May 2015

Union Pacific Railroad

Mastering the Tides Of Change

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Thanks for inviting me, does not get much better than this for a conference

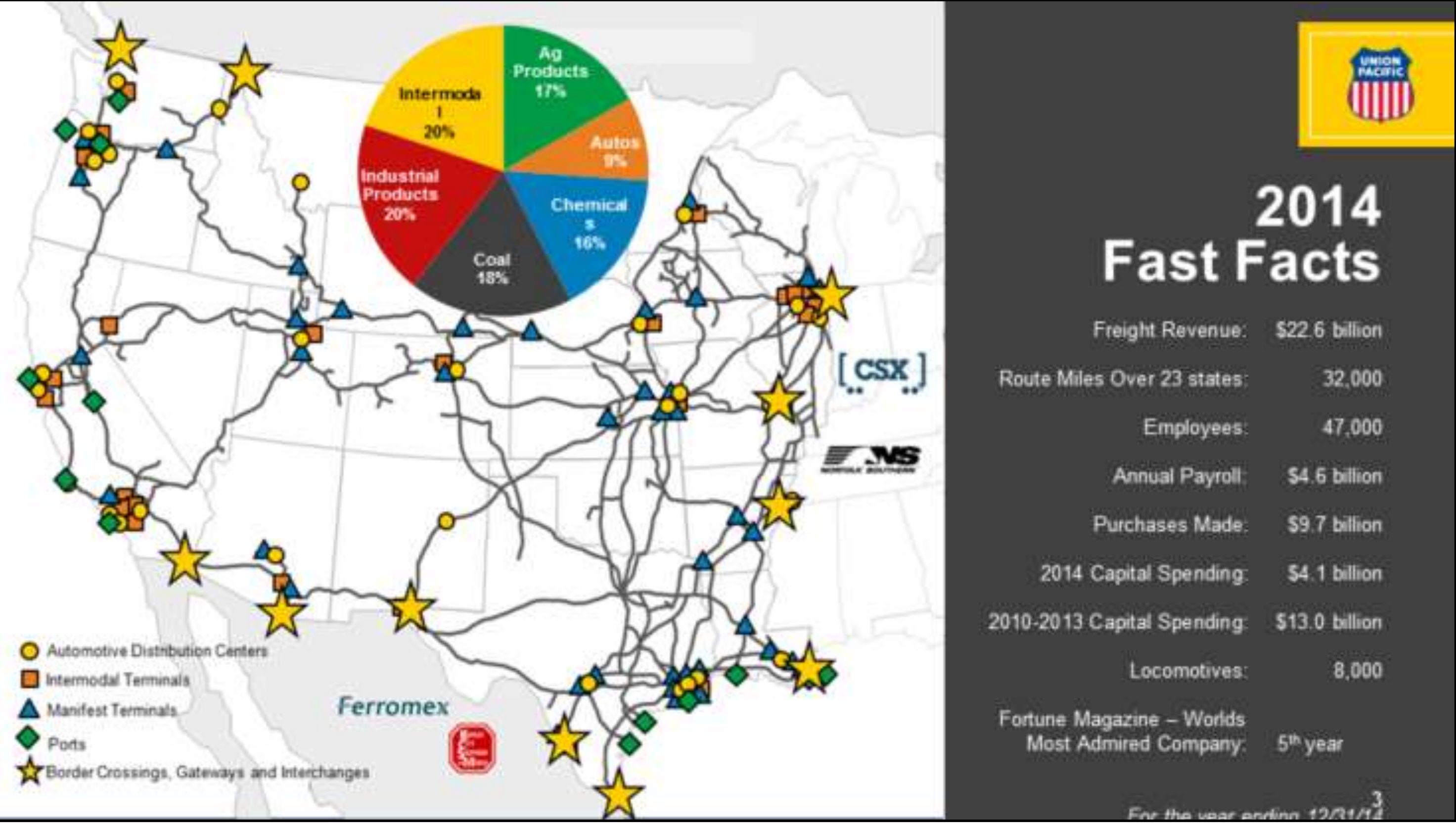
Agenda

- Overview of Union Pacific
- Status of West Coast
- Operational Changes on West Coast
- Panama Canal
- The Gulf

Mastering the Tides of Change

2

We were asked to talk about the Tides of Change from our perspective . There seems to be more going on with the Ocean carrier industry now than in any recent time period. So I am going to jump around a little and touch on some high spots. And how changes are affecting the railroad and how we approach this market segment



Hopefully you are aware of Union Pacific but each year we publish some fast facts about the company that provide a quick overview of some key metrics about the prior year.

For 2014, our freight revenue was $22.6 billion.

Our route miles, which you can see on the map cover 32,000 miles in 23 states.

We had 47,000 employees with an annual payroll of $4.3 billion.

The company made $9.7 billion in purchases.

The capital spend for 2014 was $4.1 billion, and for the previous four years combined, the total was $13 billion.

At the end of 2014 we had 8,000 locomotives.’

