



July 21, 2016

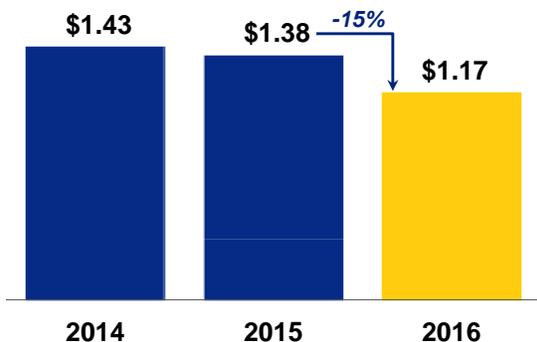
## Second Quarter 2016 Earnings Release

Lance Fritz  
Chairman, President & CEO

## Second Quarter 2016 Results



**Earnings Per Share**  
*Second Quarter*



- Earnings Per Share Down 15%
- Volume Headwinds
- Positive Core Pricing
- Focus on Productivity



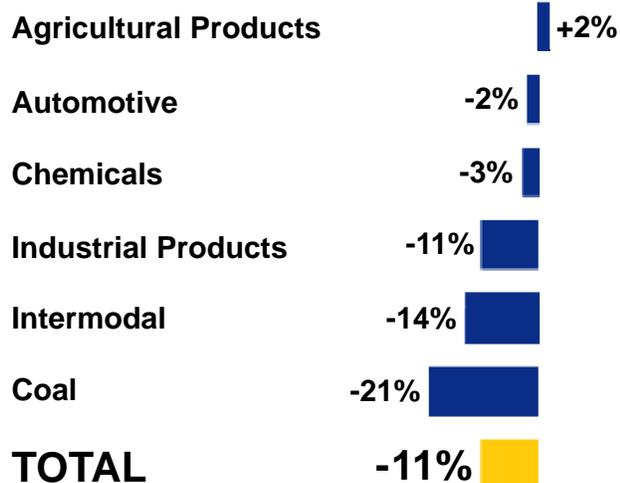
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## Second Quarter 2016 Marketing & Sales Review

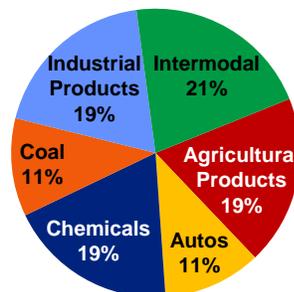
**Eric Butler**  
Executive VP & Chief Marketing  
Officer

## Second Quarter 2016 Recap

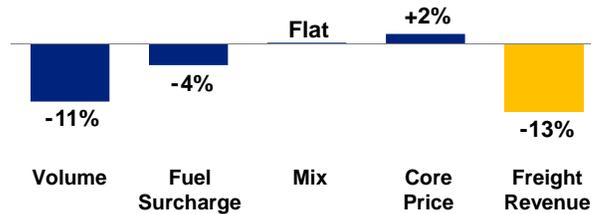
### Volume Growth



### Freight Revenue Mix

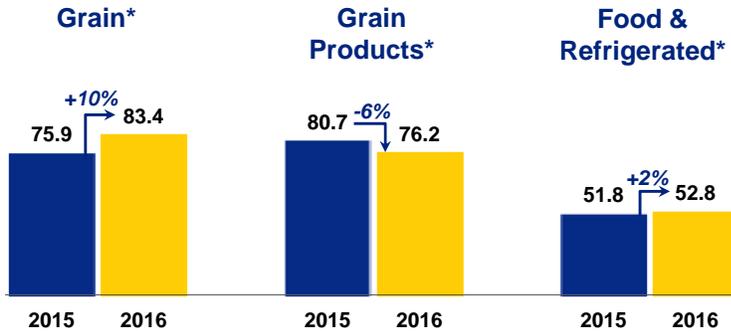


### Freight Revenue Performance (Year-Over-Year Change)

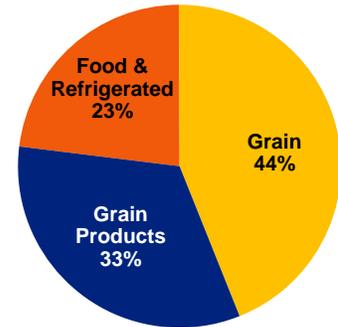


# Agricultural Products

Revenue \$845M (-3%) Volume 229K (+2%) ARC \$3,692 (-4%)



