RAILINC

2011

ANNUAL REPORT

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PRESIDENT'S MESSAGE

A MESSAGE FROM THE PRESIDENT
TO OUR RAIL INDUSTRY PARTNERS

Railinc's performance in 2011 was one of its best in delivering value to the freight rail industry. Customer satisfaction with Railinc products grew, rail industry projects were completed and began to generate value, and internal infrastructure projects made great progress towards improving customer service and lowering the company's cost structure. The Railinc team achieved this performance by remaining focused on creating value through providing Association of American Railroads (AAR) products, making ongoing improvements in operations, and remaining focused on operational excellence to improve our customers' Railinc experience.

We benefited greatly this year from the guidance provided by the AAR's Railinc Project Support Working Committee (RPSWC). This committee provides valuable insight and helps the Railinc Board of Directors determine the rail industry projects Railinc undertakes each year. For 2011, the Comprehensive Equipment Performance Monitoring (CEPM) project was the most prominent industry effort. In coordination with our partners, including railroads, leasing companies, wheel shops and other industry stakeholders, the first phase of the project, CEPM-Wheelsets, was implemented in January 2012. While CEPM and the other industry projects that came to life during the year vary in scope and size, together they are projected to save the rail industry many millions of dollars over time.

Railinc also made great strides in 2011 by focusing on operational excellence attributes of quality, total cost and convenience. The company moved to a more stringent 99.99 percent system uptime standard for key products to provide greater reliability and access for its customers. This was done in parallel with major technology infrastructure improvements, including the first year of a multi-year effort to move off the mainframe system. Railinc also strengthened data security efforts across the company, and maintained internal service level agreements 98 percent of the time – which means customers received quick, hassle-free service.

The results of these efforts were evident in all areas of the company. Railinc experienced improvements in customer satisfaction, demonstrated strong financial stewardship and improved overall company-wide

performance. A benchmarking study completed during the year by the accounting firm McGladrey and Pullen also revealed that Railinc performs better than similarly sized companies with regard to cost structure, validating the work Railinc management and the Board of Directors have done to ensure a cost-effective organization.

Railinc was also recognized in the past year for achievements in support of the rail industry. First, the company was among those featured in the AAR's "Freight Rail Works" campaign to educate lawmakers about rail industry technology that creates jobs and economic growth, and supports the North American economy. In addition, Railinc was selected as one of *Inbound Logistics* magazine's Top 100 Logistics IT Providers for the year, and included among our region's top software development companies and best places to work by the *Triangle Business Journal*, the leading local business publication.

Looking ahead to 2012, Railinc will continue its emphasis on AAR products and services along with improvements to the company's technology infrastructure. Work is already underway on the next phase of the CEPM program along with further enhancements to other industry software and data systems.

With concurrence from the AAR Board of Directors, Railinc has embarked on a study to explore benefits that may be achieved by improving operations associated with the health of rail equipment assets. We are grateful for the chance to progress these projects and to find new ways to create value for the freight rail industry.

Every employee at Railinc is proud to serve the North American freight rail industry. And each recognizes that our success only comes from the ongoing support and patronage of our customers. For this we are very grateful—thank you for your business. We look toward 2012 with much enthusiasm.

Sincerely,
ALLEN WEST
CEO + President
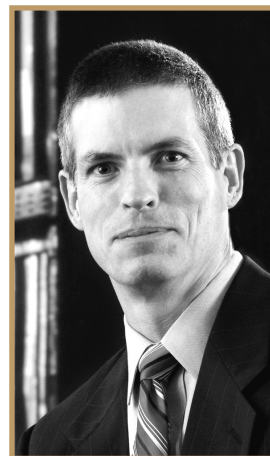
Railinc's mission is to create valued solutions for rail industry problems using our people, processes and technologies.

Railinc's vision is to become the rail industry's innovative, go-to resource for data and information systems.

Strategy of Operational Excellence
Railinc is committed to a strategy of operational excellence, which leverages quality, total cost and convenience to deliver maximum customer value.

