

Business Summary:

Union Pacific is the largest North American railroad company with a diversified business mix (i.e. Coal 18%, Industrial 19%, Chemicals 16%, Automotive 10%, Agricultural Products 17% and Intermodal 20% in Q2 2012). Union Pacific owns about one fourth of Mexican railroad Ferromex, and operates from all major West Coast and Gulf Coast ports to eastern gateways. It connects Canada’s rail system and is the only railroad serving all six major Mexico gateways.

Industry Trends:

The U.S. rail industry has an oligopoly-like structure and more than 80% of revenue generated by the four largest railroads.

Government policies on reducing coal consumptions by utilities, price reduction in natural gas and weak coal exportation to Europe and Asia, have all affected the railroads companies negatively.

Railroads compete with trucking, shipping, and pipeline transportation. At the same time, rail sector cooperates with other sectors in transportation by sharing assets, interfacing systems, and completing customer movements. Economy is recovering slower than expected. However, Chemicals, Automotive and Industrial segments start to pick up. In addition, housing market following the recession in 2008 was in turmoil and new construction was almost nonexistent. We see some trend of recovering in this market, which will benefit transportation companies.

Investment Thesis:

Union Pacific has a strong value proposition in the railroad industry. Many legacy contracts are due to be re-priced higher which will have a favorable impact on UNP. I expect a further decline in the volume of coal transportation; however, Petroleum carload growth and margin improvements in the Automotive, Intermodal and Chemicals will be more than offset declining coal volumes. Moreover, UNP has less exposure to coal comparing to other railroads companies. Union Pacific exposes to Powder River Basin (PRB) coal from Wyoming. Since clean PRB coal is cheaper than Appalachian coal, the demand for PRB coal should not be affected as severely as Appalachian coal. With the rising fuel prices, more companies

Recommendation: BUY

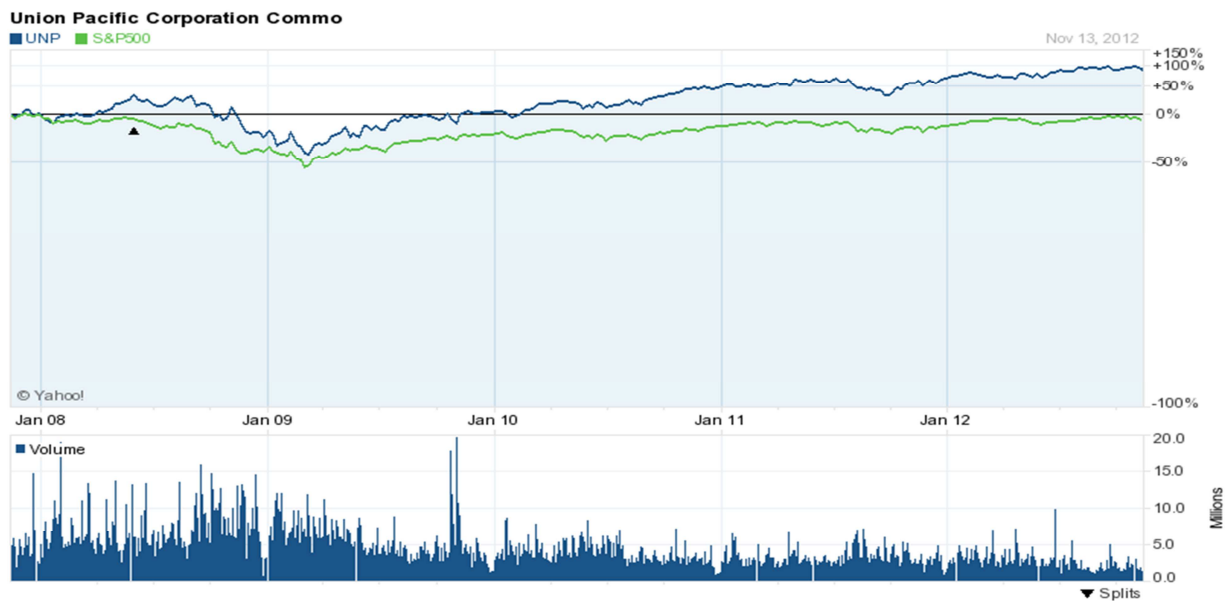
Total Annual Return Est.:

