

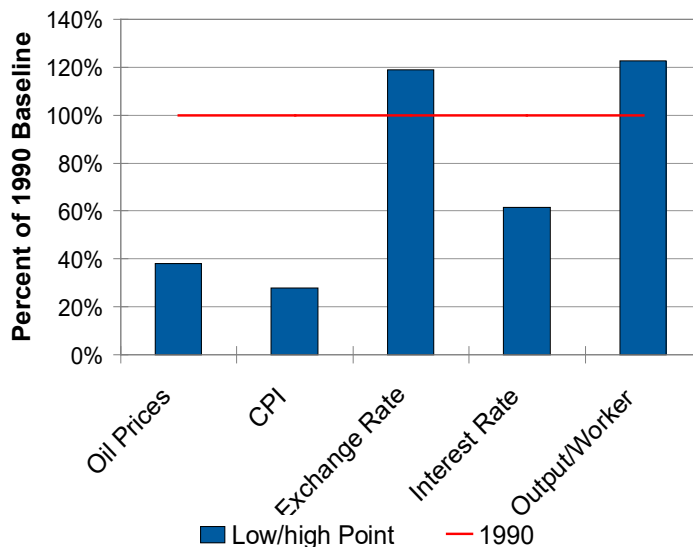
Intermodal Update

Special Committee on Wisconsin's
Transportation Infrastructure

December 14, 2004

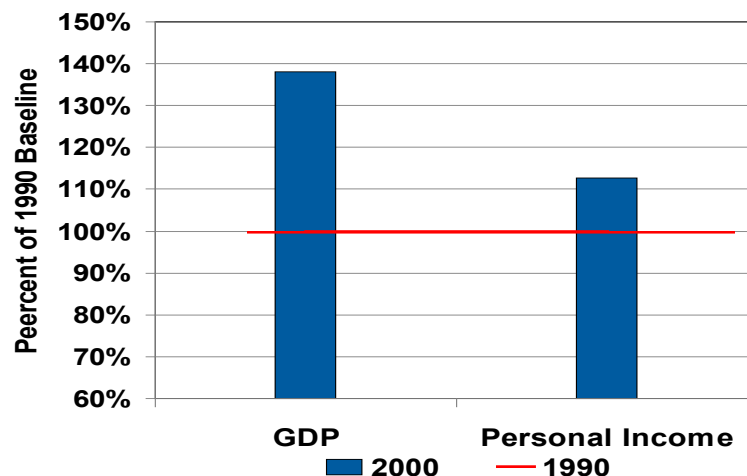
In the '90s, the U.S. was very successful due to inexpensive resources and productivity.

Positive Economic Drivers in the Nineties



Source: U.S. Government publications

Growth in U.S. GDP & Personal Income



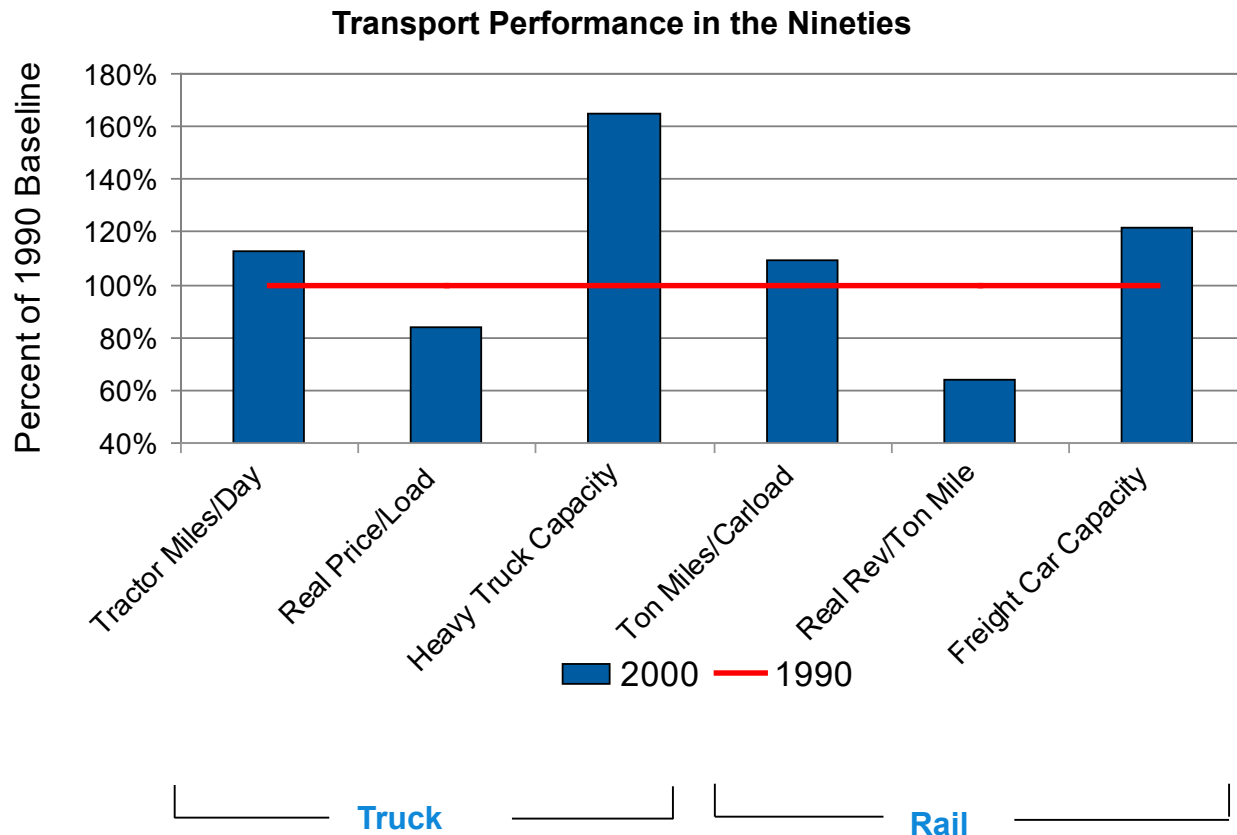
Source: FTR & US DOC

Wealth statistics:

