

***“Long Train Running”
Rail Car Conditions
Southeast Association of Rail Shippers
(SEARS)***



***Robert E. Pickel Jr., Senior Vice President, Marketing and Sales,
National Steel Car N.A. Inc.***

Savannah, GA, September 20, 2017

Our Company: Certifications

- Founded in 1912, celebrating over 100 years of railcar building excellence
- Largest, single-site railcar manufacturing plant in North America
- All Types of Freight Cars: 12 different car types with over 76 models
- Capacity to produce up to 15,000 railcars annually
- Ongoing plant modernization
- Certified to AAR M-1003
- The only car builder certified to ISO 9001-2008 in North America
- NSC is a multi-year recipient of the TTX Excellent Supplier Award. In 2016, we achieved the highest audit score awarded by TTX



Our Company: Car Portfolio



Class 1s Won't Be Acquiring Many This Year

First Half 2017 Thus Far

- Through 2017's first half, total U.S. carloads rose 4.5 percent and total Canadian carloads climbed 11.8 percent compared with first-half 2016 figures.
- Railroads own 20 percent of all freight cars in North America, with lessors controlling 50 percent, rail shippers owning 20 percent and TTX Co. managing 10 percent.
- Freight-car orders in second-quarter 2017 totaled 17,665 units compared with 4,814 in the first quarter, but Q2 car deliveries were flat at 10,625 units versus 10,042 in Q1.
- Orders previously clocked in at 4,866 units in fourth-quarter 2016 and 7,555 in second-quarter 2016.

Source: Progressive Railroad



Class 1s Won't Be Acquiring Many This Year

Crunching Car Numbers

- Car backlog on July 1 stood at 66,561 units, up from 60,471 on April 1 but down from 66,681 on Dec. 31, 2016. At the end of last year's comparable quarter, the backlog totaled 89,155 units.
- Car purchases haven't exactly bottomed out for Class 1s, but it's safe to say they aren't acquiring many of them after buying small quantities last year.
- Canadian Pacific acquired 83 new convertible multilevels in 2016 and this year plans to lease one 152-car aluminum coal set.
- CN plans to acquire 300 bi-level racks and lease about 800 other cars, including centerbeams, aluminum rotary gondolas and bi-level racks. Last year, the Class 1 purchased 150 multi-max racks in bi-level configurations.

Source: Progressive Railroad



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Crunching Car Numbers

- Norfolk Southern Railway, the budget for freight cars fell to \$50 million this year after the Class I spent \$121 million last year on car acquisitions to better handle existing traffic and volume growth.
- Last year, KCS boosted its number of owned cars in four categories compared with 2015 levels: box cars grew from 3,033 to 3,212; covered and open-top hoppers increased from 4,048 to 4,333; automotive equipment swelled from 2,084 to 2,483 units; and flat cars ratcheted up from 807 to 851.
- From 2015 to 2016, the number of covered hoppers and gondolas UP owns rose from 12,693 to 13,382 and from 5,856 to 6,007, respectively.

Source: Progressive Railroad



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Crunching Car Numbers

- At BNSF, acquisitions last year included 242 covered hoppers and 93 flat cars.
- CSX has not yet announced plans to acquire new cars in 2017. Instead, the Class I has idled more than 26,000 cars as part of an ongoing operational review and transition to the Precision Railroading scheduled railroad strategy, which is designed to improve customer service and provide greater resource efficiency.
- Class 1s' some-will-buy, some-won't trend also carries over to locomotive purchases. But most large roads expect to continue modernizing their motive-power fleets this year.

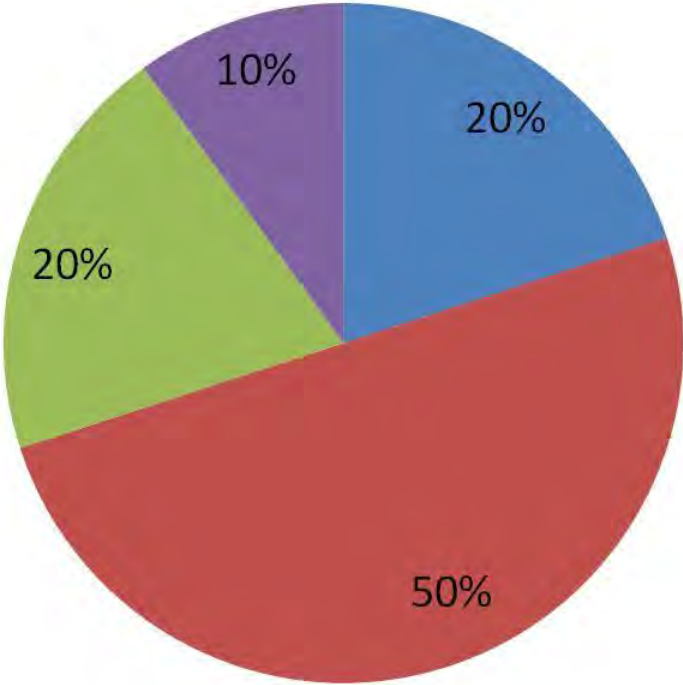


Source: Progressive Railroad

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Car Ownership

■ Railroads ■ Lessors ■ Rail Shippers ■ TTX

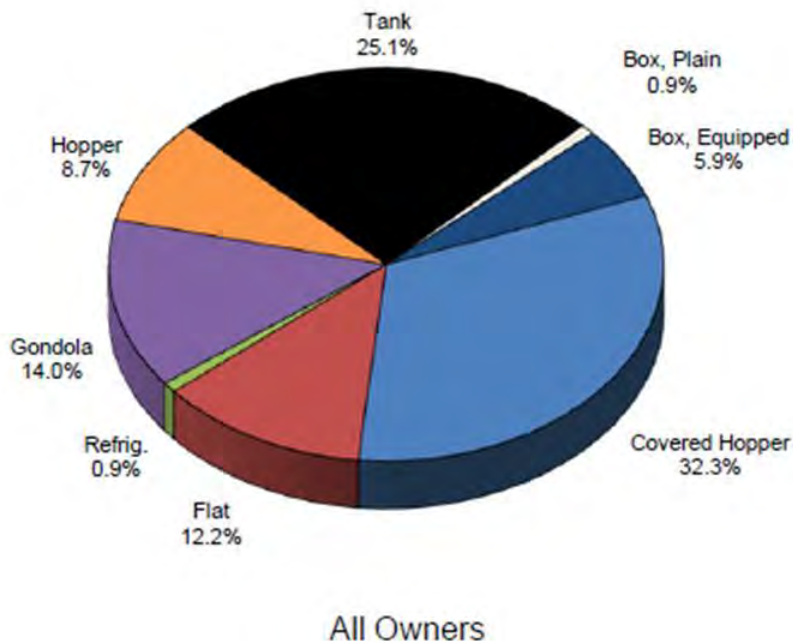


Southeastern Railroads & Railcar Conditions-2017

- CSXT and Norfolk Southern not investing in railcars
- CSXT announced reduction of 25,000 leased railcars; 550 locomotives
- Norfolk Southern assessing operational changes – Diverted traffic
- CSXT services under STB and other scrutiny
- Florida East Coast under new management – What impact, if any, on capital investment and service?