| | |
|---------|-------------|
| 3 yr FV | 6.8% |
| 5 yr FV | 5.0% |

Financial Snapshot:

| | |
|---------------|---------------------------|
| Price | \$120.93 |
| DCF Value | \$140.02 |
| Buy Target | \$119.01 |
| Sell Target | \$161.02 |
| P/E | 15.8x |
| Forward P/E | 15.6x |
| Div Yield | 1.96% |
| Market Cap | \$59.23 Billion |
| 52 Wk Range | \$88.83 - \$129.27 |
| EPS Growth | 13.7% |
| PEG(Forward) | 0.77 |
| Credit | A |
| Current Ratio | 1.12x |

opt for railroads compares to trucking. Transportation of freight by rail is more fuel-efficient and environmental friendly than transportation of freight on the highway, and using railroads helps companies create or improve their “green” images. Many fast-growing U.S. population centers located in UNP’s operating region, and UNP will further benefit from the increased activity in construction and shale gas production.



Growth Outlook

Growth factors:

- North American demand for rail hauling of agriculture and intermodal containers will continue to increase
- Approximately \$350 million of legacy contracts are likely be re-priced higher in the near future
- Continued improvement in operating margin and plenty of room for UNP to remain this trend
- Increased activity in construction and shale gas production in UNP’s operating region
- Rising of natural gas prices will trigger more investment in frac sand and pipes

Competition

Union Pacific has a few competitors. Within the Railroad industry, different railroad companies operate in different regions. UNP and Burlington Northern Santa Fe Corp. operate on the West Coast, and CSX Corp. and Norfolk Southern Corp. operate on the East Coast.

Union Pacific has a well-diversified portfolio and committed management comparing to its peers. Its financial leverage is much lower than industry average and its past performance is more stable compares to other railroads companies.

Projections and Valuations Summary

10 year discounted cash flow: The company is in a mature industry; however, in 2010 and 2011, the revenue growth rates were 20% and 15.3% respectively. Based on the past revenue growth rate and my expectation that the growth rate would reduce gradually, I used a growth rate starting from 10% and slowly reducing to 7% for the next five years (the average CARG rate from 2012 to 2016 I used was 7.7%).

Cost of Sales: Management in Union Pacific dedicated a lot of their efforts to improve process efficiency and customers' satisfaction. Labor costs reduced as UNP replaced retiring employees with fewer personnel and at lower wages; I reduced COGs as a percentage of sales at 3% to reflect the margin improvement from 2012 to 2015 and kept the growth margin consistent thereafter.

SGA: SGA was about 4% of sales in 2011, and the same ratio was applied to the years after 2011.

WACC: Using the traditional CAPM modeling, I calculated UNP's WACC at 7.91%; with beta available from finance publications at around 1.16. A 5.9% market premium was used in the calculation as this was the standard utilized by all SMF fund managers. Please see appendix for further details.

Terminal Growth Rate: 3% terminal growth rate was used.

Not included:

- **Significant economy decline**

The performance of Union Pacific is subject to economy condition, and closely related to industrial products. If there is a significant economy downturn, the performance projection can be quite different.

- **Any disasters affect the railroads**

The projection does not consider any long-lasting nature disasters and their effects on railroads. In addition, since Union Pacific carries a high percentage of chemicals, it might be affected by any liabilities associated with hazardous material spills.

- **Regulations change**

The performance of Union Pacific can be projected quite differently if any new regulation has negative impact on UNP's earnings; either increases its running costs or constrains the price UNP is allowed to charge.

Management

Before March 2012, James Young was served as CEO and chairman of the board. Under Mr. Young's leadership, UNP improved its operating margin by more than 10 percent. Due to Young's health issue, John Koraleski now serves as president and CEO. Mr. Koraleski has joined UNP in 1971 and previously worked as CFO and in many other leadership roles in the firm. Union Pacific has very effective corporate governance policies, and 11 out of the 12 directors are independent. Annual board elections use majority voting and its issued options represent less than 1% of outstanding shares during the past few years.

