

FORM 10-Q

UNITED STATES SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2002

- OR -

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-6075

UNION PACIFIC CORPORATION

(Exact name of registrant as specified in its charter)

UTAH
(State or other jurisdiction of
incorporation or organization)

13-2626465
(I.R.S. Employer
Identification No.)

1416 DODGE STREET, OMAHA, NEBRASKA
(Address of principal executive offices)

68179
(Zip Code)

(402) 271-5777
(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

As of October 31, 2002, there were 253,282,042 shares of the Registrant's Common Stock outstanding.

UNION PACIFIC CORPORATION
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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Consolidated Statements of Income (Unaudited)

Union Pacific Corporation and Subsidiary Companies

	<i>Millions, Except Per Share Amounts, For the Three Months Ended September 30,</i>	<i>2002</i>	<i>2001</i>
Operating Revenues	Rail, trucking and other	\$3,199	\$3,026
Operating Expenses	Salaries, wages and employee benefits	1,125	1,059
	Equipment and other rents	349	332
	Depreciation	302	292
	Fuel and utilities	295	318
	Materials and supplies	133	133
	Casualty costs	102	97
	Purchased services and other costs	249	221
	Total	2,555	2,452
Income	Operating income	644	574
	Other income	161	31
	Interest expense	(157)	(175)
	Income before income taxes	648	430
	Income taxes	(211)	(163)
	Net income	\$ 437	\$ 267
Share and Per Share	Basic – earnings per share	\$ 1.73	\$ 1.08
	Diluted – earnings per share	\$ 1.63	\$ 1.04
	Weighted average number of shares (Basic)	252.5	247.9
	Weighted average number of shares (Diluted)	277.3	271.6
	Dividends	\$ 0.20	\$ 0.20

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Income (Unaudited)
Union Pacific Corporation and Subsidiary Companies

	<i>Millions, Except Per Share Amounts, For the Nine Months Ended September 30,</i>	<i>2002</i>	<i>2001</i>
Operating Revenues	Rail, trucking and other	\$9,320	\$8,967
Operating Expenses	Salaries, wages and employee benefits	3,349	3,207
	Equipment and other rents	1,029	992
	Depreciation	901	877
	Fuel and utilities	820	1,008
	Materials and supplies	404	417
	Casualty costs	306	282
	Purchased services and other costs	766	677
	Total	7,575	7,460
Income	Operating income	1,745	1,507
	Other income	217	136
	Interest expense	(479)	(534)
	Income before income taxes	1,483	1,109
	Income taxes	(520)	(418)
	Net income	\$ 963	\$ 691
Share and Per Share	Basic – earnings per share	\$ 3.83	\$ 2.79
	Diluted – earnings per share	\$ 3.64	\$ 2.71
	Weighted average number of shares (Basic)	251.8	247.5
	Weighted average number of shares (Diluted)	276.5	271.5
	Dividends	\$ 0.60	\$ 0.60

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Financial Position
Union Pacific Corporation and Subsidiary Companies

<i>Millions of Dollars</i>		<i>(Unaudited)</i> Sept. 30, 2002	<i>Dec. 31,</i> 2001
Assets			
Current Assets	Cash and temporary investments.....	\$ 451	\$ 113
	Accounts receivable, net.....	765	604
	Inventories.....	264	265
	Current deferred income taxes.....	398	400
	Other current assets.....	213	160
	Total	2,091	1,542
Investments	Investments in and advances to affiliated companies.....	640	708
	Other investments.....	55	78
	Total	695	786
Properties	Cost.....	37,479	36,436
	Accumulated depreciation.....	(8,106)	(7,644)
	Net	29,373	28,792
Other	Other assets.....	466	431
	Total assets	\$32,625	\$31,551
Liabilities and Common Shareholders' Equity			
Current Liabilities	Accounts payable.....	\$ 580	\$ 567
	Accrued wages and vacation.....	431	394
	Accrued casualty costs.....	464	452
	Income and other taxes.....	322	286
	Dividends and interest.....	227	255
	Debt due within one year.....	294	194
	Other current liabilities.....	574	598
	Total	2,892	2,746
Other Liabilities and Common Shareholders' Equity	Debt due after one year.....	7,580	7,886
	Deferred income taxes.....	8,277	7,882
	Accrued casualty costs.....	651	696
	Retiree benefits obligation.....	849	812
	Other long-term liabilities.....	377	454
	Company-obligated mandatorily redeemable convertible preferred securities.....	1,500	1,500
	Commitments and contingencies		
	Common shareholders' equity.....	10,499	9,575
	Total liabilities and common shareholders' equity	\$32,625	\$31,551