Existing North American Fleet: In Percentages



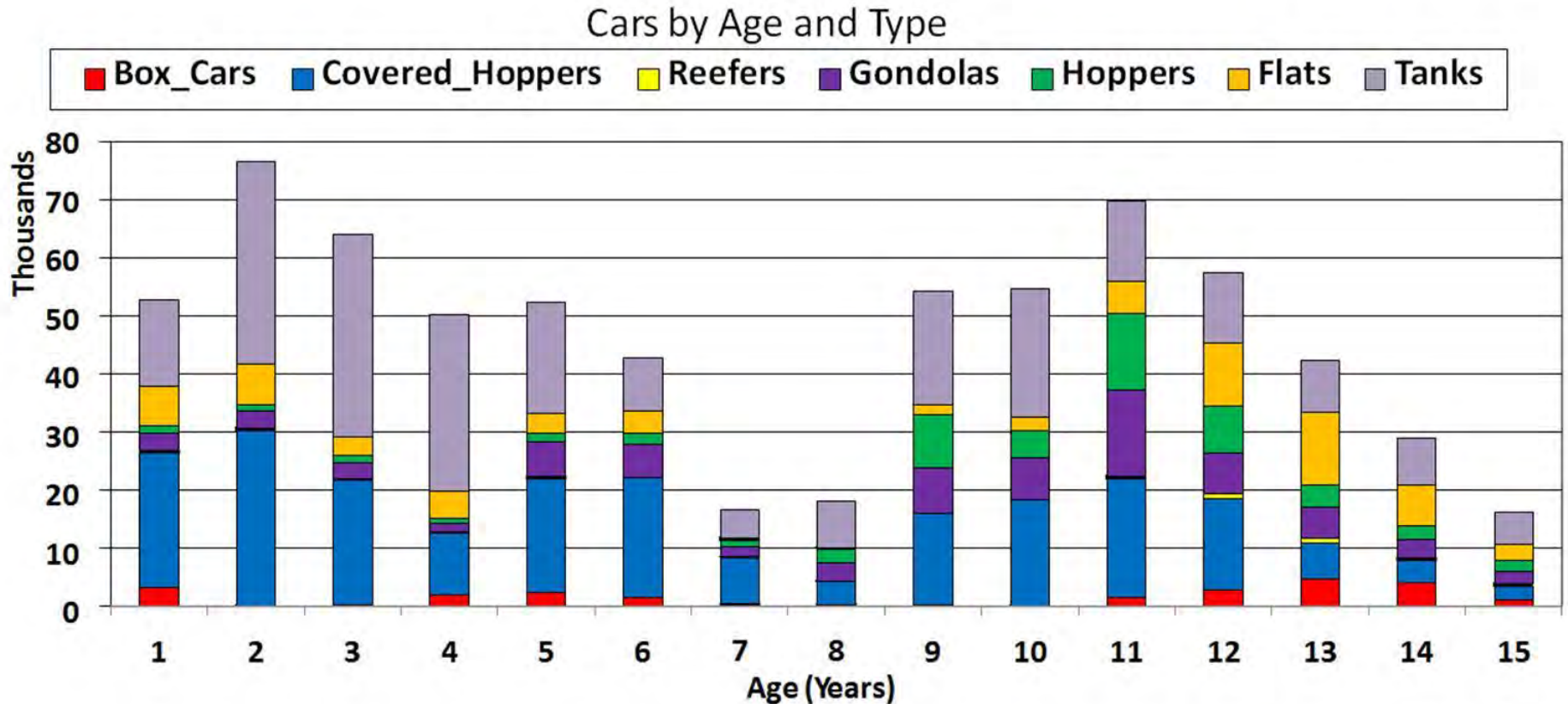
North American Freight Car Fleet

Type	Number of Freight Cars (000)	Tons of Aggregate Capacity (000)	Average Capacity (tons)
Box cars:	109.2	9,983	91.4
Plain box	14.1	1,167	82.9
Equipped box	95.1	8,815	92.7
Covered hoppers	518.5	56,175	108.3
Flat cars	196.1	20,727	105.7
Refrigerator cars	13.8	1,141	82.8
Gondolas	224.2	25,047	111.7
Hoppers	139.8	15,597	111.6
Tank cars	403.7	38,972	96.5
Others	3.8	429	112.3
Total	1,609.1	168,070	104.5