Q3 Earnings Call Highlights

- **EPS:** EPS increased 18% from \$1.85 to \$2.19, 1c beating market expectation
- **Customer Satisfaction:** Highest of all times
- **Overall trend:** Union Pacific was benefit from an 18 percent increase in chemical volumes, including oil; and an 11 percent rise in shipments of non-metallic minerals including sand used in hydraulic fracturing. Automotive carloads climbed 13 percent
- **Stock performance:** The stock price closed at \$125.34 post-earnings and climbed 1.3% from pre-earnings. The stock has risen 18 percent this year, compared with a 16 percent gain for the Standard & Poor's 500 Index
- **Challenges:** Coal volumes still has its challenge and excepted to keep going down
- **Full year projections for 2012:** Improved safety results, leverage growth opportunities in the South, remain agile-match resources with volume, continue service and productivity gains and capital effectiveness
- **Operating Ratio Performance:** quarterly record all-time best
- **Prospects going forward:** economic uncertainties, remain agile in a changing environment, positive on longer-term opportunities, strategic investments, increase customer value and generate strong shareholders returns

Pros:

- 1) Diverse business mix with many revenue drivers, including shale-related markets, housing & construction, plastics & other chemicals, highway conversions and auto sales
- 2) Impressive volume growth in southern region which reaches to a level close to pre-recession
- 3) Largest automotive carrier west of the Mississippi River and operate or access over 40 vehicle distribution centers
- 4) Committed management team to improve operations efficiency and emphasize excellent customer services, and track records of improvements in its operating ratio
- 5) Improved fuel surcharge
- 6) Entry barriers of U.S. Rail Industry is high
- 7) Further improvements in profitability and returns on capital is possible
- 8) Upwards re-pricing of its legacy business
- 9) Many fast-growing U.S. population centers locate in UNP's operating region

Risk Factors:

- 1) Severe weather could result significant business interruptions and expenditures.
- 2) Inflation in labor cost, and 86% of UNP's employees are represented by 14 major rail unions
- 3) Uncertainty on diesel fuel cost which can affect operating expenses
- 4) The Surface Transportation Board oversees railroad pricing and possibility to constrain the price UNP charges its customers
- 5) Reduced coal consumption by utilities as a result of government efforts to control carbon dioxide emissions
- 6) High supplier bargaining power and dependent on certain key suppliers of Locomotives and Rail
- 7) Carrying hazardous materials, and may be affected by acts of terrorism, war, or risk of war



Conclusion:

UNP is a well-managed company which has positioned itself as one of the best run public railroad companies. Due to the current government regulation and the reelection of Obama administration, I expect the coal volume will continue decreasing for the next few years. Other sectors such as chemicals and automotive, however, have more promising volume growth. UNP's management is dedicated to improve company's profit margin and customers' satisfaction. With a gradually recovering economy and well diversified business portfolio, I expect the stock price will keep going up since it is currently below its intrinsic value.

Appendices:

