

Third Quarter 2014 Earnings Release

October 23, 2014

Jack Koraleski, CEO



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Third Quarter 2014 Record Results

Positives

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

Challenges

- **Network Performance**

Earnings Per Share Third Quarter



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Third Quarter 2014 Marketing & Sales Review

October 23, 2014

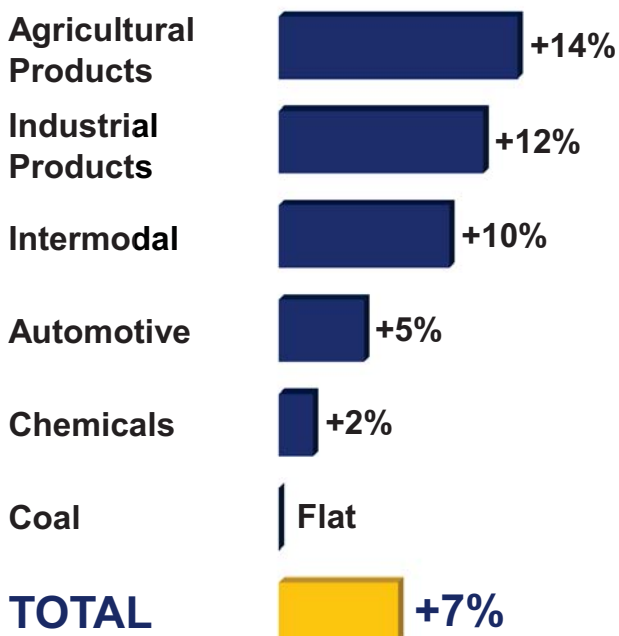
Eric Butler, Executive VP – Marketing & Sales



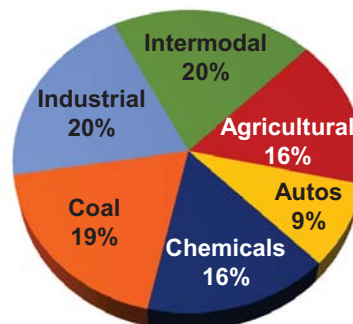
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Third Quarter 2014 Recap

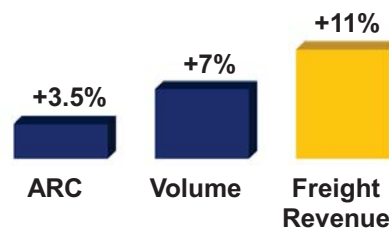
Volume Growth



Freight Revenue Mix



Freight Revenue Performance (Year-Over-Year Change)

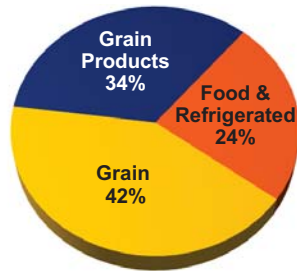


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Agricultural Products

Revenue \$915M (+19%) Volume 239K (+14%) ARC \$3,836 (+4%)

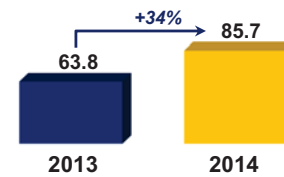
Volume Mix



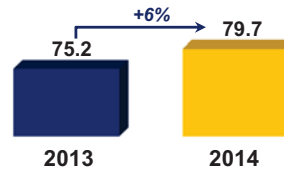
Quarterly Drivers

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

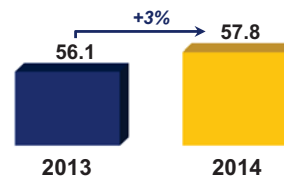
Grain*



Grain Products*



Food & Refrigerated*



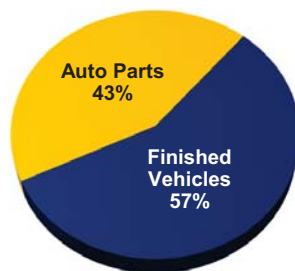
*Volume in thousands of carloads and excludes equipment shipments



Automotive

Revenue \$527M (+3%) Volume 204K (+5%) ARC \$2,590 (-1%)