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2011 INDUSTRY INITIATIVES IN REVIEW

In 2011, Railinc worked to deliver rail industry development projects identified by the AAR's Railinc Project Support Working Committee (RPSWC). Railinc was focused on eight industry projects (five delivered in 2011 and three in early 2012) along with four industry studies. While each of these projects varied in scope and size, they required significant coordination with the rail industry for successful completion. Combined they are expected to save the rail industry millions of dollars each year.

COMPREHENSIVE EQUIPMENT PERFORMANCE MONITORING (CEPM) //
The Comprehensive Equipment Performance Monitoring (CEPM) program will create a comprehensive database of rail components that incorporates mileage information. The first phase of the initiative — CEPM-Wheelsets — was implemented on January 10, 2012. This multi-year program will give railroads, rail equipment owners, repair and wheelshops, and other industry stakeholders an integrated view into the car-health status of freight rail equipment. This view into current and past car health data is intended to improve the component recall process, decrease derailments, lower repair costs and, ultimately, improve railroad safety. The CEPM project is under the guidance of the AAR's Advanced Technology Safety Initiative. See story on page 11.

EARLY WARNING RE-WRITE AND VALUE EXPANSION // The Early Warning Re-Write and Value Expansion project enhanced the system for reporting mechanical problems with rail equipment that can affect safety. Railinc's integration of Early Warning with additional equipment-health asset management applications through a web-based system enables railroads to subscribe to email notifications about specific equipment, conduct advanced queries that include data from the Umler™ system, and more easily view current and

historical data, and report repairs and inspections. This project was completed under the guidance of an AAR task force.

LIABILITY CONTINUITY SYSTEM (LCS) SELF-SERVICE // This project created a customer service portal for the Liability Continuity System, which manages interchange reporting for car accounting purposes. Rail equipment owners using the system can now easily view events for greater understanding and analysis of car hire calculations. The project will reduce support costs and, ultimately, result in fewer unresolved car-hire liability issues. This project was completed under the guidance of the AAR's Equipment Assets Committee.

CAR HIRE DATA EXCHANGE (CHDX) PLATFORM UPGRADE // The Car Hire Data Exchange platform upgrade was implemented in early 2012. The upgraded system's automation and updated technology is intended to improve data quality and reduce application-support costs. This project was also completed under the guidance of the Equipment Assets Committee.

SWITCHING SETTLEMENTS THROUGH RAILROAD CLEARINGHOUSE (RCH) // The Switching Settlements through RCH project reduced the cost and time to process payments through the RCH, a centralized system for financial settlements between

RCH participants. This project was completed under the guidance of the AAR's Revenue Pipeline Task Force.

CAR REPAIR BILLING MANDATORY RULE CHANGES // Revisions to AAR industry rules in 2011 required changes to the Car Repair Billing application. The updated rules are intended to promote safe and efficient freight rail transportation. The project continues data quality efforts for the Car Repair Billing Data Exchange to manage the exchange of repair bills for foreign freight equipment. This project was completed under the guidance of the AAR's Car Repair Billing (CRB) Committee.

INTERLINE SETTLEMENT SYSTEM® EDI 6020 UPGRADE // This technology upgrade delivered business process improvements and decreased costs for the Interline Settlement System® (ISS) by reducing the manual work required to settle revenue waybills. The technology standard ensures efficient and effective communications even as technology improvements occur. This upgrade was completed under the guidance of the Revenue Pipeline Task Force.

REN EDI 6020 UPGRADE // This data quality compliance effort reduced the manual work required to communicate rates between railroads participating in an interline move through the Rate EDI Network (REN) with the result of greater process efficiencies and more effective communication. This upgrade also was completed under the guidance of the Revenue Pipeline Task Force.

2011 INDUSTRY STUDIES

Railinc also works with its railroad partners and related AAR committees to determine the potential value and feasibility of new industry projects. The results of these studies sometimes confirm significant opportunities to add value to the industry through new projects and technology upgrades. In other cases, the results identify areas for further review. For 2011, the RPSWC studied four potential industry initiatives. Here's a look at these studies and the results:

INTERLINE SETTLEMENT SYSTEM® RISK/OPPORTUNITY ASSESSMENT // This study evaluated the technology and processes used in the Interline Settlement System®, the system for tracking and settling revenue generated when two or more railroads are involved in a shipment. The study paid specific attention to the potential value of process improvements such as SAP® software integration to ensure continued value and cost reduction from the system. Railinc will continue to evaluate this area for potential opportunities; however, no new project was proposed.

