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 Union Pacific franchise has 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 five 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.

UNION PACIFIC – RAIL AND OTHER OPERATIONS

Financial Summary

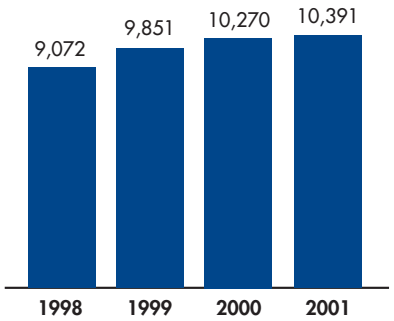
	2001	2000*(b)*	1999
Operating Revenue *(millions of dollars)*	$10,830	$10,765	$10,175
Operating Income *(millions of dollars)*	$2,018	$1,965	$1,784
Operating Ratio	81.4%	81.7%	82.5%
Total Carloads *(thousands)*	8,916	8,901	8,556
Average Employees	48,632	50,523	52,539
Capital Investments (a) *(millions of dollars)*	$1,701	$1,867	$1,942

(a) Includes long-term operating leases
(b) 2000 excludes the impact of a $115 million pre-tax work force reduction charge.
Excludes results from Overnite and Motor Cargo.

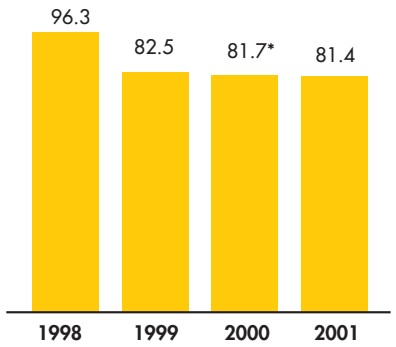
FINANCIAL REVIEW

The Railroad achieved solid financial performance in 2001 in a very difficult economic environment. Our diverse business mix paid off as commodity revenue grew 1%, to a record $10.4 billion. Strong revenue gains in energy and agricultural products more than offset the declines seen in the more economically sensitive commodities. Employee productivity levels reached an all-time high in 2001, driving the operating ratio for the Railroad and other operations down to 81.4% from 81.7% in 2000, excluding a $115 million pre-tax work force reduction

Commodity Revenue
$ Millions



Operating Ratio
Percent



* Excluding $115 million pre-tax work force reduction charge

UNION PACIFIC RAILROAD

Mission:

Union Pacific is committed to be a railroad where:

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

FINANCIAL REVIEW
(continued)

charge. With some improvement in fuel prices and continued focus on cost control measures, the operating ratio during the last half of 2001 improved to 79.7%.

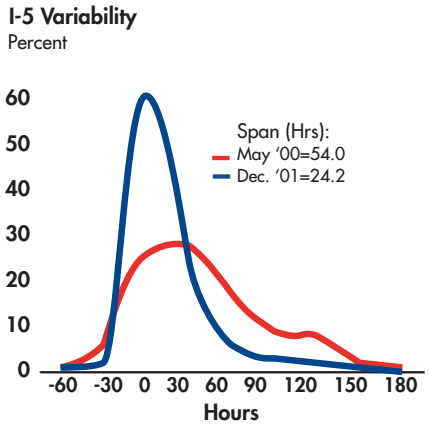
Earnings momentum continued in 2001 as net income increased to a best-ever $920 million, up 6% from $871 million in 2000, excluding a $72 million after-tax work force reduction charge. Capital spending at the Railroad, excluding long-term operating leases, decreased during 2001 to $1.69 billion from $1.74 billion in 2000, while free cash flow after dividends increased 6% to $321 million. These successes were achieved in a year that had many challenges – a recession, continued high fuel prices and tragically, the events of September 11.