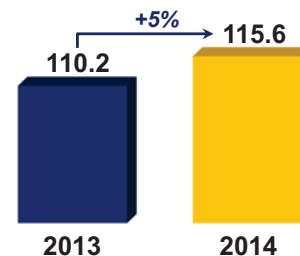
Volume Mix



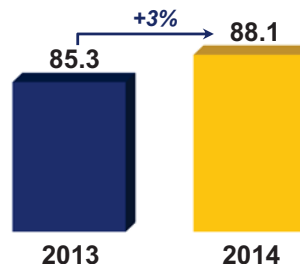
Quarterly Drivers

- Vehicle Production and Sales Strength
- Auto Parts Demand

Finished Vehicles*



Auto Parts*



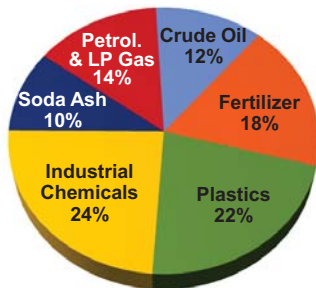
*Volume in thousands of carloads



Chemicals

Revenue \$936M (+6%) Volume 288K (+2%) ARC \$3,249 (+4%)

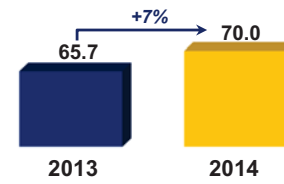
Volume Mix



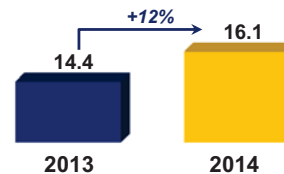
Quarterly Drivers

- Strong Industrial Chemical Demand
- LPG Storage Demand
- Crude Oil Price Spreads

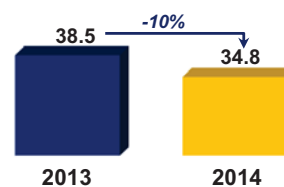
Industrial Chemicals*



LP Gas*



Crude Oil*



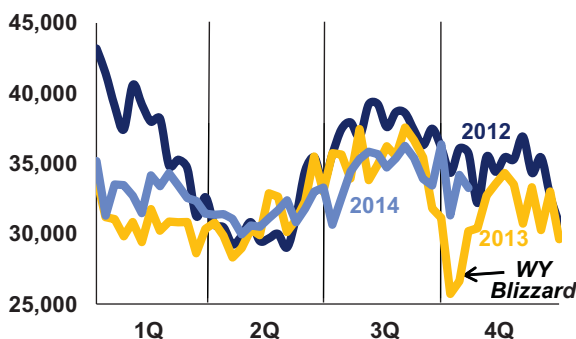
*Volume in thousands of carloads



Coal

Revenue \$1,099M (+2%) Volume 466K (Flat) ARC \$2,362 (+2%)

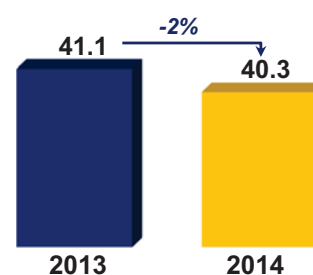
Volume Impact (Weekly Carloadings)



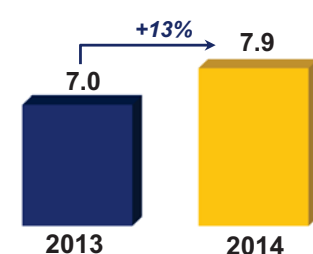
Quarterly Drivers

- Low Coal Inventories
- Legacy Contract Loss
- Mild Summer Weather

Southern Powder River Basin*



Colorado/Utah*



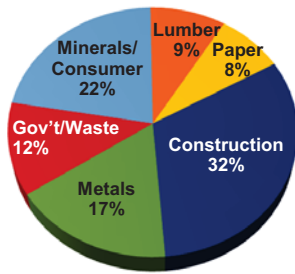
*Tons in millions



Industrial Products

Revenue \$1,161M (+19%) Volume 363K (+12%) ARC \$3,195 (+7%)

