

Second Quarter 2014 Earnings Release

July 24, 2014

Jack Koraleski, CEO



BUILDING AMERICA®

Second Quarter 2014 Record Results

Positives

- **Best-Ever Quarter**
 - Operating Revenue
 - Operating Income
 - Operating Ratio
 - Earnings
- Franchise Diversity

Challenges

- Network Performance

Earnings Per Share Second Quarter



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Second Quarter 2014 Marketing & Sales Review

July 24, 2014

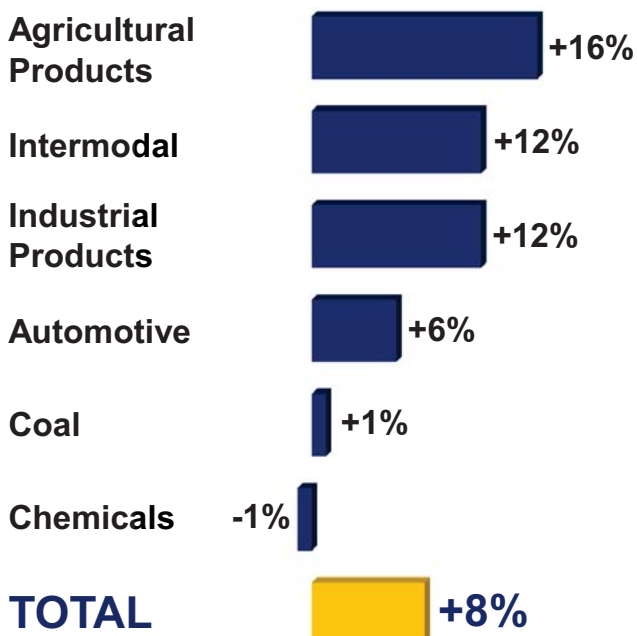
Eric Butler, Executive VP – Marketing & Sales



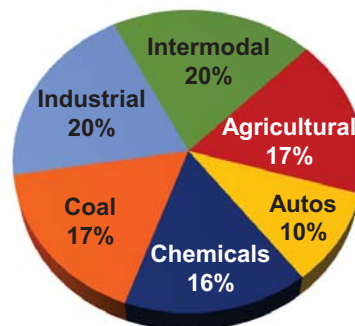
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Second Quarter 2014 Recap

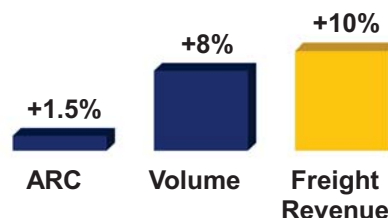
Volume Growth



Freight Revenue Mix



Freight Revenue Performance (Year-Over-Year Change)

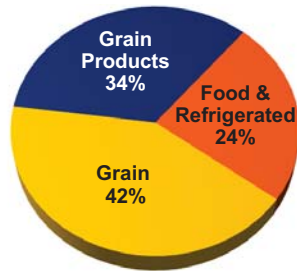


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Agricultural Products

Revenue \$934M (+19%) Volume 243K (+16%) ARC \$3,833 (+2%)

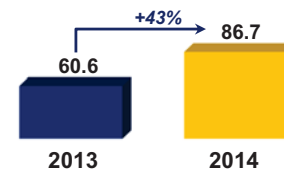
Volume Mix



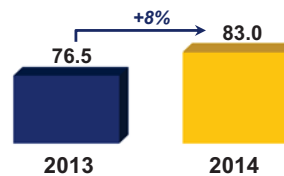
Quarterly Drivers

- Grain and Grain Products Exports
- Strong Domestic Corn Demand
- Import Beer Growth

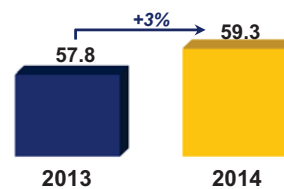
Grain*



Grain Products*



Food & Refrigerated*



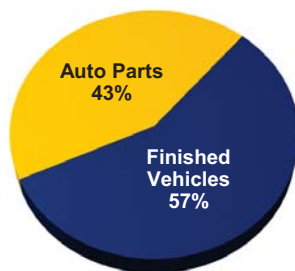
*Volume in thousands of carloads and excludes equipment shipments



Automotive

Revenue \$545M (+2%) Volume 208K (+6%) ARC \$2,619 (-4%)