And for the 5th year running we are one of Fortune Magazines most admired companies

Note: Updated annually.

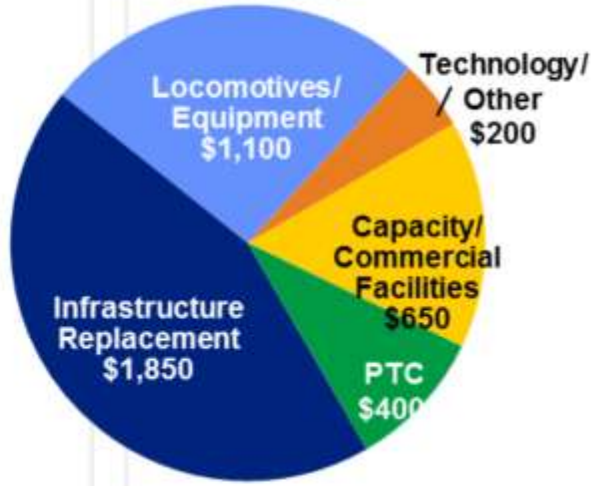
Strengthening the Franchise

Replacement, Growth & Productivity, and PTC

- **Safe and Resilient Infrastructure**
  - **Record Safety Results**
- **Continued Capacity Spending**
  - **Southern Region**
  - **Network Strategies**
  - **Realize Productivity**
- **Equipment Acquisitions**
  - **218 New Locomotives**
  - **800 Freight Cars**
  - **More than 3,500 Containers & 6,500 Chassis**
- **Create Value for our Customers**

~$4.2B 2015 Capital Plan*

($ in Millions)



* Includes cash capital, leases and other non-cash capital.

We along with the rest of the industry spend 17 – 18% of our revenue on continuing to maintain and expand our plant.
We need to replace an average of 2 – 3 miles of rail and ties per Day to just maintain the RR
2015 will be another record spend, investing in our southern Region, improving the safety of our network, purchasing new Equipment and creating value

2015 Volume Outlook

Agricultural Products
- ? Weather / 2015 Crop
- \+ Ethanol & DDGs
- \+ Beer & Refrigerated

Automotive
- \+ Strong Industry Sales Continue

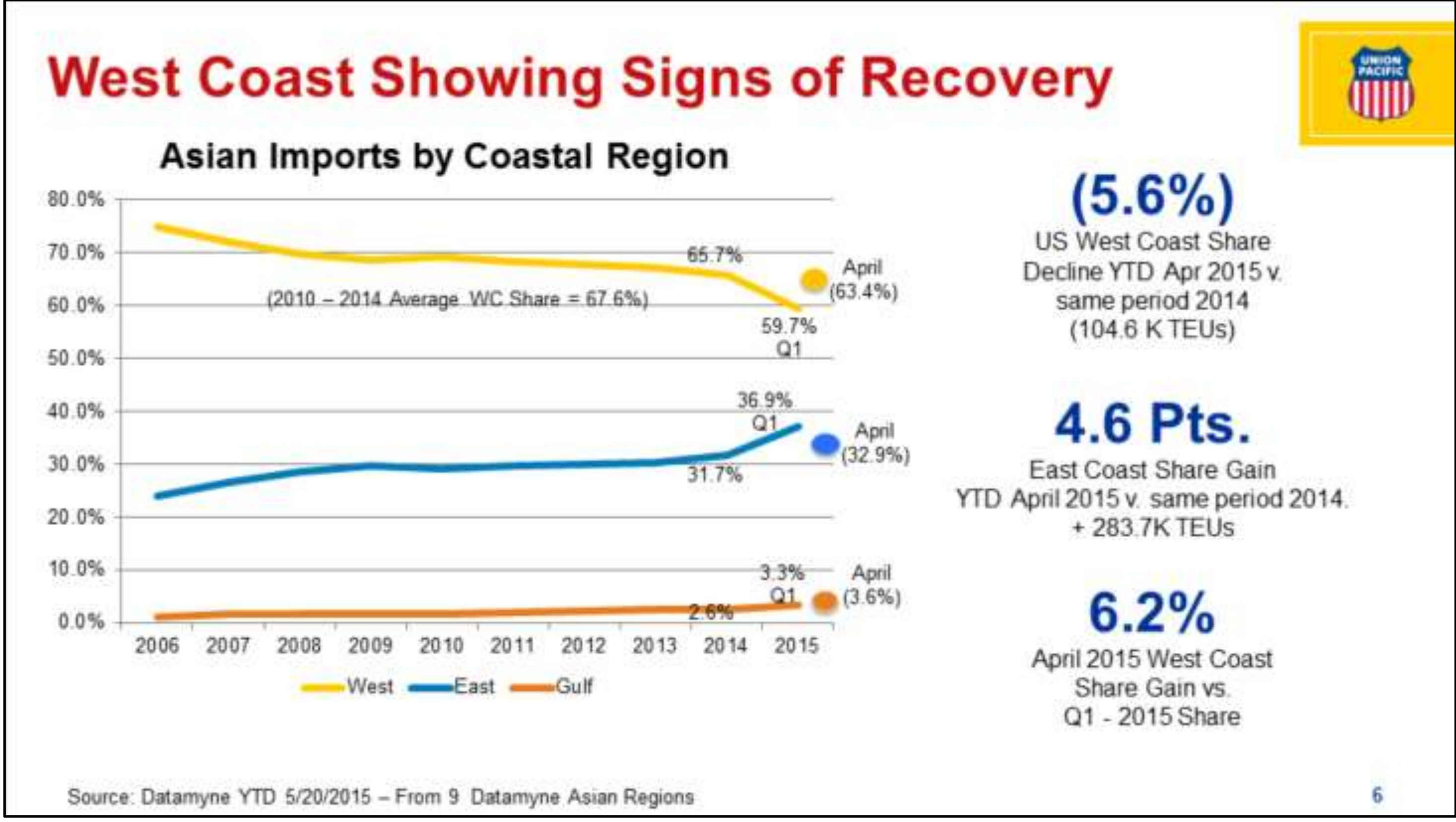
Coal
- ? Weather
- \- Natural Gas Prices

