



October 20, 2016

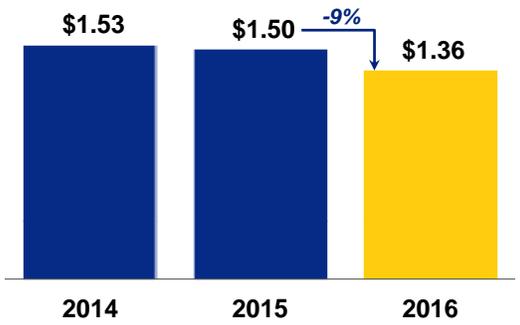
# Third Quarter 2016 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

## Third Quarter 2016 Results



**Earnings Per Share**  
*Third Quarter*



- Earnings Per Share Down 9%
- Volume Challenges
- Positive Core Pricing
- Productivity Gains



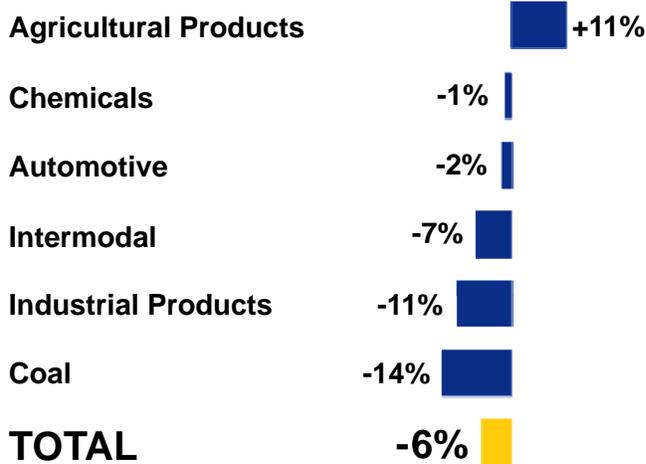
October 20, 2016

## Third Quarter 2016 Marketing & Sales Review

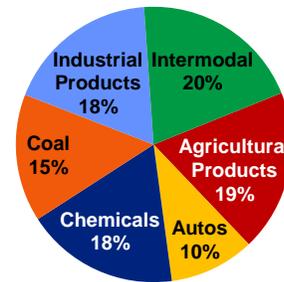
**Eric Butler**  
Executive VP & Chief Marketing Officer

## Third Quarter 2016 Recap

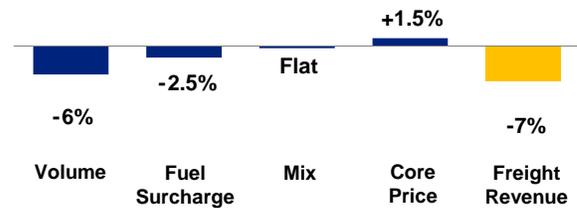
### Volume Growth



### Freight Revenue Mix

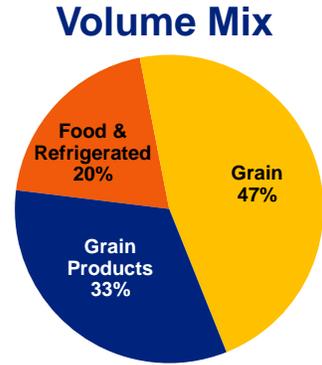
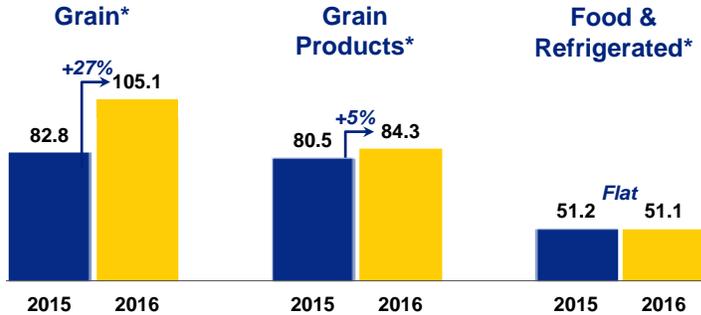


