



January 25, 2018

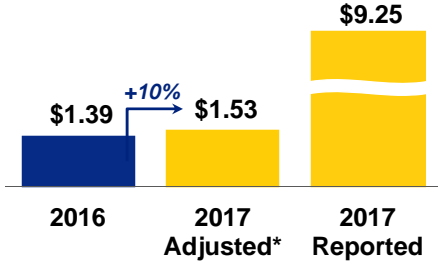
# Fourth Quarter 2017 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

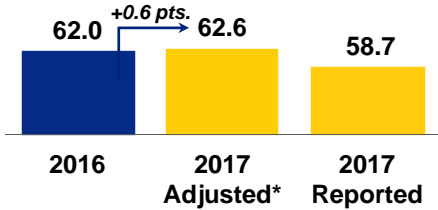
## Fourth Quarter 2017 Results



### Earnings Per Share Fourth Quarter



### Operating Ratio Fourth Quarter



\* Adjusted to exclude the impact of Corporate Tax Reform. See Union Pacific website under Investors for a reconciliation to GAAP.



January 25, 2018

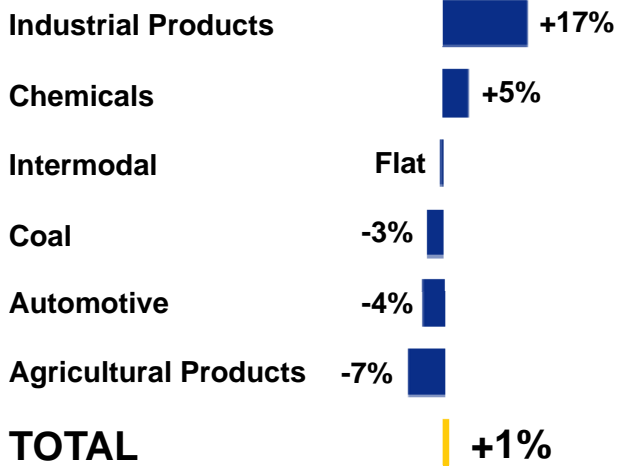
## Fourth Quarter 2017 Marketing & Sales Review

**Beth Whited**  
Executive VP & Chief Marketing Officer

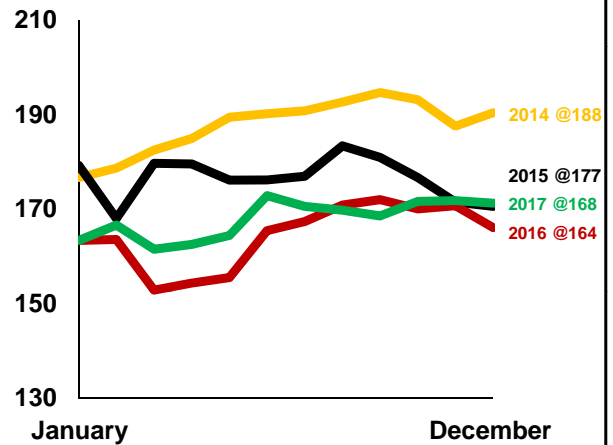
## Fourth Quarter 2017 Recap



### Volume Growth

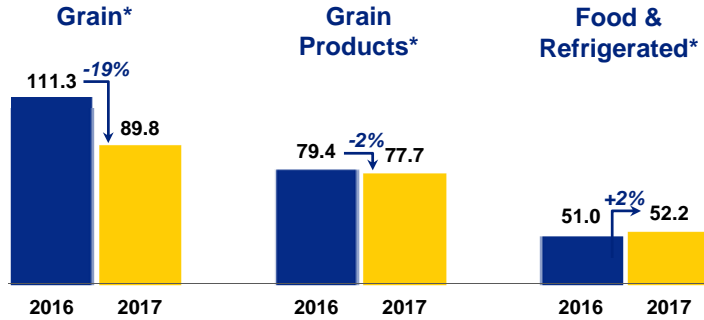


### 7-Day Monthly Carloadings (000s)

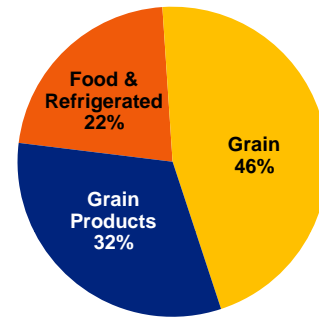


# Agricultural Products

Revenue \$922M (-4%) Volume 239K (-7%) ARC \$3,856 (+3%)