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

Industrial Products
- \- Shale Drilling
- \+ Construction Products
- \+ Housing

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

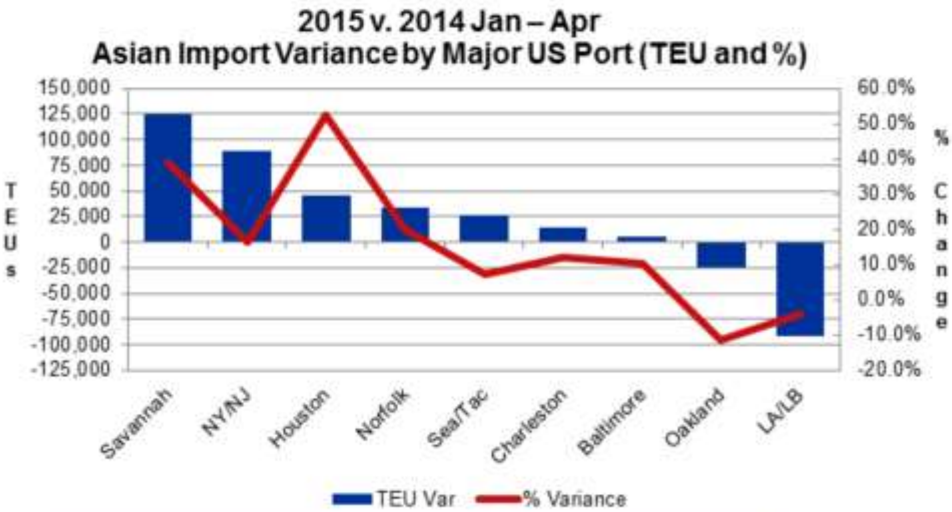
We get asked a lot about our outlook so I thought I would share
On a high level what we see
Actually we were a lot more optimistic at the beginning of the year
Than what the business levels we are actually seeing.
Auto, Chemicals (other than crude) Construction and Domestic
Intermodal are all strong, but other areas are either starting out
Weaker than expected or we are not sure.



So lets touch on what we are here to talk about. Obviously the labor negotiations on the west coast had an impact. And the big discussion point is how much of the diverted traffic will stick vs flow back to the west coast. As we all know our customers will find a way to keep their product moving. And they made changes in late 14 and early 15. However we are starting to see a swing of Asian import business move back to the west coast. April 2015 west coast share is 6.2% higher than combined 1st Qtr Share.

You will note that the Gulf coast share actually increased slightly in April and that was driven by Houston. But that spike was with primarily one ocean carrier, so not sure if they had one or two sweeper vessels come in that will not likely repeat now that the west coast is operational again

Volume Diverts to East Coast Due to West Coast Labor Issues



Coastal Region	Jan - Apr 2015	Jan - Apr 2014	% Change
Total	4,617,683	4,386,315	5.27%
East	1,653,048	1,369,392	20.71%
West	2,802,984	2,907,543	-3.60%
Gulf	161,651	109,380	47.79%

Source: Datamyne, volumes are in TEU

22.7%
YOY Volume Increase at East and Gulf Coast Ports

(4.0%)
West Coast Ports % Volume Decline (104,559) TEUs

124,796
Savannah's unit growth Year-over-Year

52.6%
Port of Houston % Volume Increase

7

Another is by Port, Savannah had the largest volume gain while Houston had the largest percentage gain. All at the expense of LA/LB and Oakland. PNW actually gained some volume over Jan – Apr 2014
In addition to Houston we also know that there were a few sweeper vessels that ran to the east coast, and again those are not likely to continue now that the west coast is up and running again.

Tides of Change (?) – The Panama Canal

Ultimately Total Supply Chain Cost will drive the gateway

Panama Alternative

- EC Import share stable with % of east coast of population
  - OH Valley - BCO Supply Strategy
- Gulf coast import share stable with % of Gulf coast population
  - Small share shift to Gulf based on population density ?
- Are congestion and infrastructure issues any better on the East or Gulf coasts?

