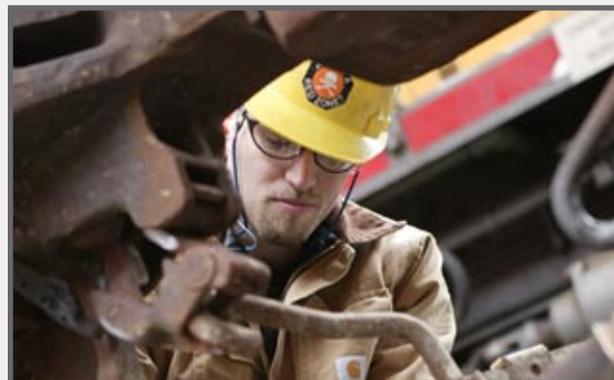


Union Pacific's average employment for 2003 was slightly more than 46,000 full time employees. Approximately 85% of those employees are unionized and are represented by 14 different union organizations. Most contract negotiations, including rates of pay, health and welfare benefits, working conditions and work rules are done collectively with the other U.S. Class 1 railroads.

Safety is a top priority at the Railroad. Process improvements concentrating on employee safety have driven double digit declines in the number of reportable injuries (per 200,000 person hours) during the last two years. Union Pacific's commitment to safety extends beyond its own employees and includes both customers and the public. Efforts to reduce derailments and grade crossing incidents have also resulted in positive trends in recent years.

Employee productivity at the Railroad continues to be enhanced through the use of technology. In the third quarter of 2003, UP began to implement interactive voice response (IVR) equipment to automate the process of calling train and engine employees to their next assignment. This text to speech technology completes approximately 6,000 daily outbound calls with more than 95% requiring no additional contact from crew schedulers. In addition, the IVR system has improved communication as broadcast messages can be sent to employees, helping them stay informed and involved.

During the last half of 2003 as volumes began to increase significantly, the Railroad's network performance was impacted by a shortage of train crews. Programs are being implemented to improve the hiring of train crews including the automation of the hiring process, as well as the use of innovative marketing tools to increase the applicant pool in



hard-to-recruit locations. The use of computer based training should also accelerate the transition from the classroom to the field. These efforts will result in nearly 3,700 new trainmen having completed the training program prior to the peak season (late summer) in 2004. UP will continue to leverage quality processes to identify additional opportunities to efficiently and effectively utilize this critical resource.

A key component to the Company's vision is to be a place where employees are proud to work. As workforce demographics have continued to change, the Company has had to adapt to attract and retain top-quality, diverse employees. In 2003, the U.S. Department of Health and Human Services recognized Union Pacific with the "Healthy Workplace" award for efforts to promote healthy lifestyles, while Working Mother Magazine ranked it as one of the top 100 employers for working mothers. In addition, the Company was named to the LATINA Style 50 for sensitivity to Latinas' needs and goals in the workplace. These awards reflect UP's commitment to taking the steps necessary today to ensure a quality workforce tomorrow. ▶

EMPLOYEES

	2003	2002	2001
Average Employees	46,371	47,298	48,632
Gross Ton-Miles (Millions) per Average Employee	21.97	21.02	19.70
Salaries and Benefits/Operating Revenues (%)	33.7	33.1	33.1
Commodity Revenue per Average Employee (Thousands)	\$238.1	\$225.4	\$213.7
FRA Reportable Injuries (per 200,000 Person Hours)	1.80	2.20	2.57

Through a modernization and standardization strategy, Union Pacific has improved the efficiency and reliability of its locomotive fleet. At the end of 2003 the Railroad had over 7,200 locomotives in service. While the average age of the locomotive fleet has declined to just over 14 years, the high horsepower fleet (units with greater than 3,000 horsepower) has been significantly upgraded with an average age of less than seven years.

Since 1995, UP has acquired 1,800 new alternating current (AC) locomotives. These high adhesion AC locomotives are used primarily in bulk operations including coal, grain and soda ash movements. Through increased haulage capacity of the AC units, the Railroad is focused on improved utilization of its bulk service fleet by replacing, on average, two lower capacity units with one of these new units.

Union Pacific also continues to invest in direct current (DC) locomotives because of the cost efficiencies gained in high speed applications. To support the growth in its intermodal, automotive and premium manifest business, UP has acquired over 1,200 new DC units since 2000.

These modernization efforts have resulted in significant cost efficiencies. In support of its transportation plan the Railroad consumes over 1.3 billion gallons of diesel fuel annually. Technology advancements on the new units have improved fuel efficiency by as much as 15% versus older models, driving a positive trend in the fuel consumption rate. Using 2000's consumption rate of 1.388 gallons per thousand GTMs, the Railroad would have consumed an additional 85 million



gallons of diesel in 2003, which translates into approximately \$78 million in operating expense.

