

# Transportation, Elevator & Grain Merchants Association

Jim Young, Chairman and CEO – Sept. 17, 2010



**BUILDING AMERICA®**

# Our Mission

- The men & women of Union Pacific are dedicated to serve

# Our Values

- Focus on performance
- Ensure high ethical standards
- Work as a team



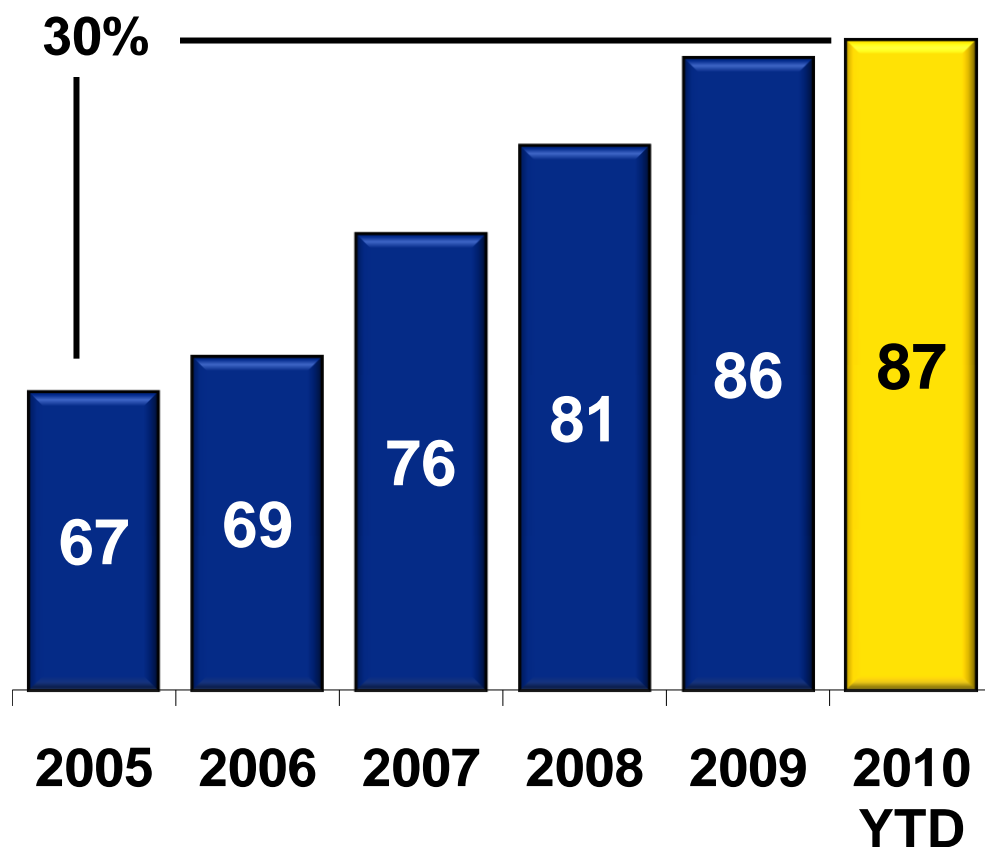
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# Creating Value Drives Customer Satisfaction