## Volume Mix



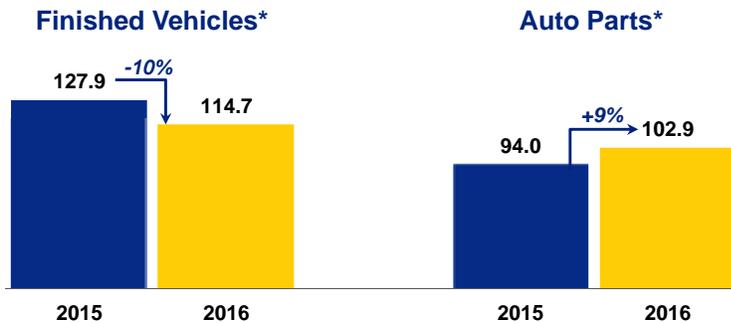
## Quarterly Drivers

- Export Feed Strength
- Soft Soybean Meal & DDG Exports
- Continued Import Beer Strength

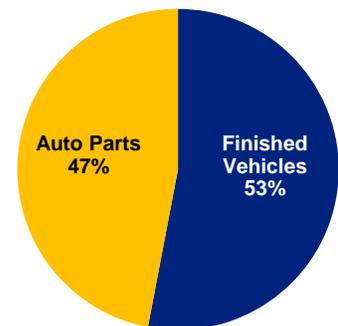
\*Volume in thousands of carloads and excludes equipment shipments  
\*Prior periods have been adjusted for the re-categorization of commodities

# Automotive

Revenue \$488M (-13%) Volume 217K (-2%) ARC \$2,247 (-11%)



## Volume Mix



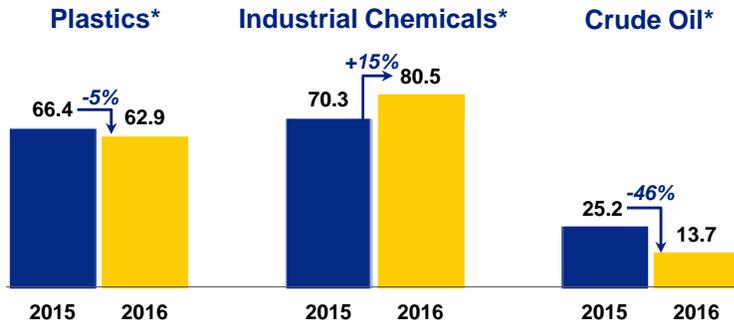
## Quarterly Drivers

- Mix, Production Levels, & Contract Changes
- Vehicle Sales Moderating
- OTR Conversions

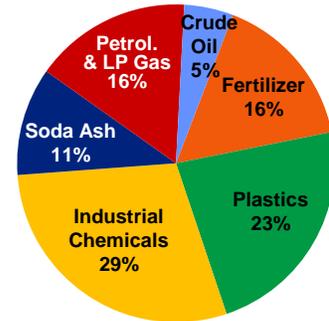
\*Volume in thousands of carloads

# Chemicals

Revenue \$864M (-5%) Volume 275K (-3%) ARC \$3,146 (-2%)



## Volume Mix



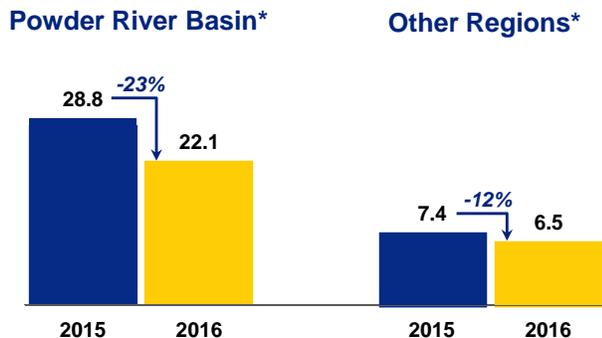
## Quarterly Drivers

- Fewer Exports of Plastics and Potash
- Strong Industrial Chemicals
- Continued Low Crude Oil Prices & Unfavorable Spreads

