Rail Energy Transportation Advisory Committee

Rail Fleet Update

March 6, 2014

Agenda

Macroeconomic Indicators

Freight Car Orders & Deliveries

North American Railcar Fleet

Tank Car Regulatory Update

Energy Segments

Macroeconomic Indicators

- **Key drivers of rail traffic showing positive gains & performance in 2014**
  - GDP, industrial output, commodity carloads, Intermodal (+4.1%)
- In 2013, the US economy advanced 1.9%, down from 2.8% in 2012
- IHS expects NAFTA GDP to expand: 2.6% in 2014, 3.3% in 2015 and 3.2% in 2016-17
- Industrial production growth is forecasted at 2.5% in 2013, 3.1% in 2014 and 3.2% in 2015 before tapering off to 2.9% (2016) & 2.8% (2017)
- Consumer indicators and business spending show show strength coming out of 2013
- Housing starts expected to grow ~20% to 1.152 million in 2014 and 1.481 in 2015
- Retail sales continue to improve, however consumer confidence remains low
- Net exports provided a strong 1.3% boost to growth in Q4’13
- Economy expected to gain momentum as household &and business spending improve in 2014

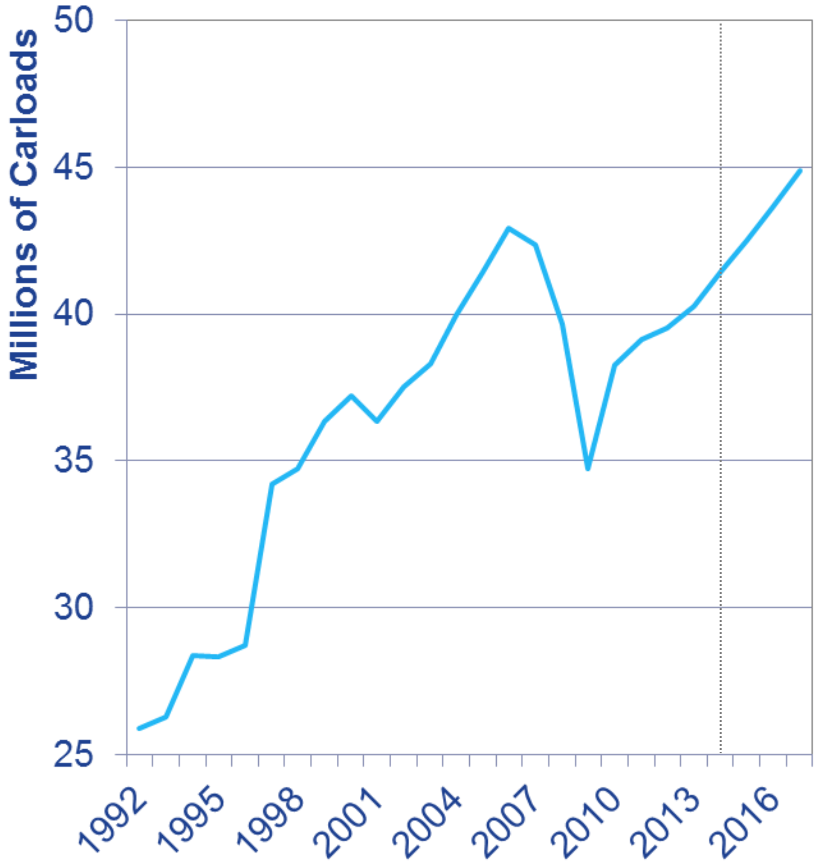
Improvement in the economy expected to drive positive developments in rail traffic and demand.

Source: IHS Global Insight, FTR Associates, Oxford Economics

Railcar Demand Drivers

- NA Carloads est. ~ 3% y/y growth in 2014
- Ag contributes to positive performance in 2014, forecast depends on Coal stabilizing
- Growth continues in Chemical and Petroleum sectors, forecast is +3.3% y/y in 2014
- Chemical industry output remained flat in 2013, however new capacity will expand output 1.7% in 2014, 4.5% in 2015 and over 4% in 2016 and 2017

