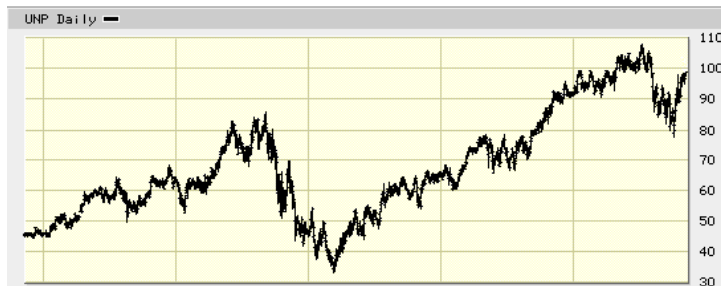




Union Pacific Corp.

Union Pacific Corporation operates mainly through its subsidiary, Union Pacific Railroad Company, linking 23 states together in the western two-thirds of the U.S. The company serves many of the fastest growing centers of the U.S. and provides fuel-efficient, safe and environmentally responsible transportation services. The company's business mix consists of agricultural products, automotive, chemicals, energy, industrial products and intermodal. Union Pacific connects the U.S. with Canada and Mexico. Moreover, Union Pacific is the only company that operates through all six major gateways to Mexico.

5-Year Historical Price:



Source: Bigcharts.com

- Union Pacific is one of the 4 companies that pays dividends in the U.S. railroads industry.
- UNP has the lowest day sales in receivables within its segment.¹
- UNP stock price volatility is lower than the industry average.²
- UNP is the best-positioned railroad for long-term growth considering its diversified portfolio.
- UNP has the largest productivity opportunity and the highest FCF in the industry, which allows them to continue growing.

¹ Thomson Reuters UNP-N Stock Report, November 2011.

² Bloomberg, Equity <CRAT>

Recommendation

BUY

T.G. Target Price \$121.38

Stock Data (November 02, 2011)

| | Price | \$98.99 |
|--------------|---------------------------|----------|
| Trading Data | Target Cons. Px. (12-Mo.) | \$112.00 |
| | Market Cap | \$49.3B |
| | Shares Outstanding | 483M |
| | 52 Week High | \$107.89 |
| | 52 Week Low | \$77.73 |
| | YTD % Change | 9.26% |
| | Beta | 1.17 |

| | Book Value | \$18.57B |
|---------------|---------------|----------|
| Balance Sheet | MV/BV | 2.11 |
| | P/E | 16.1 |
| | Relative P/E | 1.21 |
| | Price/Sales | 2.62 |
| | Current Ratio | 1.13 |
| | ROE | 17.24% |
| | ROA | 7.05% |

| | 12 Month Yield | 1.69% |
|-------|-----------------|--------|
| Divd. | Indicated Yield | 1.88% |
| | Div. Growth 5YR | 23.30% |

| | PEG | 0.64 |
|------|--|----------------|
| Est. | Proj. Total Return Range (28 Analysts) | 13.1% - 26.85% |
| | EPS growth + yield | 6.52 |
| | Est. Dividend Yield | 2.125% |

| | S&P | BBB+ |
|---------|-----------------------|------|
| Ratings | VL Safety | 2 |
| | Moody's | Baa2 |
| | VL Growth Persistence | 90 |

| | EPS | 89 |
|-------------|---------------------|----|
| SmartSelect | Composite | 94 |
| | Relative Strength | 81 |
| | Group RSRanking | B+ |
| | Sales, Margins, ROE | A |
| | Accumulation/Distr. | B+ |

Sources: Bloomberg, Investors.com, Google Finance, Thomson One, Value Line



Economic Analysis

| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012* | 2013* | 2014* | 2015* | 2016* |
|-------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|--------|
| GDP (\$ Billion) | 12958. | 13206. | 13161. | 12703. | 13088. | 13297. | 13470. | 13726. | 14028 | 14364. | 14695. |
| GDP Growth Rate | 5 | 4 | 9 | 1 | 0 | 4 | 3 | 2 | .2 | 9 | 3 |
| Industrial Production Growth | 2.70% | 1.90% | -0.30% | -3.50% | 3.00% | 1.60% | 1.30% | 1.90% | 2.20% | 2.40% | 2.30% |
| | 4.20% | -1.70% | -2.00% | -5.50% | 3.30% | 2.50% | 2.00% | 2.40% | 2.10% | 2.10% | 2.10% |

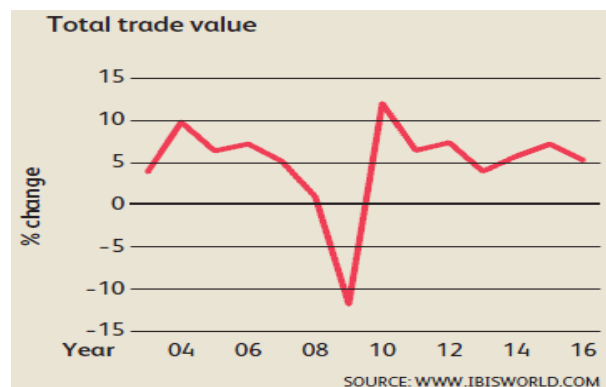
Source: Bloomberg,*Economist Intelligence Unit (EIU) October 2011 Report

| Current Indices | | Bond Yields | | | | | |
|---------------------------------------|-------------------------|--------------------------------|----------|------|------|------|------|
| | | 2011 (Current*) | 2010 | 2009 | 2008 | 2007 | |
| S&P 500 | 1237.90 (+2.23% YTD) | 3-month | 0.01 | 0.14 | 0.15 | 1.37 | 4.36 |
| Dow Jones U.S. Railroads Index | 782.59 (+13.35% YTD) | 20-year | 2.75 | 4.03 | 4.11 | 4.36 | 4.91 |
| S&P Volatility | 30.16 (+65.17% YTD) | Corporate (Moody's Aaa) | 4.21 (E) | 4.94 | 5.31 | 5.63 | 5.56 |

