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Jack Koraleski
President and CEO

150 YEARS

June 29, 2012

The Honorable Daniel R. Elliott
Chairman, Surface Transportation Board
395 E Street, SW
Washington, DC 20423

Dear Chairman Elliott:

This responds to your June 8 request for information regarding our plans and outlook for the balance of 2012.

As we approach the mid-point of 2012, Union Pacific is providing our customers with the best service levels in our company's history and achieving improved safety. We are doing this with substantial capital investment and an engaged workforce that is acutely focused on improving every aspect of our company. We are moving more volume at higher velocity and realizing record customer satisfaction scores.

Our car loadings are near levels that we expected, but we have seen significant shifts in commodities and locations. Low natural gas prices and an unusually warm winter dramatically reduced coal shipments. This resulted in underutilized assets and necessitated employee furloughs in our Northern Region. The combination of strong demand for drilling materials and crude oil shipments generated by shale development has rapidly increased demand in our Southern Region. In response to these shifting markets, we substantially increased resources and capital in the south. We have reallocated fungible resources such as locomotives and freight cars. Additionally, we aggressively hired, and continue to do so, and offered furloughed employees the opportunity to borrow out to the south.

Looking ahead to the balance of the year, in response to your requests:

"Expectations for any seasonal peaks in carload and both domestic and international intermodal traffic."

Crude oil, drilling supplies such as frac sand and pipe, autos (parts and finished vehicles) and chemicals are driving growth in carload traffic. Those increases have been enough to offset the decline in coal, export grain, and hazardous waste. We expect continued strengthening of crude oil and, although not back to 2011 levels, a sequential uptick in coal car loadings.

We have seen growth in domestic intermodal traffic. We expect continued growth in domestic intermodal business and a modest increase in international intermodal traffic during the fall shipping season.

Although our export grain business had been slow in 2012 compared to 2011, world demand for new crop soybeans is expected to be strong. We anticipate a strong export program through the Pacific Northwest and the Gulf from September 2012 through early first quarter 2013.

"Resources to meet any upticks in volume, including a discussion of freight car, locomotive, and labor (train crew) availability."

We have invested capital and allocated resources to serve our customers and compete for new opportunities. Surge resources in manpower, locomotives, and railcars allow us to maintain high levels of service with increases in volume, as we have demonstrated with rapid increases in traffic in Texas and Louisiana, due to the increased production of crude oil and natural gas. We have also invested heavily in our infrastructure, as explained in more detail in a later section of this letter.

Freight cars

We are on plan to acquire 1,880 cars this year.

UP's new AutoFlex railcar, designed by UP employees, is responsive to changing OEM demands for transport of finished vehicles by allowing conversion from a tri-level or a bi-level configuration in 20 man-hours. These cars improve operating efficiency by allowing us to adapt to market changes more quickly. We expect to produce approximately 300 in 2012 at our DeSoto, Missouri car shop.

We have approximately 7,000 covered hoppers in storage, due to grain seasonality.

We have improved processes and created new products and services to improve car utilization. For example, Our Mutual Commitment Program is designed to ensure shippers have reliable access to intermodal capacity. Customers define the business they wish UP to handle throughout the year. UP commits Railroad-owned shipping containers to handle the business, including seasonal surges in shippers' freight flows. Shipper feedback is very positive.

Locomotives

We are in the process of acquiring 200 new over-the-road locomotives this year, with 108 units received and 92 due for delivery in the third quarter. In total, we have approximately 8,000 locomotives, with a small percentage of these in storage and available as surge capacity.

Labor (train crews)

We are on plan to hire 1,650 train service employees in 2012. Over 1,000 of those people are placed in our Southern Gulf Region, where we see the strongest demand. We have approximately 550 employees furloughed, mostly in the north where we have seen a decline in coal business. 320 of these people are participating in our alternate work program. This unique program, in place for several years, provides covered furloughed employees with a limited work schedule and full benefits until they are called back to full time work. Additionally, in collaboration with our unions, 200 people, who would otherwise be furloughed, are working on a temporary basis in our busiest areas. As a result, our crew base is fully staffed and furloughed employees are available on short notice.

"Specific plans to support demands for prompt movement of finished autos and light trucks."

Our auto network remains fluid for both finished vehicles and auto parts.

UP continues to invest capital to improve auto ramps and to enhance the car fleet. UP began infusing AutoFlex cars in the tri level configuration into the national pool in 2012. After months of hard work, the Reload Steering Committee, chaired by UP with membership from all Class 1 railroads, has developed and approved new rules governing the distribution of the national multilevel pool. The new rules are designed to incent investment in equipment and to promote distribution discipline and efficiency.

Additionally, UP leads an industry committee including railroads and OEMs, focused on transit improvements for the multilevel fleet. Comparing the first four months of 2012 to model year 2011, the industry has realized a 20% utilization improvement in the tri-level fleet and a 13 % improvement in the bi-level fleet.

There are dozens of active UP and industry initiatives focused on improving loaded and empty cycle time, reducing queue time, and accelerating bad order repair.

