

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, due to its 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 Mexico. 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

Financial performance improved significantly in 1999, as the Railroad rebounded from the effects of the service difficulties of late 1997 and 1998. Commodity revenue grew 9%, from customers returning business to the Railroad and from general growth, particularly in coal, intermodal and automobile shipments. Service improvements drove operating expenses down 7%, reflecting increased system velocity and a reduction in service failures. Net income from continuing operations grew to \$754 million in 1999, capping six consecutive quarters

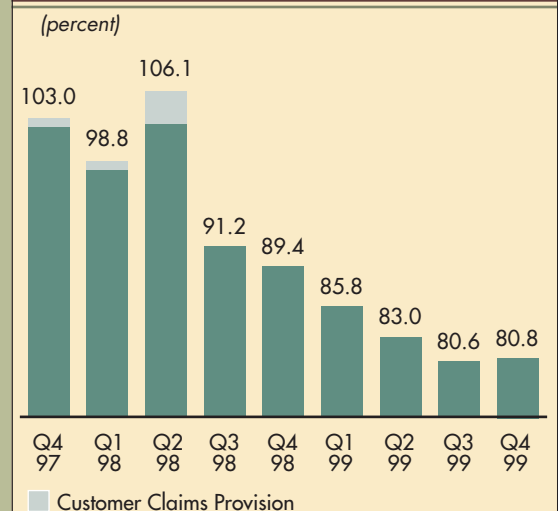
UNION PACIFIC CORPORATION (excluding Overnite and Skyway)

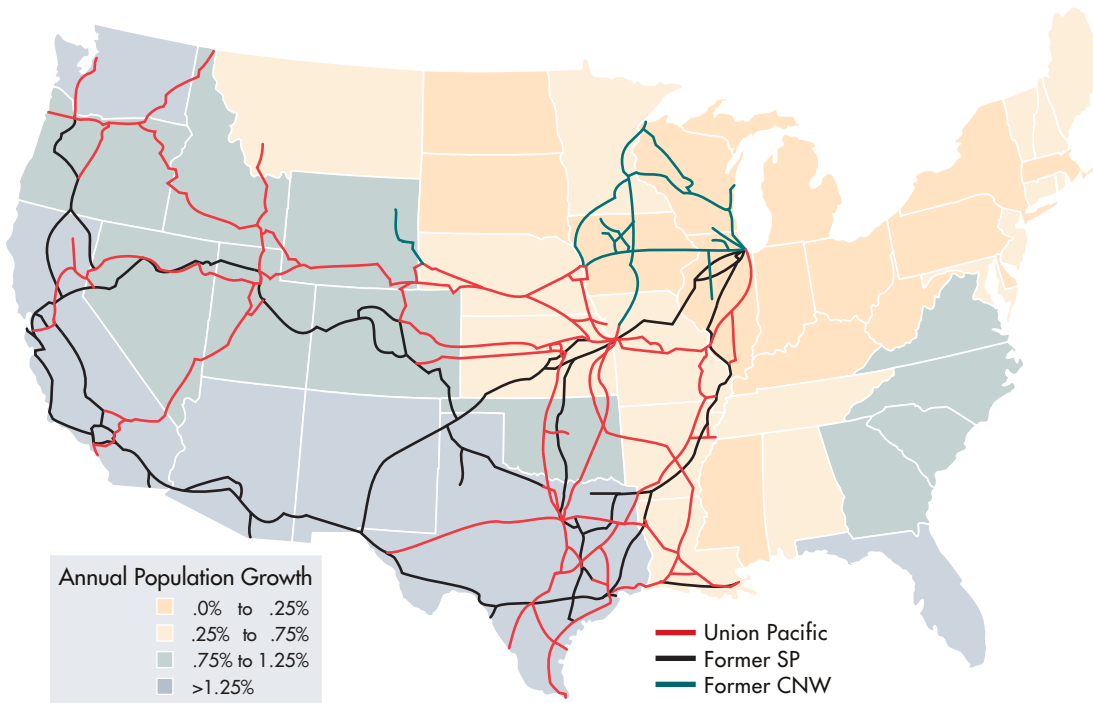
Financial Summary

| | 1999 | 1998 | 1997 |
|---|----------|---------|---------|
| Operating Revenue <small>(millions of dollars)</small> | \$10,211 | \$9,368 | \$9,981 |
| Operating Income <small>(millions of dollars)</small> | \$1,784 | \$348 | \$1,144 |
| Operating Ratio | 82.5% | 96.3% | 88.5% |
| Total Carloads <small>(thousands)</small> | 8,556 | 7,998 | 8,453 |
| Average Employees | 52,539 | 53,121 | 52,587 |
| Capital Investments* <small>(millions of dollars)</small> | \$1,942 | \$2,392 | \$2,297 |

*includes long-term operating leases

Quarterly Operating Ratio





Power of UP Franchise

The power of the UP rail franchise results from a system of strategic routes, a diverse traffic mix and access to key ports, cities and gateways. Strength also lies in UP's ability to directly serve the fastest growing regions of the country.