LOCOMOTIVE HPH/FUEL OPPORTUNITY ASSESSMENT // This study assessed the value of a centralized, automated data exchange driven by industry rules to reduce the cost and time required to reconcile locomotive exchange. Railinc will work with equipment owners in 2012 to standardize the current data-sharing processes among railroads.

A new study will determine the IT requirements for automating the new shared process.

LCS RISK/OPPORTUNITY ASSESSMENT // The Liability Continuity System applies industry rules to accurately allocate car-hire liability when cars are interchanged. This study assessed the value of new application features and the potential risks in the current application design. The study results do not support a redesign.

MACHINE VISION REQUIREMENTS STUDY (UMLER™ SYSTEM) // Machine-vision technology is automating railcar inspections to improve rail safety. This study documented the status of various applications of the technologies and evaluated the best uses for the data generated. Railinc will continue to assess new uses for the application and resulting data as the technology is adopted.

RAILINC 2011 HIGHLIGHTS

I n 2011, Railinc focused on delivering significant benefits to the rail industry by working towards being a best-in-class company focused on operational excellence. The company partnered with railroads and other stakeholders to identify and create new value through new industry-wide initiatives. And internally, Railinc worked to improve its processes and its own high standards for customer support. The result: 2011 was one of Railinc's best years on record for delivering value to the freight-rail industry. Here's a closer look at some highlights:

CEPM PROGRAM AUTOMATES RAILCAR COMPONENT TRACKING // In 2011, Railinc worked toward the successful launch of the Comprehensive Equipment Performance Monitoring (CEPM) program. The program is an industry-wide initiative, designed to create an entirely new database of railcar equipment component information. The multi-phase, multi-year program will enable electronic tracking and identification of all significant railcar components in near real-time. The intended results include improved equipment maintenance planning and improved component recall management, among others.

The program's first phase—CEPM-Wheelsets—centralizes the registration of wheelset component details and identifies the application of wheelset components, including AAR and non-AAR repairs. The component-level data created through the CEPM program will be available through Railinc's Umler™ system, Car Repair Billing (CRB) system and Equipment Health Management System (EHMS). Critical to the long-term project is the reusable, scalable software framework and central repository that will support the addition of other components in future years. The inclusion of other components will require the coordination of rail industry require-

ments, integration and business rules, as well as testing for registration, application and reporting.

Railinc worked closely with many freight-rail industry partners to develop new processes and related technology tools. It also helped to prepare the industry for the launch, conducting training events, making presentations and sending out more than 10,000 individual communications. CEPM-Wheelsets was launched in January 2012. The CEPM program will add castings as components in 2012.
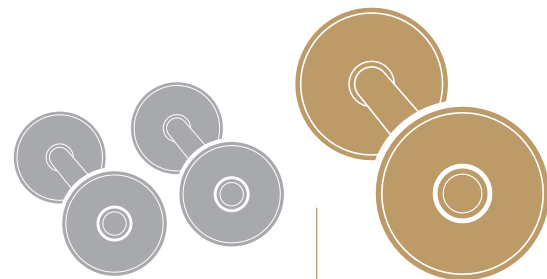
Rail Wheelsets

OPERATIONAL EXCELLENCE LEADERSHIP TEAM DELIVERS CUSTOMER VALUE // In 2011, Railinc formed an Operational Excellence leadership team to strengthen Railinc's service position with its customers regarding quality, total cost and convenience. This task force of professionals from information technology, accounting, business and product support teams jumped at the chance to make a difference. They focused on four key objectives:

Incorporate customer knowledge into company processes

Improve company processes

Eliminate inefficiencies or waste in one or more areas of the company

Improve customer service

Results came fast as the team identified quick-hits that were easy to accomplish and larger project ideas that would occur over time. These included efforts to map and improve the total customer experience with Railinc, making information and data more accessible on the Railinc.com website, and exploring technology process improvements. In addition to these activities, the management team continued to communicate and reinforce with all employees Railinc's operational excellence strategy, the critical industry-related reasons behind it and its application in every department.

