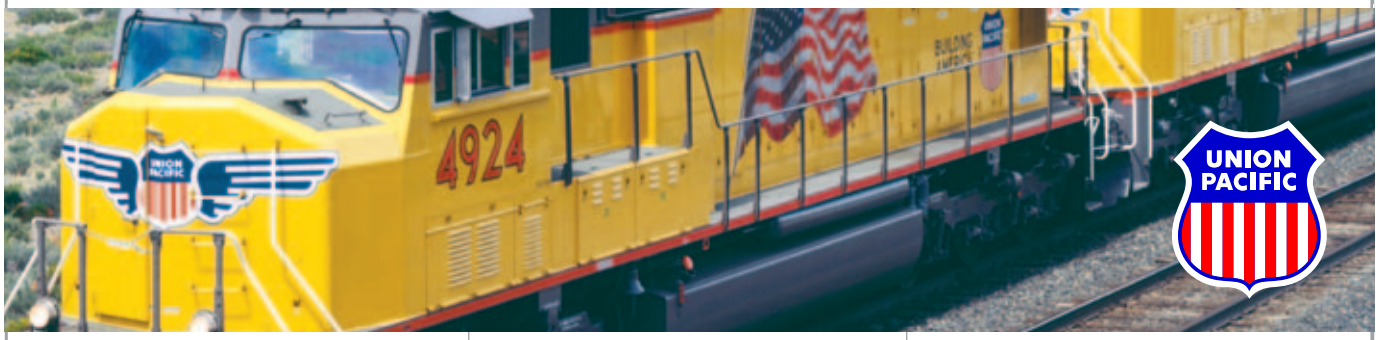
UNION PACIFIC RAILROAD OVERVIEW

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 PRB 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 in the large chemical-producing areas along the Gulf Coast, hauling nearly 70% of all goods in this market.

To handle growing east-west inter-modal and automotive traffic, Union Pacific has competitive long-haul routes between all major West Coast ports and eastern gateways.

Leveraging the automotive network enables Union Pacific to deliver more than 80% of the finished vehicles sold west of the Mississippi River. By directly serving all six major gateways to Mexico and having the fastest and most direct route to and from the industrial Midwest and Mexico, the Railroad transports approximately 80% of all rail traffic crossing this southern border. UP also reaches north into Canada through the Eastport gateway, as well as through exchange points in Minnesota, Wisconsin and Illinois. Union Pacific's routes in the South and Southwest produce a single-line rail network serving the fastest growing population centers in this part of the country. Leveraging the strengths of this broad franchise is critical to successfully implementing the Yield Strategy which will allow Union Pacific to improve customer service, grow market share and achieve improved financial returns.

FINANCIAL SUMMARY

Union Pacific - Rail and Other Operations

	2002	2001	2000(b)
Operating Revenues (millions of dollars)	$11,159	$10,830	$10,765
Operating Income (millions of dollars)	$2,253	$2,018	$1,965
Operating Margin	20.2%	18.6%	18.3%
Revenue Carloads (thousands)	9,131	8,916	8,901
Average Employees	47,298	48,632	50,523
Capital Investments (millions of dollars)(a)	$1,850	$1,701	$1,867

(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 Corporation

Union Pacific Mission:

Union Pacific is committed to be a railroad where: Customers want to do business, Employees are proud to work and Shareholder value is created.

FINANCIAL REVIEW

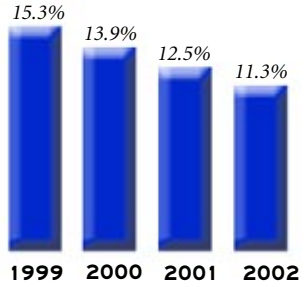
The Railroad's franchise diversity once again paid dividends in 2002 as commodity revenue grew to a record $10.7 billion, up 3% from 2001. In the face of an uncertain economic landscape and the disruption at the West Coast ports, five of the six business groups experienced growth during the year. Rail employee productivity, as measured by millions of gross-ton miles per employee, reached an all-time high in 2002 at 21.0, up nearly 7%. Employee safety continued its positive trend as reportable injuries per 200,000 man hours declined 17% from 2001 levels. In addition, continued focus on quality processes helped drive further reductions in failure costs, as measured by Cost of Quality, to 11.3% for 2002. These efforts, combined with other operational efficiencies, drove the operating margin for the Railroad and Other Operations up to 20.2%, the first year above 20% since the Southern Pacific merger.

