

Pacific Northwest Association of Rail Shippers



Eric Butler - VP General Manager -
Industrial Products
September 22, 2011



Union Pacific Overview

Our View of International Trade

Issues and Barriers

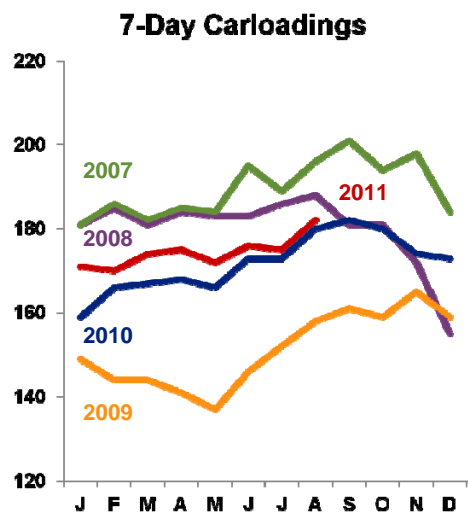
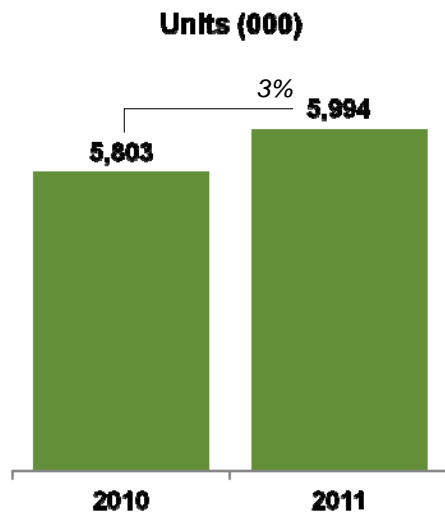
UPDS

Wherever You Find Business, You'll Find Us...

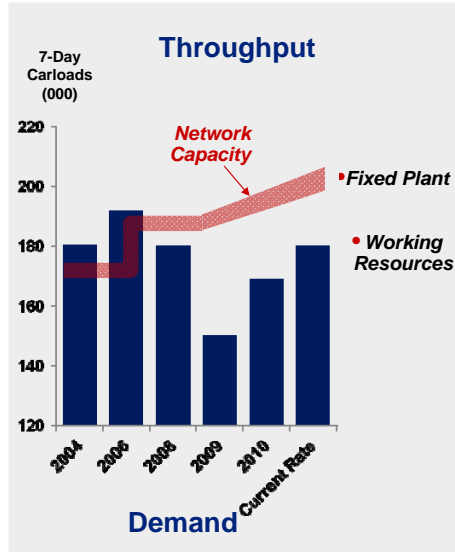
The collage features several key elements: a McDonald's restaurant, a dark-colored car, a glowing lightbulb, a yellow train, a white wind turbine, a construction site with wooden framing, and a sign for E10 UNLEADED. A map of the United States is in the background with red lines connecting various cities. The cities labeled include Seattle, Portland, Chicago, Dallas, San Antonio, Houston, Laredo, Eagle Pass, and Brownsville. The number '2' is in the bottom left corner of the collage area.

The Year So Far...

Improved Economy and UP Value Proposition Drive Growth



Volume Variability - Resources



Working Resources

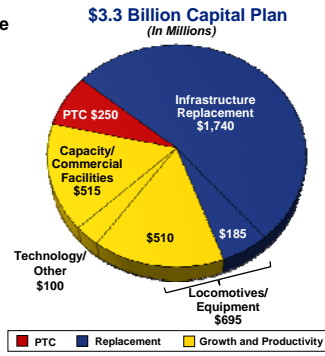
Furloughs/Stored:

- 250 TE&Y (peak 5,300)
- 670 Locomotives (peak 2,100)
- 24,000 Freight Cars (peak 71,000)