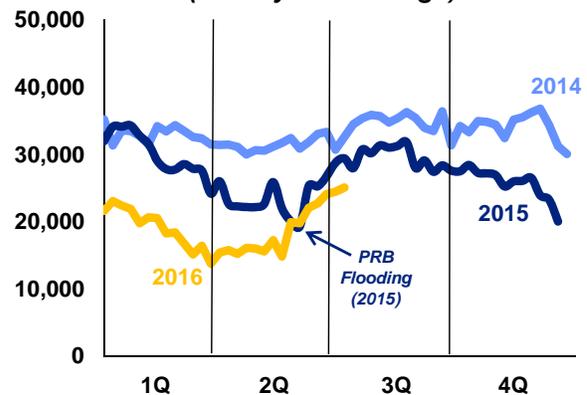
\*Volume in thousands of carloads

# Coal

Revenue \$494M (-27%) Volume 243K (-21%) ARC \$2,026 (-8%)



## Volume Impact (Weekly Carloadings)



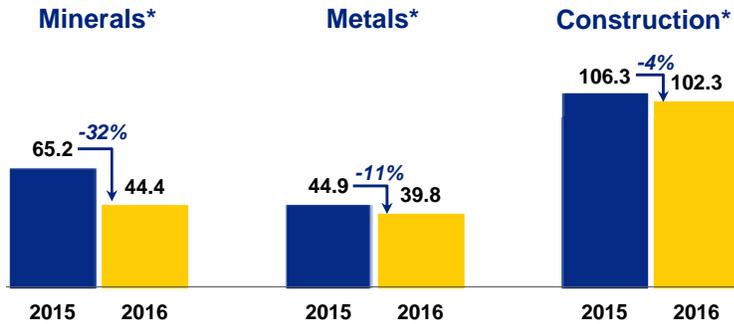
## Quarterly Drivers

- Low Natural Gas Prices
- International Prices Curtailing Exports
- PRB Inventories Above Average

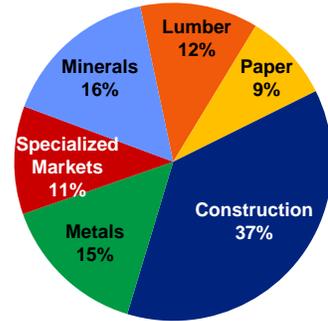
\*Tons in Millions  
\*PRB includes SPRB and NPRB

# Industrial Products

Revenue \$830M (-14%) Volume 275K (-11%) ARC \$3,025 (-4%)



## Volume Mix



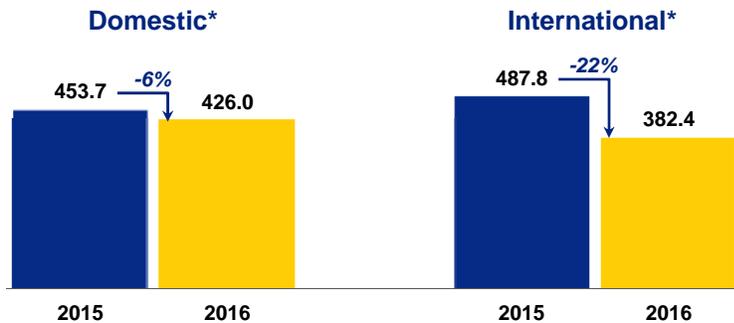
## Quarterly Drivers

- Reduction in Drilling Activity
- Low Commodity Prices & Strong U.S. Dollar
- Severe Weather Delays Construction Activity