### Freight Revenue Performance (Year-Over-Year Change)



# Agricultural Products

Revenue \$937M (+6%) Volume 258K (+11%) ARC \$3,637 (-4%)



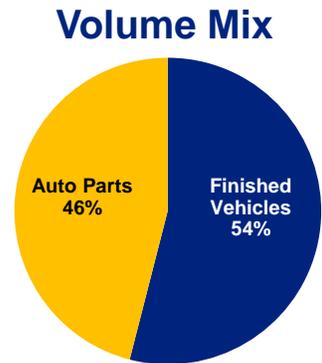
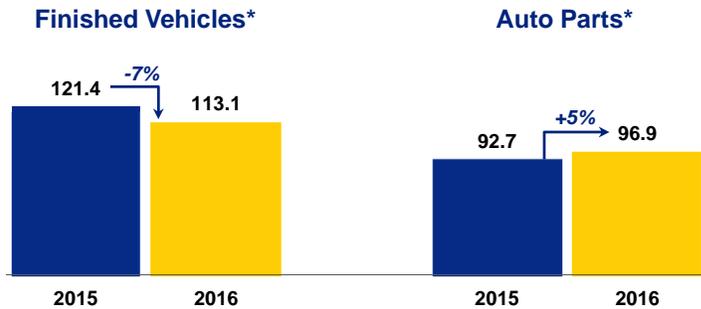
## Quarterly Drivers

- Near Record Grain Volumes
- Ethanol & Biodiesel Growth
- Strength in Import Beer

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

# Automotive

Revenue \$485M (-8%) Volume 210K (-2%) ARC \$2,310 (-6%)



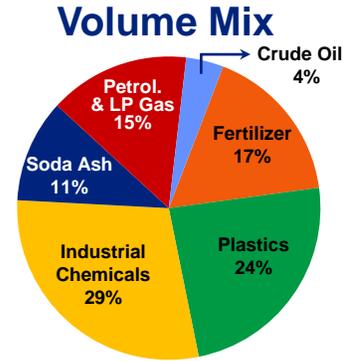
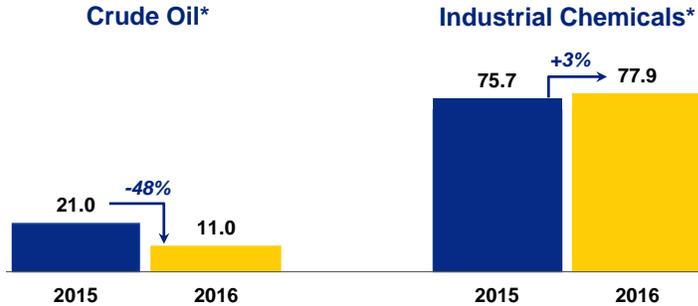
## Quarterly Drivers

- Production Levels & Contract Changes
- Auto Parts OTR Conversions

\*Volume in thousands of carloads

# Chemicals

Revenue \$875M (-1%) Volume 274K (-1%) ARC \$3,201 (+1%)



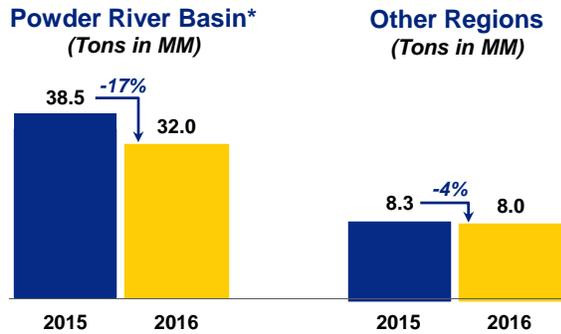
## Quarterly Drivers

- Crude Oil Headwinds
- Industrial Chemicals Strength

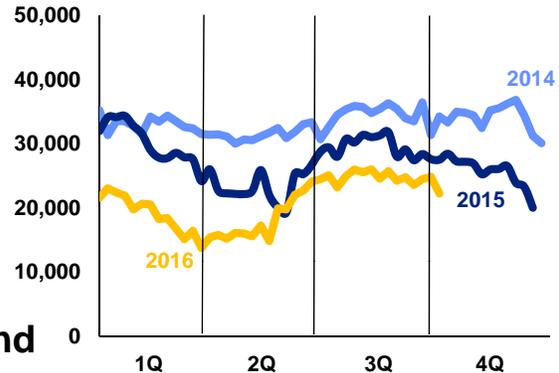
\*Volume in thousands of carloads

# Coal

Revenue \$728M (-19%) Volume 341K (-14%) ARC \$2,134 (-6%)