North American Rail Carloadings

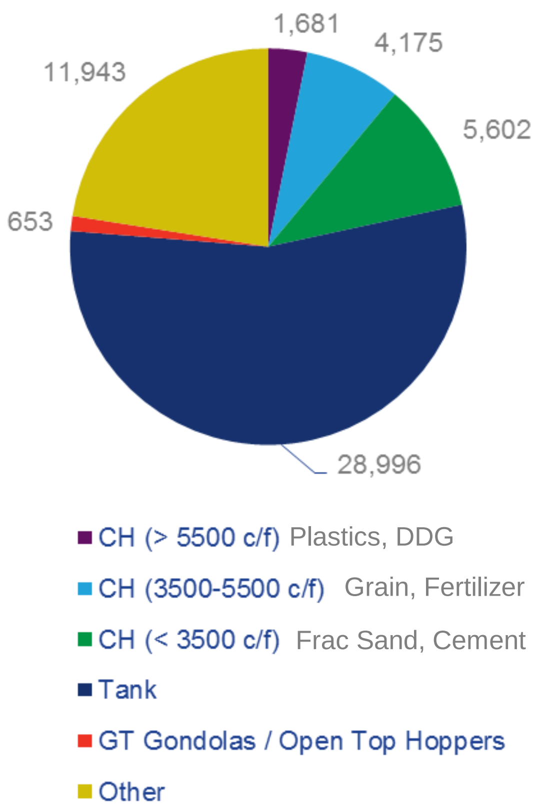


Source: IHS Global Insight, FTR Associates

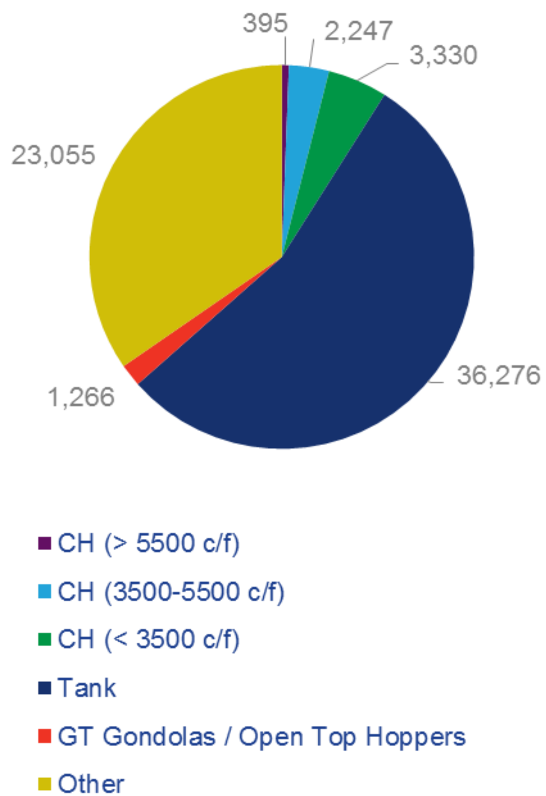
Source: FTR Associates | Q4 2013

Freight Car Builds

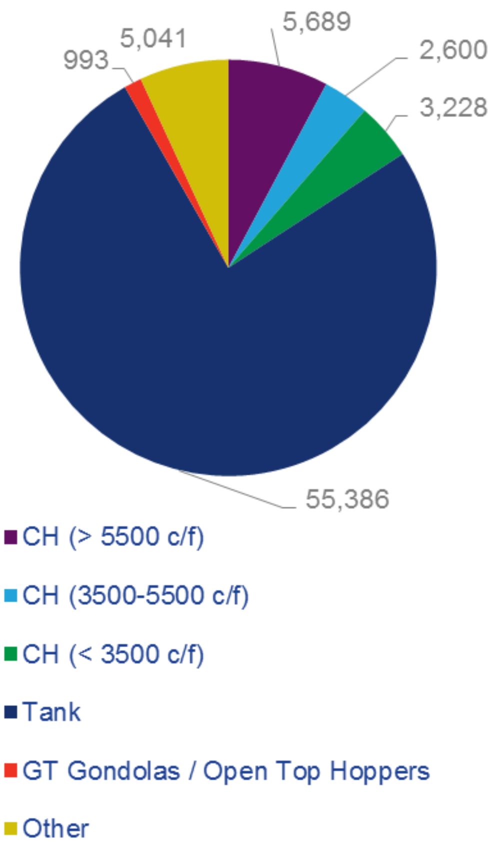
2013 Deliveries



2013 Orders



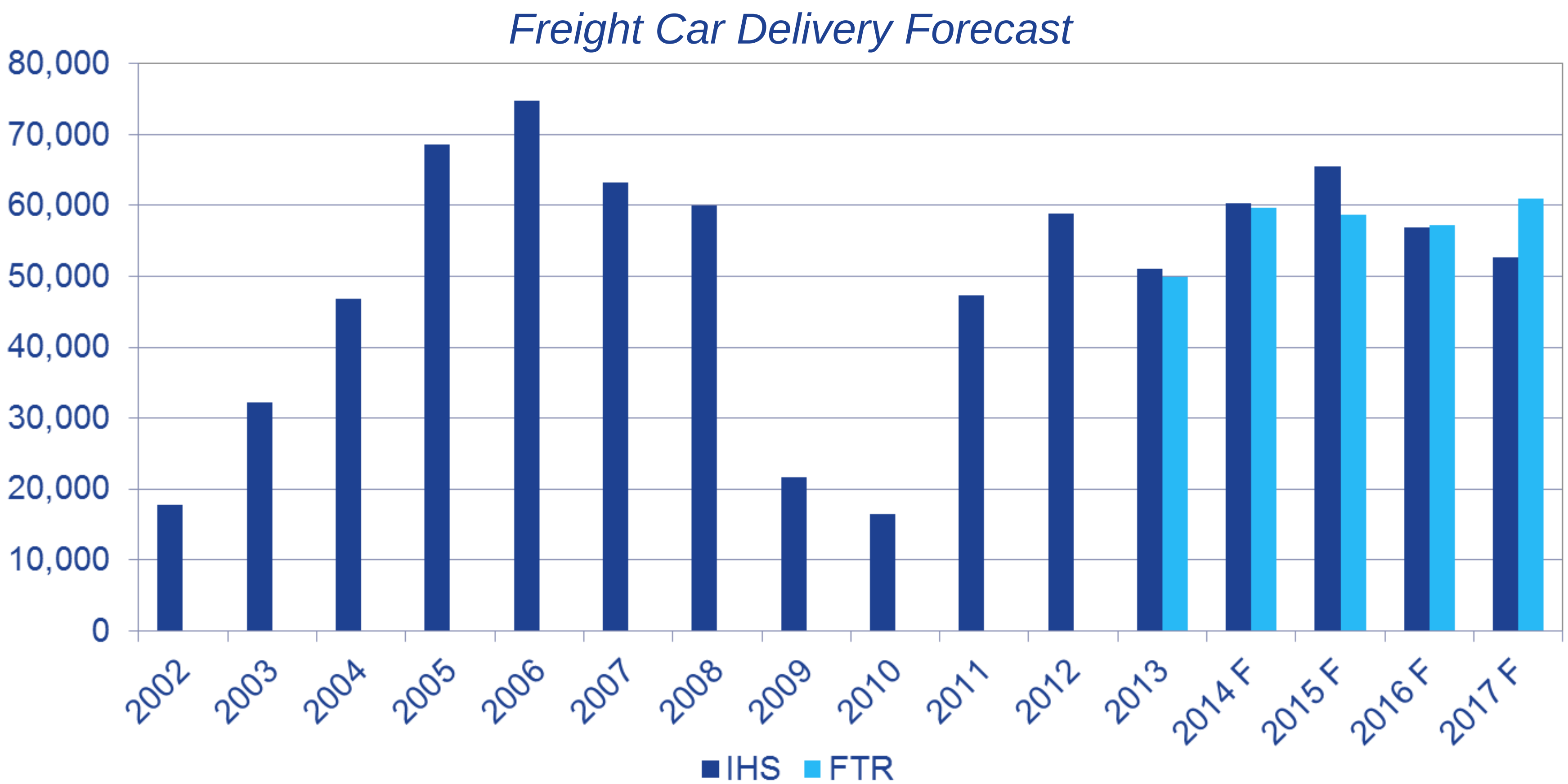
4Q'13 Backlog



Other category includes Box, Flat, GB Steel Gondolas, Intermodal, etc.

