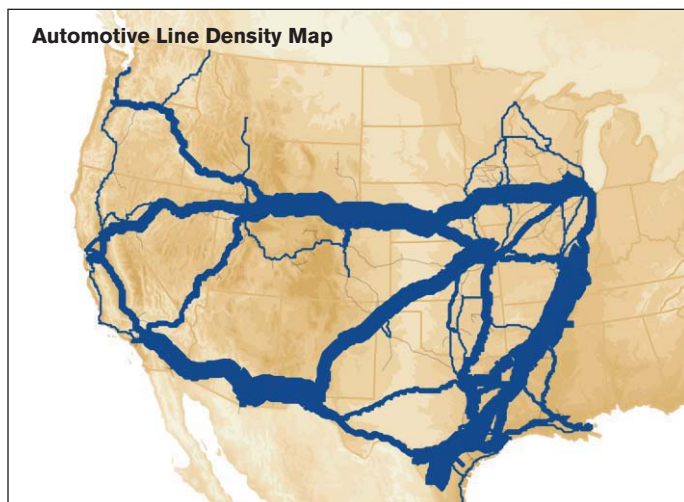


## Commodity Profile

Shipments of finished vehicles and automotive parts and materials generated 8 percent of Union Pacific's 2008 freight revenue. Finished vehicles accounted for 77 percent of this revenue, with the remaining 23 percent coming from the movement of automotive parts and materials.

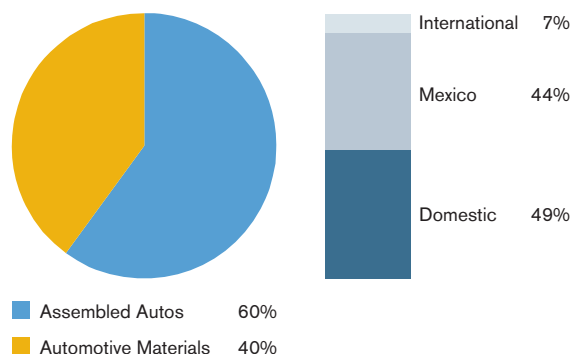
Union Pacific's franchise provides excellent accessibility to all major markets west of the Mississippi River for delivery of finished vehicles to the manufacturers' dealer networks. UP continues to be the largest automotive carrier in the western U.S., directly serving six vehicle assembly plants. Service is also provided to 38 automotive distribution facilities directly or through short line railroads. Additionally, connections to six West Coast ports and the Port of Houston accommodate both imported vehicles and vehicles moving to and from Hawaii and Alaska. Union Pacific also receives and delivers a significant number of vehicles through interchange with railroads in Mexico, Canada and the U.S.

U.S. new light vehicle sales declined to 13.2 million vehicles in 2008, down 18 percent from 2007 levels. North American light vehicle production for the year was down 16 percent to 13.0 million units. UP's finished vehicle shipment revenue declined 11 percent while carloads were off nearly 23 percent in 2008. Although auto parts and materials volume decreased 13 percent from 2007, pricing actions and increased fuel surcharges increased revenue by 3 percent year-over-year.



Lane density based on carloadings. Line thickness depicts traffic density.

## 2008 Carloads



Union Pacific handled more than 75 percent of the automotive carload business in the western U.S. in each of the last two years. Changing dynamics among manufacturers in the industry is expected to affect finished vehicle shipments as the manufacturers work to keep or gain market share. The Domestic Big Three incurred a market share loss during 2008. Collectively they hold about 48 percent of the new light vehicle market share in the U.S. Toyota, Nissan and other non-Detroit manufacturers have domestic manufacturing capabilities and import a significant number of vehicles via West Coast ports. Union Pacific faces competition from trucks for the finished vehicles imported through the West Coast and destined for western automotive dealerships.

Nearly 44 percent of UP's automotive shipments move either to or from Mexico. This amount includes finished vehicle carloads as well as parts and materials moving in intermodal or boxcar service. Union Pacific handles more than 85 percent of all automotive traffic into and out of Mexico. During 2008, Mexico parts and materials shipments decreased 10 percent while finished vehicle moves decreased 8 percent.

UP launched new product offerings in 2008 with the new Unilevel and AutoMax cars. The Unilevel railcars are designed to efficiently handle oversize products, while the AutoMax can convert from a tri-level to a bi-level configuration. The AutoMax's ability to handle different vehicle sizes positions Union Pacific to support future vehicle market trends. Also, the Railroad introduced a long-term vehicle storage program to help alleviate customers' accumulating inventory issues in today's challenging market.