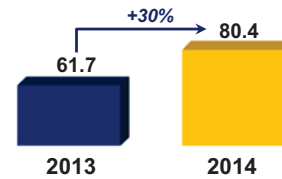
Volume Mix



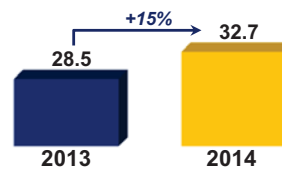
Quarterly Drivers

- Frac Sand for Shale-related Drilling
- Lumber Demand
- Market Strength for Aggregates and Cement

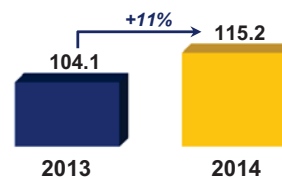
Non-Metallic Minerals*



Lumber*



Construction*



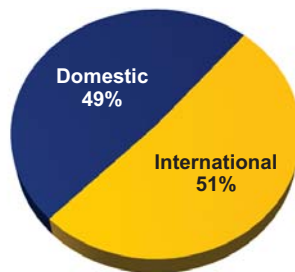
*Volume in thousands of carloads



Intermodal

Revenue \$1,181M (+15%) Volume 936K (+10%) ARC \$1,260 (+4%)

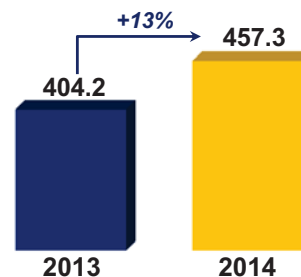
Volume Mix



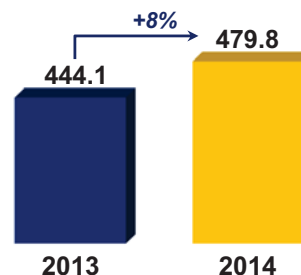
Quarterly Drivers

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

Domestic*



International*



*Volume in thousands of units



Fourth Quarter 2014 Volume Outlook

Agricultural Products

- + Record Crop in 2014
- + Ethanol Exports
- + Import Beer Demand

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
- + New Premium Services
- ? International