## Volume Mix



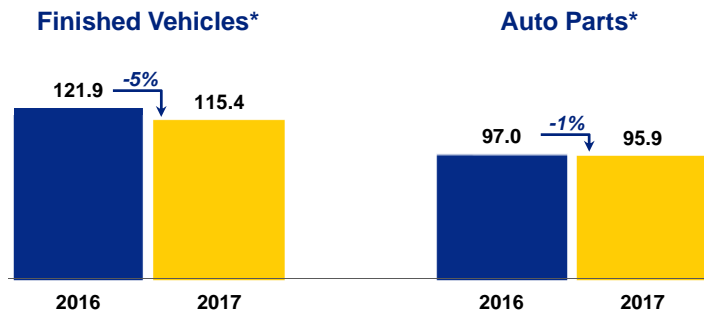
### Quarterly Drivers

- Reduced Grain Exports
- Strong Ethanol Exports
- Growth in Import Beer and Refrigerated

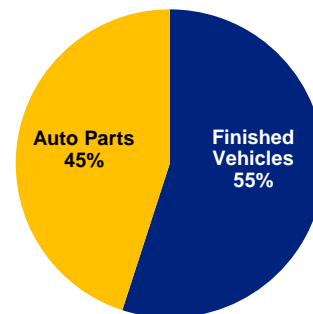
\*Volume in thousands of carloads and excludes equipment shipments

# Automotive

Revenue \$512M (-1%) Volume 211K (-4%) ARC \$2,426 (+3%)



## Volume Mix



### Quarterly Drivers

- Consumer Preference and Production Mix Shifts
- Short Term Hurricane Replacement

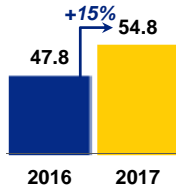
\*Volume in thousands of carloads

# Chemicals

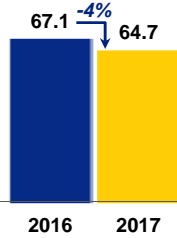
Revenue \$917M (+7%) Volume 270K (+5%) ARC \$3,403 (+2%)



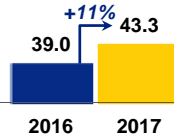
## Petroleum & LPG\*



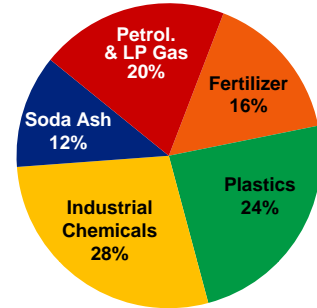
## Plastics\*



## Fertilizer\*



## Volume Mix



### Quarterly Drivers

- Strong Demand for Refined Petroleum Products and Liquid Gases
- Potash Export Growth

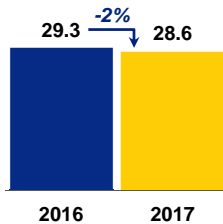
\*Volume in thousands of carloads

# Coal

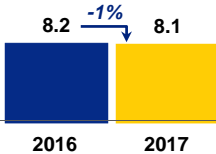
Revenue \$667M (-5%) Volume 312K (-3%) ARC \$2,136 (-2%)



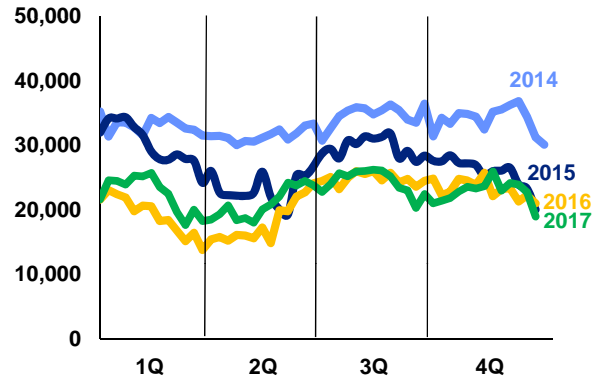
## Powder River Basin\* (Tons in MM)