- Stock values increased five-fold
- Federal annual budget deficit went from \$-221B to \$+236B
- Real returns to investment averaged 8.5%

Source: Various

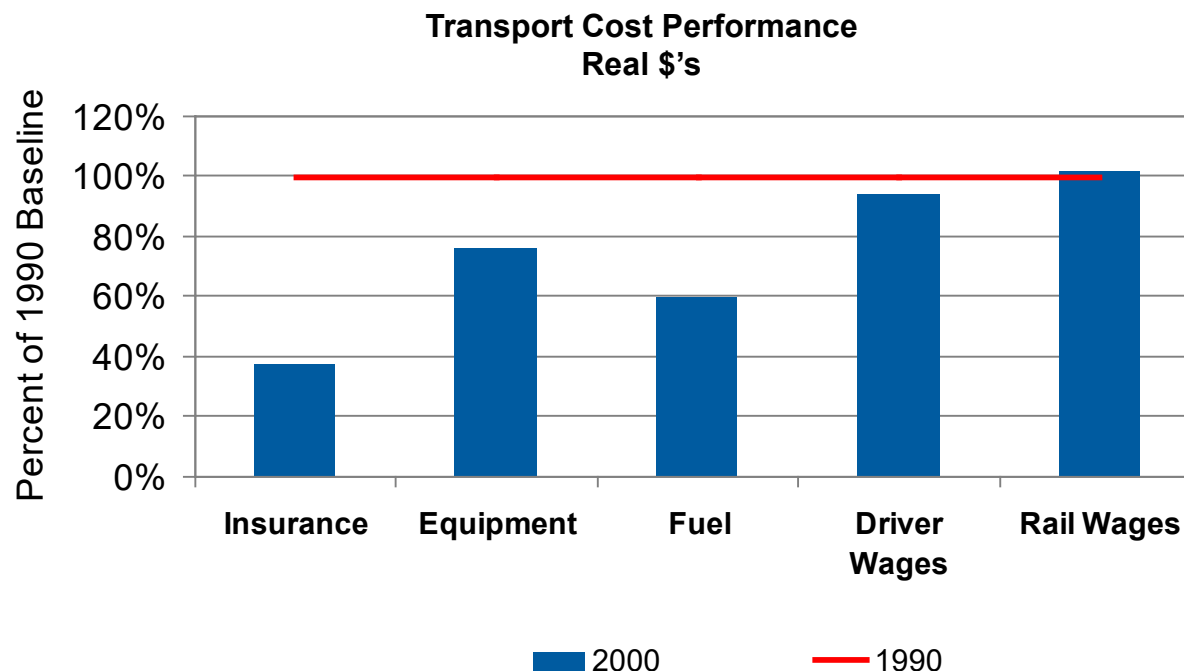
The transportation sector played a strong role in the success and customers benefited in service, price and capacity.



Source: FTR, ACT, Schneider National, Inc., AAR

Note: Rail rate reductions include the mix effect of a shift to lower value commodities

A favorable environment boosted the transportation industry between 1990 and 2000.



Source: Schneider National, Inc., AAR and industry estimates

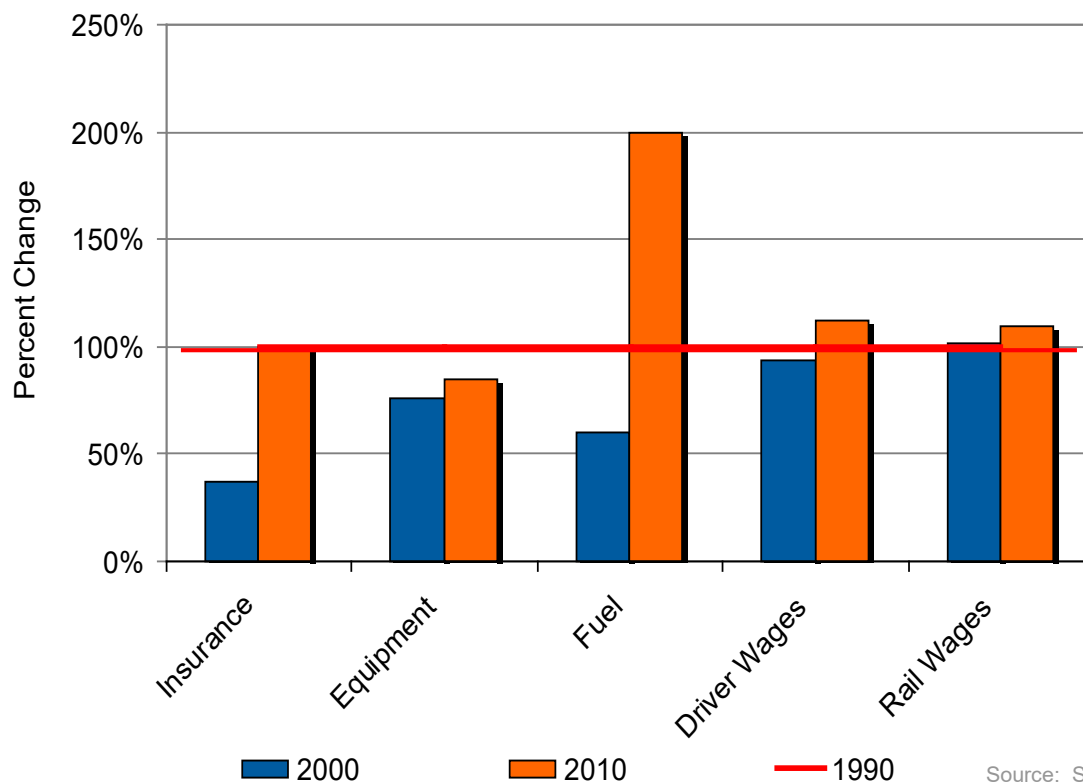
Additional Statistics:

