermodal facilities.

Overall, we have invested almost \$800 million to integrate the Conrail assets into the CSXT system. That includes our B&O double track project: CSXT's \$220 million dollar centerpiece capital project to fully exploit the opportunities of acquiring our share of Conrail. This new double-track rail superhighway connects CSXT's former B&O mainline to Chicago with Conrail's Water Level Route to New York. The B&O double track -- which took 18 months to complete -- added 101 miles of new second main line, making it one of the most ambitious rail building projects undertaken anytime in the last 25 years.

In addition to the capital projects described in our June 2000, 2001 and 2002 filings, we also invested in our infrastructure and in the communities through which we operate in connection with the Board's environmental conditions and our settlement agreements. In the Shared Assets Areas in particular, CSX and NS have also invested \$75 million from 2000 through 2003 to maintain, enhance and upgrade our shared infrastructure.

Mr. Chairman, we were together at the announcement of the CREATE project in Chicago last year -- and I know the personal interest you take in this kind of collaborative, cooperative project, in which the federal government, cities, states, and railroads are investing \$1.5 billion in essential infrastructure -- eliminating commuter delays both by rail and on the highway, and opening commercial development of a key downtown Chicago corridor. Of that \$1.5 billion, railroads are putting up more than \$200 million. To my mind, the Conrail transaction facilitated CREATE by making it simpler to reach a unified rail position on the project. Without the Transaction, we would have had one

more Eastern railroad at the table, with one more point of view, making it just that much more difficult to achieve the consensus essential to CREATE.

Reducing Truck Traffic

Of course, the true test of this or any Transaction is whether it improves competitiveness – and thereby serves the consumer. That's the beauty of our market system – and it's the basis of the gains we see from the Conrail transaction.

Strip away the complexities and CSX's goal is simple: Grow revenues profitably. But in doing so, we contribute significantly to reducing highway freight traffic. Our goal is bottom-line driven, of course, but it also contributes significantly to the relief of congested highways and diminished air pollution emissions.

And, as the Board's environmental analysis concluded, modal conversion reduces energy consumption significantly.

As we forecast seven years ago in our original application, the Transaction has indeed converted traffic from the highways to our railroads. We've developed some innovative ways to achieve that.

One example is our Load Board initiative, which allows CSX Intermodal to provide capacity in the spot market for brokered freight. Here's how it works: First we inventory

our excess train capacity, then we get online and bid to carry freight otherwise destined for truck transport. It's a door-to-door solution. This was non-existent business for us two years ago and today we're moving 1,500 truckloads per week through the Load Board – and we don't think we're anywhere near this program's potential.

Building for the Future

Mr. Chairman, a moment ago I described the hundreds of millions of dollars we have invested in capital infrastructure, improved efficiency, and new products. The competitive market we're in guarantees that the investments we're making won't stop even when your oversight ends. When you look at the investments we've made, it is not surprising that public benefits have come faster than private benefits – and that the benefits have reached our customers even before they've reached our shareholders.

Here's what we're doing going forward:

We've launched a management restructuring and organizational effectiveness initiative to better focus on the highest value work, give our managers clear roles and increased responsibility, and -- as a catalyst for superior performance – give additional emphasis to that critical ingredient: Accountability. We've already reduced the number of management layers from 11 to a maximum of eight. For many managers, we increased the number of direct reports. And across the company, we've got a team in place that is a

terrific mix of professionals: Experienced railroaders, plus accomplished people from outside the industry who are enriching CSX with their fresh insights and new energy.

I mentioned our ONE Plan initiative earlier this morning -- our major network redesign.

At the heart of our ONE Plan is the opportunity to make our routings and handlings more efficient. And in doing so, we'll reduce dwell time...creating new locomotive capacity.

We'll eliminate terminal handlings...and for every handling we eliminate, we take approximately 24 hours off delivery time. And we'll save on car-miles too...Each car-mile we save is worth more than 40 cents per car. Last year we moved over three billion car miles in our merchandise markets alone...so the potential cost savings are obvious.

ONE Plan is our way to deliver on our operating and financial improvement goals -- the only way to effectively compete in the marketplace, and provide the service our customers have come to expect.

Beyond our ONE Plan, we're focused on the sale or lease of between 800 and 1200 miles of railroad across our system. Our assessment suggests that short lines are better positioned to manage some parts of the network, and the sale or lease of this track will better enable us to maintain the right-sized system, better manage capital requirements and expenses, while still generating new, quality revenue.

These are just a few of the ways we're positioning ourselves for progress in the years ahead.

We have invested in improved capacity – locomotives, terminals, and line of road.

We have invested in the development of Internet-based customer service tools, in keeping with our philosophy that CSX wants to be easy to do business with. We have invested in new products that allow us to reach beyond our track network – such as TRANSFLO and Intermodal.

We have invested in the environment. That includes our development of an innovative system that cuts down locomotive idling time, improving our fuel efficiency and reducing air pollution. With fuel prices now over \$1 per gallon, this is also an increasingly significant aspect of cost controls.

In short, we have invested in the future. We are building a stronger tomorrow for CSX, by improving our ability to meet our customers' needs today.

In the next few years, we expect our shareholders to see the benefits of continued growth and operating efficiencies. The Conrail Transaction has positioned CSX to reap the operating efficiencies of an expanded network.

CSX has already had tremendous success in growing our revenue, including eight consecutive quarters of surface transportation revenue growth, despite a soft economy. Last year CSX produced revenue growth that outpaced the general economy in many commodity areas. Over the last two quarters, surface transportation revenue was the highest on record.

We're going to continue to focus on profitable revenue growth – matching our capacity to grow revenue with a comparable ability to cut costs...

...And we're going to do that while continuing to introduce innovative products and technologies.

The Conrail Transaction laid the basis for more efficient operations, including fewer train miles due to more direct routes, reduced switching costs, and more efficient car utilization. We are determined to build on that base.

I am confident that these steps – combined with our investments in products, systems and technology – will lead to the profitability we are targeting.

A Successful Oversight

Mr. Chairman, as this oversight process draws to a close and I look back over the past five years, I am proud of how much we have achieved. I want to thank the team at CSX,

and our partners in the process at Conrail and NS. I also want to thank you and the staff at the Surface Transportation Board for guiding this process toward the public good. As citizens, we sometimes hear about government efforts that go awry. To the contrary, this is one of the instances where government goals were met, and where government oversight achieved its objective.

Mr. Chairman, the benefits of this transaction have been widespread.

- Extending market reach into the Northeast.
- Providing two balanced competitors in the East.
- Improving service and efficiency.
- Making significant capital investments in infrastructure.
- Taking trucks off the highways

...All in ways that promote the competition that benefits our customers, who in turn serve the consumer.

Mr. Chairman, you have my word that that focus – serving the customers who serve the consumer – will remain the goal that guides CSX. Thank you. I look forward to your questions.