

Surface Transportation Board



April 11, 2007

Jim Young - Chairman, President & CEO



Capital Investment Hierarchy

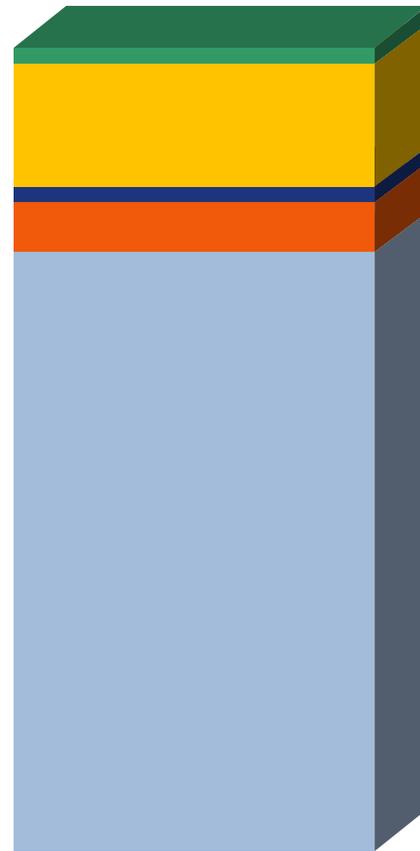
- **First Step – Process Initiatives**
- **Second Step – Organization Initiatives**
- **Third Step – Technology Initiatives**
- **Final Step – “Iron in the Ground”**

Network Initiatives

- **Unified Plan**
 - Network Simplification
 - More Point-to-Point Trains
 - Workload Reduction
 - Balancing
 - Interline Management
- **Lean**
 - Terminal Throughput
- **Customer Inventory Management System (CIMS)**
 - Pro-Active Inventory Control
 - Asset Productivity
 - Capacity Creation

How UP Spends Its Money

2000 through 2006



Cash Outflow

Dividends to Shareholders

Capital Investments

Net Debt Reduction

Interest & Taxes

Operating Expenses

Wages & Benefits

Fuel & Utilities

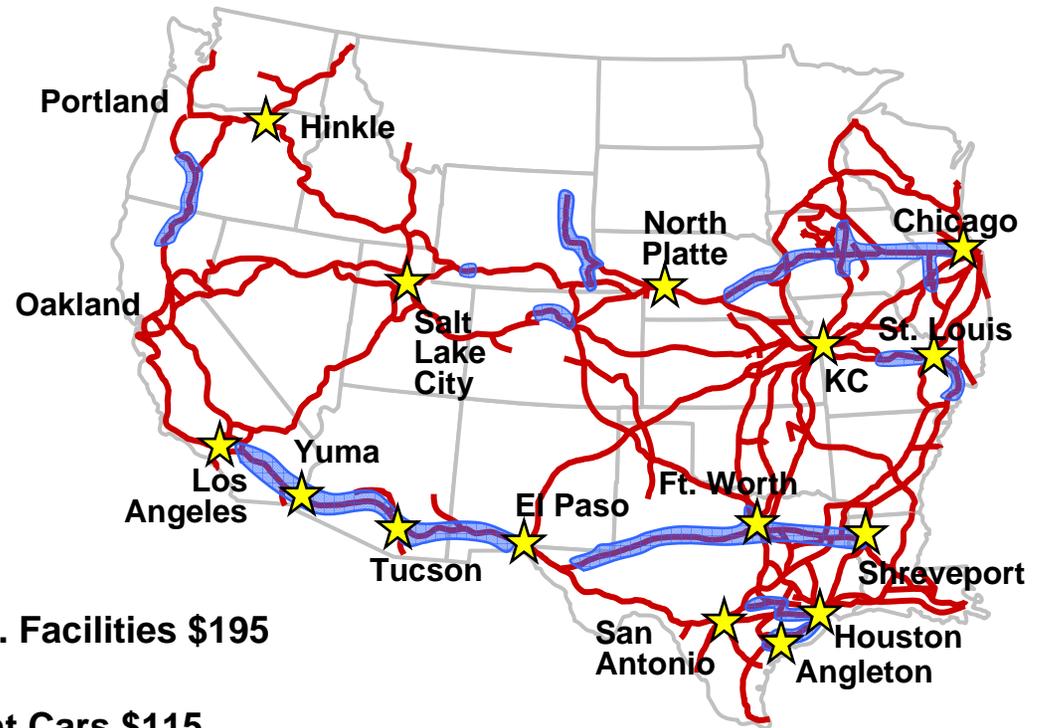
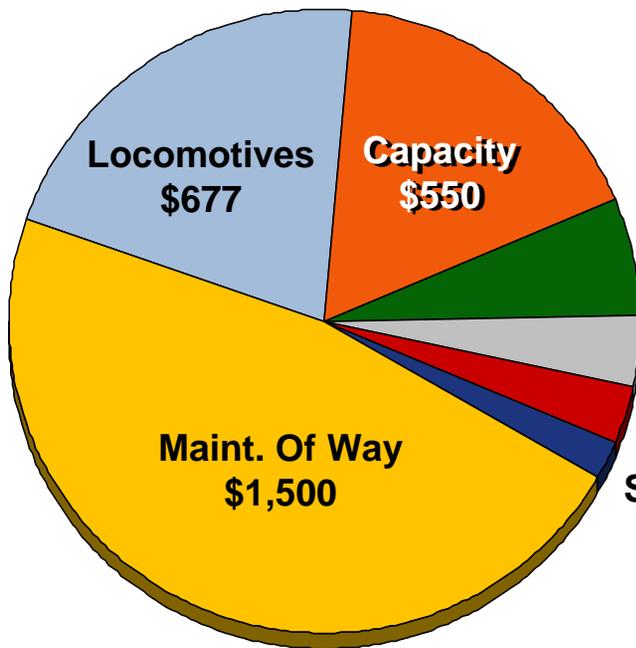
Equipment Rents & Leases