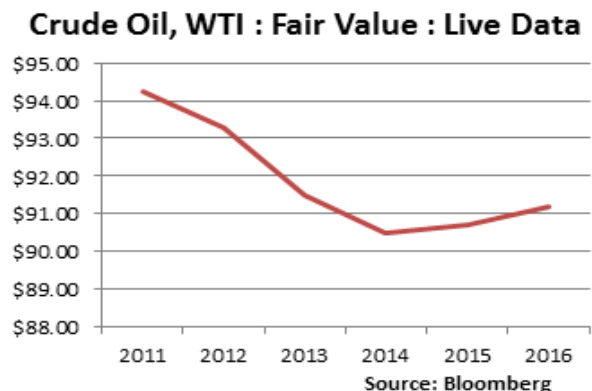
Source: Yahoo Finance (11/04/11)

Source: Federal Reserve and *Thomson

The United States has been suffering from the global recession since 2007. After the recession, 2010 was a high-growth year. After that, GDP is expected to stagnate within +1.60 - 2.40% range. Although the public holds fear of a second recessionary dip, economic indicators, such as industrial growth allow for an optimistic outlook, and project that the downward trend that has been experienced will finally move back into economic expansion with increasing growth trends after 2013.



As with GDP, total trade value had also suffered from the recession. It then reached a peak in 2010, and it is expected to fluctuate around +5.0% in coming years.



Contrasting the trade value increase, oil prices are expected to witness a more or less straight trend – fluctuating between \$90 - \$94 per barrel until 2016.



Industry Analysis - I

Rail Transportation in 2011

| | | |
|-----------------|---------------------|---------------------|
| Revenue | Annual Growth 06-11 | Annual Growth 11-16 |
| \$76.3bn | 0.9% | 3.7% |
| Profit | Wages | Businesses |
| \$6.9bn | \$20.4bn | 506 |

Source: IBISWorld.com, Rail Transportation in the US October 2011

| | |
|-------------------------------|--------|
| Competition Level | Medium |
| Life Cycle Stage | Mature |
| Revenue Volatility | High |
| Capital Intensity | Medium |
| Industry Assistance | Medium |
| Concentration Level | High |
| Regulation Level | Medium |
| Technology Change | High |
| Barriers To Entry | High |
| Industry Globalization | Low |

Source: IBISWorld.com

A vital component of the U.S. economy, the rail transportation industry had shown strong performance measures prior to the 2007 recession. Declining oil prices and decreased industrial production have negatively influenced the industry, and has caused industry revenue to drop by 20.1% in 2009. Compared to other forms of transportation, rail transportation is cost and fuel efficient, and more environmentally friendly. Therefore, with current rising industrial production and oil price – compared to 2007-2009 prices – industry revenues and demand are expected to grow higher. Industry revenue growth in 2010 was +14.0% and it is expected to grow by +3.30% in 2011 followed with a constant growth rate of +0.9% over the next five years following 2011.

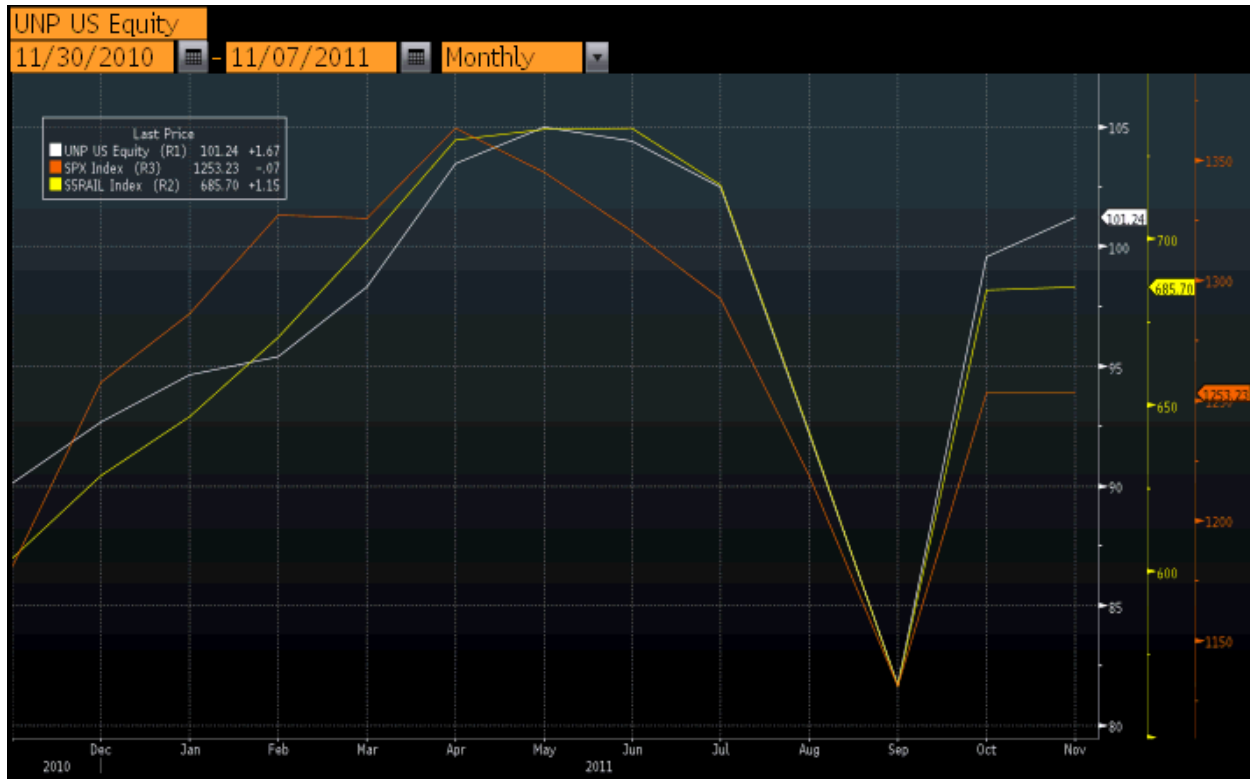
The largest revenue source for the industry is coal traffic, and traffic is estimated to increase in 2012. The industry is excessively sensitive to the trade value/volume of the U.S., and as provided in the aforementioned economic analysis trade value is expected to increase for the next five years. In addition, the industry faces competition from water and road freight transportation. However, these threats are expected to slightly decrease during 2012, according to the estimates. Also, agricultural product transportation holds an important role in industry revenues and this figure is expected to grow in 2012.³