Third Quarter 2014 Operations Review

October 23, 2014

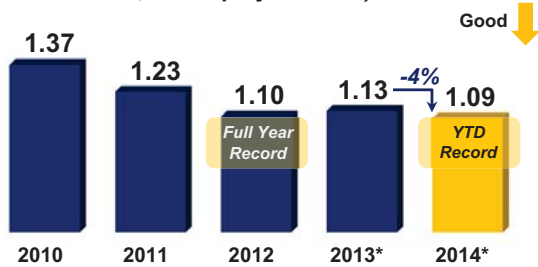
Lance Fritz, President & COO



Dedicated Focus on Safety

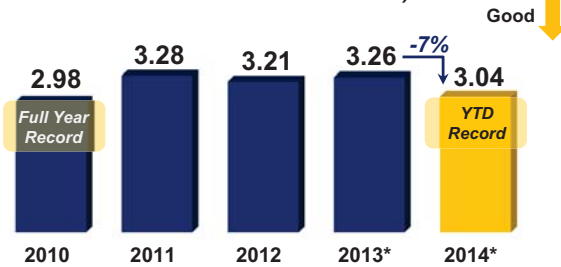
Employee**

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



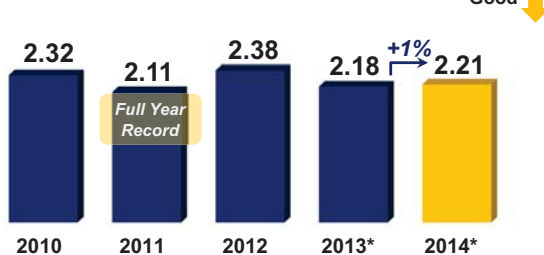
Rail Equipment

(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

*January-September

**Restated 2011-2014 to reflect previously overstated employee hours.



Network Performance Challenges

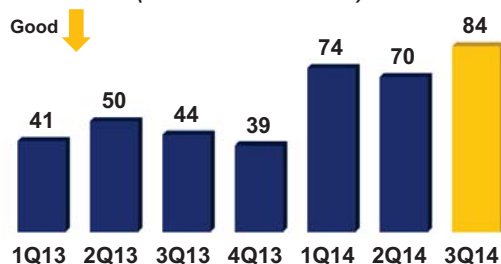
Third Quarter 2014

Operational Challenges

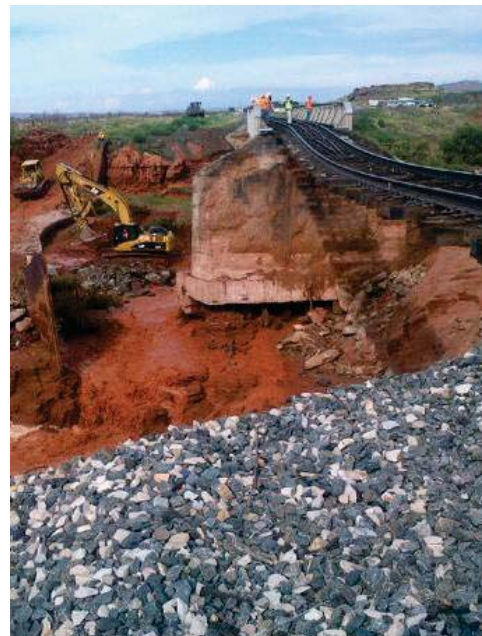
- Service Interruptions
- Volume Growth
- Demand for Resources
- Interline Connectivity
- Construction Projects

Network Interruption Days*

(Weather & Incidents)



*Number of days with major service interruptions (>50 train delay hours)



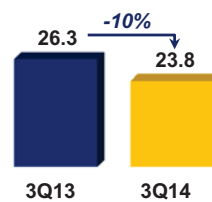
Service Metrics

Third Quarter 2014

- Operational Headwinds
- Interruptions Reduce Network Capacity
- Agility & Resiliency Demonstrated with Resources & Service Plan
- Positioned for Improvement

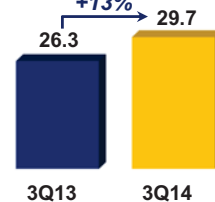
Velocity*
(in mph)

Good ↑

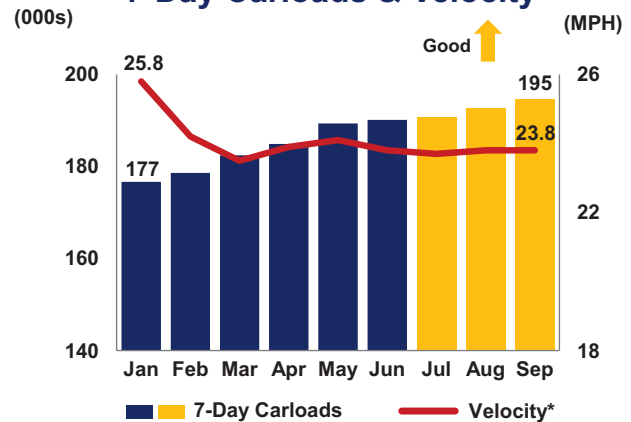


Freight Car Dwell*
(in hours)

Good ↓



7-Day Carloads & Velocity



*As reported to the AAR



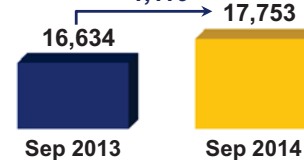
Resources & Investments

Locomotives, Employees, & Capital Infrastructure

- TE&Y Workforce Additions
 - Recalled Employees
 - New Hires Status: 2,500 of 3,600
 - Graduating ~1,100 in 4Q14
- Locomotive Actions
 - Activated Surge Fleet of ~700 Units
 - New Acquisitions
 - 2014: 200 of 261 Deployed
- ~\$4.1B Capital Investment Plan
 - Additional Locomotives
 - Targeted Capacity Spending

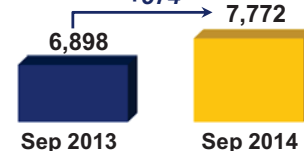
Total TE&Y
(Includes Training)

+1,119



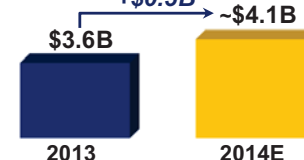
Active Locomotive Fleet

+874



Total Capital Investments*

+\$0.5B



* Includes cash capital, leases and other non-cash capital.



