Rail Energy Transportation Advisory Committee

Rail Fleet Update

October 2, 2014

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 at over 64k cars in 2014; increase of over 20%

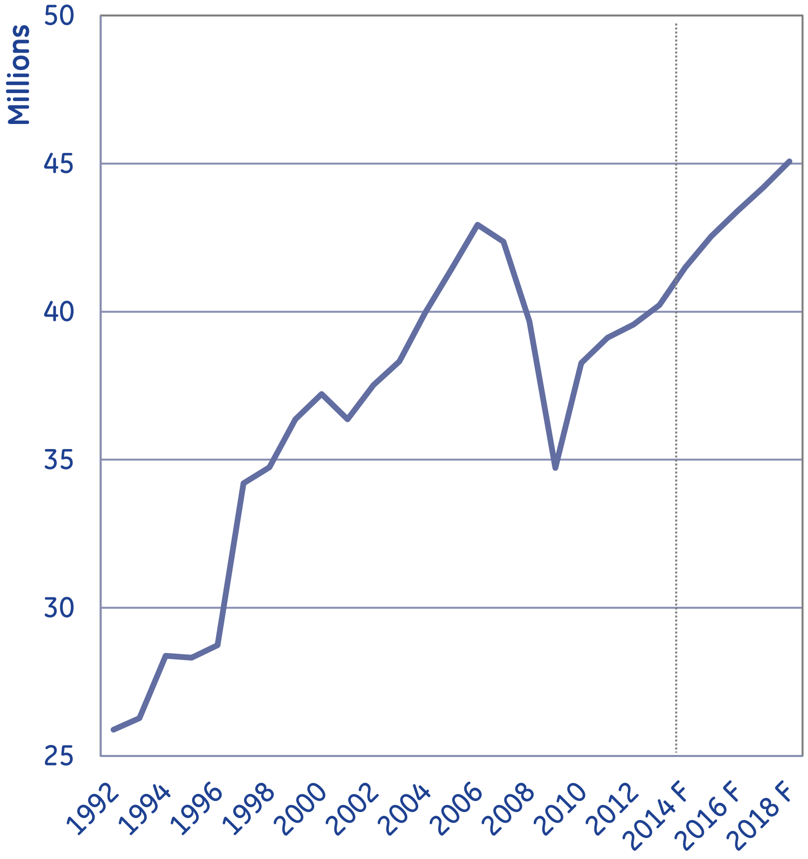
Source: IHS Global Insight