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows (Unaudited)
Union Pacific Corporation and Subsidiary Companies

	<i>Millions of Dollars, For the Nine Months Ended September 30,</i>	2002	2001
Operating Activities	Net income.....	\$ 963	\$ 691
	Non-cash charges to income:		
	Depreciation	901	877
	Deferred income taxes.....	387	344
	Other, net	(243)	(361)
	Changes in current assets and liabilities, net	(165)	(189)
	Cash provided by operating activities	1,843	1,362
Investing Activities	Capital investments	(1,468)	(1,354)
	Proceeds from asset sales.....	299	204
	Other investing activities, net	(49)	(124)
	Cash used in investing activities	(1,218)	(1,274)
Financing Activities	Dividends paid.....	(151)	(148)
	Debt repaid	(1,032)	(792)
	Cash received from exercise of stock options	121	48
	Financings, net.....	775	819
		Cash used in financing activities.....	(287)
	Net change in cash and temporary investments	338	15
	Cash and temporary investments at beginning of period	113	105
	Cash and temporary investments at end of period.....	\$ 451	\$ 120
Changes in Current Assets and Liabilities, Net	Accounts receivable, net.....	\$(161)	\$ (93)
	Inventories	1	80
	Other current assets.....	(51)	(60)
	Accounts, wages and vacation payable.....	50	(88)
	Other current liabilities.....	(4)	(28)
	Total	\$(165)	\$(189)
Supplemental Cash Flow Information:			
	Cash paid during the period for:		
	Interest.....	\$ 515	\$ 563
	Income taxes, net	98	10

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Common Shareholders' Equity (Unaudited)
Union Pacific Corporation and Subsidiary Companies

<i>Millions of Dollars, For the Nine Months Ended September 30, 2002</i>	<i>[a]</i> Common Shares	<i>Paid- in- Surplus</i>	<i>Retained Earnings</i>	<i>[b]</i> Treasury Stock	<i>Accumulated Other Comprehensive Income (Loss)</i>				<i>Total</i>	<i>Total</i>
					<i>Minimum Pension Liability Adjustments</i>	<i>Foreign Currency Translation Adjustments</i>	<i>Derivative Adjustments</i>	<i>Total</i>		
Balance at December 31, 2001 ...	\$689	\$3,980	\$6,466	\$(1,549)	\$(7)	\$ 3	\$(7)	\$(11)	\$9,575	
Net income	-	-	963	-	-	-	-	-	963	
Other comprehensive income, net of tax <i>[c]</i>	-	-	-	-	-	(10)	26	16	16	
Comprehensive income									979	
Conversion, exercises of stock options, forfeitures and other	-	(70)	-	166	-	-	-	-	96	
Dividends declared (\$0.60 per share)	-	-	(151)	-	-	-	-	-	(151)	
Balance at September 30, 2002...	\$689	\$3,910	\$7,278	\$(1,383)	\$(7)	\$(7)	\$19	\$ 5	\$10,499	

[a] Common stock \$2.50 par value; 500,000,000 shares authorized; 275,499,087 shares issued at beginning of period; 275,568,237 shares issued at end of period.

[b] 25,208,819 treasury shares at beginning of period, at cost; 22,501,306 treasury shares at end of period, at cost.

[c] Foreign currency translation adjustments net of tax benefit of \$5; and fuel derivative adjustments net of tax expense of \$15.

The accompanying notes are an integral part of these Consolidated Financial Statements.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Responsibilities for Financial Statements - The Consolidated Financial Statements are unaudited and reflect all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods presented. The Statement of Consolidated Financial Position at December 31, 2001 is derived from audited financial statements. The Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto contained in the Annual Report on Form 10-K for Union Pacific Corporation (the Corporation or UPC) for the year ended December 31, 2001. The results of operations for the three months and nine months ended September 30, 2002 are not necessarily indicative of the results for the entire year ending December 31, 2002. Certain prior year amounts have been reclassified to conform to the 2002 financial statement presentation.

2. Segmentation - Union Pacific Corporation consists of two reportable segments, rail and trucking, and UPC's other product lines (Other). The rail segment includes the operations of the Corporation's indirect wholly owned subsidiary, Union Pacific Railroad Company (UPRR) and UPRR's subsidiaries and rail affiliates (collectively, the Railroad). The trucking segment includes Overnite Transportation Company (OTC) and Motor Cargo Industries, Inc. (Motor Cargo) as of November 30, 2001, both operating as separate and distinct subsidiaries of Overnite Corporation (Overnite), an indirect wholly owned subsidiary of UPC. The Corporation's other product lines are comprised of the corporate holding company (which largely supports the Railroad), Fenix LLC and affiliated technology companies and self-insurance activities, in addition to all appropriate consolidating entries.

