

# Fourth Quarter 2014 Earnings Release

January 22, 2015

*Jack Koraleski, CEO*



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## Fourth Quarter 2014 Record Results

### Positives

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

### Challenges

- Network Performance

### Earnings Per Share Fourth Quarter

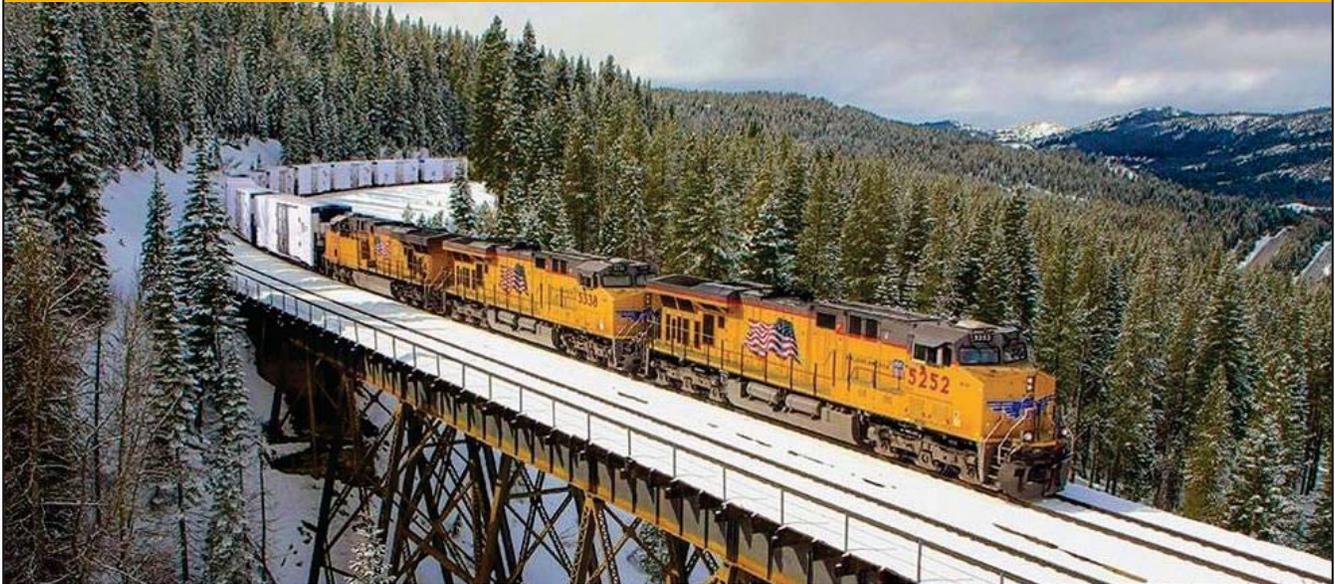


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# Fourth Quarter 2014 Marketing & Sales Review

January 22, 2015

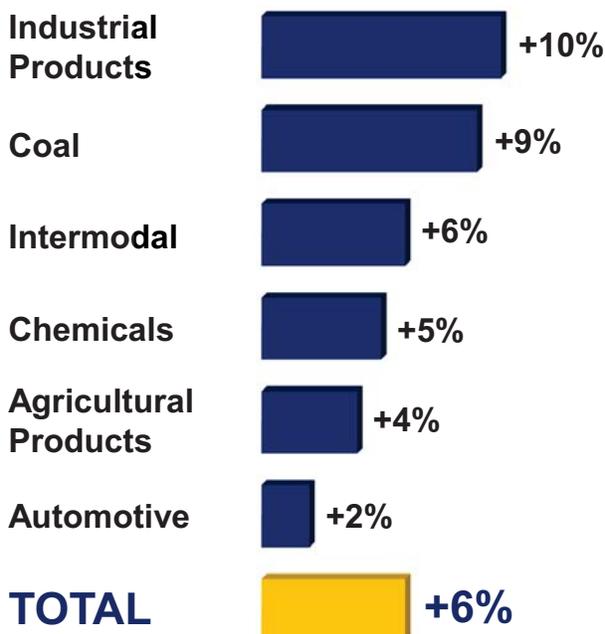
*Eric Butler, Executive VP – Marketing & Sales*



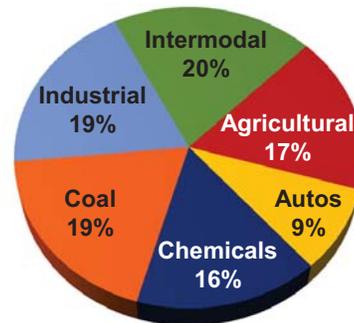
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## Fourth Quarter 2014 Recap

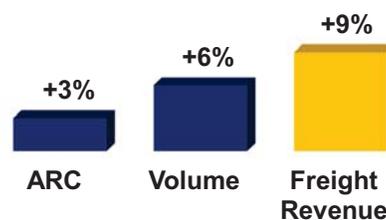
### Volume Growth



### Freight Revenue Mix



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

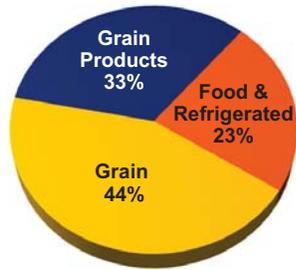


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# Agricultural Products

Revenue \$1,018M (+9%) Volume 252K (+4%) ARC \$4,031 (+5%)

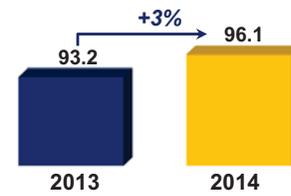
## Volume Mix



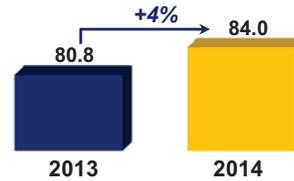
## Quarterly Drivers

- Exports of Grain and Grain Products
- Record Ethanol Production
- Import Beer Growth