Future Rail traffic growth driven by petroleum, grain and chemicals

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

North American Rail Carloadings

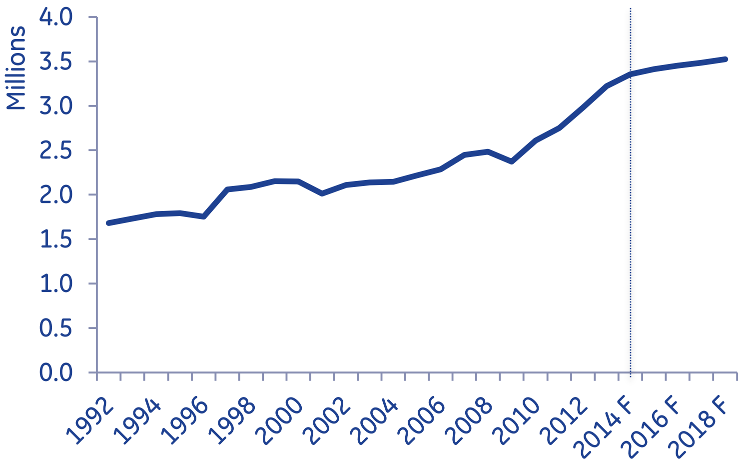


Source: IHS Global Insight, FTR Associates

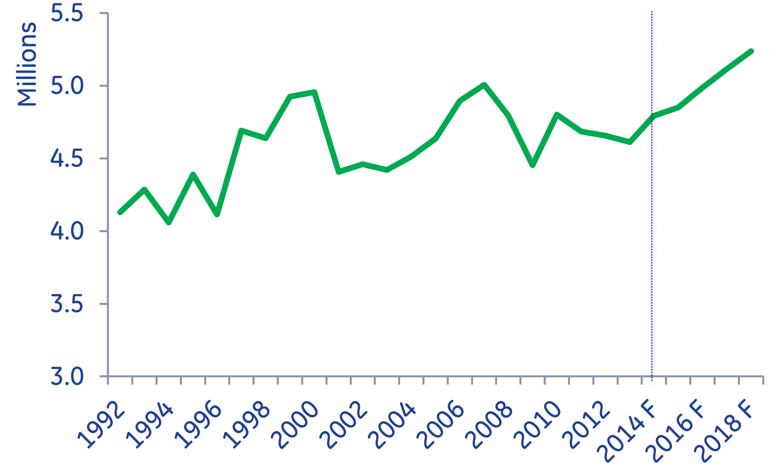
Source: FTR Associates | Q2 2014