## Volume Impact (Weekly Carloadings)



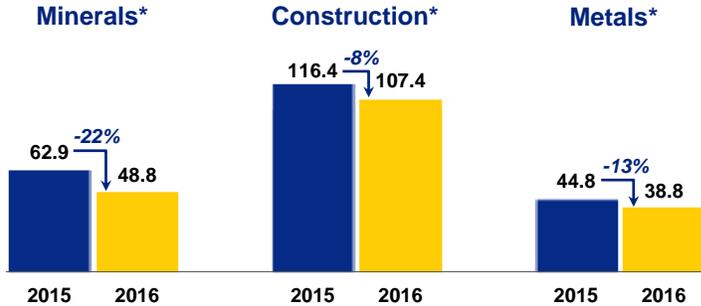
## Quarterly Drivers

- Warm Summer Increased Demand
- PRB Inventories Above Average

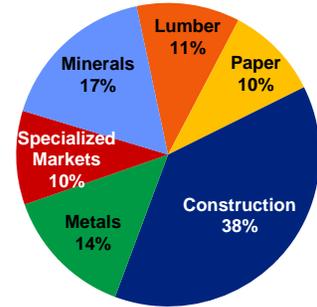
\*PRB includes SPRB and NPRB

## Industrial Products

Revenue \$855M (-13%) Volume 283K (-11%) ARC \$3,019 (-2%)



### Volume Mix



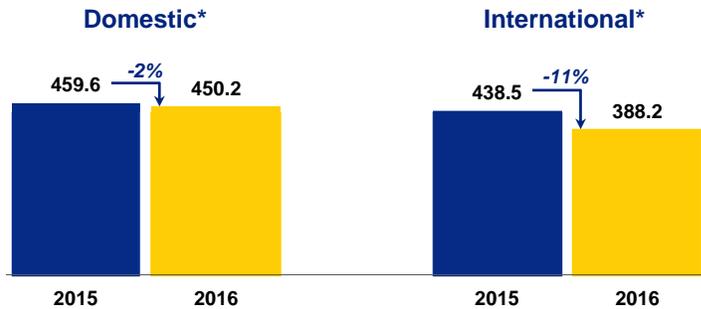
### Quarterly Drivers

- Reduced Shale Drilling Activity
- Low Commodity Prices & Strong U.S. Dollar

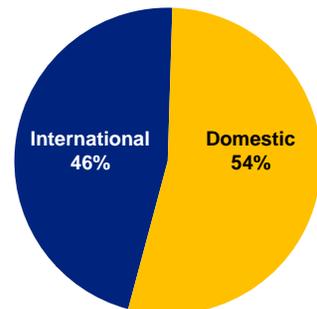
\*Volume in thousands of carloads  
\*Prior periods have been adjusted for the re-categorization of commodities

## Intermodal

Revenue \$957M (-9%) Volume 838K (-7%) ARC \$1,141 (-2%)