Earnings momentum continued in 2002 as net income for the Railroad and Other Operations increased to a best-ever $1.25 billion, up from the $920 million reported in 2001. Excluding land sales to the Utah Transit Authority and Santa Clara Valley Transportation Authority, as well as various tax adjustments, net income rose by 18% over 2001 levels. Capital spending at the Railroad, excluding long-term operating leases, increased during 2002 to $1.817 billion from $1.687 billion in 2001, while free cash flow after dividends increased to $654 million from $321 million in 2001.

CHANGING THE GAME

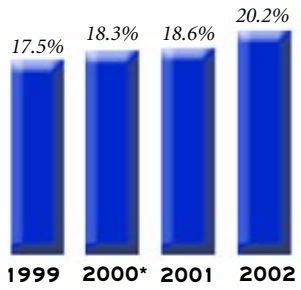
In 1999, when Union Pacific first began implementing the Yield Strategy, the traditional views of how to maximize railroad profitability were challenged. The goals of this strategy, to achieve improved operating margins and returns in excess of the cost of capital, could only be accomplished by focusing on the fundamentals. Those fundamentals include providing a premium service for a premium price, achieving a mix of business that maximizes profitability, leveraging volume across the system, increasing productivity and efficiently utilizing the assets of the Railroad. The **franchise** is in place, however, now we need to leverage **alliances**, improve **service reliability** and identify **business development** opportunities, all of which are critical to accomplishing these goals.

COST OF QUALITY



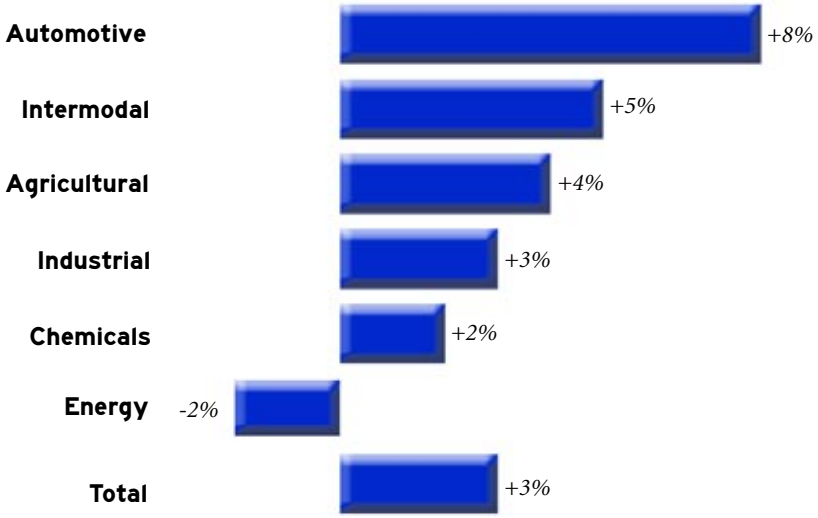
Rail & Other Operations
Failure costs as a Percentage of Revenue

OPERATING MARGIN



Rail & Other Operations
*Excluding $115 million pre-tax work force reduction charge

REVENUE GROWTH *(percent change vs 2001)*



Union Pacific Railroad

CHANGING THE GAME

The Franchise

CHANGING THE GAME

Alliances

In today's economy, customers require seamless service not only in the United States, but in Canada and Mexico as well. To expand and reach customers beyond the finite end points of the Union Pacific network, relationships have been formed with key transportation partners.

