2020 Bargaining Round

BMWED & SMART-Mechanical Negotiations

April 15, 2020

Modernizing the Freight Rail Industry

New Technologies

New Operating Procedures

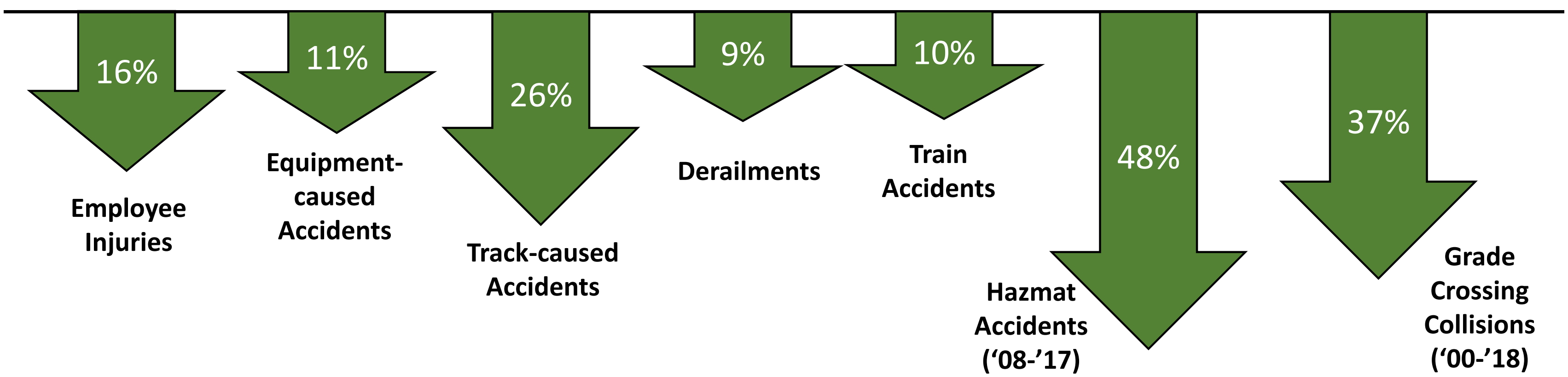
New Business Lines

Technology Is Rapidly Changing Our Industry

Big Data	AI
Smart Sensors	Drones
Wireless Systems	PTC

Technology And Investment Is Driving Safety Performance

- Due to improved operating procedures, significant investments in equipment and infrastructure and the adoption of available technologies, the last decade has been the safest on record in the rail industry.
- Fully enabling available new technologies, and continuing capital and maintenance investments – typically $250,000 per mile of rail per year – will drive even greater safety performance.
- Since 2009, key safety metrics have significantly improved:

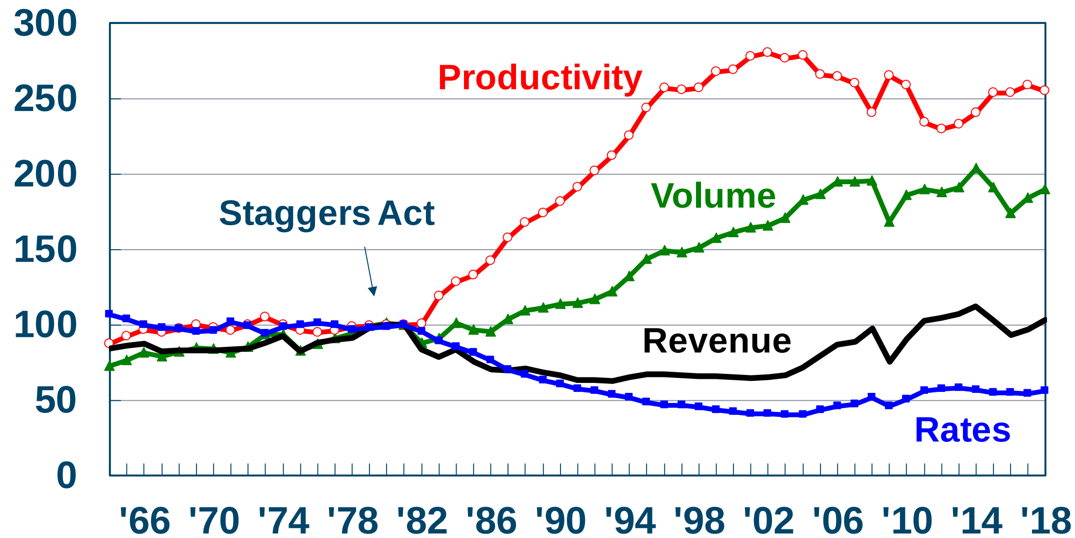


Despite Improvement, Industry's Overall Economic Picture Is Mixed

- Railroads face unrelenting pressure to price services to the market and not to costs while remaining broadly exposed to macro-economic conditions, policy decisions, trade uncertainty, and significant disruption and change in core commodity markets. Additionally, the COVID-19 pandemic has changed the outlook for the short-term and will have an uncertain impact on long term growth.

- Since the Staggers Act was passed in 1980, the industry's rates have declined more than 40%, revenue is flat, volume has increased more than 80%, and productivity, after an initial increase, is the same as it was 20 years ago

- The effect of all these forces means that most of the productivity gains of the 1980s and 1990s have been passed through to rail customers.