The following table details reportable financial information for UPC's segments and other operations for the three months and nine months ended September 30, 2002 and 2001:

<i>Millions of Dollars</i>	<i>Three Months Ended</i>		<i>Nine Months Ended</i>	
	<i>Sept. 30, 2002</i>	<i>Sept. 30, 2001</i>	<i>Sept. 30, 2002</i>	<i>Sept. 30, 2001</i>
Operating revenues [a]:				
Rail.....	\$ 2,838	\$ 2,727	\$ 8,295	\$ 8,082
Trucking.....	349	292	986	862
Other.....	12	7	39	23
Consolidated.....	\$ 3,199	\$ 3,026	\$ 9,320	\$ 8,967
Operating income (loss):				
Rail.....	\$ 638	\$ 575	\$ 1,744	\$ 1,515
Trucking.....	25	18	54	43
Other.....	(19)	(19)	(53)	(51)
Consolidated.....	\$ 644	\$ 574	\$ 1,745	\$ 1,507
Assets:				
Rail.....	\$31,263	\$30,725	\$31,263	\$30,725
Trucking.....	756	649	756	649
Other.....	606	323	606	323
Consolidated.....	\$32,625	\$31,697	\$32,625	\$31,697

[a] The Corporation has no significant intercompany sales activities.

3. Financial Instruments

Strategy and Risk - The Corporation and its subsidiaries use derivative financial instruments in limited instances for other than trading purposes to manage risk related to changes in fuel prices and to achieve the Corporation's interest rate objectives. The Corporation uses swaps, futures and/or forward contracts to mitigate the downside risk of adverse price movements and hedge the exposure to variable cash flows. The use of these instruments also limits future gains from favorable movements. The Corporation uses interest rate swaps to manage its exposure to interest rate changes. The purpose of these programs is to protect the

Corporation's operating margins and overall profitability from adverse fuel price changes or interest rate fluctuations.

The Corporation may also use swaptions to secure near-term swap prices. Swaptions are swaps that are extendable past their base period at the option of the counterparty. Swaptions do not qualify for hedge accounting treatment.

Market and Credit Risk - The Corporation addresses market risk related to derivative financial instruments by selecting instruments with value fluctuations that highly correlate with the underlying item being hedged. Credit risk related to derivative financial instruments, which is minimal, is managed by requiring high credit standards for counterparties and periodic settlements. At September 30, 2002, the Corporation has not been required to provide collateral, nor has UPC received collateral relating to its hedging activities.

Determination of Fair Value - The fair values of the Corporation's derivative financial instrument positions at September 30, 2002 and December 31, 2001, detailed below, were determined based upon current fair values as quoted by recognized dealers or developed based upon the present value of expected future cash flows discounted at the applicable U.S. Treasury rate, London Interbank Offered Rates (LIBOR) or swap spread.

Interest Rate Strategy - The Corporation manages its overall exposure to fluctuations in interest rates by adjusting the proportion of fixed and floating rate debt instruments within its debt portfolio over a given period. The mix of fixed and floating rate debt is largely managed through the issuance of targeted amounts of each as debt matures or as incremental borrowings are required. Derivatives are used as one of the tools to obtain the targeted mix. In addition, the Corporation also obtains flexibility in managing interest costs and the interest rate mix within its debt portfolio by evaluating the issuance of and managing outstanding callable fixed-rate debt securities.

Swaps allow the Corporation to convert debt from fixed rates to variable rates and thereby hedge the risk of changes in the debt's fair value attributable to the changes in the benchmark interest rate (LIBOR). The swaps have been accounted for using the short-cut method as allowed by Financial Accounting Standard (FAS) 133; therefore no ineffectiveness has been recorded within the Corporation's Consolidated Financial Statements. In January 2002, the Corporation entered into an interest rate swap on \$250 million of debt with a maturity date of December 2006. In May 2002, the Corporation entered into an interest rate swap on \$150 million of debt with a maturity date of February 2023.

Fuel Strategy - Fuel costs are a significant portion of the Corporation's total operating expenses. As a result of the significance of fuel costs and the historical volatility of fuel prices, the Corporation's transportation subsidiaries use swaps, futures and/or forward contracts to mitigate the impact of adverse fuel price changes. In addition, the Corporation at times may use swaptions to secure near-term swap prices.