## Other (Tons in MM)



## Volume Impact (Weekly Carloadings)



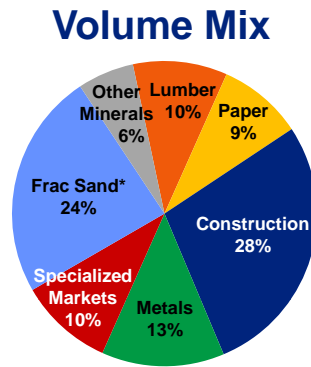
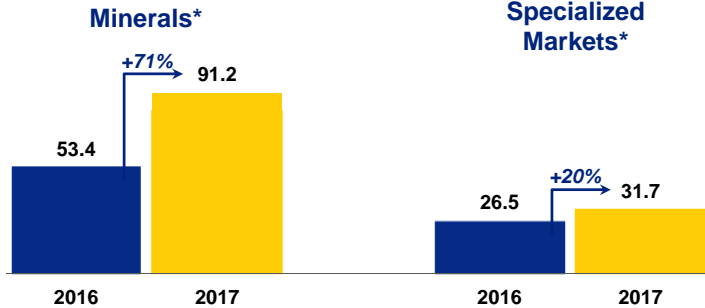
### Quarterly Drivers

- Lower Natural Gas Prices
- Increased Exports
- Low Coal Stockpiles

\*PRB includes SPRB and NPRB

# Industrial Products

Revenue \$1,062M (+28%) Volume 309K (+17%) ARC \$3,434 (+10%)



\*Includes Barites

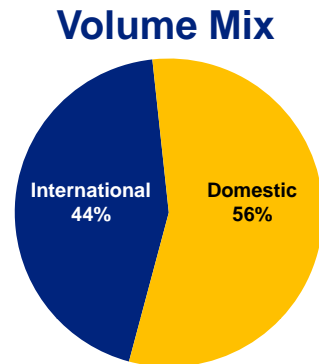
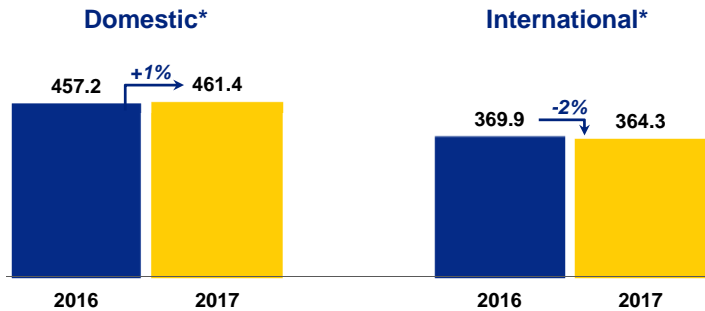
## Quarterly Drivers

- Improved Shale Drilling Activity
- Increased Waste and Military Volume

\*Volume in thousands of carloads, prior periods have been adjusted for the re-categorization of commodities

# Intermodal

Revenue \$1,007M (+4%) Volume 826K (Flat) ARC \$1,220 (+4%)



## Quarterly Drivers

- Increased Parcel Shipments
- Continued International Challenges

\*Volume in thousands of loads

# 2018 Volume Outlook



## Agricultural Products

- + Ethanol Exports
- + Food and Refrigerated
- ? Grain



## Energy

- ? Frac Sand
- ? Natural Gas Prices
- Continued Coal Headwinds



## Industrial

- + Plastics
- + Construction Products
- + Industrial Production



## Premium

- + Over-the-Road Conversions
- + International Intermodal
- Automotive Sales



January 25, 2018

## Fourth Quarter 2017 Operations Review

**Cameron Scott**  
Executive VP & Chief Operating  
Officer

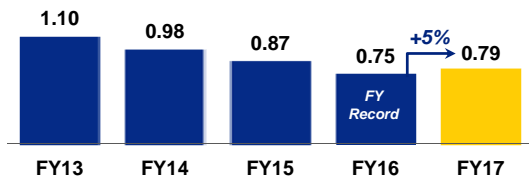
# Safety



## Employee

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

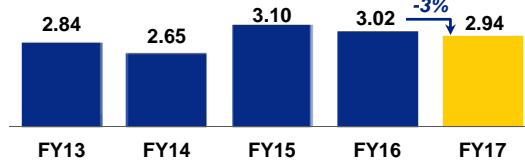
Good ↓



## Rail Equipment

(Reportable Derailment Incidents Per Million Train Miles)