Source: AAR

(index 1981 = 100)

Industry’s Recent Economic Trends Are Not Positive

- 2019 was a challenging year for rail traffic:
  - Total carloads dropped 5% versus 2018, were down 14% versus 2014, and were fewest on record since 1988 when tracking began
  - Traffic trended worse at year-end – carloads were down 9.2% in December
  - A decline in 15 out of 20 carload categories, including 9.2% decline in coal and
- Given traffic trends, 2020 was shaping up to be a challenging year even before the COVID-19 pandemic
- It is not yet possible to predict the full impact of the pandemic on the railroads as the situation continues to unfold
  - Railroads are currently experiencing reductions in traffic, with the week ending April 4, 2020 down 16.1% vs. 2019
  - With many economists predicting a significant downturn in GDP as a result of the pandemic, it is possible that COVID-19 traffic impacts may be both substantial and sustained
- Impact of reduced rail traffic is significant and directly connected and related to the long-term challenges and change facing the industry. The recent crisis highlights the need to remain prudent about managing the operation and all costs
- The recent drop in crude oil prices adds to the pressure on industry economics as domestic crude oil-related traffic is curtailed and rail customers take advantage of reduced trucking fuel costs

Today's Industry Faces Significant Challenges

Shift in Traffic Mix	With $5B in average annual coal revenue lost since 2011, the industry is more dependent on low margin traffic
Trucking Advancements	With increased automation, lower fuel prices, platooning, and the prospect of electrification, industry faces exposure to significantly enhanced competition from trucks
Evolving Economy	With the service economy increasing its share of U.S. GDP, goods-oriented industries facing increased global competition, and uncertainties associated with the COVID-19 pandemic recovery, railroads must be flexible and adapt services to keep pace
Pricing Pressure	Railroads face limited ability to raise prices in the face of competition, particularly for lower margin intermodal traffic, and increased regulatory threats

Industry Must Adapt To Meet Evolving Customer Demands & Options

Requires massive capital investments to meet shifting service requirements and vigorous cost control to improve efficiency, all in order to maintain and grow market share

Railroads Must Adapt How We Work To Compete

Account for Modern Technology

Enhance Safety

Improve Efficiency

Evolve Service Standards

Adapt to Modern Standards

Work Rule Reform & Modernization

Given the lack of any national work rule reform in decades, we now face an urgent need to adopt modern standards and update anachronistic rules in order to support the timely delivery of freight, enhance quality of life, produce better and more predictable schedules, and create a wider range of jobs with less travel

Railroad Employees Retain Advantage in Compensation Over Their Peers

Average Total Compensation Amongst Highest In Nation

- Average annual wage in 2018 was 40% higher than median U.S. income

Wages Have Far Exceeded Inflation

- 39.2% wage increase from 2008-2018 exceeded inflation rate by 85%

Combination of factors has driven a significant premium in wages for railroad employees relative to comparable workers. Bargaining over compensation must account for current labor market rates.

Compelling Need To Accelerate Modernization of Healthcare

Out-Dated Plan Design

Members Not Sufficiently Engaged

Poor Health Outcomes & Behaviors

Overutilization of Services

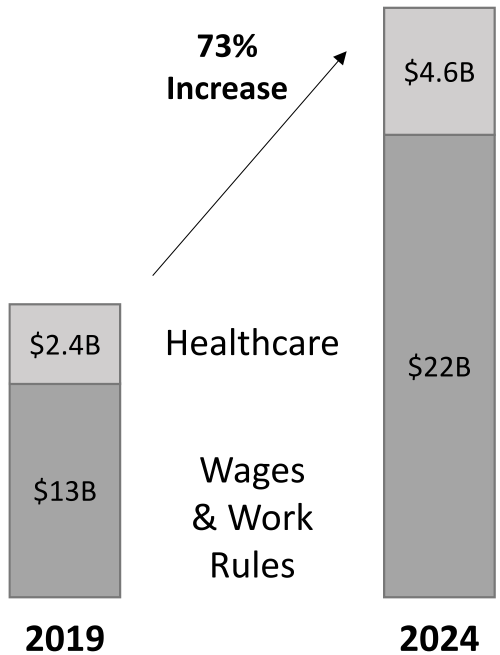
Expenditures Far Outside Mainstream

30% of Healthcare Expenses Are Unnecessary, Inefficient, Excessive or Fraudulent

Continuing progress toward modernizing and adopting mainstream approaches to healthcare will increase member engagement, reduce inefficiencies and waste, and improve poor healthcare outcomes

Labor Proposals Would Impose Significant, Unsustainable Costs

Labor Section 6 proposals would increase annual wage, work rule and benefit costs by approximately $11B, or 73%, by 2024.
As a result, Labor proposals present wholly unrealistic visions for industry future and are not starting points for bargaining during this pandemic or otherwise



Industry Prepared To Begin Substantive Negotiations

- The railroads are prepared to begin substantive negotiations on key topics and believe the parties should commit the time and analysis necessary to support those negotiations in earnest
- Back-dated pay adjustments are inconsistent with meaningful bargaining and the railroads' position will be for any wage changes to be effective on date-of-signing of new agreements
- Details on the Railroads' proposals on work rules and health & welfare are prepared and can be exchanged