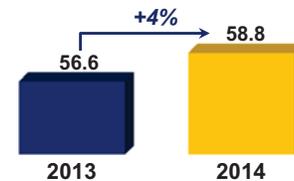
### Grain\*



### Grain Products\*



### Food & Refrigerated\*



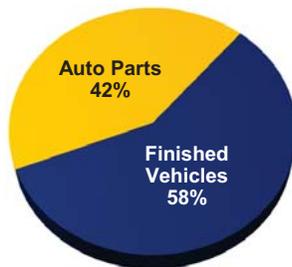
\*Volume in thousands of carloads and excludes equipment shipments



# Automotive

Revenue \$543M (Flat) Volume 209K (+2%) ARC \$2,607 (-2%)

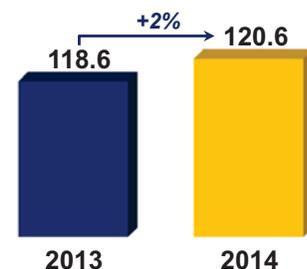
## Volume Mix



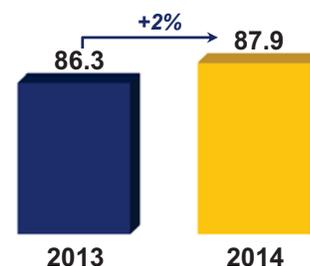
## Quarterly Drivers

- Continued Consumer Demand
- Production Variability

### Finished Vehicles\*



### Auto Parts\*



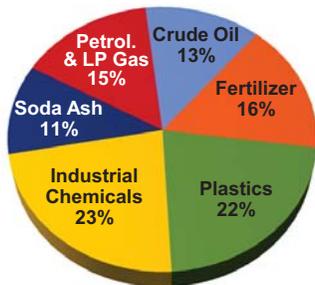
\*Volume in thousands of carloads



# Chemicals

Revenue \$922M (+8%) Volume 275K (+5%) ARC \$3,344 (+3%)

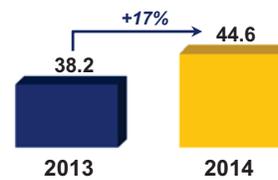
## Volume Mix



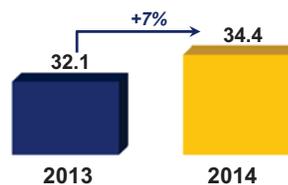
## Quarterly Drivers

- Strong Dry Nitrogen and Export Potash Demand
- Increased Niobrara and Uinta Crude Oil Shipments
- LPG Storage Demand

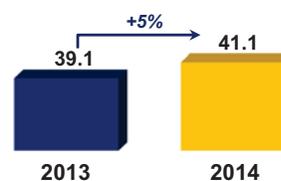
### Fertilizer\*



### Crude Oil\*



### Petroleum & LP Gas\*



\*Volume in thousands of carloads

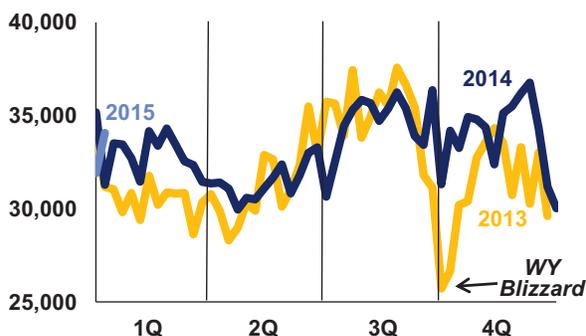


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# Coal

Revenue \$1,078M (+9%) Volume 455K (+9%) ARC \$2,366 (+1%)

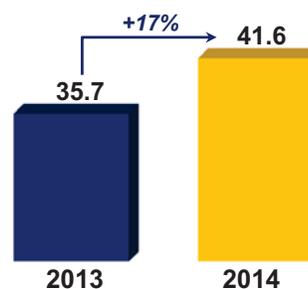
## Volume Impact (Weekly Carloadings)



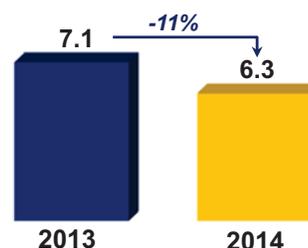
## Quarterly Drivers

- Low Coal Inventories
- Legacy Contract Loss
- Seasonally Normal Operating Conditions

## Southern Powder River Basin\*



## Colorado/Utah\*



\*Tons in millions

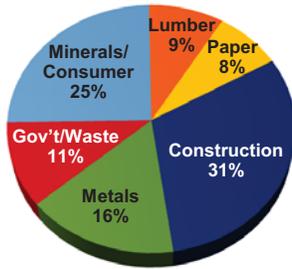


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# Industrial Products

Revenue \$1,098M (+15%) Volume 335K (+10%) ARC \$3,283 (+5%)

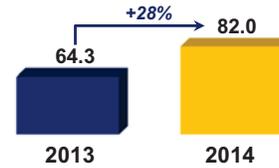
## Volume Mix



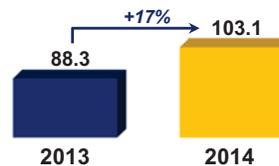
## Quarterly Drivers

- Continued Frac Sand Strength
- Market Demand for Aggregates and Cement
- Lumber Demand