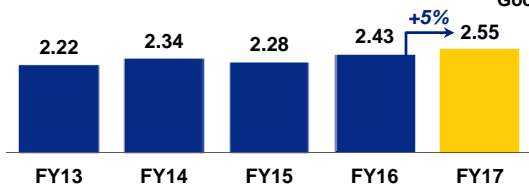
Good ↓



## Public

(Crossing Accidents Per Million Train Miles)

Good ↓



- Goal of Zero Incidents
- Community Partnerships and Public Safety Campaigns

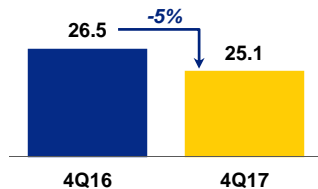
# Network Performance



## Velocity

(As Reported to the AAR, in mph)

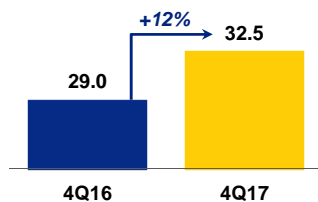
Good ↑



## Terminal Dwell

(As Reported to the AAR, in hours)

Good ↓



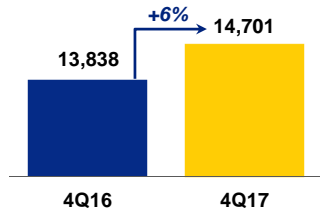
- Improve Network Fluidity
- PTC Implementation & Testing
- Transportation Plan Adjustments



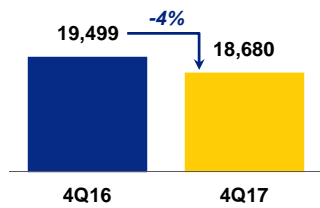
# Resources



## TE&Y (Full-Time Equivalent)



## Mechanical & Engineering (Full-Time Equivalent)

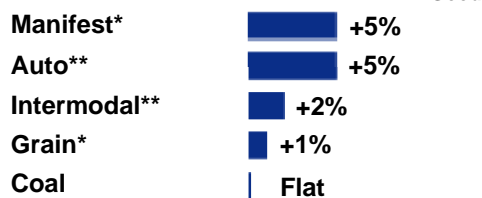


- Total Operating Workforce Down More Than 200
- Increase in TE&Y Training
- Fewer Capital Employees Driven by Productivity

# Productivity



## Train Size Performance (vs 4Q16)



## Terminal Productivity (vs 4Q16)



- Record Train Size Performance
- Terminal Productivity Gains

\* Best-Ever Quarter \*\* 4<sup>th</sup> Quarter Record

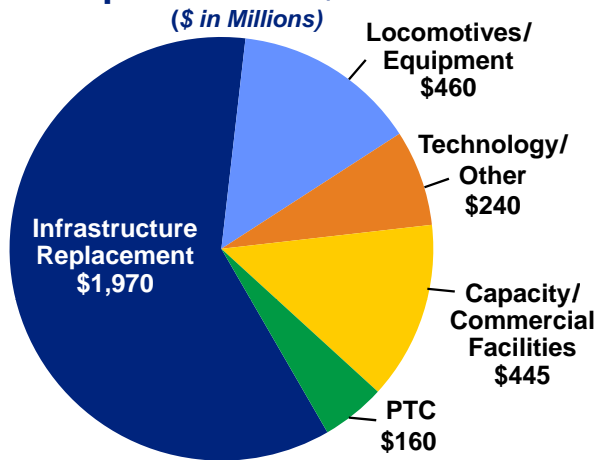


# Strengthening the Franchise

Replacement, Growth & Productivity, and PTC



## 2018 Capital Plan: ~\$3.3 Billion\*



\*Pending final UP Board of Director approval.