### Volume Mix



### Quarterly Drivers

- High Retail Inventory Levels
- Ocean Carrier Industry Challenges

\*Volume in thousands of loads

# 2016 Volume Outlook



## Agricultural Products

- + Grain
- + Ethanol
- + Import Beer



## Coal

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



## Automotive

- ? Consumer Demand
- + Parts Highway Conversions



## Industrial Products

- Minerals
- Metals
- + Lumber



## Chemicals

- + LPG
- + Industrial Chemicals
- Crude Oil



## Intermodal

- Ocean Carrier Challenges
- + Highway Conversions



October 20, 2016

## Third Quarter 2016 Operations Review

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

# Safety



## Employee

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



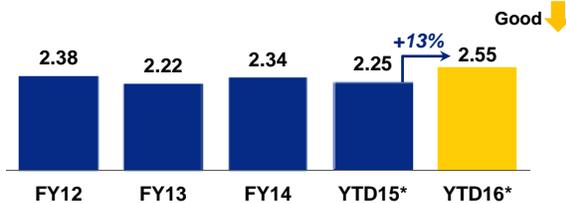
## Rail Equipment

(Reportable Derailment Incidents Per Million Train Miles\*\*)



## Public

(Crossing Accidents Per Million Train Miles)



- Continue to Find and Address Risk
- Enhanced Training & Infrastructure Investment
- Community Partnerships and Public Safety Campaigns

\*January - September  
 \*\*Starting in August 2016, crossing collisions were excluded from rail equipment incidents per FRA methodology. Prior periods have been adjusted to reflect the change. <sup>13</sup>

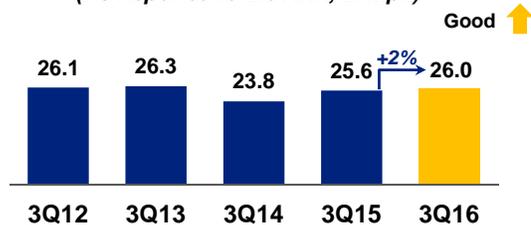
# Network & Service Performance



- Weather Events Generate Variability
- Solid Operating Performance
- Effective use of Surge Resources

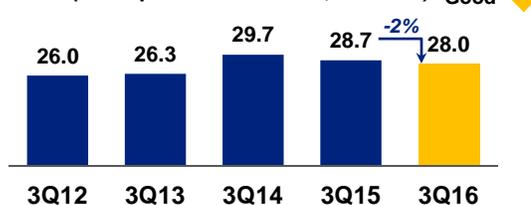
## Velocity

(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**

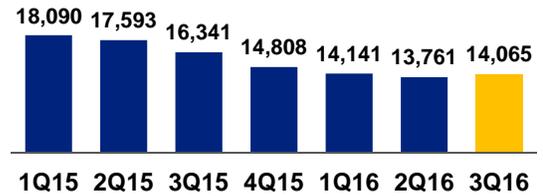
- 3Q16 Down 14% vs 3Q15
- Furlough / AWTs: ~ 2,700\*

- **Adjusting Other Segments of Workforce**

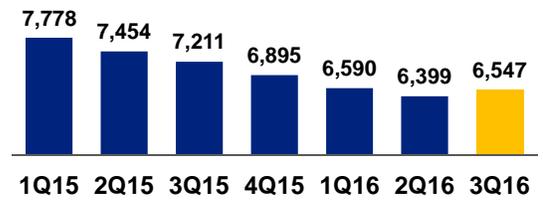
- **Locomotives**

- 3Q16 Down 9% vs 3Q15
- Storage: ~ 1,500\*

Total TE&Y\*\*



Active Locomotive Fleet



\* As of September 30, 2016

\*\* Full-time Equivalent

# Network Productivity

Third Quarter 2016

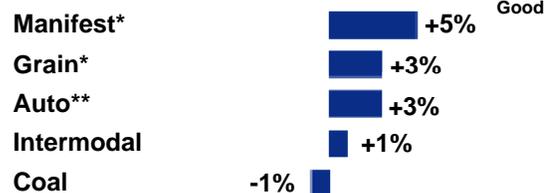


- **Effectively Balancing Resources**

- **Record Train Size & Recrew Rate**

- **Continued Focus on Productivity & Costs**

Train Size Performance (vs 3Q15)



Recrew Rate (%)



\*Best-ever quarter

\*\*Third Quarter record

## Operating Outlook

- Continue to Generate Positive Safety Results
- Leverage Growth Opportunities
- Maintain Focus on Customer Experience & Productivity



17



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## Third Quarter 2016 Financial Review