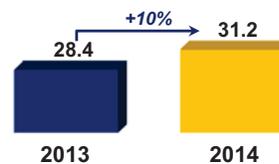
## Non-Metallic Minerals\*



## Construction\*



## Lumber\*



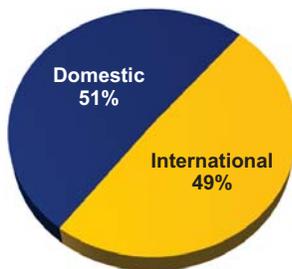
\*Volume in thousands of carloads



# Intermodal

Revenue \$1,135M (+11%) Volume 898K (+6%) ARC \$1,265 (+5%)

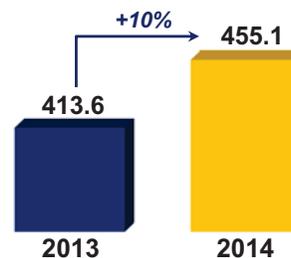
## Volume Mix



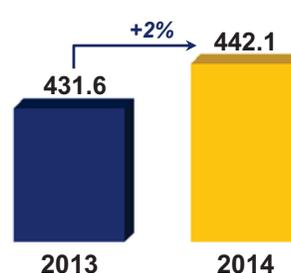
## Quarterly Drivers

- Broad Based Growth in Domestic
- International Growth in Line with Imports

## Domestic\*



## International\*



\*Volume in thousands of units



# 2015 Volume Outlook

## Agricultural Products

- + Grain
- ? Ethanol & DDGs
- + Beer & Refrigerated

## Automotive

- + Strong Industry Sales Continue

## Coal

- + Low Coal Inventories
- ? Natural Gas Prices

## Chemicals

- + Most Markets Remain Solid
- Crude Oil Prices and Spreads

## Industrial Products

- ? Shale Drilling
- + Construction Products
- + Housing

## Intermodal

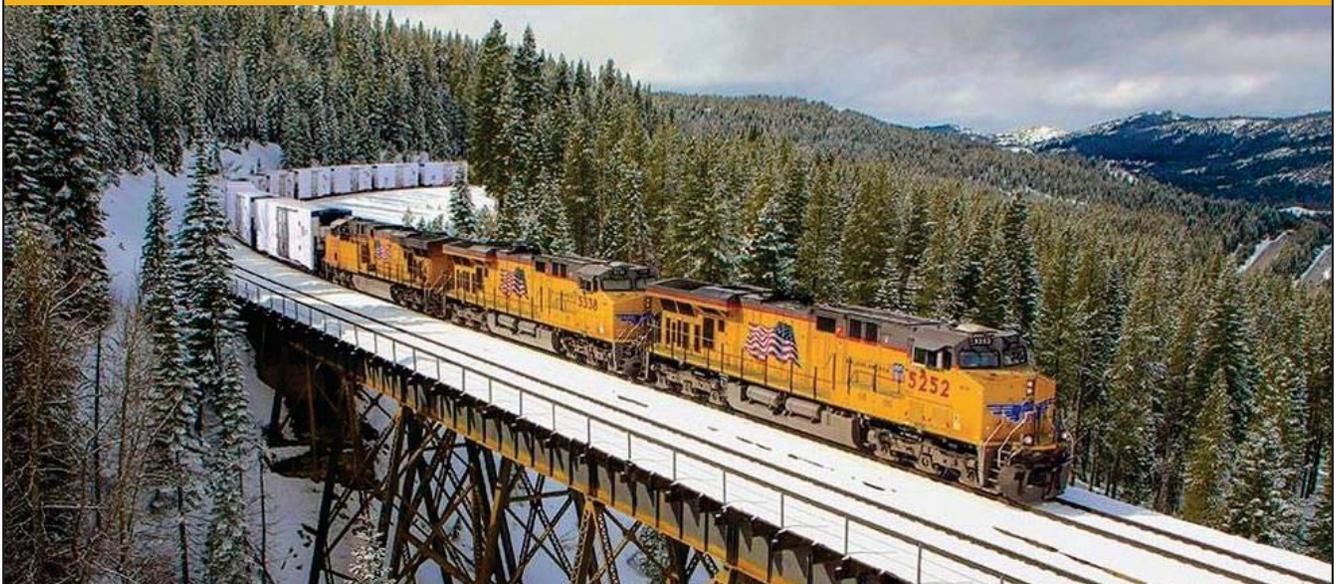
- + Domestic Highway Conversions
- + Consumer Demand
- ? International



# Fourth Quarter 2014 Operations Review

January 22, 2015

*Lance Fritz, President & COO*

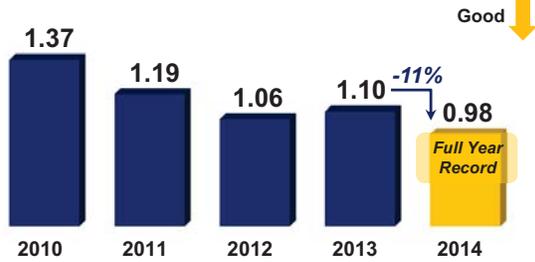


# Safety

## Full Year

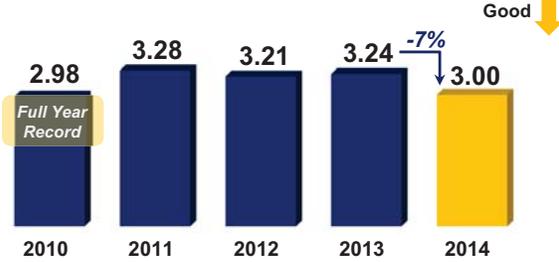
### Employee\*

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



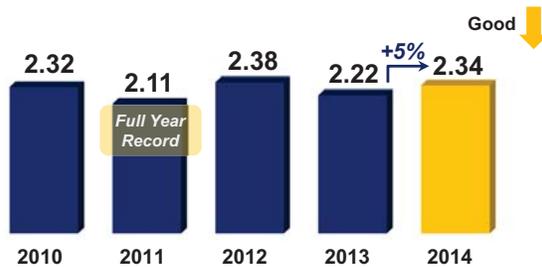
### Rail Equipment

(Reportable Derailment Incidents Per Million Train Miles)