Source: Railway Supply Institute, ARCI 2013 4Q Report, 1/23/2104

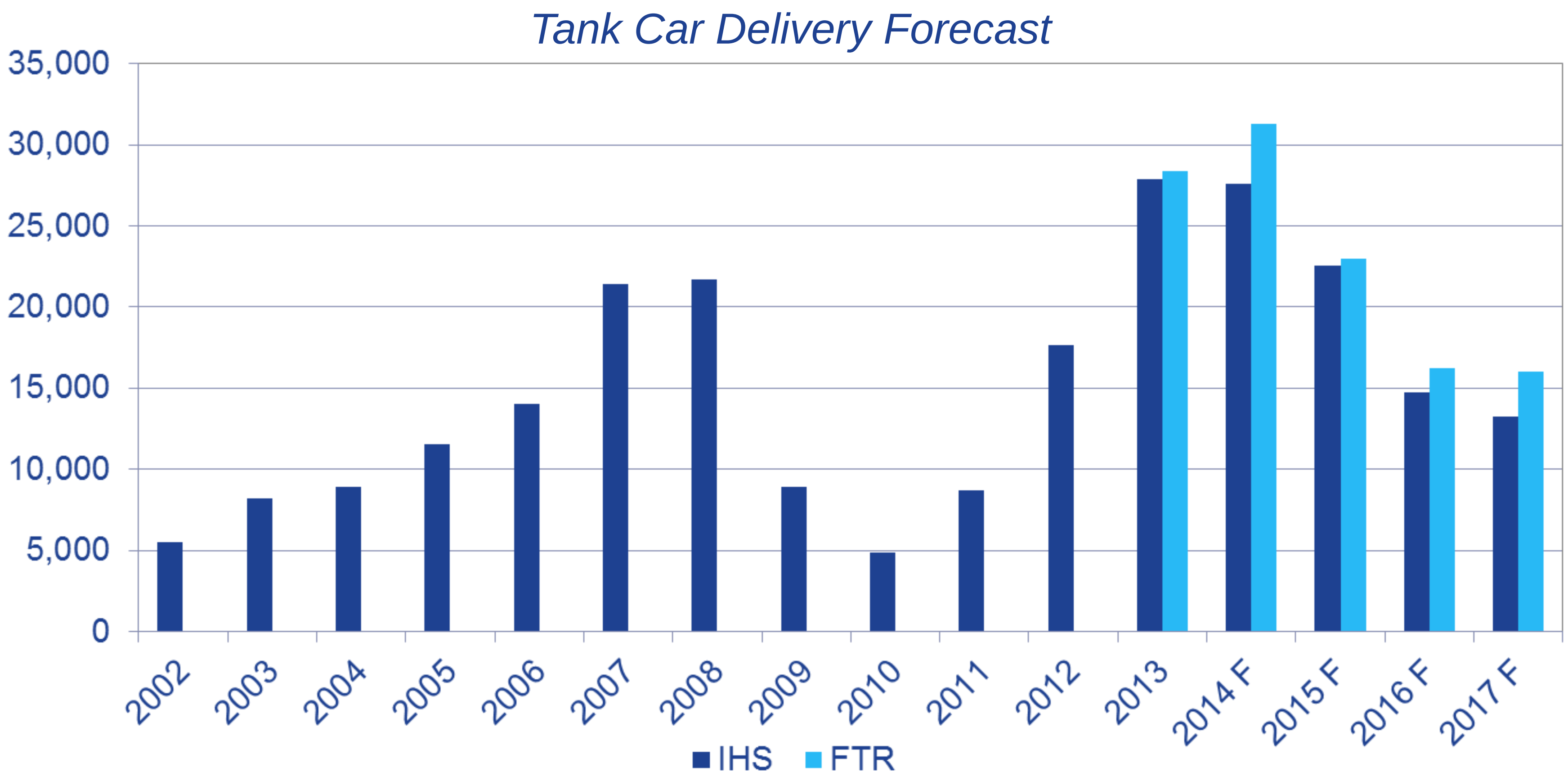
Freight Car Builds



Total Freight car deliveries to grow 18% in 2014 and 9% in 2015

Source: IHS Global Insight, FTR Associates

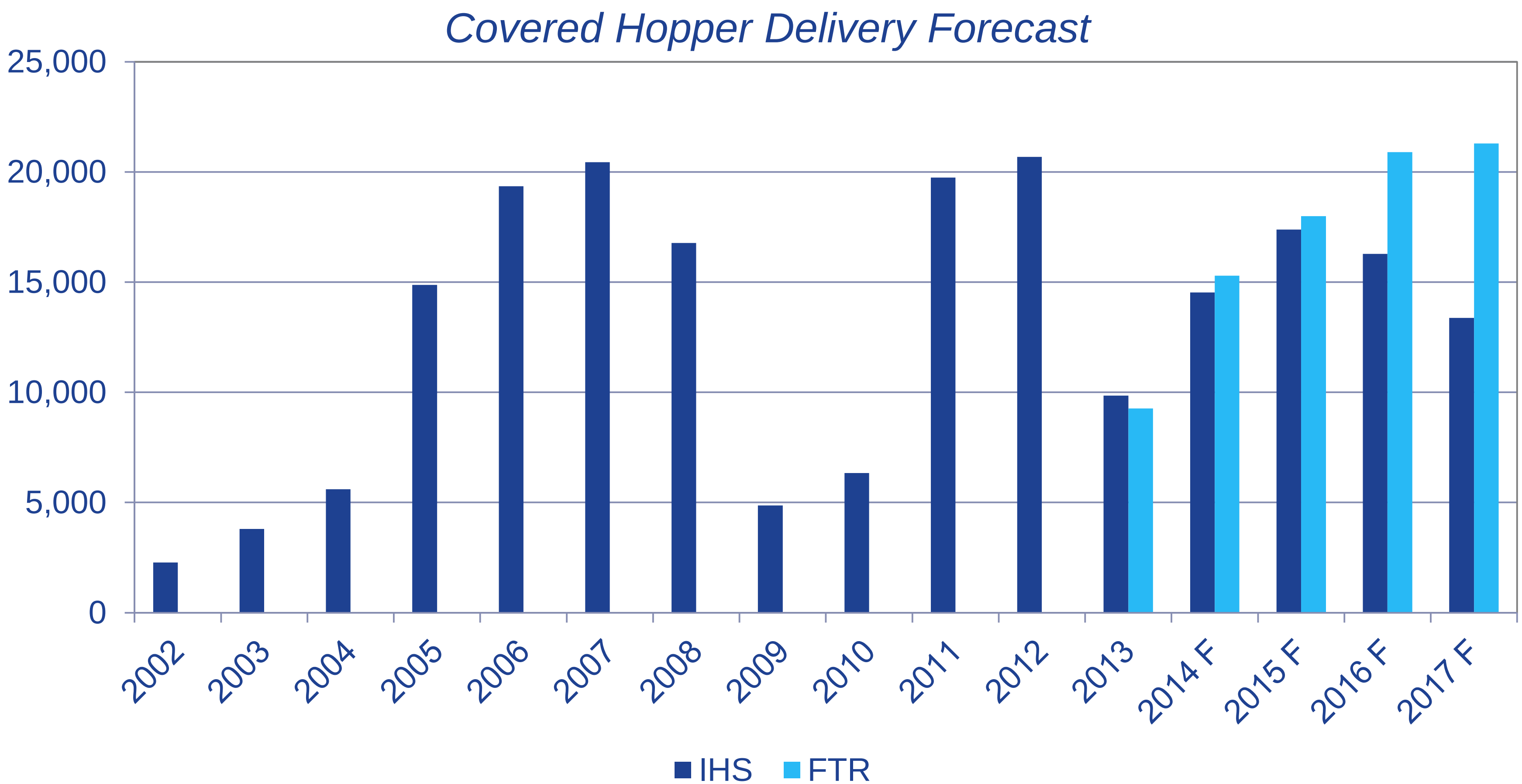
Tank Car Builds



Tank builds to be equally driven by new and replacement demand in 2014

Source: IHS Global Insight, FTR Associates