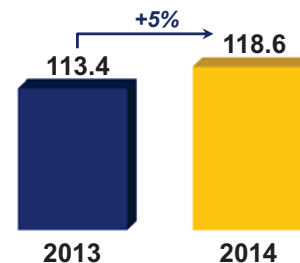
Volume Mix



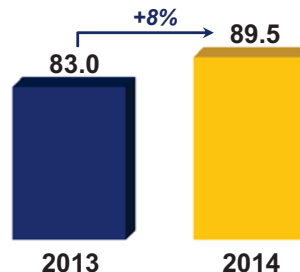
Quarterly Drivers

- Vehicle Production and Sales Strength
- Auto Parts Demand

Finished Vehicles*



Auto Parts*



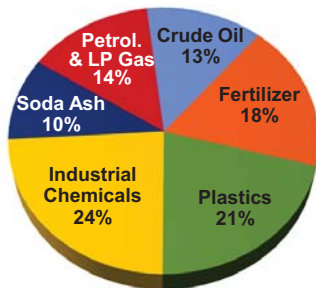
*Volume in thousands of carloads



Chemicals

Revenue \$913M (+3%) Volume 283K (-1%) ARC \$3,230 (+4%)

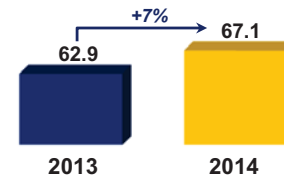
Volume Mix



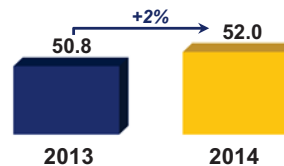
Quarterly Drivers

- Strong Industrial Chemical Demand
- Export Potash Strength
- Crude Oil Price Spreads

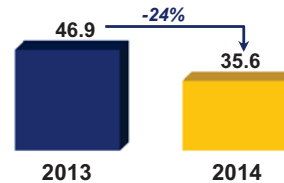
Industrial Chemicals*



Fertilizer*



Crude Oil*



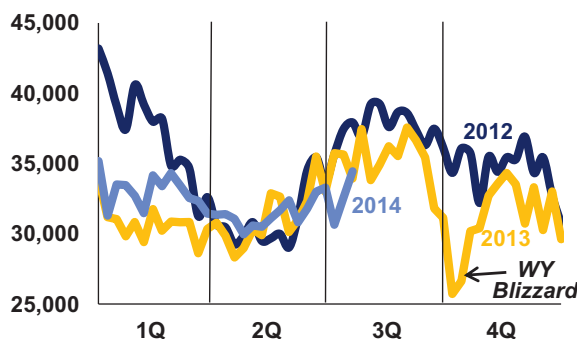
*Volume in thousands of carloads and excludes equipment shipments



Coal

Revenue \$989M (+1%) Volume 417K (+1%) ARC \$2,369 (+1%)

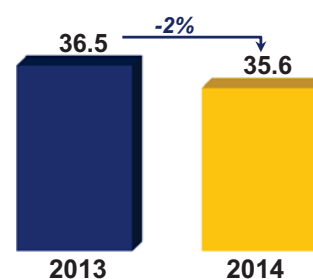
Volume Impact (Weekly Carloadings)



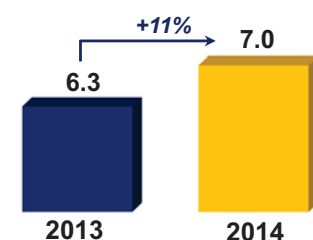
Quarterly Drivers

- Low Coal Inventories
- Higher Natural Gas Prices
- Legacy Contract Loss

Southern Powder River Basin*



Colorado/Utah*



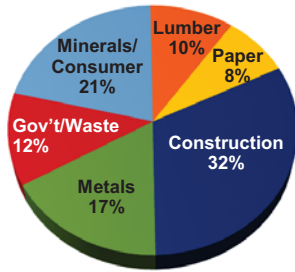
*Tons in millions



Industrial Products

Revenue \$1,130M (+16%) Volume 356K (+12%) ARC \$3,175 (+3%)

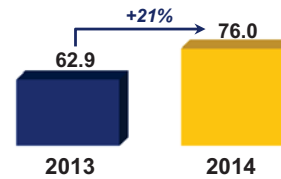
Volume Mix



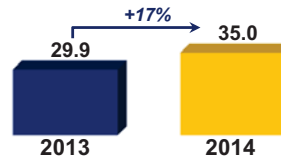
Quarterly Drivers

- Drilling Activity – Frac Sand
- Housing Growth and Inventories
- Market Strength for Aggregates and Cement

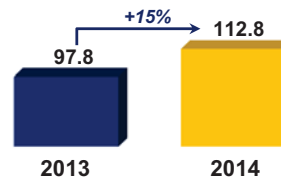
Non-Metallic Minerals*



Lumber*



Construction*



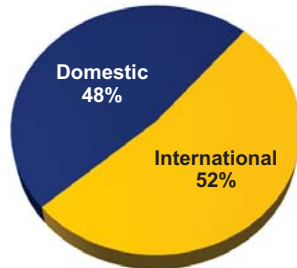
*Volume in thousands of carloads



Intermodal

Revenue \$1,150M (+16%) Volume 924K (+12%) ARC \$1,246 (+3%)

