

UNION PACIFIC RAILROAD

OVERVIEW

Union Pacific is the largest railroad in North America, covering 23 states across the western two-thirds of the United States. The merger of Union Pacific, Southern Pacific and Chicago and North Western created a strategically advantageous route structure that serves customers in critical and fast-growing markets. That network, combined with a well-balanced and diverse traffic mix, makes Union Pacific the premier rail franchise in North America.

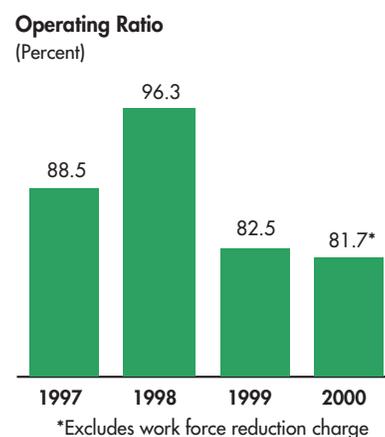
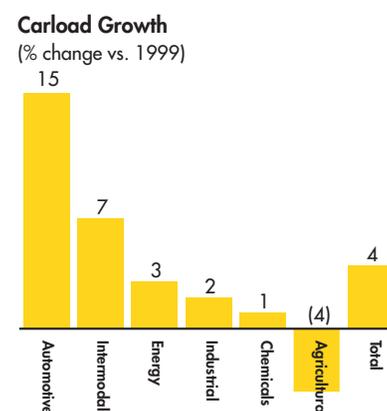
A key strength of the franchise is access to the coal fields in the Powder River Basin (PRB) region of northeastern Wyoming. Growth of PRB coal tonnage hauled by UP has averaged 8% over the past seven years, reflecting this coal's low-production cost and low-sulfur content. UP's rail lines in the Midwest and Plains states provide direct routes from major grain-producing areas to domestic markets, Mexico and to ports of export in the Gulf Coast and Pacific Northwest. Union Pacific also has broad coverage of the large chemical-producing areas along the Gulf Coast.

To handle growing east-west intermodal and automotive traffic, Union Pacific has competitive long-haul routes between all major West Coast ports and eastern gateways. In addition to directly serving all six major gateways to Mexico, the Railroad has the fastest and most direct route to and from the industrial Midwest and Mexico. UP also reaches north into Canada through the Eastport gateway, as well as through exchange points in Minnesota, Wisconsin and Illinois. The merger of Union Pacific and Southern

Pacific routes in the South and Southwest produced a single-line rail network serving the rapidly growing population in this part of the country. Leveraging the strengths of this broad franchise allows Union Pacific to improve customer service, grow market share and achieve improved financial returns.

FINANCIAL REVIEW

Union Pacific's 2000 financial performance was strong, achieving many "best-ever" records. Commodity revenue grew 4%, to a record \$10.3 billion as a result of significant increases in automotive and intermodal carloads. A continued focus on productivity improvements and service reliability drove the operating ratio down from 82.5% in 1999 to 81.7% in 2000, excluding a \$115 million pre-tax work force reduction charge, despite the \$444 million impact of higher fuel prices.



UNION PACIFIC CORPORATION *(excluding Overnite and Skyway)*

Financial Summary

	2000	1999	1998
Operating Revenue <i>(millions of dollars)</i>	\$10,765	\$10,175	\$9,329
Operating Income <i>(millions of dollars)</i>	\$1,965	\$1,784	\$347
Operating Ratio	81.7%	82.5%	96.3%
Total Carloads <i>(thousands)</i>	8,901	8,556	7,998
Average Employees	50,523	52,539	53,121
Capital Investments (a) <i>(millions of dollars)</i>	\$1,867	\$1,942	\$2,393

(a) Includes long-term operating leases

2000 excludes the impact of a \$115 million pre-tax work force reduction charge

UNION PACIFIC RAILROAD

Our Mission:

Union Pacific is committed to be a railroad where:

- *Customers want to do business*
- *Employees are proud to work*
- *Shareholder value is created*



Income from continuing operations was up 16%, to \$871 million, excluding a \$72 million after-tax work force reduction charge. Including the charge, income from continuing operations increased to a best-ever \$799 million. Capital spending at the Railroad, excluding long-term operating leases, decreased during 2000 to \$1.74 billion, while free cash flow contributed to the Corporation, after dividends, increased 37% to \$302 million. These successes were achieved despite a challenging year of escalating fuel prices and a fourth quarter economic down turn.

QUALITY SERVICE

The Railroad's ability to grow and compete with other modes of transportation depends on providing quality transportation service.

According to monthly customer satisfaction surveys, the definition of quality service means more than providing fast service, it means providing reliable service. Efforts undertaken during 2000 to improve reliability include tighter accountability in field operations, standardization of the locomotive fleet and more efficient car scheduling. For example, corridor planning and terminal process reengineering are key strategies used in reducing the Freight Car Terminal Dwell Time, a measurement of how efficiently cars are passed through terminals.