Capital Investment Supports Service & Growth 2011

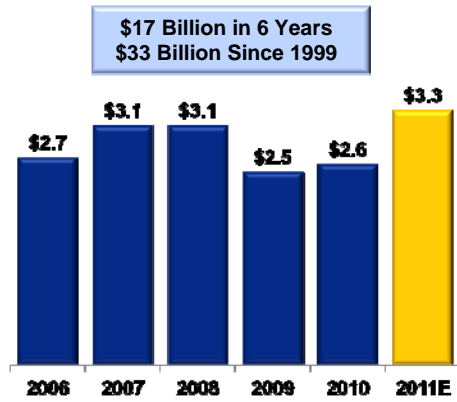
- Safe and Resilient Infrastructure
- Increased Capacity Spending
- 100 New Locomotives
- Increased PTC Spending
- Fleet Acquisitions & Improvements

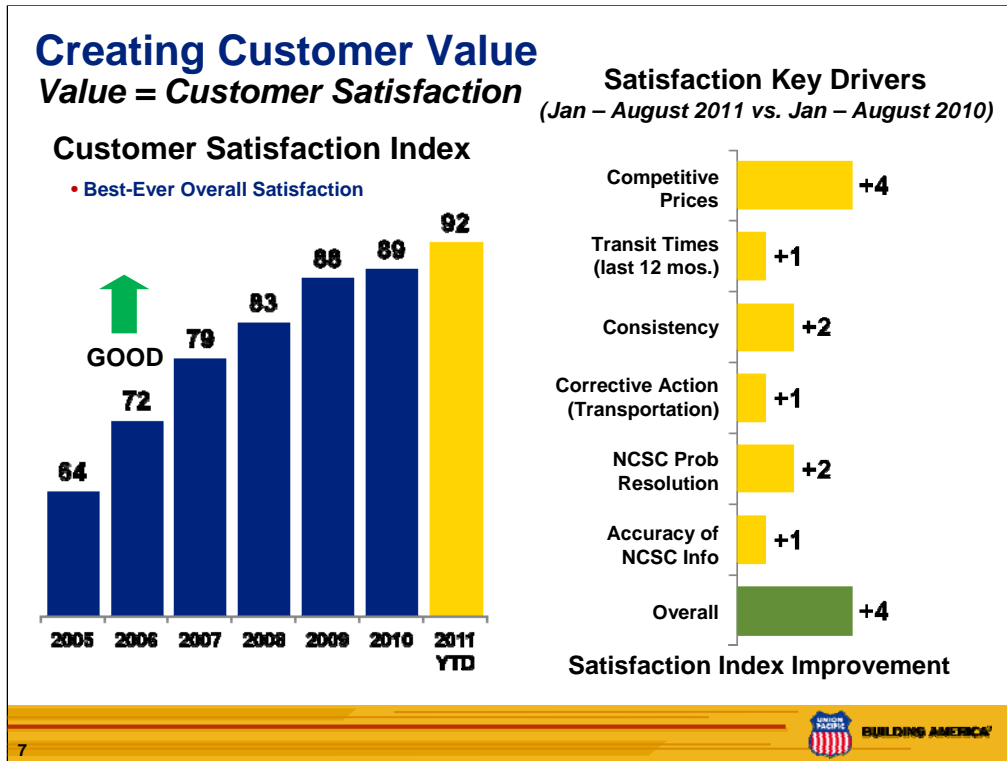


Growth with Service Excellence

Invest for Growth

- Safety
- Service
- Growth
- Productivity





The best measure of our success at creating value is what customers are saying.

One of the great success stories in 2008 was the way customers recognized the value created by vastly improved service – and across the organization in hundreds of other ways - and rewarded us with higher levels of satisfaction. Last year’s overall satisfaction level was a best-ever at 83.