Source: AAR



Existing North American Fleet: Age



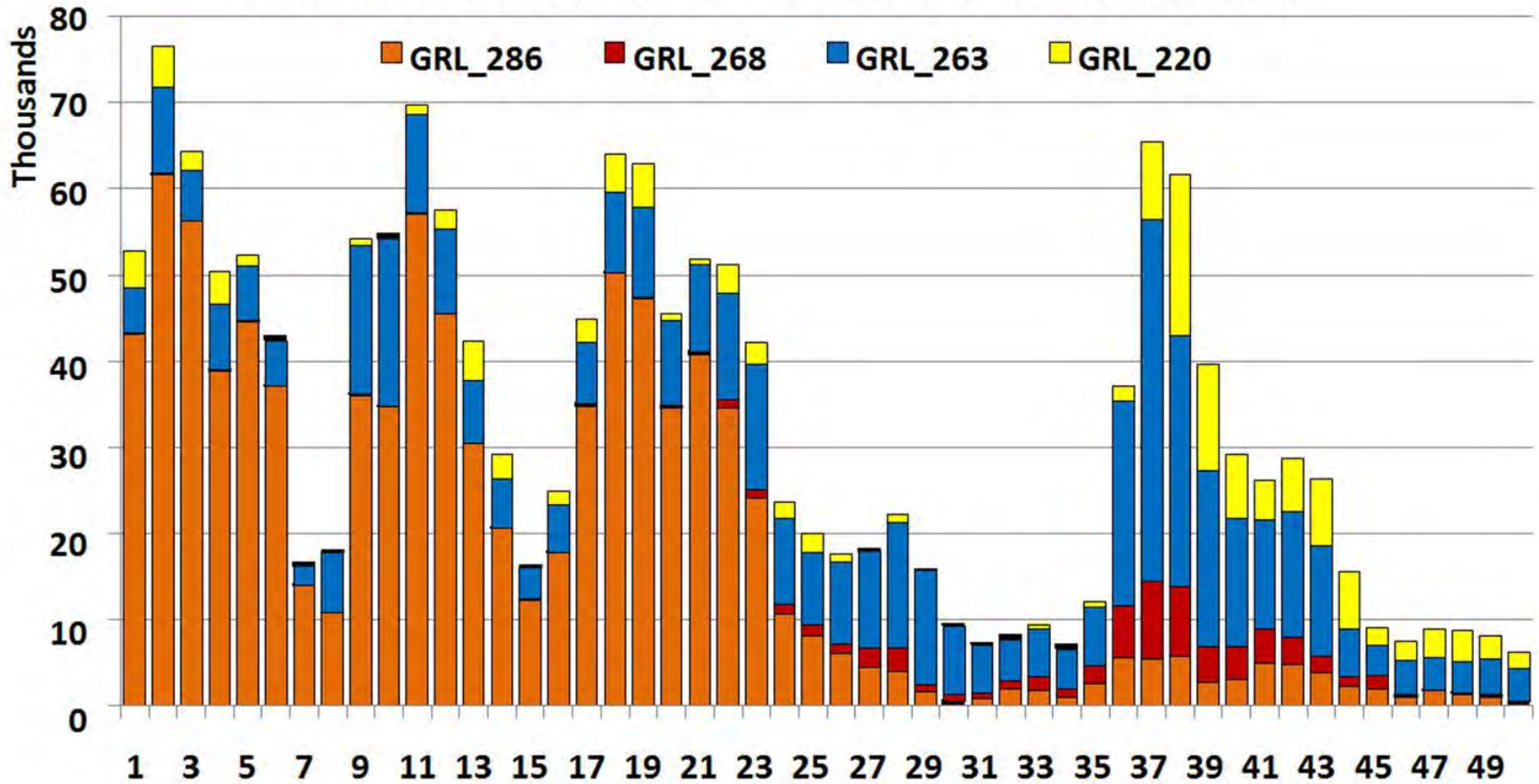
Source: Railinc

- As the industry builds tank cars, the other car type fleets are aging



Existing North American Fleet: Age

Number of Cars by Age and GRL (Revenue-Earning Fleet)



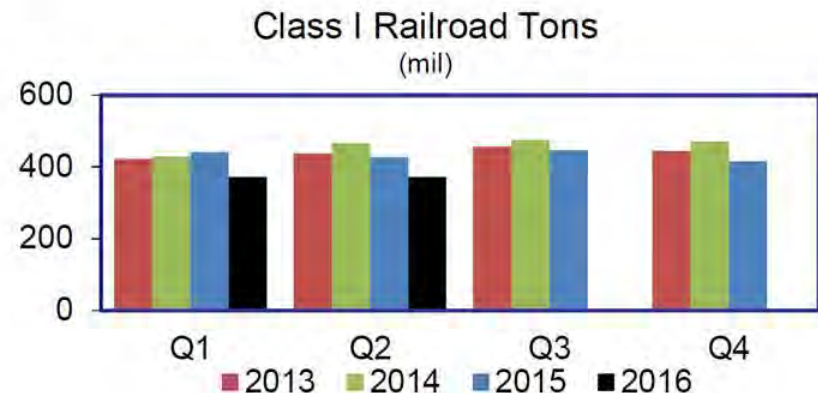
Source: Railinc



Existing North American Fleet: Cars in Storage

Preview of 2016

- The demand for railroad service declined, railroads put more locomotives and freight cars in storage. Nearly one-fourth of the railcar fleet was in storage on August 1, 2016.
- Covered hoppers, tank cars, and gondolas accounted for about three-fourths of the stored cars.
- Equipment purchases have been cancelled or delayed where possible.
- Capital expenditures were down 16.2 percent for the first half of 2016.



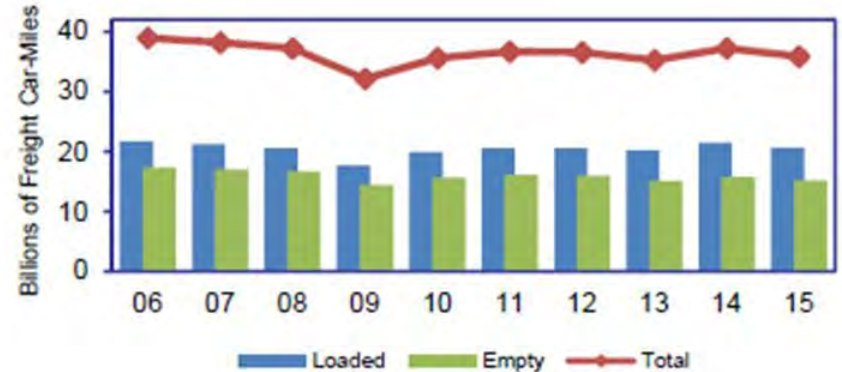
Source: AAR Railroad Facts 2016



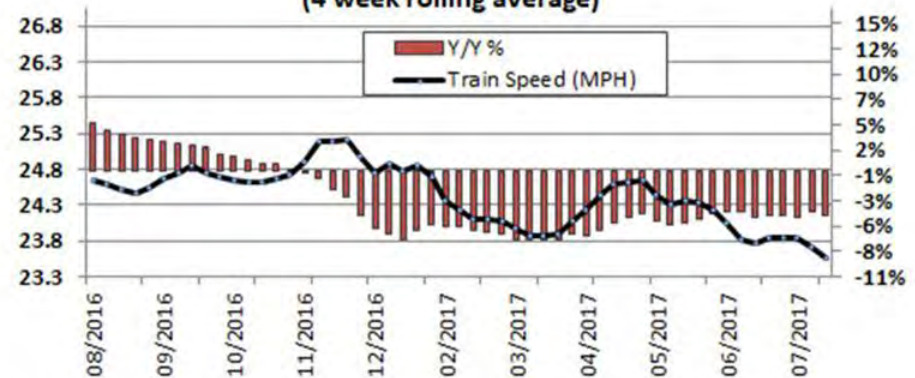
Fleet Utilization: Speed and Cars on Line

There is an inverse relationship between the number of cars online and the train speed