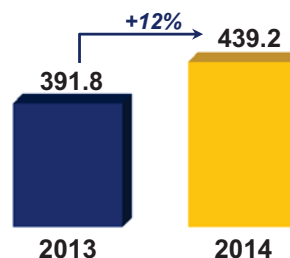
Volume Mix



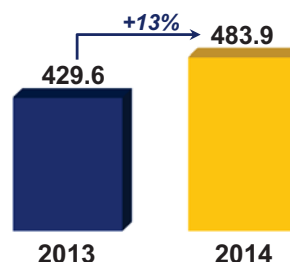
Quarterly Drivers

- Broad Based Growth in Domestic
- International Strength on Advanced Shipments

Domestic*



International*



*Volume in thousands of units



Second Half 2014 Volume Outlook

Agricultural Products

- ? 2014 Crop Projections
- + Ethanol

Automotive

- + Strong Industry Sales Continue

Chemicals

- + Most Markets Remain Solid
- Crude Oil Spreads

Coal

- + Low Coal Inventories
- ? Weather

Industrial Products

- + Shale Drilling - Frac Sand
- + Construction
- ? Housing

Intermodal

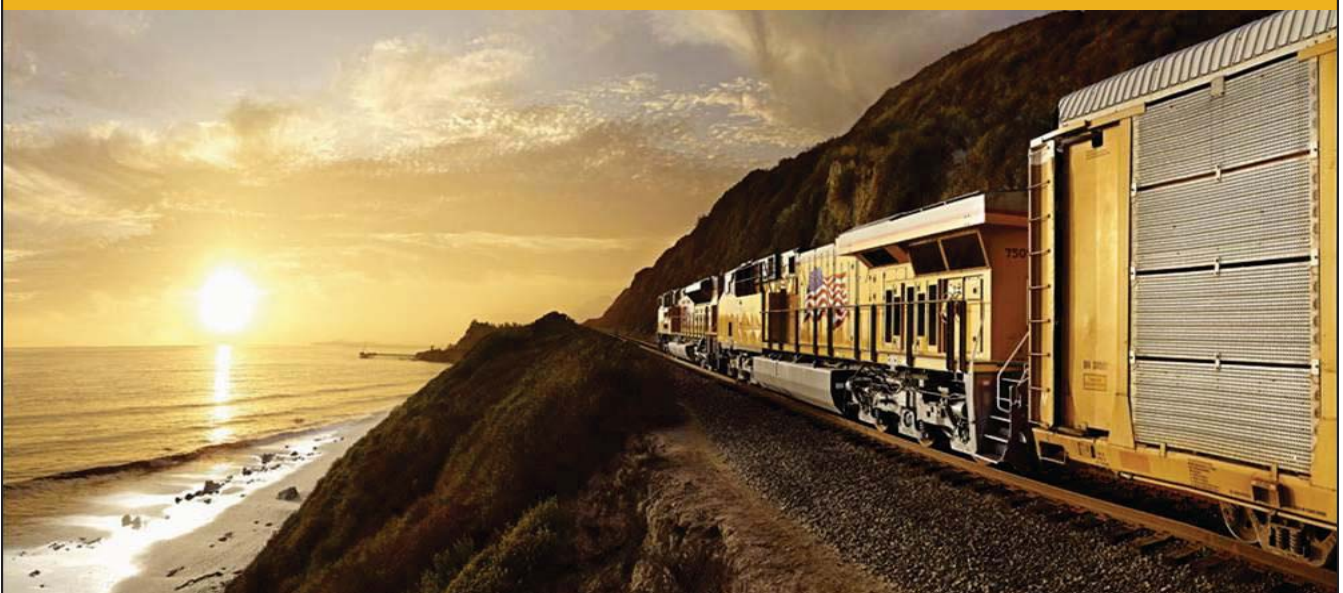
- + Domestic Highway Conversions
- ? International



Second Quarter 2014 Operations Review

July 24, 2014

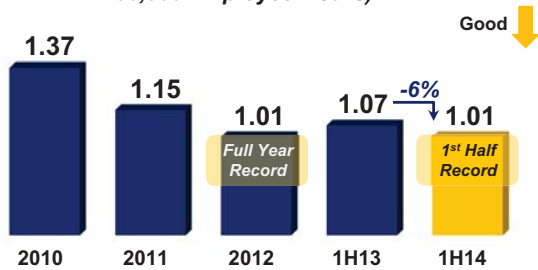
Lance Fritz, President & COO



Dedicated Focus on Safety

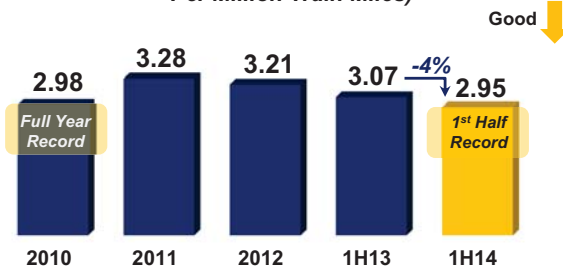
Employee

(Reportable Personal Injury Incidents Per 200,000 Employee-Hours)