In 2002, UP and Transportacion Ferroviaria Mexicana (TFM) introduced an innovative service called MexDirect. This new service was designed to provide a shipment alternative to the premium-priced truck service between major markets in Mexico, the U.S. and Canada. With participation by Canadian Pacific, CSX and Norfolk Southern (NS), MexDirect provides steel and lumber customers with a single point of contact, a single bill and streamlined customs clearance at both borders.

Union Pacific also has rail alliances with Canadian National (CN) and Ferrocarril Mexicano (FXE). During 2002, UP, CN and NS introduced a new intermodal train service to Mexico for shippers in the eastern United States, trimming three days from the previous rail transit times. UP and FXE continue to leverage their partnership, positioning each for near-term growth through enhanced product offerings. With over 40% of Union Pacific's business interchanged with other carriers at some point during delivery, alliance partnerships are critical to providing seamless service.

CHANGING THE GAME

Service Reliability

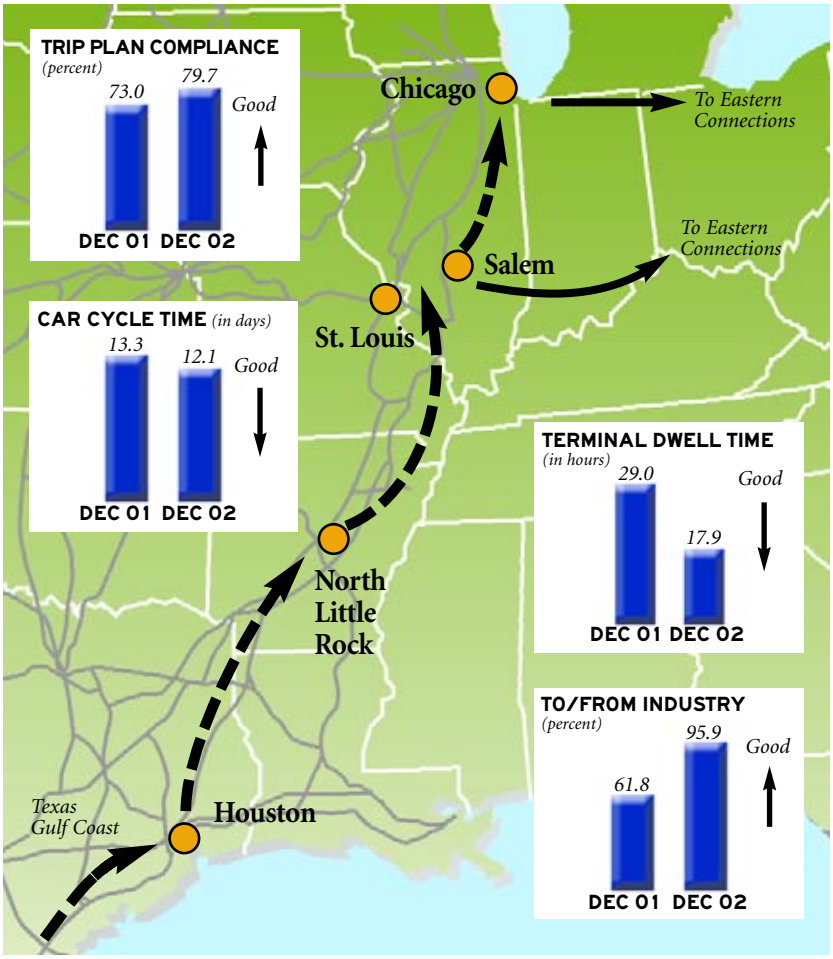
Reliable, consistent service is the key to capturing share from trucks, a market estimated at $90 billion annually. UP evaluated its network and targeted six different corridors on which it offers a strategic advantage over other railroads. The I-5 corridor, running along the West Coast, was UP's "proof of concept" for improving service performance corridor by corridor. By focusing on pick-up and delivery service at customers' facilities, over-the-road performance and critical car connections at terminals, service reliability has improved dramatically in this corridor.