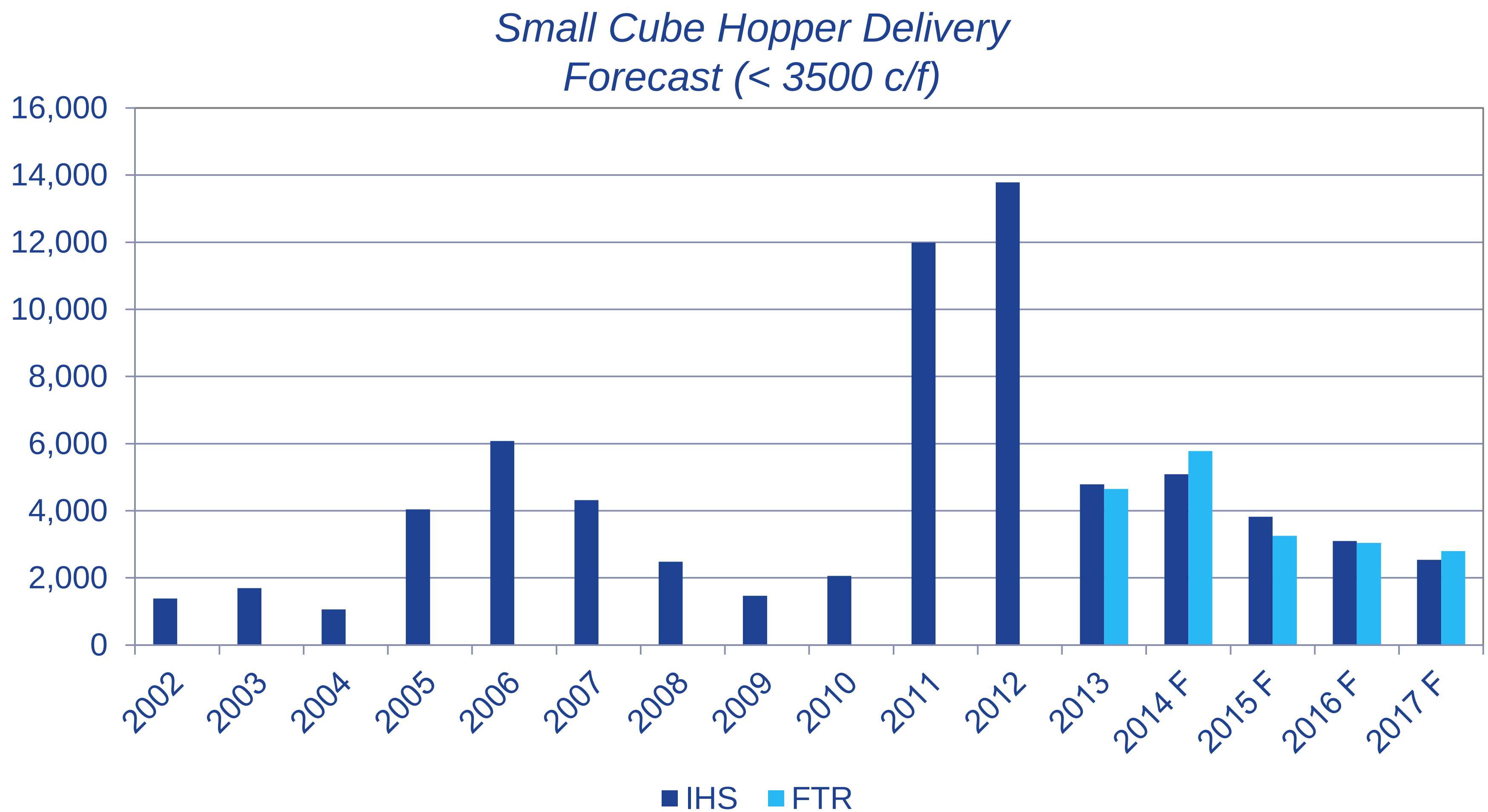
Covered Hopper Car Builds



Future growth in Covered Hopper Deliveries driven by Medium and Large cube builds

Source: IHS Global Insight, FTR Associates

Small Cube Hopper Car Builds

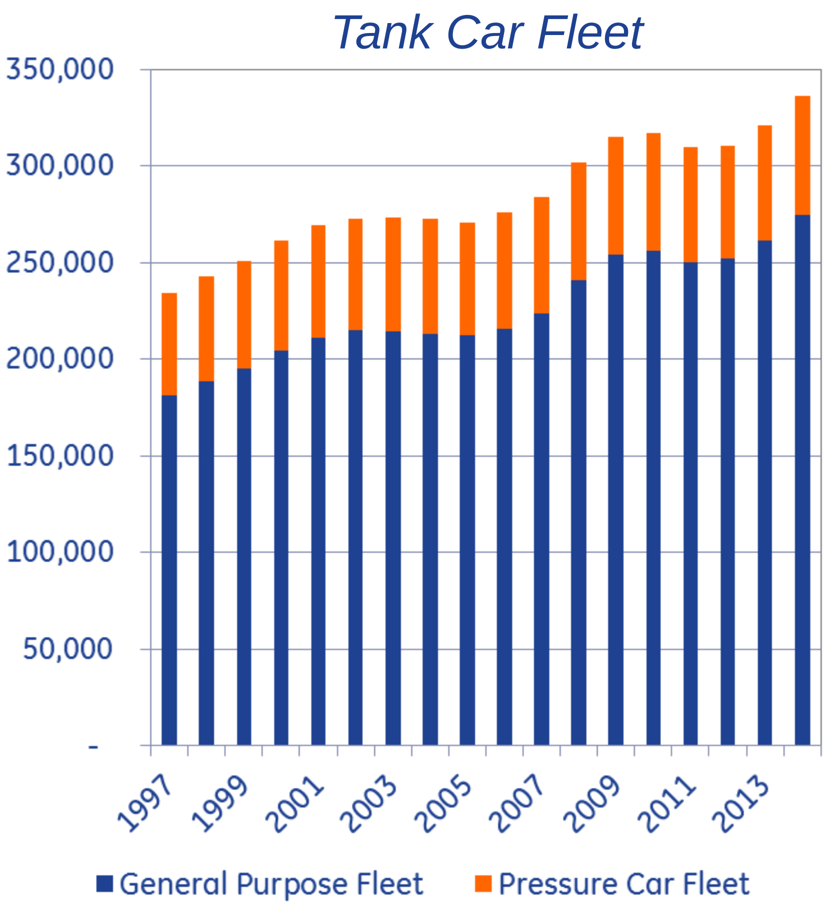


Small cube builds to grow modestly in 2014 and level off 2015 and beyond from recent peaks

Source: IHS Global Insight, FTR Associates