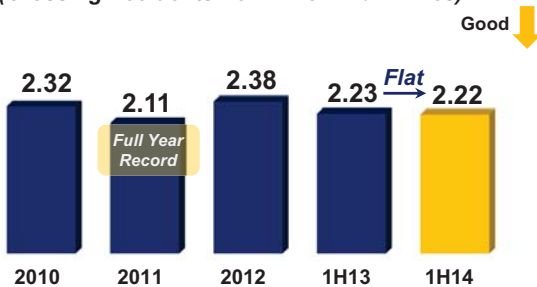
Rail Equipment

(Reportable Derailment Incidents Per Million Train Miles)



Public

(Crossing Accidents Per Million Train Miles)



- Commitment to Courage to Care & Maturation of Total Safety Culture
- Infrastructure Investment & Focus on Human Factor Incidents
- Public Safety Campaign to Reinforce Awareness



Network Performance Challenges

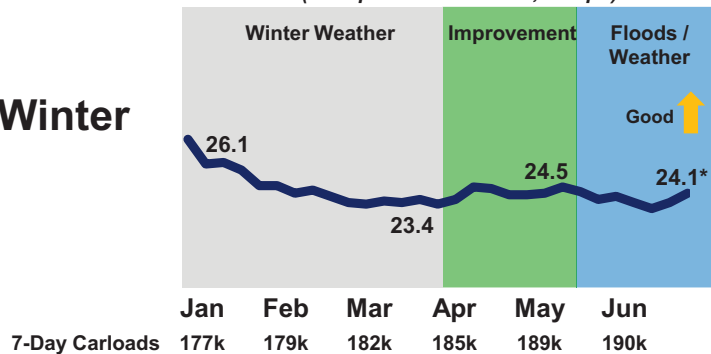
Second Quarter 2014

Operational Challenges

- Carryover Impact from Winter
- Interline Connectivity
- Service Interruptions
- Volume Growth

UP Weekly Velocity

(As reported to the AAR, in mph)



*For the week ending July 18, 2014

UP Franchise Strengths

- Alternate Routing
- Resource Agility & Surge Capacity
- Capital Investments



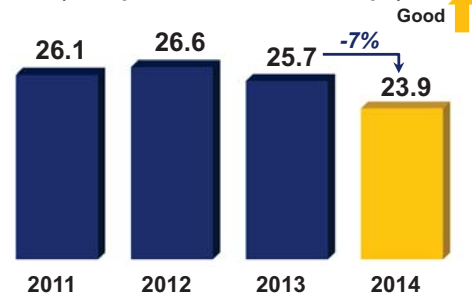
Service Metrics

Second Quarter

- Operational Headwinds
- Agility & Resiliency Demonstrated with Resources & Service Plan
- Strategic Investments & Surge Resources
- Positioned for Improvement

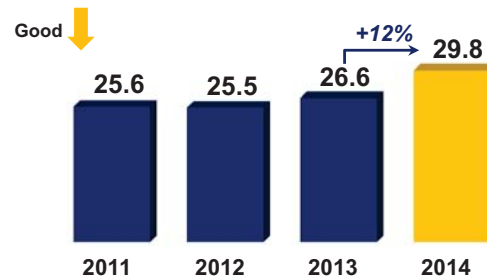
Velocity

(As reported to the AAR, in mph)



Freight Car Dwell

(As reported to the AAR, in hours)



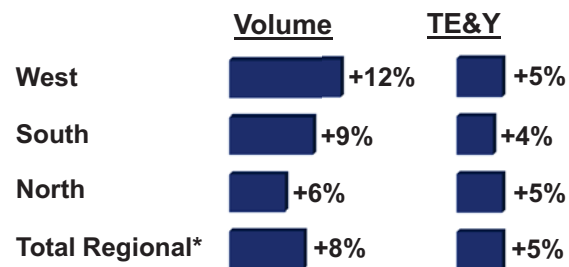
Network Productivity

Second Quarter

- Solid Growth in Each Region
- Net Productivity Gains
- Leveraged Volume Growth
- Record Operating Ratio

Operating Leverage

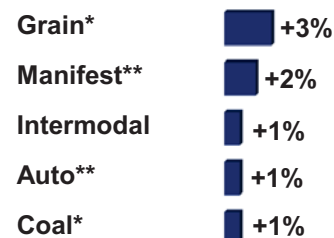
(vs 2Q 2013)