"Specific plans to support demands for movement of crude oil and of oil and gas drilling activity."

We have realigned resources to accommodate the rapid increase in traffic in our Southern Region as a result of oil and gas drilling. Several new sand quarries are in the process of opening on our system, new landing facilities in Texas and Louisiana are opening to handle in-bound trains, and oil is moving by rail to the refinery network.

We have adjusted car routings to leverage available capacity at terminals, and we modified train starts to maintain fluid operations. Our railcar inventory management systems, developed during the past ten years, have given us tools to manage the flow of railcars in a way that has largely avoided congestion.

We increased our employee base and hiring patterns and repositioned approximately 200 locomotives from our coal network and other parts of the system.

As noted in more detail in response to your inquiry regarding capital, we have allocated significant capital to add capacity and fluidity in our Southern region.

"A summary of the investments made in freight service and capacity improvements for the past year, as well as areas of existing or anticipated rail traffic congestion and your plans for remediation."

We are on pace to spend a record amount of $3.6 billion in 2012, 9% greater than 2011. Improved earnings and cash flow have allowed us to sustain our targeted commitment of 16-18% of revenue to capital investment.

Our capital renewal program is underway and we are replacing 1,000 miles of rail and 4.2 million ties. As a result, we have decreased slow orders to record lows, with less than 2% of our main line miles under slow orders. That condition of our network gives us performance capability and resiliency in terms of recoverability.

We also invest capital for new capacity. For example, we have directed significant capital to increase capacity in our Southern region to support increasing oil and gas related demand. In 2011, we doubled our capacity investment in the south and in 2012; we will spend three times as much as in 2011. We have built sidings and sections of double track, enhanced yard and terminal facilities and improved signal systems. A key limiting factor in these investments is the environmental permitting process required to begin work. We are working closely with a number of local, state and federal agencies to expedite their reviews.

Across our system, we have enhanced commercial facilities to support our customers, particularly for intermodal and automobile customers, as well as our sand and crude oil customers.

As noted in a previous section, we have invested to increase our locomotive and freight car fleets. Additionally, we invest in technology to improve customer service.

To complete our report to you of significant capital spending, we have also invested heavily in PTC.

"Developments in passenger rail service access (Amtrak, commuter, or high speed rail) and related on-time performance."

While there are discussions taking place in many states, the significant passenger rail service projects funded by the Administration's High Speed Rail program on the Union Pacific are focused in the states of California, Illinois and Missouri. In all cases our objective is to ensure that our ability to serve our customers, both today and in the future, is not compromised by passenger rail travel.

In California, we are working closely with the California High Speed Rail Authority and a number of commuter agencies. The project definition for high speed rail is not yet solidified and as we finalize this letter to you, UP, California and the FRA are meeting to try to reach agreement on a plan that will progress passenger service, without compromising service for freight customers. In Illinois, we are in the third year of construction of improvements to the line between Chicago and St. Louis. This is probably the most advanced of any high-speed rail project in the United States.

Finally, construction of a new bridge at the Osage River in central Missouri has begun that when completed will remove the most significant bottleneck on the east-west line between Kansas City and St. Louis.

For Amtrak, Union Pacific continues to operate one of the top performing passenger services in the United States on the Capital Corridor between San Jose and Sacramento, with up to 32 trains per day. As Amtrak measures our performance, the trains routinely achieve 97 percent or better on-time performance, far better than Amtrak's Northeast Corridor. The Pacific Surfliner, San Joaquin, and Cascade corridor services also achieve high levels of reliability on their UP segments. On-time performance for Kansas City-St. Louis trains remains above 90 percent, even before the new projects are complete. Illinois Corridor service is, of course, affected by the heavy construction schedule for the high-speed rail project; Amtrak and UP agree to cancel certain trains and reroute others during periods of intense activity. Amtrak long-distance trains in Texas sometimes are affected by the rapid growth in freight traffic described earlier. We simply do not have enough capacity on those mostly single-track routes to avoid delays to both Amtrak's priority trains and our services to our customers. As noted above, UP is investing in new capacity in its Southern Region.

"A report on your company's most recent customer service survey."

Our commitment is that competitive returns will drive increased investment to enhance service and create value for our customers. The marked improvement in Union Pacific's customer satisfaction ratings to current unprecedented levels is a clear proof statement that our customers recognize the value our service creates. Recent customer survey results reinforce these positive trends. Customer satisfaction reached an all-time record high of 92 last year, and year-to-date we are at 94. In addition, we have received numerous service awards from very demanding customers such as Toyota, Chrysler, GM, WWL (logistics provider for Nissan), and Lowe's. We are also gratified that our competitive benchmark survey shows we have closed the service gap on trucks which allows us to provide both existing and new customers with a low cost, more energy efficient, and environmentally friendly alternative to using the nation's congested highway system. In short, our focus on safety, service, and financial performance is creating value for our employees, customers and shareholders, and we are committed to staying that course.

Sincerely,

Jack Koraleski

cc: The Honorable Francis P. Mulvey, Vice Chairman
The Honorable Ann D. Begeman, Commisioner