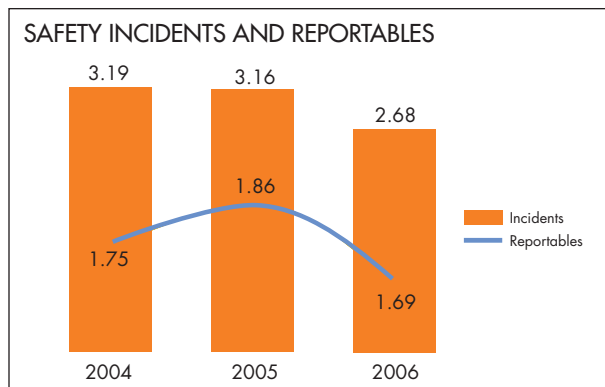


## Safety and the Environment

### Safety

Safety is a core value at Union Pacific. All employees are responsible for maintaining safe working conditions and preventing personal injuries and accidents. UP's commitment to safety extends beyond its own employees and includes both customers and the communities in which UP operates. In 2006, the safety of our employees improved as the number of incidents was reduced 13 percent. Rail equipment incidents decreased 17 percent and the associated costs fell 13 percent.



Crossing accidents have increased nationwide in recent years with the growth in rail and highway traffic. Union Pacific is working to reverse that trend through improved crossings, technology and education. In 2006, UP closed 409 crossings to reduce exposure to possible grade crossing accidents. Technology such as locomotive simulators and track image recorders (TIRs) are being utilized to improve crossing safety. Simulators help teach and reinforce safe operating practices for employees and TIRs assist in the analysis of crossing accidents. At year end 2006, Union Pacific had TIRs in roughly 30 percent of its road locomotive fleet. In addition, driver behavior is addressed through public education classes and initiatives with local police agencies to promote greater crossing safety.

Union Pacific is partnering with Dow Chemical, Union Tank Car and the Federal Railroad Administration on the "Next Generation Tank Car Project" to further improve the safety of chemical transportation through better tank car design. The Company is also testing Communications-Based Train Control, a technology that enhances train safety through the use of global positioning satellites and onboard computer technology. In 2007, UP will continue its multifaceted approach to safety through employee education and training, public awareness and derailment prevention.

### Environment

Union Pacific is committed to protecting the nation's environment. As one of America's largest transportation companies, UP's role is critical to the U.S. economy. It is also critical that this service is provided in a manner that protects the country's natural resources.

One area where railroads offer a significant advantage over other forms of freight transportation is fuel efficiency. For example, railroads are generally three times more fuel efficient than trucks. Union Pacific is continually improving its fuel efficiency through better locomotive technology, engineer training and employee involvement. One of the most successful initiatives has been the innovative Fuel Masters program, which rewards locomotive engineers for efficiently operating trains. Increased asset utilization and network efficiency also has enabled the Company to improve its fuel consumption. For example, improved efficiency versus 2005 allowed UP to save more than 50 million gallons of diesel fuel in 2006. Since 1995, the Company has achieved a more than 12 percent improvement in fuel efficiency.

Union Pacific is aggressively working to become even "cleaner and greener" through the reduction of locomotive emissions. There are three sets, or tiers, of emission standards provided by the U.S. Environmental Protection Agency (EPA), which are progressively more stringent. Over time, these standards require continuing reductions in locomotive exhaust emissions of nitrogen oxides and particulate matter. With approximately 50 percent of its nearly 8,500 locomotives certified under the applicable EPA tier standards, UP owns the most environmentally friendly fleet in the nation. Further improvements are on the horizon as the Company works with manufacturers to field-test new, high-horsepower locomotives that surpass the EPA's most stringent standards and older locomotives are retrofitted with new emission-reduction equipment.