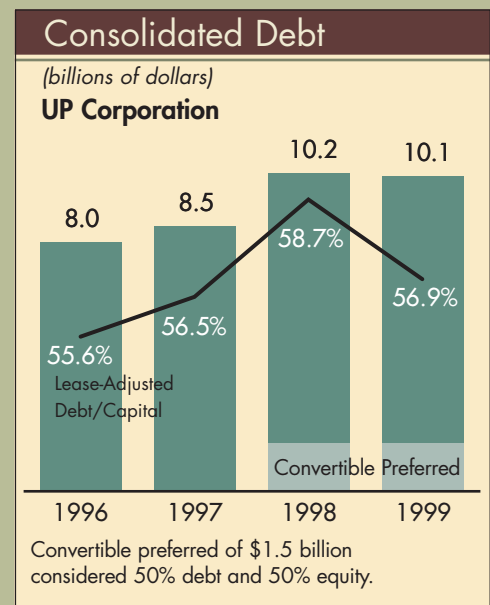
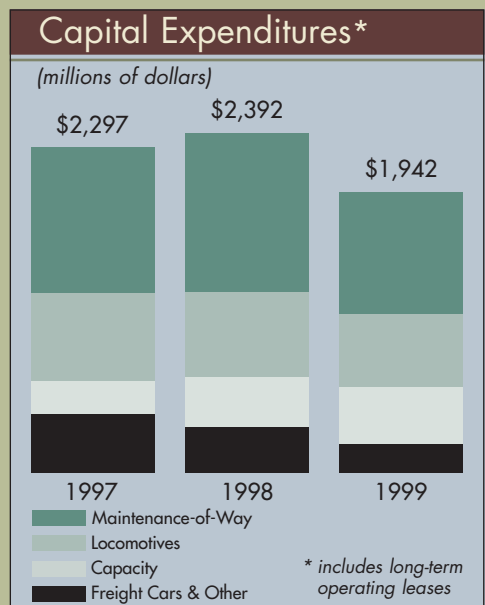
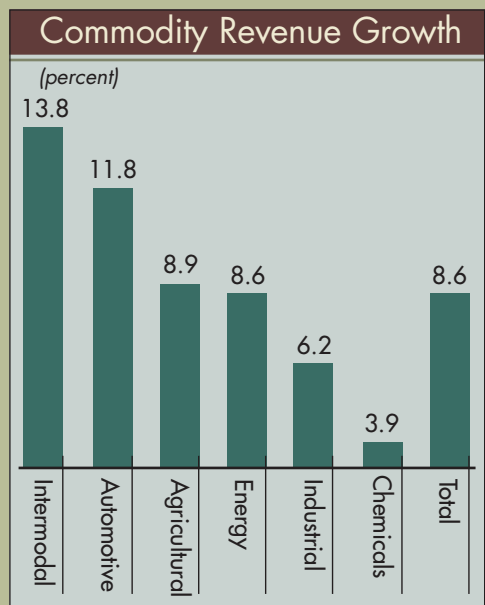
of improvement. Capital spending decreased to approximately \$1.9 billion, as merger-related spending began to taper off.

For Union Pacific Corporation, free cash flow before dividends grew to \$255 million in 1999, a \$1.6 billion improvement over 1998. The lease-adjusted debt-to-capital ratio improved from 58.7% at the end of 1998 to 56.9% at the end of 1999.

QUALITY TRANSPORTATION

The Railroad's ability to grow and to compete with other modes of transportation depends on providing quality transportation service. In 1999, UP regained a focused approach to improving service, reducing failure costs and raising customer satisfaction. UP strives continuously to improve service quality by actively identifying

problems and acting quickly to fix them. For example, UP tracks operational performance measures closely and focuses resources on regions where goals are not being met. In many cases, performance is as good as or better than before the Union Pacific/Southern Pacific merger. But further improvement can be made as failure costs continue to decline, capacity bottlenecks are removed and the remaining merger benefits are realized.