- Cost of capital fell 15% 1994-2000
- Rail wage cost/ton mile fell 21% 1990-2000

Source: Schneider National, Inc.,
AAR

However, in 2000 we entered a period of recovery when the underlying cost trends were unfavorable.

Truck Cost Performance History



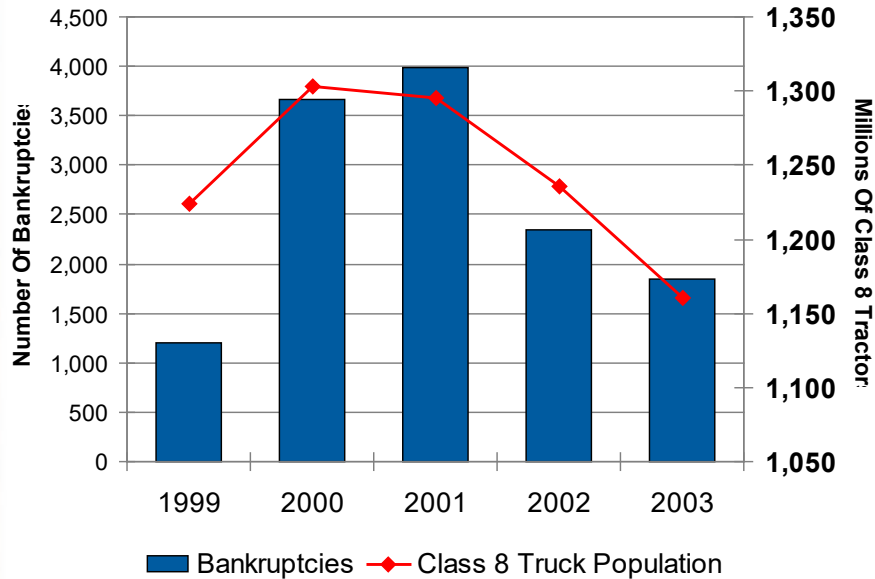
Source: Schneider National, Inc.



Fundamental cost increases cannot be overcome by productivity improvements

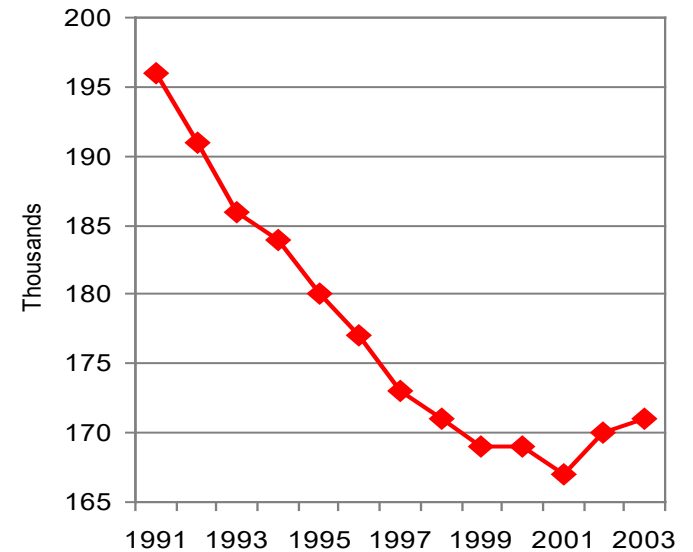
Capital shortages have led to capacity decreases.