Jan. 1 of Year	Number of Freight Cars (mil)	Aggregate Capacity (mil tons)	Average Capacity (tons per car)
2002	1.54	151.2	98.2
2003	1.52	150.2	98.9
2004	1.50	149.2	99.3
2005	1.51	150.7	99.7
2006	1.54	154.7	100.5
2007	1.58	160.2	101.4
2008	1.60	163.1	102.1
2009	1.60	164.7	102.6
2010	1.57	161.4	103.1
2011	1.50	155.5	103.4
2012	1.49	154.6	104.0
2013	1.50	156.9	104.4
2014	1.52	158.3	104.4
2015	1.56	162.6	104.5
2016	1.61	168.1	104.5



AVERAGE TRAIN SPEED (4 week rolling average)



Sources: AAR, Company Reports, FTR; Copyright 2017



Fleet Utilization: Car Capacity and Content

FTR Railcar Capacity Utilization

Seasonally Adjusted, % of Fleet in Use



Source: FTR; Copyright 2017

The average car carrying capacity increased but the loaded content decreased



Fleet Utilization: Car Capacity and Content

Top 10 Equipment Type Code Revenue – Earning Fleet

RANK	CHANGE	ETC	COUNT	Description
1		C114	136,000	Covered Hopper: Grain/Fertilizer
2		C113	125,000	Covered Hopper: Grain/Fertilizer
3		C214	116,000	Covered Hopper: Plastics
4	↑ 1	C112	105,000	Covered Hopper: Sand/Cement
5	↓ 1	J311	100,000	Gondola: Coal
6		T108	86,000	Tank: Non-Pressurized, General Service
7	↑ 2	T389	50,000	Tank: Pressurized
8	↓ 1	T106	49,000	Tank: Non-Pressurized, General Service
9	↓ 1	T107	46,000	Tank: Non-Pressurized, General Service
10		T104	40,000	Tank: Non-Pressurized, General Service

Source: Railinc 2017



Fleet Utilization: The Trains

Total Locomotives in Service

	1995	2003	2016
# of Locomotives	18,812	20,774	26,573
% Change	base	+10%	+28%

Average Number of Cars per Freight Train

	1995	2003	2016
Avg. Cars per Train	66.3	68.9	72.5
% Change	base	+4%	+5%

Average Length of Haul

	1995	2003	2016
Avg. Length of Haul (miles)	842.6	862.4	1,000.7
% Change	base	+2%	+16%

Source: AAR Railroad Facts 2016



Railroad Net Investment

Railroad Net Investment

2009	\$127.5
2010	\$134.2
2013	\$157.1
2014	\$168.9
2015	\$181.9

in \$ billions

TOTAL: \$769.6

Note: Includes Net Investment in Road, Equipment plus Cash, Material and Supply



Rail Network: Efficiency:

Other factors also have a major impact on the network efficiency:

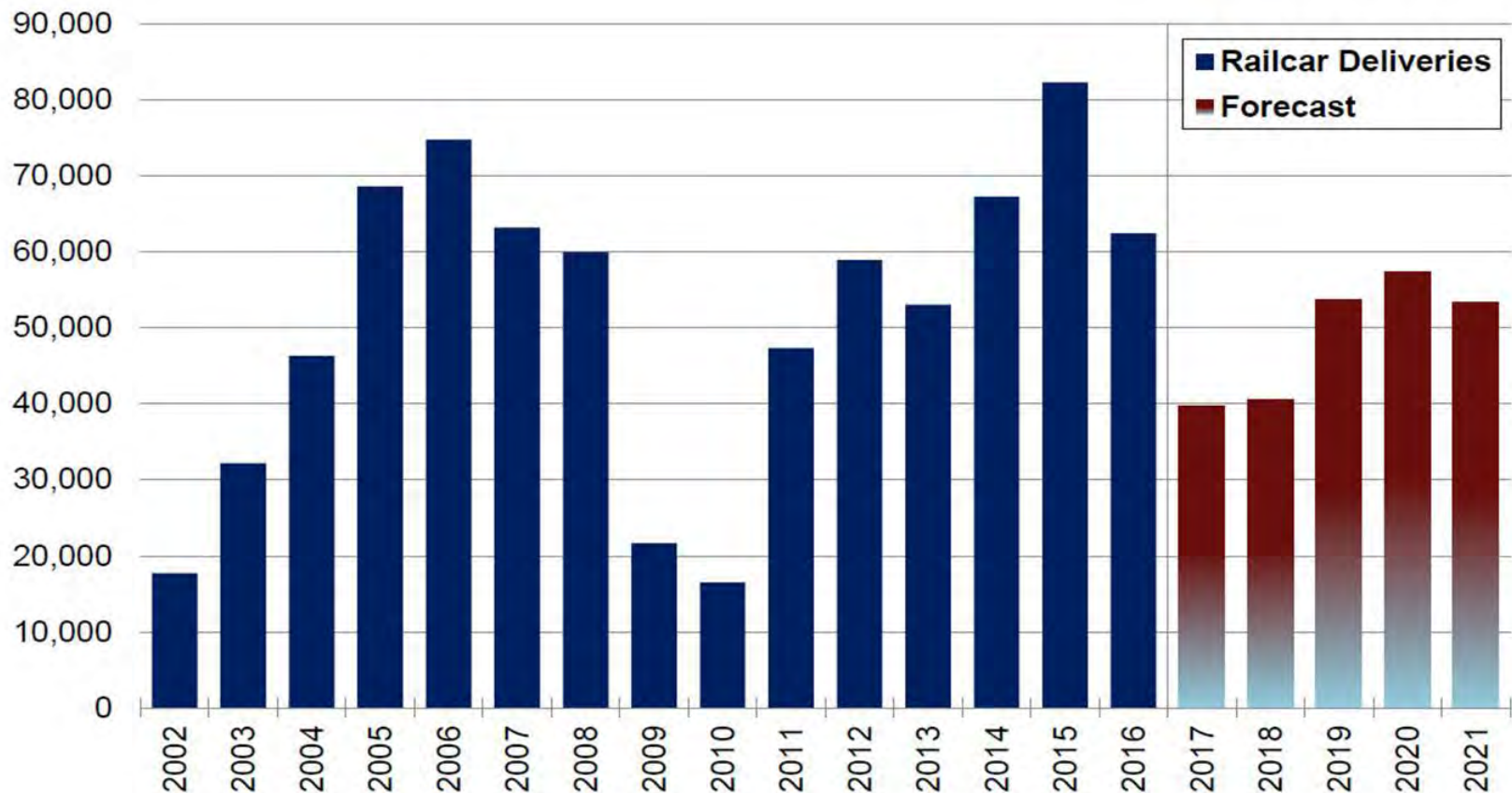
- Track capacity (3% decline 2004 to 2013)
- Better dispatch technology (**C**entralized **T**raffic **C**ontrol)
- Distributed Power & ECP braking system
- Weather
- Traffic mix (e.g. tank car traffic)