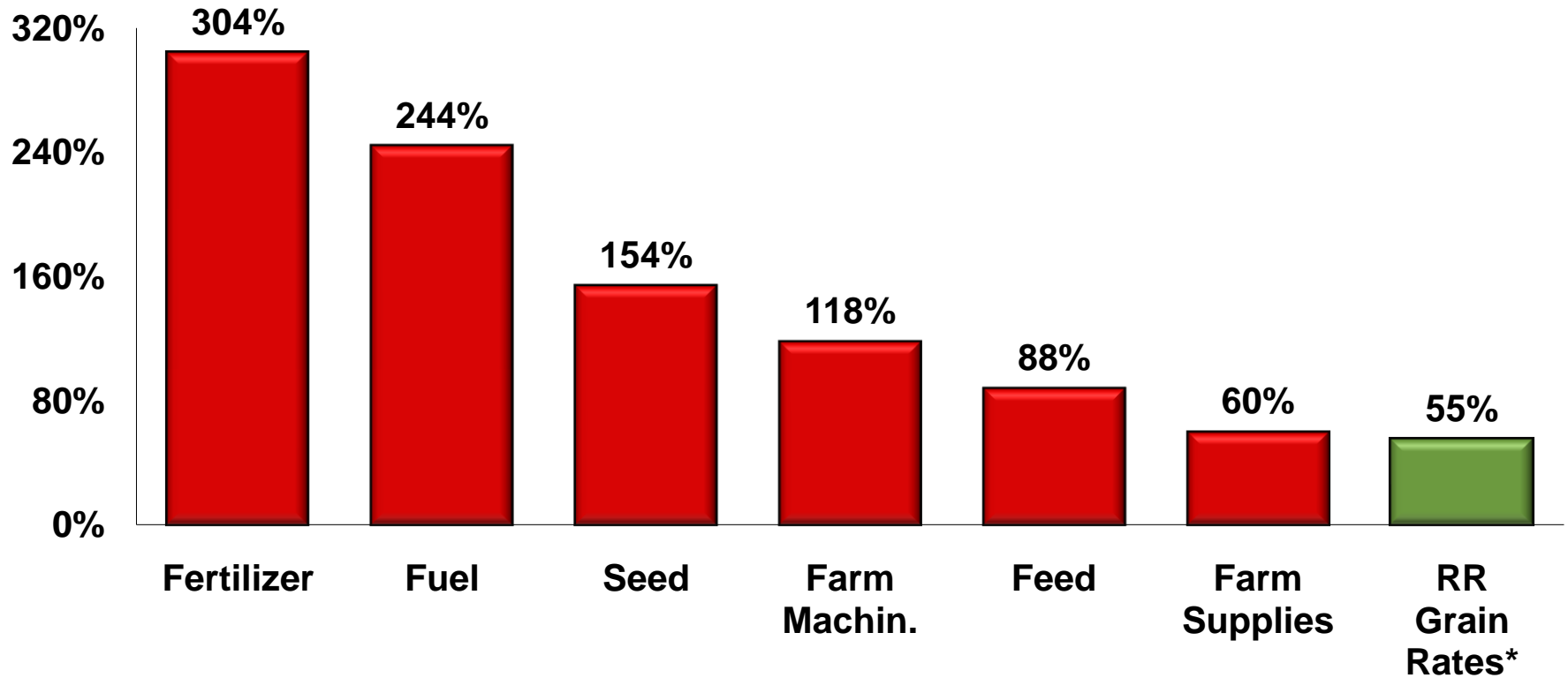
- Low-cost / high-value transportation
- Greater reliability
- Turning assets quicker
- Investing in your growth