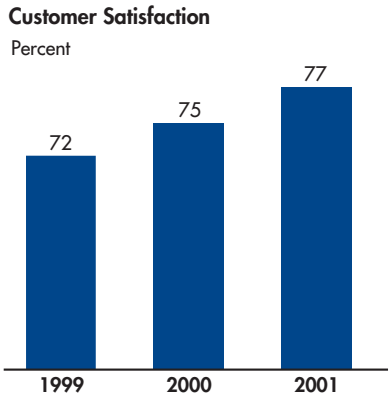
SERVICE QUALITY

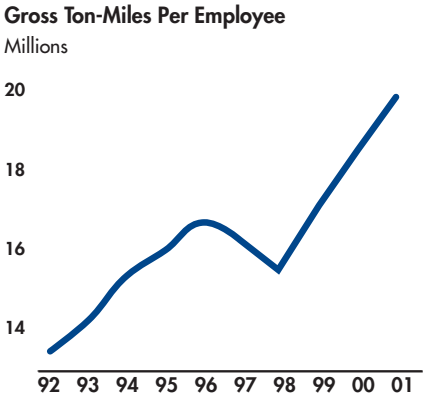
Reliable, consistent service is the key to capturing share from trucks, a market estimated to be $90 billion annually. Along the Interstate 5 corridor on the West Coast, Union Pacific's "5-7-9" service provides guaranteed transportation of industrial products from the Pacific Northwest to Northern California in 5 days, Southern California in 7 days and Nevada and Arizona in 9 days. The focus on taking variability out of the delivery schedule has resulted in a 25% improvement in on-time performance and has taken direct aim at this service-sensitive truck market, resulting in 3% revenue growth even during this economic downturn.

One metric used by UP to gauge service levels is the Customer Satisfaction Index. Based on direct feedback from customers, the 77% rating in 2001 was an all-time best (post merger) and indicative of improved service levels, ease of doing business and new product strategy. In addition to improved service reliability, customers benefited from continued enhancements made on the technology front. Energy customers now have real-time information regarding the status of coal trains via Internet access to the Bulk Train Planner system. Simplified Web pages also improved the customer experience and contributed to a 95% increase in Internet transactions.

By delivering what customers need, even during a challenging year, Union Pacific has been able to achieve continued top line growth. Those efforts, combined with a constant focus on operational initiatives, have resulted in continued improvement in employee productivity. The locomotive modernization program was a key driver in improving asset utilization, as 500 new units purchased in 2001 contributed to a reduced fuel consumption rate – by over 3% – and a dramatic decrease in maintenance costs. Union Pacific's commitment to providing employees with a safe working environment had an impact as reportable injuries per man hour declined by 7%.







UNION PACIFIC RAILROAD

GROWTH

The Express Lane service continued to expand and draw market share from trucks in 2001. This service, in partnership with CSX, transports fresh and frozen fruits and vegetables from the Pacific Northwest to eastern destinations. With on-time performance exceeding 90%, demand for this product resulted in the addition of new eastern destinations in 2001.

The introduction of the Blue Streak intermodal service also resulted in share gains from the long-haul truck market. In alliance with Norfolk Southern, this five-day coast-to-coast service runs between Los Angeles and Atlanta. With three distinct service levels – standard, premium and super flyer – offering increasing performance and equipment availability guarantees, customers choose which product will meet their needs. The demand for this 99% on-time service has resulted in additional southeastern destinations being targeted for 2002.

Intent on shortening the delivery cycle for chemical customers, Union Pacific partnered with two customers, Dow Chemical and Occidental Chemical, to develop the new "Pipeline" service. By holding small numbers of cars at the originating plant in Gregory, Texas, until a full train is assembled, the train is moved in one unit to the final destination in Freeport, Texas, avoiding several intermediate terminal stops along the way. This joint effort has improved the car cycle time by 60%, resulting in significant asset utilization improvements for all parties.

LOOKING TO THE FUTURE

Although 2001 was a difficult year with the recession and the events of September 11, Union Pacific is poised to meet the near-term economic challenges. With reliable service, expanded product offerings and more efficient operations, the Railroad expects to continue to achieve tremendous benefits for its customers, employees and shareholders.

UNION PACIFIC RAILROAD

REVENUE MIX

Commodity Revenue: $10.4 Billion