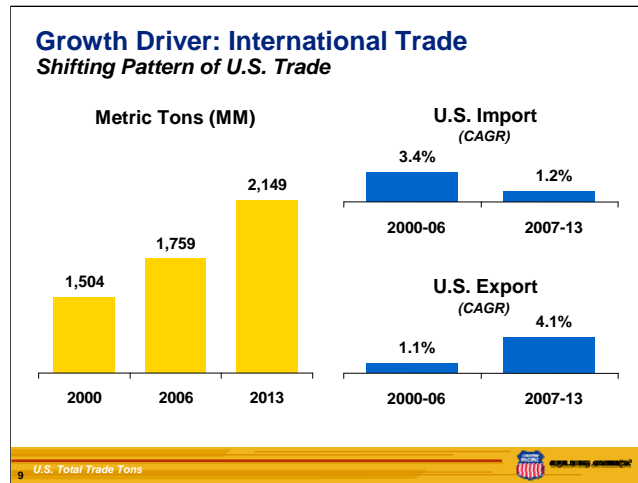
On the right, you see the key drivers of satisfaction – those questions with the highest statistical correlation to overall satisfaction. These key drivers reinforce how critical quality service is to customer satisfaction. The last five questions are all tied to service performance, how we resolve service problems, and the accuracy of the shipment information we provide. All of the key drivers– except price – posted best-ever years and overall, 27 of the survey’s 35 questions were at record levels.

2011 Weather Challenges



- Midwest Flooding in June
- Wildfires and Drought in Texas

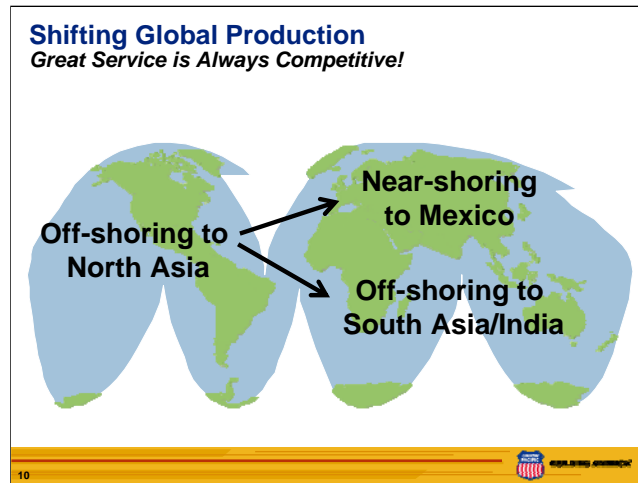




Our second growth driver is International Trade. Total International Trade for the U.S – imports and exports - has grown at about a 2.5% CAGR since 2000 and is projected to grow at a similar pace over the next five years.

BUILD

We are, however, seeing a shift in the make-up of that trade. Spurred in part by the weak dollar, import growth – shown on the top right – is expected to soften, while exports – shown on the lower right – grow at a much faster rate.



Manufacturing shifts around the globe as it seeks lower wage bases – traded off, of course, against the cost of transporting raw materials and the finished product. Additionally, as countries develop their own manufacturing base and their economies evolve, new flows for raw materials and finished goods emerge - for example, China now consumes over half of the worlds iron ore trade.

It was the offshoring of manufacturing to North Asia – first Japan, then Korea and now China – that has driven the decades long growth in west coast import business – and with it the growth in intermodal.

As wage rates rise in China, manufacturing has begun to migrate away from North Asia to seek new competitive advantage. It's moving two different directions.

Near-shoring to Mexico – where increasingly, manufacturers are investing because of lower delivered costs to US markets.

There's increasing attention being given to offshoring to South Asia, including India, Bangladesh, and Vietnam. This is really just the same cycle, repeating in a new region of the globe.

At the end of the day, our best strategy is to provide great service – because great service is always competitive.

The Role of Foreign Governments

- Debt Troubles and Financial Health
- Trade Policy
- Economic Policy
- Environmental Policy
- Subsidizing of Assets



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The U.S. is far from the only country struggling to resolve debt issues and just as it's a cloud hovering over our economic recovery, it's an impediment to a stronger global economy. The result is a drag on demand for a wide range of raw materials and products the U.S. can provide – and the UP can move.

Foreign government policies can have a broad effect on the financial health of the global economy, but they can also be much more targeted.

Trade policies can shift – or dry up – the flow of goods almost overnight. Last year's Ukrainian ban on export grain opened up the opportunity for US wheat that drove strong growth for UP. But China's anti-dumping investigation of US DDGS has brought our growth in that market to a screeching halt. The iron and steel industry expects India to begin to limit their exports of iron ore in the next few years, to support their own development needs. That will force China to look elsewhere, opening up more opportunities like our new iron ore export move.