Trucking Conditions 1999 - 2002



Source: AG Edwards, FTR

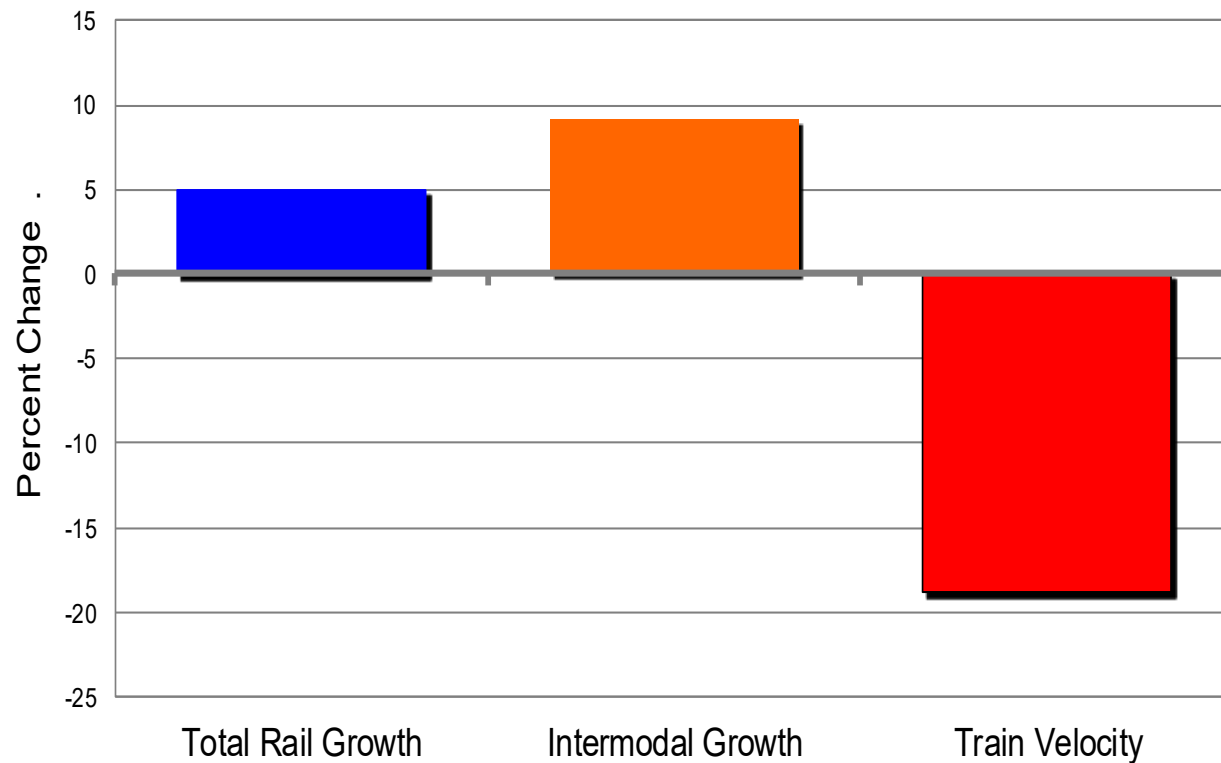
U.S. Rail Track Miles



Rails have reached the point where any stress causes congestion in their networks

And, the railroads are not an unlimited source of alternative capacity.

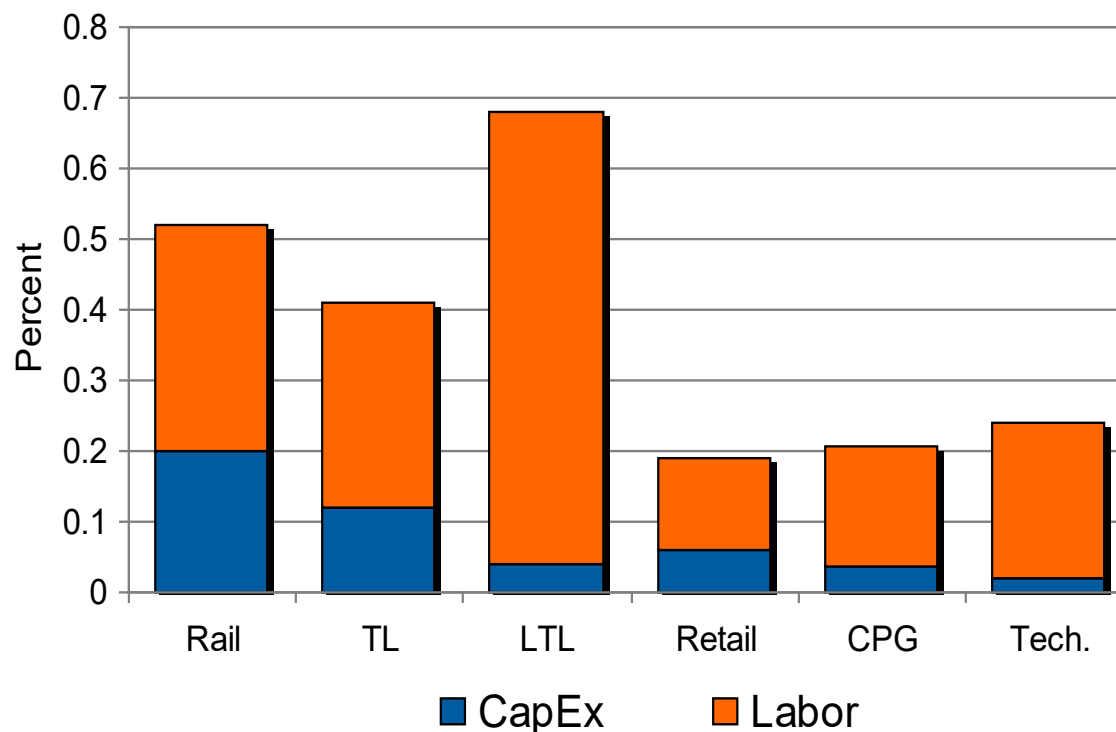
Rail Growth and Operating Performance – 2004 vs. 2003