To help reduce emissions in train yards, UP tested the world's first "Green Goat" hybrid switching locomotives. These locomotives combine diesel engines with battery-powered electric motors, and are estimated to reduce emissions 80 percent and improve fuel consumption 16 percent versus conventional switching locomotives. The Company has more than 20 of these units in service today, in major urban areas such as Houston and Los Angeles. Along with the "Green Goat" hybrids, UP is also pioneering another low emissions switch locomotive, the "Genset Switcher". These units utilize "off-road" truck-style diesel engines that are expected to reduce emissions and fuel consumption at similar levels to the "Green Goat" units. Both of these new switching locomotives are significantly "cleaner and greener" than required by current EPA requirements. The California Air Resources Board has designated both types as "ultra-low-emitting locomotives."

Union Pacific has a comprehensive waste reduction and recycling program that touches nearly every part of the company. Concerted efforts are made to address high-volume items such as wooden track ties and used oil. When possible, wooden track ties are refurbished for use elsewhere on the UP system or sold to landscaping or recycling companies. The Company is installing more-durable concrete ties, which require lower maintenance and generate less waste than wooden ties.

UP's standard operating equipment for fueling and locomotive maintenance activities is designed to prevent overflows and spills. On-board retention tanks capture residual oil from locomotives for proper disposal. Recycling used oil is a high priority at Union Pacific, and 100 percent of oil captured is recycled.

UP is also actively working to recycle one of the fastest growing sources of waste, "e-waste". This is generally characterized as old, out-dated computers and other electronic devices. UP evaluates any electronic equipment no longer needed to determine if it can be recycled, reused or rebuilt. Since 2003, the Company has recycled more than 293,000 pounds of electronic equipment and nearly 6 million pounds of batteries.



*"Green Goat" hybrid yard locomotive*

## *Did you know...?*

- In 2006, on average, Union Pacific hauled one ton of freight over 780 miles on a single gallon of diesel fuel
- One double stack intermodal train equals up to 280 trucks traveling on the highway
- In terms of noxious emissions, trains are 3 times cleaner than trucks on a per ton-mile basis
- If 25 percent of truck freight was diverted to rail transportation, nearly 800,000 fewer tons of air pollution would be created by 2025.

## Network Management

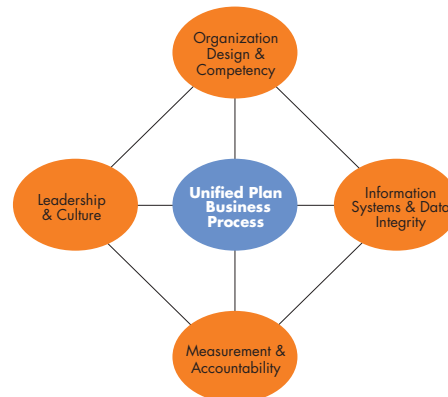
Operating strategies aimed at network simplification, technology, and capital investments resulted in better service reliability and efficiency throughout 2006. Ongoing Unified Plan initiatives reduced the overall workload on the network and improved transportation planning. Continuous improvement initiatives simplified terminal operations, increased throughput and reduced traffic bottlenecks at key locations throughout the network. The Customer Inventory Management System (CIMS) rollout accelerated across the system in 2006. This technology solution proactively manages terminal inventories, matching rail and customer capacity by monitoring customer inventory and storage capabilities along with freight cars enroute and freight cars awaiting delivery. System implementation should be complete in 2007.

The Company's Network Planning function utilizes the business planning process to strengthen the vital link between the Market and Sales and Operating departments. Marketing and Sales provides detailed shipment forecasts to Network Planning personnel who model the forecast against network capacity. Where constraints are identified, Operating management works with Marketing and Sales to prioritize new business opportunities by profitability, evaluate process improvement initiatives (to increase capacity) and review alternative transportation routes. In an environment of growing rail demand and limited capacity, this increased organizational linkage is crucial to optimize network coordination and efficiency.

### Unified Plan

The Unified Plan effort takes a "clean sheet" approach to Union Pacific's transportation plan, simplifying network complexity while increasing system velocity and asset utilization. Key plan elements include the elimination of mainline work events and the reduction of intermediate switching events. In 2006, the Company's work event rate improved 11 percent versus 2005, and the switch rate fell by nearly 5 percent. UP purchased network modeling software to improve the planning process by forecasting network impacts of various traffic scenarios. This increased forecasting capability, combined with greater "network" awareness at the local operating manager level, is driving better operational efficiency and balance.

