



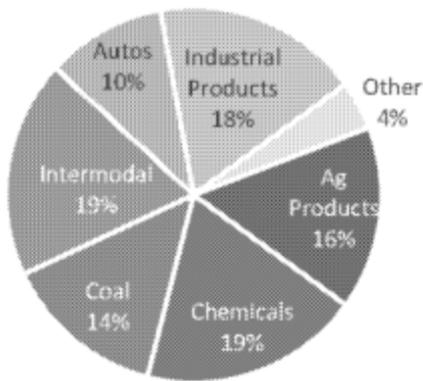
bargaining partner for CNI and CP, while UNIFOR also provides representation for employees of CNI. Canadian rails have a history of going on strike and often tense relations with management – CP workers went on strike for roughly one day in 2015 and for nine days in 2012 before the Teamsters union and CP agreed to arbitration over longwithstanding issues such as pay and benefits, the pension plan, rest time for employees, etc. The Canadian gov't stepped in with legislation to end the strike in 2012, and CNI narrowly avoided strikes in 2014 and 2015 after workers complained about the same issues as CP. Many of the changes brought about as part of Harrison's Precision Railroading plan at various railroads have led to tense relations between employees and mgmt.

Fuel: Railroad fuel surcharge revenue is pegged to either WTI crude or on-highway diesel prices, meaning that when either of these two commodities hits a certain level, customers will be charged a different price under fuel surcharge revenue agreements. The mechanism is typically structured with a two month lag, meaning the surcharge mechanism is pegged to a commodity price from two months ago (for example, on July 1 the mechanism will be utilizing May 1 prices). Because of the lag a rising fuel price environment will be a temporary drag on profitability and vice versa. We view these trends as neutral over a mid/long-term basis.

Rail End Markets Overview and Outlook

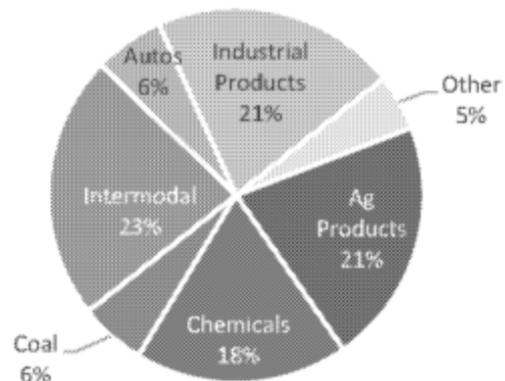
While demand for U.S. and Canadian carloads generally comes from similar sources, the revenue contribution varies given the difference in geographical footprints. We note that U.S. rails have significantly higher exposure to Coal (14% of revenue in 2016) relative to the Canadian rails (6% of revenue). As one would expect, agricultural products represent a bigger piece of the pie for Canadians (21% of revenue) than it does for the U.S. rails (16% of revenue). Below we provide a side-by-side breakdown of revenue contribution for the U.S. rails (CSX, NSC, & UNP cumulatively) vs. the Canadian rails (CNI & CP cumulatively).

Figure 39: U.S. rail revenue contribution 2016 (CSX, NSC, UNP)



Source: Deutsche Bank, Company filings

Figure 40: Canadian rail revenue contribution 2016 (CNI & CP)



Source: Deutsche Bank, Company filings

Intermodal

Intermodal volumes represented roughly half of all North American rail traffic in 2016. It encompasses freight movements using more than one mode of transport, i.e. ship to truck, truck to train, train to truck, etc. with multiple moves over