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**What Every Executive Should
Know About Enterprise Risk
Management**

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Background on CSX Corporation

CSX is one of the nation's leading rail-based transportation companies

- Approximately \$10 B Revenue
- 35,000 Employees
- 21,000 route mile rail network
- Serves 23 states & 70 ports in the U.S. and Canada
- 1,200 trains per day / 20,000 rail carloads per day
- 3,800+ locomotives and 101,000 freight cars maintained



Corporate leaders are facing unprecedented challenges

- Unparalleled economic conditions
- Increased complexity of transactions
- Vast financial pressures
- Heightened political / governmental influence
- Boundless technological advances (and complexity)



**Historical approaches to risk have proven inadequate
in the new environment**



How tomorrow moves

Effective Enterprise Risk Management is an increasingly essential imperative

Enterprise Risk Management is a comprehensive process used to reduce exposure from financial, business and strategic risk

Objectives:

- Establish and communicate consistent risk strategies, policies and processes
- Develop clear risk management roles, accountability and governance
- Identify and manage risk in accordance with corporate strategies and objectives
- Promote a risk aware culture



How tomorrow moves

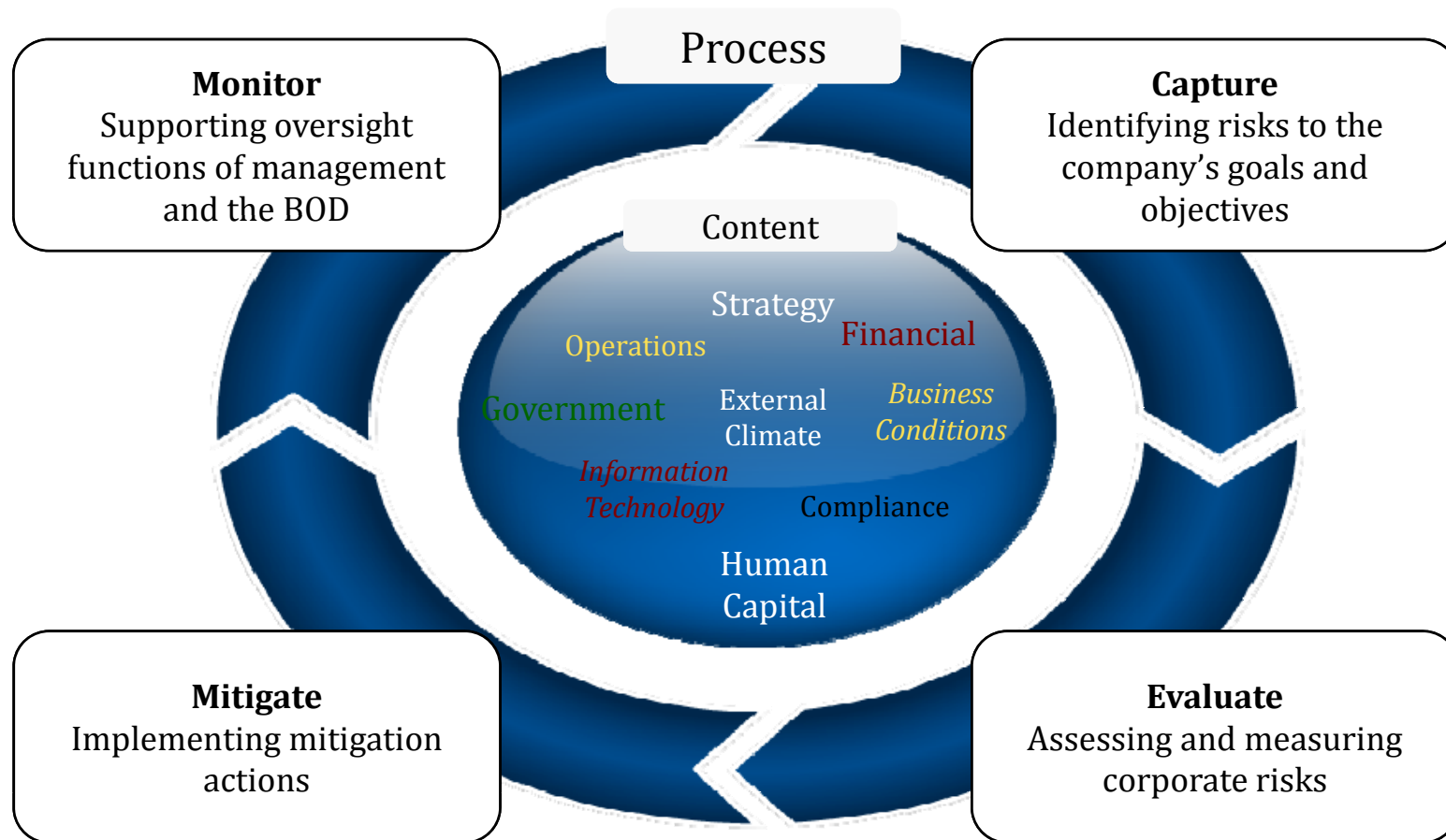
ERM requires tailoring an approach to fundamental concepts