*Excludes Training

Train Size Performance

(vs 2Q 2013)



*Second Quarter record ** Best-ever quarterly record

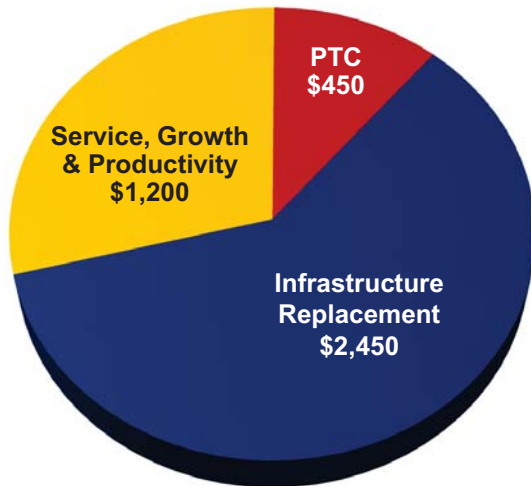


Capital Investments

Replacement, Service, Growth & Productivity, and PTC

2014 Capital Plan: ~\$4.1 Billion

(\$ in Millions)



Key 2014 Capacity Projects

- **Sunset Route: 56 miles**
- **Southern Region Capacity**
 - Siding additions
 - Terminal enhancements
 - Double track expansions
 - Signal upgrades
- **Accelerated Northern Region Projects**
- **Continuation of Network Strategies**



2014 Operating Outlook

Safety, Service, and Value

- **Improve Network Performance**
- **Drive Record Safety Results**
- **Capital Effectiveness**
- **Leverage Growth & Realize Productivity**
- **Create Value for Customers**
- **Increase Returns for Shareholders**



Second Quarter 2014 Financial Review

July 24, 2014

Rob Knight, CFO



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Second Quarter Income Statement

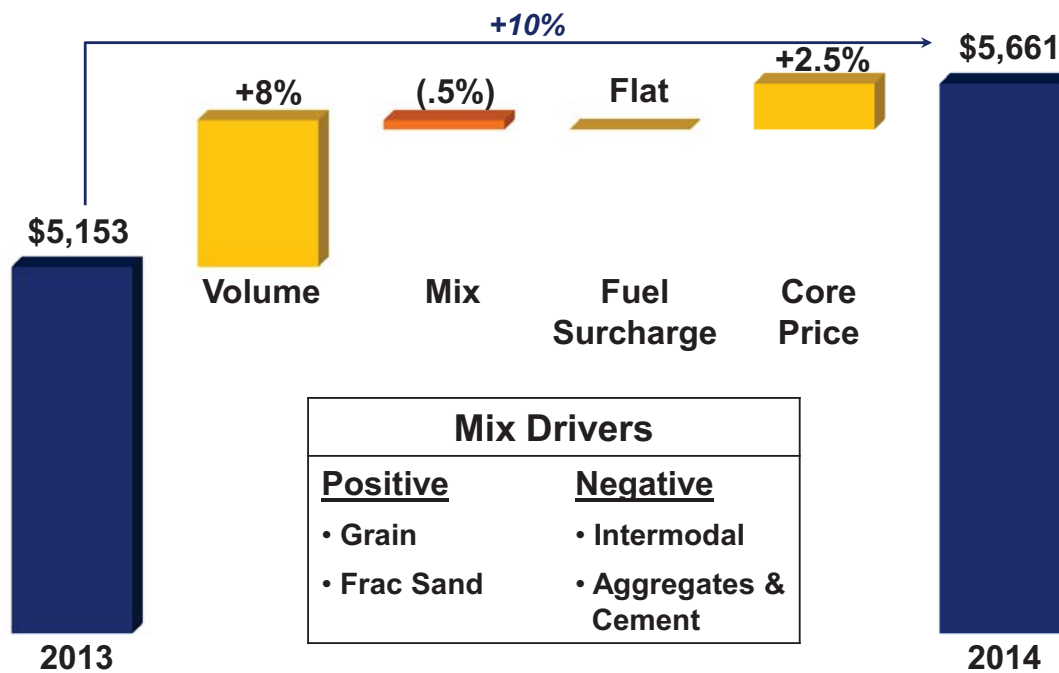
In Millions (except EPS)

	<u>2014</u>	<u>2013</u>	<u>%</u>
Operating Revenues	\$6,015	\$5,470	10
Operating Expenses	<u>3,819</u>	<u>3,592</u>	6
Operating Income	<u>2,196</u>	<u>1,878</u>	17
Other Income	22	23	(4)
Interest Expense	(138)	(133)	4
Income Taxes	<u>(789)</u>	<u>(662)</u>	19
Net Income	<u>\$1,291</u>	<u>\$1,106</u>	17
Weighted Average Diluted Shares	905.0	935.3	(3)
Diluted EPS	<u>\$1.43</u>	<u>\$1.18</u>	21