"FOUR-NINES" STRATEGY IMPROVES SYSTEM AVAILABILITY, CUSTOMER SUPPORT // Railinc adopted a more stringent system performance standard in 2011, adopting a 99.99 percent uptime standard. That's less than one hour of downtime a year for 15 key products, providing greater reliability and access for its customers. The long-term metric includes both planned and unplanned outages to achieve the highest levels of system availability. While some work remains, Railinc IT teams achieved an uptime score of 99.98 – remarkable for a first year of implementation.

Railinc also stayed focused on meeting internal service-level agreements that specify required customer response times,

reaching adherence 98 percent of the time. Both efforts are part of Railinc's commitment to operational excellence and enabled more customers to receive quick, hassle-free service.

99.99%

100 ———

RAILINC'S TARGET PERCENTAGE UPTIME FOR 15 KEY INDUSTRY PRODUCTS

INFRASTRUCTURE PROJECTS POSITION SYSTEMS FOR SUCCESS // In the past year, Railinc has made significant strides toward improving its internal technology infrastructure as it pursues operational excellence. Key areas were targeted for investment that will put the company in a stronger position to serve customers more reliably at a lower cost for years to come. At the center of this effort is Railinc's mainframe migration project. This multi-year project is making significant progress toward moving the company away from its mainframe-based technology platform to a more flexible midrange product delivery solution.

Other projects underway include a data accuracy initiative to eliminate customer information-related data errors and their propagation throughout Railinc systems and applications; implementation of a more secure and flexible single sign-on technology; and consolidation of file transfer messaging solutions into a single and more robust platform, among others. Railinc expects to recognize savings over the long-term as these projects are completed.

RAILINC EMPHASIZES DATA SECURITY // Railinc is committed to the highest standards of data security for the rail industry. In 2011, the company affirmed again its corporate data access policy, educating employees on data disclosure processes. The policy sets forth standards and compliance measures for employees and serves as a resource for Railinc employees when dealing with data requests. The intent is for Railinc to avoid the disclosure of data that the data supplier wishes to keep confidential or that would be inconsistent with applicable legal requirements. This policy is reviewed regularly with staff.

RAILINC PROMOTES TECHNOLOGY IN AAR "FREIGHT RAIL WORKS" CAMPAIGN // In mid-2011, leaders, influencers and railroad constituents throughout the Washington, D.C. metro area heard Nichole Fimple talk often about the critical role of technology in the rail industry. As an IT product manager for Railinc, she was a part of the relaunched "Freight Rail Works" industry advocacy campaign developed by the AAR communication team.

The Freight Rail Works campaign presents real people telling true stories about how maintaining a healthy freight rail network is critical to their businesses' success. It is designed to educate lawmakers in the nation's capital about how a healthy and vibrant freight rail system delivers for business and consumers, and creates good jobs.

Fimple and representatives from other companies including Whirlpool and Caterpillar could be seen in television, radio, print and online ads running in the Washington, D.C. media market. The ads showcase rail industry investments in information technology that keep the railroads running safely and efficiently, and how rail-related companies offer highly innovative, good-paying jobs.

To see the ads and more, please visit **www.freightrailworks.org.**

"Freight rail's technology helps keep our economy on track."

Nichole Fimple
Technology Systems Analyst, Railinc

WATCH THE VIDEO ▶

FREIGHT RAIL WORKS

FREIGHTRAILWORKS.ORG

INBOUND LOGISTICS
TOP 100
LOGISTICS IT PROVIDER 2011

Inbound Logistics magazine named Railinc one of its **"Top 100 Logistics IT Providers."**

RAILINC RECOGNIZED FOR EXCELLENCE IN BOTH INDUSTRY AND COMMUNITY // Railinc was recognized for excellence in 2011 with three awards by national and local business publications. In May, *Inbound Logistics* magazine named Railinc one of its "Top 100 Logistics IT Providers." The publication presented awards to companies whose IT solutions solve specific logistics challenges, improve processes and create a ripple effect of efficiencies across the entire value chain.