UNION PACIFIC RAILROAD

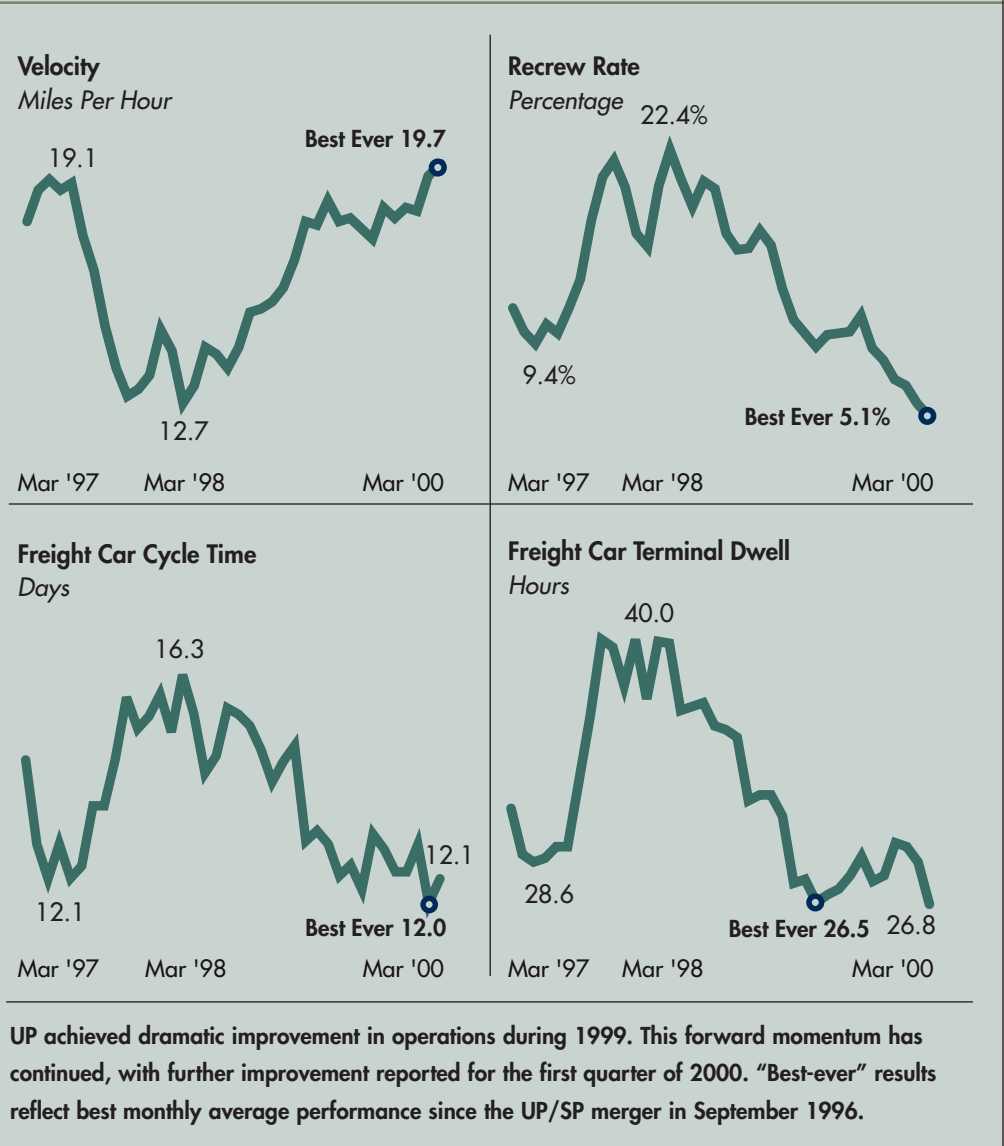
OPERATING PERFORMANCE

Customer service and financial performance are improving as a result of more efficient use of railroad assets including track, locomotives, freight cars, terminals and crews. Key indicators, such as train speed, freight car terminal dwell time, recrew rate and freight car cycle time, gauge asset utilization. Showing particular improvement is the recrew rate, which reflects the percentage of crews relieved before their train completes its run. This dropped 77% from its worst level in March of 1998. Freight car terminal dwell measures the time a car sits in a rail yard before being switched into an outbound train. This improved 34% to a best-ever 26.5 hours in April 1999.