Other

(Excludes Depreciation)

2007 Capital Allocation - \$3.2 Billion

Total Capital Plan*
(\$ in Millions)



	Terminal Improvements
	Corridor Improvements

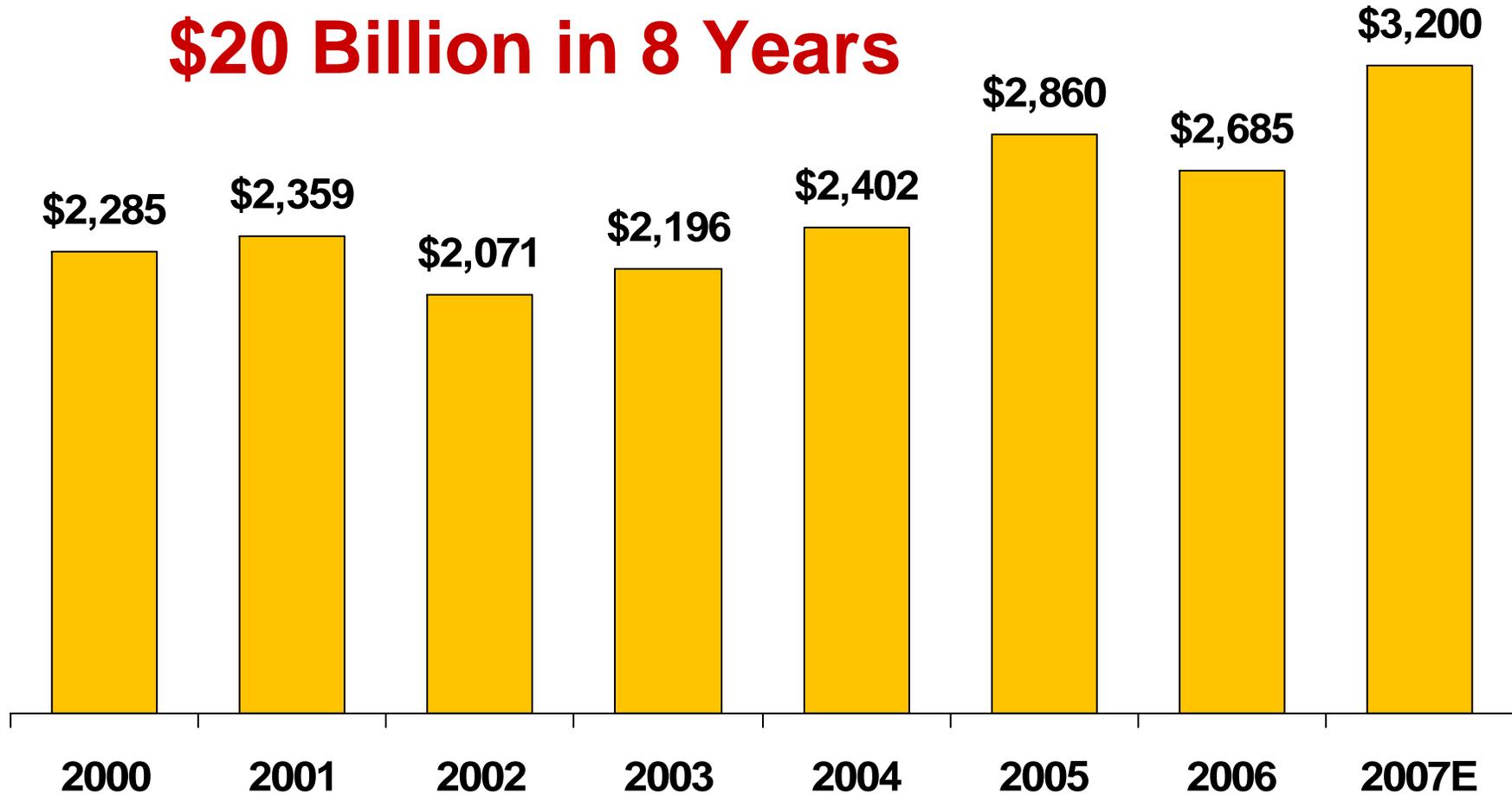
2007 Planned Resource Additions	
Road Locomotives	300 Units
Freight Cars	800 Cars