### Public

(Crossing Accidents Per Million Train Miles)



- Commitment to Risk Reduction, Courage to Care & Total Safety Culture
- Focus on Human Factor Incidents & Infrastructure Investment
- Continuous Improvement on the Way Towards Zero

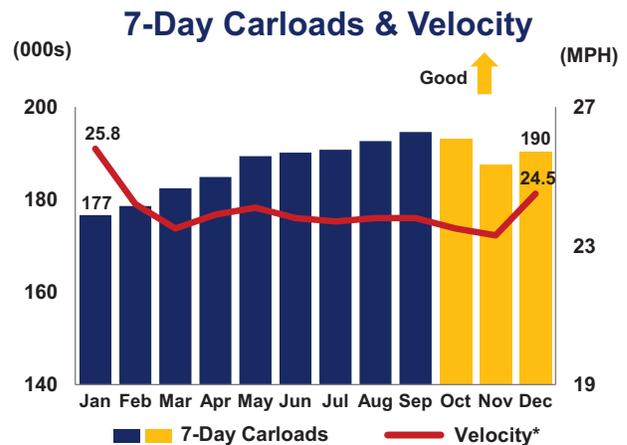
\*Restated 2011-2014 to reflect previous employee hour miscalculations.



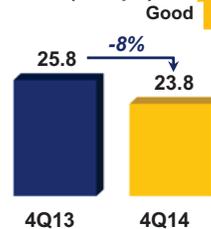
# Network Performance

## Fourth Quarter 2014

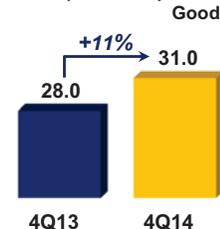
- Resources Catching Up to Demand
- Successful Holiday Operation
- Agility & Resiliency Demonstrated with Service Plan
- Mitigating Weather Impact with Winter Preparedness



### Velocity\* (in mph)



### Freight Car Dwell\* (in hours)



\*As reported to the AAR



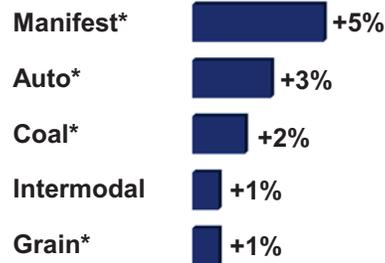
# Network Productivity

## Fourth Quarter 2014

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

### Train Size Performance

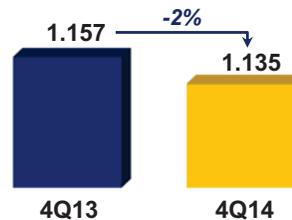
(vs 4Q 2013)



\* Best-ever quarter

### Fuel Consumption Rate\*

(vs 4Q 2013)



\*Gallons of fuel consumed per gross-ton mile



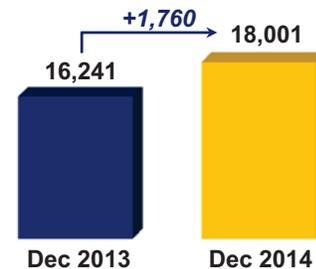
# Resources

## Locomotives & Employees

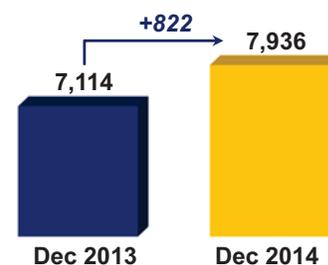
- TE&Y Workforce Additions
  - Recalled Employees
  - 2014 New Hires: 3,600
  - 2015 New Hires: 2,800
- Locomotive Additions
  - Deployed Surge Fleet
  - Acquisitions:
    - 2014: 261
    - 2015 Plan: 218
- Resourcing to Demand

### Total TE&Y

(Includes Training)



### Active Locomotive Fleet\*



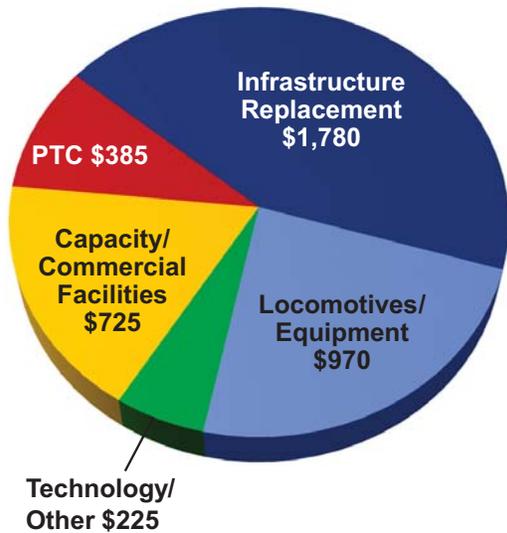
\*Total units as of December 31, 2014: 8,463.