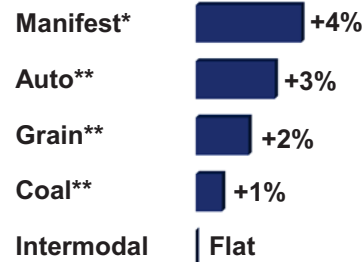
Network Productivity

Third Quarter 2014

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

Train Size Performance

(vs 3Q 2013)



* Best-ever quarter

**Third Quarter record

Manifest Growth Impact

(vs 3Q 2013)



* All-time quarterly record

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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



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Third Quarter 2014 Financial Review

October 23, 2014

Rob Knight, CFO



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Third Quarter Income Statement

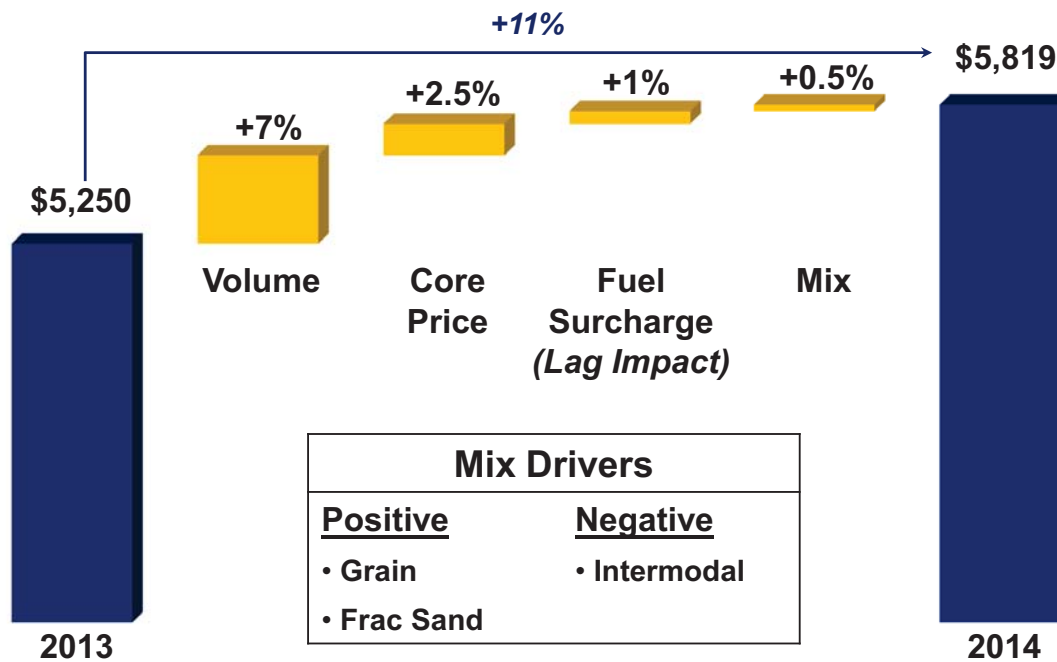
In Millions (except EPS)

	<u>2014</u>	<u>2013</u>	<u>%</u>
Operating Revenues	\$6,182	\$5,573	11
Operating Expenses	<u>3,852</u>	<u>3,611</u>	7
Operating Income	<u>2,330</u>	<u>1,962</u>	19
Other Income	20	28	(29)
Interest Expense	(144)	(138)	4
Income Taxes	<u>(836)</u>	<u>(701)</u>	19
Net Income	<u>\$1,370</u>	<u>\$1,151</u>	19
Weighted Average Diluted Shares	896.9	928.4	(3)
Diluted EPS	<u>\$1.53</u>	<u>\$1.24</u>	23



Freight Revenue

Third Quarter (In Millions)