*Includes Cash Capital and Lease Financings

UP Capital Spending Trends

In Millions

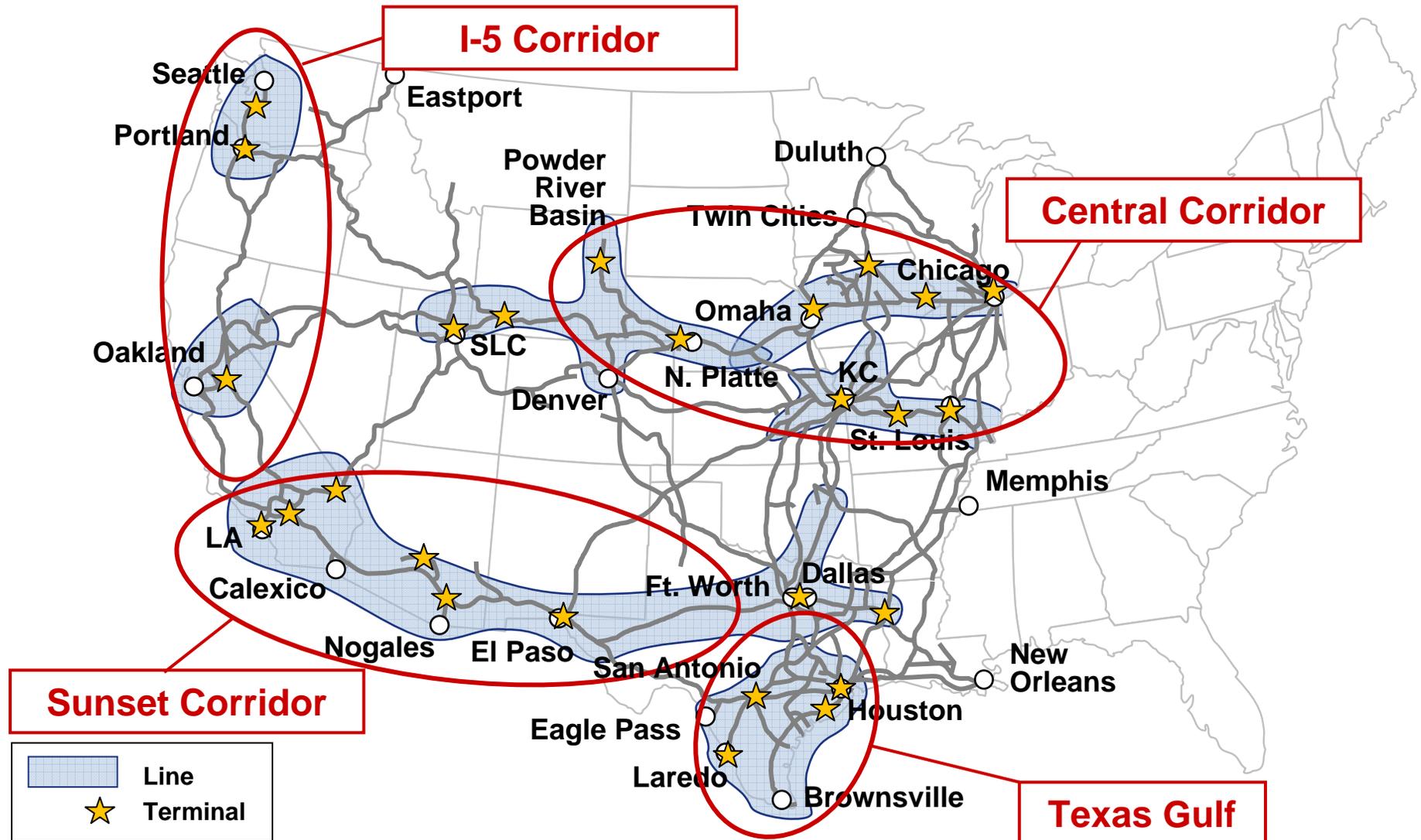
\$20 Billion in 8 Years