## Agriculture Customer Satisfaction



# Railroads Help Keep Agriculture Competitive

## Changes in Price Paid by Farmers 1990-2008



Source: USDA, AAR

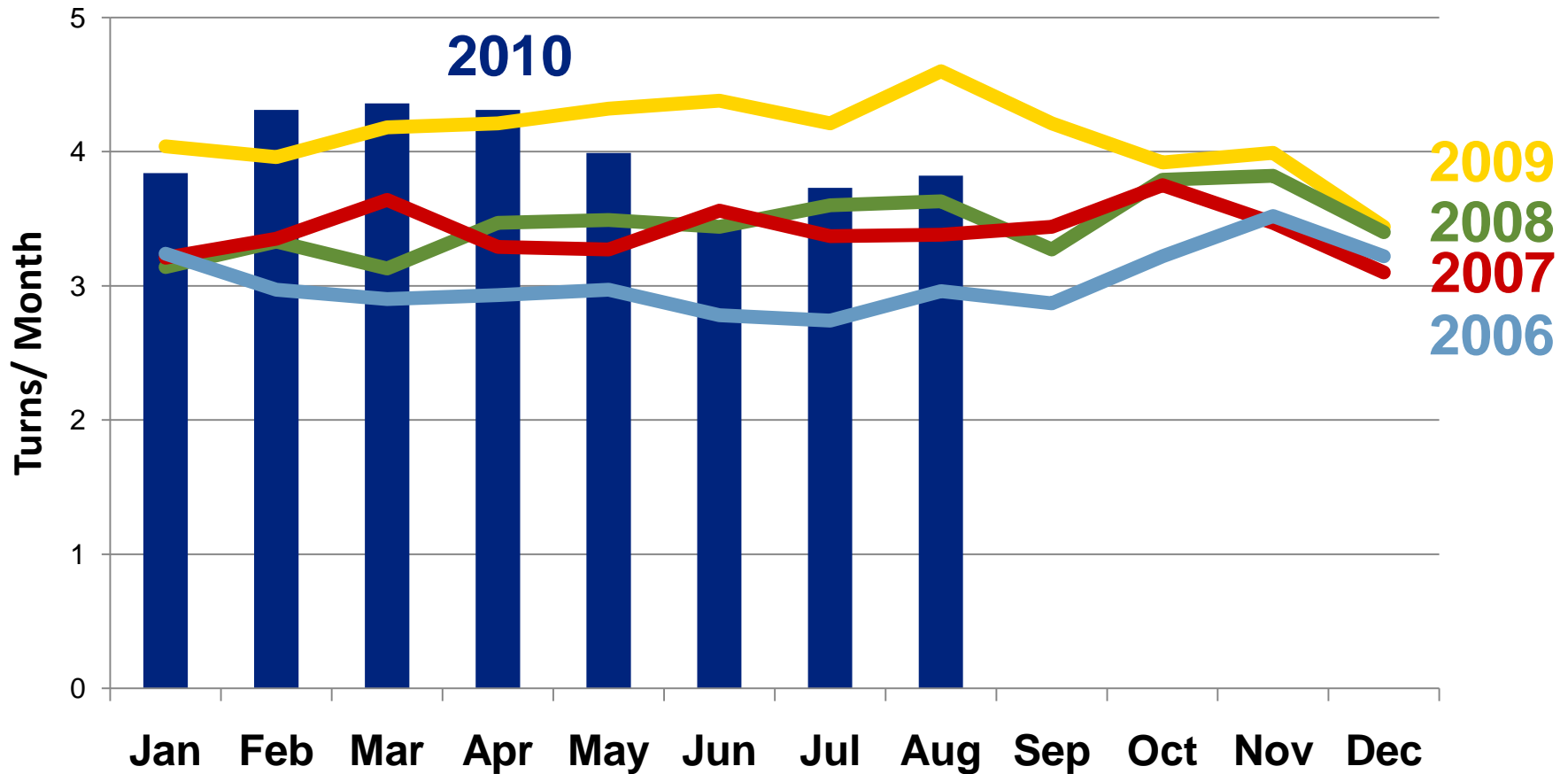
\*Revenue per ton-mile



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# Turning Assets Faster and More Reliably