The *Triangle Business Journal*, the region's leading business publication, in May named Railinc one of the area's "Top Software Developers" in the category of Mid-Sized Private Company. This award is based on the size of software development teams located in the region. Then in October, the publication recognized Railinc as one of its "Best Places to Work." The award, based on an employee survey benchmarked against other companies in the region, recognizes those that have developed remarkable workplaces through a combination of company culture, working conditions and benefits. Railinc won the award in the large company category for companies with 151-999 employees.

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COMING IN 2012:
INDUSTRY-SPONSORED PROJECTS

COMING IN 2012:
INDUSTRY-SPONSORED PROJECTS

ogether with the RPSWC, Railinc and its Board of Directors identified 11 industry projects for 2012. Most projects expand on Railinc's work in 2011 with upgrades and improvements to existing systems to yield better service to its rail customers. Here's a look at the full industry project slate:

CEPM COMPONENTS: BOLSTERS, SIDE FRAMES, COUPLERS // The CEPM program is intended to give railroads and other industry participants a complete view of rail equipment health and performance. Three additional components will be added in 2012 to the reusable component framework developed in 2011 as part of the CEPM project. The capability to register and associate side frames, bolsters and coupler components to specific railcar equipment will provide the industry the ability to improve maintenance planning and enable more informed repair decisions. The effort is guided by the AAR's Advanced Technology Safety Initiative and the Coupling System and Truck Castings Committee.

COMPONENT FRAMEWORK PHASE 2 (UMLER™ SYSTEM) // The Component Framework Phase 2 project will deliver enhanced access and productivity tools to extract more value from the 2011 CEPM project investment. The value includes adding more historical data related to wheelsets for industry analysis and more targeted wheelset recalls, automating recall processes, improving data extraction, helping railroads keep local data in sync with industry data, and advising owners of component-related activity on their equipment. The effort is under the guidance of the Advanced Technology Safety Initiative.

COMPLETE CAR HEALTH EXPANSION // Railroads and other industry participants rely on car health data to make decisions. This project will expand the Comprehensive Equipment Performance Monitoring (CEPM) program to reduce costs from duplicate reporting and improve equipment visibility and decision making. This project is under the guidance of the Advanced Technology Safety Initiative.

DAMAGED AND DEFECTIVE CAR TRACKING (DDCT) ENHANCEMENT PROJECT // Information about damaged and defective railcars is important to rail safety. This project adds functionality to the DDCT system that will reduce administrative costs, improve productivity, standardize and improve data accuracy, and increase car owner capabilities. This will be conducted under the guidance of the AAR's Arbitration and Rules Committee and DDCT Technical Advisory Group.

UTILIZE DDCT FOR EARLY WARNING MAINTENANCE ADVISORIES // Maintenance advisories and "early warnings" are also critical to rail safety. This project will use the DDCT system and the Early Warning system (EW) to automate the creation of a DDCT incident upon AAR instruction via the Early Warning system. The result will be quicker compliance and reduced disruptions to terminals and interchange. The effort is under the guidance of the Advanced Technology Safety Initiative.

UTILIZE DDCT FOR TRUCK HUNTING // Lateral instability of railcars, or truck hunting, can lead to

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railcar damage and derailments. This project will use the DDCT system and Equipment Health Management system to automate the identification of these cars for improved rail safety and to provide disposition. The effort is under the guidance of the Advanced Technology Safety Initiative.

CAR REPAIR BILLING MANDATORY RULE ENFORCEMENT FOR 2013 // Industry rules help to ensure safe and efficient freight railroad operations. This project delivers compliance with AAR interchange rules for the Car Repair Billing Data Exchange for improved data quality. The effort is also under the guidance of the Advanced Technology Safety Initiative.