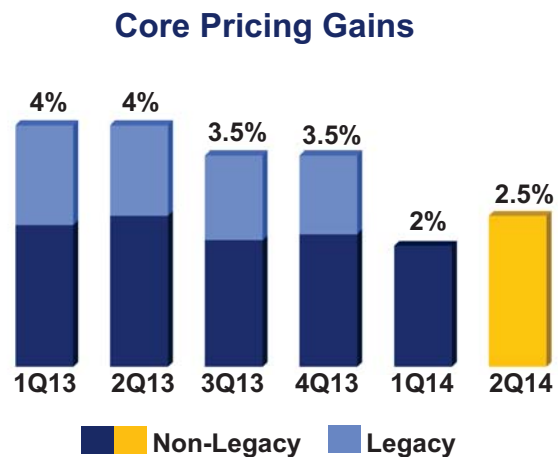
Freight Revenue

Second Quarter (In Millions)



Core Pricing Trends

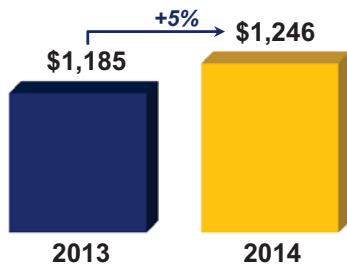
- Core Pricing Above Inflation
- 2014 Legacy “Light”
- Inflation Escalators Remain Low
- Pricing for Reinvestibility



Compensation & Benefits Expense

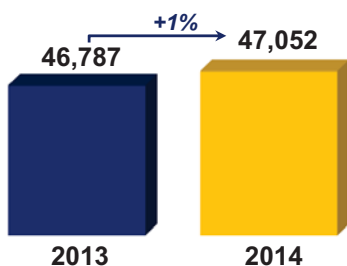
Second Quarter 2014 \$1,246M, +5%

Compensation & Benefits (in Millions)



- Higher Volume
- Inflation Costs
- Less than Optimal Service Performance
- Leveraging Volume Growth

Workforce Levels (Quarterly Average)

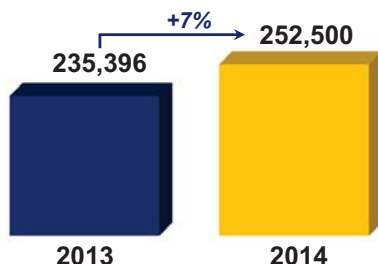


- Volume Related Increases
- Decrease in Capital Labor

Fuel Expense

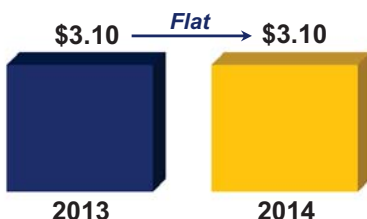
Second Quarter 2014 \$923M, +7%

Gross Ton-Miles (in Millions)



- GTMs Increased 7% driven by Higher Volumes
- Consumption Rate Improved 1%

Average Fuel Price (Per Gallon Consumed)

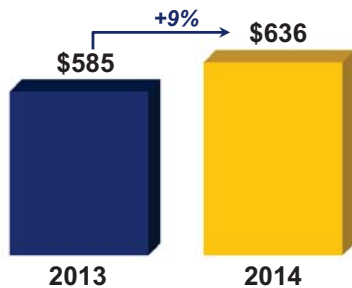


- Flat Average Diesel Fuel Price

Second Quarter 2014 Expense Review

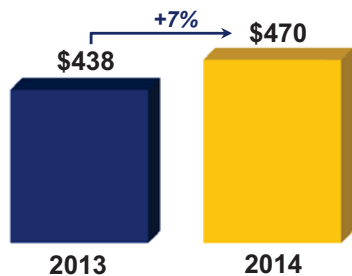
In Millions

Purchased Services & Materials



- Higher Subsidiary Contract Expense
- Higher Locomotive & Freight Car Material Costs
- Increased Crew Transportation & Lodging

Depreciation

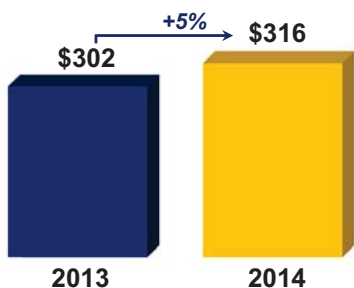


- Higher Depreciable Asset Base from Recent Capital Spending Levels

Second Quarter 2014 Expense Review (cont)

