

**UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES**

Condensed Consolidated Statements of Income (unaudited)

\*Adjusted for the retrospective adoption of ASU 2017-07

Millions, Except Percentages	2017				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
<b>Operating Revenues</b>					
Freight revenues	\$ 4,794	\$ 4,906	\$ 5,050	\$ 5,087	\$ 19,837
Other revenues	338	344	358	363	1,403
Total operating revenues	5,132	5,250	5,408	5,450	21,240
<b>Operating Expenses</b>					
Compensation and benefits*	1,262	1,204	1,237	1,236	4,939
Purchased services and materials	566	597	615	585	2,363
Depreciation	520	525	528	532	2,105
Fuel	460	434	450	547	1,891
Equipment and other rents	276	273	275	64	888
Other	260	219	230	239	948
Total operating expenses	3,344	3,252	3,335	3,203	13,134
<b>Operating Income</b>					
Other income/(expense)*	72	50	90	33	245
Interest expense	(172)	(179)	(180)	(188)	(719)
Income before income taxes	1,688	1,869	1,983	2,092	7,632
Income taxes	(616)	(701)	(789)	5,186	3,080
<b>Net Income</b>	\$ 1,072	\$ 1,168	\$ 1,194	\$ 7,278	\$ 10,712
<b>Operating Ratio*</b>	65.2%	61.9%	61.7%	58.8%	61.8%
<b>Operating Ratio as previously reported**</b>	65.1%	61.8%	62.8%	58.7%	62.0%

\* Effective January 1, 2018, the Company adopted ASU 2017-07 on a retrospective basis, which allows only service costs to be recorded within compensation and benefits expense, and the other components of net periodic pension and other postretirement benefit (OPEB) costs to be recorded in other income/(expense). Prior to adoption, both service costs and net benefit costs were recorded within compensation and benefits expense. The retrospective impact of adoption is shown in the table below:

Increase/(decrease) in millions	2017				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Full Year
Operating income	\$ (5)	\$ (7)	\$ 61	\$ (4)	\$ 45
Other income/(expense)	5	7	(61)	4	(45)

\*\* The fourth quarter and full year operating ratio includes the impact of the Tax Cuts and Jobs Act (the "Tax Act"). For the reconciliation to fourth quarter and full year non-GAAP operating ratio adjusted for the Tax Act (62.6% and 63.0%, respectively), please refer to the 2017 fourth quarter non-GAAP at: <http://www.up.com/investor/presentations/>.

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*Non-GAAP Measures Reconciliation to GAAP (unaudited)*

**Financial Performance\*\*\***

<i>Millions, Except Per Share Amounts and Percentages For the Three Months Ended December 31, 2017</i>	<i>Operating Income</i>	<i>Income Taxes</i>	<i>Net Income</i>	<i>Diluted EPS</i>	<i>Operating Ratio</i>
Reported results before ASU 2017-07 (GAAP)	\$ 2,251	\$ (5,186)	\$ 7,278	\$ 9.25	58.7 %
Factors Affecting Comparability:					
Adjustments for Tax Cuts and Jobs Act					
Equity-method affiliates	(212)	(73)	(139)	(0.18)	3.9 pts
Deferred taxes	-	5,935	(5,935)	(7.54)	-
Adjusted results (non-GAAP)	\$ 2,039	\$ 676	\$ 1,204	\$ 1.53	62.6 %
Impact of ASU 2017-07	(4)	-	-	-	0.2
Adjusted results after ASU 2017-07 (non-GAAP)	\$ 2,035	\$ 676	\$ 1,204	\$ 1.53	62.8 %

<i>Millions, Except Per Share Amounts and Percentages For the Year Ended December 31, 2017</i>	<i>Operating Income</i>	<i>Income Taxes</i>	<i>Net Income</i>	<i>Diluted EPS</i>	<i>Operating Ratio</i>
Reported results before ASU 2017-07 (GAAP)	\$ 8,061	\$ (3,080)	\$ 10,712	\$ 13.36	62.0 %
Factors Affecting Comparability:					
Adjustments for Tax Cuts and Jobs Act					
Equity-method affiliates	(212)	(73)	(139)	(0.17)	1.0 pts
Deferred taxes	-	5,935	(5,935)	(7.40)	-
Adjusted results (non-GAAP)	\$ 7,849	\$ 2,782	\$ 4,638	\$ 5.79	63.0 %
Impact of ASU 2017-07	45	-	-	-	(0.2)
Adjusted results after ASU 2017-07 (non-GAAP)	\$ 7,894	\$ 2,782	\$ 4,638	\$ 5.79	62.8 %

\*\*\* The above tables reconcile our results for the quarter and year ended December 31, 2017 to adjusted results that exclude the impact of certain items identified as affecting comparability. We use adjusted operating income, adjusted income taxes, adjusted net income, adjusted diluted earnings per share ("EPS") and adjusted operating ratio, as applicable, among other measures, to evaluate our actual operating performance. We believe these non-GAAP measures provide relevant and useful information for management and investors because they clarify our actual operating performance by excluding certain significant items that are not considered indicative of future financial trends and allow investors to review performance in the same way as our management. Since these are not measures of performance calculated in accordance with GAAP, they should be considered in addition to, rather than as a substitute for, operating income, income taxes, net income, diluted EPS, and operating ratio, as indicators of operating performance.