

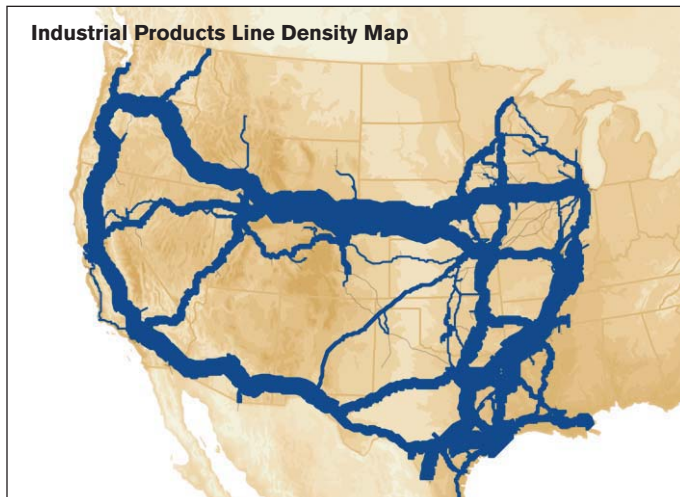
# Industrial Products

## Commodity Profile

The Railroad's extensive network enables the Industrial Products group to move numerous commodities between thousands of shippers and customers throughout North America. In 2008, Industrial Products provided 19 percent of Union Pacific's total freight revenue.

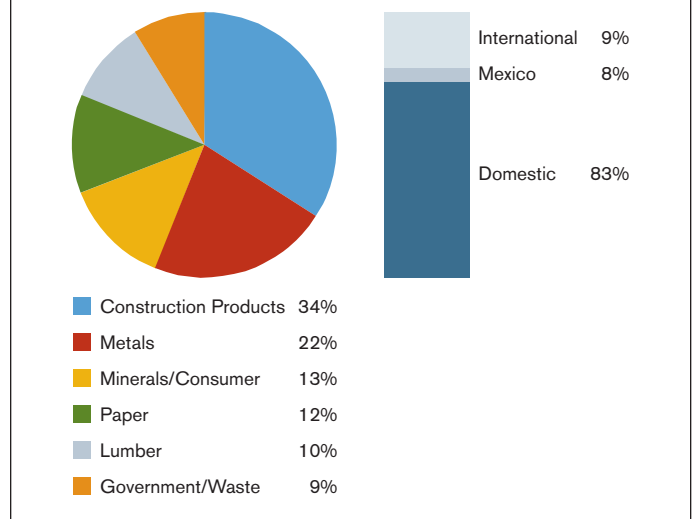
Lumber shipments originate primarily in the PNW and Canada for destinations throughout the U.S. for new home construction and repair and remodeling markets. Commercial and highway construction drive shipments of steel and construction products, consisting of rock, cement and roofing. Shipments of paper and consumer goods, including furniture and appliances, move to major metropolitan areas for consumers. Industrial manufacturing plants receive shipments of nonferrous metals and industrial minerals. In addition, the Railroad provides efficient and safe transportation for government entities and waste companies.

Demand is driven by macro-economic factors such as industrial production and housing starts. In 2008, U.S. industrial production declined 2 percent and housing starts fell 33 percent, contributing to a 6 percent decrease in carloads for the Industrial Products group. Pricing actions and fuel surcharges increased average revenue per car growth by 13 percent for the year, more than offsetting volume declines. As a result, Industrial Products revenue increased 6 percent in 2008.



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

## 2008 Carloads



Fewer housing starts, surplus production and general market uncertainty drove weak lumber volumes in 2008. Lumber carloadings decreased by 26 percent and revenue fell by 15 percent year-over-year.

Steel and scrap steel carloadings increased 8 percent in 2008 versus 2007, due to domestic market strength. Specifically, international prices exceeded domestic, in part due to the weak U.S. dollar, and service centers restocked from low inventory levels. Price increases and fuel surcharges drove a 22 percent revenue increase year-over-year.

Soft residential, commercial and highway construction reduced stone volume by 6 percent in 2008 versus 2007. However, price increases and fuel surcharges yielded a 4 percent increase in total revenue.

Volumes of non-metallic minerals grew in 2008. Increases in natural gas drilling activity presented business opportunities in fracturing sand (frac sand) and barite, driving a 6 percent increase in non-metallic mineral volume. Price and fuel surcharges pushed average revenue per car up 15 percent, resulting in revenue growth of 21 percent.

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## 2009 Market Drivers

With housing starts expected to decline somewhat from already low levels and reduced overall economic activity impacting many of the markets, Industrial Products faces an uphill battle. Weakness in autos, housing, and residential, commercial, and highway construction, as well as tight credit, reduced consumer spending and the strengthening U.S. dollar are expected to adversely impact markets such as lumber, stone, cement, sheet and structural steel, ferrous scrap, aluminum and appliances.

However, the Railroad recently began the short haul movement of uranium tailings for the Department of Energy. The arrangement falls under the Moab Uranium Mill Tailings Remedial Action (UMTRA) Project. The movement of 16 million tons of tailings approximately 30 miles to a permanent disposal site in southern Utah is expected to take several years to complete.

Union Pacific is also working with customers, associations and a variety of state and federal agencies to identify and act upon any opportunities related to stimulus funding coming from the American Recovery and Reinvestment Act of 2009.



**Eric Butler,**  
VP & GM Industrial Products

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

We are aggressively designing new products and prospecting with non-traditional and even non-direct rail served customers using our UPDS based network extension strategy. While there is clearly significant softness in our core businesses of lumber, steel and aggregates, we are seeing growth in our emerging markets businesses, such as wind energy components.

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

It is difficult to see the end of the current economic downturn. However, we believe that in the next 2 to 3 years, all of our major markets will be operating at more normal volumes, indicative of typical economic activity. Additionally, UP's record-setting customer service levels and the favorable economics of rail are expected to yield growth opportunities in both new and existing markets.

## Annual Summary by Quarter - Industrial Products

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>														
773	877	906	717	3,273	741	805	789	742	3,077	762	813	820	740	3,135
<b>Revenue Ton-Miles (millions)</b>														
17,507	19,138	18,648	15,421	70,714	18,516	19,974	18,908	17,711	75,109	21,740	22,055	20,785	18,428	83,008
<b>Revenue Carloads (thousands)</b>														
304	346	329	270	1,249	318	349	339	319	1,325	365	386	370	325	1,446
<b>Average Revenue Per Car (dollars)</b>														
2,540	2,537	2,747	2,662	2,620	2,331	2,308	2,327	2,324	2,322	2,084	2,110	2,215	2,273	2,167