

BNSF Railway

**National Association of Rail Shippers
Planning for Future Equipment Demand**

**Rick Margl
Assistant Vice President Carload Equipment**



May 27th, 2011

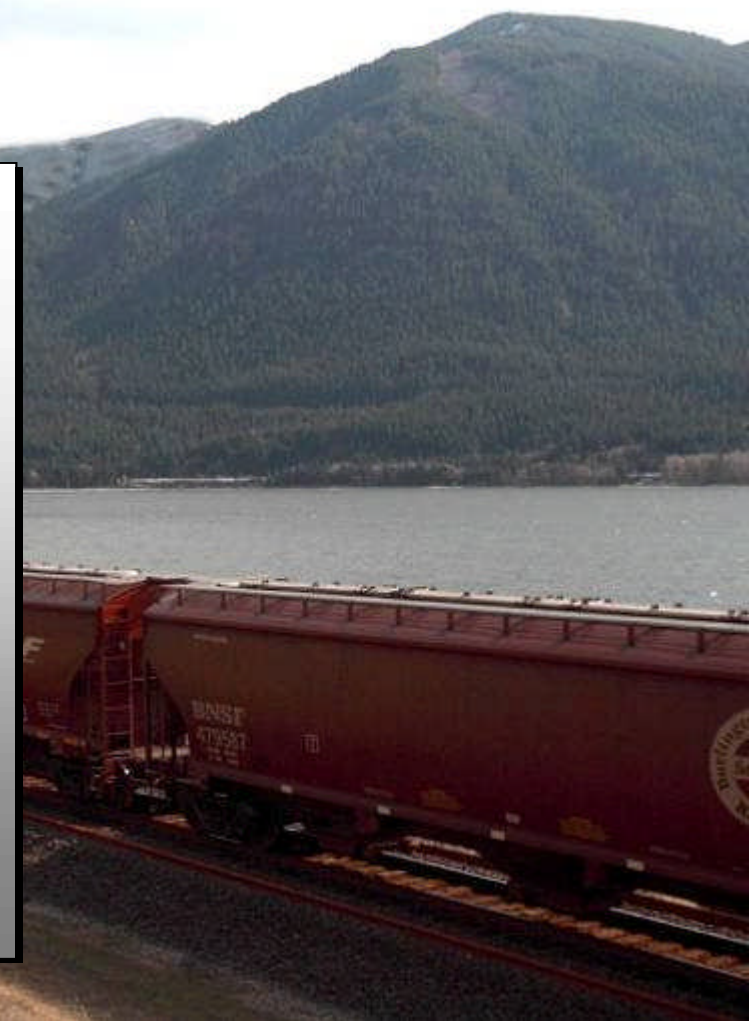
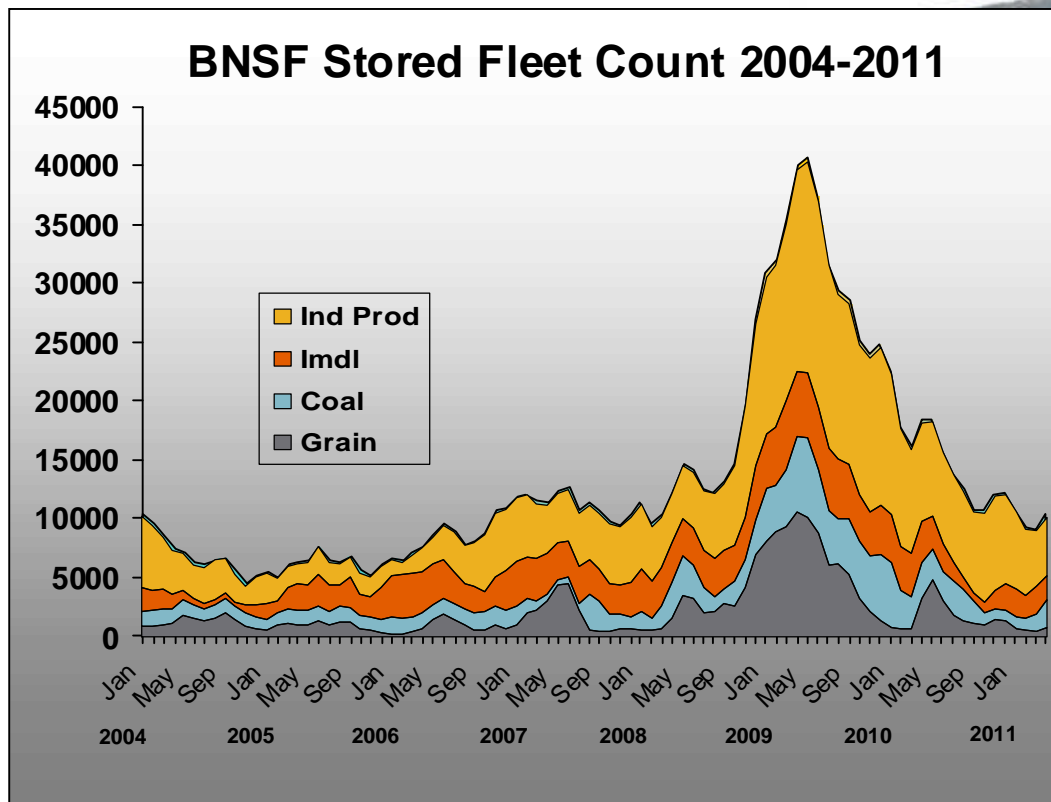
BNSF
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Topics

- **Update From the Frontlines**
 - Utilization Trends
 - Economic and Business Outlook
- **Strategic Fleet Planning**
 - Heavily Dependent on Customer Input
 - Managing Demand Variability
- **BNSF Equipment Investment**
 - BNSF Equipment Acquisitions
 - Investing in Equipment Quality