The industry faces many safety and environmental regulations that are to be enforced quickly. Although this negatively affects the industry due to potential cost increases, these new standards will introduce effective marketing tools that will in turn increase revenues. In the past, regulated technology changes in the industry decreases the average wage for employees, lowering labor costs. Hence, the industry benefits from regulations, and implementing more regulatory action provides potential increases in profit.

³ IBISWorld.com, “Rail Transportation in the US October 2011”, Page 4



Industry Analysis - II

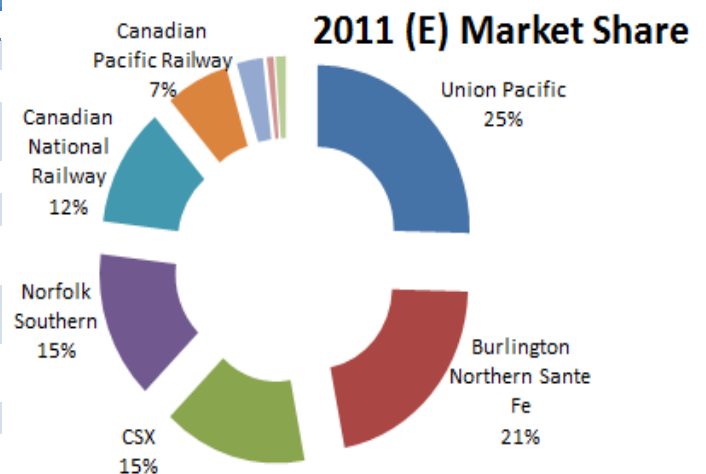


Source: Bloomberg

Last year's data shows that the railroad industry has outperformed the S&P 500 since the 2007 recession. At the same time, the industry is positively correlated with the S&P 500 and has an average beta of 1.20. Depending on the real expected valuations of the economy, earnings and revenue estimates of the industry have been very accurate for the past 20 years – which ensures that the valuation process will lead to a solid estimate.

| | Total Revenue % | | | | |
|------------------------------|-----------------|------|------|------|------|
| | 2011 (E) | 2010 | 2009 | 2008 | 2007 |
| Union Pacific | 25.43 | 24.1 | 24.1 | 23.9 | 24.3 |
| Burlington North. | | | | | |
| Santa Fe | 21.57 | 24.5 | 24.5 | 24.4 | 24.1 |
| CSX | 15.34 | 15.5 | 15.9 | 15.3 | 15.4 |
| Norfolk Southern | 14.62 | 14.3 | 14.4 | 14.9 | 14.8 |
| Canadian National | | | | | |
| Railway | 11.76 | 10.8 | 10.5 | 11.2 | 11.6 |
| Canadian Pacific | | | | | |
| Railway | 6.72 | 7.1 | 6.8 | 6.7 | 6.7 |
| Kansas City | | | | | |
| Southern | 2.77 | 2.6 | 2.6 | 2.5 | 2.6 |
| RailAmerica | 0.71 | 0.5 | 0.6 | 0.6 | - |
| Genesee & Wyoming | 1.08 | 0.6 | 0.6 | 0.5 | 0.5 |

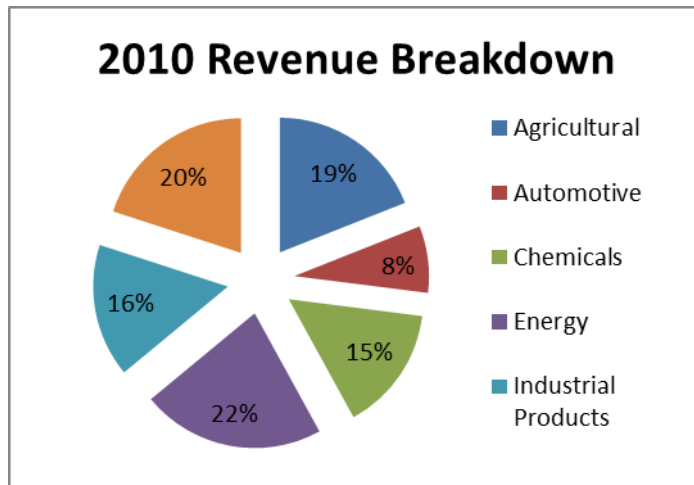
Source: Bloomberg





Company Analysis

UNP is a Class I railroad operating in the U.S. with 31,953 route miles throughout the U.S. Freight traffic of the company consists of two segments: bulk traffic (coal, grain, rock, etc.) and manifest traffic (less than train-load business, including lumber, steel, paper and food). The six major commodity groups that generate the most revenue are:



Agricultural – UPRR provides access to most major grain markets

Automotive – Largest automotive carrier West of the Mississippi River

Chemicals – Industrial chemicals, plastics, and liquid petroleum products

Energy – Coal and coke transportation

Industrial Products – Lumber, construction products, waste, and consumer goods

Intermodal – International and domestic shipments

Source: Company Reports

As for revenues, UNP currently has the highest market share within the railroads industry. Moreover, UNP’s commodity mix is amongst one of the most diversified within its industry. Coal transportation is the fastest-growing business of UNP as they have access to the coal-rich Powder River Basin in Wyoming. Coal transportation accounted for 22% of company revenues in 2010, and the company has been investing heavily in improving their coal transportation lines and services. Also, the company has announced the construction of a \$400 million rail facility in New Mexico in which will be completed in 2015.