N.A. Railcar Loadings by Car type

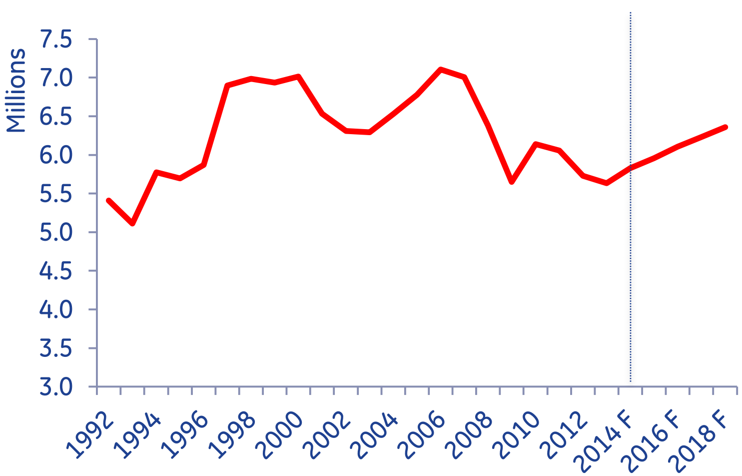
Tank Carloadings



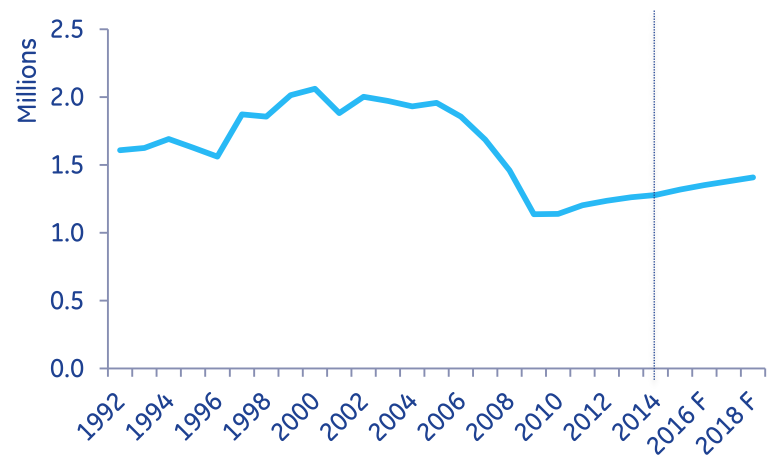
Covered Hopper Carloadings



OT Hopper Carloadings



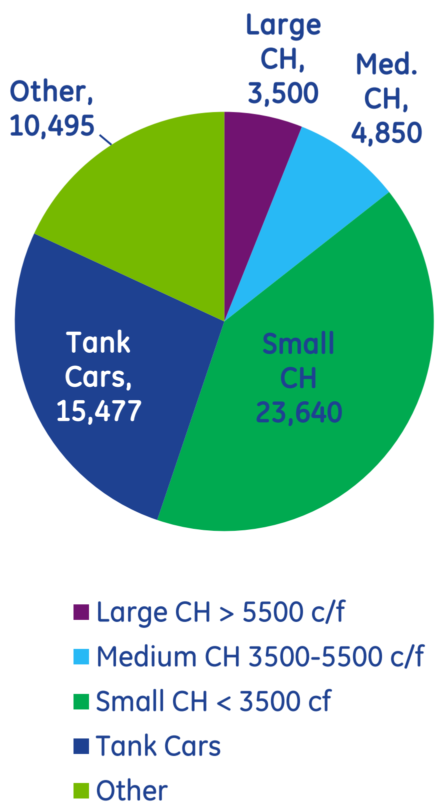
Box Carloadings



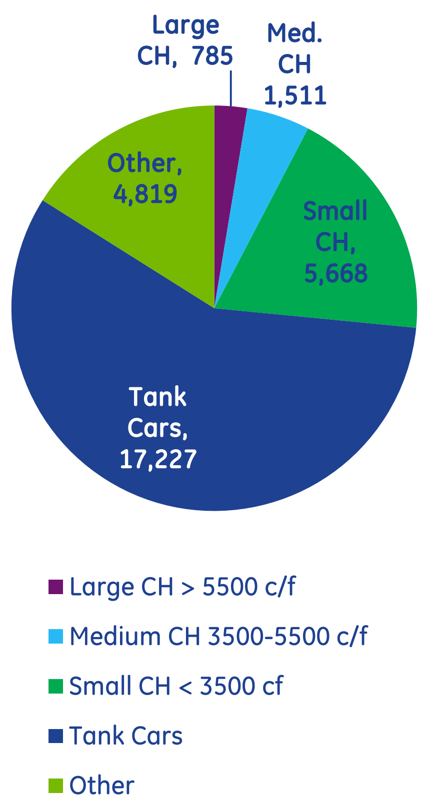