# Strengthening the Franchise

## Replacement, Growth & Productivity, and PTC

**\$4.1B 2014 Capital\***  
(in Millions)



\*Includes cash capital, leases and other non-cash capital (excludes buyout of lease on Headquarters building)

## 2015 Capital Plan

- Larger than 2014
- Safe and Resilient Infrastructure
- Continued Capacity Investments
  - Eastern Third of Network
- 218 Locomotives
- Freight Cars & Equipment
- PTC Spending

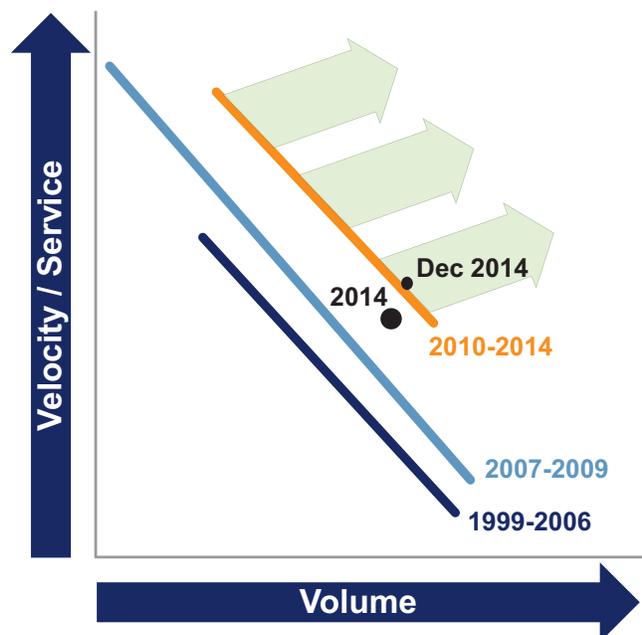


# Setting the Course for 2015

## Safety, Service, and Value

- Generate Record Safety Results
- Drive Improvement in Network Performance
- Leverage Growth & Realize Productivity to Improve Operating Ratio
- Remain Agile
- Create Value for Customers & Increased Returns for Shareholders

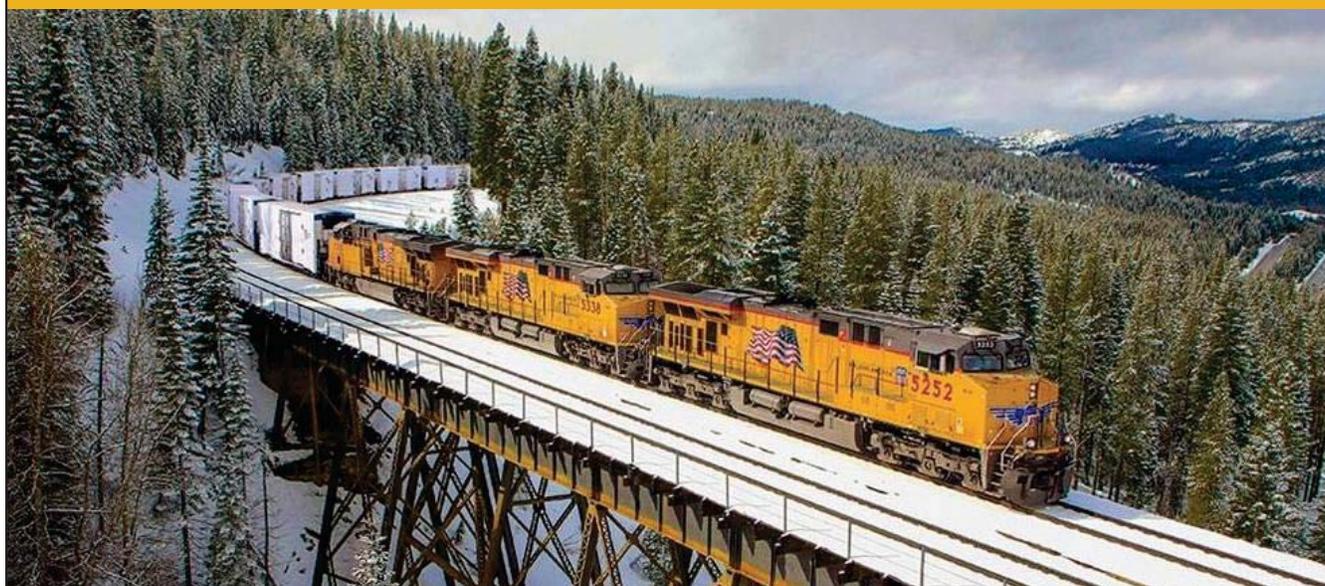
## Service – Volume Equation



# Fourth Quarter 2014 Financial Review

January 22, 2015

*Rob Knight, CFO*



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## Fourth Quarter Income Statement

