Agenda

Railcar Demand Drivers
Freight Car Orders
North American Railcar Fleet
Tank Car Regulatory / Industry Standard Developments
Energy Segments
Railcar Demand Drivers

- **Key drivers of rail traffic:** GDP, industrial output, commodity carloads, Intermodal
- NAFTA GDP growth is forecasted at 1.9% in 2013 and 2.9% in 2014
- Industrial production growth is forecasted at 2.8% in 2013 and 3.2% in 2014
- Housing starts to reach 1.01 million in 2013 (+29%) and 1.10 million in 2014
- 2012 Weak grain and coal environments offset by strong growth in petroleum, motor vehicles, aggregates, and lumber.
- USDA is projecting strong production and exports for a variety of grains in the 2013/2014 marketing year, boosting demand for grain and fertilizer cars
- Chemicals growth projected in North America as shale gas boom creates investment opportunity for U.S. manufacturing
- 2013 Commodity carloads +0.8% and Rail traffic +1.8%

*Overall growth suggests a favorable outlook for rail traffic and new equipment investments.*

Source: IHS Global Insight, AAR
ARCI Freight Car Builds

YTD Deliveries

- CH (> 5500 c/f)
- CH (3500-5500 c/f)
- CH (< 3500 c/f)
- Tank
- GT Gondolas / Open Top Hoppers
- Other

- Plastics, DDG
- Grain, Fertilizer
- Sand/Cement

YTD Orders

- CH (> 5500 c/f)
- CH (3500-5500 c/f)
- CH (< 3500 c/f)
- Tank
- GT Gondolas / Open Top Hoppers
- Other

- 807
- 5,761
- 26,211

Backlog

- CH (> 5500 c/f)
- CH (3500-5500 c/f)
- CH (< 3500 c/f)
- Tank
- GT Gondolas / Open Top Hoppers
- Other

- 882
- 5,778
- 61,350

Source: Railway Supply Institute, ARCI 2013 2Q Report
## Total Freight Car Demand

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- Total Railcar Backlog = 73,706 cars
- YTD Orders = 38,751 cars
- YTD Deliveries = 24,456 cars

Source: ARCI 2Q-2013

Rail Energy Transportation Advisory Committee
9/19/2013
# Tank Car Demand

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Tank Backlog = 61,350 cars  
YTD Orders = 26,211 cars  
YTD Deliveries = 6,887 cars  
Source: ARCI 2Q-2013
## Total Covered Hopper Car Demand

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Covered Hopper Backlog = 5,696 cars  
YTD Orders = 5,972 cars  
YTD Deliveries = 5,117 cars  

Source: ARCI 2Q-2013
## Covered Hopper Car Demand
(<3500 c/f) Sand, Cement

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Covered Hopper Backlog = 5,696 cars  
YTD Orders = 5,972 cars  
YTD Deliveries = 5,117 cars  
Source: ARCI 2Q-2013
Tank Car Fleet

- Overall growth the tank car fleet, up 3.4% over 2012.
- General Purpose fleet (261k cars) increased 2% (2010-2013)
- Average age of tank fleet = 16 years (IHS)
- 2013 Tank car demand = 35% replacement and 65% new demand (IHS)

Source: RailInc, IHS Global Insight
*Note Annual data is represented as of first of the year
**Small Cube Fleet**

- Majority of fleet today in Cement/Sand Service
- 25.8k cars built between 2011-12, roughly 20% of National Fleet
- National fleet grew by 11k+ units in 2013 due to 13.8k new builds, however forecast for small cube new builds projected to be significantly less (2013-17)
- Average age Covered Hoppers < 4000 c/f = 13.2 yrs. (IHS)

Source: IHS Global Insight, Railinc, GERS
*Note Annual data is represented as of first of the year*
Tank Car Regulatory / Industry Standard Developments

- Transport Canada Emergency Directive No. H096/13, Unattended hazmat train requirements
- AAR Circular Letter CPC-1257, pressure relief valve requirements
- FRA Emergency Order No. 28, Notice No. 1, Hazmat train definition and unattended hazmat train requirements
- AAR Circular No. OT-55-N, Operating practices for hazmat trains
- Reactivation of AAR TCC Docket T87.6 Task Force, Industry standards for ethanol and crude oil tank cars
- FRA/PHMSA Public Meeting, Potential edits, corrections and deletions to (CFR) Parts 171 and 174
- Rail Safety Advisory Committee (RSAC) Public Meeting, Hazmat train operations
- PHMSA Advanced Notice of Proposed Rulemaking (HM-251), Rail Petitions and recommendations to improve the safety of railroad tank car transportation of hazardous materials
Energy Segments

- Coal
- Renewable Fuels
- Petroleum Products
- Frac Sand
Coal

- Power sector consumption of coal projected to recover by 9% (in tonnage terms) in 2013
- Coal movements improved slightly in 2Q 2013, and projected to continue at a modest growth rate 2014-17.
- Impacted by low natural gas prices and weak electricity demand
- Strong Coal exports in the first quarter, however full year 2013 projected -10% vs. last year.
- Longer-term average consumption growth 0.5% (EIA forecast 2013-2040) resulting in loss of coal share in U.S. power gen mix
- Approx. 258,000 coal cars in the North American Fleet

Source: IHS Global Insight, FTR Associates, Railinc/GERS

Source: FTR Associates, 2Q 2013
Renewable Fuels

- Renewable Energy production projected to grow 87% over the EIA forecast period (2013-2040)
- U.S. biofuel mandate remains in line with the previous forecast as cellulosic production is expected to remain muted
- Adverse conditions for ethanol demand in 2012 due to drought, record corn prices, and drop in gasoline demand.
- Ethanol production projected to increase 10% in 2013 and 7% in 2014 (IHS)
- Flexibility of assets in/out of Crude market

Source: IHS Global Insight, EIA, Informa Economics,

Source: EIA, Annual Energy Outlook 2013
*Excludes Biomass and Hydropower
Petroleum

- U.S. production of oil and gas increased 9.6% in 2012 and is forecasted to grow 5.1% in 2013.
- Petroleum demand projected to increase 3.4% in 2013.
- U.S. Petroleum Carloads projected to increase 29% in 2013 and 14% in 2014. Canadian up 17% in 2013 and 7% in 2014.
- Crude oil and lease condensate production forecasted to grow 5% in 2014.
- Total Canadian crude oil production is forecasted to increase 22% (2012-2015) to 3.9 million b/d by 2015, up to 6.7 million b/d by 2030.
- Brent-WTI price spreads have dropped in 2013 and projected to narrow over the long term forecast period.

Source: IHS Global Insight, EIA, CAAP
Frac Sand

- Construction is driving nonmetallic mineral demand (6% increase in 2013)
- Forecast for construction activity to expand 6.0% in 2013 up to 9.5% in 2014.
- Nonmetallic mineral production growth is forecasted at 3.7% in 2013, 2.6% in 2014
- Growth in nonmetallic mineral carloadings projected at 2% per year (2013-2015)

Source: IHS Global Insight, EIA, FTR Associates