**Includes Cash Capital and Lease Financings*

Future Capacity Needs - Five Year Outlook

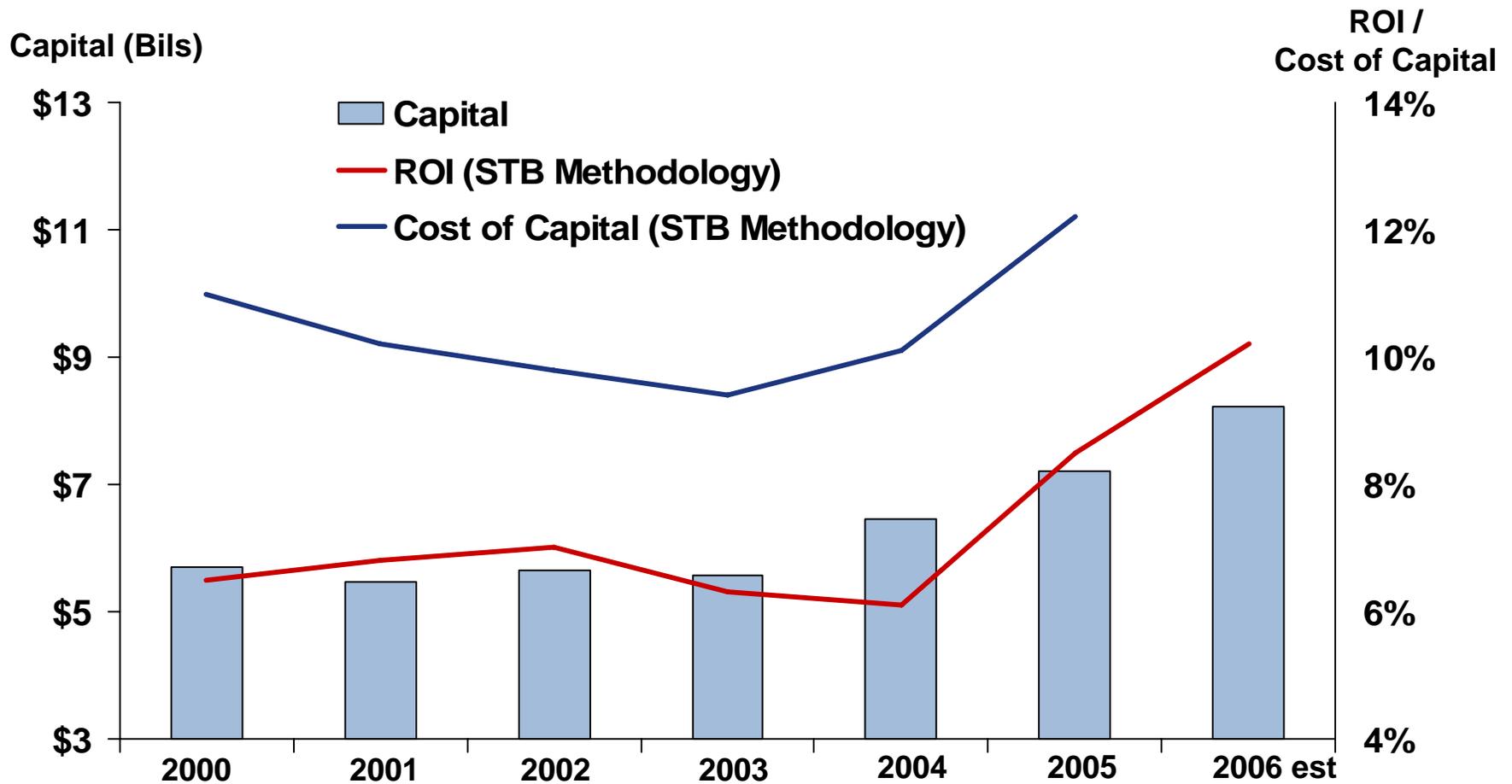
Projected Constrained Corridor and Terminal Areas