Rail network dynamics quickly create congestion when capacity is tight

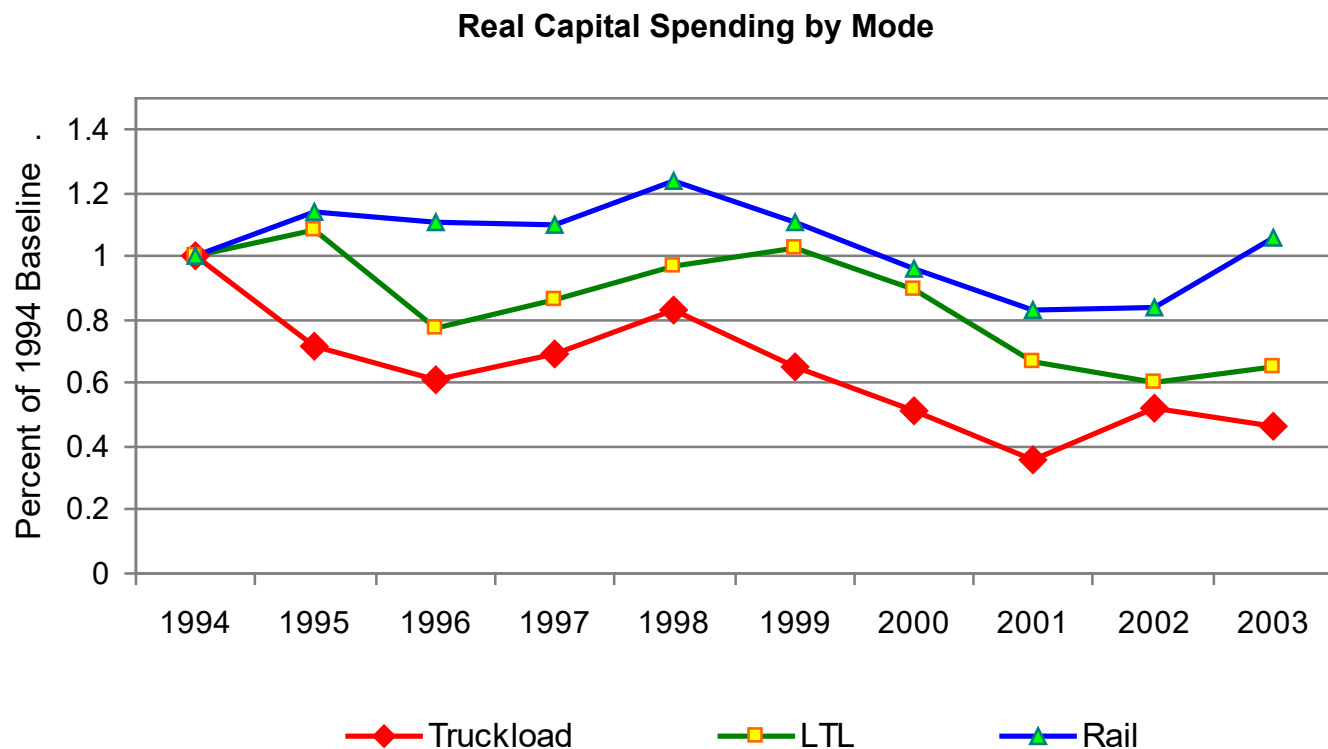
Transportation firms are heavy users of both labor and capital.

Annual Capital Expenditures and Labor Costs
as a Percent of Revenue



The health of the industry is
dependent on these two factors

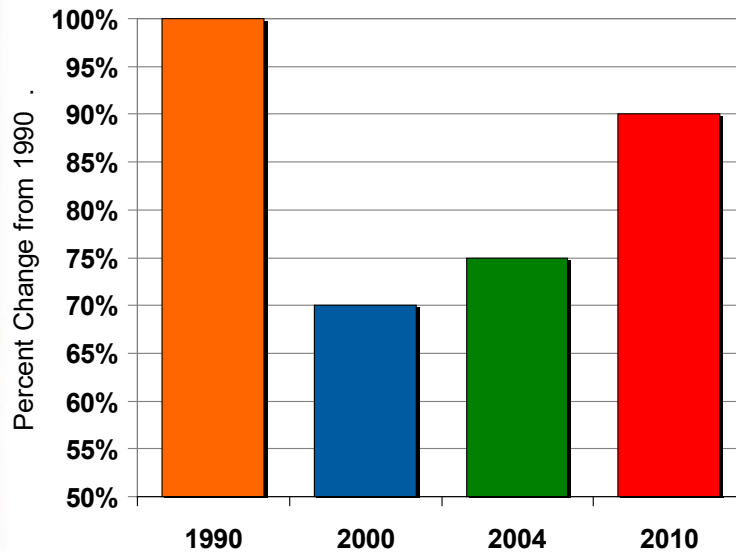
Capital spending has been on a downward trend, despite a 12% growth in tonnage over the period displayed.