After passing through the recession, UNP’s earnings skyrocketed in 2010. Fearing a second dip in the economy, 14.53% growth was witnessed in 2011. With growth expectations for the U.S. economy, and promising investments made by the company, revenues are expected to increase by approximately 15% in 2012.⁴

| Year | Revenue % | NI % |
|------------------|-----------|-------|
| 2011* (E) | 14.53 | 8.99 |
| 2010 | 20 | 46.5 |
| 2009 | -21.3 | -18.8 |
| 2008 | 10.4 | 26 |
| 2007 | 4.5 | 15.5 |

Source: Company Reports and *Bloomberg

UNP experienced record sales in the third quarter of 2011, surpassing the Bloomberg consensus analyst estimates. Free CF/Sales data shows high profitability for UNP within its industry, as well as the S&P 500.

⁴ Bloomberg



UNP-N Stock Charts

1 Year Data:



Source: Google Finance

5 Year Data:



Source: Google Finance



Competitor Analysis - I

| Current Data (11/04/11) | Price (\$) | 1 Yr Return (%) | Mkt. Cap. (\$ B) | 1 Yr Revenue Growth (%) | EPS 1 Yr Growth (%) | P/E | ROE (%) | Div. Yield (%) |
|------------------------------|------------|-----------------|------------------|-------------------------|---------------------|-------|---------|----------------|
| UNION PACIFIC CORP | 101.24 | 10.78 | 48.91 | 19.95 | 48.4 | 15.97 | 17.24 | 1.88 |
| CANADIAN NATL RAILWAY CO | 79.75 | 21.82 | 34.83 | 12.62 | 14.18 | 16.68 | 20.14 | 1.63 |
| NORFOLK SOUTHERN CORP | 73.54 | 19.9 | 24.72 | 19.41 | 45.52 | 14.31 | 17.41 | 2.34 |
| CSX CORP | 21.76 | 2.44 | 22.85 | 17.64 | 42.36 | 13.4 | 21.27 | 2.2 |
| CANADIAN PACIFIC RAILWAY LTD | 62.52 | -1.81 | 10.41 | 13.16 | 16.62 | 19.72 | 10.4 | 1.92 |
| KANSAS CITY SOUTHERN | 66.32 | 38.57 | 7.28 | 22.61 | 181.67 | 25.41 | 11.29 | 0 |
| GENESEE & WYOMING INC-CLA | 59.63 | 12.62 | 2.54 | 15.66 | 21.69 | 22.25 | 12.67 | 0 |

Source: Bloomberg

Even though UNP's P/E ratio is not the lowest, it is lower than the peer average. Moreover, EPS and revenue growths are higher than the ones with lower P/E ratios, and UNP's cash positions are better than its competitors'.

| Sales (Bn.) | UNP | CP | NSC | CSX | CNI | KSU | GWR |
|-------------|-------|------|-------|-------|------|------|------|
| 2011 | 18.86 | 4.97 | 10.77 | 11.61 | 8.61 | 2.05 | 0.79 |
| 2010 | 16.97 | 4.93 | 9.52 | 10.64 | 8.2 | 1.81 | 0.63 |
| 2009 | 14.14 | 4.35 | 7.97 | 9.04 | 7.28 | 1.48 | 0.54 |
| 2008 | 17.97 | 4.99 | 10.66 | 11.26 | 8.39 | 1.85 | 0.6 |
| 2007 | 16.28 | 4.65 | 9.43 | 10.03 | 7.81 | 1.74 | 0.52 |
| 2006 | 15.58 | 4.53 | 9.41 | 9.57 | 7.84 | 1.66 | 0.45 |
| 2005 | 13.58 | 4.34 | 8.53 | 8.62 | 7.36 | 1.35 | 0.35 |
| 2004 | 12.22 | 3.86 | 7.31 | 8.04 | 6.47 | 0.64 | 0.3 |

| EPS (\$) | UNP | CP | NSC | CSX | CNI | KSU | GWR |
|----------|-------|------|-------|--------|------|-------|--------|
| 2011 | 6.514 | 2.02 | 5.404 | 1.681 | 4.03 | 2.898 | 2.743 |
| 2010 | 5.58 | 3.8 | 4.06 | 1.3667 | 4.43 | 1.69 | 2.09 |
| 2009 | 3.76 | 3.26 | 2.79 | 0.9733 | 3.87 | 0.6 | 1.7 |
| 2008 | 4.58 | 3.81 | 4.6 | 1.1367 | 3.9 | 2.02 | 2.26 |
| 2007 | 1.745 | 5.8 | 3.74 | 1.0367 | 4.2 | 1.77 | 1.59 |
| 2006 | 2.98 | 4.79 | 3.63 | 0.9933 | 3.86 | 1.2 | 3.56 |
| 2005 | 1.945 | 3.3 | 3.17 | 0.8817 | 2.74 | 1.21 | 1.36 |
| 2004 | 1.165 | 2.49 | 2.34 | 0.2633 | 2.15 | 0.25 | 1.0267 |

| ROE | UNP | CP | NSC | CSX | CNI | KSU | GWR |
|------|-------|-------|-------|-------|-------|-------|-------|
| 2011 | 17.04 | 10.86 | 17.30 | 20.98 | 19.61 | 11.29 | 13.49 |
| 2010 | 16.09 | 13.72 | 14.23 | 17.92 | 18.69 | 7.58 | 10.79 |
| 2009 | 11.72 | 10.55 | 10.36 | 13.61 | 17.02 | 2.85 | 10.51 |
| 2008 | 15.07 | 10.82 | 17.75 | 16.32 | 18.28 | 9.31 | 15.89 |
| 2007 | 12.01 | 18.35 | 15.14 | 15.16 | 21.58 | 8.13 | 11.60 |
| 2006 | 11.07 | 17.23 | 15.67 | 15.51 | 21.88 | 5.97 | 29.19 |
| 2005 | 7.78 | 12.98 | 14.83 | 15.51 | 16.79 | 7.52 | 13.56 |
| 2004 | 4.83 | 10.82 | 12.33 | 5.11 | 14.20 | 1.60 | 12.20 |