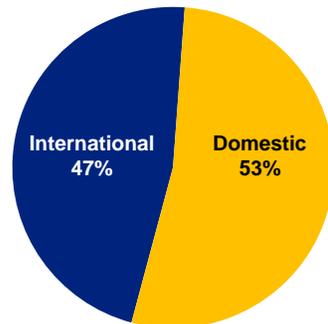
\*Volume in thousands of carloads  
\*Prior periods have been adjusted for the re-categorization of commodities

# Intermodal

Revenue \$909M (-16%) Volume 809K (-14%) ARC \$1,124 (-3%)



## Volume Mix



## Quarterly Drivers

- Sluggish Demand for Consumer Goods
- Ocean Carrier Industry Challenges

\*Volume in thousands of loads

# 2016 Volume Outlook



## Agricultural Products

- + Grain
- Soybean Meal
- + Import Beer



## Chemicals

- Crude Oil
- + LPGs
- + Industrial Chemicals
- Fertilizer



## Automotive

- ? Sustained Consumer Demand
- + Parts OTR Conversions
- ? Production Levels



## Industrial Products

- Minerals/Metals
- + Lumber
- + Rock



## Coal

- ? Price of Natural Gas
- High Inventory Levels
- ? Weather



## Intermodal

- Ocean Carrier Challenges
- + Highway Conversions



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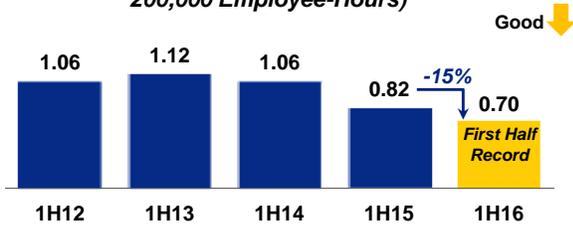
## Second Quarter 2016 Operations Review

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

# Safety

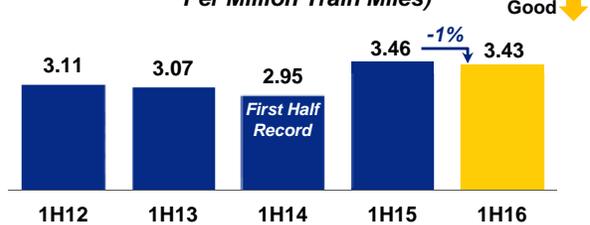
## Employee

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



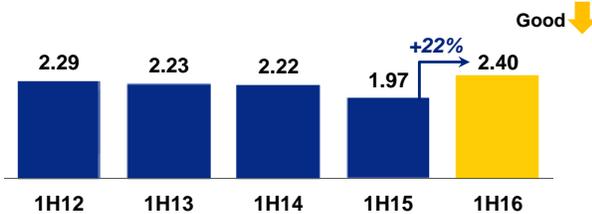
## Rail Equipment

(Reportable Derailment Incidents Per Million Train Miles)



## Public

(Crossing Accidents Per Million Train Miles)



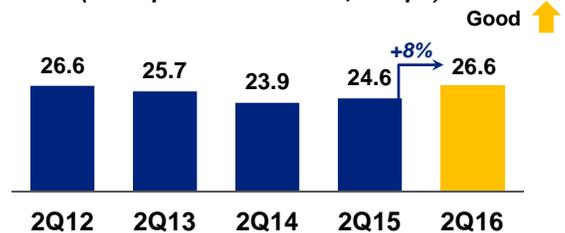
- Strong Commitment to Find and Address Risk
- Focus on Human Factor Incidents & Infrastructure Investment
- Reinforcing Public Awareness to Drive Future Improvement

# Network & Service Performance

- Solid 2Q Performance
- Weather Events Generate Variability
- Diverse Network Strengths
- Focus on Further Improvement

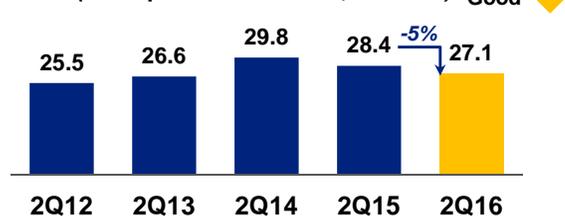
## Velocity

(As Reported to the AAR, in mph)