Economic policy also plays a role. We've benefited from China's strong support of their manufacturing as the products are imported into the US and move inland via rail. On the other hand, we see them supporting the production of synthetic soda ash, a policy that hinders efforts to export soda ash from the US – exports that we would haul. The policy doesn't make sense if viewed only from a financial perspective, but it serves their larger employment objectives in a nation of so many people.

Environmental policy can also open or close markets. The move to limit auto sales in Beijing could lead to overcapacity for China manufacturers and accelerate efforts to enter the US market. Any global accord on carbon could inhibit coal growth, while on the other hand, Mexico's less stringent carbon policies help create the opportunity for us to move western coal to utilities in that country.

One final example of foreign government influence on our business is the ownership or subsidizing of assets. Canada subsidizes their ports – like Prince Rupert, and we've seen it lead to diversion of business from UP-served US ports. Some ocean carriers are government owned and viewed as strategic assets used to support national interests. This distorts market forces and can produce over-capacity in the industry, leading carriers to seek cost concessions from the railroads – working against our pricing objectives.

International Trade
Key Issues and Challenges

- Weak U.S. Economy Reduces Consumption
- Production Shifts Back to North America
- Port Infrastructure
- Developing Regions Need Raw Materials
- Agility, Infrastructure, Technology



Of course growth from International Trade is not without some challenges. Those would include:

- 1) The timing and pace of the US Economic recovery.
- 2) Rising logistics costs and a weak dollar could pull production back to North America. To the extent this happens, Mexico seems a more likely destination for on-shoring, but the good news is our superior access to Mexico positions us to handle that business as part of our domestic intermodal network or on a carload basis.
- 3) We expect the U.S. grain export market to cool over the next few years – better production worldwide will increase competition and growing domestic demand will draw more of the U.S production.
- 4) Capacity at the Ports of LA and Long Beach needs to grow, but environmental restrictions and a NIMBY mindset represent barriers to that growth.
- 5) The development of other deepwater ports has been on our radar screen for

Port Challenges

- Funding
- Environmental Concerns
- Bulk Capacity
- Operational Efficiencies and Port Fees



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FUNDING

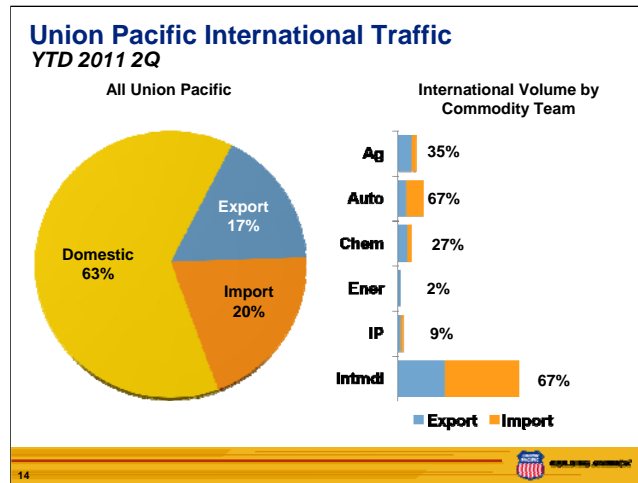
Currently, the federal, state and local govts are more concerned with replacing lost revenue streams making Public/Private partnerships the most certain way for ports to attain funds aimed at investment. Even after funding is acquired, there are still obstacles to developing infrastructure such as time to build, cost overruns, permitting and assigned land usage.

Trends/Risks

-- Rising Global Energy Costs could mean more exports of energy producing materials (e.g. coal). That could be an issue along the west coast where many ports don't have enough space allotted to these bulk commodities to meet Asian demand.

-- The economies of emerging markets are growing too quickly. Banks in China & India are raising rates to slow down the growth however they are still seeing annual growth rates in excess of 8-9%. If the governments don't get this under control, China's global status as the low cost producer of goods could be jeopardized.