Discounted Cash Flow

| Discounted Cash Flow | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------------|
| Operating Profit | 3375.0 | 4075.0 | 3392.0 | 5026.0 | 5724.0 | 6526.6 | 7590.7 | 8739.2 | 9351.0 | 9864.4 |
| Taxes | 1181.3 | 1426.3 | 1187.2 | 1759.1 | 2003.4 | 2284.3 | 2656.8 | 3058.7 | 3272.8 | 3452.5 |
| NOPAT | 2193.8 | 2648.8 | 2204.8 | 3266.9 | 3720.6 | 4242.3 | 4934.0 | 5680.5 | 6078.1 | 6411.8 |
| Depreciation | 1321.0 | 1387.0 | 1444.0 | 1487.0 | 1617.0 | 1925.5 | 2021.0 | 2059.4 | 2203.6 | 2499.0 |
| Capex | 2496.0 | 2780.0 | 2384.0 | 2482.0 | 3261.0 | 3528.1 | 3703.0 | 3773.4 | 4037.5 | 4578.8 |
| Change In NWC | -447.0 | 380.0 | 1065.0 | -518.0 | -70.0 | -23.9 | 36.0 | 32.4 | 31.8 | 34.0 |
| FCF | 1465.8 | 875.8 | 199.8 | 2789.9 | 2146.6 | 2663.7 | 3215.9 | 3934.1 | 4212.3 | 4298.0 |
| Terminal Growth Rate | | | | | | | | | | 3.0% |
| Terminal Value | | | | | 3324.7 | 3657.2 | 3986.3 | 4305.2 | 4606.6 | 90203.5 |
| PV of Cash Flows | | | | | | 2468.5 | 2761.9 | 3131.1 | 3106.8 | 2937.7 |
| PV of Terminal Value | | | | | | | | | | 61654.0 |
| PV Enterprise Value | | | | | | | | | | 76059.8 |
| Plus: Cash | | | | | | | | | | 1217.0 |
| Less: LTD | | | | | | | | | | 8697.0 |
| Equity Value | | | | | | | | | | 68579.8 |
| Current Shares Outstanding | | | | | | | | | | 489.8 |
| Equity Value Per Share | | | | | | | | | | 140.02 |

Income Statement Projections

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|--------------|
| | -4 | -3 | -2 | -1 | 0 | 1 | 2 | 3 | 4 | 5 | CAGR |
| Consolidated Income Statement | | | | | | | | | | | |
| Sales | 16,283.0 | 17,970.0 | 14,143.0 | 16,965.0 | 19,557.0 | 21,512.7 | 23,448.8 | 25,324.8 | 27,097.5 | 28,994.3 | 8.2% |
| COGS | 10,854.0 | 11,668.0 | 8,620.0 | 9,778.0 | 11,434.0 | 12,200.1 | 12,899.1 | 13,513.1 | 14,459.1 | 15,471.2 | 6.2% |
| Gross profit | 5,429.0 | 6,302.0 | 5,523.0 | 7,187.0 | 8,123.0 | 9,312.6 | 10,549.7 | 11,811.6 | 12,638.4 | 13,523.1 | 10.7% |
| Gross Margin | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | 0.5 | 0.5 | 2.3% |
| SG&A | 733.0 | 840.0 | 687.0 | 674.0 | 782.0 | 860.5 | 938.0 | 1,013.0 | 1,083.9 | 1,159.8 | 8.2% |
| EBITDA | 4,696.0 | 5,462.0 | 4,836.0 | 6,513.0 | 7,341.0 | 8,452.1 | 9,611.7 | 10,798.6 | 11,554.5 | 12,363.3 | 11.0% |
| Depreciation | 1,321.0 | 1,387.0 | 1,444.0 | 1,487.0 | 1,617.0 | 1,925.5 | 2,021.0 | 2,059.4 | 2,203.6 | 2,499.0 | 9.1% |
| Operating profit (EBIT) | 3,375.0 | 4,075.0 | 3,392.0 | 5,026.0 | 5,724.0 | 6,526.6 | 7,590.7 | 8,739.2 | 9,351.0 | 9,864.4 | 11.5% |
| Operating Margin | 21% | 23% | 24% | 30% | 29% | 30% | 32% | 35% | 35% | 34% | 3.1% |
| Taxes | 1,154.0 | 1,318.0 | 1,084.0 | 1,653.0 | 1,972.0 | 2,164.7 | 2,517.6 | 2,898.5 | 3,101.4 | 3,271.7 | 10.7% |
| Interest Expense | 482.0 | 511.0 | 600.0 | 602.0 | 572.0 | 553.4 | 553.4 | 553.4 | 553.4 | 553.4 | -0.7% |
| Net income | 1,739.0 | 2,246.0 | 1,708.0 | 2,771.0 | 3,180.0 | 3,808.5 | 4,519.7 | 5,287.3 | 5,696.1 | 6,039.3 | 13.7% |
| Net Margin | 11% | 12% | 12% | 16% | 16% | 18% | 19% | 21% | 21% | 21% | 5.1% |
| Shareholder information | | | | | | | | | | | |
| Average no. of shares outstanding | 536.8 | 515.0 | 505.8 | 502.9 | 489.8 | 489.8 | 489.8 | 489.8 | 489.8 | 489.8 | 0.0% |
| Dividends | 396.0 | 501.0 | 544.0 | 653.0 | 938.0 | 1,031.8 | 1,135.0 | 1,248.5 | 1,373.3 | 1,510.7 | 10.0% |
| Earnings per share | 3.24 | 4.36 | 3.38 | 5.51 | 6.49 | 7.78 | 9.23 | 10.79 | 11.63 | 12.33 | 13.7% |
| Dividends per share | 0.7 | 1.0 | 1.1 | 1.3 | 1.9 | 2.1 | 2.3 | 2.5 | 2.8 | 3.1 | 10.0% |