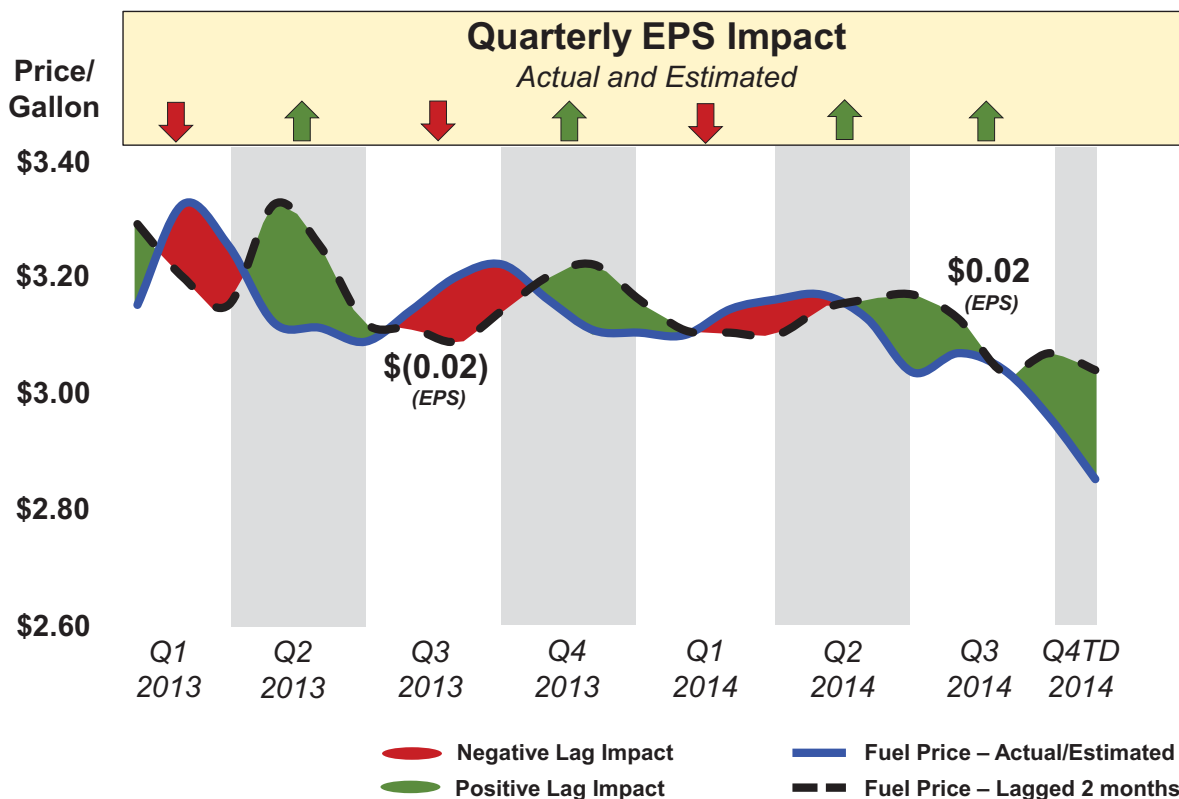


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Fuel Surcharge Lag Impact



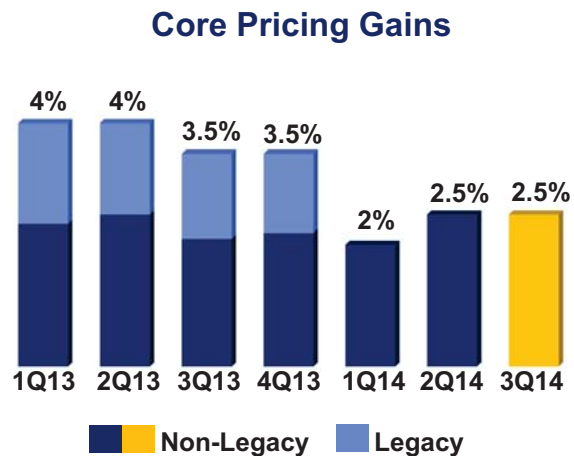
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Core Pricing Trends