-- An improved Panama Canal means Ship rotations are still varying between western, eastern and gulf ports whereas the norm was mostly focused on west coast ports before shippers starting looking for alternatives.



Ag – Mexico, Canada, traffic moving to/from port locations, river exports

Auto – Mostly Mexico (both parts and finished)

Chem – soda ash, potash and plastics

Energy – growing

IP – Mexico, Canada, traffic moving to/from port locations

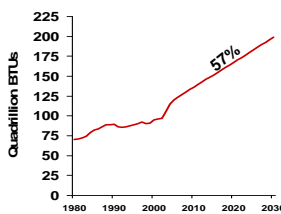
Intermodal – Mexico, Canada, International, International boxes which are transloaded inland for domestic consumption

International Trade Key Opportunities

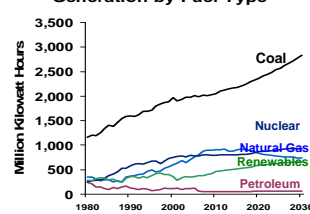


• Energy

World Demand for Coal



U.S. Electric Power Generation by Fuel Type



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Let's start with the Global Demand for energy.

Rising demand for energy around the world is driving growth in all forms of power generation, but nowhere is it as dramatic as it is in coal.

The chart on the left shows world demand for coal over the next 20 years is projected to grow 57%, even outpacing the growth we've seen over the past 20 years.

On the right, you see the projected growth of energy driven by multiple fuel sources, but clearly coal continues to outpace the others.

Now this data projects out to 2030 and certainly a lot can change that far out. But if you focus in on the next five years or even ten, we continue to believe we have a great opportunity to grow our coal business.

International Trade
Key Opportunities



- Chemicals
 - Soda Ash, Potash, Plastics
 - North American Competitive Cost Advantage
 - Alignment with Global Leaders
 - Global Demand Driven by BRIC Countries
 - Shale Development – Plastics Infrastructure

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Global Demand Driven by Emerging Markets

Expanding North American Production Capacity
Chemicals Top 3 export commodities (soda ash, potash and plastics)

- Competitive cost advantage of North American production
 - Natural product in US which is lower cost than synthetic materials produced worldwide
- UP aligned with global leaders
 - Ansac, Dow, Canpotex and Exxon Mobile (strong UP relationships with these companies)
- Global demand driven by emerging markets
 - China, India and Brazil demand growth outpacing production from other sources
- Expanding North American production capacity

International Trade *Key Opportunities*

- **Industrial Products**

- Bulk/Break Bulk Port Capacity
- China Economic Expansion
- Machinery Exports

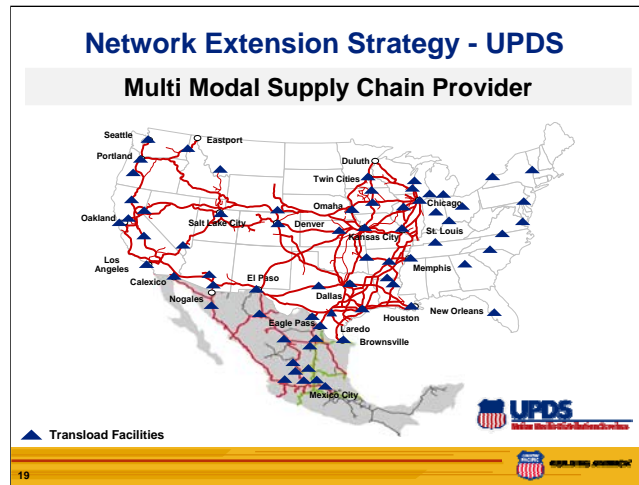


International Trade *Key Opportunities*

- **Agricultural Products**

- **Grain Production Growth**
- **Developing Countries – Need for Protein**
- **Port Expansion**





As you can see UPDS has an extensive network of transload options. Many of which handle shipments moving overseas. From export lumber, to export Perlite, to lumber and steel from overseas. Mexico is our primary trading partner and we are in a good position to handle any business moving in the NAFTA corridor