WACC

| WACC Calculation | |
|---|--------------|
| Marginal tax rate | 35% |
| Risk free rate | 1.63% |
| Market risk premium | 5.90% |
| Beta | 1.16 |
| Cost of equity | 8.47% |
| Cost of debt pre-tax | 6.42% |
| After tax cost of debt | 4.17% |
| Share price | \$121 |
| Market capitalization | 59,232 |
| Total debt | 8,906 |
| Total capital | 68,138 |
| % equity capital | 86.9% |
| % debt capital | 13.1% |
| Weighted average cost of capital | 7.91% |

Return Calculation

| Total Return Calculation | |
|-------------------------------|-------------|
| Current Price | \$121 |
| Fair Value | \$ 140.02 |
| Div 1 | \$ 2.11 |
| Div 2 | \$ 2.32 |
| Div 3 | \$ 2.55 |
| Div 4 | \$ 2.80 |
| Div 5 | \$ 3.08 |
| Ttl Ann Ret 3 yr to FV | 6.8% |
| Ttl Ann Ret 5 yr to FV | 5.0% |

Comparable Companies

| Comparables | UNP-US | NSC-N | CSX-N | CNR-T | CP-T | Average |
|-----------------|--------|--------|--------|--------|--------|---------|
| DividendYield | 1.96% | 2.99% | 2.61% | 1.64% | 1.49% | 2.14% |
| Market Cap (\$) | 57,856 | 21,376 | 22,277 | 37,350 | 14,737 | 30,719 |
| P/E | 15.82 | 11.49 | 12.03 | 14.69 | 22.65 | 15.34 |
| PEG | 0.77 | 11.40 | 1.70 | 1.18 | 0.75 | 3.16 |
| P/CF | 9.92 | 6.84 | 7.18 | 13.66 | 24.44 | 12.41 |
| P/B | 2.96 | 2.35 | 2.62 | 3.35 | 2.59 | 2.77 |
| EV/EBITDA | 8.04 | 6.53 | 6.75 | 9.07 | 12.36 | 8.55 |
| EV/EBIT | 10.11 | 8.17 | 8.66 | 11.15 | 18.12 | 11.24 |
| Debt/Equity | 0.49 | 0.82 | 1.02 | 0.61 | 0.97 | 0.78 |
| Net Margin | 18.17% | 17.26% | 15.83% | 27.76% | 12.17% | 18.24% |
| ROA | 9.05% | 7.91% | 7.71% | 11.15% | 6.03% | 8.37% |
| ROE | 19.97% | 19.20% | 21.14% | 23.48% | 13.14% | 19.39% |