There are no simple, inexpensive means to improve the network efficiency and its throughput. It will be challenging and expensive



North American Rail Car Deliveries: Annual Range

N.A. Railcar Deliveries Outlook

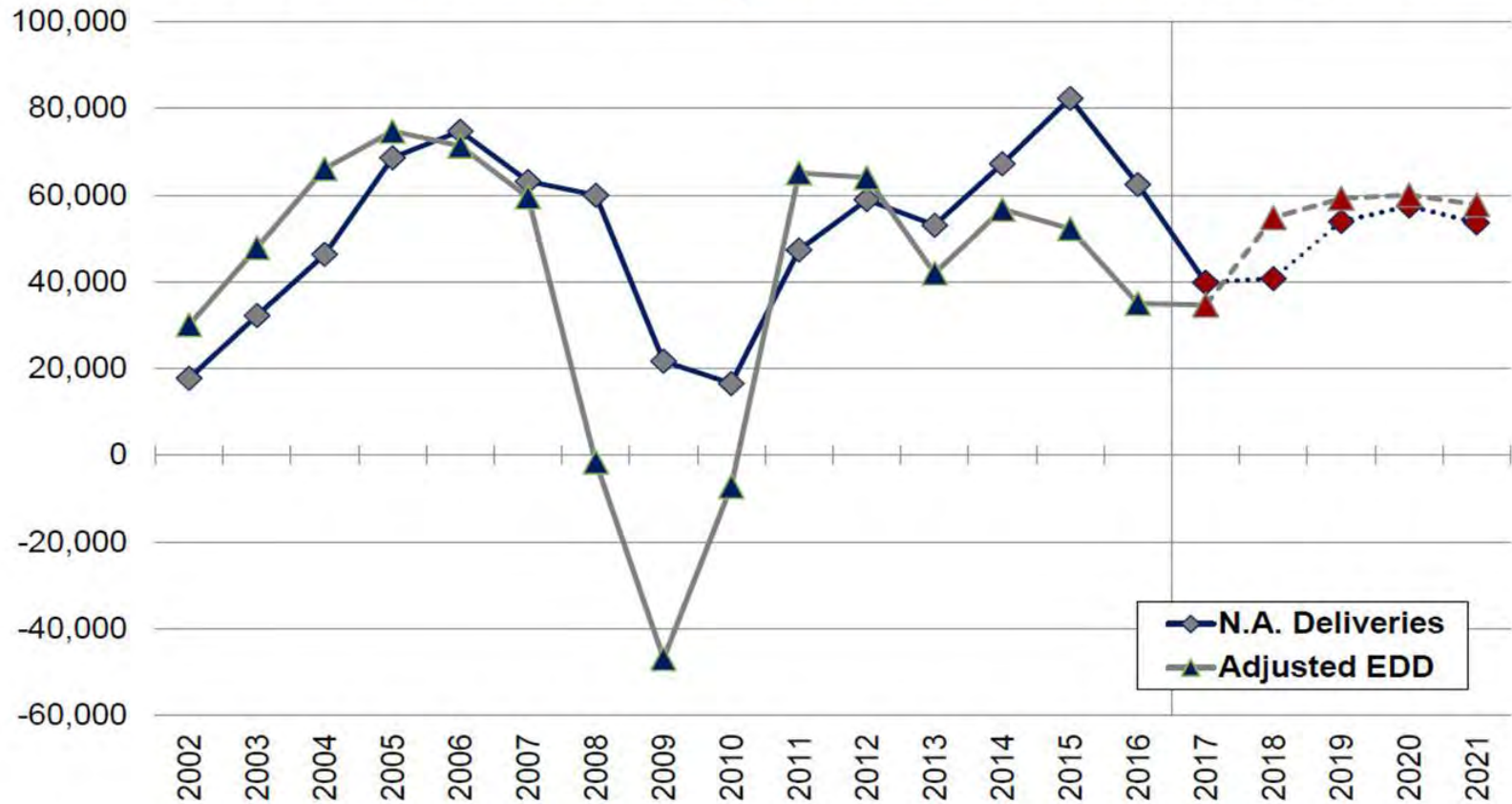


Source: FTR; Copyright 2017



North American Rail Car Deliveries: Annual Range

N.A. Freight Railcar Deliveries vs. Economically Derived Demand



Source: FTR; Copyright 2017



North American Railcar Orders, Deliveries and Backlog

	7/1/2017	4/1/2017	12/31/2016	10/1/2016
Backlog	66,561	60,471	66,681	77,640

	2nd Quarter 2017	1st Quarter 2017	4th Quarter 2016	3rd Quarter 2016	2nd Quarter 2016
Orders	17,665	4,814	4,866	5,526	7,555
Deliveries	10,625	10,042	14,914	15,375	15,655

Twelve Month Year End Comparison

	2016	2015	2014	2013
Orders	22,879	51,426	138,234	66,569
Deliveries	62,433	82,296	67,228	53,050

Source: RSI ARCI Committee



North American Car Deliveries By Car Type

	ORDERS	DELIVERIES	BACKLOG	YTD ORDERS	YTD DELIVERIES
BOX CARS	100	1200	2865	100	2322
COVERED HOPPERS					
Over 5500 c/f	994	1787	6381	1835	3934
3500-5500 c/f	5515	2927	13021	6523	4521
Under 3500 c/f	2724	137	19316	3221	450
OPEN-TOP HOPPERS					
Steel	130	734	437	130	1598
Aluminum	0	0	0	0	0
GONDOLAS					
GB Steel	355	284	1316	435	870
GT Steel	0	200	281	0	201
GT Aluminum	0	0	0	0	0
FLAT CARS					
NON-INTERMODAL	2656	703	3157	2656	1345
INTERMODAL:					
NON-ARTICULATE	0	0	0	0	0
ARTICULATED					
*5-Unit Platforms	0	0	0	0	0
*Other Platforms	733	444	829	1303	828
TANK CARS	4458	2209	18958	6047	4562
OTHERS	0	0	0	0	0
TOTALS	17665	10625	66561	22250	20631