Competitor Analysis - II

| ROA | UNP | CP | NSC | CSX | CNI | KSU | GWR |
|----------|-------|-------|-------|-------|-------|--------|--------|
| 2011 | 7.08 | 5.90 | 7.74 | 6.60 | 8.40 | 5.45 | 6.41 |
| 2010 | 6.52 | 4.68 | 5.38 | 5.68 | 8.35 | 3.05 | 4.32 |
| 2009 | 4.62 | 3.75 | 3.85 | 4.30 | 7.15 | 1.03 | 3.73 |
| 2008 | 6.01 | 4.26 | 6.54 | 5.27 | 7.55 | 3.25 | 5.42 |
| 2007 | 4.98 | 7.64 | 5.61 | 5.27 | 9.09 | 2.80 | 4.97 |
| 2006 | 4.45 | 7.14 | 5.71 | 5.31 | 9.04 | 1.97 | 12.63 |
| 2005 | 2.92 | 5.08 | 5.06 | 4.69 | 6.98 | 2.66 | 6.05 |
| 2004 | 1.78 | 4.04 | 4.07 | 1.46 | 5.89 | 0.68 | 5.69 |
| P/E | UNP | CP | NSC | CSX | CNI | KSU | GWR |
| 2011 | 15.97 | 19.72 | 14.31 | 13.40 | 16.68 | 25.41 | 22.25 |
| 2010 | 16.49 | 22.34 | 16.07 | 15.91 | 19.03 | 22.68 | 25.58 |
| 2009 | 17.85 | 12.49 | 18.99 | 17.01 | 10.31 | 52.84 | 20.15 |
| 2008 | 10.53 | 15.34 | 10.36 | 8.97 | 15.67 | 10.03 | 17.84 |
| 2007 | 36.31 | 15.27 | 13.52 | 16.29 | 16.10 | 21.19 | 15.39 |
| 2006 | 15.57 | 16.03 | 14.09 | 15.51 | 18.78 | 25.88 | 33.64 |
| 2005 | 23.61 | 18.09 | 15.57 | 14.93 | 19.87 | 101.79 | 20.75 |
| 2004 | 23.35 | 22.79 | 16.60 | 19.94 | 13.48 | 41.23 | 19.78 |
| Rel. P/E | UNP | CP | NSC | CSX | CNI | KSU | GWR |
| 2011 | 1.37 | 1.85 | 1.43 | 1.22 | 1.56 | 2.39 | 2.19 |
| 2010 | 1.11 | 1.50 | 1.08 | 1.07 | 1.28 | 1.52 | 1.72 |
| 2009 | 0.99 | 0.69 | 1.05 | 0.94 | 0.57 | 2.92 | 1.11 |
| 2008 | 0.71 | 1.03 | 0.69 | 0.60 | 1.05 | 0.67 | 1.20 |
| 2007 | 2.09 | 0.88 | 0.78 | 0.94 | 0.93 | 1.22 | 0.89 |
| 2006 | 0.92 | 0.95 | 0.83 | 0.92 | 1.11 | 1.53 | 1.99 |
| 2005 | 1.37 | 1.05 | 0.90 | 0.86 | 1.15 | 5.90 | 1.20 |
| 2004 | 1.26 | 1.23 | 0.90 | 1.08 | 0.73 | 2.23 | 1.07 |
| Payout | UNP | CP | NSC | CSX | CNI | KSU | GWR |
| 2011 | 27.50 | 35.73 | 30.92 | 26.83 | 26.65 | 0.00 | 0.00 |
| 2010 | 23.49 | 27.45 | 34.30 | 23.80 | 23.91 | 0.00 | 0.00 |
| 2009 | 28.78 | 30.27 | 48.36 | 30.67 | 25.57 | 0.00 | 0.00 |
| 2008 | 21.43 | 25.07 | 26.57 | 20.67 | 23.01 | 0.00 | 0.00 |
| 2007 | 21.35 | 14.63 | 25.75 | 18.84 | 19.37 | 0.00 | 0.00 |
| 2006 | 20.11 | 14.78 | 18.77 | 11.07 | 16.29 | 0.00 | 0.00 |
| 2005 | 30.81 | 16.98 | 15.14 | 12.92 | 17.67 | 0.00 | 0.00 |
| 2004 | 51.48 | 19.98 | 15.38 | 20.57 | 17.65 | 0.00 | 0.00 |
| ROS % | UNP | CP | NSC | CSX | CNI | KSU | GWR |
| 2011 | 6.88% | 3.74% | 6.46% | 6.34% | 8.73% | 4.70% | 4.85% |
| 2010 | 6.45% | 4.76% | 5.31% | 5.55% | 8.25% | 3.19% | 3.80% |
| 2009 | 4.48% | 3.89% | 3.78% | 4.20% | 7.27% | 1.23% | 3.53% |
| 2008 | 5.88% | 3.95% | 6.53% | 5.65% | 7.00% | 3.34% | 4.58% |
| 2007 | 4.88% | 6.83% | 5.60% | 4.84% | 9.08% | 3.12% | 6.43% |
| 2006 | 4.72% | 6.74% | 5.69% | 5.21% | 8.58% | 2.35% | 15.13% |
| 2005 | 2.88% | 4.91% | 4.95% | 2.97% | 6.94% | 2.28% | 5.15% |
| 2004 | 1.75% | 3.81% | 3.68% | 1.70% | 5.54% | 1.00% | 5.55% |