The standardization of the locomotive fleet has also contributed to cost savings. With the number of locomotive models declining from 31 to 19, the Railroad has been able to rationalize repair and maintenance facilities, better source parts for repairs and reduce training required to service locomotives. Remote diagnostics and monitoring equipment has also enabled UP to begin employing predictive maintenance strategies. Proactively monitoring locomotive performance has reduced unproductive shop time, overhauls and on-road failures.

UP will continue to leverage the fleet strategy in the coming years. Efficiency and reliability from this critical resource will assist the Railroad in achieving its goals of improved operational and financial performance. ▶

LOCOMOTIVES

	2003	2002	2001
Locomotives Owned or Leased at Year-End			
Road Freight Units	6,664	6,517	6,282
Switcher Units	530	520	546
Other	57	57	58
Total Locomotives	7,251	7,094	6,886
Average Age of Equipment (Years)	14.3	14.4	14.9
Fuel Consumption Rate (Gallons/Thousand GTMs)	1.305	1.323	1.343

As of December 31, 2003 the Railroad owned or leased nearly 88,000 freight cars (system cars). Total freight cars on line at the end of the year were approximately 318,000, which includes foreign cars (cars owned or leased by another railroad), private cars (cars owned or leased by customers), cars owned by TTX (Trailer Train Company - a pooling of railroad equipment), as well as UP's system cars.

UP's freight car fleet consists of: covered hoppers for grain, fertilizer and food grade products; boxcars for manifest business including lumber and paper products; coal gondolas for energy business; mill gondolas for scrap and finished steel; open-top hoppers for aggregates; refrigeration cars (reefers) for fresh and frozen fruits and vegetables; well cars for intermodal containers; and multi-level auto racks for finished vehicles.

The efficient utilization of the freight car fleet is essential to the Yield Strategy. One example, which began in 2002, is aimed directly at supporting the growth experienced in Express Lane and Wine Connection business through a multi-year plan to refurbish the Railroad's existing reefer car fleet. In addition, during 2003 UP began acquiring new reefer cars with 40 percent greater cubic capacity and improved product versatility. In both the new and refurbished cars, asset utilization has improved through the use of remote diagnostics, temperature change alert capabilities and GPS tracking. Operating expenses have also been reduced as these units are more fuel efficient, have lower maintenance costs and result in fewer customer damage claims.

Another component of the reefer car strategy that will be implemented in 2004 is the strategic placement of boxcar cleaning facilities on the UP system. As one example,



reefer cars enroute to destinations on the West Coast move through North Platte, but are then required to run out-of-route to the Pocatello, Idaho cleaning facility. By relocating the cleaning facility to North Platte the cycle time on these reefer cars will be improved by three days.

UP's commitment to improved asset utilization has also led to an industry initiative called the "Car of the Future". Historically, each Class 1 railroad has designed cars to meet their particular customers' needs, resulting in several hundred car types within the industry. The goal of this strategy is to develop a standardized car for each business type that all railroads will use. Benefits include increased reload opportunities versus returning the cars empty, as well as reduced maintenance costs. In 2003, this program was launched with the standard design of the 50 and 60 foot high cubic capacity boxcars, enabling increased tonnage to be handled with fewer cars. These efforts, combined with a continued focus on freight car efficiency will lead to productivity improvements in the future. ▶

FREIGHT CARS

	2003	2002	2001
Freight Cars Owned or Leased at Year-End			
Covered Hoppers	29,374	30,602	33,901
Boxcars	18,691	15,040	15,561
Open-Top Hoppers	13,489	15,891	17,202
Gondolas	14,955	14,793	15,431
Other	11,296	14,551	14,681
Total Freight Cars	87,805	90,877	96,776
Cars on Line at Year-End <i>(Including Foreign & Private)</i>	317,674	308,736	319,645
Average Age of Equipment Owned or Leased <i>(Years)</i>	24.5	21.9	22.5

The Railroad's franchise extends across the western two-thirds of the United States. With 33,000 route miles, Union Pacific links 23 states, every major West Coast and Gulf Coast port, and the fastest-growing U.S. population centers in the South and Southwest. The vast network serves Eastern destinations through four major gateways in Chicago, St. Louis, Memphis and New Orleans. In addition, key north/south corridors interchange traffic at the six major gateways to Mexico, as well as with the Canadian rail systems.

The standard weight of rail installed on UP's high tonnage network has been a minimum of 133 pounds per yard, capable of handling today's heavy axle load freight cars. To optimize rail life and reliability, the standard was changed to 141 pound rail in 2002. Continuous welded rail, which is more reliable and efficient to maintain than jointed rail, accounts for approximately 80% of the Railroad's route miles.

Train control systems vary across the network and are generally dependent upon rail volumes. Traffic on 55% of UP's highest density route miles are equipped with centralized traffic control (CTC) signals. This technology has built-in logic which aligns switches and helps to ensure safe passage of passing trains. Automatic block signaling systems control an additional 20% of the routes, with the remaining traffic directed by radio transmitted instructions from dispatchers to the train crews.