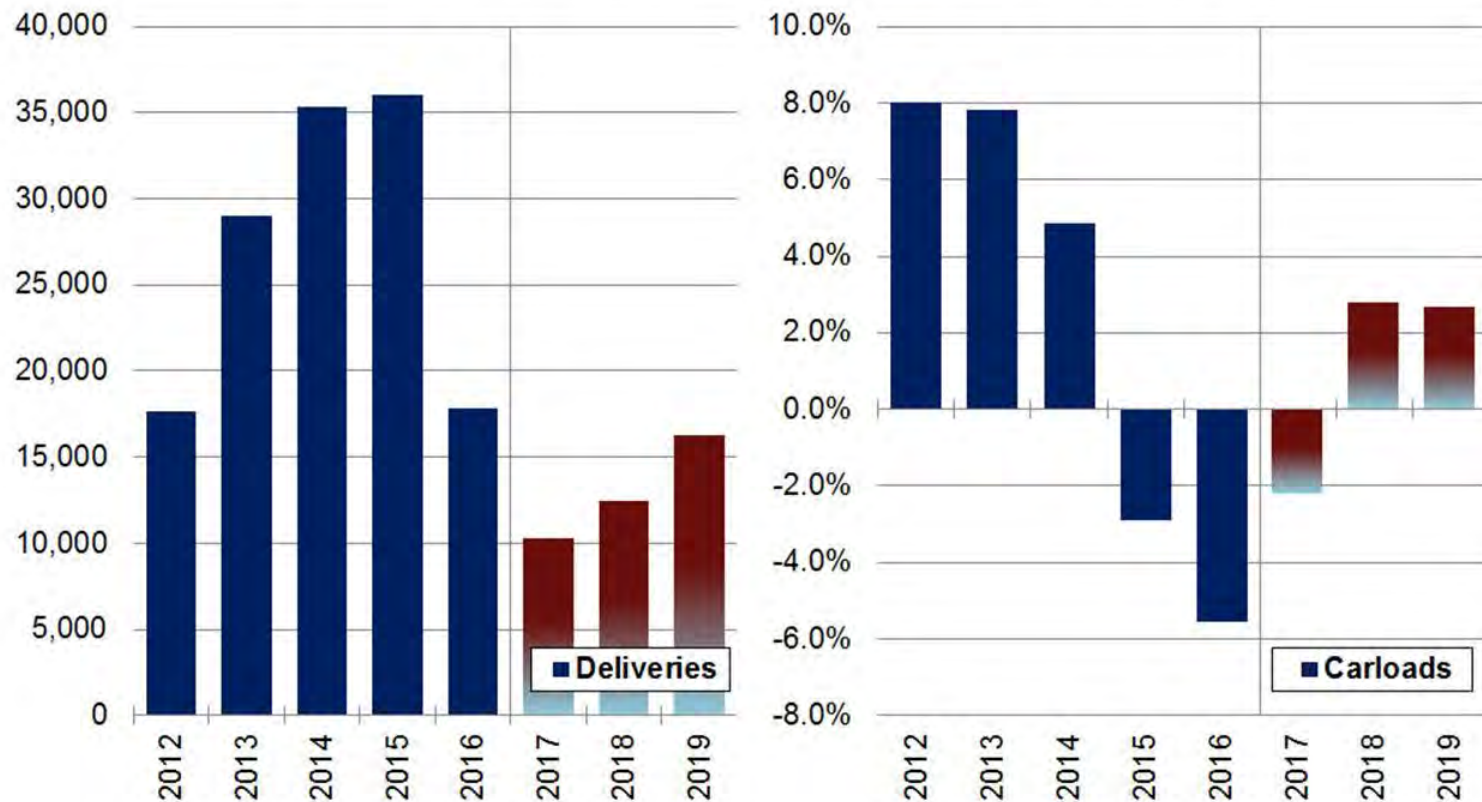
Source: RSI ARCI Committee



North American New Tank Car: Backlog

Tank Car Outlook

N.A. Tank Car Outlook

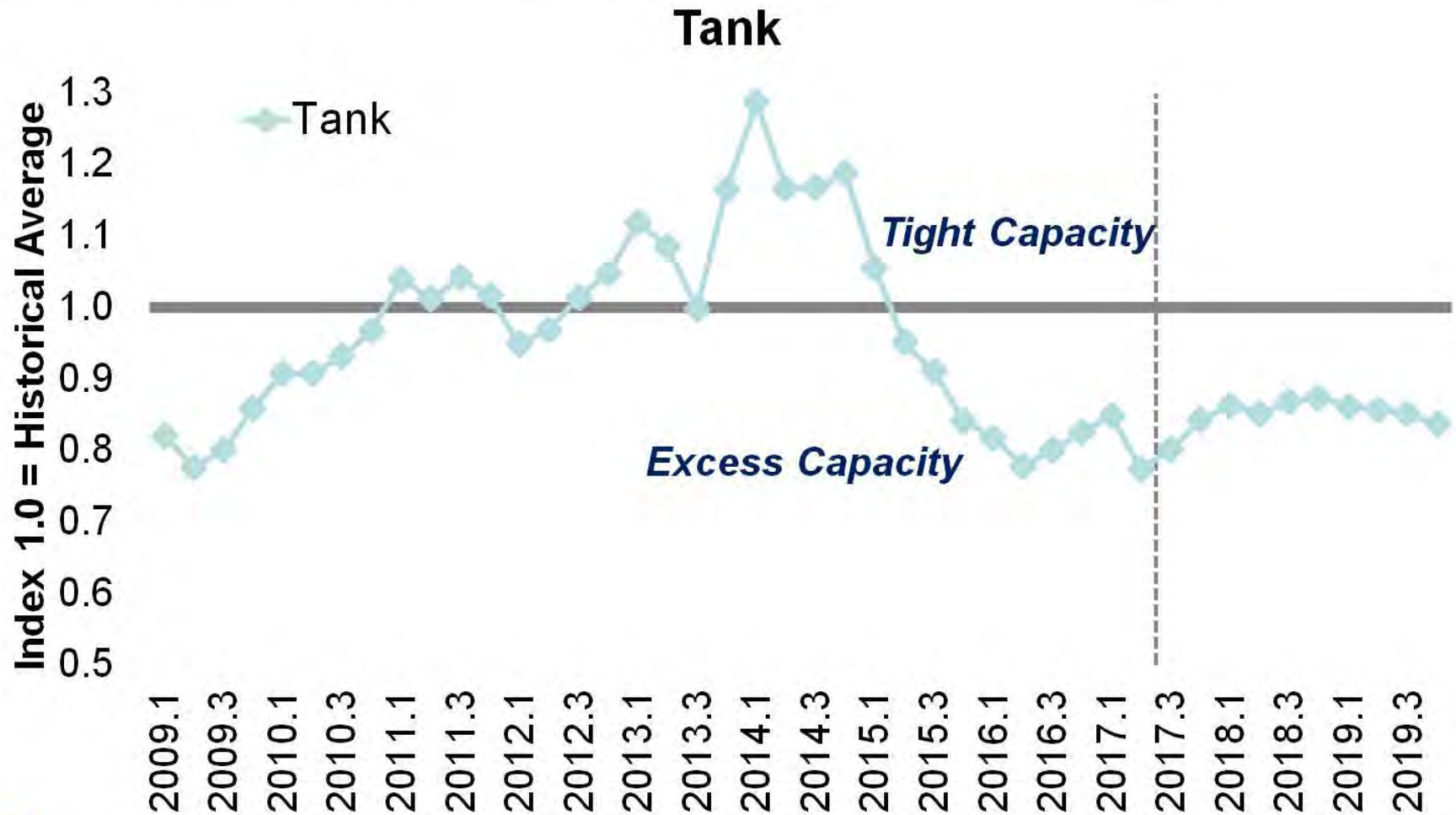


Source: FTR; Copyright 2017



North American New Tank Car

Tank Car Capacity Utilization



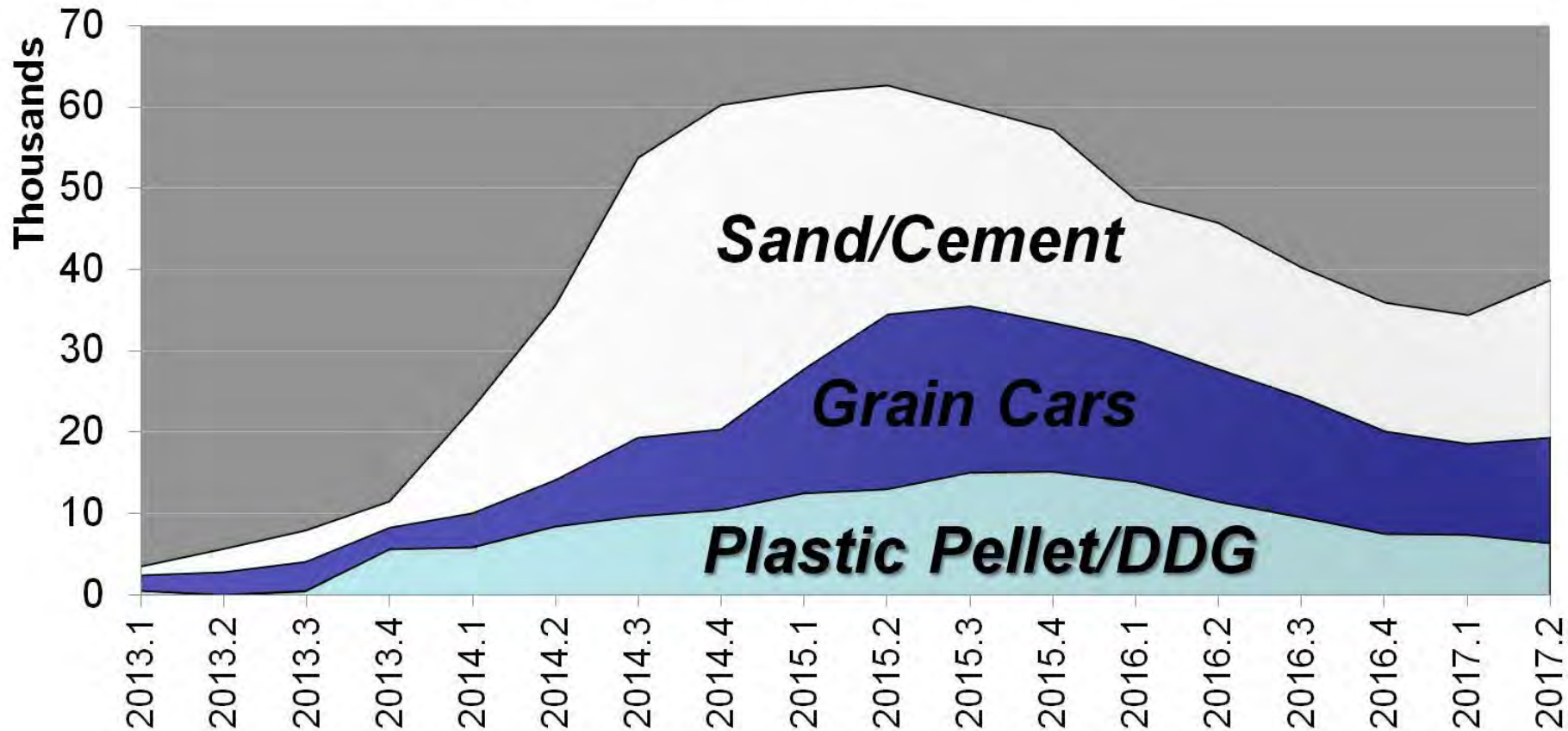
Source: FTR; Copyright 2017



North American Covered Hoppers