West Coast

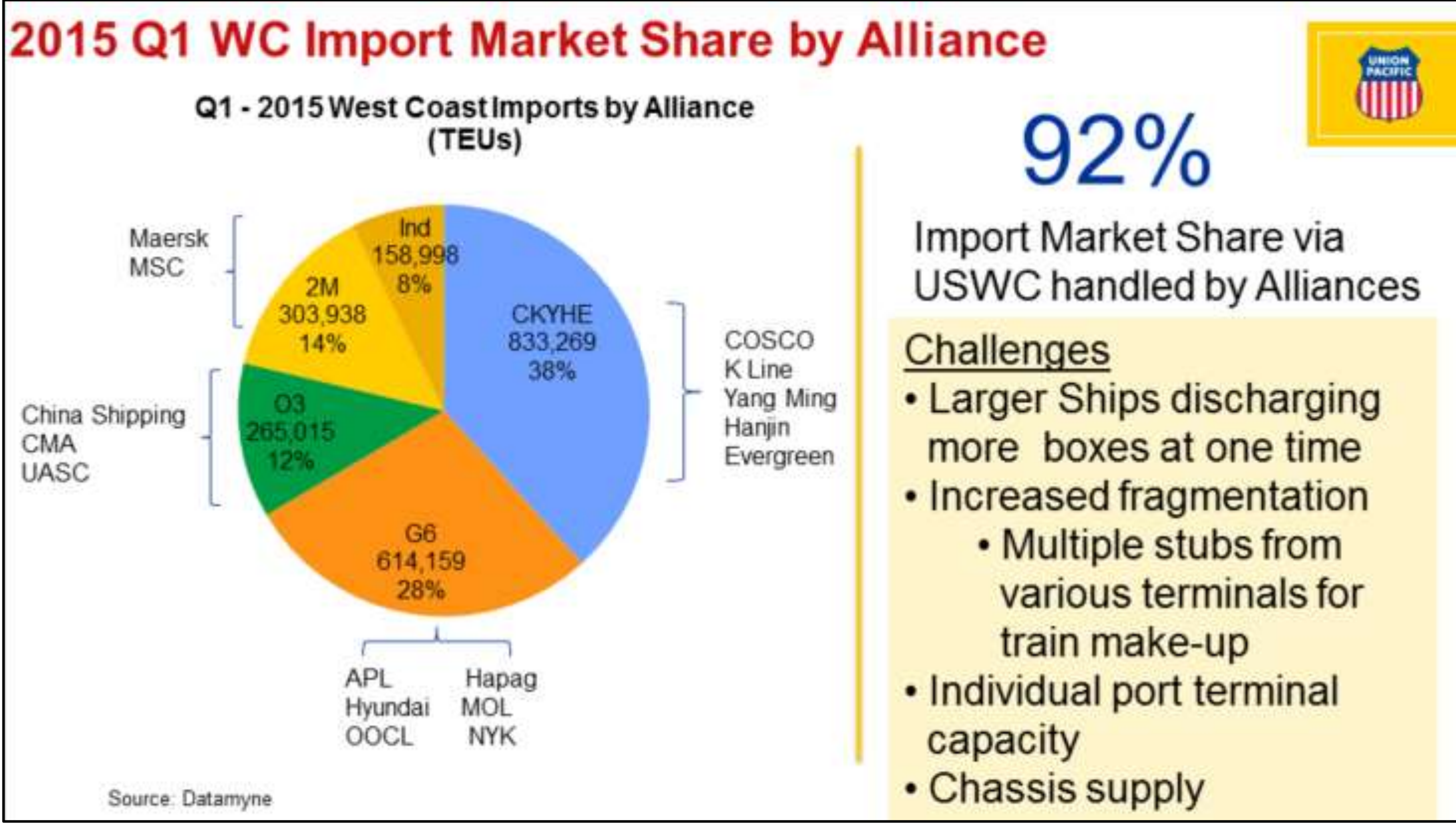
- West Coast ports "Big Ship Ready"
- Asian imports naturally move via WC
- Fastest transit times
- Gray chassis pool in place
- 73% - On-Dock shipments
- EC Labor Contract does not have automation clause

8

One of the major changes which will occur in April 206 is the opening of the larger locks in the Panama Canal. The ultimate question that many industry experts, logistics professionals, ocean carriers, customers are trying to answer is , so what does that mean? Andrew and I talked about this a little the other day and I have decided that Andrew has all the answers and ultimately the control. Because bottom line it may take a while, but ultimately the market will drive the answer. Which gateway is the best for my supply chain.
However here is one way to look at a component of the decision process. One of many as other components include
-Size of ships and efficiencies gained
- OC Pricing strategy
- Customer demand
-Suez Canal
- Time value of money
-Episotic events
But from strictly a population standpoint since 2010 the EC share has been consistent with the % of population along the Atlantic seaboard
In 2014 we saw that share increase. Assuming then there way some swing of some additional mid-south and Oh Valley shipments. The Gulf especially TX is growing in population dramatically so could there be a small share shift permenatly? Perhaps
But lets not write off the west coast. Based on the points outlined is the East coast immune to congestion?, The WC is big ship ready today and currently working 14,000 TEU vessels. Overall transit time is still better for Asian imports moving via the West coast, and maybe a longer term benefit is that the ILA labor agreement does not have an automation clause in the contract where the ILWU contract does and we are seeing a couple of terminals starting to automate, which will drive huge efficiencies.