UP's physical plant continues to benefit from a capital program that includes approximately \$1.2 billion annually to maintain the route structure. Including capacity programs, over 1,000 miles of rail and nearly 4.9 million ties were



installed during 2003. The Railroad continues to focus on maximizing the productivity of its critical track assets. The use of improved materials, such as concrete and composite ties, result in projected asset lives that extend two or three times beyond that of conventional wood ties in extreme environments. Advancements in head-hardened premium rail have more than doubled the life of rail in the last 10 years. In addition, technology and process improvements for rail grinding and track inspections have further extended the lives of these assets.

Capacity improvements are critical to the Yield Strategy. The completion of the remaining 13 miles of double track between South Morrill and North Platte in 2003 improves the efficiency of coal trains from the Southern Powder River Basin mines. Over the next three years, capacity expansion on the key growth corridor between Los Angeles and El Paso (the Sunset Route) is expected to increase the amount of double tracking from 30% to nearly 60%. ▀

TRACK

	2003	2002	2001
Track Miles at Year-End			
Main Line	27,547	27,504	27,553
Branch Line	5,284	5,637	6,033
Yards, Sidings and Other Main Line	21,285	21,760	21,669
Total Track Miles	54,116	54,901	55,255
Track Miles of Continuous Welded Rail at Year-End	26,309	26,080	25,488
Track Miles Under Centralized Traffic-Control at Year-End	18,013	17,836	17,538
Track Miles of Rail Installed and Replaced			
New	739	783	857
Used	309	330	388
Total Track Miles of Rail Installed and Replaced	1,048	1,113	1,245
Track Miles Ballasted	9,615	7,699	8,975
Ties Installed and Replaced (<i>Thousands</i>)	4,855	4,531	3,648

Union Pacific's transportation plan is supported by a network of strategically located rail yards and intermodal terminals. UP's investment in vehicle distribution centers enables finished automobiles to be transported to all major cities in the western U.S. The Railroad's industry leading capacity in its storage-in-transit yards is a critical link in the production of plastics.

Utilizing these terminal assets efficiently is another key part of the Yield Strategy. By leveraging a unit train concept developed in 2001 called "Pipeline" service, UP can eliminate unnecessary stops in terminals. In one example, partnering with the Canadian Pacific in 2003, the transportation plan for an automotive train moving from St. Louis to Bensenville, Illinois was redesigned to bypass two terminals in the Chicago area. Direct service resulted in a 15% improvement in the transit time for this train while also freeing up additional capacity in UP's second busiest yard, Proviso.

In 2003, the Railroad's capital program included capacity improvements at the Dupo Yard in St. Louis. Ten short tracks were replaced with five long tracks, allowing the yard to receive 150 car coal trains without having to cut the train and incur additional switching expense. Paved roads were built between the tracks, reducing the time required to fuel locomotives and inspect trains. Signals were also installed, enabling operations to increase train speeds to and from the main line from 15 to 30 miles per hour. In addition, an inspection pit was built in the yard to accommodate locomotive inspections that



previously required the equipment to be rerouted to other facilities. With 25% of all energy volumes currently moving through St. Louis, this project improved the efficiency of this yard, as well as the other critical resources used in transporting coal to the East.

Continued economic improvement will bring additional volume to the Railroad. To support this growth, the Company will invest over \$200 million into terminal operations during 2004. Two existing rail yards in Southern California will be rehabilitated to add capacity to the area. In addition, construction of two new intermodal terminals in Tucson and Dallas will serve the growing international container business arriving at ports in the Los Angeles basin with eastern destinations. ▶

TERMINAL CAPACITY

Major Classification Yards	Avg. Daily Volume Cars	Major Intermodal Terminals	Avg. Annual Lifts
North Platte, Nebraska	3,000	ICTF (Los Angeles)	562,000
Proviso (Chicago), Illinois	2,250	East Los Angeles	465,000
Englewood (Houston), Texas	1,800	Global One (Chicago)	342,000
North Little Rock, Arkansas	1,750	Marion (Memphis)	326,000
Roseville, California	1,600	Global Two (Chicago)	301,000
West Colton, California	1,500	Oakland	285,000
Livonia, Louisiana	1,400	City of Industry (Los Angeles)	251,000
Gateway (E. St. Louis), Illinois	1,400	Seattle	219,000
Pine Bluff, Arkansas	1,350	Lathrop (Northern California)	205,000
Fort Worth, Texas	1,350	LATC (Los Angeles)	202,000
Neff (Kansas City), Missouri	1,200	Miller (Dallas)	202,000
Settegast (Houston), Texas	1,100	Mesquite (Dallas)	195,000
Hinkle, Oregon	1,000	Englewood (Houston)	186,000
Albina (Portland), Oregon	900	Yard Center (Chicago)	184,000