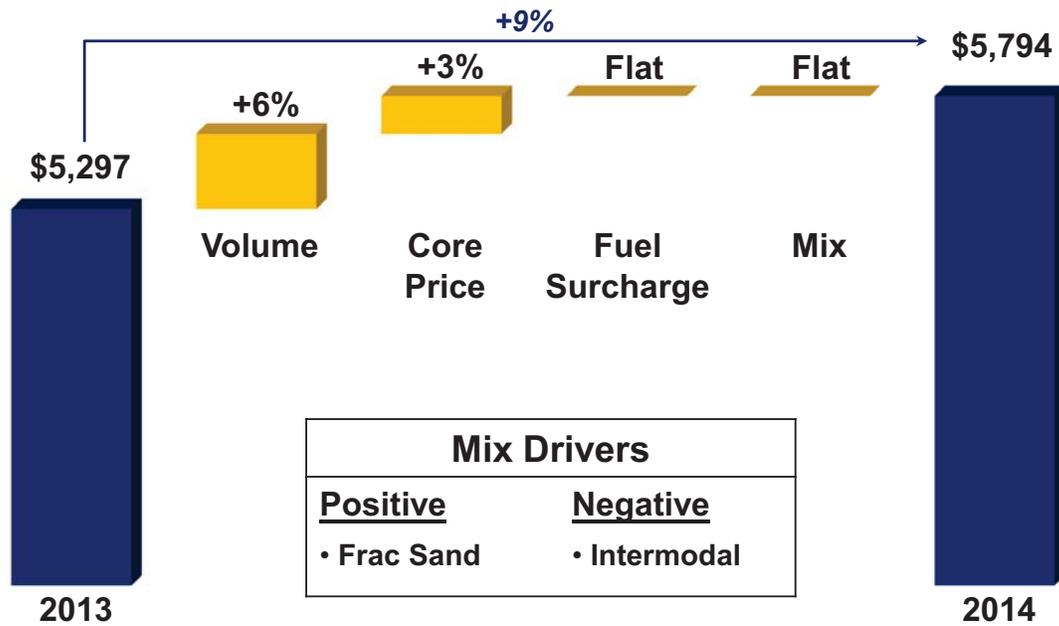
*In Millions (except EPS)*

|                                 | <u>2014</u>           | <u>2013</u>           | <u>%</u>  |
|---------------------------------|-----------------------|-----------------------|-----------|
| Operating Revenues              | \$6,153               | \$5,630               | 9         |
| Operating Expenses              | <u>3,780</u>          | <u>3,657</u>          | 3         |
| Operating Income                | <u>2,373</u>          | <u>1,973</u>          | 20        |
| Other Income                    | 71                    | 37                    | 92        |
| Interest Expense                | (146)                 | (127)                 | 15        |
| Income Taxes                    | <u>(867)</u>          | <u>(709)</u>          | 22        |
| <b>Net Income</b>               | <b><u>\$1,431</u></b> | <b><u>\$1,174</u></b> | <b>22</b> |
| Weighted Average Diluted Shares | 889.8                 | 921.4                 | (3)       |
| <b>Diluted EPS</b>              | <b><u>\$1.61</u></b>  | <b><u>\$1.27</u></b>  | <b>27</b> |



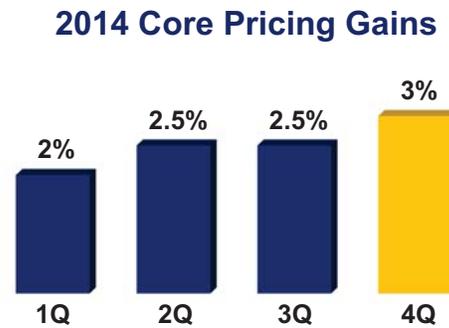
# Freight Revenue

## Fourth Quarter (In Millions)



## 2014 Core Pricing Trends

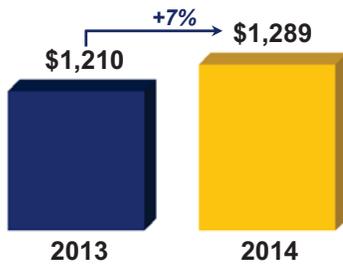
- Core Pricing Above Inflation
- 2014 Legacy “Light”
- Inflation Escalators Remain Low
- Pricing for Reinvestibility



# Compensation & Benefits Expense

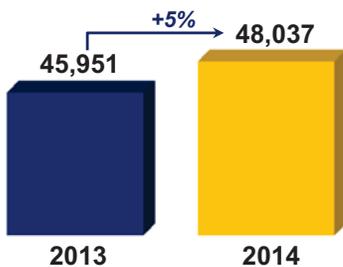
Fourth Quarter 2014 \$1,289M, +7%

Compensation & Benefits  
(in Millions)



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

Workforce Levels  
(Quarterly Average)



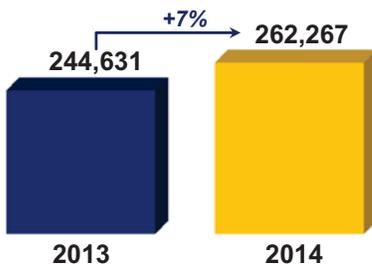
- Volume Related Increases



# Fuel Expense

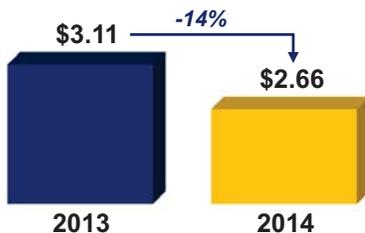
Fourth Quarter 2014 \$813M, -10%

Gross Ton-Miles  
(in Millions)



- GTMs Increased 7% driven by Higher Volumes
- Consumption Rate Improved 2%

Average Fuel Price  
(Per Gallon Consumed)



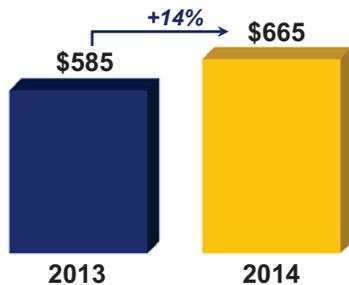
- Lower Average Diesel Fuel Price



# Fourth Quarter 2014 Expense Review

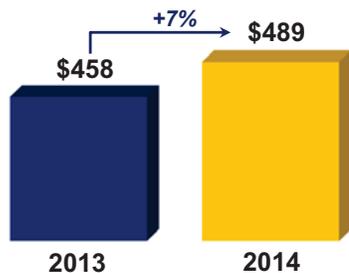
*In Millions*

## Purchased Services & Materials



- Volume Driven Contract and Subsidiary Expenses
- Higher Locomotive & Freight Car Material Costs
- Increased Crew Transportation & Lodging