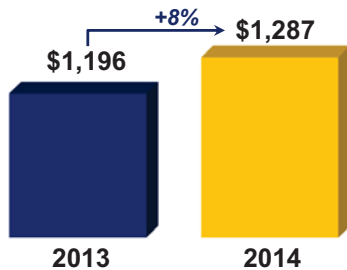
- Core Pricing Above Inflation
- 2014 Legacy “Light”
- Inflation Escalators Remain Low
- Pricing for Reinvestibility



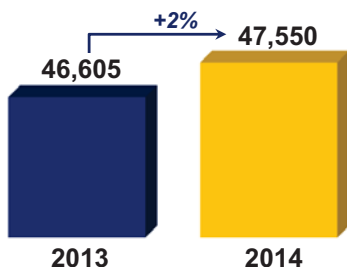
Compensation & Benefits Expense

Third Quarter 2014 \$1,287M, +8%

Compensation & Benefits
(in Millions)



Workforce Levels
(Quarterly Average)



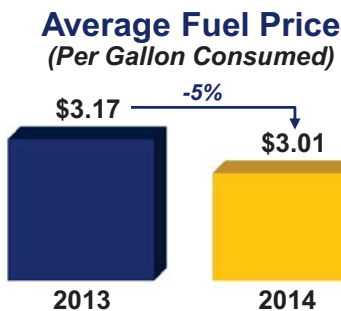
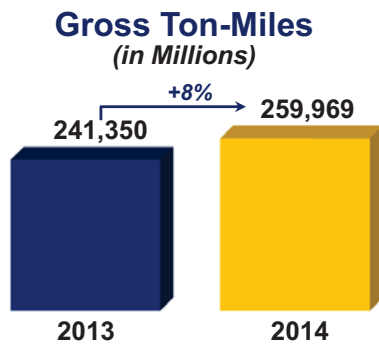
- Higher Volume
- Inflation Costs
- Training Pipeline
- Operational Inefficiencies
- Leveraging Volume Growth

- Volume Related Increases
- Decrease in Capital Labor



Fuel Expense

Third Quarter 2014 \$882M, +2%

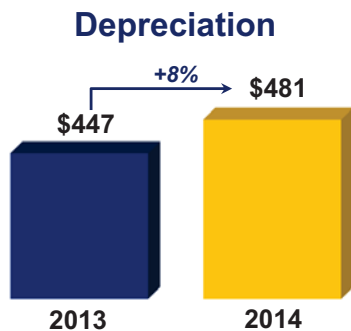
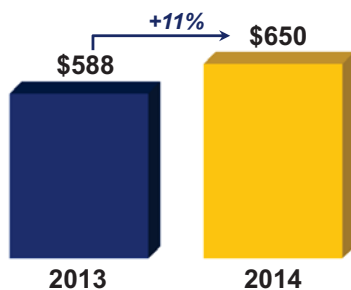


- GTMs Increased 8% driven by Higher Volumes
- Consumption Rate Improved 1%
- Lower Average Diesel Fuel Price

Third Quarter 2014 Expense Review

In Millions

Purchased Services & Materials

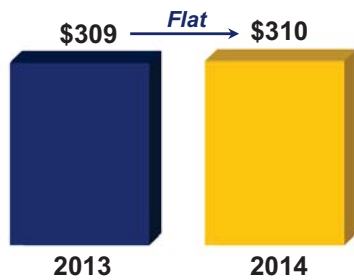


- Higher Locomotive & Freight Car Material Costs
- Volume Driven Contract and Subsidiary Expenses
- Increased Crew Transportation & Lodging
- Higher Depreciable Asset Base from Recent Capital Spending Levels

Third Quarter 2014 Expense Review (cont)