Source: Bloomberg (Current Data) and Msn Money (Historical Data)



Competitor Analysis - III

| ROE Decomp. | UNP | CP | NSC | CSX | CNI | KSU | GWR |
|--------------------|-------|-------|-------|-------|-------|-------|-------|
| ROE | 16.09 | 13.72 | 14.23 | 17.92 | 18.69 | 7.58 | 10.79 |
| Tax Burden | 62.71 | 74.72 | 63.2 | 61.39 | 73.16 | 58.51 | 74.66 |
| Interest Burden | 89 | 78.02 | 88.45 | 82.9 | 95.11 | 59.45 | 96.39 |
| EBIT Margin | 29.36 | 22.4 | 28.12 | 28.87 | 36.45 | 26.81 | 17.92 |
| Asset Turnover | 0.4 | 0.36 | 0.34 | 0.39 | 0.33 | 0.33 | 0.33 |
| Financial Leverage | 2.47 | 2.93 | 2.64 | 3.16 | 2.24 | 2.49 | 2.5 |

Source: Bloomberg (2010 Data)

| Sustainable Growth | UNP | CP | NSC | CSX | CNI | KSU | GWR |
|--------------------|--------|-------|--------|--------|--------|--------|--------|
| | 12.35% | 6.98% | 11.95% | 15.35% | 14.38% | 11.29% | 13.49% |

Required Return Analysis

Cost of Equity (CAPM)

| | |
|----------------------|--------------|
| Risk Free Rate | 2.75% |
| Beta | 1.17 |
| Equity Risk Premium | 5.20% |
| Country Risk Premium | 0% |
| Cost of Equity | 8.83% |

WACC

| | |
|----------------|-------------------------------------|
| Cost of Equity | 8.83% |
| Cost of Debt | 5.30% (Bloomberg) |
| Debt/Capital | 19.90% (Bloomberg Industry Average) |
| Equity/Capital | 80.10% |
| WACD | 1.05% |
| WACE | 7.08% |
| WACC | 8.13% |

**Valuation – I****DCF Analysis – FCFF**
(Using percentage of sales revenue method)

| | | 2006 | 2007 | 2008 | 2009 | 2010 | 2011* | 2012* | 2013* | 2014* - LT Growth |
|-----------------|----|---------|---------|-------|-------|-------|-------|-------|-------|-------------------|
| + D & A | ** | 1,237 | 1,321 | 1,387 | 1,444 | 1,487 | 1,249 | 916 | 495 | 0 |
| % of revenue | | 7.9% | 8.1% | 7.7% | 10.2% | 8.8% | 6.6% | 4.4% | 2.2% | 0.0% |
| - CapEx | ** | 2,242 | 2,496 | 2,780 | 100 | 0 | 1,744 | 1,919 | 2,072 | 2,196 |
| % of revenue | | 14.4% | 15.3% | 15.5% | 0.7% | 0.0% | 9.2% | 9.2% | 9.2% | 9.2% |
| Working Capital | ** | (1,175) | (1,186) | (996) | (640) | (367) | (411) | (452) | (488) | (518) |
| % of revenue | | -7.5% | -7.3% | -5.5% | -4.5% | -2.2% | -2.2% | -2.2% | -2.2% | -2.2% |
| - WC Investment | ** | n/a | (11) | 190 | 356 | 273 | (44) | (41) | (36) | (29) |
| % of revenue | | n/a | -0.1% | 1.1% | 2.5% | 1.6% | -0.2% | -0.2% | -0.2% | -0.1% |
| Free Cash Flow | | n/a | 1,057 | 1,174 | 3,978 | 4,542 | 2,669 | 2,470 | 2,165 | 1,761 |
| % of revenue | | n/a | 6.5% | 6.5% | 28.1% | 26.8% | 14.0% | 11.8% | 9.6% | 7.4% |

*Expected

**See Appendix A for calculations

| | | | 2011 | 2012 | 2013 | 2014 Lt. Growth |
|----------------------------------|---------|-------|-------|-------|-------|-----------------|
| Present Value Factor | WACC | 8.13% | 0.925 | 0.855 | 0.791 | 0.732 |
| Present Value of Free Cash Flows | Lt Grth | 6.00% | 2,468 | 2,113 | 1,712 | 60,490 |

Per Share Value

| | |
|--|-----------------|
| Invested Capital (Equity and Debt) Value | 66,783 |
| + Excess Cash | 1,086 |
| - Interest Bearing Debt, Preferred and Minority Interest | 9,242 |
| Equity Value (Net Present Value) | 58,627 |
| Divide: Shares Outstanding | 483 |
| Intrinsic Value / Share | \$121.38 |

RESULTS

| Decision | Current Price | Target Price | Target Yield |
|------------|----------------|-----------------|---------------|
| BUY | \$98.99 | \$121.38 | 22.62% |