## Terminal Dwell

(As Reported to the AAR, in hours)



# Volume and Performance Drive Resources

Remaining Agile in a Dynamic Environment



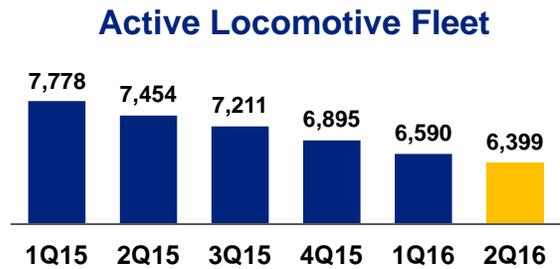
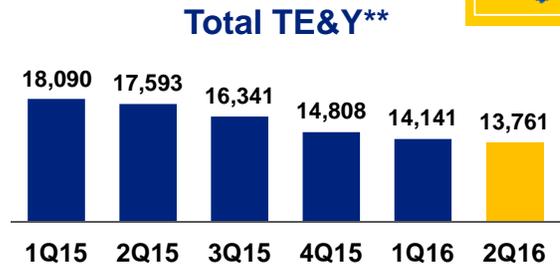
- **TE&Y Workforce**

- 2Q16 Down 22% vs 2Q15
- Furlough / AWTS: ~3,300\*

- **Adjusting Other Segments of Workforce**

- **Locomotives**

- 2Q16 Down 14% vs 2Q15
- Storage: ~1,700\*



\* As of June 30, 2016

\*\* Full-time Equivalent

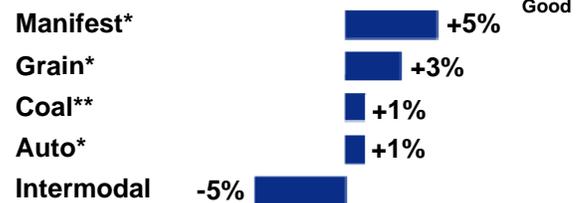
# Network Productivity

Second Quarter 2016

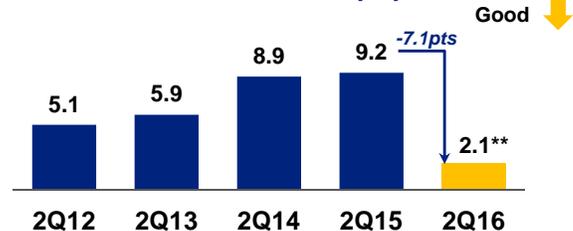


- **Aligning Resources to Demand and Performance**
- **Record Train Size**
- **Volume Headwinds**
- **Intensify Focus on Productivity & Costs**

**Train Size Performance (vs 2Q15)**



**Recrew Rate (%)**



\*Best-ever quarter

\*\*Second Quarter record

## Operating Outlook

- Continue to Generate Record Safety Results
- Utilize Franchise Strengths to Remain Agile
- Enhance Customer Experience
- Realize Productivity to Improve Cost Performance



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## Second Quarter 2016 Financial Review

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

## Second Quarter Income Statement

In Millions (except EPS)