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

## Third Quarter Income Statement

In Millions (except EPS)

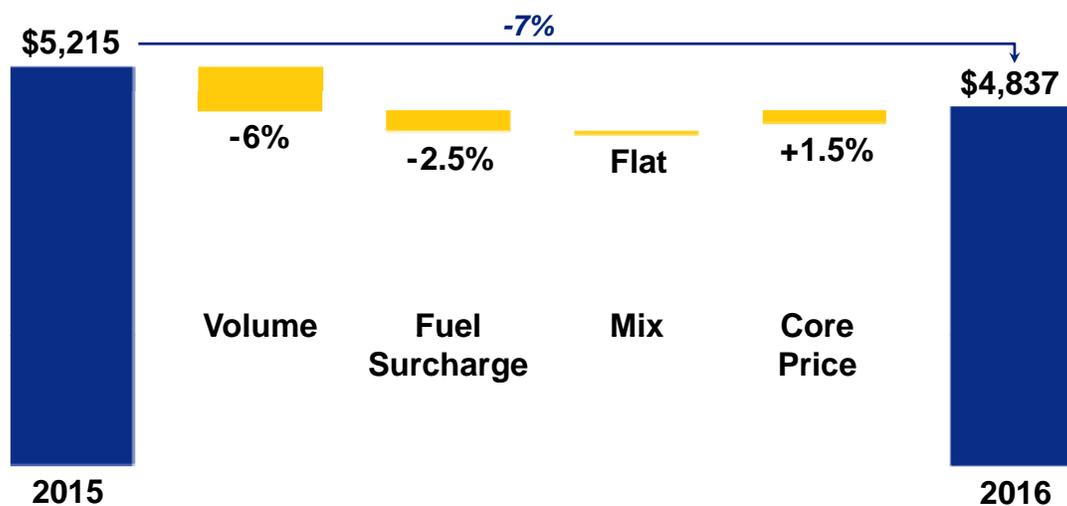


	<u>2016</u>	<u>2015</u>	<u>%</u>
Operating Revenues	\$5,174	\$5,562	(7)
Operating Expenses	3,214	3,354	(4)
Operating Income	<u>1,960</u>	<u>2,208</u>	(11)
Other Income	29	30	(3)
Interest Expense	(184)	(157)	17
Income Taxes	<u>(674)</u>	<u>(781)</u>	(14)
<b>Net Income</b>	<b><u>\$1,131</u></b>	<b><u>\$1,300</u></b>	<b>(13)</b>
Weighted Average Diluted Shares	832.2	865.8	(4)
<b>Diluted EPS</b>	<b><u>\$1.36</u></b>	<b><u>\$1.50</u></b>	<b>(9)</b>

19

## Freight Revenue

Third Quarter (In Millions)

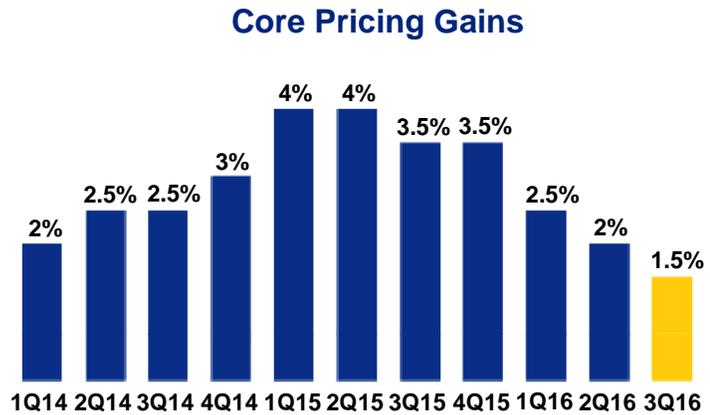


20

## Core Pricing Trends



- Positive Core Pricing
- Challenging Market Environment
- Pricing to a Strong Value Proposition
- Committed to Returns