Book Value Versus Replacement Value

- **2005 Caliente Line**
 - Original Net Book Value = \$4 Million
 - Rebuilt Asset Value = \$87 Million
- **2005 Kansas Bridge (Built in 1950)**
 - Original Net Book Value = \$54,000
 - Rebuilt Asset Value = \$6 Million
- **2007 Sacramento Bridge (Built in 1910)**
 - Original Net Book Value = \$0
 - Rebuilt Asset Value = \$14 Million

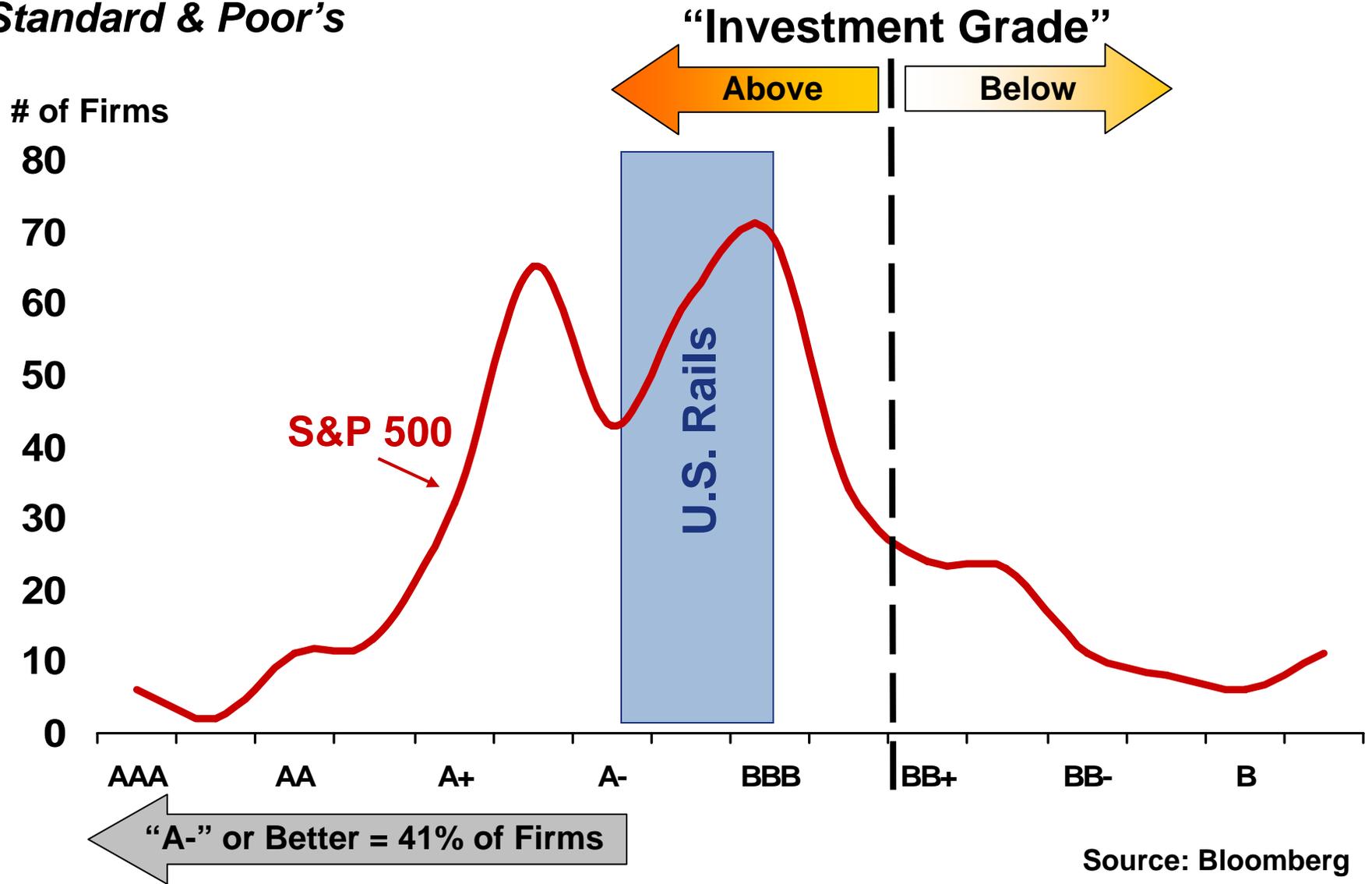
Industry Return On Investment



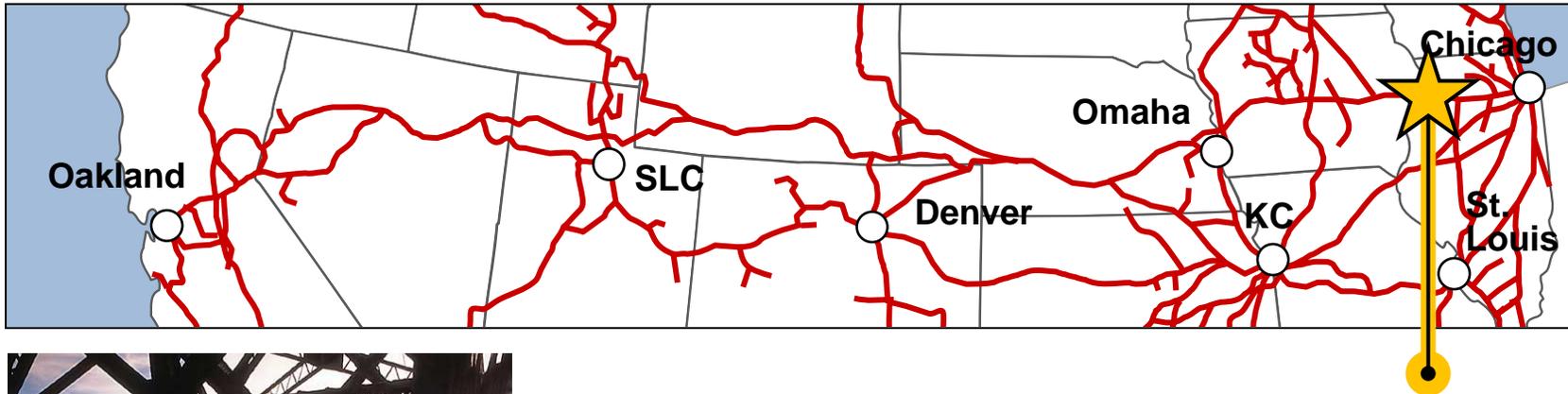
Industry includes UP, BNSF, CSX & NS. Capital includes cash capital and long-term operating leases. ROI and Cost of Capital are estimated for the 4 roads based on Class I railroad statistics published by the AAR.