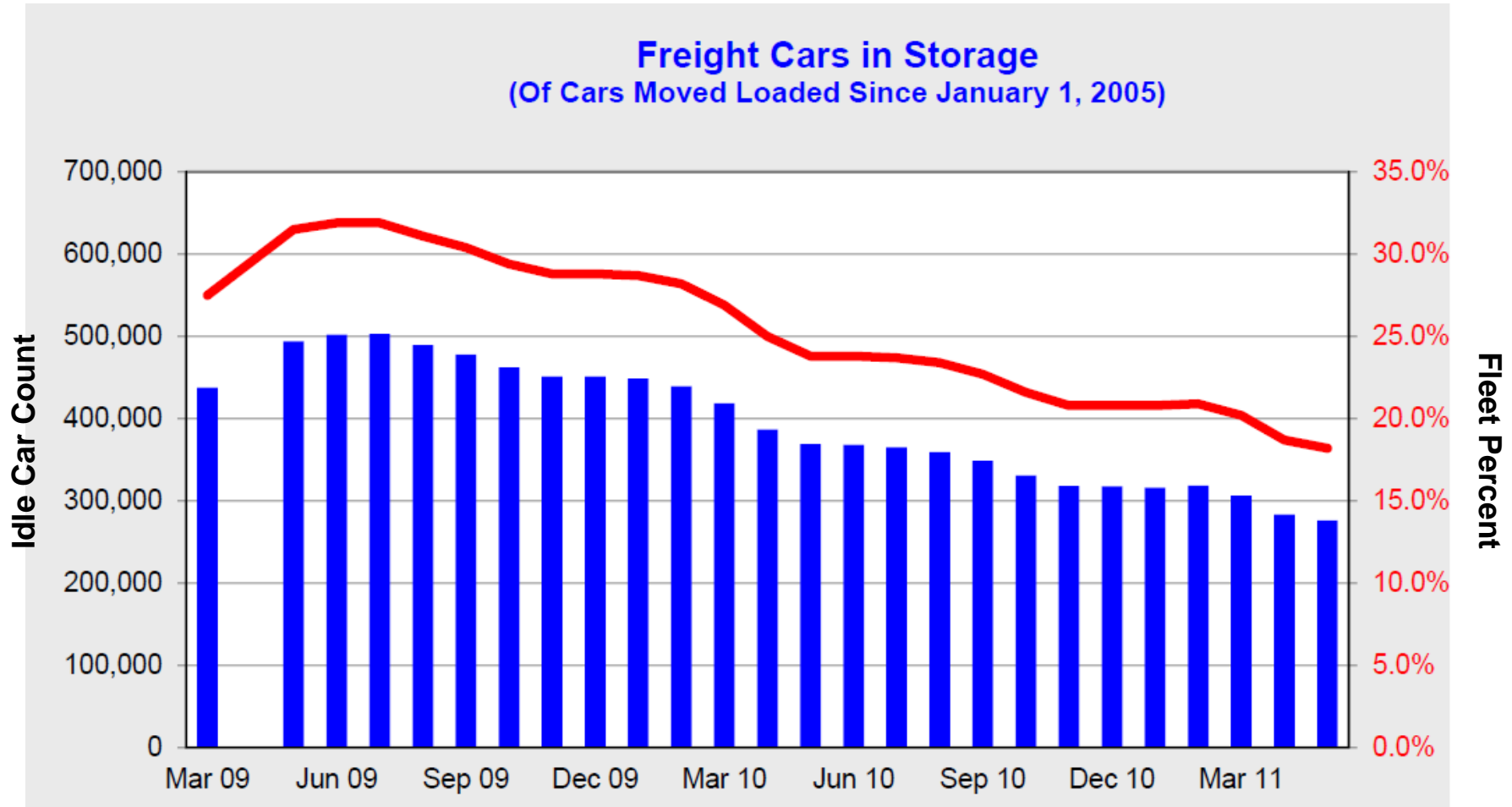
BNSF Storage Incidence Across Fleets

BNSF Peaked at 700 Miles of Stored Equipment in May, 2009



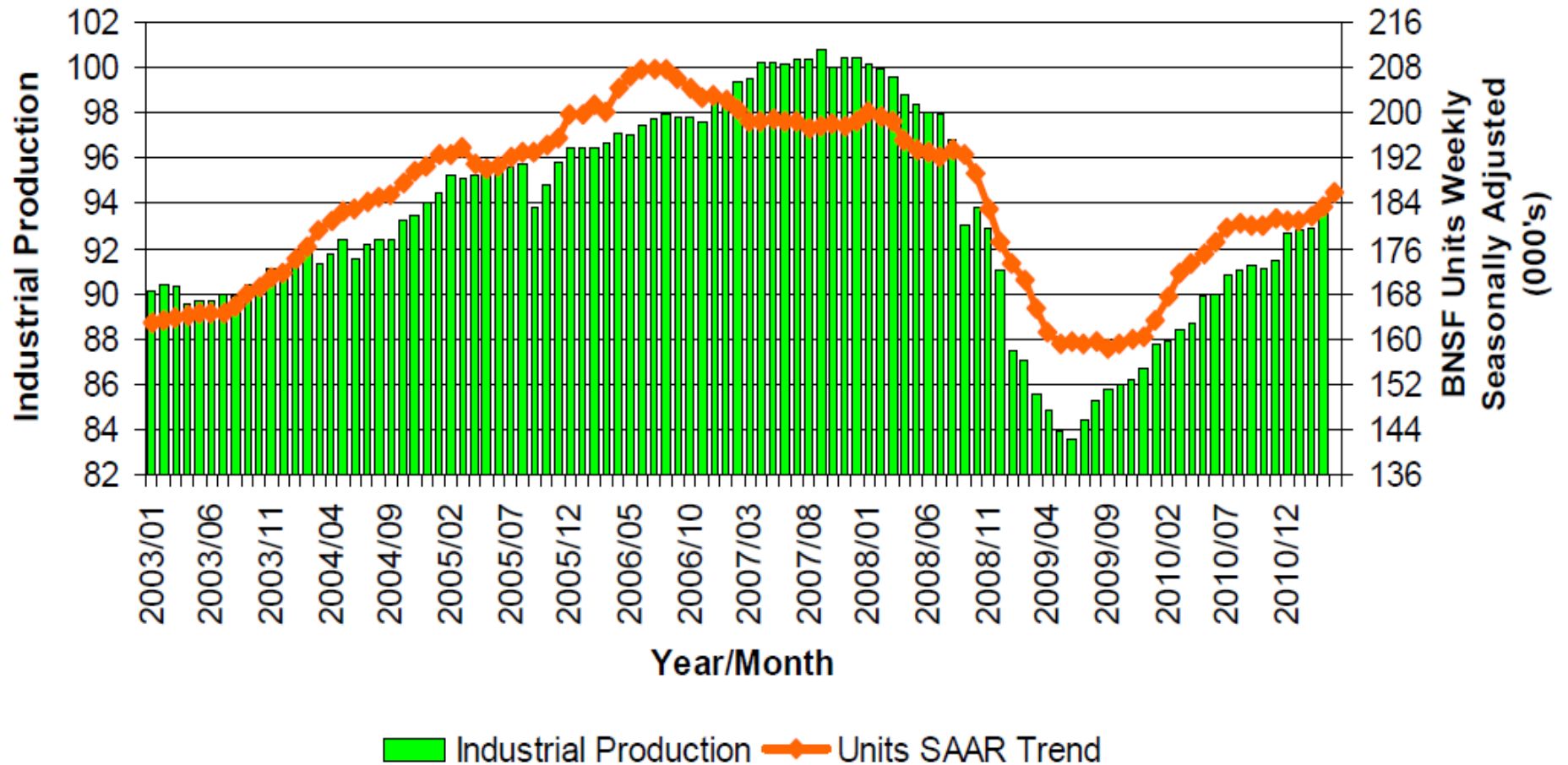
Industry Storage Trend

Improved from 32% of fleet at peak to 18% currently