Source: FTR Associates, 2Q 2014

Freight Car Builds

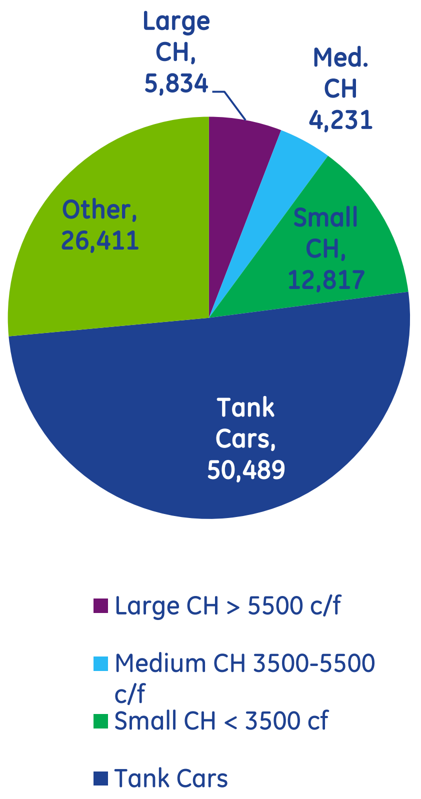
2014 YTD Orders



2014 YTD Deliveries



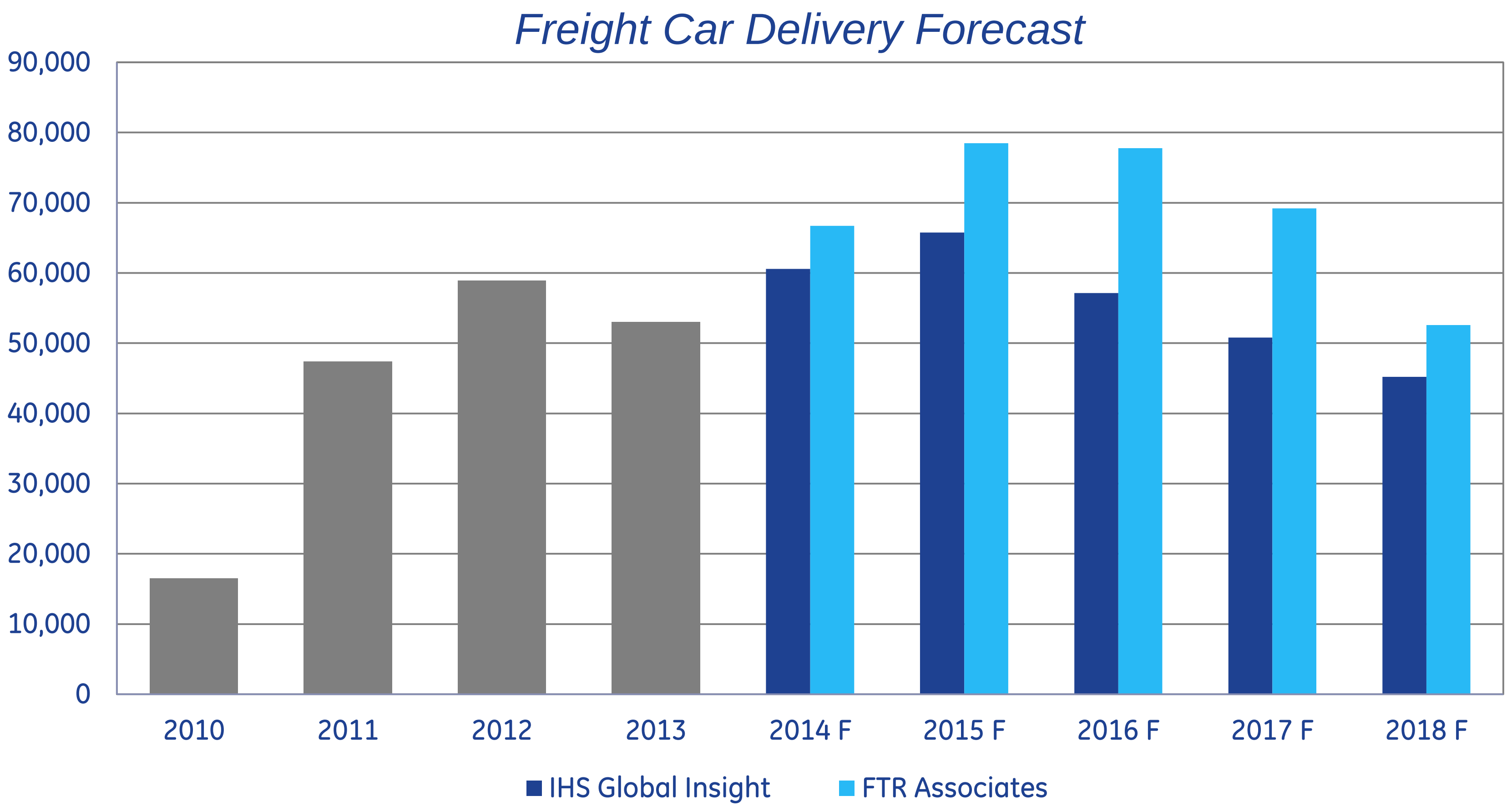
2Q'14 Backlog



Other category includes Box, Flat, Gondolas, OT Hoppers, intermodal