Since peaking in 1998, capital spending has fallen an average of more than 30% for the three modes

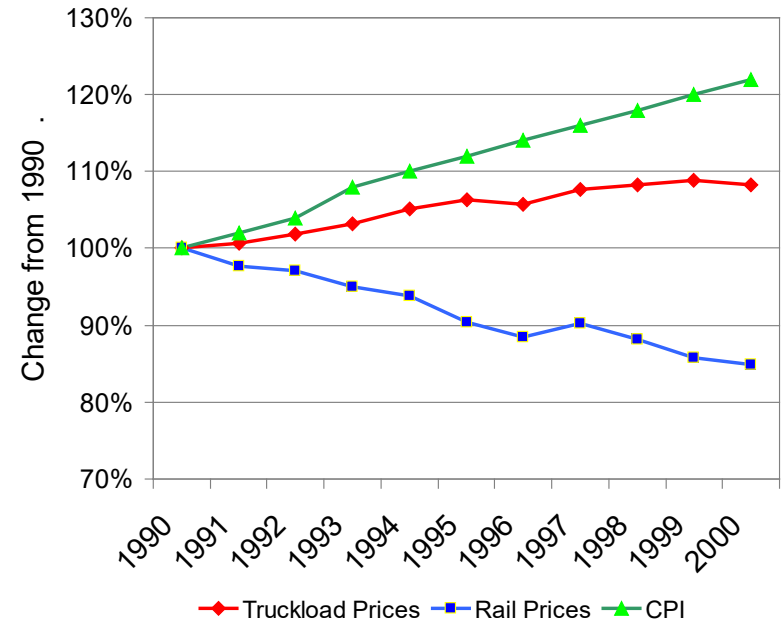
Current pricing activities are responses to pressures for improvement in traditional operating ratios.

Real Price of Long Haul Truckload Transportation



Source:
Schneider
National, Inc.

Transport Prices and Inflation

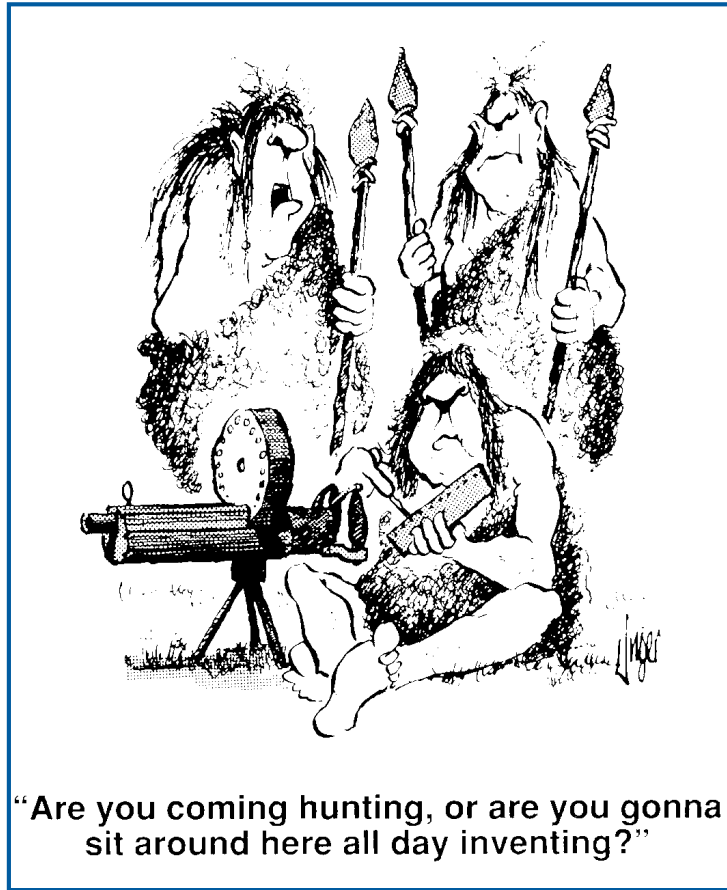


Source: Schneider National, Inc., Morgan Stanley, FTR



Companies now look closely at capacity and price -- indicating the industry has entered an era when returning the cost of capital matters

Unusual times require unusual measures.



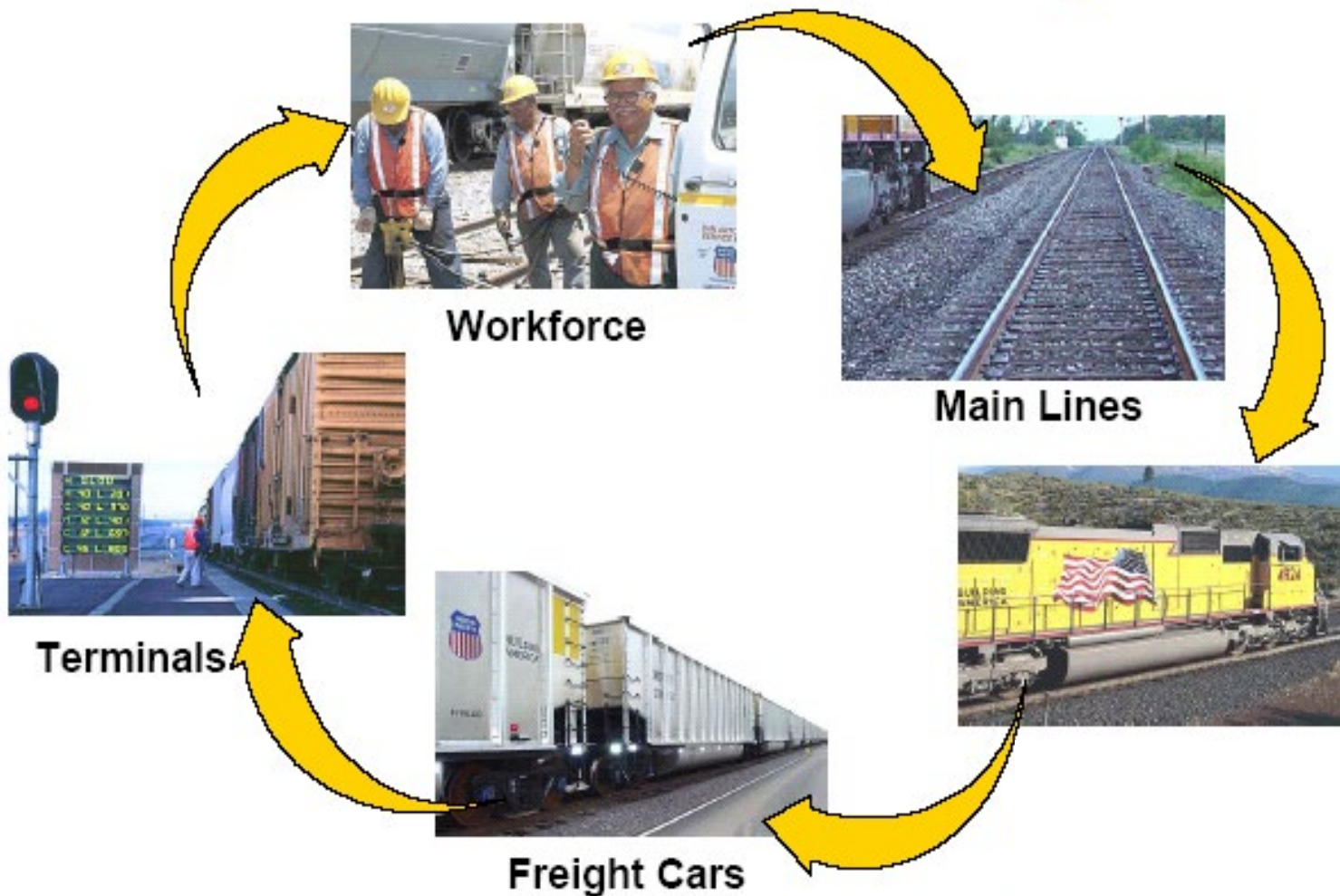
- The capital-intensive nature of the transportation industry requires that it earn its cost of capital, for reinvestment to occur
- The labor-intensive nature of the industry will impact cost and ultimately price if capacity is going to grow