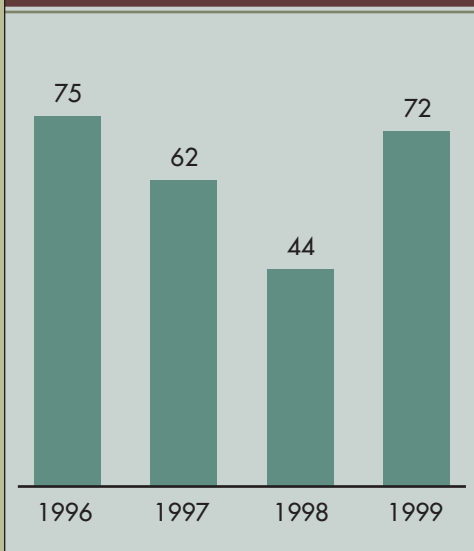
CUSTOMER SATISFACTION

Union Pacific's mission statement establishes customer satisfaction as a top priority. Monthly customer surveys provide feedback regarding the Railroad's service performance. As

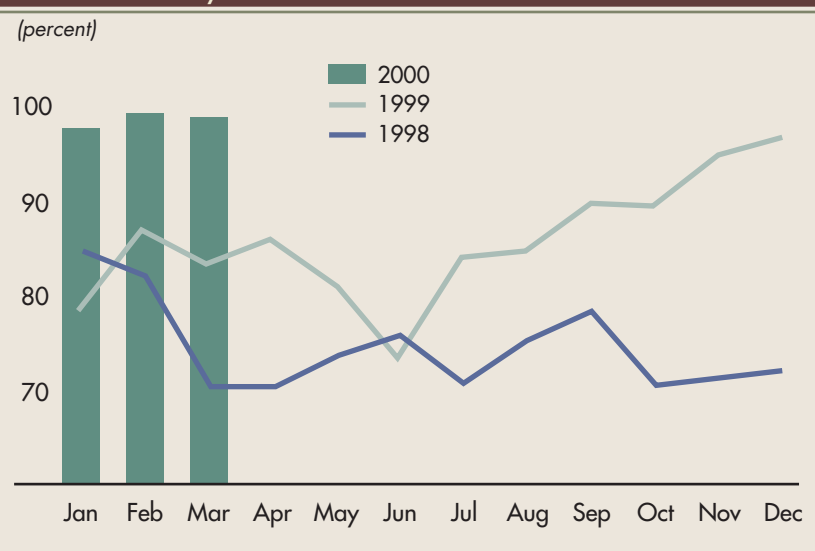
Operating Performance



Customer Satisfaction Index



Coal Train Cycle Performance



service improved during 1999, the percent of satisfied customers climbed from 58% in January to 77% in December. Of critical importance to future improvement, the number of dissatisfied customers declined from 23% in January to 2% in December.

SERVICE DELIVERY INDEX

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.

As the Railroad climbed out of its service difficulties, the SDI rose from 59 in January of 1999 to 73 in March of 2000. Performance out of the Powder River Basin was particularly strong and helped drive coal train cycle performance from 79.8% in January of 1999 to 99.2% in March of 2000. Results were driven by

improvements in capacity and by the efforts of a process improvement team that used targeted problem-solving techniques to reduce service failures.

SERVICE VARIABILITY

Quality service for customers means that shipments arrive quickly and consistently on time. Cars that arrive too early or too late can cause logistical problems for customers even if the average cycle time meets established standards. Eliminating excessive variability also benefits the Railroad. When trains run on schedule, cars make required connections, terminals become less congested and the efficiency of crews, locomotives and track capacity improves. Train speeds and car cycle times are currently reaching record levels since the UP/SP merger in October 1996. By continuing to focus on reducing performance variability, further improvements in customer service, train performance and asset utilization should be achievable.