### UNIFIED PLAN BUSINESS PROCESS



Unified Plan initiatives will continue to be implemented in 2007 and beyond. The process is considered "evergreen", as the growing demand for rail service offers new challenges from those faced at plan inception. Our on-going focus will be better planning tools, balanced traffic flows, further work and switch event reductions and overall system congestion relief.

### Continuous Improvement Efforts

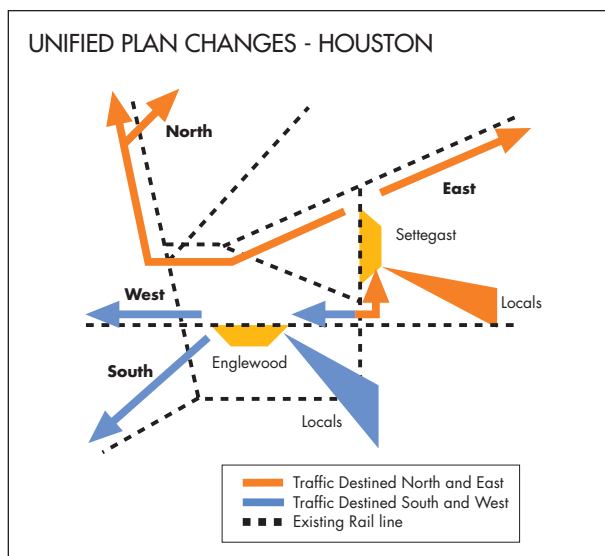
Union Pacific uses a variety of management processes to further enhance network productivity and efficiency, particularly at the terminal level. The Company has a core team of personnel who combine industrial engineering training and familiarity with railroad knowledge and experience. This group applies techniques like Lean management to improve operations at key points throughout the network. The Lean concept focuses on opportunities to improve efficiency by reducing movements, inventories, defects and rework. The goal of these projects is to increase capacity without capital investment, by streamlining operational processes and reducing complexity.

Improved flow processing in our locomotive repair facilities resulted in reduced cycle times, freeing additional locomotives to serve customers and haul freight. Terminal operations, which have been a primary focus in the past year, are also more efficient. Congestion related delays have been reduced by up to 90 percent following implementation at key system areas such as Roseville and Chicago. The team's work is now expanding to other critical service units and routes that have maximum leverage on the network.

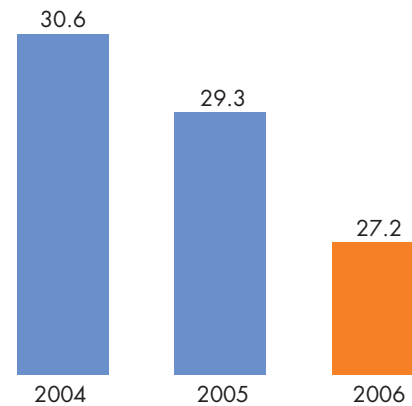
## Project Houston

The Houston service unit is a key part of the Union Pacific network. Large volumes of diverse traffic originate and pass through this area every day, both for shipment to other points on the system and for interchange with rail carriers in the East. The Houston metropolitan area is operationally complex, as a series of railroad terminal locations are separated by the business and housing developments that make up this large population center. Traffic is often required to be interchanged between the various area facilities, depending on destination and capacity limitations of the individual locations. Early in 2006, a multi-faceted effort began to improve train flow and velocity in and around Houston.

A cross-functional team, composed of personnel from continuous improvement, network planning, local operating managers, and the mechanical department, all took part in the project. Unified Plan changes reduced car inventories and internal workload, trimming work events and more effectively flowing traffic. For example, Settegast and Englewood, the two largest classification facilities in the Houston complex previously handled traffic moving in all directions out of Houston. Project Houston changed the transportation plan to have each facility handle traffic based on their geographic location. Settegast, which is located in northeast Houston, now handles traffic destined for the North and East. Englewood, located in southwest Houston, handles traffic to the South and West. This flow process eliminated interchanges between the two yards, removing congestion and switch events.