Tank Car Fleet

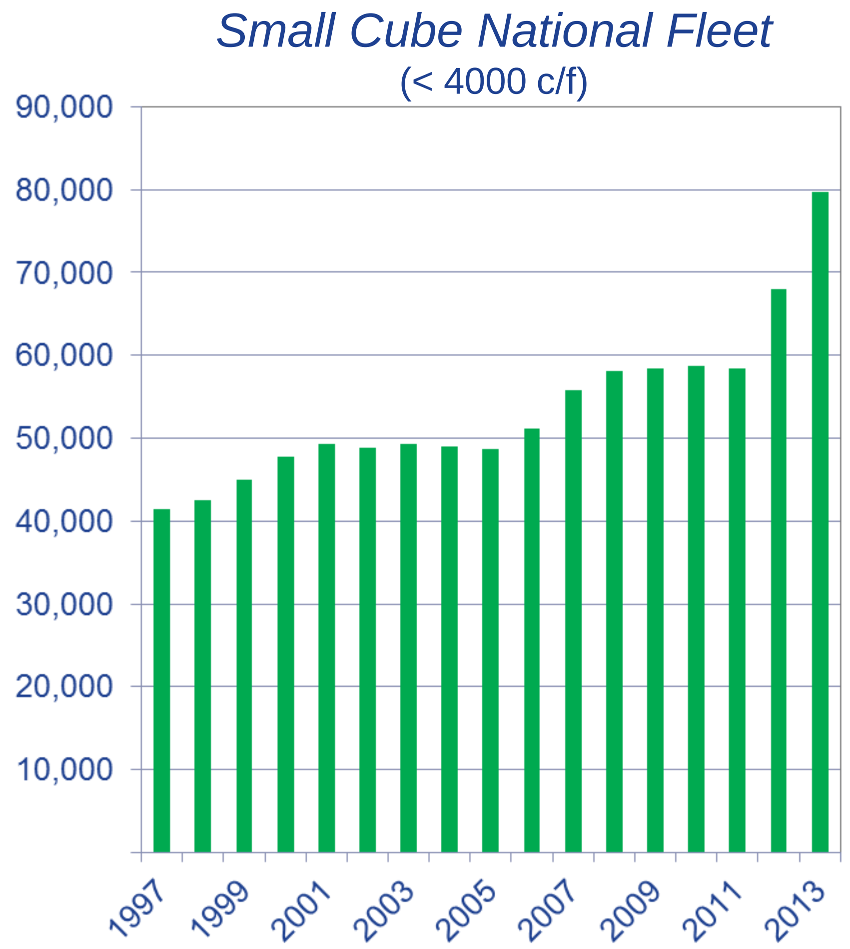
- NA Tank car fleet reached 336k cars in 2014 ~ 5% y/y increase
- General Purpose fleet has grown 10% since 2011
- Tank fleet is on avg. 16 yrs. old, with >20% greater than 25 yrs. old
- Tank carloadings est. to grow ~ 3% per year through 2016
- Approx. 2/3 of tank cars ordered since 2011 are in crude & petroleum products service