## Depreciation

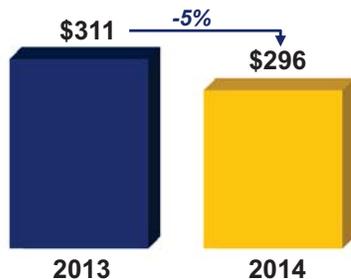


- Higher Depreciable Asset Base from Recent Capital Spending Levels

# Fourth Quarter 2014 Expense Review (cont)

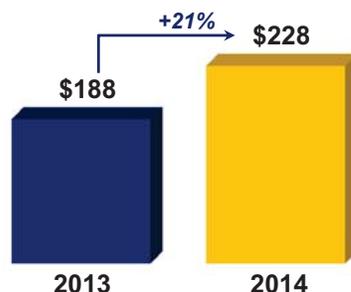
*In Millions*

## Equipment & Other Rents



- Exercised Purchase Options on Leased Equipment

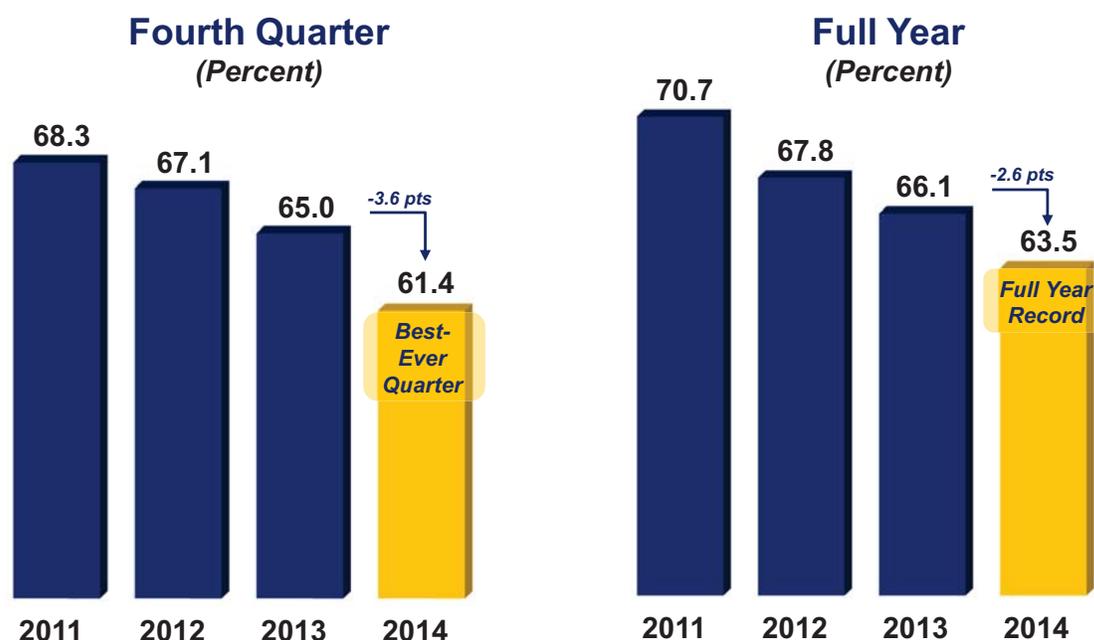
## Other



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

# Operating Ratio Performance

## Achieved Sub-65 OR Target



*New Full Year Target of 60<sup>+/-</sup> by 2019*



# Full Year Income Statement

## In Millions (except EPS)

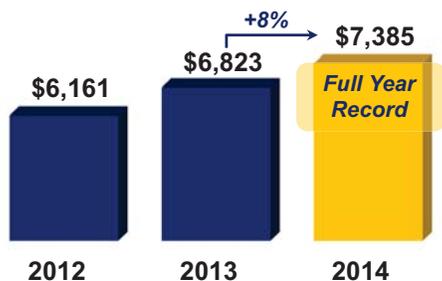
|                                 | <u>2014</u>           | <u>2013</u>           | <u>%</u>  |
|---------------------------------|-----------------------|-----------------------|-----------|
| Operating Revenues              | \$23,988              | \$21,963              | 9         |
| Operating Expenses              | <u>15,235</u>         | <u>14,517</u>         | 5         |
| Operating Income                | <u>8,753</u>          | <u>7,446</u>          | 18        |
| Other Income                    | 151                   | 128                   | 18        |
| Interest Expense                | (561)                 | (526)                 | 7         |
| Income Taxes                    | <u>(3,163)</u>        | <u>(2,660)</u>        | 19        |
| <b>Net Income</b>               | <b><u>\$5,180</u></b> | <b><u>\$4,388</u></b> | <b>18</b> |
| Weighted Average Diluted Shares | 901.1                 | 931.5                 | (3)       |
| <b>Diluted EPS</b>              | <b><u>\$5.75</u></b>  | <b><u>\$4.71</u></b>  | <b>22</b> |



# Strong Cash Generation

Twelve Month Period Ending December 31 (\$ In Millions)

## Cash From Operations



- Record Cash from Ops
- Free Cash Flow after Dividends of \$1.5 Billion
- Higher Capital Expenditures
- Dividend Increase
- Bonus Depreciation Impact

## Free Cash Flow\* (After Dividends)

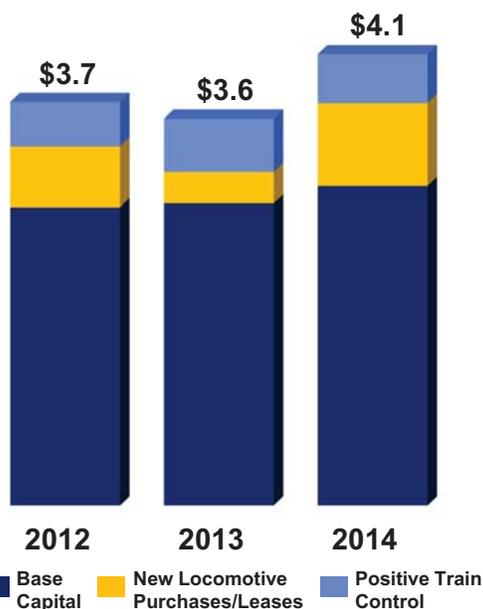


\* See Union Pacific website under Investors for a reconciliation to GAAP.