BNSF Traffic Trends

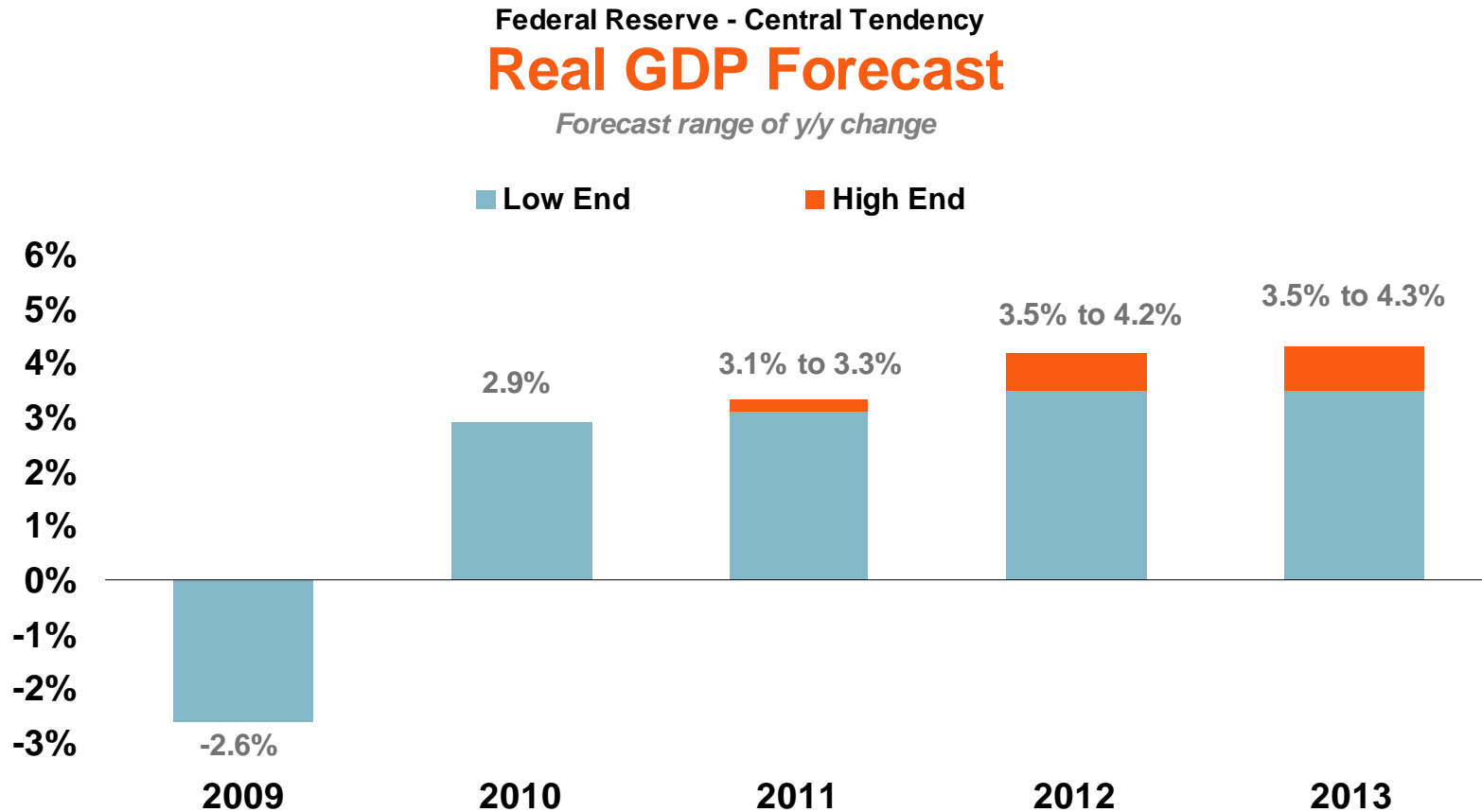
BNSF Units Trend vs. Industrial Production



Source: Federal Reserve – April 2011

The Economy: 2009-2013

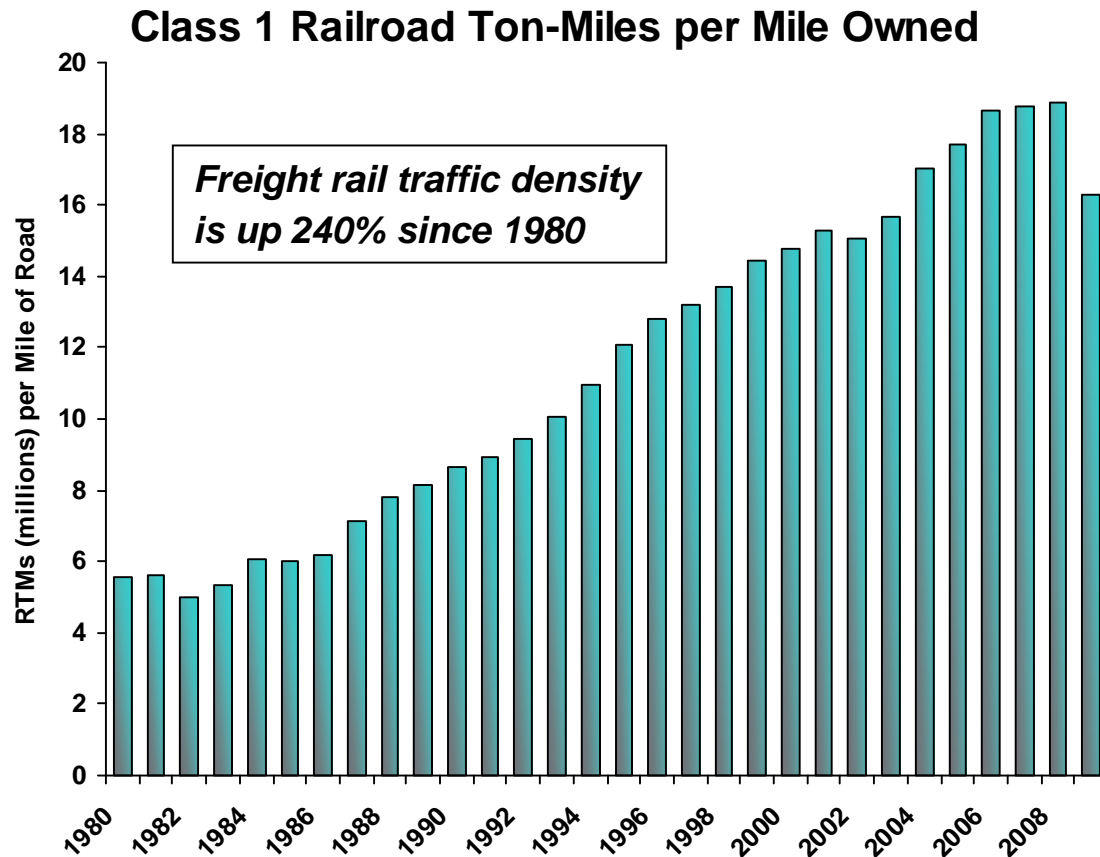
The Fed Expects Sustainable Economic Growth in 2011