Valuation – II

Multiples Analysis

| | Ent Value | Revenue Growth | | | EBITDA Margin | | | EBIT Margin | | | Cash Flow Margin | | |
|-------------------|-----------|----------------|-------|-------|---------------|--------|--------|-------------|--------|--------|------------------|--------|--------|
| | | Current | -1yr | -5yr | +5yr | -1yr | -5yr | +5yr | -1yr | -5yr | +5yr | -1yr | -5yr |
| Union Pacific | 57,939 | 19.95% | 3.39% | 9.00% | 30.60% | 32.57% | 27.31% | 24.02% | 24.02% | 24.02% | 14.04% | 24.02% | 10.70% |
| CSX | 35,508 | 17.64% | 3.76% | 7.40% | 32.83% | 32.93% | 32.86% | 23.92% | 23.92% | 23.92% | 9.00% | 23.92% | 8.88% |
| Norfolk Southern | 32,878 | 19.41% | 1.86% | 7.40% | 35.93% | 35.90% | 35.92% | 27.25% | 27.25% | 27.25% | 12.47% | 27.25% | 12.47% |
| Kansas City Soutl | 7,978 | 22.61% | 3.45% | 7.40% | 31.60% | 30.16% | 34.16% | 20.13% | 20.13% | 20.13% | 5.71% | 20.13% | 8.54% |
| Canadian Pacific | 14,442 | 21.37% | 7.15% | 7.00% | 33.53% | 33.27% | 35.14% | 22.83% | 22.83% | 22.83% | 13.75% | 22.83% | 15.15% |
| Genesee & Wyo | 2,990 | 15.66% | 9.31% | 9.20% | 28.29% | 26.34% | 30.22% | 19.20% | 18.99% | 19.20% | 7.37% | 18.99% | 8.83% |
| Canadian Nationa | 40,553 | 14.06% | 1.98% | 6.00% | 46.54% | 44.81% | 48.25% | 35.57% | 35.57% | 35.57% | 21.52% | 35.57% | 23.12% |
| Low Value | 2,990 | 14.06% | 1.86% | 6.00% | 28.29% | 26.34% | 30.22% | 19.20% | 18.99% | 19.20% | 5.71% | 18.99% | 8.54% |
| High Value | 40,553 | 22.61% | 9.31% | 9.20% | 46.54% | 44.81% | 48.25% | 35.57% | 35.57% | 35.57% | 21.52% | 35.57% | 23.12% |
| Average Value | 22,392 | 18.46% | 4.59% | 7.40% | 34.79% | 33.90% | 36.09% | 24.82% | 24.78% | 24.82% | 11.64% | 24.78% | 12.83% |
| Median Value | 23,660 | 18.53% | 3.60% | 7.40% | 33.18% | 33.10% | 34.65% | 23.37% | 23.37% | 23.37% | 10.73% | 23.37% | 10.68% |

| Enterprise Value Multiples | | | | |
|----------------------------|-----|--------|------|-----|
| | Rev | EBITDA | EBIT | FCF |

| | | | | |
|---------------------------|-------|--------|--------|--------|
| Union Pacific | 3.4 x | 9.0 x | 11.6 x | 12.8 x |
| CSX | 3.3 x | 8.8 x | 11.6 x | 26.2 x |
| Norfolk Southern | 3.5 x | 9.4 x | 12.3 x | 25.9 x |
| Kansas City Southern | 4.4 x | 13.2 x | 19.1 x | 32.4 x |
| Canadian Pacific Railway | 2.9 x | 9.0 x | 12.9 x | 24.4 x |
| Genesee & Wyoming | 4.7 x | 16.5 x | 23.0 x | n/a |
| Canadian National Railway | 4.9 x | 10.5 x | 13.4 x | 23.7 x |

| | | | | |
|---------------|-------|--------|--------|--------|
| Low Value | 2.9 x | 8.8 x | 11.6 x | 12.8 x |
| High Value | 4.9 x | 16.5 x | 23.0 x | 32.4 x |
| Average Value | 3.9 x | 10.9 x | 14.8 x | 24.2 x |
| Median Value | 3.5 x | 9.4 x | 12.9 x | 25.2 x |

| Enterprise Value Multiples | | | | |
|----------------------------|--------|--------|---------|---------------|
| Rev | EBITDA | EBIT | FCF | |
| Concluded Range | | | | |
| Ave | Ave | Ave | Ave | |
| Concluded Multiple | | | | |
| 3.7 x | 10.1 x | 13.9 x | 24.7 x | |
| Potential per Multiple | | | | |
| 13.01% | 20.25% | 27.59% | 117.55% | |
| Conclusion | | | | 44.60% |

See Appendix B for more calculations

RESULTS

| Decision | Current Price | Target Price | Target Yield |
|------------|----------------|-----------------|---------------|
| BUY | \$98.99 | \$143.14 | 44.60% |



Conclusion

Historically Union Pacific has been a strong dividend paying railroad company that has been growing at a good pace. Due to its highly diversified product mix, company has announced record high earnings for the third quarter of 2011, which was higher than the consensus analyst estimates. When looked from a broader time-horizon, UNP increased its net income from \$1.0B in 2005 to \$2.8B in 2005 - %180 growth in 5 years. UNP has high access to the intermodal volume since it has assets serving major West Coast ports and Mexico – more than any other competitor. Hence, UNP is a long-term growth stock.

UNP's growth is highly dependent on free cash flows of the firm since the railroads business requires high amounts for renovation and technological improvements. Therefore, FCF method is a strong estimate for UNP – which gives a target yield of 22.62%. Enterprise value multiples analysis yields higher results than FCF and Bloomberg consensus analyst estimates since UNP's free cash flows are the highest in the industry – which is a positive sign for long-term investors. However, this measure gives the growth potential above the target price.

Due to strong performance and growth figures, increasing dividend payout ratio, future growth potential and valuation analysis T.G. target price for UNP is \$121.38 and recommendation is a BUY.