Source: Railway Supply Institute, ARCI 2Q 2014

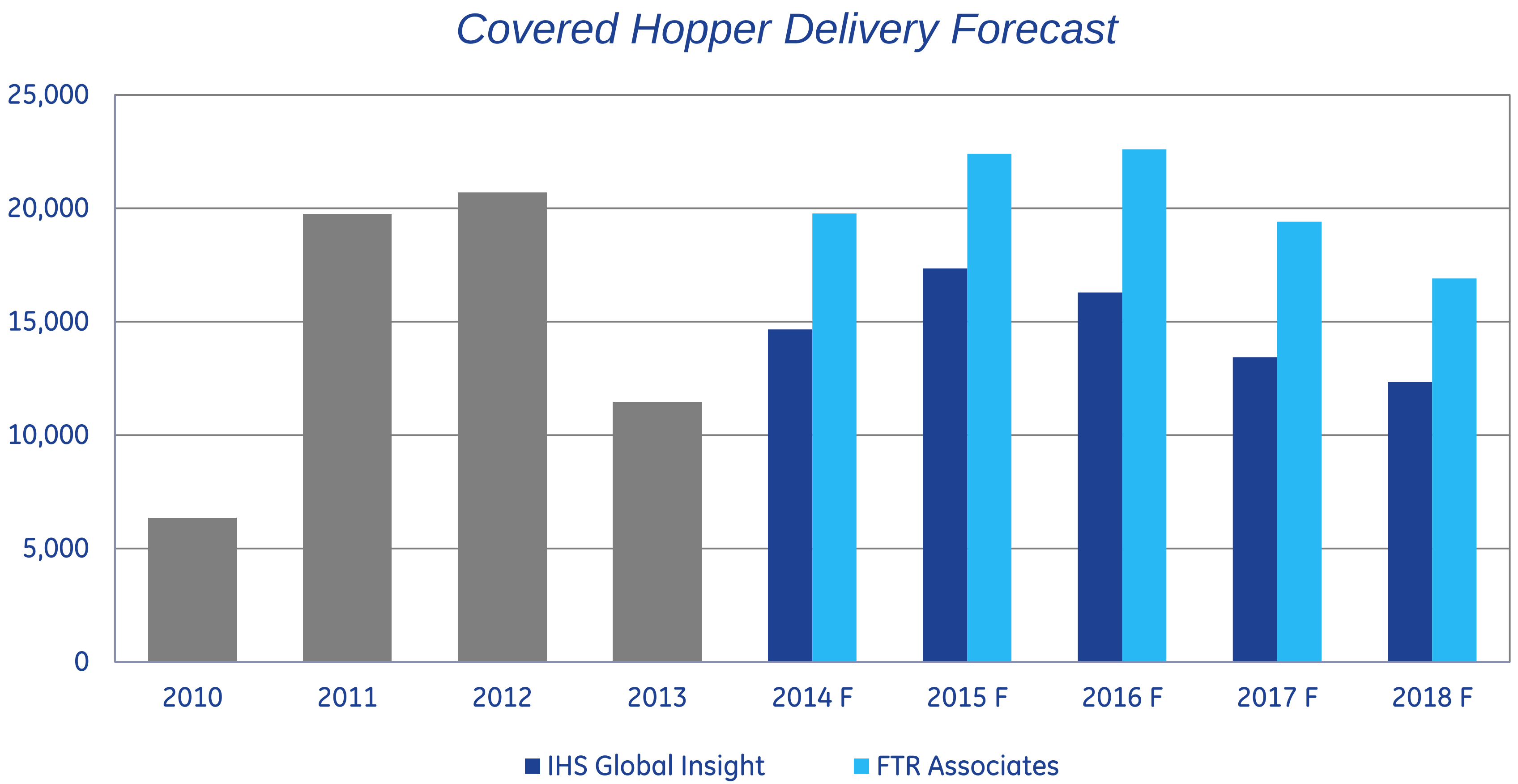
Freight Car Builds



Growth in total freight car deliveries expected in 2014 & 2015

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

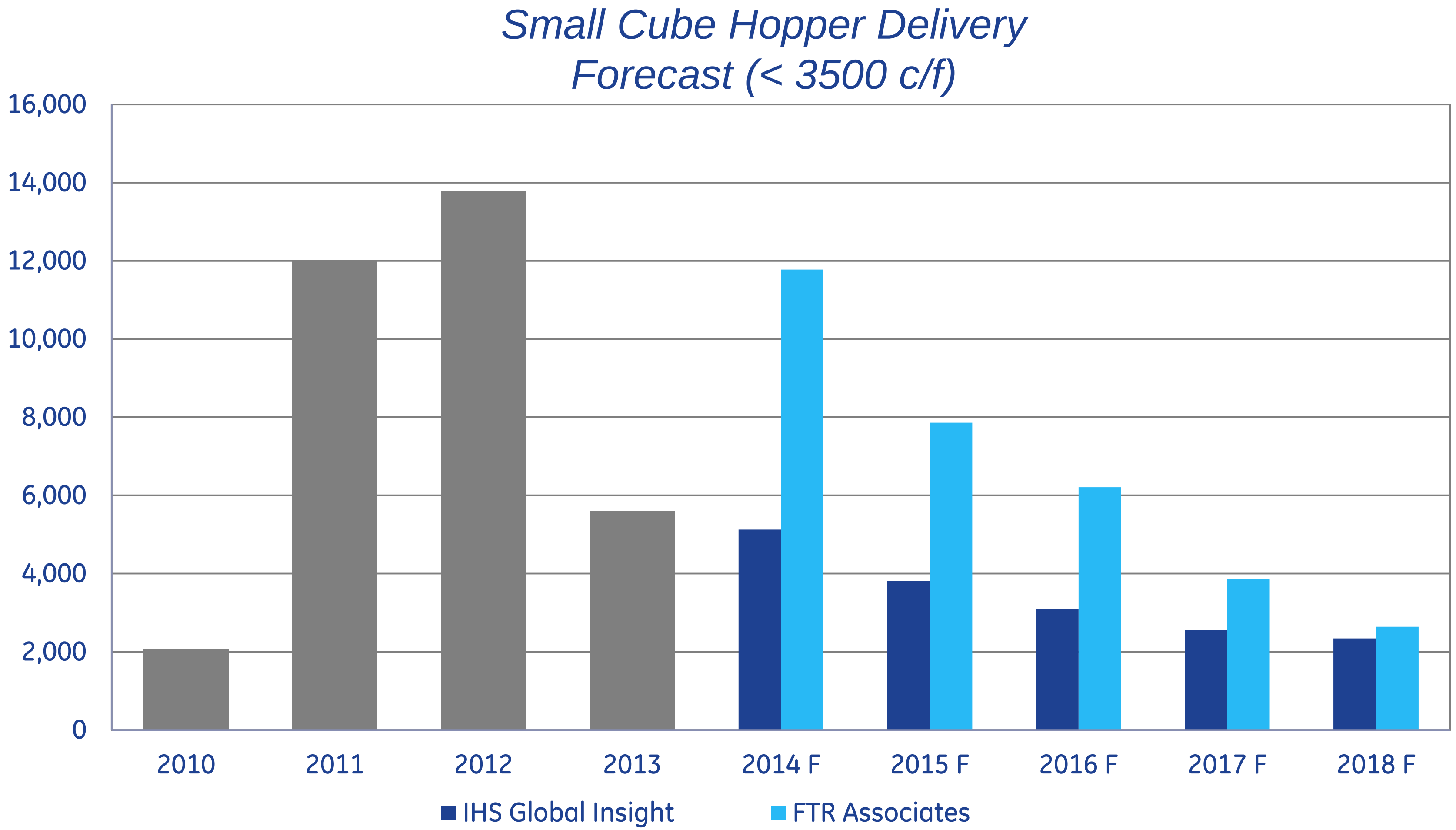
Covered Hopper Car Builds