## UP Shuttle Trains – Turns Per Month



# Distributed Power Improves On-time Delivery

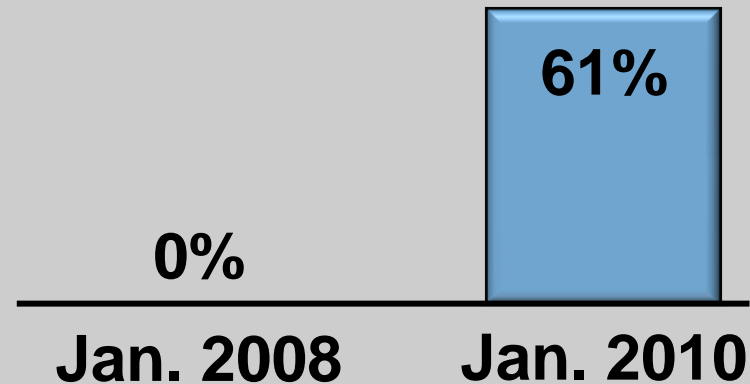
## Conventional Train Operations



## Distributed Power Train Operations



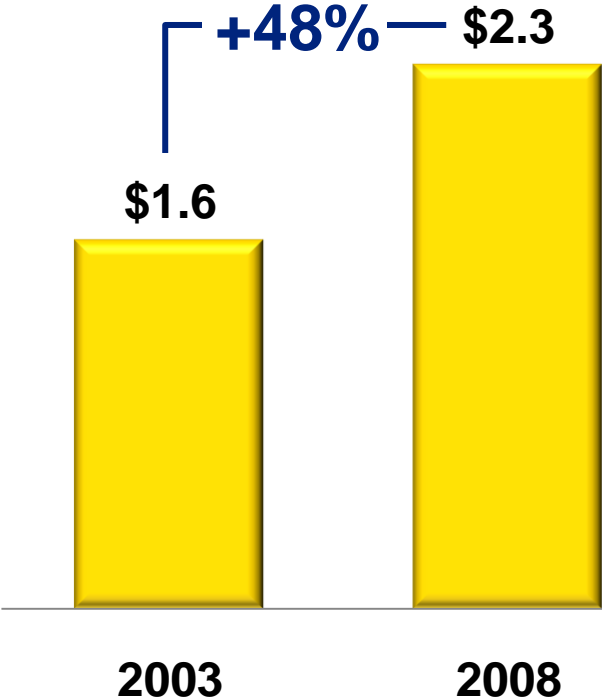
Percentage  
of grain trains with  
distributed power



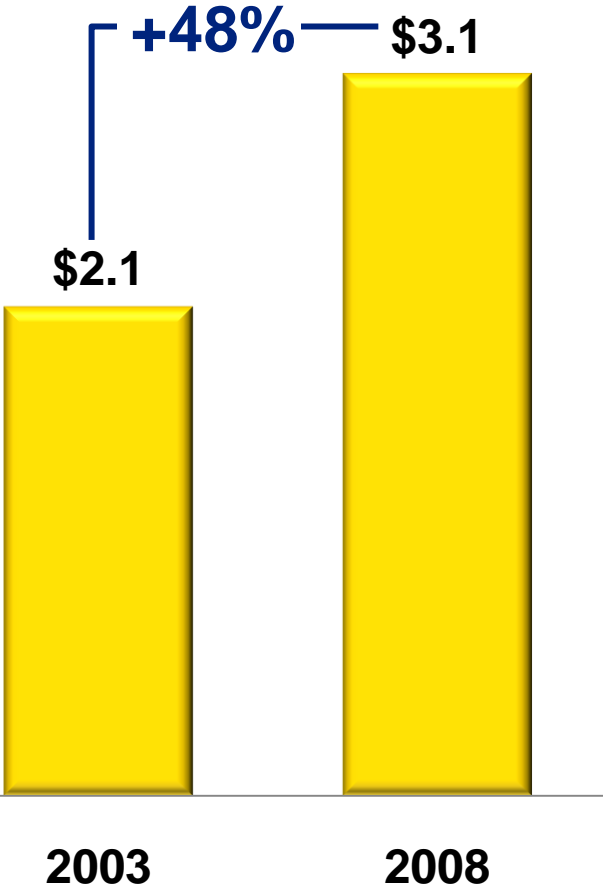
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# Financial Returns Drive Growth Investment