Source: IHS Global Insight, FTR Associates, Railinc
*Note Annual data is represented as of first of the year for the previous year.

Small Cube Covered Hoppers

- Anticipated slow down of small cube builds after two banner years of production
- Over 30k cars built over the past 3 yrs. ~ 40% of National Fleet
- Forecast for small cube builds to be significantly less, driven by replacement needs
- Long term fracking growth in Mexico due to large shale gas reserves and energy reform



Source: IHS Global Insight, EAI, Railinc
*Note Annual data is represented as of first of the year

Tank Car Regulatory Update

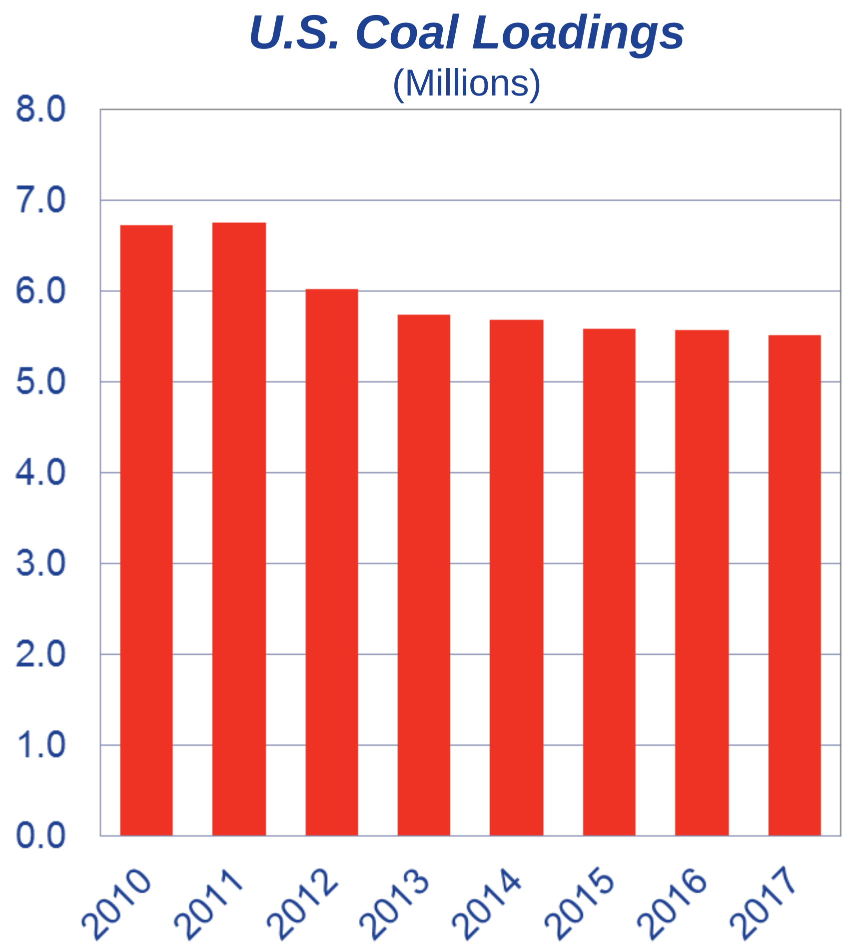
- PHMSA Advanced Notice of Proposed Rulemaking (HM-251), Rail Petitions and recommendations to improve the safety of railroad tank car transportation of hazardous materials, 9/06/13
- Transport Canada Protective Direction No. 31, Crude oil classification, 10/17/13
- PHMSA/FRA Safety Advisory (2013-07), Crude oil classification, Shipper, carrier responsibilities, 11/20/13
- Transport Canada Protective Direction No. 32, Information requirements, 11/21/13
- PHMSA ANPRM Comment Filings, 130 filings, associations, companies municipalities and private individuals, 12/05/13
- PHMSA Safety Alert, Crude oil classification update, 1/02/14
- PHMSA letter to API, Testing, characterization and classification of crude oil, 1/03/14
- Canada Gazette, Regulations Amending the Transportation of Dangerous Goods Regulations (Safety Standard TP-14877: Containers for Transport of Dangerous Goods by Rail), Tank Car Standards and Classification and Shipping Document,s 1/11/14
- Secretary DOT Call to Action Meeting, AAR, API and ASLRRA, 1/16/14
- NTSB Safety Recommendation, to PHMSA re route planning, spill response, classification of product, 1/21/14
- NTSB Safety Recommendation, to FRA re route planning, spill response, classification of product, 1/23/14
- TSB Rail Safety Recommendations, DOT-111 tank car standards, route planning and emergency response, 1/23/14
- US DOT Emergency Restriction/Prohibition Order, Crude oil classification, elimination of PG III classification, 2/25/14
- US House of Representatives, Committee on Transportation and Infrastructure, Subcommittee on Railroads, Pipelines and Hazardous Materials Hearing, 2/26/14