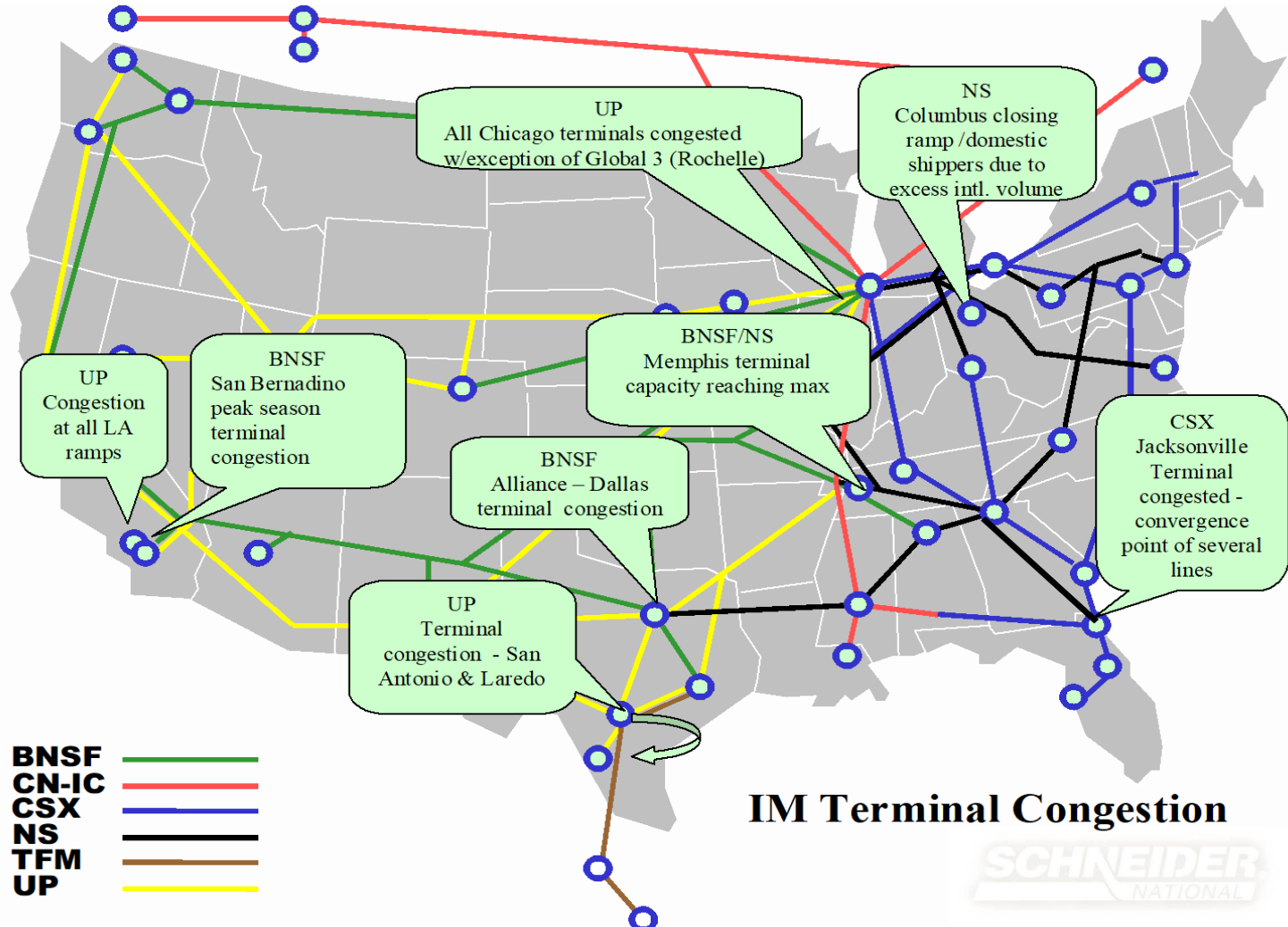
The industry has gone through a fundamental shift; approaches to operating strategies must follow