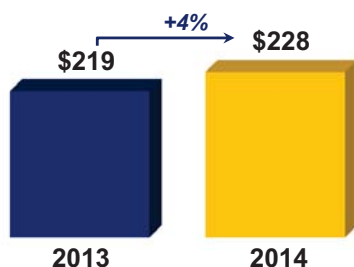
In Millions

Equipment & Other Rents



- Higher Freight Car Rental Expense
- Lower Freight Car & Container Lease Costs

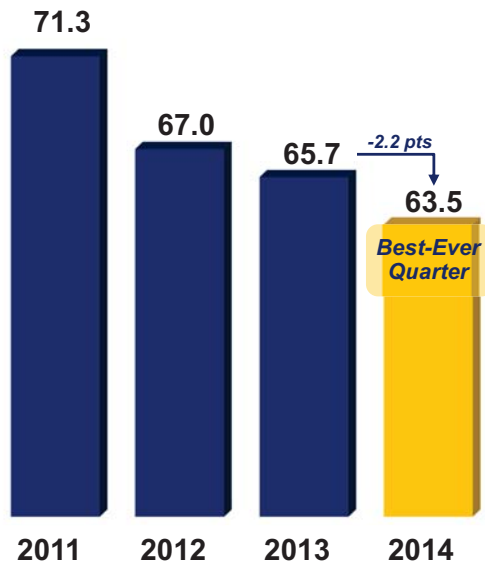
Other



- Higher Property Tax Expense
- Decreased Freight Damage Costs
- Lower Environmental Expense

Operating Ratio Performance

**Second Quarter
(Percent)**



Best-Ever Quarter

- 8% Volume Increase vs 2013
- Pricing Above Inflation
- Leveraging Volume

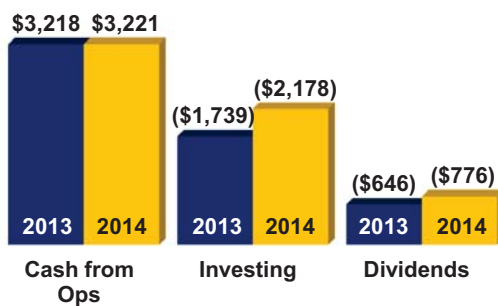
**1st Half 2014
Operating Ratio: 65.2%**



Strong Financial Position

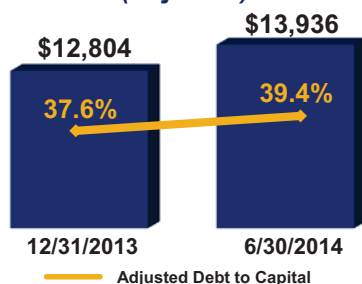
Six Month Period Ending June 30 (\$ In Millions)

Free Cash Flow*



- **Solid Cash from Operations**
 - Cash Headwind from Prior Years' Bonus Depreciation
- **Increase in Capital Investment & Dividends**

**Total Debt*
(Adjusted)**



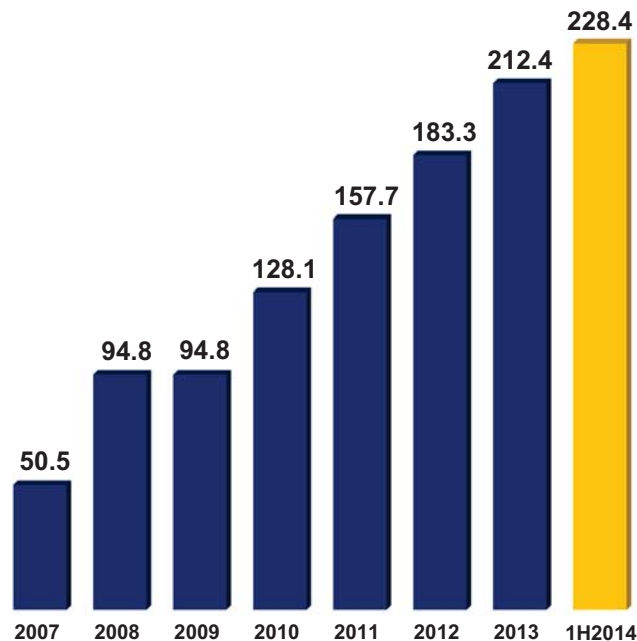
- **Strong Balance Sheet**
 - Investment Grade Credit Rating
 - Adjusted Debt Balance Increase of \$1.1 Billion
 - 2014 Year-End Targets:
 - ~40% Adj. Debt-to-Cap
 - ~1.5x Adj. Debt / Adj. EBITDA

* See Union Pacific website under Investors for a reconciliation to GAAP.



Driving Strong Shareholder Value

Cumulative Share Repurchases (In Millions)



- **First Half 2014 Activity**

- Repurchases totaling \$1.5 billion
- 16 million shares @ avg price of \$93.29

- **Since 2007, repurchases total 228.4 million shares @ avg price of \$47.43**

- **New 120 million share authorization effective Jan 1, 2014**

*All figures adjusted as appropriate for stock splits.