Our Mission

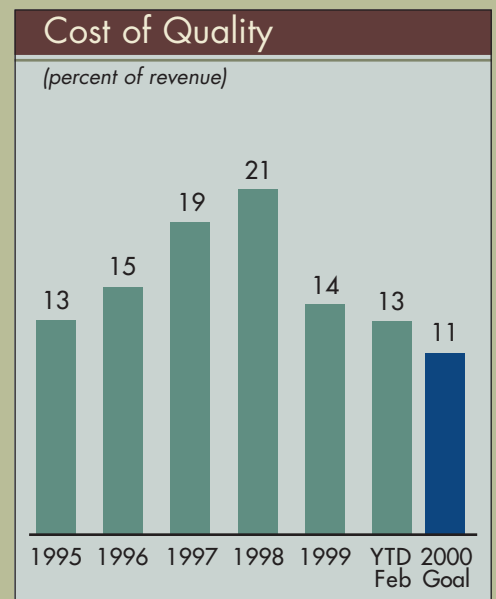
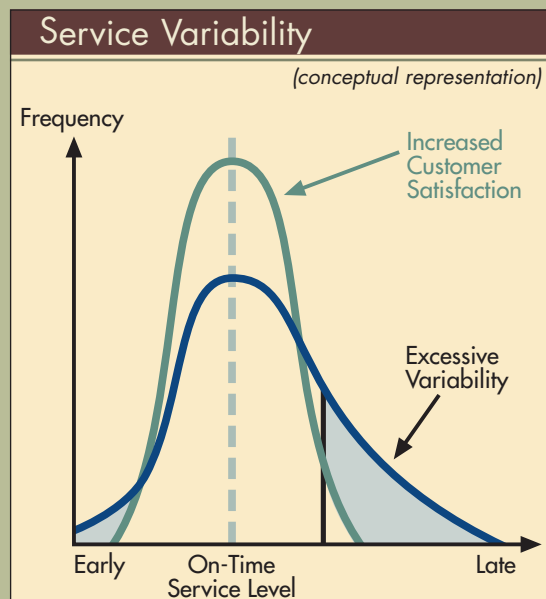
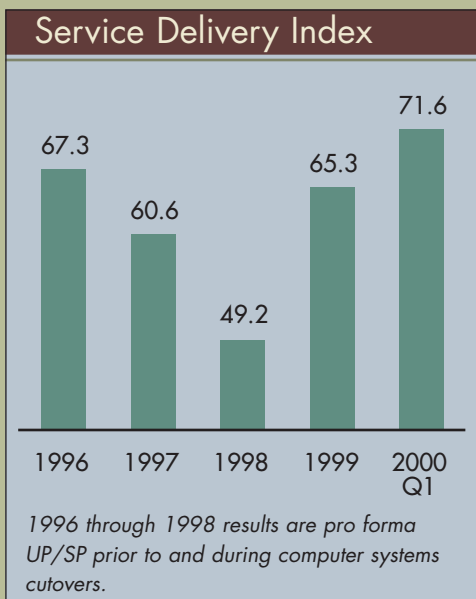
Union Pacific is committed to be a railroad where:

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



COST OF QUALITY

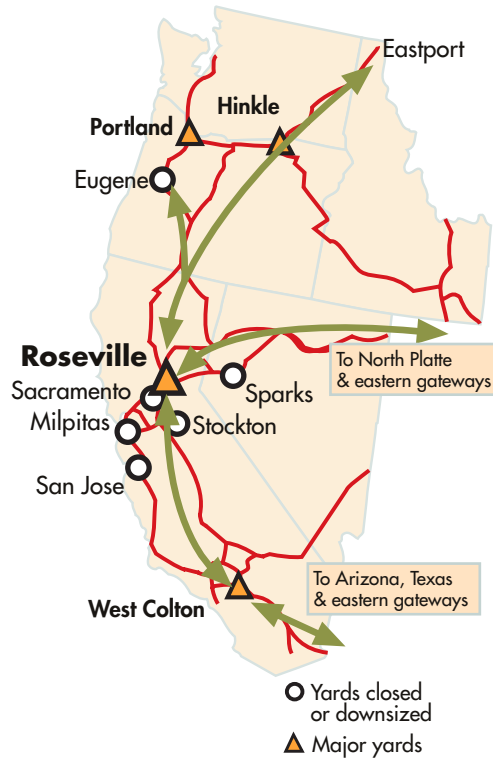
Failure to meet standards of operational performance, customer satisfaction or service performance results in financial costs to the Railroad in the form of higher expenses, poor asset utilization or lost revenue opportunities. At Union Pacific, failure costs are captured by the Cost of Quality system, which consists of over 100 separate accounts for tracking performance. Measured as a percentage of revenue, the Cost of Quality declined by one-third to 14% in 1999.