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



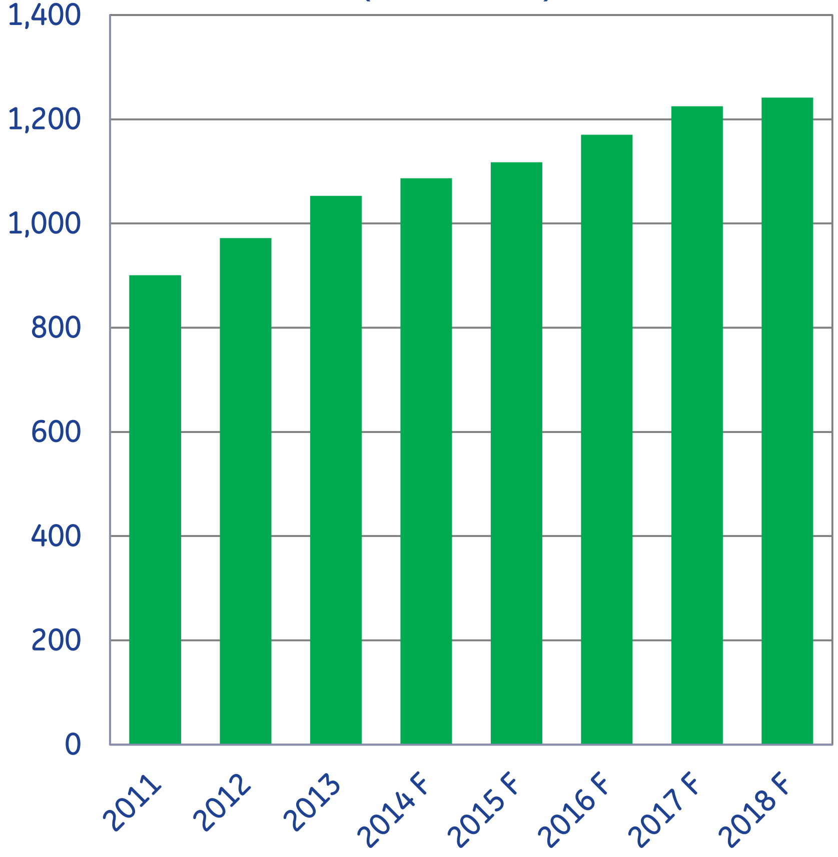
Small cube builds expected to grow in 2014 due to continued strength in sand

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

U.S. Stone, Sand and Gravel Carloadings
(thousands)