FREIGHT CAR TERMINAL DWELL HOURS  
Houston Service Unit



Additional efforts involving corridor management teams focused on leveraging the existing asset base to improve velocity and traffic flow in the key corridors into and out of Houston. The locomotive group revised the servicing network for the 250 yard and local locomotives to reduce servicing time and improve availability. The local terminal operations personnel took responsibility for daily execution of the transportation plan and service reliability.

Houston-area operations have clearly improved. Service unit velocity increased nearly 10 percent from 2005, indicating better fluidity and throughput. Industry spot/pull percentage, which measures the first and last customer interface, also increased nearly 10 points to 86 percent overall for the service unit. On time train departures improved 19 percent. The initiatives put in place will remain “evergreen”, evolving as Houston’s business mix grows and changes in the years to come.

## Investing in Our Future

Union Pacific's 32,000 plus mile network requires a large capital commitment each and every year in order to maintain safe operations, support the transportation needs of our current and future customers and improve operational efficiency. The Company expects to make capital investments totaling \$3.2 billion in 2007. Annual track maintenance across the Railroad's system will make up nearly half, at approximately \$1.5 billion. The Company plans to replace 4.3 million ties, spread 6.6 million tons of rock ballast, replace 870 miles of rail and surface 8,200 miles. UP also plans to acquire 300 new high-horsepower long-haul locomotives and 800 freight cars. New freight cars and environmentally-friendly locomotives are added to our fleet annually to replace older, less efficient equipment and support growth.

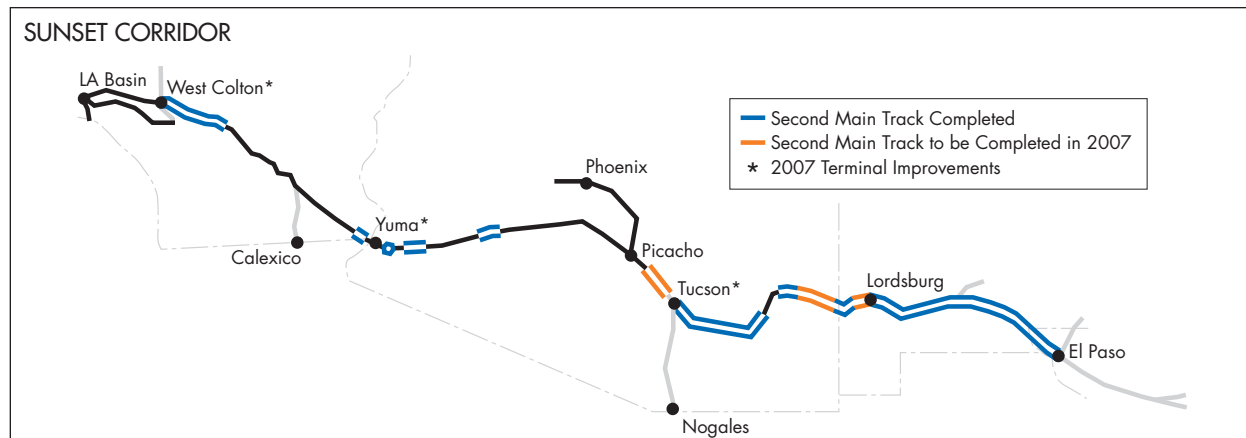
### Sunset Corridor Expansion

One of Union Pacific's key routes is the Sunset Corridor, which runs between Los Angeles and El Paso. This heavily traveled corridor carries about 20 percent of all traffic operated by the Railroad. UP added 56 miles of double track to the 760 mile route in 2006, making it approximately 50 percent double tracked.