- Safe & Resilient Infrastructure
- Equipment Acquisitions
  - ~60 New Locomotives
  - ~700 Freight Cars
- Positive Train Control
- Capacity Investments
  - Brazos Yard
  - Network Strategies

17

# Operating Outlook



- Improve Network Performance
- Focus on Productivity
- Generate Improved Safety Results



18



January 25, 2018

# Fourth Quarter 2017 Financial Review

**Rob Knight**  
Executive VP & Chief Financial  
Officer

## 2017 Impact of Tax Cuts and Jobs Act

\$ in Millions (except EPS)



<b>Fourth Quarter</b>	<b>Operating Income</b>	<b>Income Taxes</b>	<b>Net Income</b>	<b>Diluted EPS</b>	<b>Op Ratio</b>
4Q 2017 Reported Results (GAAP)	\$2,251	(\$5,186)	\$7,278	\$9.25	58.7%
<b>Factors Affecting Comparability:</b>					
Tax adj: equity-method affiliates	(212)	(73)	(139)	(0.18)	3.9 pts
Deferred tax adjustment	---	5,935	(5,935)	(7.54)	---
4Q 2017 Adj Results (Non-GAAP)	\$2,039	\$676	\$1,204	\$1.53	62.6%
<hr/>					
<b>Full Year</b>					
2017 Reported Results (GAAP)	\$8,061	(\$3,080)	\$10,712	\$13.36	62.0%
<b>Factors Affecting Comparability:</b>					
Tax adj: equity-method affiliates	(212)	(73)	(139)	(0.17)	1.0 pts
Deferred tax adjustment	---	5,935	(5,935)	(7.40)	---
2017 Adj Results (Non-GAAP)	\$7,849	\$2,782	\$4,638	\$5.79	63.0%

## Fourth Quarter Income Statement

\$ in Millions (except EPS)



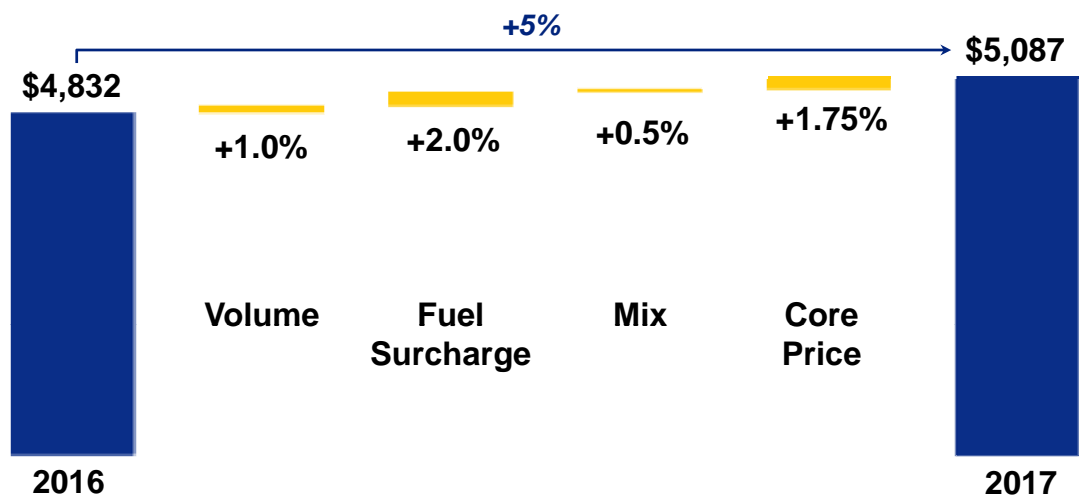
	<u>2017*</u>	<u>2016</u>	<u>%</u>
Operating Revenues	\$5,450	\$5,168	5
Operating Expenses	<u>3,411</u>	<u>3,203</u>	6
Operating Income	<u>2,039</u>	<u>1,965</u>	4
Other Income	29	40	(28)
Interest Expense	(188)	(174)	8
Income Taxes	<u>(676)</u>	<u>(687)</u>	2
<b>Net Income</b>	<b><u>\$1,204</u></b>	<b><u>\$1,144</u></b>	<b>5</b>
Weighted Average Diluted Shares	787.0	822.7	(4)
<b>Diluted EPS</b>	<b><u>\$1.53</u></b>	<b><u>\$1.39</u></b>	<b>10</b>

\* Adjusted to exclude the impact of Corporate Tax Reform

21

## Freight Revenue

Fourth Quarter (\$ In Millions)