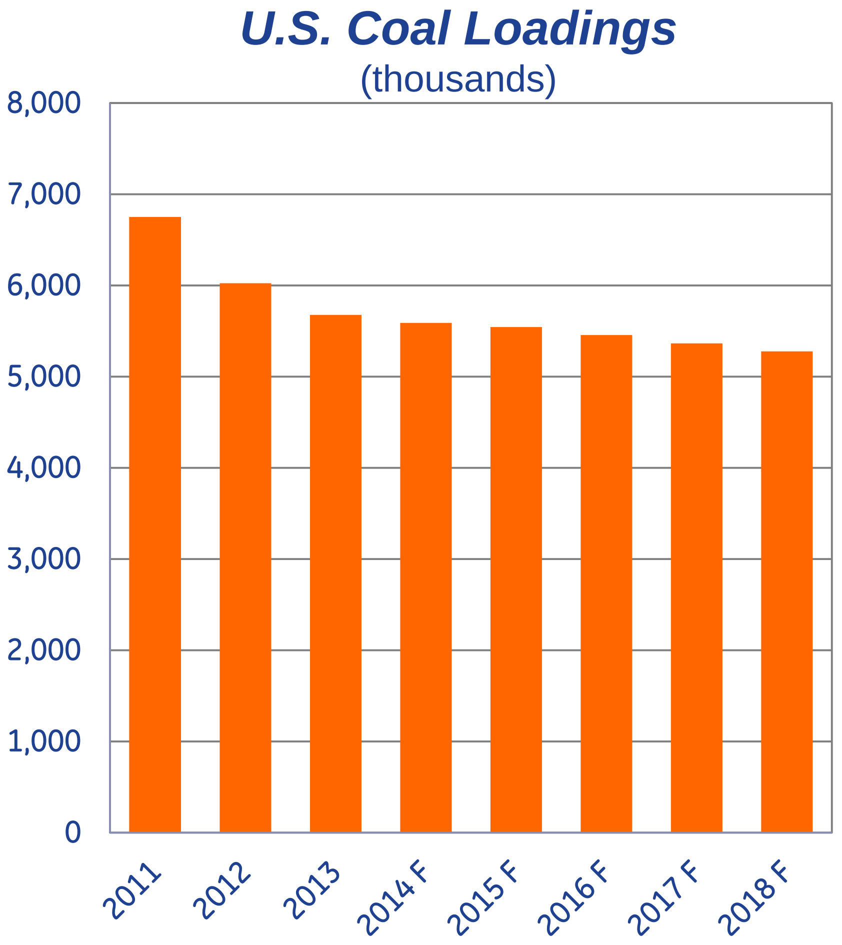


Source: IHS Global Insight, EIA, FTR Associates

Source: IHS Global Insight, 2Q 2014

Coal

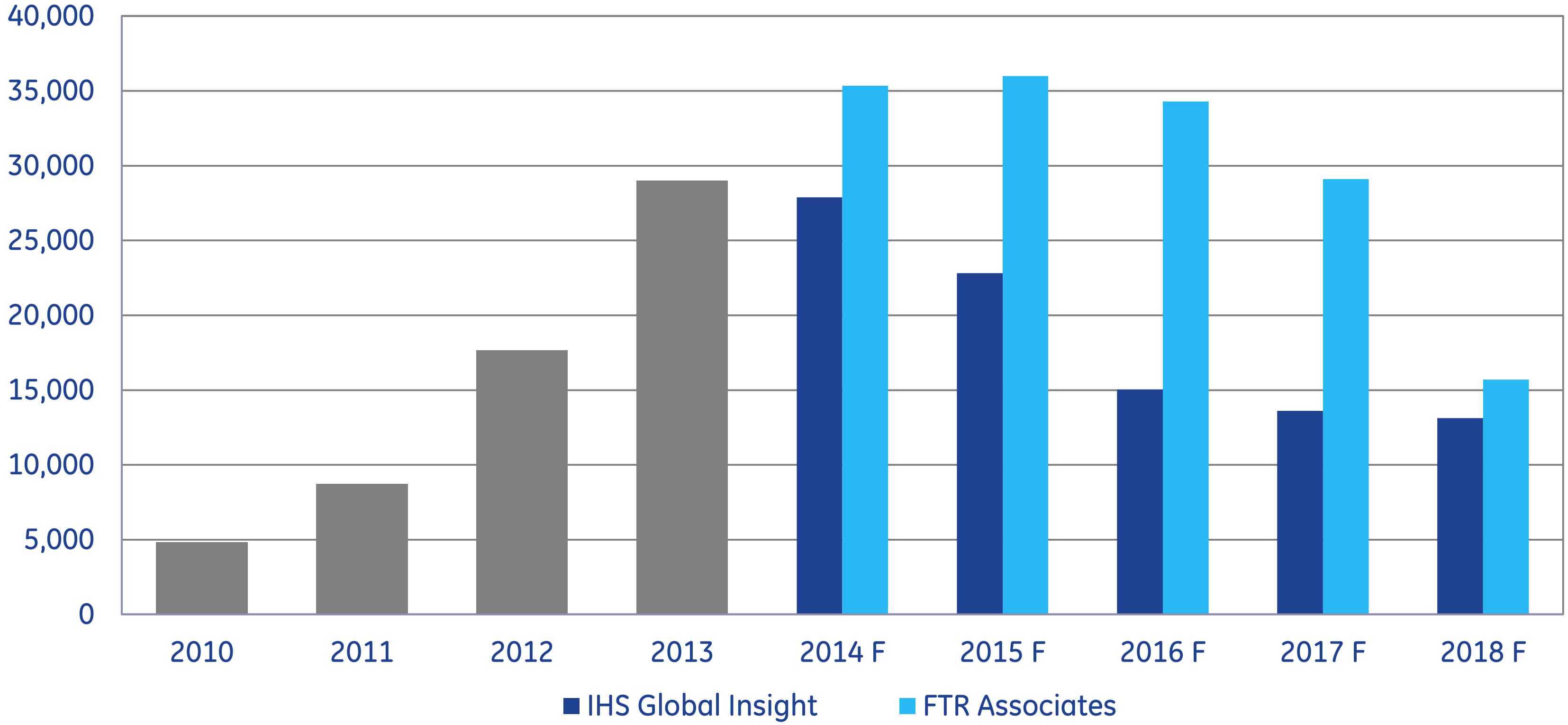
- Coal ~ 38% of U.S. carloadings; will continue to be a significant share of total volume
- U.S. coal production will be up 3% in 2014, returning to 2012 levels
- U.S. coal supply expected to be mostly flat in 2014, with inventories down and production rising.
- Cold weather in the beginning of the year 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