Union Pacific's Mission Statement establishes customer satisfaction as a top priority. The most direct measure of how well the Railroad is meeting customer expectations is the Service Delivery Index (SDI). Depending on the commodity, the

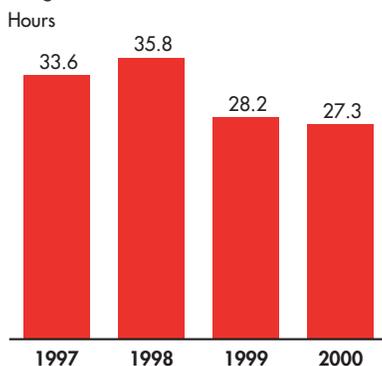
SDI measures how closely a car followed its scheduled trip plan or how well a train performed against contractual obligations or agreed-upon transit times. The overall SDI for the Railroad was up 5 percentage points in 2000 to 70%, led by 96% on-time performance out of the Powder River Basin.

Failure to meet standards of operational performance, customer satisfaction or service performance results in financial costs to the Railroad in the form of higher expenses, poor asset utilization or lost revenue opportunities. At Union Pacific, failure costs are captured by the Cost of Quality system, which consists of over 100 separate accounts for tracking performance. Efforts in 2000 reflected continued improvement in reducing these costs to 13.7% of total revenue.

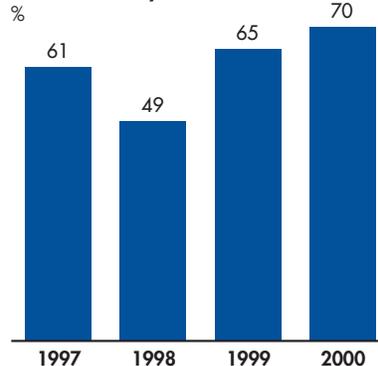
INNOVATION

As operational fluidity and service quality have improved, Union Pacific has begun to leverage the strength of its unparalleled rail franchise to provide innovative services to existing, as well as new customers. Innovation could also be seen in the form of building partnerships and leveraging technology.

Freight Car Terminal Dwell



Service Delivery Index



1997 through 1998 results are pro forma UP/SP prior to and during computer systems cutovers.

Cost of Quality



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New Services

In January, the **Cascade Connection** program was successfully launched which moves inter-modal products along the I-5 corridor between Seattle and Los Angeles. Northbound service is set by day of the week pricing based on demand. As a result, customers are shifting some volume to the weekend. Southbound, incentive pricing is used to fill up trains and attract non-traditional customers. As a result, customers have been able to better match service with demand, while the Railroad has experienced better equipment utilization and improved profitability.

To take further advantage of the truck competitive rail service along the I-5 corridor, Union Pacific introduced another customer offering called **"5-7-9"** service. To meet the customers needs, the Railroad transports lumber and paper products from the Pacific Northwest to Northern California in five days, Southern California in seven days and Las Vegas and Phoenix in nine days. By improving the consistency of service along this corridor, UP has been able to capture market share from trucks.

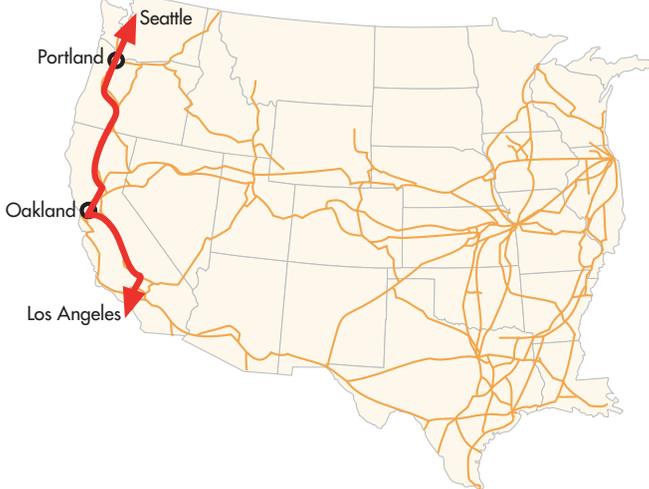
Alliances

Innovation has also been seen in the form of alliances within the rail

industry. UP and Canadian Pacific joined forces to enhance and promote the Canada/West Coast route called the **Pacific CanAm** corridor. Both railroads pulled together to improve the border crossing procedures and field operations. Corridor capacity improvements were also made. This joint effort resulted in increased business in coal, potash, finished autos and lumber as traffic through the corridor increased from three to as many as eight trains per day.

Targeting truck market share, Union Pacific worked in partnership with CSX in the East, to introduce the premium manifest service called

Cascade Connection



Pacific CanAm



5-7-9 Manifest Service



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Alliances (continued)

Express Lane. Fresh and frozen foods, canned goods and wine are shipped from Southern California and the Pacific Northwest to destinations in the East. This new service was 95% on time in 2000 and attracted customers who haven't used rail service in over a decade.

UP also teamed up with a partner to the South, Transportacion Ferroviaria Mexicana (TFM), to introduce the **Autoparts Transload** service. The new service includes transloading radiator supports that are shipped from Iowa through St. Louis and on to Laredo where they are interchanged with the TFM. The parts are then delivered to General Motors assembly plants in Mexico, all in two days less than truck transit times. By improving the border crossing process and providing transload service, UP was able to capture the previous truck-only business.

e-Commerce

Union Pacific is a rail industry leader in developing innovative business-to-business applications. The MyUPRR.com website was developed to take advantage of the internet opportunities by simplifying transactions with the customer. Via the internet, customers can receive real-time information, such as pricing inquiries, ordering freight cars, submitting shipping instructions and tracing car movements all without picking up the telephone. During 2000, customers with active MyUPRR.com accounts increased by 97% from 1,479 in January to 2,918 in December.