UNION PACIFIC RAILROAD

UNION PACIFIC FRANCHISE

The merger between Union Pacific and Southern Pacific created a rail franchise with substantial benefits to the Railroad and its customers. Improved equipment utilization and consolidation of work forces and facilities are key benefits that will continue to improve operational performance and financial returns for shareholders. Customers now benefit from new or expanded facilities and train services. Many of these are available following completion of several major merger implementation projects during the past two years.



move directly to final destination or interchange with fewer time-consuming intermediate stops. The Railroad is planning to use this advantage to introduce new premium manifest trains that will provide high priority service for perishables and other goods moving east through Chicago.

I-5 MANIFEST SERVICE

The Union Pacific/Southern Pacific merger created truck-competitive, single-line rail service along the I-5 corridor between the Pacific Northwest and California, Nevada and Arizona. Lumber and paper traffic from the PNW is the target of another customer offering called "5-7-9" Service. To meet customer needs, the Railroad will offer service from the PNW to Northern California in five days, Southern California in seven days and Las Vegas and Phoenix in nine days. Consistently meeting that schedule should win increased market share from trucks.

ROSEVILLE YARD

In May 1999, the J.R. Davis Yard opened in Roseville, California, after a two-year, \$145 million reconstruction project. Many smaller rail yards in the area were closed or downsized as rail traffic was consolidated into Roseville. This allows the Railroad to build longer, dedicated trains that can

ROSEVILLE RATIONALIZATION

Roseville is the premier classification yard on the West Coast. It was built to consolidate rail traffic from many smaller yards in the area and sized to handle years of expected growth. The savings from reduced labor costs and improved equipment utilization alone are estimated to provide a 30% return on investment.

PREMIUM MANIFEST SERVICE



"5-7-9" MANIFEST SERVICE



I-5 INTERMODAL SERVICE

No business segment offers a greater opportunity to grow market share than intermodal. Trucks currently handle about 90% of an approximately \$40 billion western market. Long-term growth depends upon improvements in service reliability and new service offerings. One such offering currently being tested in the I-5 corridor is the "Cascade Connection." This operates between Southern California and Portland and Seattle. A unique feature of the service is a fixed train configuration that is designed to best meet customer demand and avoid service delays caused by equipment shortages. Variable pricing will be used to smooth seasonal and day-of-week demand fluctuations and to maximize profitability. The "Cascade Connection" has already greatly improved customer service and the concept will be considered for implementation in other corridors.

MEMPHIS-TEXAS-CALIFORNIA INTERMODAL

In April 1999, UPRR introduced a new premium intermodal service between Memphis and Northern California via Dallas and Los Angeles. By using Union Pacific lines in Texas and Arkansas and the former Southern Pacific Sunset Route, the new service saves almost 600 miles over Union Pacific's old Central Corridor route. The rail transit time is competitive with the fastest truck service but at

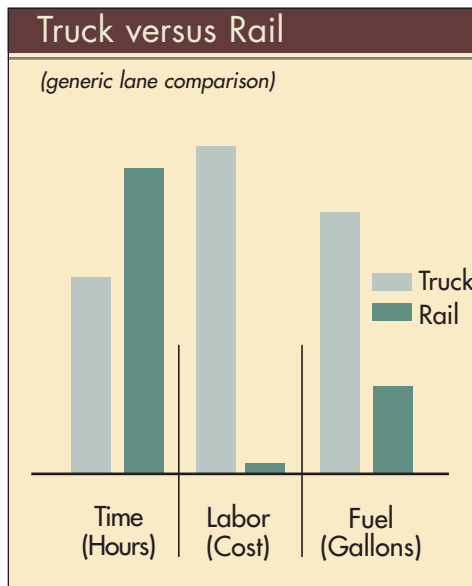
a lower cost to the shipper, while the premium service offers better margins to UP. Per container, this priority intermodal service requires approximately one-third the fuel and 1/30 th the labor as comparable truck service.

INTERNATIONAL SERVICE

Driven by the North American Free Trade Agreement (NAFTA), international trade between Mexico, the U.S. and Canada continues to outpace domestic economic growth.

UPRR's network stretches from the Canadian border to Mexico and is well-positioned to benefit from the growing trade. The Railroad directly serves all six major gateways to Mexico and has the shortest and fastest route between the key Laredo, Texas, gateway and the northern interchanges at St. Louis and Chicago.