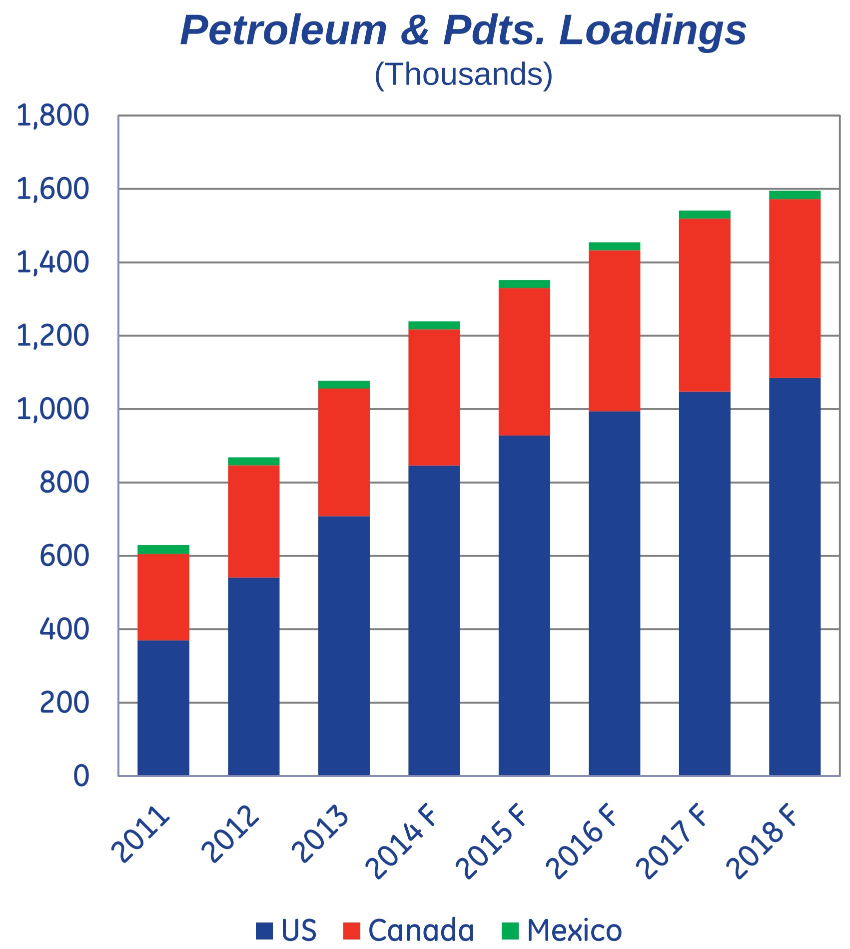


Tank builds to be driven by replacement demand

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

Appendix

Total Freight Car Demand

Production Forecast	2013A	2014 F	2015 F	2016 F	2017 F	2018 F
Economic Planning Associates	53,050	66,250	72,000	63,250	64,000	62,750
IHS Global Insight, 2Q'14	53,050	60,584	65,782	57,138	50,788	45,187
FTR Associates, 2Q'14	53,050	66,734	78,500	77,800	69,200	52,600

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

Production Forecast	2013A	2014 F	2015 F	2016 F	2017 F	2018 F
Economic Planning Associates	28,996	35,000	35,000	28,000	25,000	22,000
IHS Global Insight, 2Q'14	28,996	27,882	22,827	15,027	13,606	13,124
FTR Associates, 2Q'14	28,996	35,351	36,000	34,300	29,100	15,700

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

Total Covered Hopper Car Demand

Production Forecast	2013A	2014 F	2015 F	2016 F	2017 F	2018 F
Economic Planning Associates	11,458	19,000	21,000	17,500	17,000	17,000
IHS Global Insight, 2Q'14	11,458	14,651	17,345	16,281	13,437	12,339
FTR Associates, 2Q'14	11,458	19,770	22,400	22,600	19,400	16,900

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	2013A	2014 F	2015 F	2016 F	2017 F	2018 F
Economic Planning Associates	5,602	12,000	10,000	7,000	6,500	6,000
IHS Global Insight, 2Q'14	5,602	5,128	3,816	3,093	2,553	2,344
FTR Associates, 2Q'14	5,602	11,776	7,860	6,210	3,860	2,640

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