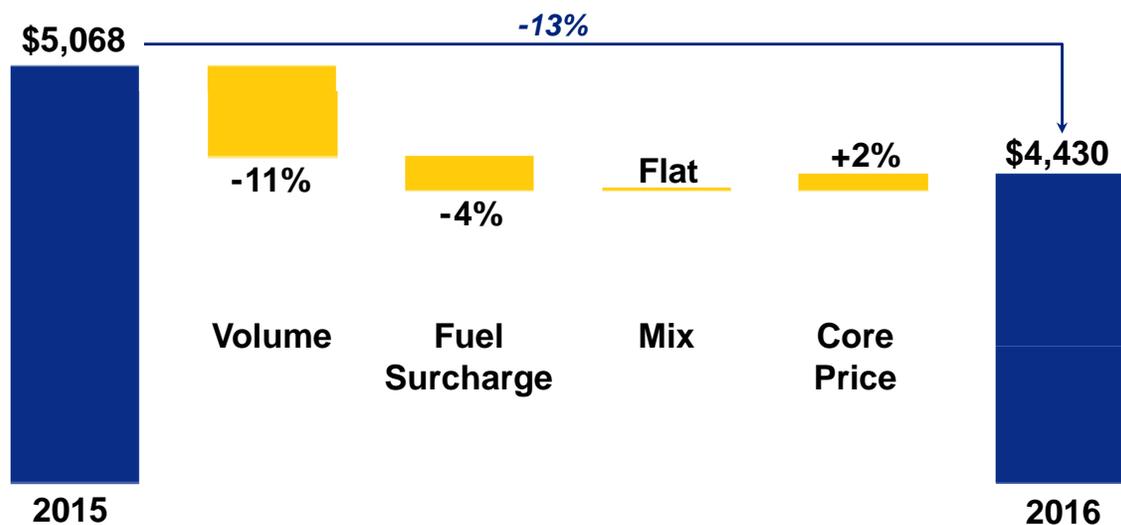


	<u>2016</u>	<u>2015</u>	<u>%</u>
Operating Revenues	\$4,770	\$5,429	(12)
Operating Expenses	3,110	3,480	(11)
Operating Income	1,660	1,949	(15)
Other Income	77	142	(46)
Interest Expense	(173)	(153)	13
Income Taxes	(585)	(734)	(20)
<b>Net Income</b>	<b>\$979</b>	<b>\$1,204</b>	<b>(19)</b>
Weighted Average Diluted Shares	840.1	875.2	(4)
<b>Diluted EPS</b>	<b>\$1.17</b>	<b>\$1.38</b>	<b>(15)</b>

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## Freight Revenue

Second Quarter (In Millions)

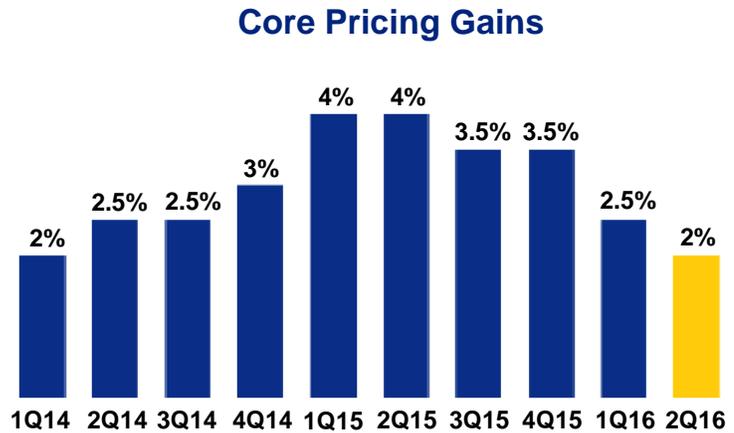


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## Core Pricing Trends



- Positive Core Pricing
- Pricing to a Strong Value Proposition



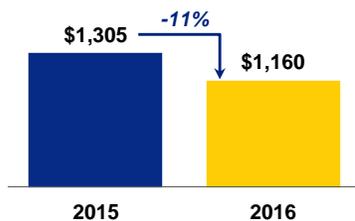
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## Compensation & Benefits Expense

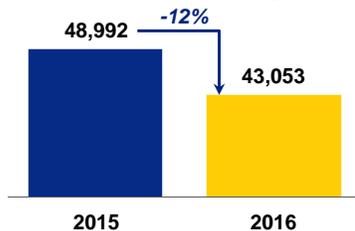
Second Quarter 2016 \$1,160M, -11%



### Compensation & Benefits (in Millions)



### Workforce Levels (Quarterly Average)



### Quarterly Drivers

- Aligning Workforce with Demand
- Inflation Costs
- Lower Pension Expense
- Volume & Productivity Related Reductions
- Reduction in Training Pipeline

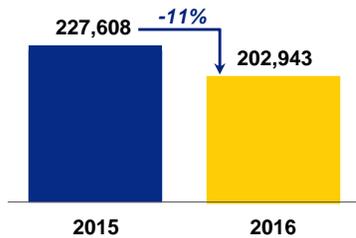
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## Fuel Expense

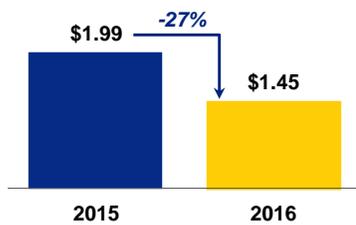
Second Quarter 2016 \$346M, -36%



### Gross-Ton-Miles (in Millions)



### Average Fuel Price (Per Gallon Consumed)



### Quarterly Drivers

- Decrease in GTMs Driven by Lower Volumes
- Consumption Rate Improved 2%
- Lower Average Diesel Fuel Price

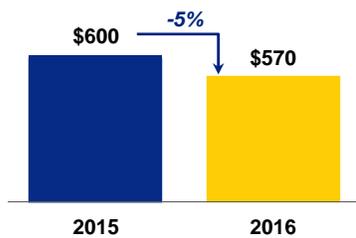
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## Second Quarter 2016 Expense Review

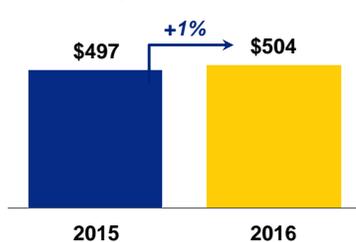
In Millions



### Purchased Services & Materials



### Depreciation



### Quarterly Drivers

- Lower Volume-Related Costs
- Reduced Locomotive & Freight Car Repair Costs
- Higher Depreciable Asset Base

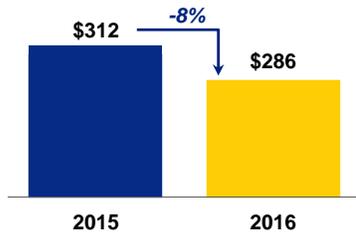
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## Second Quarter 2016 Expense Review (cont)

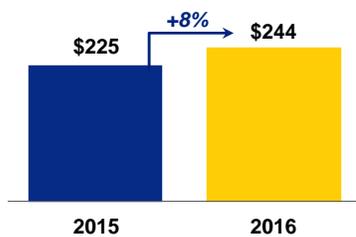
In Millions



### Equipment & Other Rents



### Other



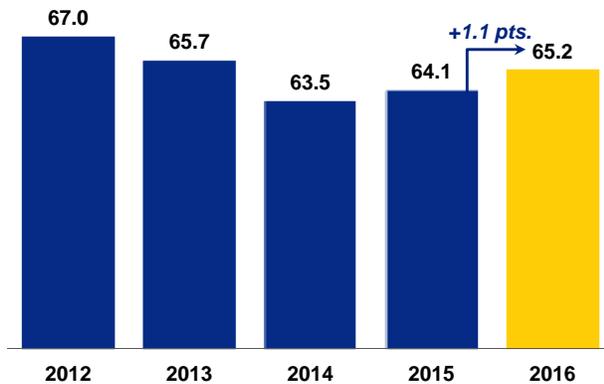
### Quarterly Drivers

- Lower Volumes
- Decrease in Locomotive Lease Expense
  
- Higher Personal Injury Expense

## Operating Ratio Performance



### Second Quarter (Percent)



- Productivity Initiatives
- Focus on Aligning Resources
- Positive Core Pricing
- Volume Declines