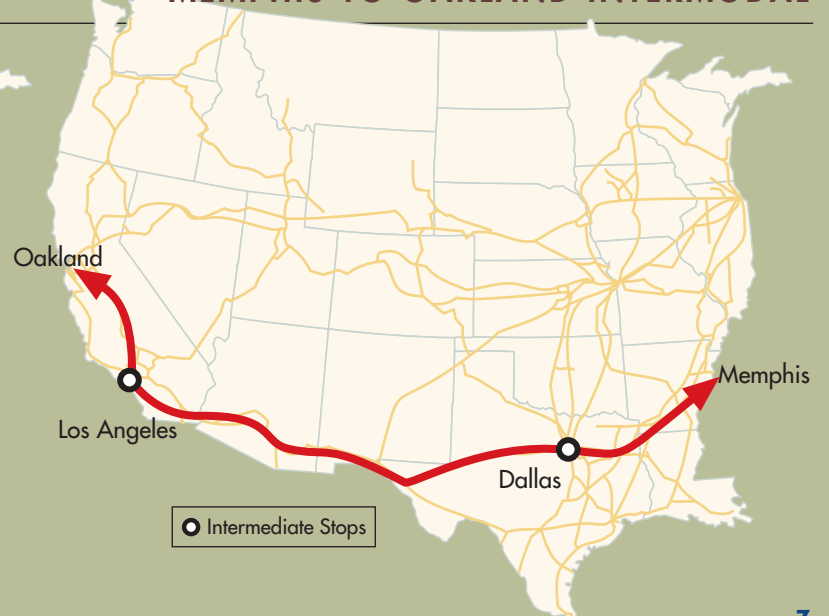
Speed and efficiency are enhanced on this route by use of directional running and the recently completed hub-and-spoke network. Directional running places all southbound trains



CASCADE CONNECTION INTERMODAL



MEMPHIS TO OAKLAND INTERMODAL



UNION PACIFIC RAILROAD

on the former SP route between Illinois and Texas and all northbound trains on the parallel UP route. This eliminates thousands of train meets and passes. The hub-and-spoke network greatly increases crew efficiency in major cities by qualifying crews on multiple line segments.

By taking advantage of these efficiencies, UP and the TFM in Mexico have teamed up to offer five-day premium intermodal service between Mexico City and Chicago. The primary target of this service is northbound auto parts shipments destined for U.S. assembly plants.

CENTRAL CORRIDOR CAPACITY

The heaviest density of rail freight in the world can be found traversing the Union Pacific's Central Corridor in Nebraska. In August 1999, a multi-year project to install 108 miles of triple track was completed, removing a key bottleneck. The fluid capacity of this segment grew from approximately 95 trains per day to 160 to 180 trains per day, and average train speed grew 40% to 34 miles per hour.

Track capacity is also being added between the PRB mines in Wyoming and North Platte, Nebraska, and between Gibbon, Nebraska, and

Marysville, Kansas, and over the Kansas Pacific line. The benefits of all this new capacity support anticipated growth in coal traffic and all other traffic relying on these routes.

INFORMATION TECHNOLOGY & THE INTERNET

TECHNOLOGY APPLICATIONS

At Union Pacific, technology has always been embraced as a valuable tool for increasing productivity, improving customer service and simplifying business practices. Because of the Railroad's large asset base and heavy reliance on transaction-based processes, new technologies can be scaled upward immediately to deliver strong financial returns. Examples include two new systems recently developed to monitor train events and manage the locomotive fleet. These systems provide managers with real-time information regarding train and locomotive location and status, and assists them in making decisions to improve both utilization and on-time

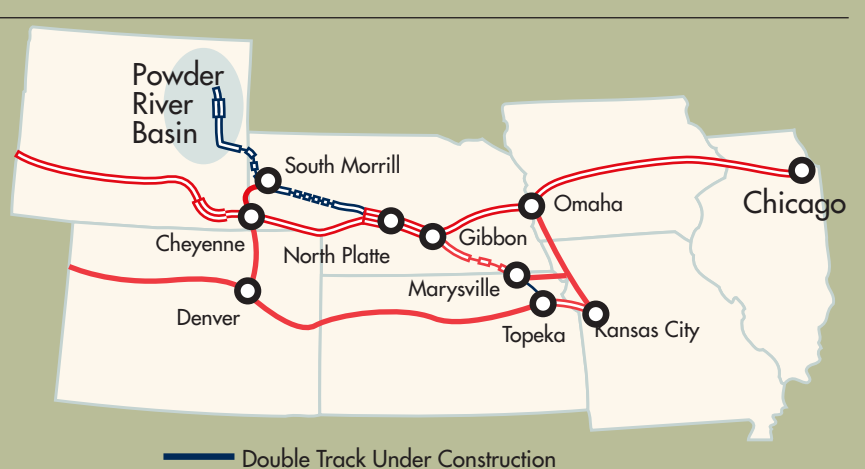


Intermodal, coal and manifest trains at the outskirts of Bailey Yard west of North Platte, Nebraska.