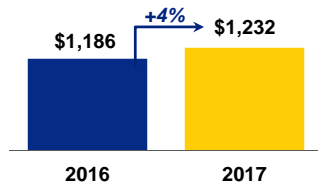
22

## Fourth Quarter Operating Expenses

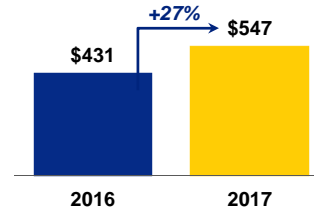
\$ In Millions



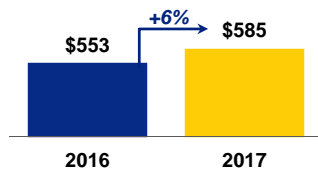
### Compensation & Benefits



### Fuel



### Purchased Services & Materials



- Wage & Benefits Inflation
- Higher Diesel Fuel Prices
- Increased Subsidiary Contract Services Expense

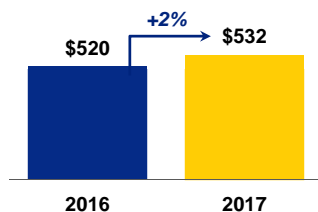
23

## Fourth Quarter Operating Expenses (cont)

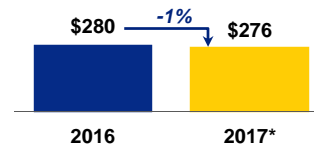
\$ In Millions



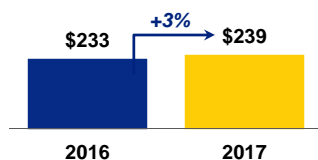
### Depreciation



### Equipment & Other Rents



### Other Expenses



- Higher Depreciable Base
- Increase in State & Local Taxes, and Other Expenses
- Decrease in Personal Injury Expense

\* Adjusted to exclude the impact of Corporate Tax Reform

24

# Productivity

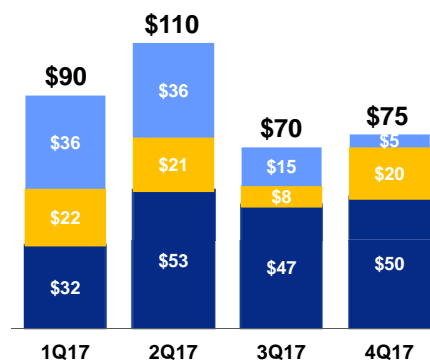


## Initiatives:

<b>Network and Train Ops</b>	<i>TE&amp;Y / Train length / Intermodal &amp; Premium Ops / Joint facility</i>
<b>Equipment (Loco and Car)</b>	<i>Active fleet / Car repair / Equip rental costs</i>
<b>Other Ops, Support, Sourcing and Safety</b>	<i>Engineering / Fuel conservation / Admin / Supply Chain / Sourcing / Safety performance</i>

## 2017 Results

(\$ in millions)



**2017 Full Year Productivity: \$345M**

25

# Full Year Income Statement

\$ in Millions (except EPS)



	<u>2017*</u>	<u>2016</u>	<u>%</u>
Operating Revenues	\$21,240	\$19,941	7
Operating Expenses	13,391	12,669	6
Operating Income	<u>7,849</u>	<u>7,272</u>	8
Other Income	290	192	51
Interest Expense	(719)	(698)	3
Income Taxes	<u>(2,782)</u>	<u>(2,533)</u>	10
<b>Net Income</b>	<b><u>\$4,638</u></b>	<b><u>\$4,233</u></b>	<b>10</b>
Weighted Average Diluted Shares	801.7	835.4	(4)
<b>Diluted EPS</b>	<b><u>\$5.79</u></b>	<b><u>\$5.07</u></b>	<b>14</b>