2014 Outlook

Full Year

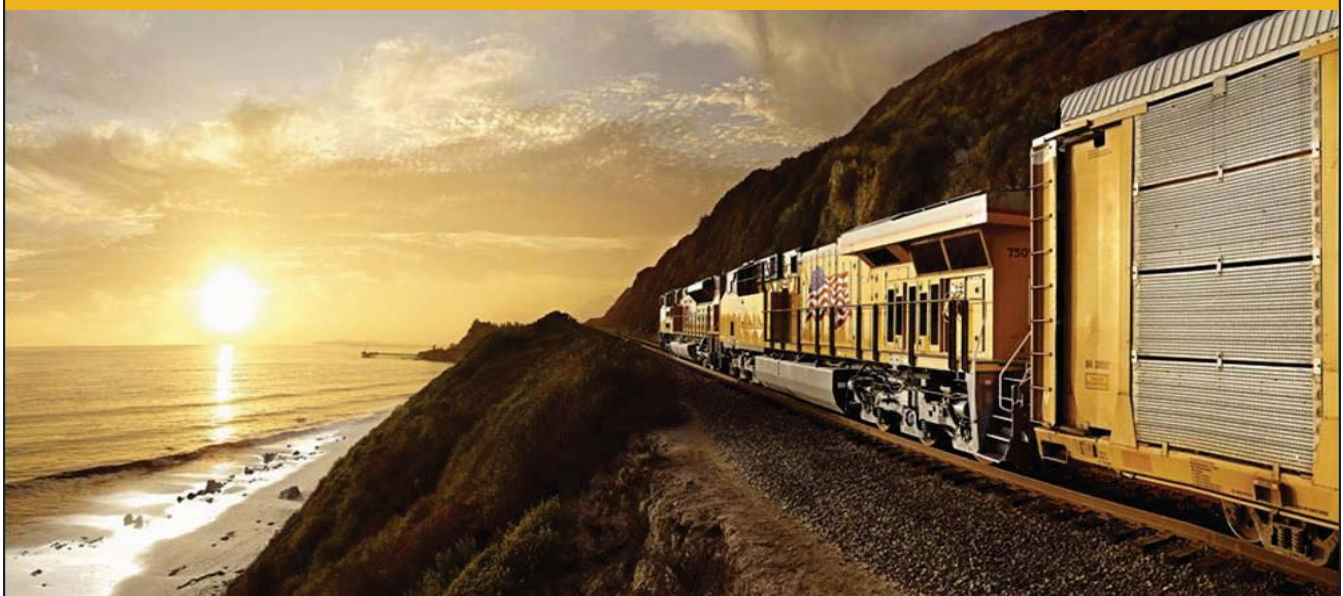
- **Positive Volumes
Assuming Continued
Economic Growth**
- **Continued Core Pricing
Gains**
- **Improving Network
Fluidity**
- **Record Financial Results**



Second Quarter 2014 Earnings Release

July 24, 2014

Jack Koraleski, CEO



BUILDING AMERICA®

Looking Ahead

- Volume Growth
- Network Performance
- Invest in the Future
- Economic Optimism



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Cautionary Information

This presentation and related materials contain statements about the Corporation's future that are not statements of historical fact, including specifically the statements regarding the Corporation's expectations with respect to economic conditions, the potential impact of weather on certain segments of our business, and its ability to improve network performance, provide quality customer service, and provide returns to its shareholders. These statements are, or will be, forward-looking statements as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements also generally include, without limitation, information or statements regarding: projections, predictions, expectations, estimates or forecasts as to the Corporation's and its subsidiaries' business, financial, and operational results, and future economic performance; and management's beliefs, expectations, goals, and objectives and other similar expressions concerning matters that are not historical facts.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times that, or by which, such performance or results will be achieved. Forward-looking information, including expectations regarding operational and financial improvements and the Corporation's future performance or results are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statement. Important factors, including risk factors, could affect the Corporation's and its subsidiaries' future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements. Information regarding risk factors and other cautionary information are available in the Corporation's Annual Report on Form 10-K for 2013, which was filed with the SEC on February 7, 2014. The Corporation updates information regarding risk factors if circumstances require such updates in its periodic reports on Form 10-Q and its subsequent Annual Reports on Form 10-K (or such other reports that may be filed with the SEC).

Forward-looking statements speak only as of, and are based only upon information available on, the date the statements were made. The Corporation assumes no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If the Corporation does update one or more forward-looking statements, no inference should be drawn that the Corporation will make additional updates with respect thereto or with respect to other forward-looking statements. References to our website are provided for convenience and, therefore, information on or available through the website is not, and should not be deemed to be, incorporated by reference herein.



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Question & Answer Session