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Appendix A

DCF Calculations

| \$ Million | Historical Year Ended | | | | | Projected Year Ending | | | |
|---------------------|-----------------------|--------|--------|--------|--------|-----------------------|--------|--------|--------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
| Total Revenue | 15,578 | 16,283 | 17,970 | 14,143 | 16,965 | 19,001 | 20,901 | 22,573 | 23,927 |
| % growth rate | n/a | 4.5% | 10.4% | -21.3% | 20.0% | 12.0% | 10.0% | 8.0% | 6.0% |
| - COGS | 6,448 | 6,675 | 8,051 | 4,557 | 5,464 | 7,282 | 8,010 | 8,651 | 9,170 |
| % of revenue | 41.4% | 41.0% | 44.8% | 32.2% | 32.2% | 38.3% | 38.3% | 38.3% | 38.3% |
| Gross Profit | 9,130 | 9,608 | 9,919 | 9,586 | 11,501 | 11,719 | 12,891 | 13,922 | 14,758 |
| % of revenue | 58.6% | 59.0% | 55.2% | 67.8% | 67.8% | 61.7% | 61.7% | 61.7% | 61.7% |
| - Operating Exp | 6,246 | 6,233 | 5,844 | 5,507 | 6,520 | 7,154 | 7,870 | 8,499 | 9,009 |
| % of revenue | 40.1% | 38.3% | 32.5% | 38.9% | 38.4% | 37.7% | 37.7% | 37.7% | 37.7% |
| - SG&A (Op Ex) | 5,009 | 4,912 | 4,457 | 4,063 | 5,033 | 5,905 | 6,954 | 8,005 | 9,009 |
| % of revenue | 32.2% | 30.2% | 24.8% | 28.7% | 29.7% | 31.1% | 33.3% | 35.5% | 37.7% |
| EBITDA | 4,121 | 4,696 | 5,462 | 5,523 | 6,468 | 5,814 | 5,937 | 5,918 | 5,748 |
| % of revenue | 26.5% | 28.8% | 30.4% | 39.1% | 38.1% | 30.6% | 28.4% | 26.2% | 24.0% |
| - D & A (Op Ex) | 1,237 | 1,321 | 1,387 | 1,444 | 1,487 | 1,249 | 916 | 495 | 0 |
| % of revenue | 7.9% | 8.1% | 7.7% | 10.2% | 8.8% | 6.6% | 4.4% | 2.2% | 0.0% |
| EBIT (oper profits) | 2,884 | 3,375 | 4,075 | 4,079 | 4,981 | 4,565 | 5,021 | 5,423 | 5,748 |
| % of revenue | 18.5% | 20.7% | 22.7% | 28.8% | 29.4% | 24.0% | 24.0% | 24.0% | 24.0% |
| - Taxes | 919 | 1,154 | 1,318 | 1,089 | 1,653 | 1,445 | 1,590 | 1,717 | 1,820 |
| % of EBIT | 31.9% | 34.2% | 32.3% | 26.7% | 33.2% | 31.7% | 31.7% | 31.7% | 31.7% |
| NOPAT | 1,965 | 2,221 | 2,757 | 2,990 | 3,328 | 3,120 | 3,432 | 3,706 | 3,929 |
| % of revenue | 12.6% | 13.6% | 15.3% | 21.1% | 19.6% | 16.4% | 16.4% | 16.4% | 16.4% |

Historical Working Capital Calculations

| Working Capital Inputs | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------|---------|---------|-------|-------|-------|
| Current Assets | 2,411 | 2,594 | 2,813 | 3,680 | 3,432 |
| - Excess Cash | 827 | 878 | 1,249 | 1,850 | 1,086 |
| - Current Liabilities | 3,539 | 3,041 | 2,880 | 2,682 | 2,952 |
| + Short Term Debt | 780 | 139 | 320 | 212 | 239 |
| Working Capital | (1,175) | (1,186) | (996) | (640) | (367) |
| % of revenue | -7.5% | -7.3% | -5.5% | -4.5% | -2.2% |
| Interest Exp (net) | 506 | 532 | 511 | 600 | 602 |
| Total Debt | 6,780 | 7,682 | 8,927 | 9,848 | 9,242 |

**Appendix B**

Additional Multiples Analysis Calculations

| | Financial Analysis | | | |
|---------------------------|--------------------|--------|-------|-------|
| | Revenue | EBITDA | EBIT | FCFF |
| Union Pacific | 16,965 | 6,468 | 4,981 | 4,542 |
| CSX | 10,636 | 4,018 | 3,071 | 1,353 |
| Norfolk Southern | 9,516 | 3,502 | 2,676 | 1,269 |
| Kansas City Southern | 1,815 | 603 | 418 | 246 |
| Canadian Pacific Railway | 4,982 | 1,610 | 1,117 | 592 |
| Genesee & Wyoming | 630 | 181 | 130 | 55 |
| Canadian National Railway | 8,297 | 3,863 | 3,024 | 1,711 |
| Average Value | 7,549 | 2,892 | 2,202 | 1,395 |

Source: Morningstar

| UNP-N | Revenue | EBITDA | EBIT | FCF |
|---------------------------------|----------|----------|----------|----------|
| Current Financial Results | 16,965 | 6,468 | 4,981 | 4,542 |
| Multiple x | 3.7 x | 10.1 x | 13.9 x | 24.7 x |
| Multiple Calculation | 62,191 | 65,648 | 69,161 | 112,172 |
| Enterprise Value | | | | |
| Less: Total Debt | 9,242 | 9,242 | 9,242 | 9,242 |
| Plus: Excess Cash | 1,086 | 1,086 | 1,086 | 1,086 |
| = Stock Holder's Equity Capital | 54,035 | 57,492 | 61,005 | 104,016 |
| Divide: Shares Outstanding | 483 | 483 | 483 | 483 |
| = Fair Value per Share | \$111.87 | \$119.03 | \$126.30 | \$215.35 |
| Current Stock Price | \$98.99 | \$98.99 | \$98.99 | \$98.99 |
| Potential Stock Increase | 13.01% | 20.25% | 27.59% | 117.55% |