\* Adjusted to exclude the impact of Corporate Tax Reform

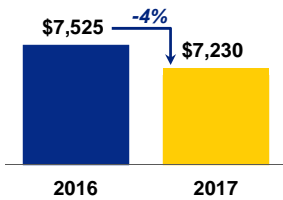
26

## Cash Flow & Debt

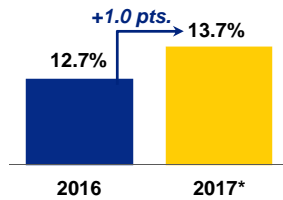
\$ In Millions



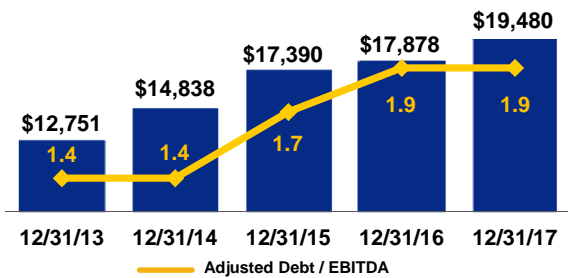
### Cash From Ops



### ROIC\*\*



### Adjusted Debt\*\*



- Higher Net Income
- 2016 Bonus Depreciation Benefit
- Improved ROIC
- Increased Adj. Debt ~\$1.6 Billion since 2016 Year-End

\* Adjusted to exclude the impact of Corporate Tax Reform

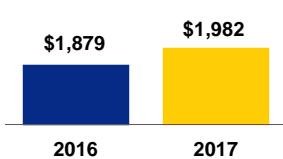
\*\* See Union Pacific website under Investors for a reconciliation to GAAP 27

## Delivering Value to Shareholders

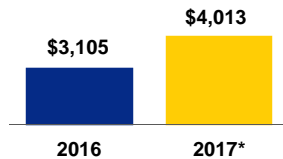
\$ In Millions



### Dividends

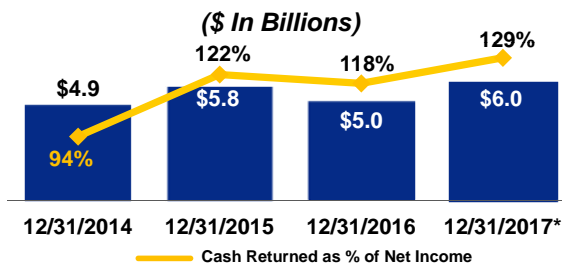


### Share Repurchases



- Repurchased 36.4 Million Shares Totaling Over \$4.0 Billion in 2017
  - Increased 29% from 2016
  - ~32% of Outstanding Shares Since 2007
- 2017 Cash Returns to Shareholders: 129% of Adjusted Net Income

### Cash Returned to Shareholders



\* Adjusted to exclude the 2017 impact of Corporate Tax Reform

28

## 2018 Impact of “Tax Cuts and Jobs Act”



- Effective Income Tax Rate ~25%
- Cash Tax Rate Between 17% and 18%
- Incremental Cash of ~\$1 Billion
- Balanced Approach to Capex, Dividends, and Share Repurchases

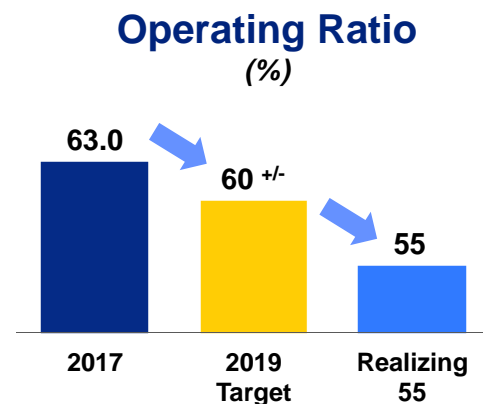


29

## A Look Ahead to 2018



- 1Q and Full-Year Volume Up Low Single Digits
- Pricing Benefits Will Exceed Rail Inflation Dollars
- Labor and Overall Inflation Under 2%
- \$300 to \$350 Million of Productivity



*Improved OR in 2018*

30





January 25, 2018

# Fourth Quarter 2017 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

## Looking Ahead



- **Optimistic About the Economy**
- **Execute Our Value Track Strategy**
- **Create Value for Our Stakeholders**



## Cautionary Information



This presentation and related materials contain statements about the Company's future that are not statements of historical fact, including specifically the statements regarding the Company's expectations with respect to economic conditions; its ability to generate financial returns, improve resource productivity and use innovation to enhance customer experience; implementing corporate strategies; and providing excellent service to its customers and 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 Company'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 Company'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 Company'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 Company's Annual Report on Form 10-K for 2016, which was filed with the SEC on February 3, 2017. The Company 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 Company 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 Company does update one or more forward-looking statements, no inference should be drawn that the Company 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.

33



January 25, 2018

## Fourth Quarter 2017 Earnings Release

Question & Answer  
Session