| Annual Balance Sheet | | | | | |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008 | 12/31/2007 |
| | USD | USD | USD restated | USD | USD |
| Assets | | | | | |
| Cash & ST Investments | 1,217.0 | 1,086.0 | 1,850.0 | 1,249.0 | 878.0 |
| Receivables (Net) | 1,401.0 | 1,184.0 | 666.0 | 594.0 | 632.0 |
| Inventories - Total | 614.0 | 534.0 | 475.0 | 450.0 | 453.0 |
| Raw Materials | 614.0 | 534.0 | 475.0 | 450.0 | 453.0 |
| Other Current Assets | 495.0 | 628.0 | 689.0 | 520.0 | 631.0 |
| Current Assets - Total | 3,727.0 | 3,432.0 | 3,680.0 | 2,813.0 | 2,594.0 |
| Investment In Unconsolidated Subsidiaries | 0.0 | 0.0 | 0.0 | 0.0 | 912.0 |
| Other Investments | 1,175.0 | 1,137.0 | 1,036.0 | 974.0 | 11.0 |
| Property Plant & Equipment - Net | 39,934.0 | 38,253.0 | 37,202.0 | 35,701.0 | 34,158.0 |
| Property Plant & Equipment - Gross | 54,444.0 | 51,908.0 | 50,210.0 | 47,915.0 | 45,654.0 |
| Land | 5,098.0 | 4,984.0 | 4,891.0 | 4,861.0 | - |
| Construction Work In Progress | 1,004.0 | 764.0 | - | 938.0 | - |
| Machinery & Equipment | 8,988.0 | 8,327.0 | 8,209.0 | 7,300.0 | 7,818.0 |
| PP&E - Other | 39,354.0 | 37,833.0 | 36,144.0 | 34,816.0 | 37,836.0 |
| (Less) Accumulated Depreciation | 14,510.0 | 13,655.0 | 13,008.0 | 12,214.0 | 11,496.0 |
| Accum Depr-Machinery & Equip. | 4,121.0 | 3,778.0 | 3,517.0 | - | - |
| Accum Depr-PP&E Other | 10,389.0 | 9,877.0 | 9,491.0 | - | - |
| Other Assets | 260.0 | 266.0 | 266.0 | 234.0 | 358.0 |
| Deferred Charges | 0.0 | 1.0 | - | - | - |
| Tangible Other Assets | 260.0 | 265.0 | 266.0 | 234.0 | - |
| Total Assets | 45,096.0 | 43,088.0 | 42,184.0 | 39,722.0 | 38,033.0 |
| Liabilities | | | | | |
| Accounts Payable | 819.0 | 677.0 | 612.0 | 629.0 | 732.0 |
| ST Debt & Current Portion of LT Debt | 209.0 | 239.0 | 212.0 | 320.0 | 139.0 |
| Accrued Payroll | 363.0 | 357.0 | 339.0 | 367.0 | 394.0 |
| Income Taxes Payable | 482.0 | 337.0 | 224.0 | 207.0 | 343.0 |
| Dividends Payable | 284.0 | 383.0 | 347.0 | 328.0 | 284.0 |
| Other Current Liabilities | 1,160.0 | 959.0 | 948.0 | 1,029.0 | 1,149.0 |
| Current Liabilities - Total | 3,317.0 | 2,952.0 | 2,682.0 | 2,880.0 | 3,041.0 |
| Long Term Debt | 8,697.0 | 9,003.0 | 9,636.0 | 8,607.0 | 7,543.0 |
| LT Debt Excl Capital Leases | 6,823.0 | 7,405.0 | 7,575.0 | 7,337.0 | 6,324.0 |
| Non-Convertible Debt | 6,823.0 | 7,405.0 | 7,575.0 | 7,337.0 | 6,324.0 |
| Convertible Debt | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capitalized Lease Obligations | 1,874.0 | 1,598.0 | 2,061.0 | 1,270.0 | 1,219.0 |
| Provision for Risks & Charges | 955.0 | 632.0 | 678.0 | 1,105.0 | 462.0 |
| Deferred Income | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Taxes | 12,368.0 | 11,557.0 | 11,044.0 | 10,282.0 | 10,050.0 |
| Other Liabilities | 1,181.0 | 1,181.0 | 1,343.0 | 1,401.0 | 1,352.0 |
| Total Liabilities | 26,518.0 | 25,325.0 | 25,383.0 | 24,275.0 | 22,448.0 |
| Shareholders' Equity | | | | | |
| Common Equity | 18,578.0 | 17,763.0 | 16,801.0 | 15,447.0 | 15,585.0 |
| Common Stock | 1,386.0 | 1,385.0 | 1,384.0 | 1,382.0 | 690.0 |
| Capital Surplus | 4,031.0 | 3,985.0 | 3,968.0 | 3,949.0 | 3,926.0 |
| Revaluation Reserves | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Appropriated Reserves | (1,004.0) | (703.0) | (615.0) | (659.0) | (55.0) |
| Retained Earnings | 19,508.0 | 17,154.0 | 15,027.0 | 13,813.0 | 12,667.0 |
| Unrealized Foreign Exchange Gain(Loss) | (48.0) | (28.0) | (35.0) | (41.0) | (15.0) |
| Unrealized Gain(Loss) on Marketable Secur | (2.0) | (3.0) | (4.0) | (4.0) | (4.0) |
| (Less) Treasury Stock | 5,293.0 | 4,027.0 | 2,924.0 | 2,993.0 | 1,624.0 |
| Total Shareholders Equity | 18,578.0 | 17,763.0 | 16,801.0 | 15,447.0 | 15,585.0 |
| Total Liabilities & Shareholders Equity | 45,096.0 | 43,088.0 | 42,184.0 | 39,722.0 | 38,033.0 |
| Common Shares Outstanding | 479.9 | 491.6 | 505.0 | 503.2 | 521.7 |