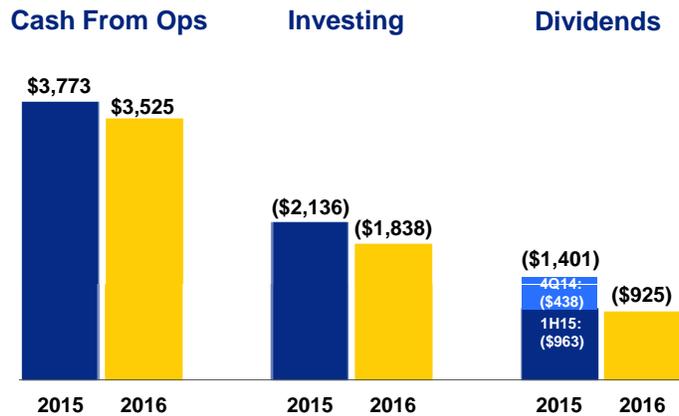
*Full Year Target of 60+/-  
by 2019*

# Free Cash Flow

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



## Free Cash Flow\*



- Lower Net Income
- Bonus Depreciation
- Capital Investments
- Dividends
- Payment Date Adjustment in First Quarter 2015

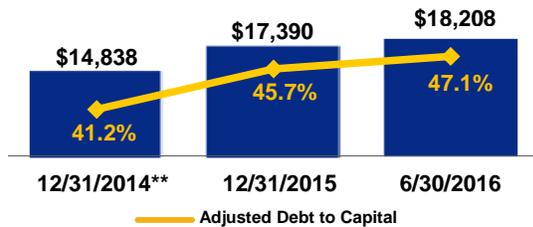
\* See Union Pacific website under Investors for a reconciliation to GAAP.

# Debt & Leverage

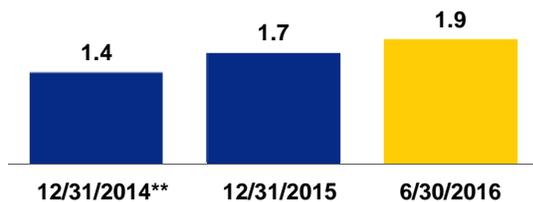
(\$ In Millions)



## Total Debt\* (Adjusted)



## Adjusted Debt / Adjusted EBITDA\*



- Strong Balance Sheet
- Investment Grade Credit Rating
- \$1.5 Billion YTD Debt Issuance in 2016

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

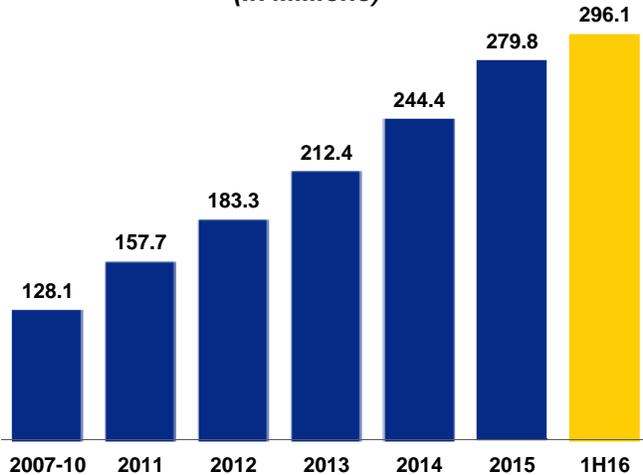
\*\* Prior periods have been adjusted for the retrospective adoption of Accounting Standard Update 2015-03.

## Delivering Value to Shareholders



### Cumulative Share Repurchases

(In Millions)



- **Second Quarter Activity**
  - 7 Million Shares
  - Repurchases Totaling \$602 Million
- **Repurchases Since 2007**
  - 296 Million Shares
  - Avg Price: \$58.59
- **Current Program**
  - About 36 Million Shares Remaining

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## 2016 Outlook



### Third Quarter

- Lower Coal and Overall Volumes

### Full Year

- Lower Volumes
- Strong Productivity
- Positive Core Pricing

*Focus on "G55 + 0" Initiatives*



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## Second Quarter 2016 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

### Second Half of 2016

- Economic Headwinds Remain
- Cautiously Optimistic in Certain Segments
- Value Tracks Focus on Long-Term Success
- Solid Returns for Shareholders



# 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 and demand levels; its ability to generate financial returns, improve network performance and customer service, resource productivity and cost efficiency; implementation of corporate strategies; new business development opportunities; and providing 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 2015, which was filed with the SEC on February 5, 2016. 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.



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## Second Quarter 2016 Earnings Release

Question & Answer  
Session