Energy Segments

- Coal
- Petroleum
- Renewable Fuels
- Sand

Coal

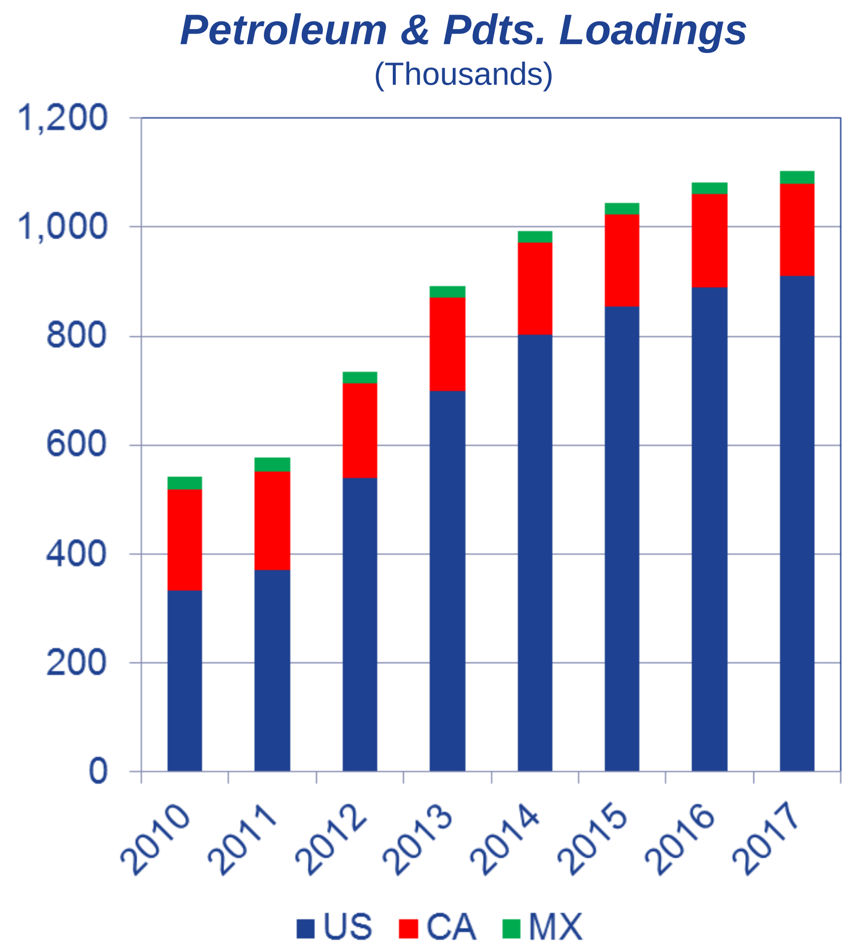
- U.S. Coal demand will improve in 2014, however long-term trend is still negative
- Coal exports expected to improve thru 2017, but will not offset weak top-line demand
- U.S. Coal production declined ~ 2% in 2013 and est. to increase 3.9% in 2014
- Future coal plant retirements driven by natural gas competition and regulations
- Decline in train speeds and increased dwell time has impacted demand for cars
- Coal ~ 38% of US railroad loadings in 2014



Source: IHS Global Insight, FTR Associates, Railinc

Petroleum

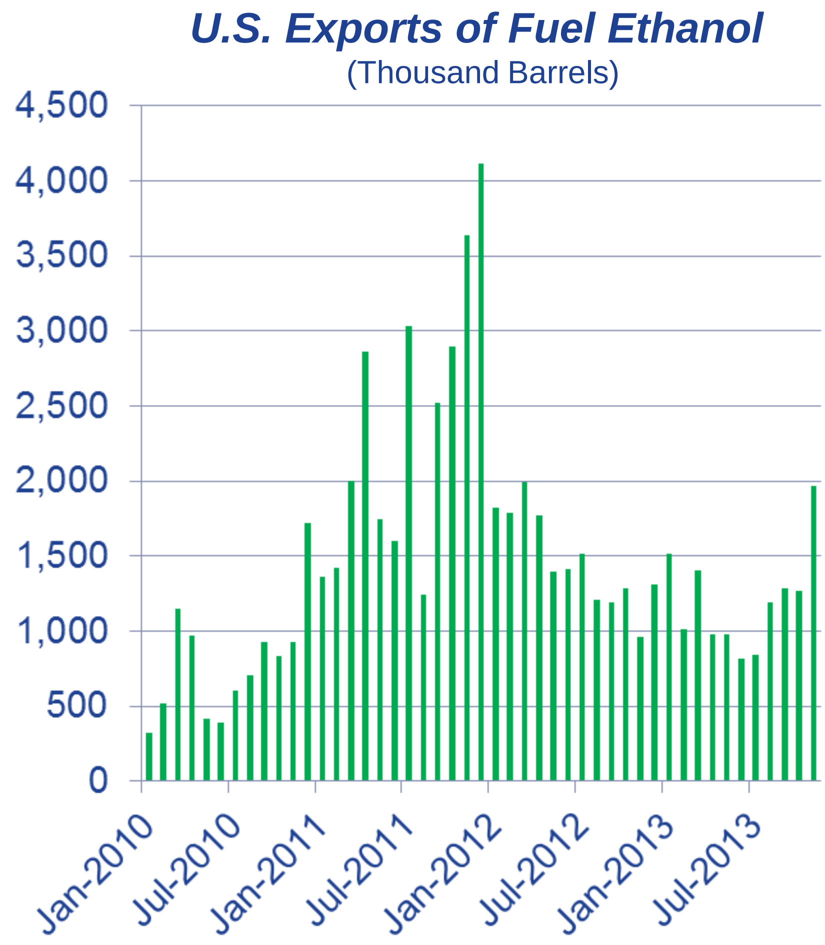
- U.S. crude oil and lease condensate production grew 14% in 2013 and est. to increase 13% in 2014
- Canadian tar sands production increased 13% in 2013, significant growth through 2017
- U.S. Petroleum Carloads increased ~ 30% in 2013 and 14% in 2014, while Canada and Mexico remain relatively flat
- Bakken Shale moves drive recent gains with long-term growth in Alberta Oil Sands