### Net Income (\$ in billions)



### Capital Investment\* (\$ in billions)

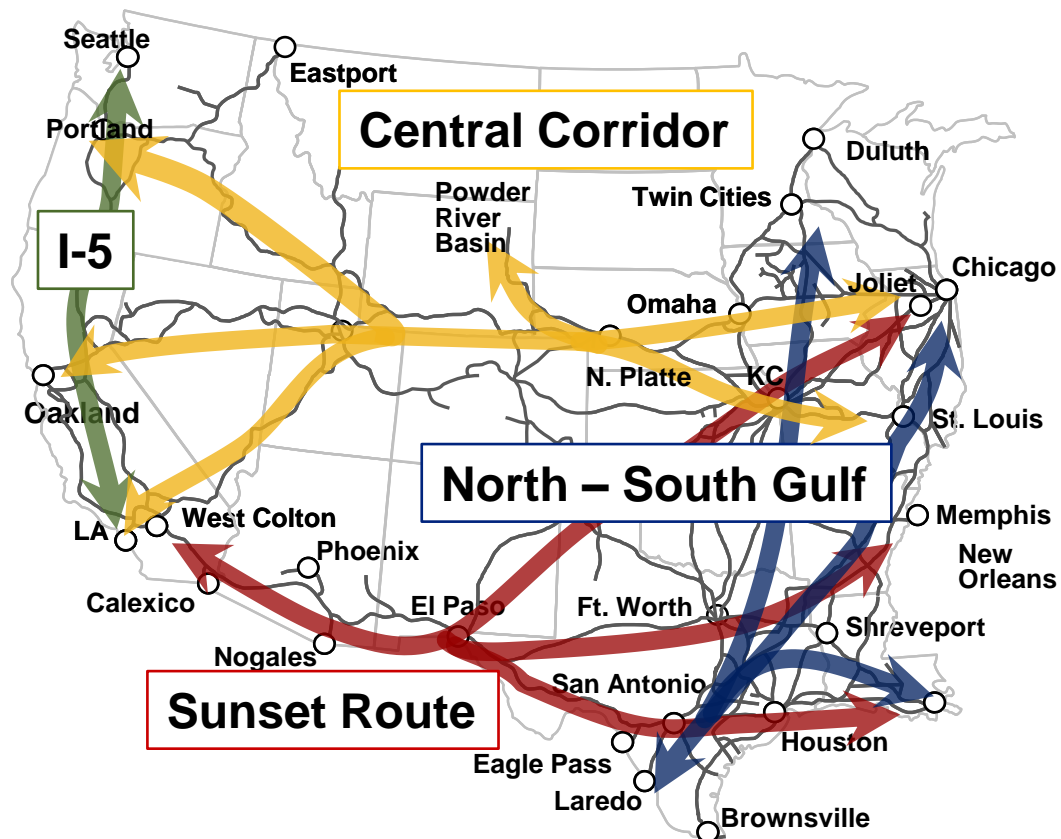


*\*Includes cash capital, non-cash capital and lease financings*



# Investments Support Corridor Strategies

- **Create train capacity**
  - Train length/DPU requires longer sidings and terminal run-thru tracks
- **Remove bottlenecks**
  - Gateways, mainlines and terminals
- **Optimize the network**