RESTRUCTURE CAR REPAIR BILLING INBOUND DATA EXCHANGE PROCESS // Rail equipment owners rely on the Car Repair Billing Data Exchange to settle repair bills for foreign freight equipment. This project will update the current process used to support real-time reporting and improve data quality. It is under the guidance of the AAR's Car Repair Billing Committee.

CAR HIRE DATA EXCHANGE (CHDX) EDITS AND FILE DELIVERY IMPROVEMENTS // Virtually all North American railcar users and owners use the CHDX system to send and receive car-hire payables. This project will introduce edits to improve data quality and reduce the time to process these payments. This project is under the guidance of the AAR's Equipment Assets Committee: Information and Data Quality team.

HAZMAT APPLICATION UPGRADE AND AUTOMATION // Railroads use the Hazardous Materials Shipping Description Database (HAZMAT) application to create electronic messages required for shipping hazardous materials. This project will expand the application's automation and reach to improve safety and reduce the cost to process these messages. It is overseen by the AAR's Hazardous Materials Committee.

EDI 6040 FORWARD AND STORE UPDATE // This data quality compliance update promotes greater process efficiencies and more effective communication for participants in an interline freight movement. The upgrade will improve data quality and support the electronic exchange of 417 waybills through the Forward and Store system. This update is overseen by the AAR's EDI Committee.
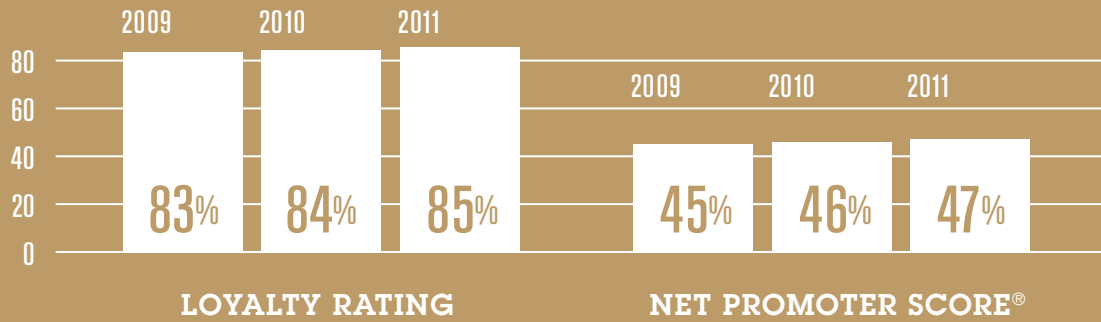
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RAILINC BY THE NUMBERS

LOYALTY RATING

2009	2010	2011
83%	84%	85%

NET PROMOTER SCORE®

2009	2010	2011
45%	46%	47%

The number of incidents opened in the new DDCT system in 2011

59,888

107%

The projected five-year industry ROI for the DDCT system according to the RPSWC

204%

The projected five-year industry ROI for the CEPM program according to the RPSWC

3% + 1

The percentage increase in the overall Railinc product satisfaction score and the number of products added to the rating this year