Current Sunset Corridor capacity is roughly 50 to 52 trains per day. UP's freight demand in that corridor exceeds capacity today and future growth expectations will further increase demand. In particular, international intermodal shipments are expected to annually grow at least 6 percent over the next several years. Although the Company was on a pace to completely double track the route in the next seven or eight years, strong demand has led to the Company's decision to accelerate the project. UP now plans to complete the double track over the next 4 years.

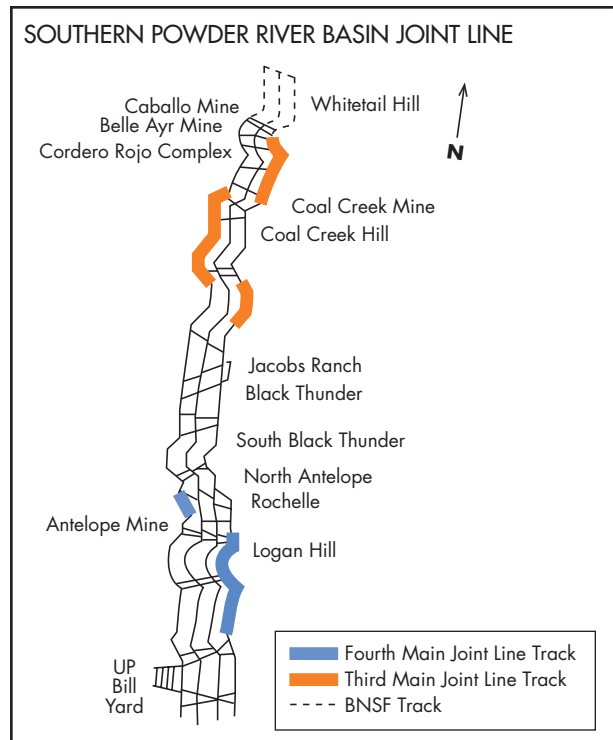
Terminals along the Sunset Corridor are also being expanded and upgraded to support the rising traffic levels anticipated with the route expansion. Construction of a new intermodal facility in San Antonio, TX will begin during 2007 to accommodate the projected traffic growth flowing from the corridor in addition to providing operational flexibility for the Company upon completion in 2008. Additional track construction and facility upgrades are planned at terminals in Los Angeles, Yuma, Tucson, and El Paso over the course of the project.

Once completed, capacity on the Sunset Corridor will nearly double to 90 plus trains per day. The added capacity also helps network efficiency, providing an alternate route during maintenance on other system areas, and improving system service recoverability.