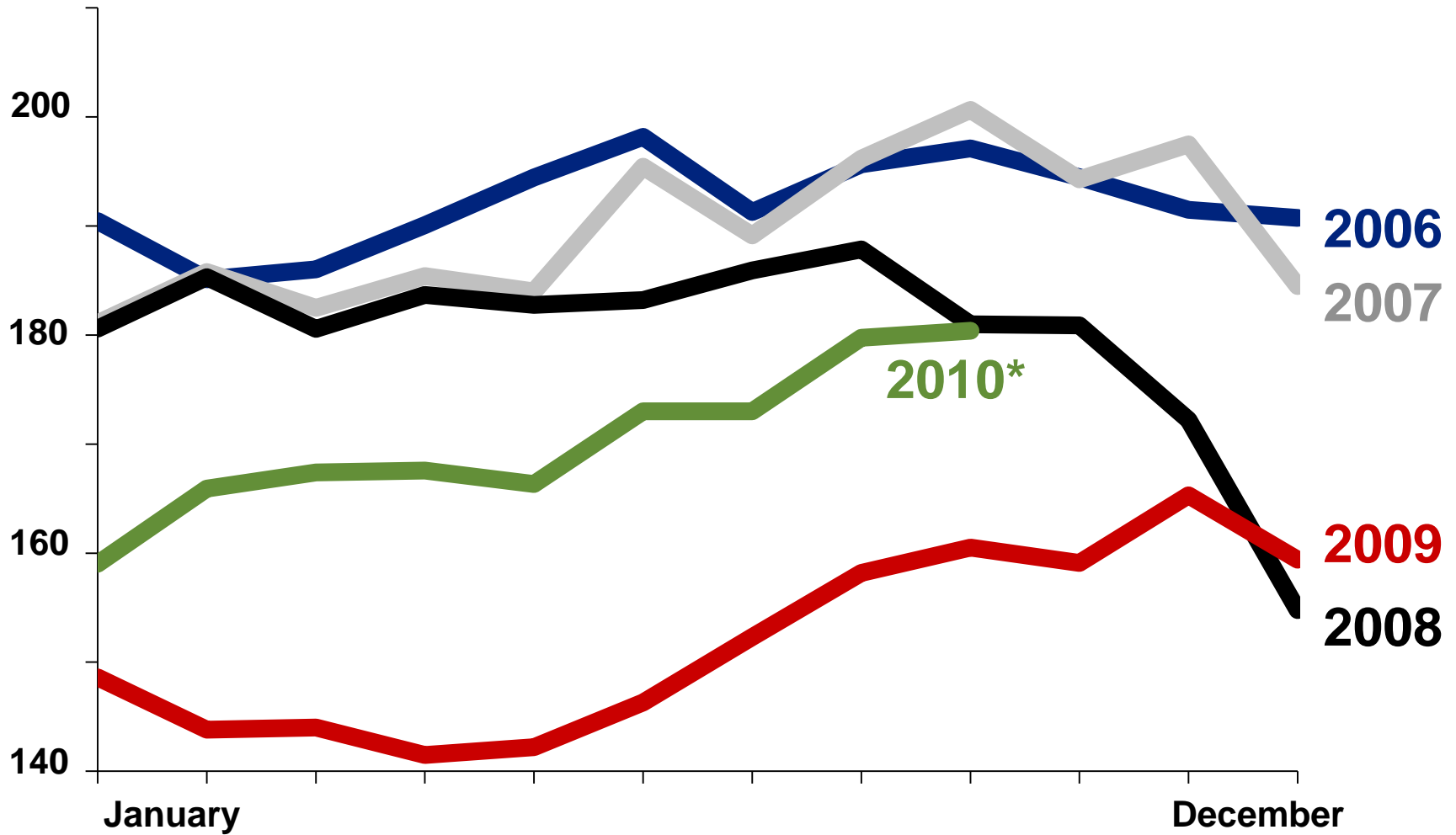
# Challenges of a Capital Intensive Business

- **2/3 of capital spending goes to replacing assets**
  - Track, bridges, and rolling stock
- **During economic downturns, expensive and long-lived assets are underutilized and unable to earn adequate returns**
- **Due to asset longevity, UP's book value greatly underestimates the replacement cost and overestimates the ROI**
  - New locomotives or cars can be 15 - 25 times the net book value of the asset being replaced
- **UP's ROI is currently below it's cost of capital**
  - Pressure from investors and rating agencies



# Volume Improving, But a Long Way to Go

## 7-Day Carloading Trends (000)



\*As of 9/11/10



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# Prepared for Economic Return