- Establishes consistent process across the enterprise
- Incorporates foundational corporate principals
- Originates from specific business strategies and objectives
- Assumes a holistic approach and a portfolio view
- Provides explicit accountability and course of action
- Offers insight into the breadth of outcomes
- Establishes clear governance over business risk



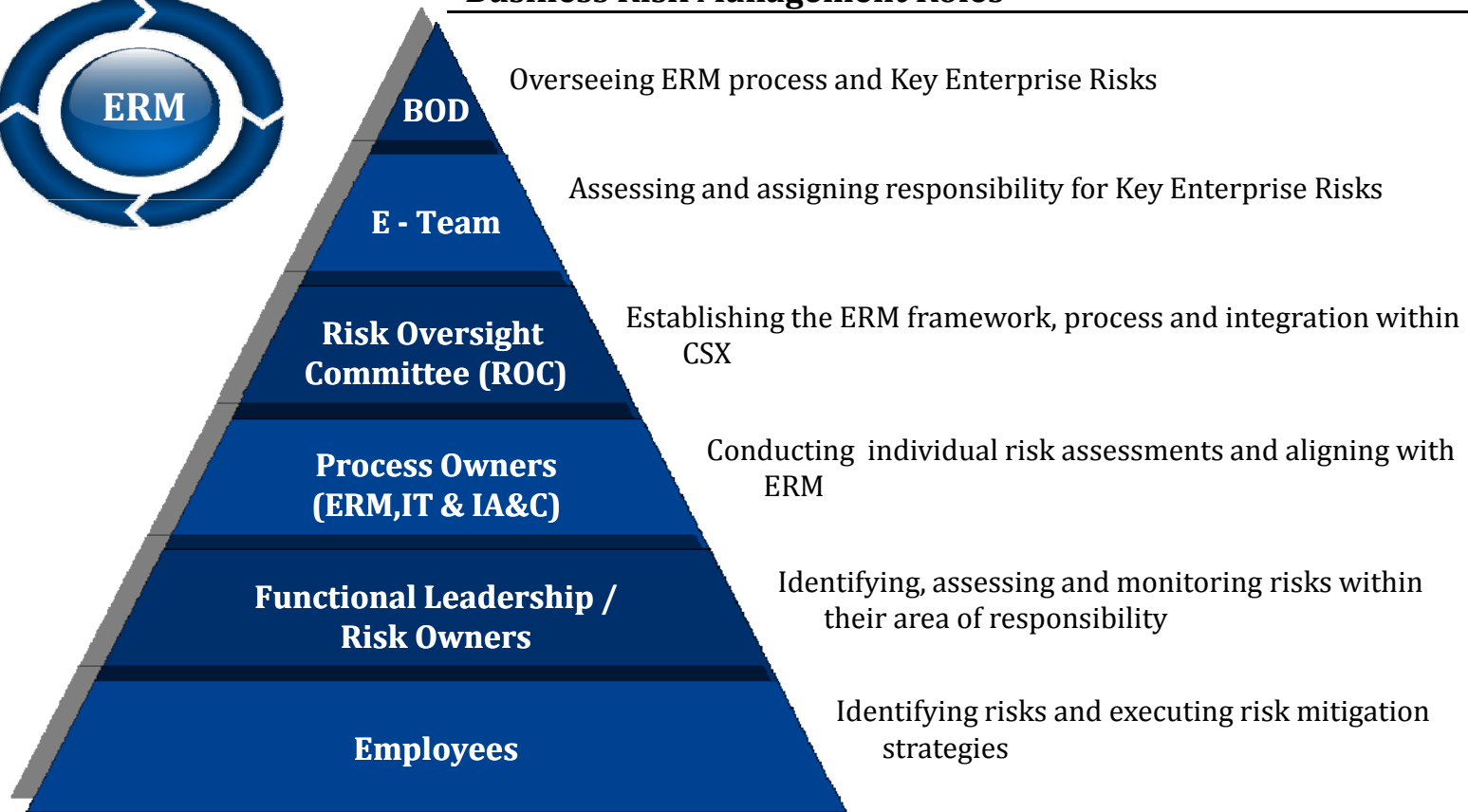
How tomorrow moves

CSX ERM provides for a consistent, corporate-wide process



Every employee has a role in ERM

Business Risk Management Roles





How tomorrow moves

ERM establishes appropriate action and accountability for each risk

Risk Name: Risk Description	
Mitigation Strategy: E-Team Lead: Owner: Mitigation Team:	Risk Potential:
	Impact <i>Low, Moderate or High</i> Likelihood <i>Low, Moderate or High</i> Velocity <i>Low, Moderate or High</i> (Speed of Onset)
<u>Risk Assessment Statement:</u>	
Risk Condition	Key Mitigation Actions
<ul style="list-style-type: none"> ■ Risk Condition 	<ul style="list-style-type: none"> ■ Mitigation Action 1 ■ Mitigation Action 2
<ul style="list-style-type: none"> ■ Risk Condition 	<ul style="list-style-type: none"> ■ Mitigation Action 1 ■ Mitigation Action 2
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Risk Interdependencies:	
	Threat Level: <div style="display: inline-block; border: 1px solid black; padding: 2px;">Low</div> <div style="display: inline-block; border: 1px solid black; padding: 2px; background-color: #ffff00;">Moderate</div> <div style="display: inline-block; border: 1px solid black; padding: 2px; background-color: #cc0000;">High</div>

The process results in a comprehensive portfolio of risks



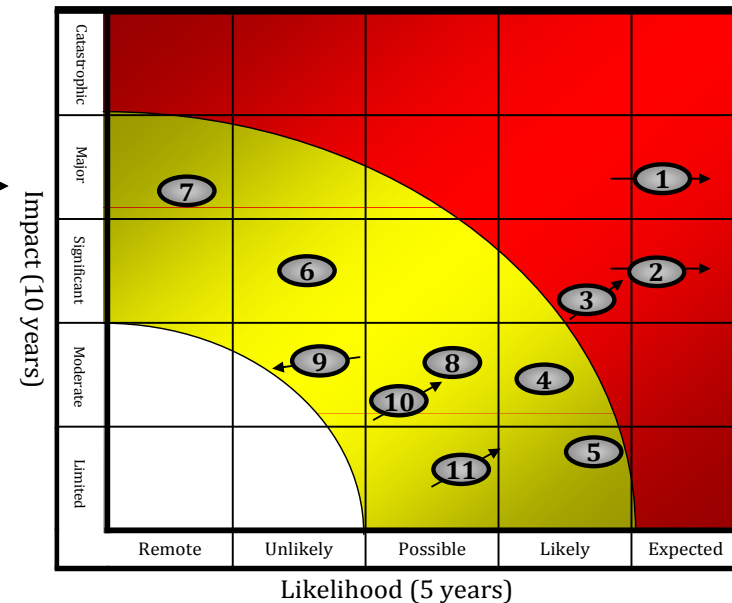
Sample Risk Universe						
Business Conditions	External Climate	Financial	Governmental	Human Capital	Operations	Technology
Competition	Economic Uncertainty	Counter-party	Legislative Issue A	Compensation	Operations Initiative A	IT Security
Reputation	Acts of Terrorism	Leverage / Capital Structure	Legislative Issue B	Workforce Planning	Catastrophic Accident	Data Integrity