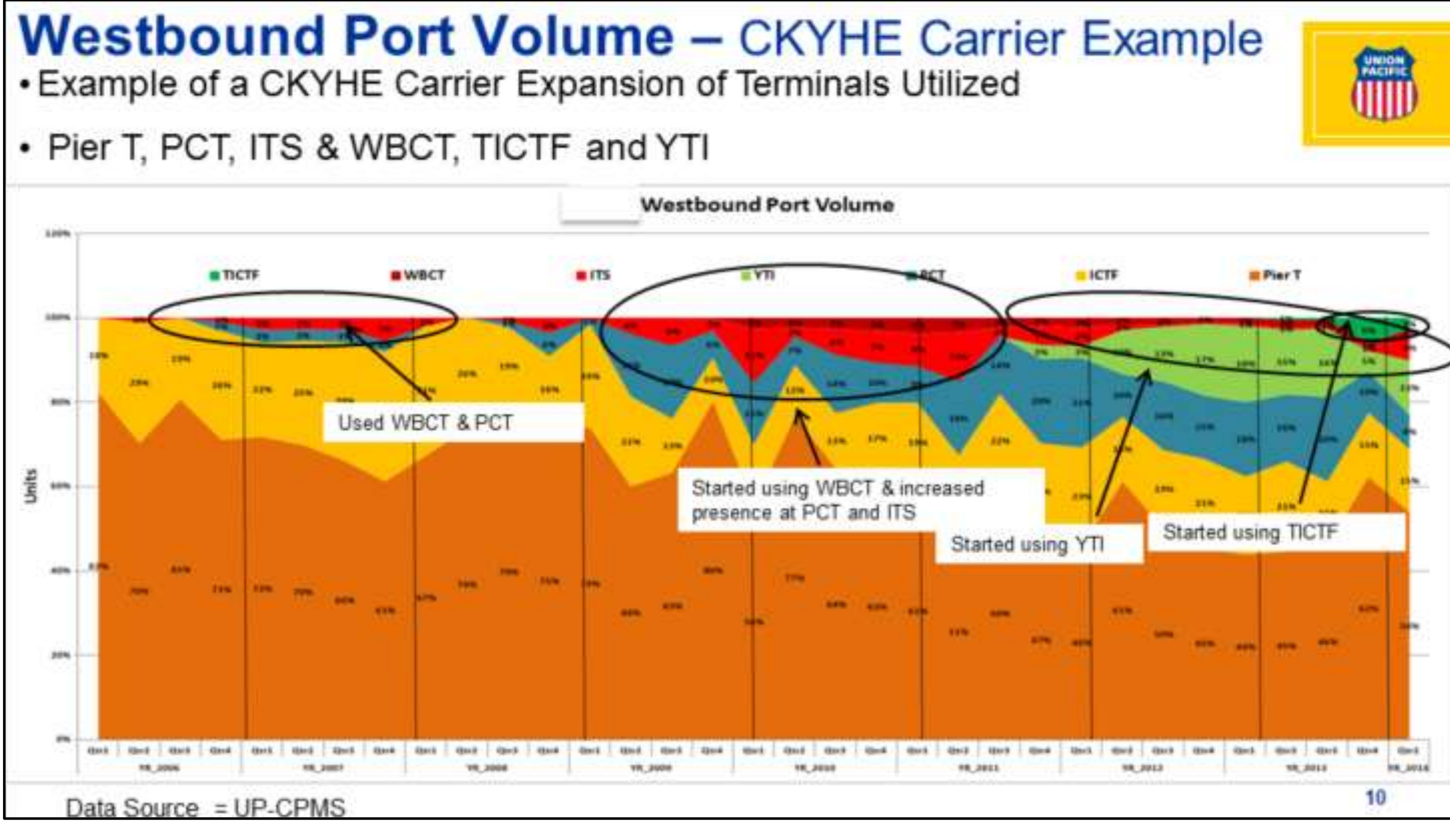
I would love to be able to tell by President, CEO and board exactly what is going to happen so if anyone out there knows, I would love to talk to you

And remember I am speaking from a West coast RR perspective !



