Agenda

Macro & Freight Environment
Freight Car Deliveries & Build Forecast
Covered Hopper Outlook
Coal
Tank Car Outlook
Regulatory Update
Macro & Freight Environment

- Real GDP growth in the first quarter was revised down from positive 0.1% to negative 1.0%, driven by lower inventory, while 2Q rebounded to 3.8%
- Improved economic outlook and rail traffic conditions are anticipated during 2014/15
- Housing starts in 2015 estimated at 1.37MM (reduced from 1.4MM), as a result of slower overall growth
- NAFTA rail traffic expected to grow 1.7% in 2014
  - Increases in petroleum & petroleum products, grain, chemicals, motor vehicles & parts, and containers
- Growth in rail traffic expected to continue with new car builds and replacements.
  - Average age of the North American fleet ~21 years, and more than 32% of the cars in service were over 25 years old
- Freight car builders delivered 53k cars in 2013, with current forecasts at over 64k cars in 2014; increase of over 20%

Source: IHS Global Insight
Railcar Demand Drivers

- NA Carloads est. ~ 3% y/y growth in 2014 and 2% growth in 2015 and beyond
- USDA increased corn production to 14.4B bushels with yields at 171.7 bushels/acre; grain carloads expected to grow 10% in 2014
- Growth continues in Chemical and Petroleum sectors; Petroleum carloads up 19% in 2014 and 10% in 2015
- New chemical capacity expected to come online in 2016
- Economic conditions projected to improve at a faster pace during the forecast period, supporting rail traffic

Source: IHS Global Insight, FTR Associates
N.A. Railcar Loadings by Car type

Tank Carloadings

Covered Hopper Carloadings

OT Hopper Carloadings

Box Carloadings

Source: FTR Associates, 2Q 2014
Freight Car Builds

2014 YTD Orders
- Tank Cars, 15,477
- Small CH 23,640
- Medium CH, 4,850
- Large CH, 3,500
- Other, 10,495

2014 YTD Deliveries
- Tank Cars, 17,227
- Small CH, 5,668
- Medium CH, 1,511
- Large CH, 785
- Other, 4,819

2Q’14 Backlog
- Tank Cars, 50,489
- Small CH, 12,817
- Medium CH, 4,231
- Large CH, 5,834
- Other, 26,411

Other category includes Box, Flat, Gondolas, OT Hoppers, intermodal
Source: Railway Supply Institute, ARCI 2Q 2014
Freight Car Builds

Freight Car Delivery Forecast

Growth in total freight car deliveries expected in 2014 & 2015

Source: 2010-13 Actual Deliveries, IHS Global Insight, FTR Associates 2Q 2014
Covered Hopper Car Builds

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

Source: 2010-13 Actual Deliveries, IHS Global Insight, FTR Associates 2Q 2014
Small Cube Hopper Car Builds

Small Cube Hopper Delivery Forecast (< 3500 c/f)

Small cube builds expected to grow in 2014 due to continued strength in sand

Source: 2010-13 Actual Deliveries, IHS Global Insight, FTR Associates 2Q 2014
Sand

- Stone, sand & gravel ~ 7% of U.S. rail carloadings
- Est. 3-5% future growth in U.S. sand carloadings due to continued strength in frac sand demand
- Housing and construction continues to recover; est. 4% growth in 2014 and > 9% in 2015
- U.S. cement production slated to expand 3% in 2014 and over 10% in 2015-16
- Nonmetallic mineral output also expected to grow 4-5% through 2015 and 7% in 2016 due to nonresidential construction

Source: IHS Global Insight, EIA, FTR Associates
Coal

- Coal ~ 38% of U.S. carloadings; will continue to be a significant share of total volume
- U.S. coal production will be up 3% in 2014, returning to 2012 levels
- U.S. coal supply expected to be mostly flat in 2014, with inventories down and production rising.
- Cold weather in the beginning of the year pushed up natural gas prices and promoted some gas-to-coal switching; gas prices fell to $3.91/MMBtu in August
- Decline in train speeds and increased dwell time has impacted demand for cars

Source: IHS Global Insight, FTR Associates
Tank Car Builds

Tank Car Delivery Forecast

Tank builds to be driven by replacement demand

Source: IHS Global Insight, FTR Associates
Petroleum

- Petroleum & Petroleum products makes up 6% of U.S. & 9% of Canadian carloadings
- U.S. crude oil production averaged an estimated 8.6M bbl/d in August, the highest monthly production since July 1986
- Petroleum Carloads expected to grow 19% in 2014 and 10% in 2015
- Canadian oil sands production est. to grow 2.5x, up to 4.8 million b/d by 2030; railcar loadings growth of 7-9% thru 2017
- Continued strength in crude-by-rail as further delays in pipeline projects anticipated

Source: IHS Global Insight, EIA, CAPP
Tank Car Regulatory Update

- Comments to DOT/PHMSA Notice of Proposed Rulemaking (HM-251) due 9/30/14
- Transport Canada Directional Statement and Consultation in process, Gazette 1 (NPRM) expected October/November 2014
- Interested trade associations: AAR, RSI, API, AFPM, Growth Energy, RFA, ACC, CAPP
- Holistic approach to safe rail transportation of flammable liquids critical
- Harmonization between US DOT and TC critical due to interchange network
- Scope of regulations and prioritization of modifications requires clarity, commodity based or train operations based
- Prescribed sets of standards for new and existing tank cars sought, performance standard available as option
- Aggressive modification timeline outlined, compliance driven by scope and available modification capacity
- Economic impact of proposals needs defined
## Total Freight Car Demand

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Total Railcar Backlog = 99,782 cars  
2014 Orders YTD = 57,962 cars  
2014 Deliveries YTD = 30,010 cars  
Source: ARCI 2Q 2014
# Tank Car Demand

Total Railcar Backlog = 17,227 cars  
2014 Orders YTD = 15,477 cars  
2014 Deliveries YTD = 52,589 cars  
Source: ARCI 2Q 2014

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# Total Covered Hopper Car Demand

## Production Forecast

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## Notes

Total Railcar Backlog = 35,543 cars  
2014 Orders YTD = 31,990 cars  
2014 Deliveries YTD = 7,964 cars  
Source: ARCI 2Q 2014
# Covered Hopper Car Demand

(<3500 c/f) Sand, Cement

## Production Forecast

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## Total Railcar Backlog = 21,400 cars
2014 Orders YTD = 23,640 cars
2014 Deliveries YTD = 5,668 cars
Source: ARCI 2Q 2014