Creating rail capacity

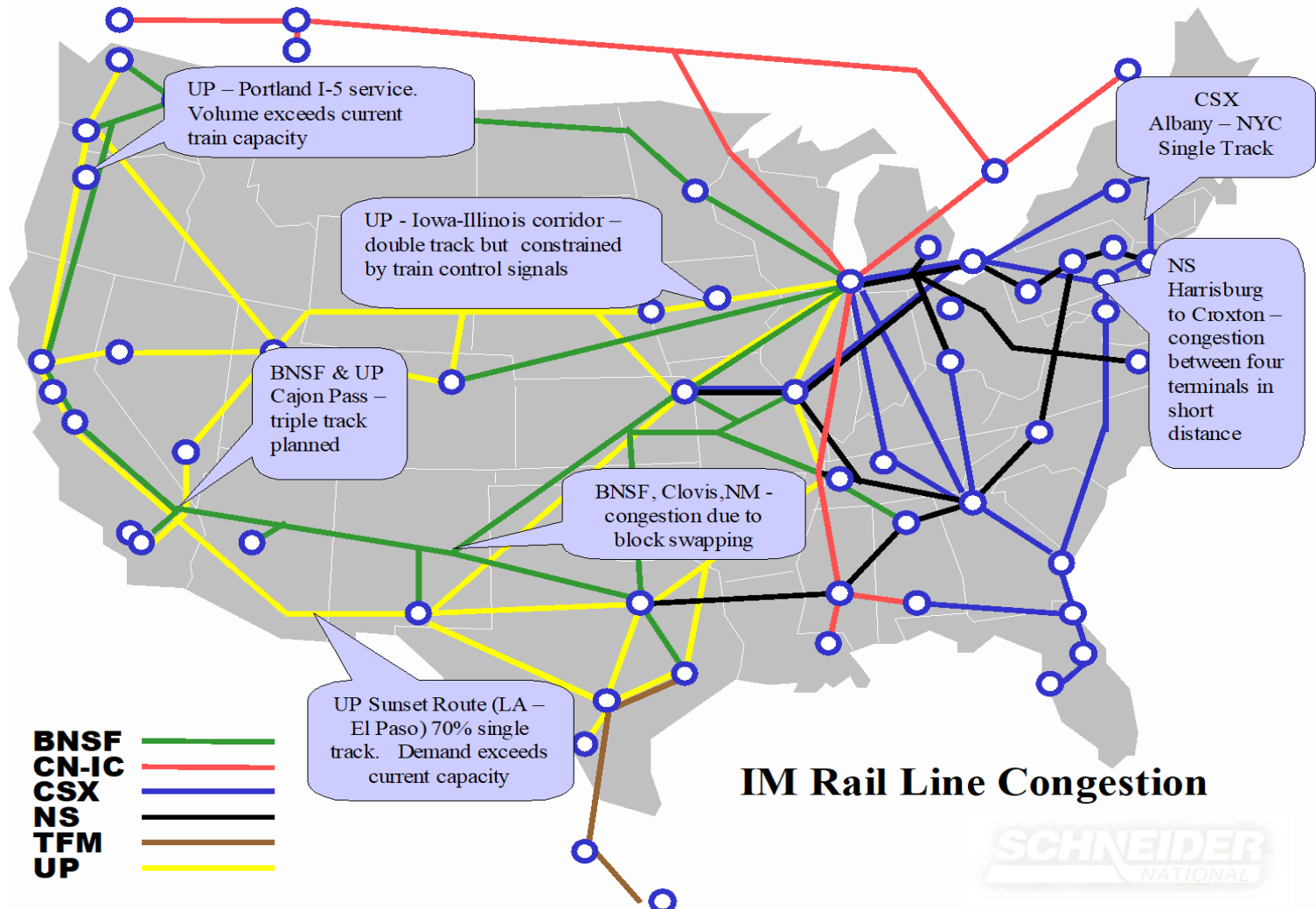
5 Critical Resources Impact Cycle



Rail terminal congestion



Rail linehaul congestion



Intermodal trends

- Network rationalization and restructuring
 - Focus on a core network
 - Elimination of low volume corridors / in-transit stops
 - Accelerated investment in mainline infrastructure
 - Containerization
 - Premium TOFC growth
 - Rate action across the network
- Potential changes in FSC format and cost



The new Intermodal network will gain transit consistency and stability

What is the view from Wisconsin?

- An intermodal ramp needs a minimum of 100 truckloads per day of traffic to be operationally feasible
- Length of haul generally needs to be over 750 miles (and usually more) in order for intermodal to be more cost effective than truck
- The Class I railroads are generally not interested in “short” connections
- There is freight density in certain areas of the state to support a short line connection to Chicago, but the economics make it difficult to justify the investment



Chicago (and Minneapolis) will likely be the primary connectors to the North American intermodal network.

Thank You

Q & A