Annual Income Statement

| | 12/31/2011 USD | 12/31/2010 USD | 12/31/2009 USD restated | 12/31/2008 USD | 12/31/2007 USD |
|--|-------------------|-------------------|-------------------------------|-------------------|-------------------|
| Income Statement | | | | | |
| Net Sales or Revenues | 19,557.0 | 16,965.0 | 14,143.0 | 17,970.0 | 16,283.0 |
| Operating Expenses - Total | 13,833.0 | 11,939.0 | 10,764.0 | 13,895.0 | 12,908.0 |
| Cost of Goods Sold | 11,434.0 | 9,778.0 | 8,650.0 | 4,457.0 | 5,573.0 |
| Selling, General & Admin Expenses | - | - | - | - | 4,591.0 |
| Depreciation, Depletion & Amortization | 1,617.0 | 1,487.0 | 1,427.0 | 1,387.0 | 1,321.0 |
| Depreciation | 1,617.0 | 1,487.0 | 1,427.0 | 1,387.0 | 1,321.0 |
| Other Operating Expenses | 782.0 | 674.0 | 687.0 | 8,051.0 | 1,423.0 |
| Operating Income | 5,724.0 | 5,026.0 | 3,379.0 | 4,075.0 | 3,375.0 |
| Extraordinary Credit - Pretax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Extraordinary Charge - Pretax | 5.0 | 66.0 | 0.0 | 0.0 | 0.0 |
| Non-Operating Interest Income | 3.0 | 4.0 | 5.0 | 21.0 | 50.0 |
| Interest Expense On Debt | 572.0 | 602.0 | 600.0 | 511.0 | 482.0 |
| Pretax Equity In Earnings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Income/Expense - Net | 114.0 | 71.0 | 190.0 | 71.0 | 66.0 |
| Pretax Income | 5,264.0 | 4,433.0 | 2,974.0 | 3,656.0 | 3,009.0 |
| Income Taxes | 1,972.0 | 1,653.0 | 1,084.0 | 1,318.0 | 1,154.0 |
| Current Domestic Income Tax | 986.0 | 981.0 | 366.0 | 771.0 | 822.0 |
| Income Tax Credits | (22.0) | (25.0) | (38.0) | 134.0 | 22.0 |
| Net Income to Common Shareholders | 3,292.0 | 2,780.0 | 1,890.0 | 2,338.0 | 1,855.0 |
| EPS Incl Extraordinary Items | 6.7 | 5.5 | 3.7 | 4.5 | 3.5 |
| EPS - Continuing Operations | 6.7 | 5.5 | 3.7 | 4.5 | 3.5 |
| Dividend Per Share | 1.9 | 1.3 | 1.1 | 1.2 | 0.7 |
| Common Shares Used to Calc Diluted EPS | 489,800,000.0 | 502,900,000.0 | 505,800,000.0 | 515,000,000.0 | 536,800,000.0 |