## 2009 Market Drivers

U.S. light vehicle sales are expected to decline in 2009, continuing a trend that began in 2005. Further, manufacturers' extended plant shutdowns and shift reductions are negatively impacting production volumes. UP is primarily a destination hauler of finished vehicles and has a diverse customer base that includes import and transplant manufacturers, which helps mitigate the effects of lower Domestic Big Three vehicle sales. Additionally, the Railroad is engaged in monitoring the development of distribution plans for imports from China and India. The Company is implementing an active sales strategy for China to handle the expected import parts and vehicle volume.

Participation by Chrysler and General Motors in the Troubled Asset Relief Program (TARP) may have indirect consequences for UP. Failure under this program could result in bankruptcy or corporate restructuring. However, success may allow for the continuation of current relationships and contracts, and, therefore, Union Pacific is closely monitoring these matters.

Traffic to and from Mexico is also expected to decline as the financial turmoil impacts the global economy. Shipping firms continue to look for opportunities to improve asset utilization. UP is seeking to develop import business which would access rail from West Coast ports, bypassing the Panama Canal and subsequent East Coast port originations.

UP is making infrastructure improvements across its system to handle profitable traffic growth. Improvements at Portland, OR, Houston, TX, and Chicago, IL are directed at the automotive business. Also, continued implementation of the vehicle inventory dwell system will help ensure a high level of inventory accuracy and efficient asset utilization.

The Railroad capitalizes on its strong interline carrier alliances to secure opportunities for automotive parts and materials. These opportunities include boxcar direct and moves bundled with cross dock truck-to-rail and rail-to-truck shipments.

Additional growth opportunities exist with the Railroad subsidiaries: Insight Network Logistics, Insight Network Transport and Union Pacific Distribution Services (UPDS). These companies



**Julie Krehbiel,**  
**VP & GM Automotive**

### **How has your team adjusted to the current economic situation?**

Although economic conditions are affecting automotive carloads, UP is well-positioned over the long term with a broad base of customers. With a significantly weakened economy, it is very important to strengthen the automotive service network by improving transit times, ensuring consistency, and incorporating transportation efficiencies into the delivered product. In 2008, gateway changes were made and product was shifted to more strategically placed auto ramps. The Railroad also leveraged its intermodal network to maintain customer service despite lower volumes. In addition, the first ever interline co-load capability was launched with the Norfolk Southern (NS) by loading Chrysler and Ford vehicles together on the same railcars. This approach allows the original equipment manufacturers to reduce vehicle dwell time at the load and unload facilities. In fact, the Ford-Chrysler interline move is yielding a 20 percent reduction in origin dwell time. These efforts improve the Company's economics and benefits customers as well.

### **What is the biggest opportunity in your business group over the next 2 to 3 years?**

Many of UP's opportunities are for organic growth associated with the existing traffic base. The Railroad holds a market share of more than 75 percent of all vehicles moving in the western U.S. by rail. Our unparalleled automotive ramp network, including facilities in six of the top ten fastest growing U.S. states, is expected to facilitate market growth once the overall industry rebounds. Parts opportunities continue as production parts convert from over-the-road to intermodal and boxcar rail service. Union Pacific is also looking at non-traditional markets such as service parts, mini-cars and European manufacturers. We reallocated sales resources in late 2008 to focus on these areas as well as production parts, to offset the current vehicle market weakness. The co-load capability launched in 2008 is expected to facilitate expansion of our footprint in the used car arena through joint efforts with Insight Network Transportation, a UP subsidiary and used car transportation broker. For the long term, we also see significant opportunities associated with vehicles assembled in China and India. We are positioning our network accordingly by aligning with key steamship lines, ports and transportation partners.

offer supply chain logistic services for major automotive manufacturers. Insight Network Transport is making inroads into the used car remarketing area by providing management and coordination services for vehicle auction companies and rental car firms. Marketed jointly with UP's rail services, these subsidiaries can assist manufacturers in meeting customers' changing inventory needs and provide continued growth opportunities. In fact, 2008 revenue in this area was up 20 percent from 2007, and this growth trend is expected to continue in 2009 and beyond.

# Automotive Facilities and Assembly Centers



## Annual Summary by Quarter - Automotive

2008					2007					2006				
1st	2nd	3rd	4th	Total	1st	2nd	3rd	4th	Total	1st	2nd	3rd	4th	Total
<b>Freight Revenue (millions of dollars)</b>														
363	352	324	305	1,344	354	387	348	369	1,458	358	390	325	354	1,427
<b>Revenue Ton-Miles (millions)</b>														
3,890	3,646	3,278	3,169	13,983	4,330	4,685	4,250	4,217	17,482	4,661	4,994	4,143	4,521	18,319
<b>Revenue Carloads (thousands)</b>														
188	176	153	150	667	201	221	201	203	826	210	225	191	208	834
<b>Average Revenue Per Car (dollars)</b>														
1,930	2,005	2,114	2,040	2,017	1,759	1,754	1,729	1,823	1,766	1,705	1,737	1,697	1,698	1,710