Supply Chain Disruption	Natural Disaster	Financial Flexibility	Regulatory Compliance	Safety & Security	Key Infrastructure Loss	IT Operations
Legal	Public Health Emergency	Financial Reporting			Strategic Initiatives	IT Strategy

Tier I - High
Tier II - Moderate
Tier III - Low
Non-ERM Level

Reporting ensures appropriate oversight of key issues

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"The role of the board of directors in enterprise-wide risk oversight has become increasingly challenging as expectations for board engagement are at all time highs."
Committee of Sponsoring Organizations of the Treadway Commission (COSO)

Common challenges of ERM can be avoided

- Get the right parties to the table
- Establish accountability upfront
- Ascertain and communicate the expected value
- Streamline with existing norms and processes
- Link to strategic and operational goals and objectives
- Establish as an ongoing process embedded within the organization
- Avoid over-managing uncertainty with limited potential value



Effective Enterprise Risk Management provides value to the organization

- Reflects complexity and variability of the business landscape
- Exposes vulnerability and opportunity in uncertainty
- Reduces surprises and minimizes negative impacts
- Better positions the company to capitalize on opportunity
- Ensures management is operating within corporate principles
- Aids leadership in fact-based decision making
- Provides transparency and reassurance to C-Suite and Board members



Closing ERM thoughts

- Effective Enterprise Risk Management better positions the company to avoid pitfalls and capitalize on opportunity
- Risk *assessment* will not prevent the next big failure – action and governance is critical
- The purpose of ERM is NOT to eliminate risk, but to manage it within the corporate principles and strategy



Feel free to contact me with follow-up thoughts or questions

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