Backlogs - Units

Over 5500 3500-5500 Under 3500

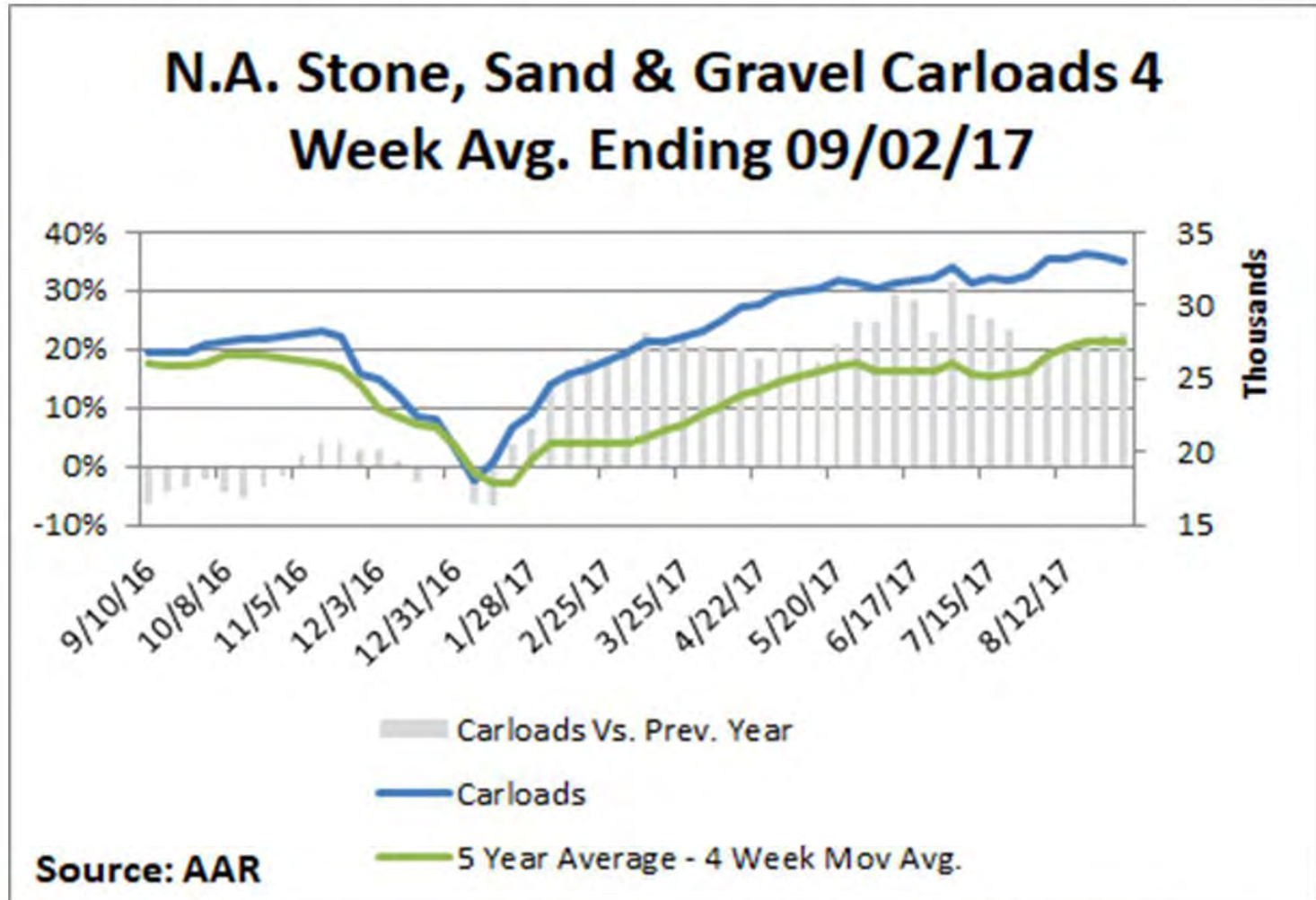


Source: FTR; Copyright 2017



North American Covered Hoppers

Sand Demand Showing Healthy Growth



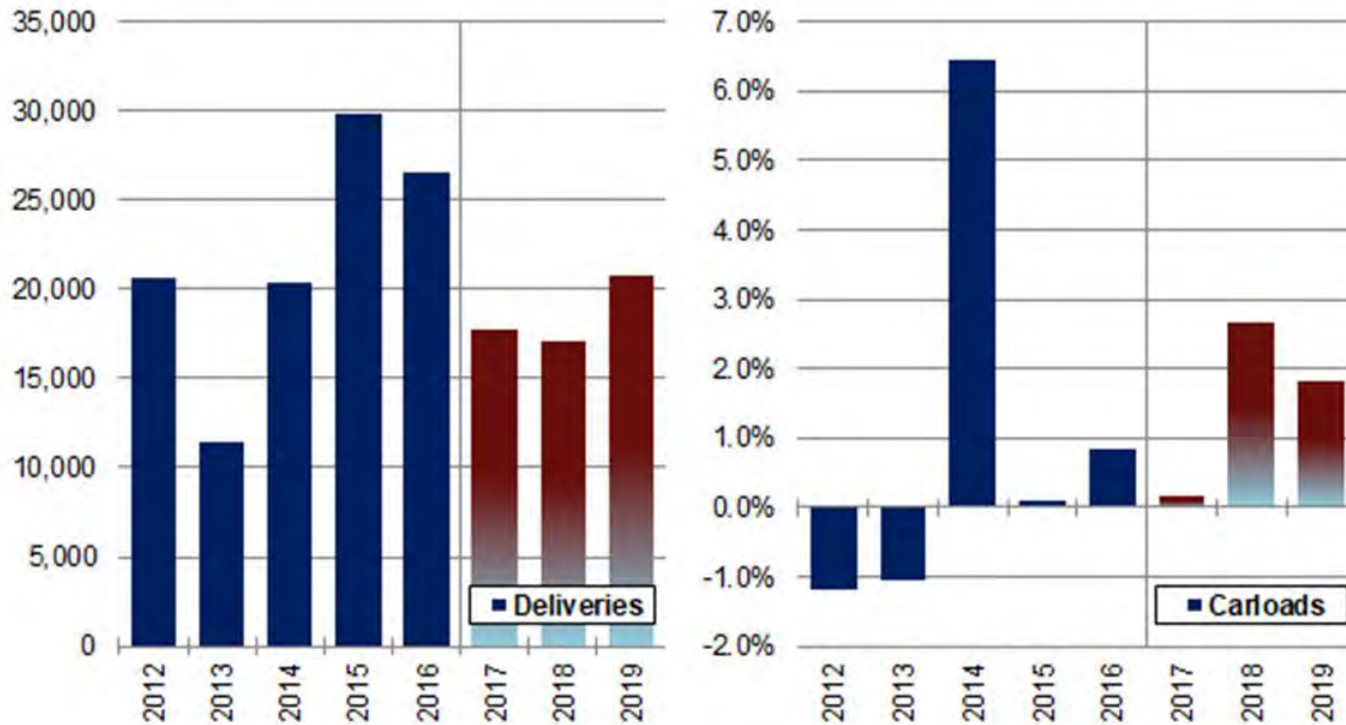
Source: FTR; Copyright 2017



North American Covered Hoppers

Covered Hopper Outlook

N.A. Covered Hopper Outlook



Source: FTR; Copyright 2017



Railroads Are In A Period of Uncertainty

- Capital Investment in Railcars Minimal
- Operational Changes to Traffic Changes – Coal & Crude By Rail
- New Management At CSXT – Scheduled Railroading
- Norfolk Southern Approach To Changes
- Railcars Compete With Other Capital Needs – PTC, Fixed Plant, Locomotives & Information Technology
- Is Intermodal The Next “Coal” Or “Crude By Rail” Dominant Traffic?





Thank You