Debt Ratings

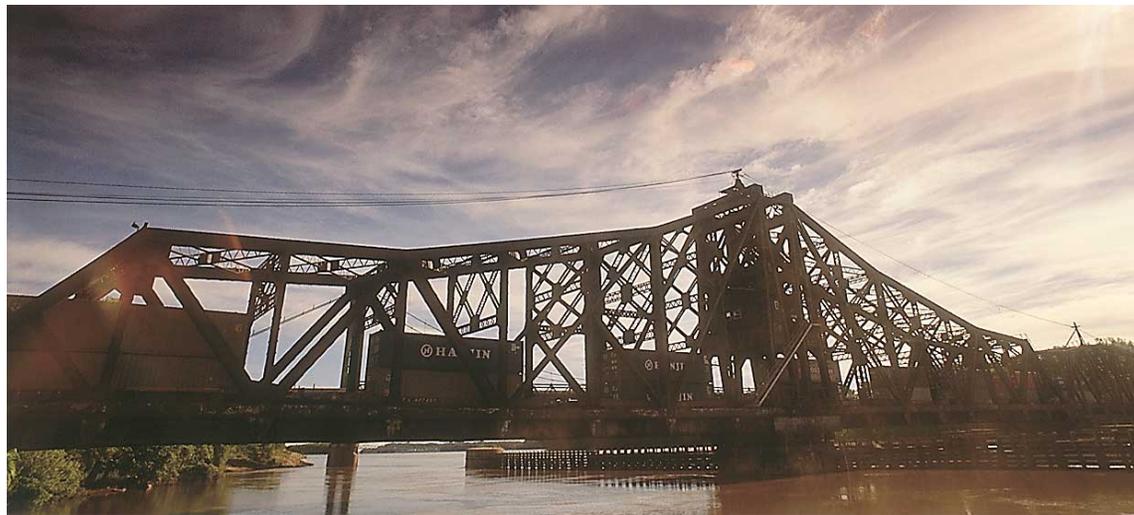
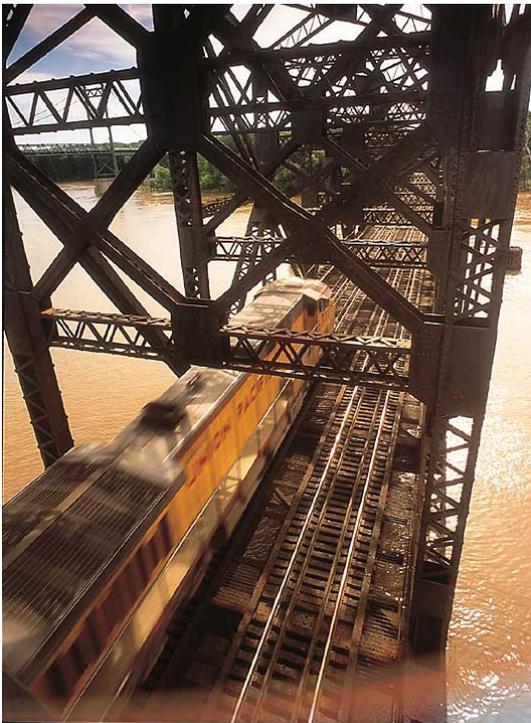
Standard & Poor's



Realities of a Low Rate of Return



**Mississippi River
Bridge at Clinton, IA**



ICTF Modernization Benefits

- **Air Quality**
 - Reduces Air Emissions by 55.8%
- **Noise**
 - Reduction From 77 Decibels to Minimal Levels
- **Lighting / Glare**
 - Significant Reduction in External Lighting
- **Traffic Congestion**
 - Improvement in Truck Processing Time
- **Lift Capacity**
 - Increased by 100%
- **Reduction in Size**
 - Reduces Acres Required From 233 to 177



Conclusion

- **U.S. Needs More Investment in Railroads to Meet Growing Demand**
 - Competitiveness of the U.S. Economy
 - Safety and Environmental Advantages
 - Reduced Highway Congestion, Delays and Cost
- **Higher Returns on Investment Are Encouraging Railroads to Invest in More Capacity**
- **Union Pacific Is Investing in Infrastructure at Record Levels**
- **Government Actions That Impair Railroad Earnings Will Restrict Future Rail Capacity**
- **Local, State and Federal Actions That Encourage Railroad Infrastructure Promote the National Interest**