Source: Federal Reserve Board, April 2011

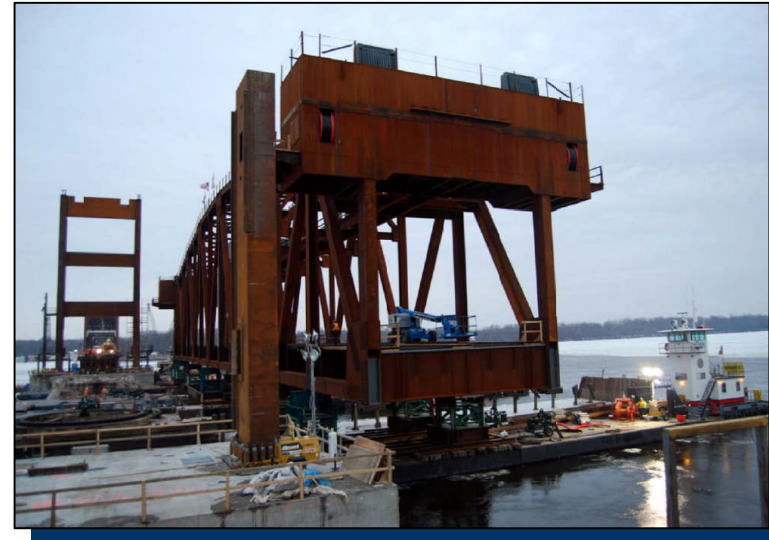
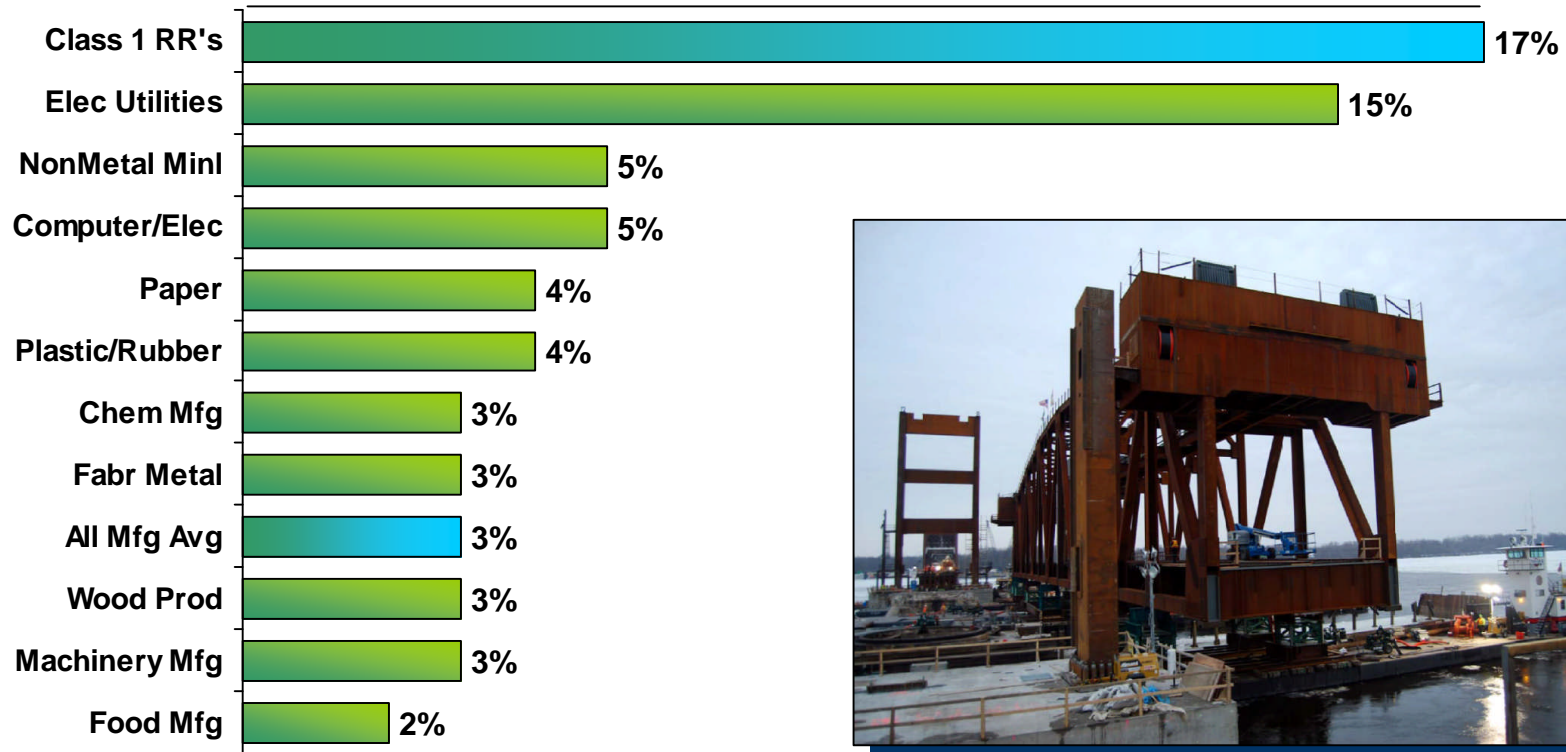
Infrastructure Capital Needs

Competes with Rolling Stock Investment



Capital Investment Rates Comparison

Industry Capital Expenditures as a Percent of Revenue Averages for 2000-2009



***Railroads are very capital intensive.
Capital expenditures have tracked and
supported growth over the last decade.***

Growth Will Require Investment

“The cost of improvements needed to accommodate rail freight demand in 2035 is estimated at \$148 billion (in 2007 dollars).”

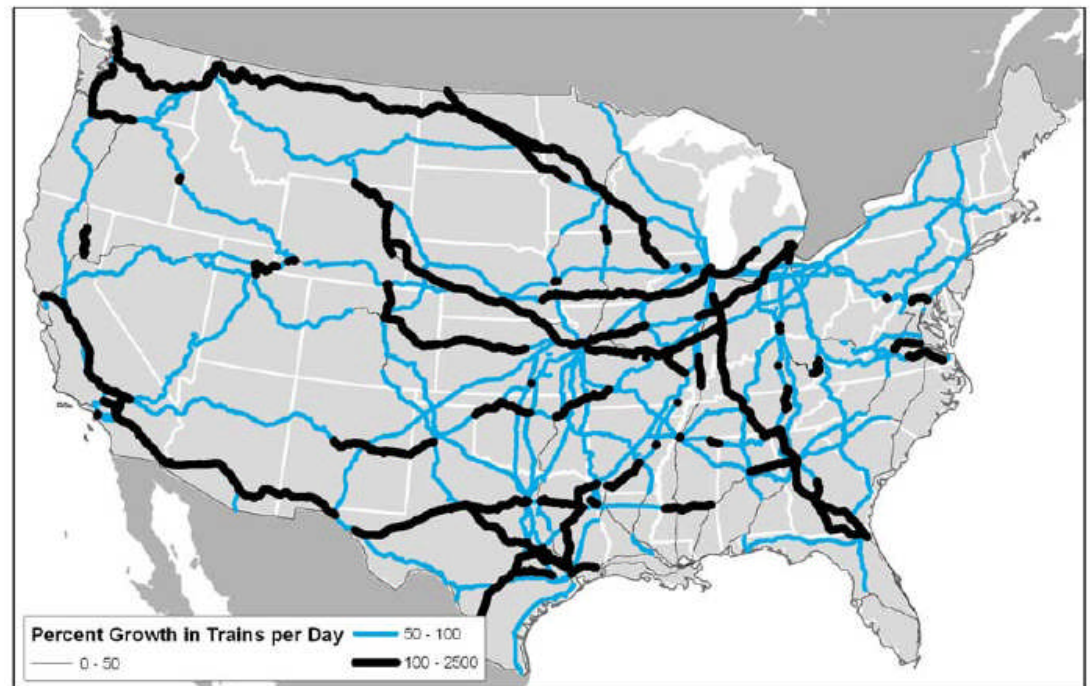
- **Line Expansion**

- Upgrades to mainline tracks and signal control systems
- Improvements to significant rail bridges and tunnels
- Upgrades to Class I railroad secondary mainlines and branch lines to accommodate 286,000-pound freight cars; and
- Upgrades to short line and regional railroad tracks and bridges to accommodate 286,000-pound freight cars

- **Facility Expansion:**

- Carload terminals, intermodal yards, and international gateway facilities owned by railroads; and
- Class I railroad service and support facilities such as fueling stations and maintenance facilities

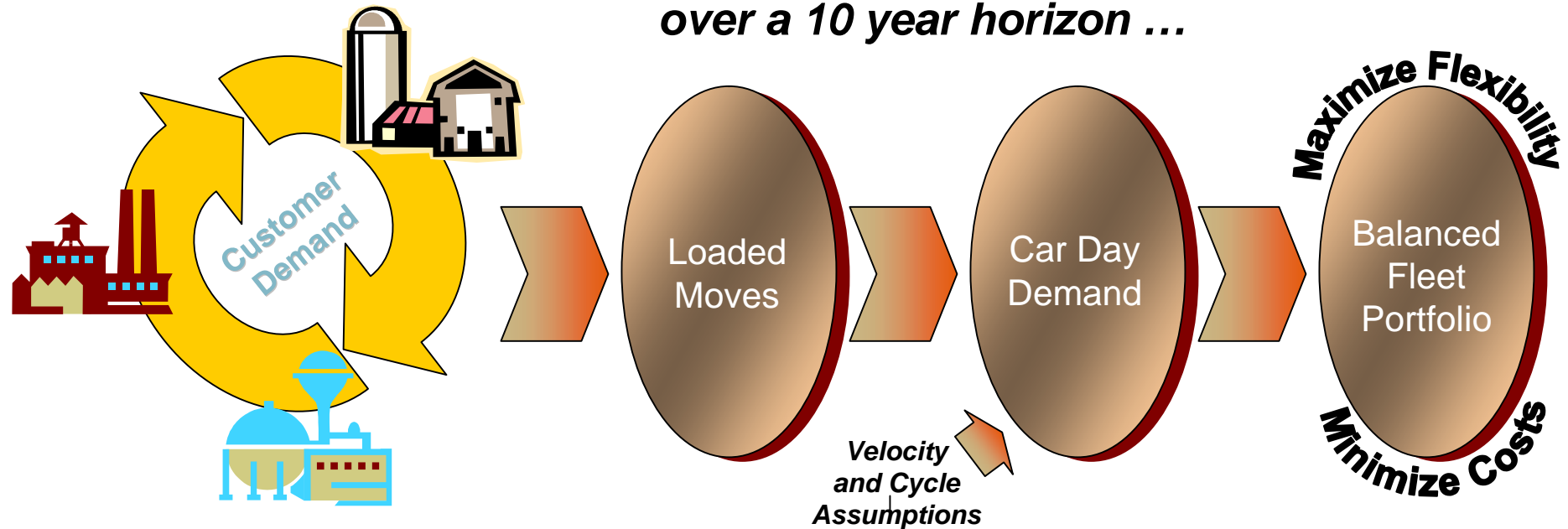
Figure 5.3 Percentage Growth in Trains per Day from 2005 to 2035 by Primary Rail Corridor



Strategic Fleet Planning

Capacity Planning Process

*Iterative planning cycle
over a 10 year horizon ...*



Capacity Levers for Achieving a 'Balanced Portfolio'

- Asset Productivity Initiatives
- Shopping
- Cascade Between Fleets
- Private Equipment Use
- Equipment Scrapping/Disposition
- TTX Capacity / Industry Pooling
- Build/Acquire or Long-term Lease
- Short-term Lease

Planning for Variable Demand

- Accurate Demand Forecasts are essential for effective fleet portfolio management
- Related processes for 'Core' and 'Variable' capacity management

		Core Fleet	Variable Fleet
Core / Variable Mix <ul style="list-style-type: none"> • Demand volatility • Rate of technological change • Rate spread - LT vs ST lease • Expected return on investment • Availability of capacity alternatives • Demand market shifts 	Strategy	<ul style="list-style-type: none"> • Maximize Cost Effectiveness <ul style="list-style-type: none"> • Cover the base traffic load • Also part of cyclic demand 	<ul style="list-style-type: none"> • Size to cover short to mid-term demand volatility • Complement overall fleet strategy
	Drivers	<ul style="list-style-type: none"> • Long-term demand and profitability, velocity, attrition, car expense, availability and alternatives 	<ul style="list-style-type: none"> • Short to mid-term demand and profitability, velocity, car expense and available alternatives

Portfolio Scenario Simulation

Demand Variability...

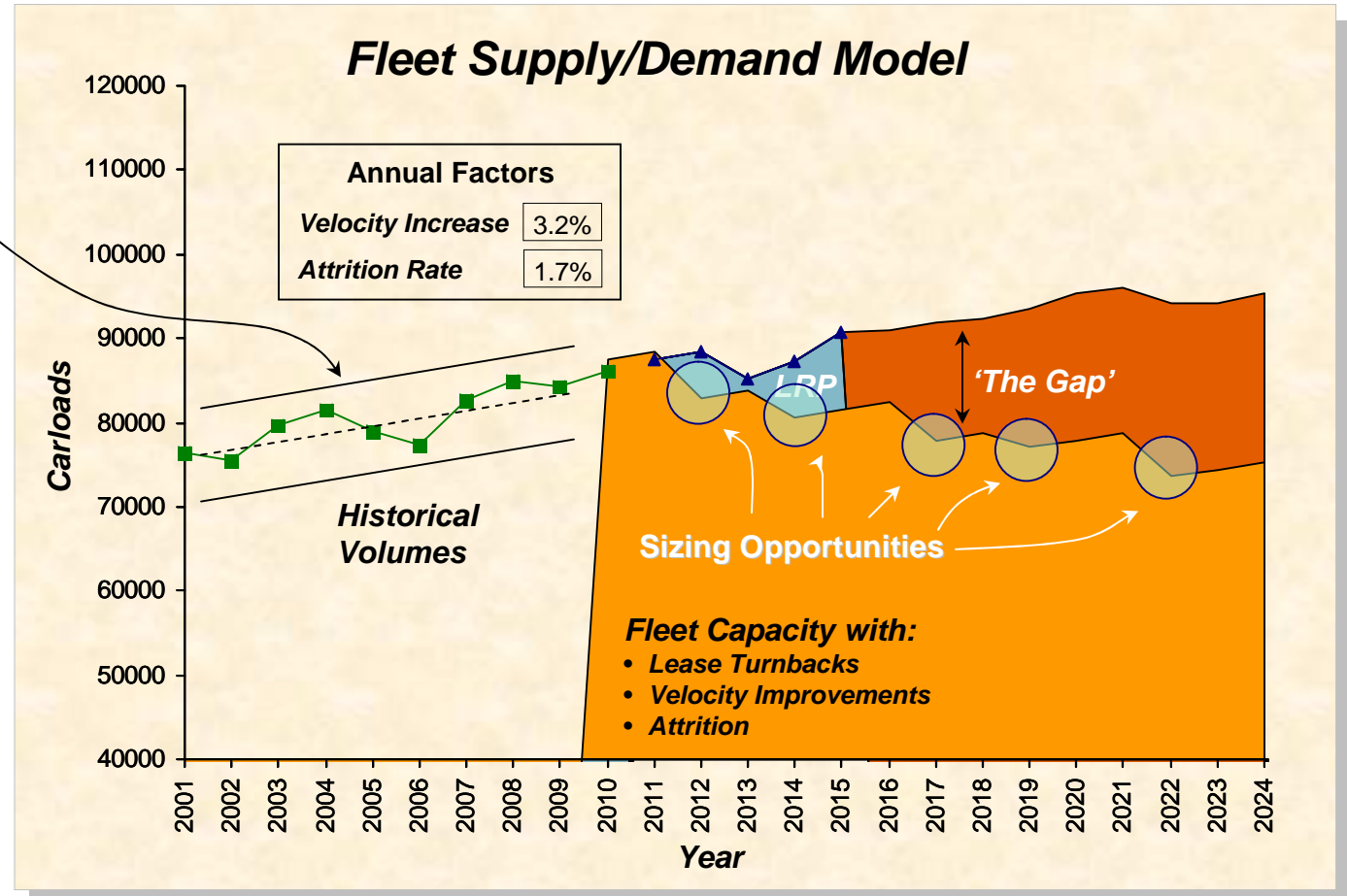
Historical and expected volatility define the required fleet flex component.

Variable Fleet...

The percentage of fleet turning over on a regular basis.

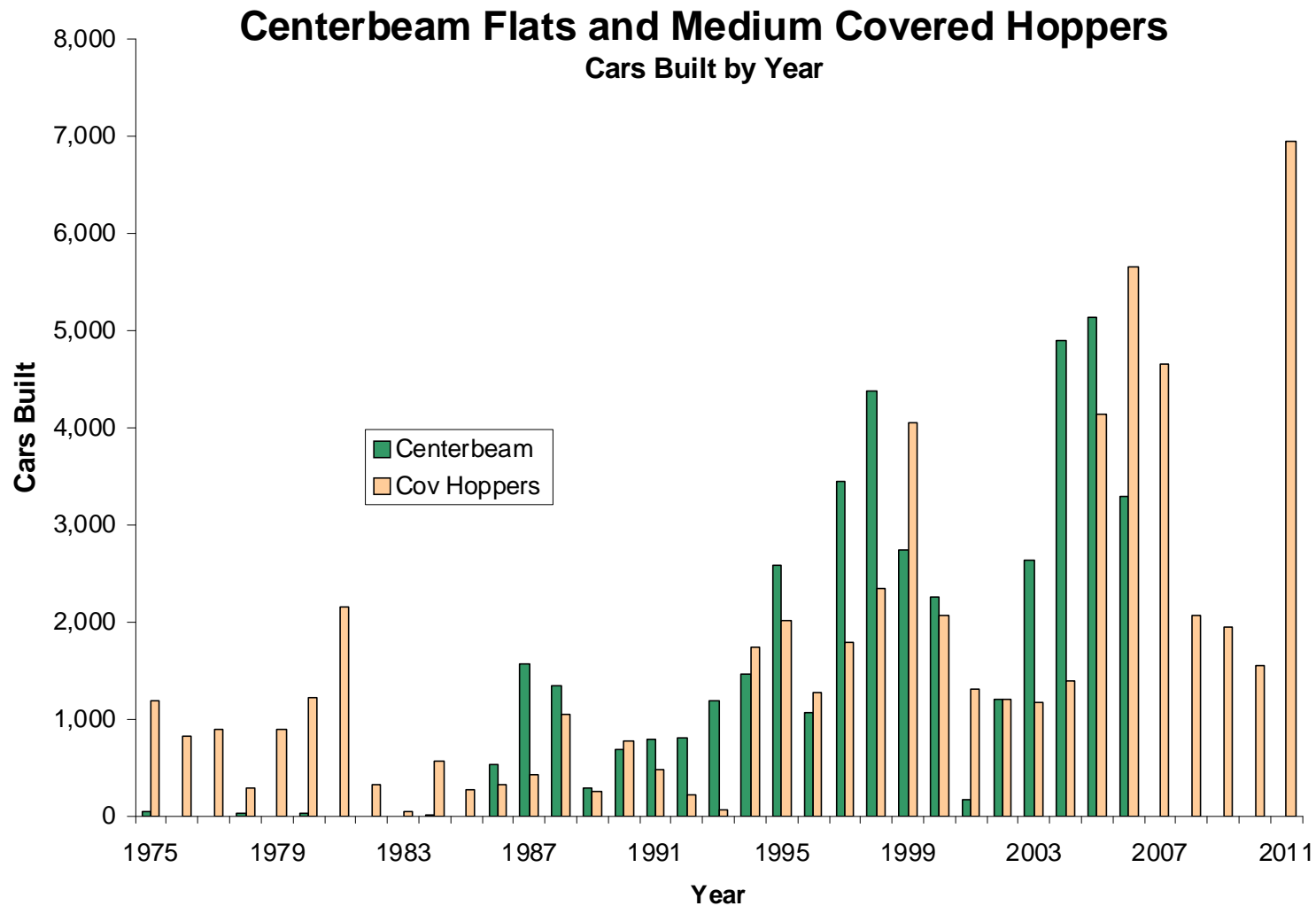
Scenario Planning...

Proactive testing of various combinations of demand, supply, attrition and velocity assumptions.



A Tale of Two Fleets

Second Verse, Same as the First....?



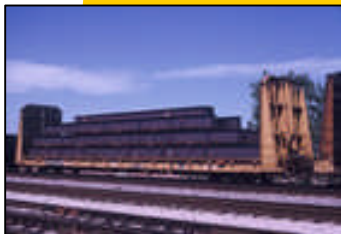
Source: UMLER



Summary of Key Plan Inputs

- Commodity-level demand forecast – lane specifics if possible
- Customer preference changes (cartype, fittings, single/unit, etc.)
- Existing fleet counts and attributes
- Lease profile – timing of expirations, renewal options, etc.
- Attrition assumptions (end of life, casualty, sale)
- Equipment profitability and expense
- Current cycle and expected velocity improvement

Outcomes: *Capacity, Capital and Expense plans*

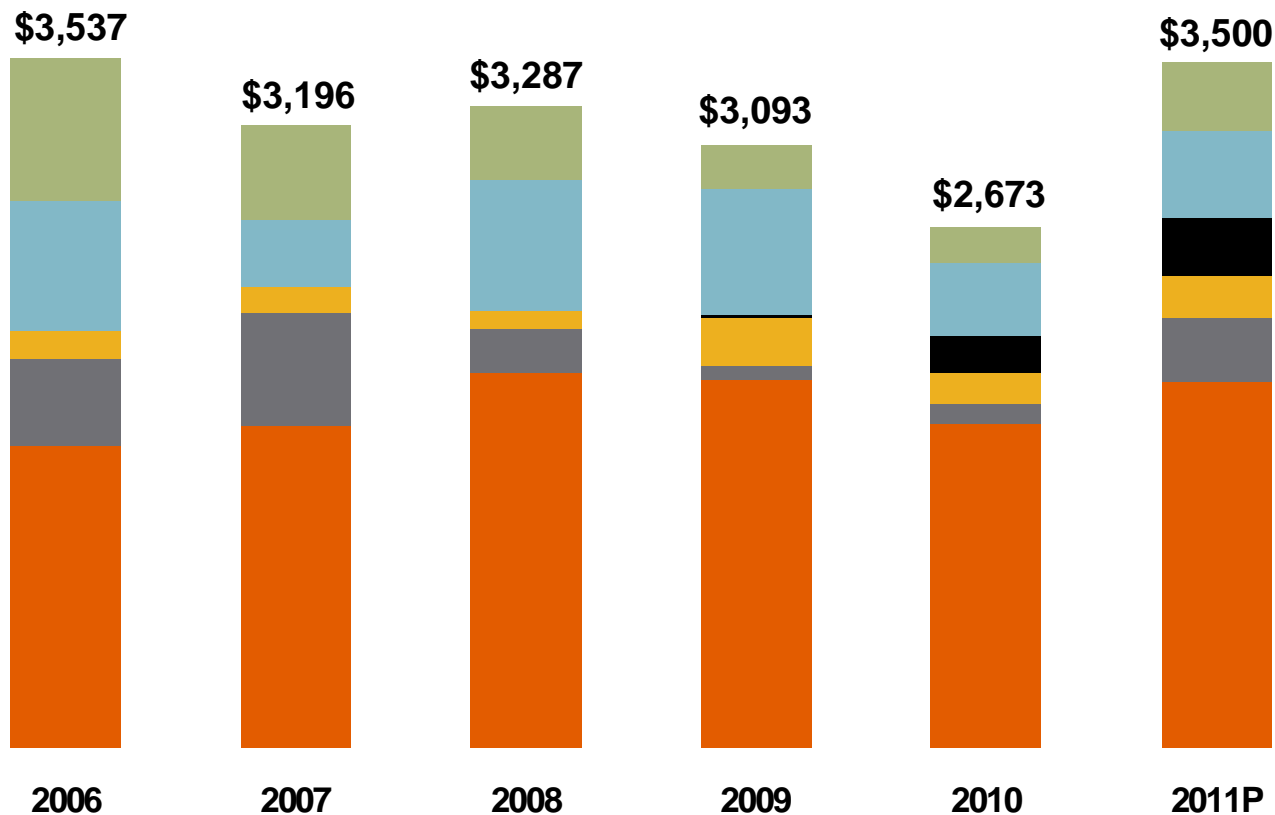


BNSF Capital Commitments

Equipment Component Tracks Closely with Freight Levels

\$ Millions

■ Replacement Capital ■ Expansion ■ Other ■ PTC ■ Locomotive ■ Equipment



Note: Equipment commitments reflect full amount of acquisition cost in year acquired including where cost was financed over a number of years.

Capacity Acquisition 2006-2011

2006

380 50 ft. Plate F Boxcars
 860 73 ft. Centerbeam Flatcars
 200 66 ft. Mill Gondolas
 2,500 Ag Covered Hoppers
 1,080 Coal Gondolas
 780 Coal Rapid Discharge Hoppers
 100 62 ft. Bulkhead Flatcars

5,900 Total

2009

381 Ag Covered Hoppers
 152 Auto-Max Vehicle Flats
 167 Taconite Hoppers
 36 Pipe Flats

736 Total

2007

2,250 Ag Covered Hoppers
 940 Coal Gondolas
 210 Steel Triple Hoppers
 600 Pipe Flats
 200 62 ft. Bulkhead Flatcars

4,200 Total

2010

639 Bi/Tri-Level Vehicle Flats
 300 53' Well Double-stack
 837 Ag Covered Hoppers

1,776 Total

2008

2,100 Ag Covered Hoppers
 205 66 ft. Mill Gons
 145 Taconite Hoppers
 300 Pipe Flats

2,750 Total

2011 Plan

Hi-Cube 60' Boxcars
 53' Well Double-stack
 Ag Covered Hoppers
 Sugar Hoppers
 2-Pocket Sand Hoppers
 Taconite Hoppers

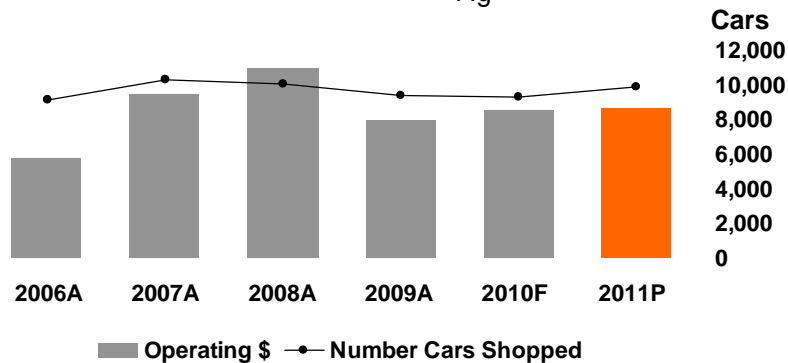
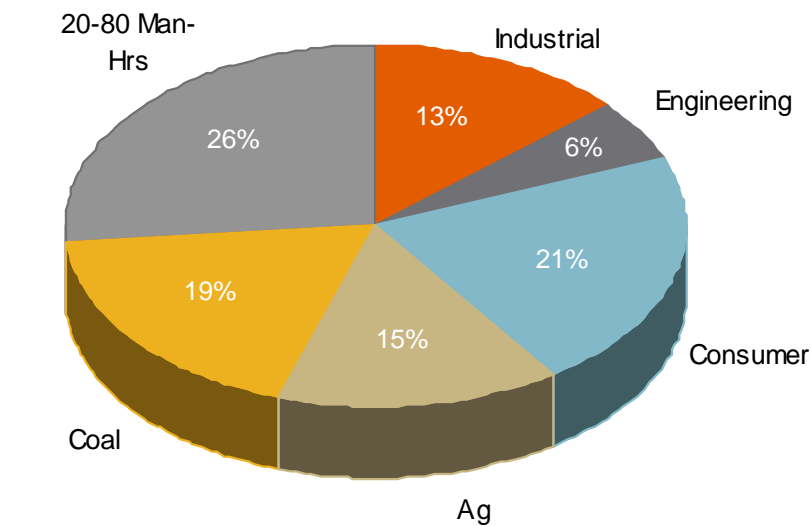
3,300+ Total



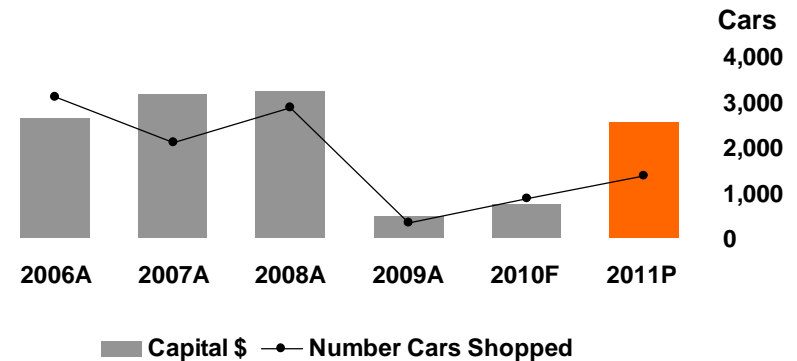
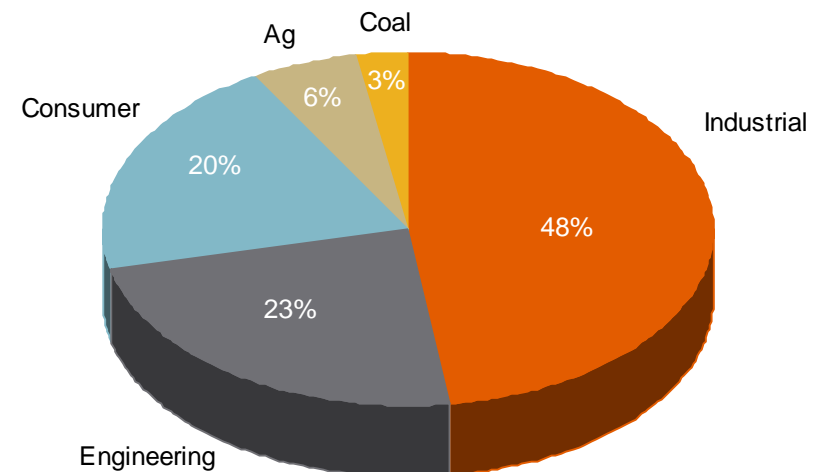
Car Quality

2011 Maintenance Plan - Operating Expense and Capital

OE Plan by Business Group
High Usage Fleets – Preventative Maintenance



Capital Plan by Business Group
Car Repairs, Modifications and Lifetime Extensions



Enhancing Your Market Position

BNSF offers one of the newest, most effective equipment fleets in the industry

Average Fleet Age

CAR TYPE	BNSF	PRIVATE CLASS 1s	
Boxcar	24	21	27
Covered Hopper	16	18	27
Flat Cars	12	25	26
Gondola	13	15	28
Open Hopper Car	17	15	31
Refrigerated Box	7	20	28
<hr/>			
Overall Average	16	18	28



Summary

- **Rapid change from a broadly surplus national railcar fleet to constrained supplies of many car types**
- **Rail unit volume growth will continue to require significant investment in network infrastructure to meet demand**
- **The rail industry has conclusively demonstrated a willingness to invest capital to support growth**
- **Effective fleet planning justifies investment that ensures we can support your business growth**
- **Accurate shipper demand forecasts are the most critical component of this fleet planning process**

BNSF Equipment Management Mission

- *Meet our customer's transportation needs by ensuring the availability of low cost, high quality equipment*
- *Increase fleet utility and efficiency*
- *Improve state-of-the-art distribution processes and systems*





Whatever it takes....

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