

# Intermodal

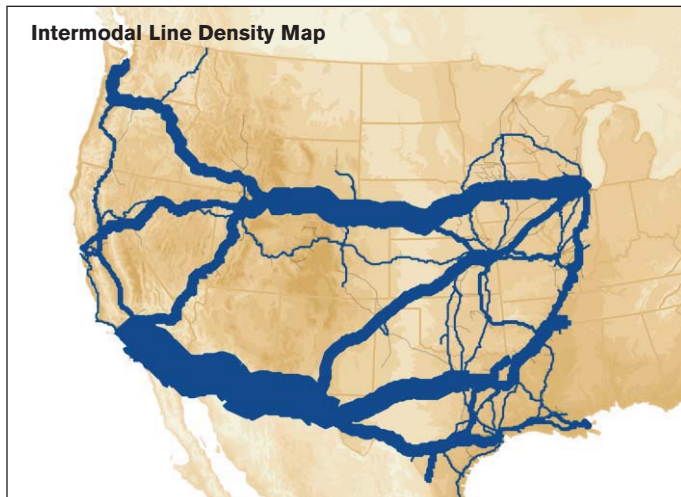
## Commodity Profile

UP's Intermodal business represented 18 percent of freight revenue in 2008, and includes international and domestic shipments. International business consists of imported container traffic that arrives at West Coast ports via ocean carriers for destinations throughout the United States. Domestic business includes domestic container and trailer traffic for intermodal marketing companies (primarily shipper agents and logistics companies), as well as truckload carriers. Less-than-truckload and package carriers with time-sensitive business requirements are also an important part of domestic shipments.

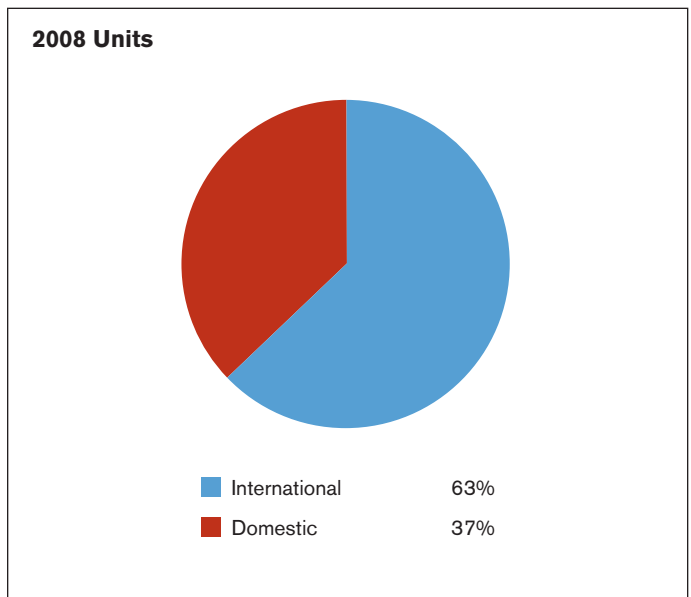
International imports and exports move in 20, 40 or 45 foot shipping containers through ports on the West Coast. The majority of domestic shipments move in 48 or 53 foot containers or trailers to and from points within the U.S., Canada and Mexico.

Union Pacific's key East/West intermodal lanes run between the West Coast and Chicago, Texas, and interchange connections to the eastern U.S. The Company's key North/South intermodal lanes operate between Los Angeles and the Pacific Northwest, as well as Chicago and the upper Midwest and points south in Texas and Mexico. UP accesses all six Mexican gateways and serves most of the major metropolitan areas in the western two-thirds of the U.S. Nearly all routes are competitive with other railroads and are comparable to shipping distances on the highway network.

In 2008, total Intermodal volumes declined 8 percent year-over-year due to a faltering economy and the related impact on global



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



shipping. However, pricing actions and fuel surcharges increased revenue 3 percent. International intermodal revenue grew 4 percent on 11 percent less volume. Domestic intermodal revenue also grew 4 percent on a volume decline of 3 percent.

Overall, Intermodal average revenue per box increased 13 percent in 2008. Domestic average revenue per box improved 7 percent and international shipments increased 17 percent per box. Legacy contract repricing, ongoing contract escalations and fuel surcharges drove these increases.

Union Pacific continues to offer truck-competitive, priority rail service in key lanes to encourage the conversion of highway business to intermodal. During periods of volatile fuel costs, shippers increasingly look to rail as the cost-competitive alternative to trucks.

Union Pacific's service continued to improve during 2008, providing customers consistent and reliable transit. An important project for Union Pacific is the double tracking of the Sunset Corridor, which ended the year at 60 percent complete. The added network flexibility provided by this project improves service, and the added capacity will support future growth.

## 2009 Market Drivers

The current economic situation is likely to present challenges in 2009. Imports are projected to decrease from 2008, and the Railroad expects international volume to struggle for most of the year, with the potential for a slight increase during peak season in the fourth quarter. On the domestic side, conversions from truck are expected to drive growth. In both markets UP anticipates continued pricing opportunities.

The Company is moving forward with service initiatives and capital expenditures to both support current volumes and provide for future growth. Network service improvements, additional capacity projects and close communication with ocean carriers, domestic shippers and interchange partners enable UP to operate efficiently with current volumes.



**John Kaiser,**  
VP & GM Intermodal

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

We increased our focus on growing the overall intermodal market through truckload conversion. A down economy forces shippers to lower costs, and converting from truck to intermodal helps accomplish this objective.

Union Pacific Intermodal continues to add and expand service offerings that provide reliable, truck-competitive and environmentally friendly service. The capital investments made in our intermodal network over the past few years are paying off with best-ever service and reliability metrics. We have recently enhanced our train schedules to provide truck-competitive service between Los Angeles and Chicago, Dallas, Memphis and Seattle. We've also added refrigerated service in several lanes.

We are also expanding the number of locations served. We recently opened a new ramp in San Antonio, TX. This intermodal facility enhances our ability to attract highway freight in target markets in Texas, along the Mexican/U.S. border and within the interior of Mexico. Further, we opened a ramp in Tacoma, WA, which positions us to capture business for the large domestic warehouse market in the PNW.

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

The biggest opportunity over the next few years comes from moving legacy contract volumes to market rates. This pricing opportunity will provide Union Pacific with the returns required to continue expanding capacity for future growth. Long-term investments to expand track and terminal capacity serving the Sunset Corridor are expected to allow Union Pacific to capitalize on the fast growing markets across the Sunbelt and the Southeast. Continued expansion of trade with Asia and conversion of highway freight are expected to drive long-term growth opportunities.

# Intermodal Terminals



## Annual Summary by Quarter - Intermodal

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>														
707	769	842	705	3,023	674	721	773	757	2,925	643	695	747	726	2,811
<b>Revenue Ton-Miles (millions)</b>														
19,552	19,737	19,875	17,014	76,178	18,994	20,543	21,024	20,232	80,793	18,689	19,630	20,014	19,469	77,802
<b>Revenue Carloads (thousands)</b>														
796	811	834	724	3,165	821	861	912	859	3,453	816	865	909	867	3,457
<b>Average Revenue Per Car (dollars)</b>														
889	947	1,010	974	955	821	838	846	883	847	789	803	821	838	813