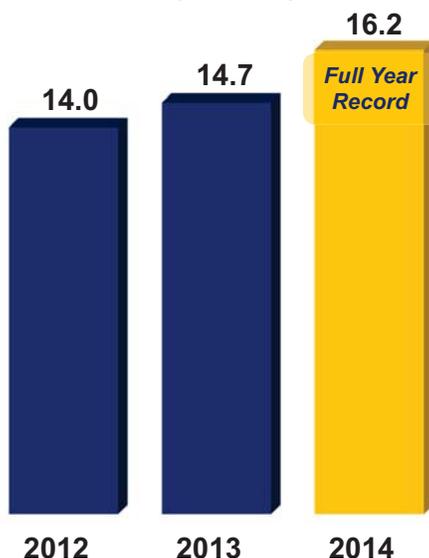


# Capital Program and Returns

## Capital Program\* (In Billions)



## Return on Invested Capital\*\* (Percent)



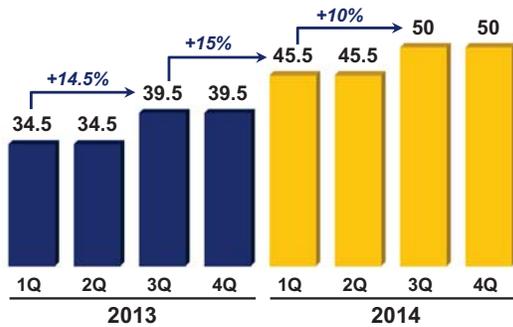
\*Includes cash capital, leases and other non-cash capital (excludes buyout of lease on Headquarters building)

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



# Delivering Value to Shareholders

## Declared Dividend Per Share (cents)



- Performance Drives Dividend Increases
  - Declared Dividend Increase of 27% vs. 4Q13
  - Achieved Payout Ratio of 33.2%

## Quarterly Share Repurchases (\$ In Millions)

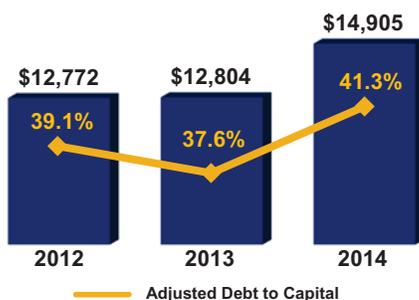


- Repurchase Activity
  - 4Q 2014 = \$880 Million
  - Full Year 2014 = \$3.2 Billion
  - Share Repurchase Program
    - Expires Dec. 31, 2017
    - About 88 Million Shares Remain

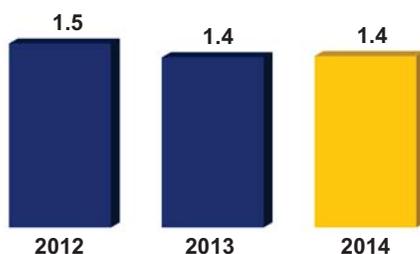


# Strong Financial Position As of December 31 (\$ In Millions)

## Total Debt\* (Adjusted)



## Adjusted Debt / Adjusted EBITDA\*



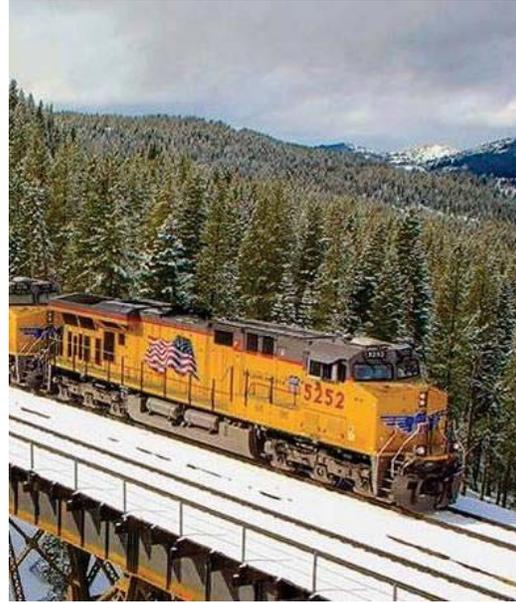
- Strong Balance Sheet
- Investment Grade Credit Ratings
- Adjusted Debt Balance Increase of \$2.1 Billion
- Longer-Term Targets
  - Low to Mid 40's Adj. Debt/Cap
  - 1.5x+ Adj. Debt / Adj. EBITDA

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



# A Look Ahead to 2015

- 1Q and FY Volume Growth Assuming an Improving Economy
- Record Earnings & Operating Ratio
- Pricing for Reinvestability
- Leverage Diverse Franchise
- Increasing Shareholder Returns



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## Fourth Quarter 2014 Earnings Release

January 22, 2015

*Jack Koraleski, CEO*



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# Looking Ahead

- **Moderate Economy**
- **Uncertain Energy Market**
- **Positive Volume Growth**
- **Safely Improving Network Performance**
- **Increasing Shareholder Returns**



## 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; and its ability to generate financial returns, 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.



# Fourth Quarter 2014 Earnings Release

January 22, 2015

## Question & Answer Session



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