Lets talk about another change, and this one we know what is happening, although the supply chain is still adjusting the change is here

And that is the formation of the Ocean Carrier Alliances. Alliances now handle 92% of the West coast imports. Part of the benefit of an Alliance is the ability to fill larger ships to achieve better economics.
But on the land side there are some challenges we are wrestling with
-As noted on the slide the total supply chain is trying to work thru these issues
-From a rail perspective all of them have an impact
- I will discuss the fragmentation issue in a minute, but to touch on the chassis situation. A lot of growing pains with this. We see it at our ramps. A number of the newly formed chassis pools have not added any chassis to their fleets since they were purchased from the Ocean Carriers. We hold the carriers accountable to supply chassis, but they seem to have lost some influence. I would just ask that as a customer work with your ocean carrier so we can deliver loads upon arrival so we do not have boxes sitting on a chassis congesting our ramp and adding to the shortage. Our ramp dwell time has increased from an overall average in 2013 of 47 hours to 64 hours now. And in LA it is currently 93 hours and that negatively affects the whole supply chain.



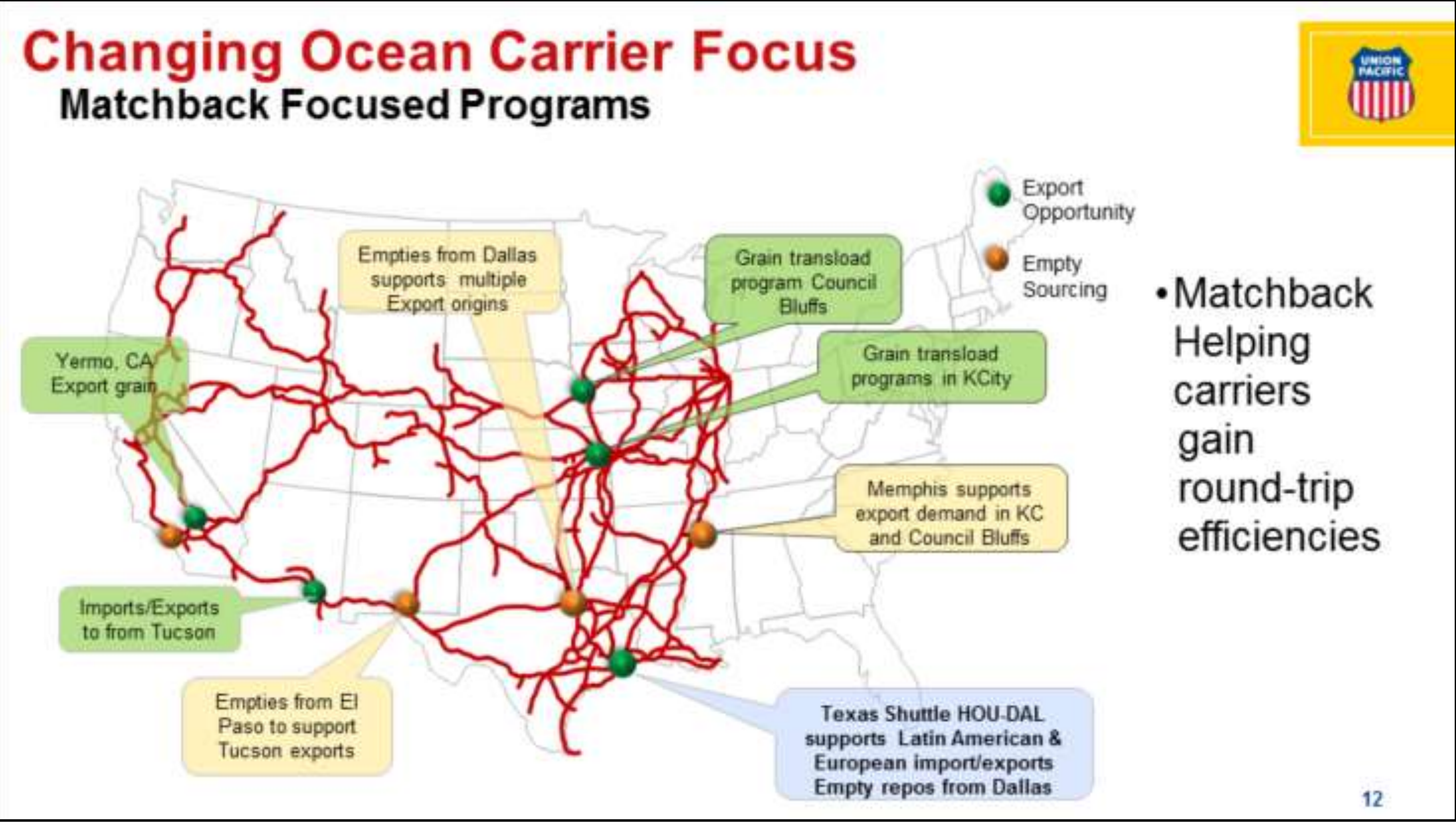
Fragmentation is another change and issue we are seeing
The above chart is an example of a westbound move and the changes the Alliances have driven
Since alliance partners may be selling slots on other partners ships that call on different port terminals the train that previously came in with one to three blocks or destinations now has 6 + terminal destinations. Same volume but more blocks.
Means we need to perform more switching which slows the flow into and out of the LA basin and can back our network up
The Ocean carriers are looking at this to determine if they can block stow their ships at origin like many did before, but that is difficult. But it does mean more congestion at the terminal, and longer time to build trains