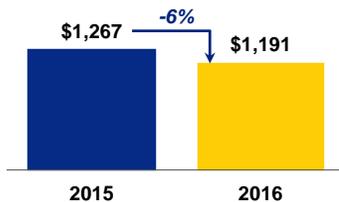
21

## Compensation & Benefits Expense

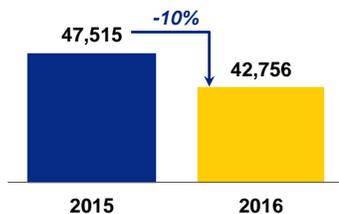
Third Quarter 2016 \$1,191M, -6%



### Compensation & Benefits (in Millions)



### Workforce Levels (Quarterly Average)



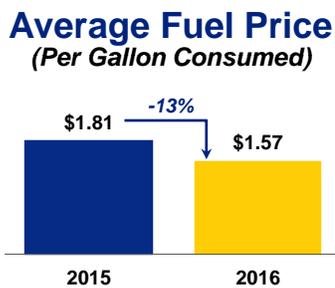
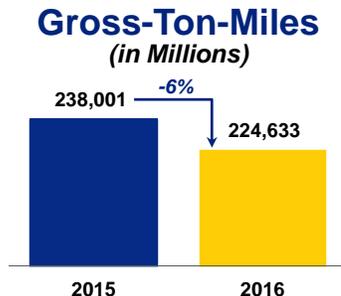
### Quarterly Drivers

- Aligning Workforce with Demand
- General Wage and H&W Increases
- Volume & Productivity Related Reductions
- Smaller Capital Workforce

22

## Fuel Expense

Third Quarter 2016 \$392M, -19%



### Quarterly Drivers

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

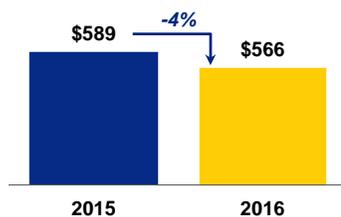
23

## Third Quarter 2016 Expense Review

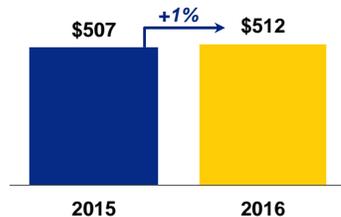
In Millions



### Purchased Services & Materials



### Depreciation



### Quarterly Drivers

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

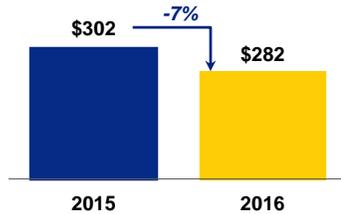
24

## Third Quarter 2016 Expense Review (cont)

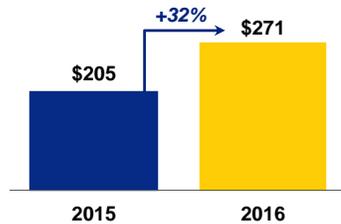
In Millions



### Equipment & Other Rents



### Other



### Quarterly Drivers

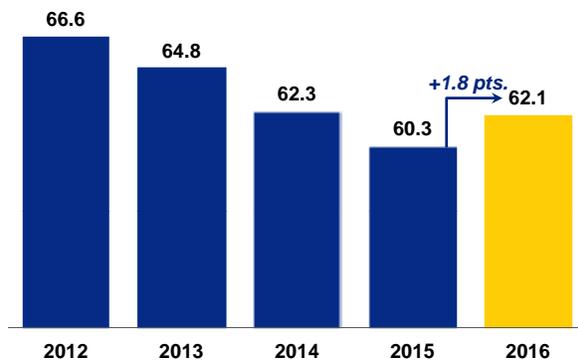
- Lower Volumes
- Reduced Locomotive Lease Expense
- One-Time Items
- Increased State & Local Taxes and Environmental Cost

25

## Operating Ratio Performance



### Third Quarter (Percent)



- Productivity Initiatives
- Aligning Resources with Demand
- Positive Core Pricing
- Volume Challenges