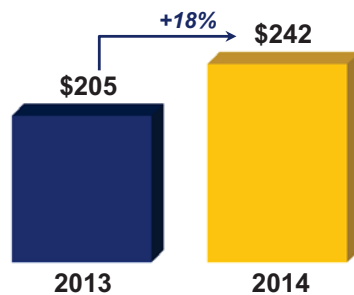
In Millions

Equipment & Other Rents



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

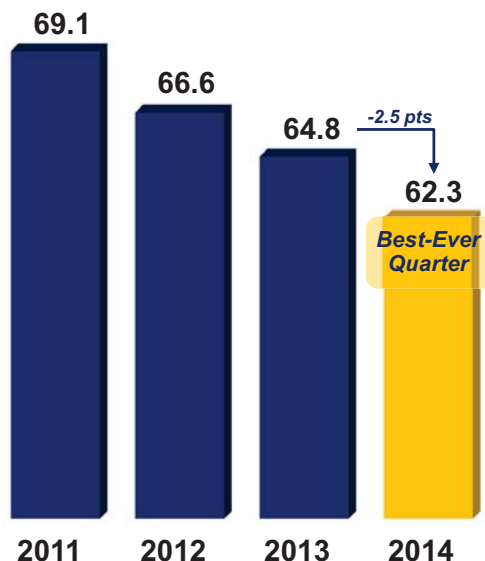
Other



- Higher State & Local Taxes
- Increased Damaged Freight & Equipment Costs
- Higher Personal Injury Expense

Operating Ratio Performance

Third Quarter (Percent)



Best-Ever Quarter

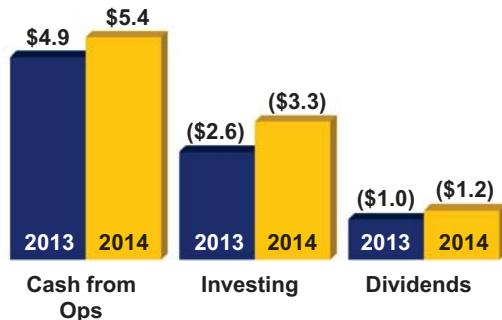
- 7% Volume Increase vs 3Q 2013
- Pricing Above Inflation
- Leveraging Volume

**2014 YTD
Operating Ratio: 64.2%**

Strong Financial Position

Nine Month Period Ending September 30 (\$ In Billions)

Free Cash Flow*

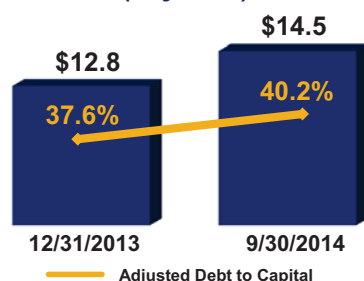


• Solid Cash from Operations

- Cash Headwind from Prior Years' Bonus Depreciation

• Increase in Capital Investment & Dividends

Total Debt* (Adjusted)



• Strong Balance Sheet

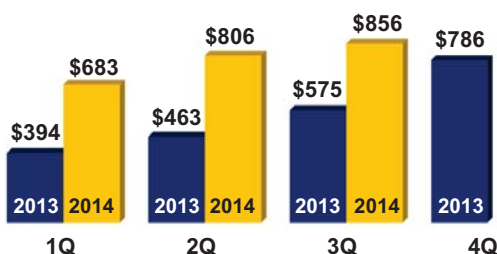
- Investment Grade Credit Rating
- Adjusted Debt Balance Increase of \$1.7 Billion
- Targets
 - ~40% Adj. Debt-to-Cap
 - ~1.5x Adj. Debt / Adj. EBITDA

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



Driving Strong Shareholder Value

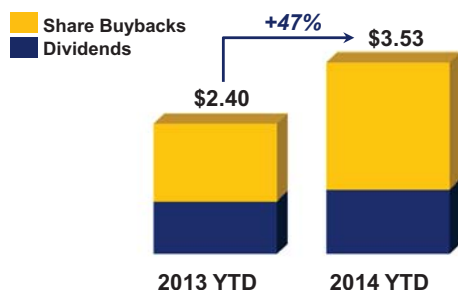
Quarterly Share Repurchases (\$ In Millions)



• Repurchase Activity

- 8.3 Million Shares in 3Q
- 24.3 Million Shares YTD

Dividends & Share Repurchases* (\$ In Billions)



• Cash Returned to Shareholders in Dividends and Share Repurchases up 47%

* Through September



Closing out 2014

Fourth Quarter

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



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Third Quarter 2014 Earnings Release

October 23, 2014

Jack Koraleski, CEO



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Looking Ahead

- Volume Growth
- Network Performance
- Invest in the Future
- Franchise Opportunity



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 its operations; and its ability to generate record financial returns, improve network performance and fluidity, 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



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