Union Pacific Adapting to the Changes

- Investing in cross-over tracks on mainline near ICTF
- Studying long term viability of a block swapping yard and operations in Santa Teresa
- Continue westbound three car minimum (30 FEU) destined on-dock
- Facilitated improvement of communication for local tactical operational issues
- Implemented westbound flow optimization strategy
    - Port terminals over capacity
    - Implemented WB train service by DOW from/to several key terminals
    - Limited embargos to control flow
- Ran “Shuttle Trains” from dock to ICTF to help clear terminals

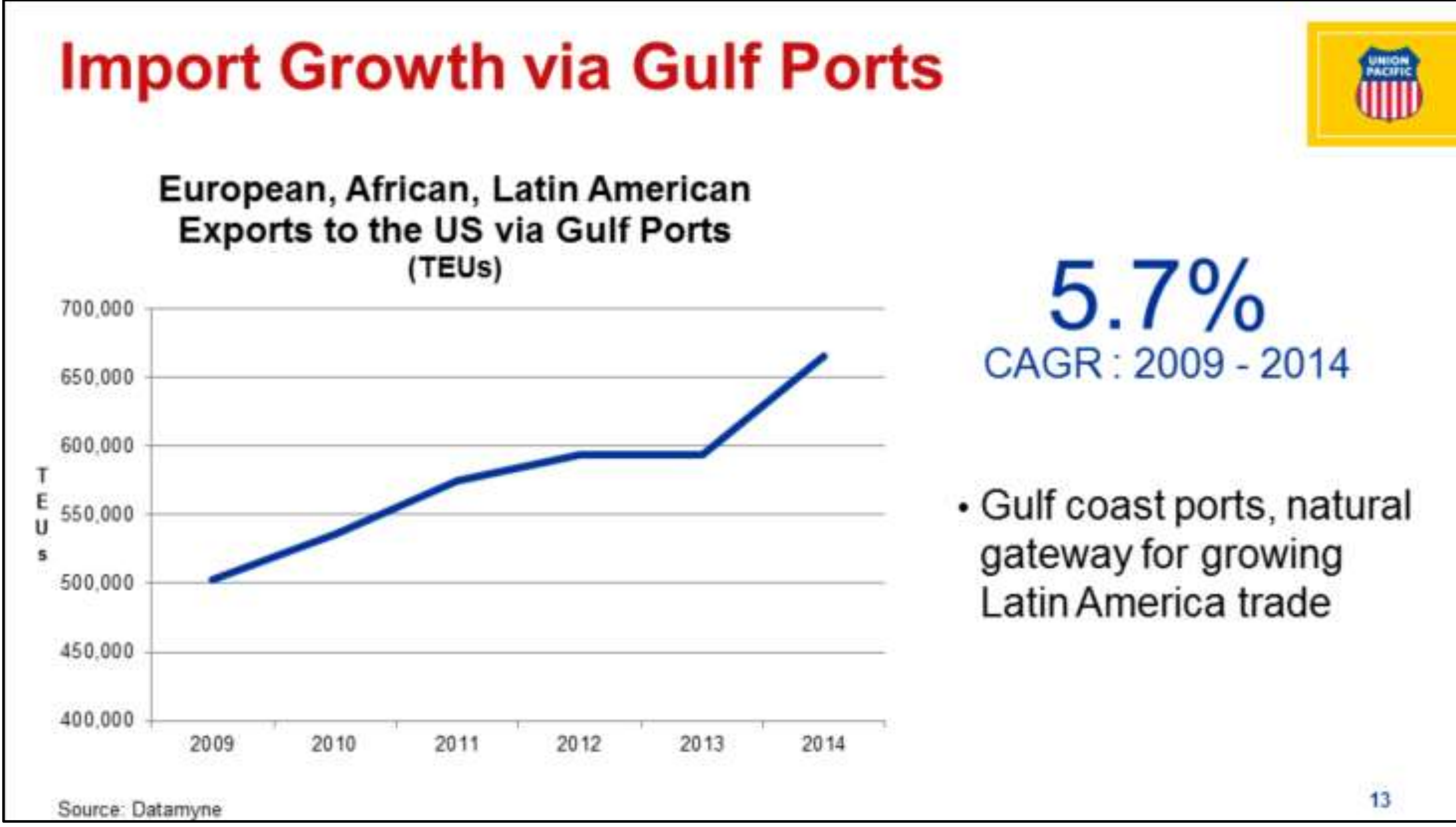
11

So quit whining and tell us what you are doing about it !
OK – we are installing cross over tracks which will allow us to build longer trains more effectively allowing us to pick up and drop off at both ICTF and On-dock. We have seen our on dock density decrease with certain alliances thus more is flowing thru our near dock facility
We have required the Ocean carriers to tender a minimum of 30 FEUs to run westbound to an on-dock terminal vs allowing single cars which caused us more switching.
We implemented a flow optimization program which optimizes the flow into capacity constrained port terminals by origin and DOW
This keeps our network fluid as well as provides the terminals with a scheduled operation. One other mechanism we have used which we do not like to is an embargo. On a few occasions we have had to impose and embargo due to the fact that the port terminal has not been able to handle the flow. They were over capacity and we were backing up trains on our network. So we embargo moves to a specific terminal and let them get fluid again, then turn the flow back on usually via our flow optimization program.
We have also run shuttle trains between our near dock facility and on-dock to help with the congestion and add capacity to the dray network