| Annual Cash Flow Statement | | | | | |
|--|------------------|------------------|------------------|------------------|------------------|
| | 12/31/2011 | 12/31/2010 | 12/31/2009 | 12/31/2008 | 12/31/2007 |
| | USD | USD | USD restated | USD | USD |
| Operations | | | | | |
| Net Income / Starting Line | 3,292.0 | 2,780.0 | - | 2,338.0 | 1,855.0 |
| Depreciation, Depletion & Amortization | 1,617.0 | 1,487.0 | 1,427.0 | 1,387.0 | 1,321.0 |
| Depreciation & Depletion | 1,617.0 | 1,487.0 | - | 1,387.0 | 1,321.0 |
| Deferred Income Taxes & Investment Tax Credit | 986.0 | 672.0 | 723.0 | 547.0 | 332.0 |
| Deferred Income Taxes | 986.0 | 672.0 | 723.0 | 547.0 | 332.0 |
| Other Cash Flow | (298.0) | (483.0) | (538.0) | 48.0 | (259.0) |
| Funds From Operations | 5,597.0 | 4,456.0 | 3,527.0 | 4,320.0 | 3,249.0 |
| Funds From/For Other Operating Activities | 276.0 | (351.0) | (293.0) | (250.0) | 28.0 |
| Dec(Inc) In Receivables | (217.0) | (518.0) | (72.0) | 38.0 | 47.0 |
| Dec(Inc) In Inventories | (80.0) | (59.0) | (25.0) | 3.0 | (58.0) |
| Inc(Dec) In Accounts Payable | 395.0 | 243.0 | (90.0) | (342.0) | 30.0 |
| Dec(Inc) In Other Assets/Liabilities | 178.0 | (17.0) | (106.0) | 51.0 | 9.0 |
| Net Cash Flow - Operating Activities | 5,873.0 | 4,105.0 | 3,234.0 | 4,070.0 | 3,277.0 |
| Investing | | | | | |
| Capital Expenditures (Addition to Fixed Assets) | (3,261.0) | (2,482.0) | (2,384.0) | (2,780.0) | (2,496.0) |
| Disposal of Fixed Assets | 193.0 | 67.0 | 187.0 | 93.0 | 122.0 |
| Other Use/(Source) - Investing | 51.0 | 73.0 | (22.0) | 77.0 | 52.0 |
| Other Uses - Investing | (51.0) | (73.0) | (100.0) | (465.0) | (673.0) |
| Other Sources - Investing | 0.0 | - | 122.0 | 388.0 | 621.0 |
| Net Cash Flow - Investing | (3,119.0) | (2,488.0) | (2,175.0) | (2,764.0) | (2,426.0) |
| Financing | | | | | |
| Net Proceeds From Sale/Issue of Com & Pref | 0.0 | 0.0 | 0.0 | 83.0 | 0.0 |
| Proceeds From Stock Options | 0.0 | 0.0 | 0.0 | 83.0 | 0.0 |
| Com/Pfd Purchased | (1,418.0) | (1,249.0) | 0.0 | (1,637.0) | (1,375.0) |
| Long Term Borrowings | 486.0 | 894.0 | 843.0 | 2,257.0 | 1,581.0 |
| Reduction In Long Term Debt | (962.0) | (1,412.0) | (871.0) | (1,208.0) | (792.0) |
| Inc(Dec) In Short Term Borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Cash Dividends Paid - Total | (837.0) | (602.0) | (544.0) | (481.0) | (364.0) |
| Common Dividends (Cash) | 837.0 | 602.0 | 544.0 | 481.0 | 364.0 |
| Preferred Dividends (Cash) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Source (Use) - Financing | 108.0 | (12.0) | 114.0 | 51.0 | 150.0 |
| Other Sources - Financing | 108.0 | - | 114.0 | 54.0 | 150.0 |
| Other Uses - Financing | 0.0 | (12.0) | - | (3.0) | - |
| Net Cash Flow - Financing | (2,623.0) | (2,381.0) | (458.0) | (935.0) | (800.0) |
| Inc(Dec) In Cash & Short Term Investments | 131.0 | (764.0) | 601.0 | 371.0 | 51.0 |

Sources: Value Line Investment Survey, S&P Net Advantage, Thompson One Banker, Union Pacific SEC Filings, Yahoo! Finance, Morning Star, Value Engine

Notes: