2012

12

ANNUAL
REPORT

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Over the past year, Railinc worked to strengthen its position as a reliable provider of data and software for the freight rail industry.

TO OUR RAIL INDUSTRY PARTNERS

Over the past year, Railinc worked to strengthen its position as a reliable provider of data and software for the freight rail industry. We collaborated with industry partners to solve pressing technology problems, emphasized becoming a more reliable provider of products and services, and determined to better align ourselves with the needs of our customers.

> To these ends, we tackled a long list of industry-sponsored projects and internal initiatives that enhanced the value of Railinc as a resource for freight rail data and information systems.

Among the year's achievements is the advancement of the company's focus on supporting asset health solutions for the North American freight rail industry. The resulting Asset Health Strategic Initiative was presented to AAR committees and railroad industry executives for input and review. The result is a multi-year, multi-phase effort overseen by the AAR's Safety and Operations Management Committee (SOMC) that is intended to create a broad strategy for improving the life, health and safety of railcars by collecting and giving visibility to detailed railcar information.

In addition, Railinc worked productively with other AAR committees to develop and implement a wide variety of technology projects and upgrades.

For example, the Comprehensive Equipment Performance Monitoring (CEPM) program focusing on wheelsets was launched in January 2012, and more than 3 million

wheelsets have since been registered in the Umler™ Component Registry. Development for the second phase of the effort – side frames, bolsters and couplers – was completed too. Other projects focused on enhancements to the Damaged and Defective Car Tracking (DDCT) system, and updates to the Car Repair Billing system, HAZMAT application and EDI standards.

Railinc also focused on making the company a more reliable provider of products and services. This included implementing projects that improved our customers' Railinc experience through a more reliable infrastructure, hardware upgrades and higher performance standards.

For example, Railinc is halfway through its mainframe migration, moving from its mainframe IT platform to a more flexible midrange product-delivery solution. Other infrastructure improvements such as modern Single Sign-On (SSO) and File Transfer Protocol (FTP) solutions were also implemented with minimal customer impact. Meanwhile, project teams emphasized our "four nines" system-uptime strategy to more effectively align with customer expectations of performance for our key products.

E. ALLEN WEST
CEO + PRESIDENT

Railinc has also realized cost savings, productivity improvements and efficiency gains as a result of its focus on operational excellence. The company has reduced costs through more proactive vendor management.

Railinc also communicated more effectively with its customers through town hall events, deep dives on-site at customer locations and user group communication. We held webinars and training events around specific products and projects to help customers take full advantage of our products.

Overall, I am proud of Railinc's achievements in the past year.

While we have worked hard to improve our relationships with our customers, we also realize that we can do better and much work remains ahead of us. Last year we realigned the organization to focus more on customers' services and integrated product management, and will begin working to implement plans for improvement in 2013.

We will build the foundation for the Asset Health Strategic Initiative and diligently work toward success with all our technology projects. And certainly we will pursue opportunities as they are presented for process improvements, cost savings and product support that will help improve our long-term operations for the benefit of our customers. We will take on these tasks with great enthusiasm.

As we look ahead, we are grateful for the opportunity to serve you – our freight rail industry customers. Thank you for your business. Our goal is to find new ways to return value back to you and contribute in meaningful ways to your ongoing success.

Sincerely,

E. Allen West
CEO & President

MISSION, VISION AND STRATEGY

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.

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

During 2012, Railinc developed 11 technology projects expected to deliver more efficient industry operations, improved rail safety and improved productivity.

INDUSTRY INITIATIVES

During 2012, Railinc developed 11 technology projects identified by the AAR's Railinc Project Support Working Committee (RPSWC). These projects required coordination throughout the freight rail industry to identify and prioritize project requirements and implementation schedules for successful completion. Taken together, these projects are expected to deliver returns through more efficient operations, improved rail safety and improved productivity.

> Here is a review of the projects developed during the year:

CEPM COMPONENTS:
SIDE FRAMES, BOLSTERS AND COUPLERS

The Comprehensive Equipment Performance Monitoring (CEPM) program gives railroads and other industry participants a complete view of rail equipment health and performance. Using the program's reusable and scalable database framework, three additional components were added to the Umler™ Component Registry in 2012. The capability to register and associate side frames, bolsters and coupler components to specific railcar equipment will provide the ability to improve maintenance planning and enable more informed repair decisions. The effort was guided by the AAR's Equipment Health Monitoring Committee and the Coupling System and Truck Castings Committee. See story on page 11.

COMPONENT FRAMEWORK PHASE 2
(UMLER™ SYSTEM)

The Component Framework Phase Two project extracted more value from the 2011 CEPM project investment to deliver enhanced access and productivity tools. This project added more historical wheelset data for analysis to aid in targeted wheelset recalls, automated recall processes and improved data extraction; it helps railroads keep local data in sync with industry data and advises equipment owners of component-related activity on their equipment. This project was completed under the guidance of the AAR's Equipment Health Monitoring Committee.

COMPLETE CAR HEALTH EXPANSION

This project expanded the CEPM program to reduce costs from duplicate reporting and improve equipment visibility and decision making. It created a tool within the Equipment Health Management System (EHMS) that provides users with a single location where they can look up, download or input mission-critical railcar health data and report information related to railcar repairs across multiple Railinc systems. This project was completed under the guidance of the AAR's Equipment Health Monitoring Committee.

DAMAGED AND DEFECTIVE CAR TRACKING (DDCT) ENHANCEMENT PROJECT

This project added functionality to the DDCT system that will help reduce administrative costs, improve productivity, standardize

INDUSTRY INITIATIVES

and improve data accuracy, and increase car owner capabilities. This was conducted under the guidance of the AAR's Arbitration and Rules Committee and DDCT Technical Advisory Group (TAG).

UTILIZE DDCT FOR EARLY WARNING MAINTENANCE ADVISORIES

This project automated the creation of a DDCT incident report upon AAR instruction via the Early Warning system, resulting in quicker compliance and reduced disruptions to terminals and interchange. The project was completed under the guidance of the AAR's Equipment Health Monitoring Committee.

UTILIZE DDCT FOR TRUCK HUNTING

Using the DDCT system and EHMS, this project automated the identification of railcars experiencing lateral instability, or truck hunting, for improved rail safety and to provide disposition. The project was completed under the guidance of the AAR's Equipment Health Monitoring Committee.

CAR REPAIR BILLING MANDATORY RULE ENFORCEMENT FOR 2013

Railinc made changes to the Car Repair Billing Data Exchange to accommodate AAR rule revisions that promote safe and efficient freight rail transportation. The project was completed under the guidance of the AAR's Car Repair Billing Committee.

RESTRUCTURE CAR REPAIR BILLING (CRB) INBOUND DATA EXCHANGE PROCESS

The Restructure CRB Inbound Data Exchange Process project updated the process used by rail equipment owners to settle repair bills for foreign freight equipment. The new process supports real-time reporting and improves data quality. It was done under the guidance of the AAR's Car Repair Billing Committee.

CAR HIRE DATA EXCHANGE (CHDX) EDITS AND FILE DELIVERY IMPROVEMENTS

This project introduced edits to improve data quality and reduce the time to process car hire payments. This project was completed under the guidance of the AAR's Equipment Assets Committee: Information and Data Quality Team.

HAZMAT APPLICATION UPGRADE AND AUTOMATION

This project expanded the HAZMAT application's automation and reach to improve safety and reduce the cost to process electronic messages. It was overseen by the AAR's Hazardous Materials Committee.

EDI 6040 FORWARD AND STORE UPDATE

This upgrade will improve data quality and support the electronic exchange of 417 waybills through the Forward and Store system. This update was overseen by the AAR's EDI Committee.

FOCUSING ON OPERATIONAL EXCELLENCE

In 2012, Railinc continued to emphasize the principles of operational excellence throughout the company to improve internal processes and infrastructure, and reduce costs for the long-term benefit of all stakeholders in the railroad industry. These efforts have helped Railinc better align with its customers to meet their expectations of Railinc products, develop a greater understanding of their business needs and communicate with them more effectively about ongoing work.

> Here's a closer look at these activities:

INFRASTRUCTURE IMPROVEMENTS

Railinc is in the middle of a multi-year effort to enhance the company's technology infrastructure. Like many technology providers, the company is moving from a mainframe-based technology platform to a broad and flexible midrange product-delivery solution. Railinc's development team successfully completed year two of this four-year program. During the year, the group migrated 13 applications and built out the midrange platform to accommodate additional migrations and increase reliability and security.

In addition, Railinc installed a new Single Sign-On (SSO) system. This effort included the migration of 34 systems and 50 SharePoint community sites with no impact to Railinc's user communities during the implementation. The new system provides enhanced security, enables better customer self-service and delivers additional capabilities for long-term growth. Railinc teams also integrated all Railinc applications into a new File Transfer Protocol (FTP) platform and migrated 75 percent of all FTP mailboxes away from older platforms,

facilitating cost savings and enhanced functionality. These older platforms will be retired in early 2013.

VENDOR MANAGEMENT

Through proactive vendor management, Railinc is lowering the cost of its IT infrastructure, positioning us to serve the industry more effectively and efficiently. During 2012, this program returned millions of dollars in savings, enabling Railinc to provide more reliable service at a lower cost for years to come.

LETTERS OF AUTHORIZATION

Another Railinc initiative in 2012 emphasized data security. Letters of Authorization (LOAs) are critical for trading partners that share information electronically. In accordance with Railinc's data access policy, these authorizations are necessary to ensure confidentiality and to meet specific regulatory requirements of the rail industry. In June, Railinc automated this manual process with a new LOA system. The new system supports data access across all relevant Railinc applications and makes it easier for companies to submit LOAs for approval, to manage LOAs, and to update/renew/

FOCUSING ON OPERATIONAL EXCELLENCE

revoke LOAs already on file, while ensuring consistent LOA management across Railinc. Hundreds of existing LOAs already on file with Railinc have been uploaded and confirmed by customers.

CAR HIRE TRAINING

Railinc business personnel worked with the AAR's Equipment Assets Committee to prepare and deliver car hire training at the American Short Line and Regional Railroad Association (ASLRRA) annual meeting. The training helps railroads to improve car hire data quality and reduces car hire administration costs through better understanding of car hire processes and more accurate data. This effort received very favorable reviews and similar training is scheduled again for 2013.

NEW DDCT USER GROUP

Created in the second half of 2012, the new DDCT user group provides a forum for hundreds of railroads, car owners and repair shops to share information and provide feedback on DDCT processes. Participants stay informed about system updates and news, share ideas for enhancing the DDCT system, get questions answered and learn best practices. Customers can enter discussion items that are then categorized, tracked and forwarded to the DDCT TAG if appropriate for further discussions.

EQUIPMENT OWNER OUTREACH

During 2012, Railinc conducted several communication events to provide private equipment owners with a face-to-face opportunity to discuss issues of particular interest and concern. Twenty-eight executives, from managers to vice presidents representing leading rail equipment companies, have attended forum meetings. This has led to an increase in cooperation and participation of car owners in technology initiatives leading to greater product adoption and earlier realization of project benefits.

INNOVATIONS AND ACHIEVEMENTS

ASSET HEALTH STRATEGIC INITIATIVE TACKLES INDUSTRY-WIDE CHALLENGE

In 2012, Railinc led a task force to brainstorm and envision common, workable solutions to tackle a significant industry challenge – how to more effectively and efficiently maintain and monitor the health of rail equipment. The resulting Asset Health Strategic Initiative is a multi-year, multi-phase effort that will create an industry-wide strategy for improving the life and health of railcars by collecting and giving visibility to detailed railcar information. The initiative is guided by the AAR's Safety and Operations Management Committee (SOMC) through the RPSWC and will be managed by the Asset Health Task Force.

The effort will deliver data and IT infrastructure aimed at reducing mechanical service interruptions, improving the quality of railcar inspections, and increasing rail yard and repair shop efficiency. Initial work scheduled for 2013 includes developing the following projects:

+ *Asset Information Repository* – a comprehensive data repository for railcar and locomotive health characteristics and related information;

+ *E-Train* – a consolidated source of train information that enables real-time visibility and analysis to help direct trains coming into a terminal;

+ *Detector Repository* – a comprehensive database of wayside and onboard data detector reads to help improve the quality of inspections; and

+ *Mechanical Reference Repository* – a common repository for current and historical operational data, and an automated means for its use.

Throughout the year, Railinc has worked with railroads, leasing companies, and other industry stakeholders and committees to seek their commitment to the initiative's value proposition. In addition, the AAR's Industry Architecture Standing Committee is also using the Asset Health Strategic Initiative to promote a common IT architecture through collaboration and information sharing. IT architects and business representatives from large railroads are focusing on the movement and management of railcars to improve safety, maintenance planning and proactive data analysis.

CEPM PROGRAM REGISTERS 3 MILLION WHEELSETS IN 2012

In 2012, Railinc successfully implemented the CEPM program. This program is a collaborative initiative that created an IT framework and process for capturing component-level rail equipment information. Since the program launched on January 10, 2012, more than 3 million wheelsets have been registered in the new Umler Component Registry. The multi-phase, multi-year program will enable electronic tracking and identification of all significant railcar components in near real-time for improved equipment maintenance planning and improved component recall management.

INNOVATIONS AND ACHIEVEMENTS

Also in 2012, Railinc completed development on the program's second phase, which takes advantage of the reusable, scalable IT framework for three new components – side frames, bolsters and couplers. Two more related projects added advanced search capabilities through the integration of the program's applications (Umler Component Registry, Car Repair Billing system and EHMS), and a new, automated Early Warning recall process enables participants to more easily create and manage component-based early warning notices.

Railinc will work with rail industry participants in 2013 to determine the next components for development. This collaborative effort is expected to make the industry safer for employees and communities, reduce transportation costs and make rail maintenance operations more efficient.

DAMAGED AND DEFECTIVE CAR TRACKING (DDCT) SYSTEM ENHANCED

In 2012, Railinc introduced significant improvements to the DDCT system. The system automates an essential rail process and puts more reliable data at the disposal of car owners, rail carriers and repair shops, helping them make better and faster decisions about damaged or defective equipment. The enhanced system includes new features and critical functionality that expand the items that trigger electronic notifications, the type of incident data collected and the way in which disposition locations are selected.

INDUSTRY-SPONSORED PROJECTS

Railinc consistently seeks new opportunities to deliver value to the rail industry. Together with the AAR's Railinc Project Support Working Committee and other AAR committees, Railinc will develop the following projects for 2013:

LOCOMOTIVE INSPECTION AND REPAIR REPORT

Locomotive inspections are critical to rail safety and require a significant investment of manual hours under the current paper-based process. This project will create an electronic locomotive inspection and repair report, reducing the time required to verify inspections. The AAR Locomotive Repair Billing Committee is providing guidance for this project.

ASSET INFORMATION REPOSITORY (PHASE 1)

Railroads and other industry participants rely on asset-health data to make decisions. This project will create the foundation for a comprehensive equipment-level view of asset health and characteristic data. This project is part of the Asset Health Strategic Initiative and comes under the guidance of the AAR's Asset Health Task Force.

E-TRAIN (PHASE 1)

The current process for managing trains with needed equipment maintenance at interchange can be labor intensive and inefficient. This project will create the foundation for a centralized database of train information that enables real-time visibility and analysis of consist data. The result will be reduced manual work, improved efficiency and better decision making of maintenance and repair tasks. This project is part of the Asset Health Strategic Initiative and comes under the guidance of the AAR's Asset Health Task Force.

DETECTOR REPOSITORY — INSPECTION QUALITY (PHASE 1)

Defect detectors monitor the condition of trains and capture data critical to rail safety. This project will complete initial work for a comprehensive database of detector reads. The result will improve repair-work efficiency and enable the complete health monitoring of equipment. This project is part of the Asset Health Strategic Initiative and comes under the guidance of the AAR's Asset Health Task Force.

INDUSTRY-SPONSORED PROJECTS

MECHANICAL REFERENCE REPOSITORY

Operational reference information is critical to industry systems. This project will create a common repository for the operational reference data – current and historical data – and provide an automated means for its use. This project is part of the Asset Health Strategic Initiative, and the AAR's Equipment Health Monitoring Committee is providing guidance for this project.

ASSET HEALTH DATA SUMMARY EXPANSION

This project adds functionality to the Equipment Health Management System to combine detector reads that do not reach the level of an alert in a summarized view, improving data analysis and reducing derailments, among other benefits. This project is under the guidance of the AAR's Equipment Health Monitoring Committee.

SHIPPER REJECT REASON VISIBILITY AND TRACKING

Knowing when and why a railcar was rejected by a shipper can sometimes be difficult under the current process. This project will expand the DDCT system to include information from shipper rejects, including the reject reasons. This effort is under the guidance of the AAR's Damaged and Defective Car Tracking TAG.

CAR HIRE RATE NEGOTIATION SELF-SERVICE

Negotiating car-hire rates can be complicated and time consuming. This project will enhance the self-service capabilities of the Deprescription and Bid and Offer tools to improve ease-of-use, provide near real-time visibility into bids and offers, and perform validation checks with supporting data. This project is under the guidance of the AAR's Equipment Assets Committee.

CAR HIRE RULE 4 RECLAIM CENTRALIZATION

Railroads and other carriers spend a lot of time and money calculating and processing car hire. This project will remove the administrative burden associated with car hire reclaims. This project is also under the guidance of the AAR's Equipment Assets Committee.

INTERLINE SETTLEMENT SYSTEM® EDI 6040 UPGRADE

Technology standards ensure efficient and effective communication. This upgrade delivers business process improvements for the Interline Settlement System. This project is overseen by the AAR's Interline Revenue Committee.

MAJOR TERMINAL BULLETIN EXCHANGE AUTOMATION

Bulletins provide important information to a railroad's crew about its track conditions. This project will create an automated and easy-to-use bulletin request system for the Chicago Terminal. The result will be a reduction in train departure delays. This project is designed to enable expansion of the system to additional terminals. This effort is under the guidance of the Chicago Terminal Coordination Office.

CAR HIRE LIABILITY FILE EXPANSION AND MILEAGE

Railroads spend a lot of time calculating car hire. This project expands the functionality in the current Car Hire Liability File to include rates, mileage, loaded and empty cycles, and other data. The result will reduce the work required by railroads to calculate car hire. This project is under the guidance of the AAR's Equipment Assets Committee.

60,000

DDCT INCIDENTS OPENED IN 2012

3,085,698

WHEELSETS REGISTERED

IN UMLER™ COMPONENT REGISTRY IN 2012

12 Million+

ANNUAL CAR REPAIR BILLING

TRANSACTIONS

133   **COMBINED ROI**
PERCENTAGE FOR THE FOUR ASSET HEALTH PROJECTS FOR 2013, ACCORDING TO THE RPSWC

125   **WAYBILL EMBARGOES**
PROCESSED EACH DAY IN 2012

600,000   **MONTHLY EQUIPMENT RECORD UPDATES**
IN THE UMLER™ SYSTEM IN 2012

$500 M   **AMOUNT SETTLED THROUGH SSDX**
IN 2012

$1.1 Billion   **PROCESSED ANNUALLY**
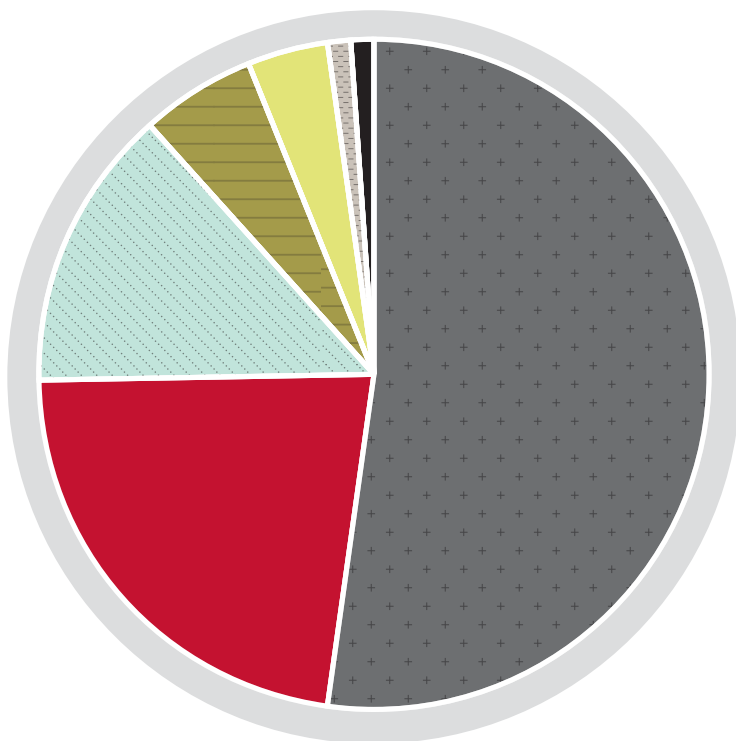IN CAR REPAIRS

$17.6 Billion   **(GROSS) SETTLED**
AMONG RAILROADS THROUGH INTERLINE SETTLEMENT SYSTEM® IN 2012
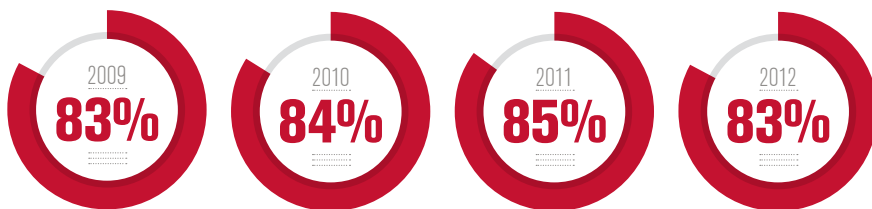
RAILINC

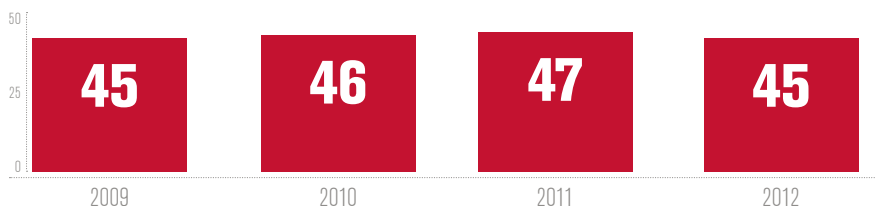# BY THE NUMBERS

RAILINC 2012 CUSTOMER MIX BY TYPE

ALL RAILINC PRODUCTS
CUSTOMER MIX BY TYPE
AND REVENUE, 2012

- **52.3%** Class I Railroads
- **22.7%** Rail Equipment Owners
- **13.5%** Third Parties
- **5.5%** All Other Railroads
- **3.9%** Shippers
- **1.1%** Government
- **1.0%** Others

LOYALTY RATING
2009-2012

- 2009 **83%**
- 2010 **84%**
- 2011 **85%**
- 2012 **83%**

NET PROMOTER SCORE
2009-2012

2009	2010	2011	2012
45	46	47	45

Railinc is an innovative and reliable resource to the rail industry for rail data, IT and information services.

THE COMPANY

Railinc 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.

RAILINC BOARD OF DIRECTORS

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Norfolk Southern Corp.

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RAILINC PRODUCTS AT A GLANCE

Railinc operates 40 different products for the freight rail industry from equipment databases to financial settlement services. Here is a brief overview of our leading products:

Umler™ System

The Umler system is an electronic system containing critical data for over 2.1 million pieces of transportation equipment in North America. For more than 40 years, railroads, rail equipment owners, shippers and many other industry participants have used Umler for the safe and efficient placement, movement and interchange of cars.

Embargoes System

The Embargoes and Open and Prepaid Station List (OPSL) Notes system is an integrated management application that handles the AAR embargo and permit process. The system plays an essential role in enabling railroads to route freight rail traffic away from defined geographic areas with rail traffic congestion or potentially unsafe rail conditions. In 2012, North American railroads issued 191 embargoes.

Equipment Health Management System (EHMS)

EHMS is a web application that communicates the condition of rail equipment and sends alerts to the responsible parties when repairs are needed. EHMS enables proactive equipment maintenance, helping to reduce costly repairs, improve asset utilization, reduce infrastructure stress and improve rail safety.

Damaged and Defective Car Tracking (DDCT) System

DDCT is a centralized web application that automates the process for identifying, tracking and repairing damaged and defective railcars. Rail carriers, car owners and repair shops use the DDCT system to report and respond to damaged and defective car incidents, improving data reliability and communication among rail partners.

Rail Industry Reference Files

Industry Reference Files (IRFs) are the foundation for all rail industry communications and ensure data consistency and referential integrity. They consist of widely used databases such as the Centralized Station Master, Customer Identification File, Itinerary Database, Junction Interchange Database, Mark Register, Official Railroad Station List, Serving Carrier/Reciprocal Switch Database, Shipment Conditions and Standard Transportation Commodity Code.

RailSight™ Messaging Service

RailSight's Messaging Service is an industry exchange for messages between Class I railroads, car owners, short lines and their trading partners, linking more than 1,500 trading partners. This network facilitates the flow of mission-critical information and enables users with appropriate permissions to send and receive business documents, from bills of lading to purchase orders.

RailSight™ Track and Trace

RailSight Track and Trace is a rail shipment and equipment management tracking resource that enables rail equipment owners, rail shippers and third-party logistics providers to better manage their businesses.