99.99%

Railinc's target percentage uptime for 15 key industry products

4.35

Railinc's Average Satisfaction Score on on a scale from one to five for 17 Key products, translating to a "More than Satisfied" Railinc Customer
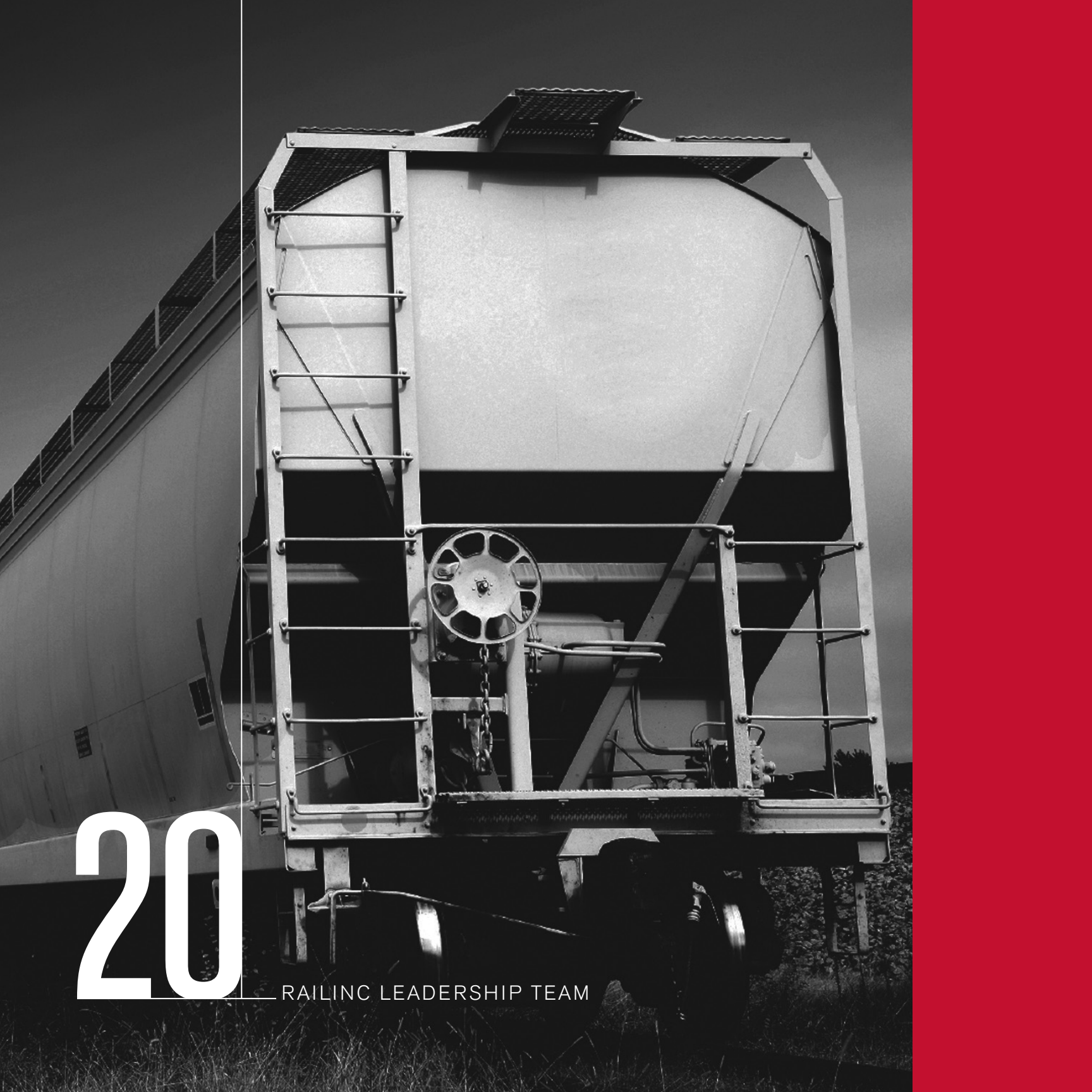
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RAILINC LEADERSHIP TEAM

RAILINC EXECUTIVE MANAGEMENT TEAM:

STANDING L TO R:
PATRICK O'NEIL,
YATES PARKER,
ALLEN WEST,
KAREN FOLINO,
DAVID KAUFMAN

SITTING L TO R:
ROB SIMORA,
TREADWELL DAVISON

ALLEN WEST
President and Chief Executive Officer

ROBERT SIMORA
Chief Information Officer

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AAR Products and Services

KAREN FOLINO
Assistant Vice President,
Commercial Products and Services

YATES PARKER
Assistant Vice President, Finance

DAVID KAUFMAN
Senior Director, Customer Relations

PATRICK O'NEIL
Director, Corporate Communications

WWW.RAILINC.COM

CORPORATE OVERVIEW _____

ailinc is an innovative and reliable resource to the rail industry for rail data, IT and information services. We support business processes and provide business intelligence that help railroads, rail equipment owners, their customers and business partners increase productivity, achieve operational efficiencies and keep their assets moving. Railinc is the industry's largest source for accurate real-time interline rail data. Railinc Corp. is a wholly-owned subsidiary of the Association of American Railroads.

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