International Support - UPDS
Linking Ports to North American Markets

- Rail2Sail, Sail2Rail
 - Gulf and West Coast Ports
 - Steel, Bulk, Lumber and Other Products
- Seamless Service to Rail & Non-rail Customers
 - Equipment Ordering & Monitoring
 - Inventory & Lane Management
 - Dedicated Point of Contact



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A very popular product has been our Rail2Sail program. Here UPDS helps customers coordinate all the parties that are involved in moving product overseas. Steamship lines, Stevedores, Brokers, serving railroads, car supply. Saving our customers significant dollars in ordered not used equipment or demurrage. UPDS also has the ability to provide pricing that includes, rail, port charges, and steamship line costs and coordinate the whole move. Import or Export

Carload Solutions Mexico – BorderSolutions

- **Transload Rail and Logistics Expertise**
- **Network of Preferred Transload Facilities**
- **Relationships with Mexican Rail Carriers, Truck lines, Transloaders and Brokers**
- **BorderSolutions Product - Proactive Management**



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UPDS is well-positioned to help you get the most out of doing business in Mexico. We combine our overall expertise with the strength of our product to provide value.

Their Border Solution service works with our customers, railroad, custom brokers, freight forwarders to insure that our customers cars have cleared customs prior to arriving at the border. This is a popular service offering and our customers have seen the value in this service, saving them time and money on their shipments.

(Expand on bullets)

Looking Ahead. . . “Export Impact”...

- Position to meet the needs of changing global supply chain
- Positioned to handle exports and imports
- UP serves major gateways and Port locations
- UP designated Sales coverage and support for key import/export facilities



Thank You PNWARS
& Union Pacific Customers



Key Import/Export Assumptions

- Energy
 - Port Terminal Expansions
 - Asian Demand/Met Coal Impact
- Industrial Products
 - West Coast Breakbulk Capacity
 - Chinese Economic Expansion/Growth
 - Machinery Exports
- Intermodal
 - Growth but at a Slower Rate
 - West Coast Capacity Suitable for Anticipated Container Growth



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Chemicals Top 3 export commodities (soda ash, potash and plastics)


- Competitive cost advantage of North American production
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- Global demand driven by emerging markets
 - China, India and Brazil demand growth outpacing production from other sources
- Expanding North American production capacity (bigger player in
 - Soda ash at Granger, WY (open July 2011 – was mothballed for 2-3 years)
 - Shale development
 - Investments in plastics, ethylene and propylene facilities
- Supply chain efficiencies
 - Infrastructure investments

International Trade *Key Opportunities*

- Energy
- Chemicals
- Industrial Products
- Agricultural Products
- Intermodal

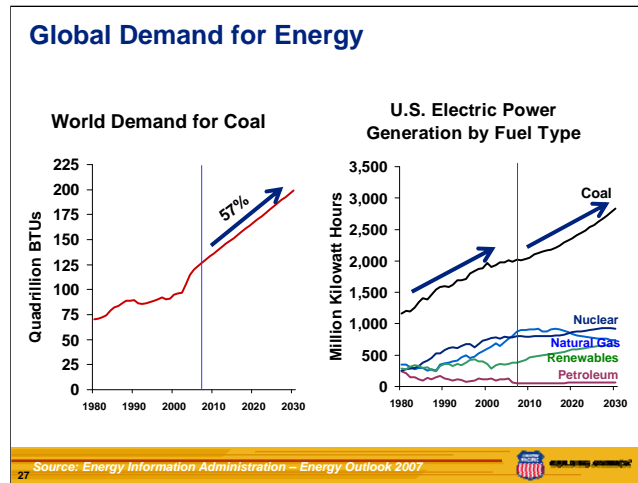
Key Import/Export Assumptions

- **Ag Products**
 - Export Increases Following Grain Production Growth
 - Port Expansion Ahead of Demand
- **Automotive**
 - Asian Electric Vehicles 1-3 Years Away from U.S. Debut
 - Increased Import/Export Demand at West Coast Ports
- **Chemicals**
 - Global Demand Driven by Emerging Markets
 - Expanding North American Production Capacity

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