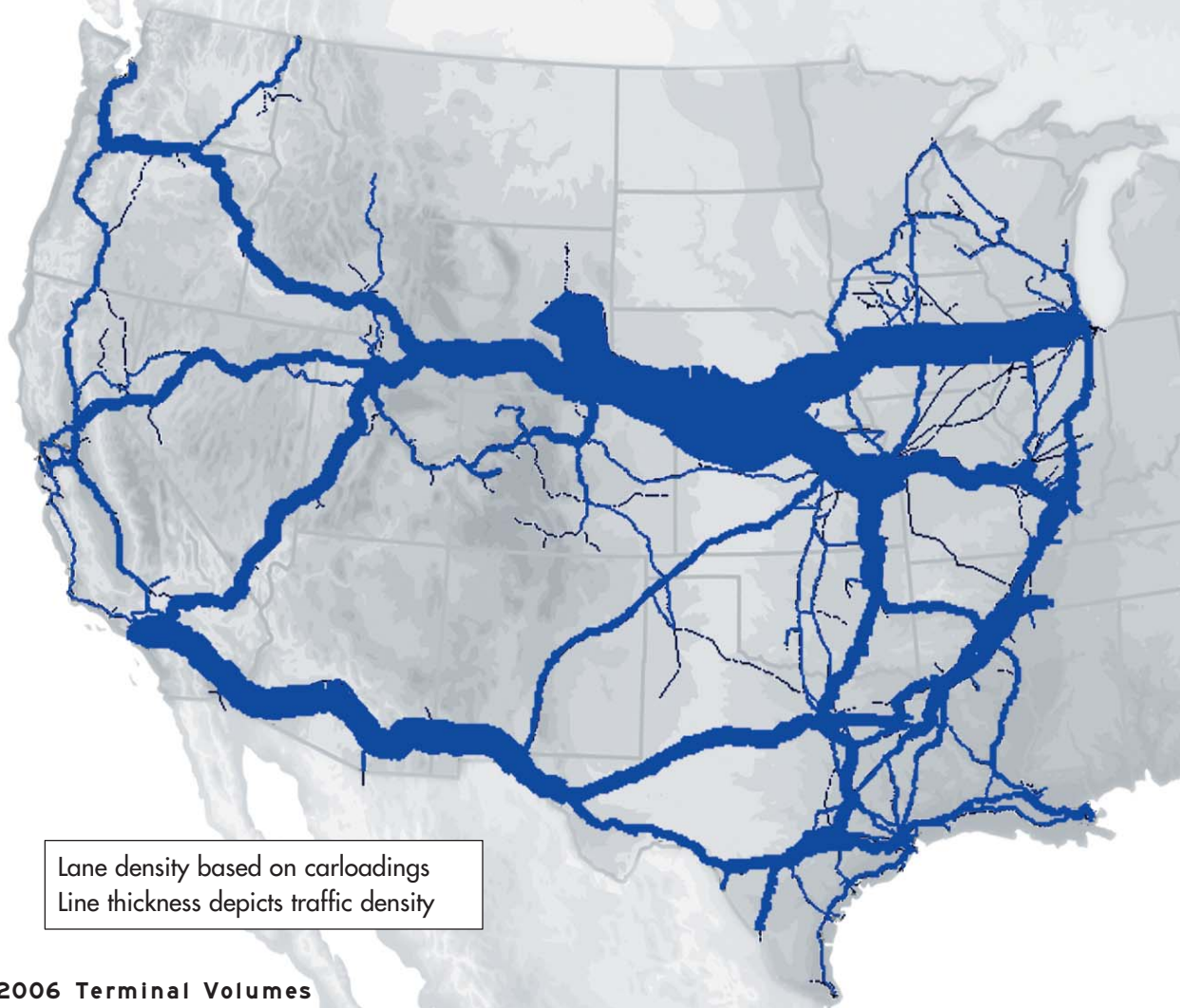
## Joint Line Expansion

A key strength of Union Pacific is its access to the Southern Powder River Basin (SPRB) coal fields of northeastern Wyoming. Coal currently powers approximately 50 percent of U.S. electrical generation, and with the electricity needs of the country continuing to build, strong demand growth is expected to continue. SPRB coal is particularly attractive due to its relatively low cost and reduced sulfur content. Capacity expansion is underway on the UP/BNSF Joint Line (the Joint Line) serving the SPRB. Approximately 25 miles of third main track and 31 miles of fourth main track will be added during the expansion. When these projects are complete in 2008, the Joint Line will be 100 percent triple mainline with quadruple mainline in key areas. This expansion should support expected SPRB coal growth as well as improve the ability to perform Joint Line maintenance while reducing train delay and congestion. Signal and capacity upgrades across Nebraska and Iowa are also planned, which will help train dispatching and the flow of coal traffic across the Midwest.





## Track and Terminal Density



### 2006 Terminal Volumes

<u>Major Classification Yards</u>	<u>Average Daily Volume/Cars</u>	<u>Major Intermodal Terminals</u>	<u>Annual Lifts</u>
North Platte	2,900	ICTF (Los Angeles)	725,000
Proviso (Chicago)	1,700	Marion (Memphis)	406,000
North Little Rock	1,600	East Los Angeles	329,000
Englewood (Houston)	1,400	Global I (Chicago)	321,000
Roseville	1,400	Global II (Chicago)	297,000
Livonia	1,400	Dallas	284,000
Pine Bluff	1,300	Oakland	268,000
West Colton	1,300	Yard Center (Chicago)	248,000
Fort Worth	1,300	Seattle	238,000
Neff (Kansas City)	1,000	Englewood (Houston)	206,000