ROUTES TO MEXICO



CENTRAL CORRIDOR CAPACITY

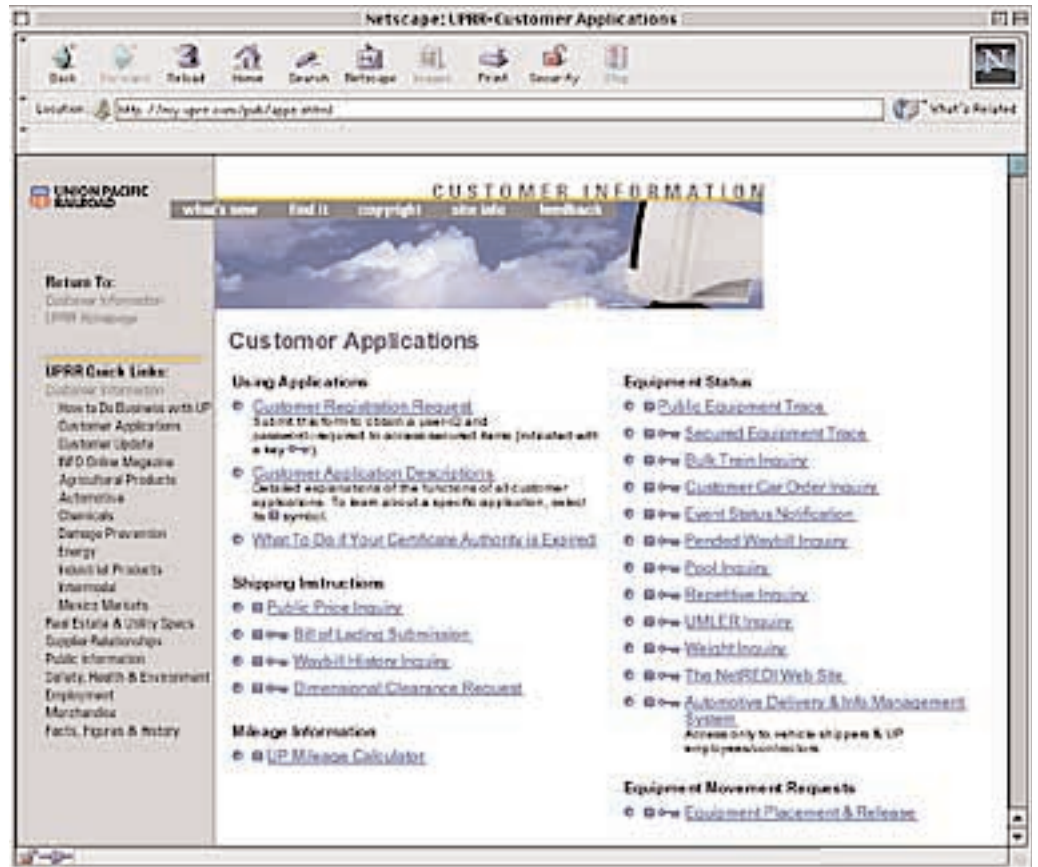


performance. Exciting new applications are now being developed, highlighted by a next-generation computer-aided dispatching system, CAD III.

THE INTERNET

Use of Internet applications to simplify and improve business-to-business transactions is one of the fastest growing areas in the technology industry today. Union Pacific is a railroad industry leader in developing innovative business-to-business applications. At Union Pacific, the Internet is viewed as a tool both to improve the efficiency and accuracy of tens of thousands of daily business-to-business transactions and to make these transactions simpler for customers. Many powerful services are already available. Customers can perform price inquiries, order freight cars, submit shipping instructions and trace car movements to destination. Once customers are finished loading or unloading a car, they can submit instructions via the Internet to have it picked up by the Railroad.

Customers have reacted positively,



as use of the Railroad's web site has increased by over 480% during the past two years.

Applications are not limited just to customers. Many employee services have also migrated to the web.

For example, crews can check train line-ups from home to help them anticipate work assignments. And many new applications and customer-specific sites are being developed.