In 2002, the successes and failures experienced on the I-5 corridor were translated into "best practices" that have been implemented on three additional corridors – the Overland, Gulf Coast and Mid-America – driving customer satisfaction levels for the Railroad to a seven year high of 78%. These service improvements correlate directly with the Railroad's internal measure for meeting customer expectations, the service delivery index, which improved 3 percentage points in 2002 to a best-ever 73%. Although still in the early stages of implementation, the Mid-America corridor is experiencing significant service improvements, as well as better asset utilization. Two additional corridors, the Oregon Trail and Heartland are scheduled for roll-out in 2003.

Business Development

The end result of "changing the game" is the ability to develop new business partners and penetrate new markets. Focusing on franchise strengths, synergies with alliance partners, new product development and service reliability has translated into top line growth opportunities. As described in the individual business sections that follow, each of the six business teams, as well as the Mexico team, have plans to expand their market share through business development initiatives.

MID-AMERICA CORRIDOR SERVICE INITIATIVE



THE FUTURE

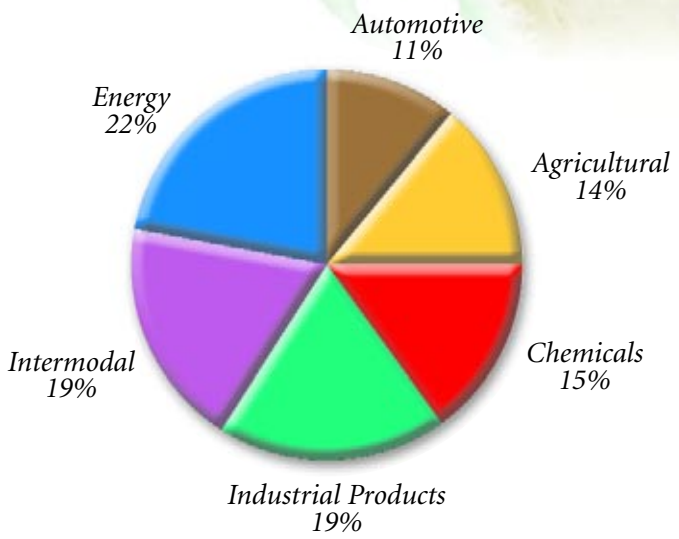
With an uncertain economic outlook and high fuel prices, Union Pacific will face significant challenges in 2003. However, UP's dedication to achieving continued productivity gains, improved service reliability and increased customer satisfaction remains unchanged. In addition, the unparalleled franchise has positioned Union Pacific's stakeholders – customers, employees and shareholders – for a bright future in years to come.

DENSITY MAP

Seattle
Spokane
Eastport
Portland
Hinkle
Eugene
Pocatello
Ogden
Granger
Salt Lake City
Reno
Oakland
Roseville
Stockton
San Francisco
Fresno
Las Vegas
Los Angeles
Colton
Long Beach
Phoenix
Yuma
Tucson
Nogales
El Paso
Sierra Blanca
E. Caballo Jct.
Shawnee Jct.
Cheyenne
North Platte
Grand Junction
Denver
Pueblo
Omaha
Marysville
Topeka
Kansas City
Wichita
Oklahoma City
Amarillo
Lubbock
Dallas
Ft. Worth
Texarkana
N. Little Rock
Pine Bluff
San Antonio
Del Rio
Eagle Pass
Laredo
Brownsville
Houston
Duluth
Minneapolis St. Paul
Milwaukee
Chicago
Des Moines
Woodland Jct.
St. Louis
Memphis
Livonia
New Orleans

REVENUE MIX

COMMODITY REVENUE: $10.7 BILLION



THOUSANDS OF GROSS TON-MILES (GTM'S) PER ROUTE MILE

- *100,000+ GTM's Per Route Mile*
- *50,000 - 99,999 GTM's Per Route Mile*
- *0 - 49,999 GTM's Per Route Mile*

Dashed lines indicate operating rights on other railroads