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

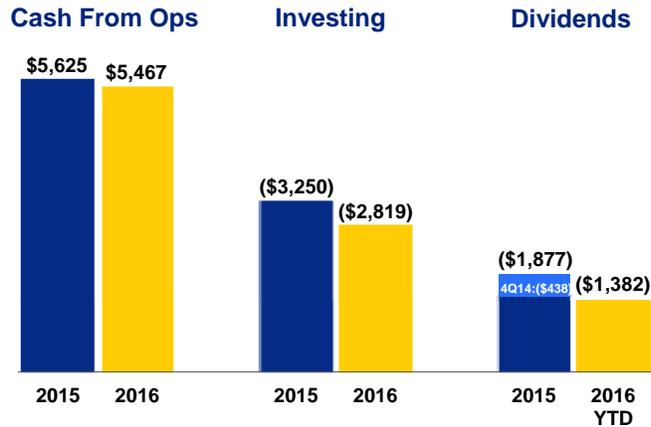
26

## Free Cash Flow

Nine Month Period Ended September 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.

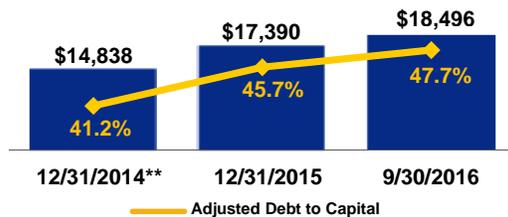
27

## Debt & Leverage

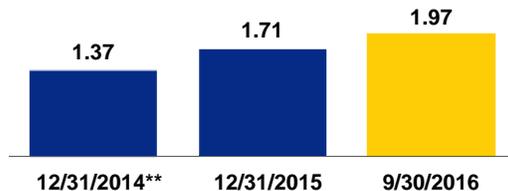
(\$ In Millions)



### Total Debt\* (Adjusted)



### Adjusted Debt / Adjusted EBITDA \*



- Solid Balance Sheet
- Strong Investment Grade Rating
- \$1.9 Billion Debt Issuance in 2016 YTD

\* 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.

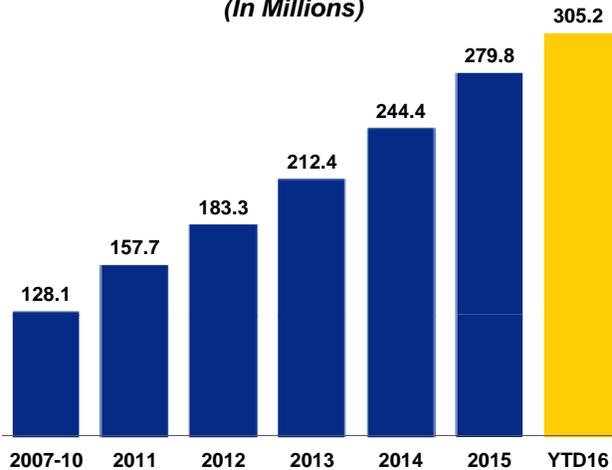
28

## Delivering Value to Shareholders



### Cumulative Share Repurchases

(In Millions)



- **Third Quarter Activity**
  - 9 Million Shares
  - Repurchases Totaling \$851 Million
- **Repurchases Since 2007**
  - 305 Million Shares
  - Avg Price: \$59.63
- **Current Program**
  - About 27 Million Shares Remaining

29

## Closing Out 2016



- 4Q Volume Down Low Single Digits
- Full Year Volume Down in the 6-8% Range
- Focus on Core Pricing
- Continued Productivity & Cost Improvement
- Reduced Capital Plan

*Focus on "G55 + 0" Initiatives*



30



October 20, 2016

## Third Quarter 2016 Earnings Release

**Lance Fritz**  
Chairman, President & CEO

### Looking Ahead

- **Difficult Market Environment**
- **Certain Business Segments Improving**
- **Continued Focus on Productivity & Customer Experience**
- **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 positive core pricing, financial returns, improve network performance and customer service, resource productivity and cost efficiency; implementation of 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 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.

33



October 20, 2016

## Third Quarter 2016 Earnings Release

Question & Answer  
Session