Source: IHS Global Insight, EIA, CAAP

Renewable Fuels

- Production of renewable fuels has increased, overall U.S. gasoline consumption is down
- Ethanol production increased 12% y/y in December 2013, est. to decline 1-2% in 2014
- U.S. Ethanol consumption est. to remain flat in 2014 unless RFS mandate is increased or new export opportunities are identified
- Biodiesel consumption est. to grow 1% and production to decline 3.5% in 2014

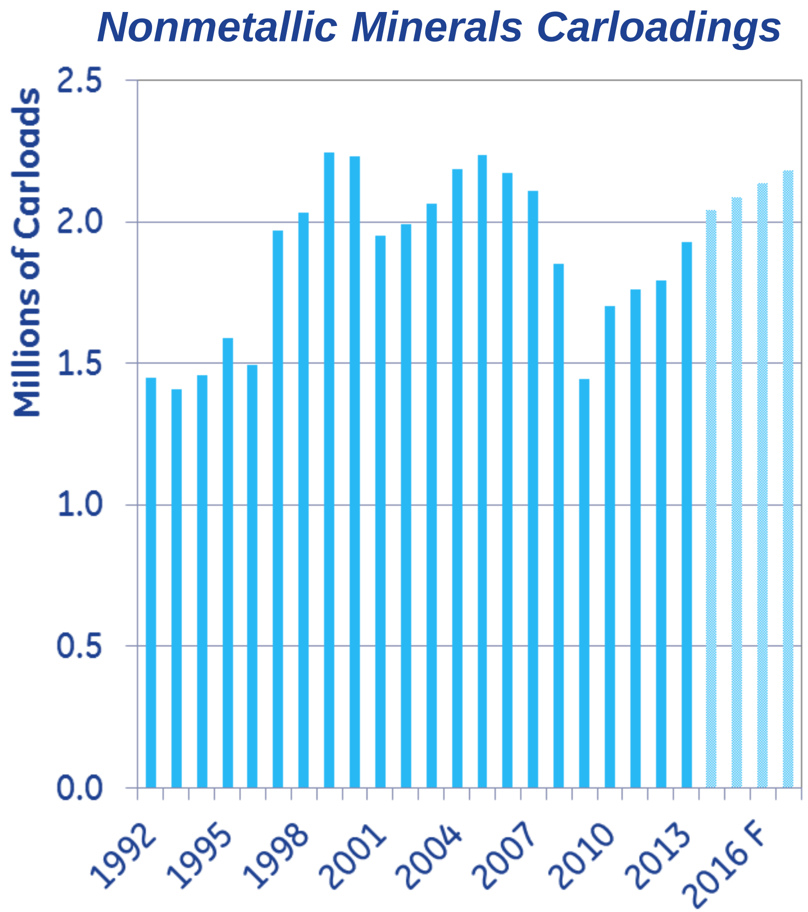


Source: EIA, Short Term Energy Outlook 2014

Sand

- FTR projects ~ 3.9% y/y growth in nonmetallic mineral carloadings ~ 10% share of total U.S. rail carloadings
- Recovery in housing and construction will support hopper car freight flows in 2014
- U.S. cement production slated to expand 3% in 2014 and over 10% in 2015-16
- Production of clay, lime and gypsum is also expected to see double-digit growth in 2014 and 2015

Source: IHS Global Insight, EIA, FTR Associates



Source: FTR Associates, Q4 2103
*Nonmetallic Minerals, Except Fuels

Appendix

Total Freight Car Demand

Production Forecast	2012	2013*	2014 F	2015 F	2016 F	2017 F
Economic Planning Associates	58,904	53,050	59,500	60,500	60,250	60,250
IHS Global Insight	58,904	50,166	60,318	65,552	56,938	52,645
FTR Associates	58,904	49,939	59,700	58,700	57,300	60,900

Total Railcar Backlog = 84,454 cars
2013 Orders = 84,703 cars
2013 Deliveries = 64,508 cars
Source: ARCI 4Q-2013, Jan 24, 2014

Tank Car Demand

Production Forecast	2012	2013*	2014 F	2015 F	2016 F	2017 F
Economic Planning Associates	17,666	28,996	33,000	29,000	26,000	22,000
IHS Global Insight	17,666	27,861	27,582	22,513	14,702	13,276
FTR Associates	17,666	28,356	31,300	23,000	16,200	16,000

Tank Backlog = 55,386 cars
2013 Orders = 36,276 cars
2013 Deliveries = 28,996 cars
Source: ARCI 4Q-2013, Jan 24, 2014

Total Covered Hopper Car Demand

Production Forecast	2012	2013*	2014 F	2015 F	2016 F	2017 F
Economic Planning Associates	20,691	11,458	14,500	17,000	17,000	16,500
IHS Global Insight	20,691	9,855	14,538	17,383	16,287	13,376
FTR Associates	20,691	9,265	15,300	18,000	20,900	21,300

Covered Hopper Backlog = 11,517 cars
2013 Orders = 18,134 cars
2013 Deliveries = 11,458 cars
Source: ARCI 4Q-2013, Jan 24, 2014

Covered Hopper Car Demand
(<3500 c/f) Sand, Cement

Production Forecast	2012	2013*	2014 F	2015 F	2016 F	2017 F
Economic Planning Associates	13,781	5,602	5,500	7,000	6,500	6,000
IHS Global Insight	13,781	4,786	5,088	3,824	3,094	2,541
FTR Associates	13,781	4,647	5,780	3,250	3,040	2,800

Covered Hopper Backlog = 3,228 cars
2013 Orders = 7,375 cars
2013 Deliveries = 5,602 cars
Source: ARCI 4Q-2013, Jan 24, 2014