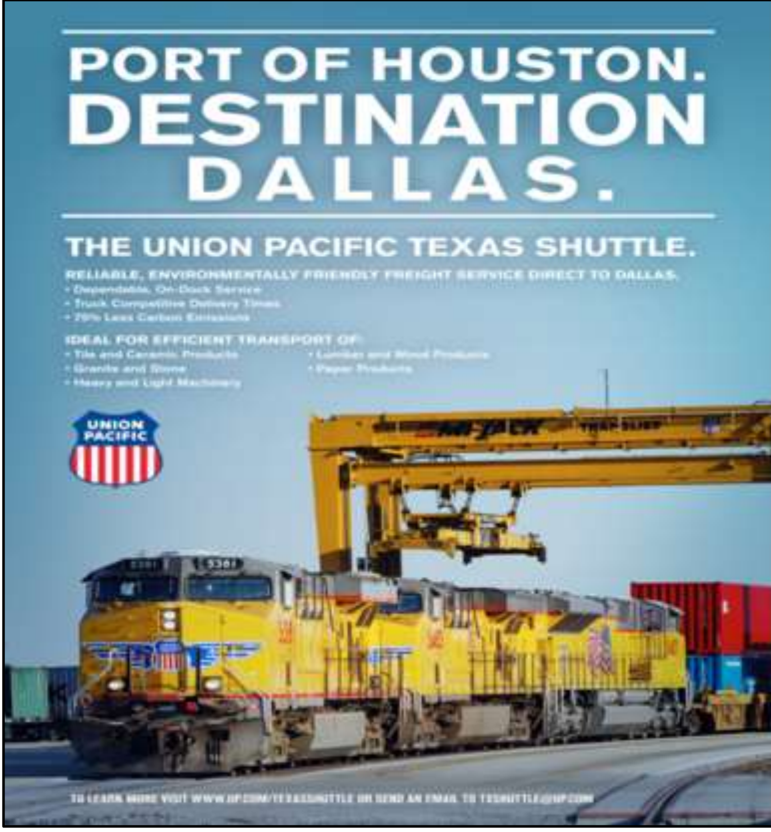


Another change we are seeing is that the Ocean carriers are focusing more on round trip economics vs totally import centric, Like any other transportation company they need round trip economics to be competitive. So carriers are picking and choosing what business they want to handle more so now than in the past.

Addressing that change we are helping them find return export loads. Repositioning empty boxes from surplus areas to areas where there is a need. For example from Dallas to Council Bluffs where we just opened an export grain transload facility.



Quickly touching on the Gulf, the Gulf ports are seeing an above GDP growth on imports from Europe and Latin America. As you can see Gulf ports have experienced a 5.7% CAGR since 2009. The Gulf being a natural gateway from many of these imports.



Short Haul Markets

- Non-Traditional Rail Markets
- Designed to meet the growing imports from Latin America and Europe
- Weekly service matched with ship arrivals and departures

14

We are trying to change the way we look at markets. We are used to 1500 mile hauls in our intermodal network. But with the growth of imports and exports via Houston we established a train that runs only 260 miles between Port of Houston and a very fast growing metro area of Dallas. We designed the service to match the majority of ship arrivals and departures and is working very well.

Adapting to Change - UPDS Sail 2 Rail

Helping those not familiar with Rail take advantage of the economies of Rail

- Sail 2 Rail simplifies importing pulp and paper products into the U.S
- Sail 2 Rail creates a user-friendly experience for shipping your exports by rail while offering competitive pricing and logistics

Key Benefits

- Seamless service to rail and non-rail customers, combining truck, rail and ocean transportation
- Real-time monitoring of loaded and unloaded railcars
- Inventory and lane management
- Dedicated UPDS Operations Coordinator
- Coordination with the entire supply chain to ensure proper loading for a timely delivery
- Single freight bill door-to-door

15

One last example of how UP is adapting to some to some of the changes. The US consumption of Eucalyptus has grown recently. Eucalyptus is what makes our toilet paper soft, and we must like soft toilet paper. But this is a relatively new market and new market entrants. Our sail 2 rail program has been a major factor helping several Brazilian companies export product into US markets

UPDS can handle all or part of the inland transportation, arrange for cars, monitor the moves, solve issues, essentially make it easy to do business with a Railroad.

We have had a 100% equipment fill rate since June last year when this business really starting moving . We handle bulk shipments thru the Ports of Beaumont and Pt Arthur, but eastern Gulf ports also handle a significant amount as well