**TE&Y  
Furloughs**

**5,300**

**Peak**

**1,200**

**Current**



**Locomotives  
Stored**

**2,100**

**Peak**

**900**

**Current**



**Freight  
Cars  
Parked**

**71,000**

**Peak**

**31,000**

**Current**

Peaks in May/June 2009

September

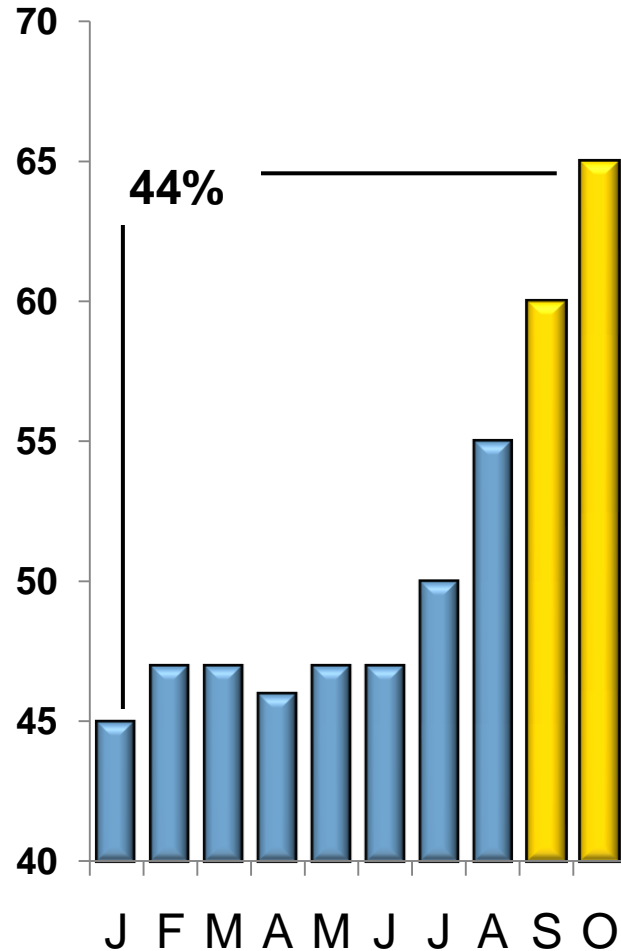


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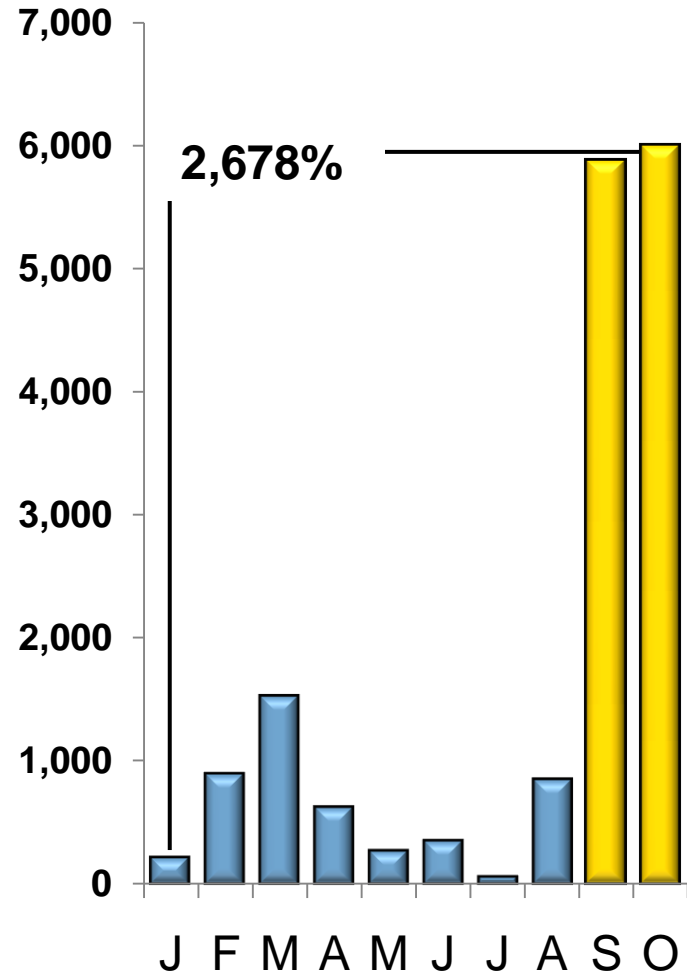
# Reacting Swiftly to Market Shifts

- Demand Variable
- Pulled cars from storage
- Leased additional cars
- Increased number of dedicated train sets

## 2010 Shuttle Train Sets



## 2010 Vouchers (carloads)



# Washington Concerns

- Regulation/anti-trust
- Climate legislation
- Positive train control
- Passenger rail
- Border



# Importance of Rail to America



- **Safe**
- **Cost efficient**
- **Cleaner skies, clearer roads**
- **Energy independence**
  - **Almost four times more fuel efficient than trucks**
- **\$1 rail investment yields \$3 in economic benefits**
- **Good-paying American jobs**



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# Union Pacific's Long-term Commitment to Grain

- **Market access**
- **Excellent customer value**
- **Invest where returns warrant**
- **Managing volume variability**



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