The following is a summary of the Corporation's derivative financial instruments at September 30, 2002 and December 31, 2001:

<i>Millions, Except Percentages and Average Commodity Prices</i>	<i>Sept. 30, 2002</i>	<i>Dec. 31, 2001</i>
Interest rate hedging:		
Amount of debt hedged.....	\$ 998	\$ 598
Percentage of total debt portfolio	13%	7%
Rail fuel hedging/swaptions:		
Number of gallons hedged for 2001 [a].....	-	407
Average price of 2001 hedges (per gallon) [b]	\$ -	\$ 0.66
Number of gallons hedged for the remainder of 2002 [c].....	135	567
Average price of 2002 hedges outstanding (per gallon) [b]	\$ 0.58	\$ 0.56
Number of gallons hedged for 2003 [d]	63	63
Average price of 2003 hedges outstanding (per gallon) [b]	\$ 0.56	\$ 0.56
Trucking fuel hedging:		
Number of gallons hedged for 2001	-	-
Average price of 2001 hedges outstanding (per gallon).....	\$ -	\$ -
Number of gallons hedged for the remainder of 2002	3	9
Average price of 2002 hedges outstanding (per gallon) [b]	\$0.58	\$ 0.58
Number of gallons hedged for 2003	3	3
Average price of 2003 hedges outstanding (per gallon) [b]	\$0.58	\$ 0.58

[a] Rail fuel hedges expired December 31, 2001. Rail fuel hedges included the swap portion of a swaption with a base term expiring December 31, 2001, and they excluded the option portion of the swaption to extend the swap through December 31, 2002.

[b] Excluding taxes, transportation costs and regional pricing spreads.

[c] Rail fuel hedges expire December 31, 2002. Rail fuel hedges include the swap portions of the swaptions with base terms expiring December 31, 2002, and they exclude the option portions of the swaptions to extend the swaps through December 31, 2003.

[d] Rail fuel hedges which are in effect during 2003. These hedges expire December 31, 2003.

The fair value asset and liability positions of the Corporation's outstanding derivative financial instruments at September 30, 2002 and December 31, 2001 were as follows:

<i>Millions of Dollars</i>	<i>Sept. 30, 2002</i>	<i>Dec. 31, 2001</i>
Interest rate hedging:		
Gross fair value asset position	\$57	\$ 13
Gross fair value (liability) position.....	-	-
Rail fuel hedging:		
Gross fair value asset position	31	-
Gross fair value (liability) position.....	(2)	(11)
Rail fuel swaptions:		
Gross fair value asset position	3	-
Gross fair value (liability) position.....	(4)	(24)
Trucking fuel hedging:		
Gross fair value asset position	1	-
Gross fair value (liability) position.....	-	-
Total fair value asset (liability) position, net.....	\$86	\$(22)

Fuel hedging positions will be reclassified from accumulated other comprehensive income to fuel expense over the life of the hedge as fuel is consumed. Rail fuel swaption positions will be reflected in the Consolidated Statements of Income as fuel expense over the life of the swap and as other income as the fair value of the outstanding option fluctuates.

The Corporation's use of derivative financial instruments had the following impact on pre-tax income for the three months and nine months ended September 30, 2002 and 2001:

<i>Millions of Dollars</i>	<i>Three Months</i>		<i>Nine Months</i>	
	<i>Ended Sept. 30,</i>	<i>Ended Sept. 30,</i>	<i>Ended Sept. 30,</i>	<i>Ended Sept. 30,</i>
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Decrease in interest expense from interest rate hedging.....	\$ 8	\$ 1	\$20	\$1
Decrease in fuel expense from rail fuel hedging.....	15	3	15	7
Decrease in fuel expense from rail fuel swaptions.....	4	2	17	2
Decrease in fuel expense from trucking fuel hedging	1	-	1	-
Decrease in operating expenses	28	6	53	10
Increase (decrease) in other income, net from rail fuel swaptions.....	1	(10)	4	(10)
Increase (decrease) in pre-tax income	\$29	\$(4)	\$57	\$-

Through September 30, 2002, the Corporation had recorded less than \$1 million for fuel hedging ineffectiveness.

Sale of Receivables - The Railroad has sold, on a revolving basis, an undivided percentage ownership interest in a designated pool of accounts receivable to third parties through a bankruptcy-remote subsidiary. Receivables are sold at carrying value, which approximates fair value. The amount of receivables sold fluctuates based upon the availability of the designated pool of receivables and is directly affected by changing business volumes and credit risks. At September 30, 2002 and December 31, 2001, accounts receivable are presented net of \$600 million of receivables sold. In May 2002, the sale of receivables program was renewed for one year without any significant term changes.

4. Debt

Credit Facilities - On September 30, 2002, the Corporation had \$1.875 billion in revolving credit facilities available, of which \$875 million expires in March 2003, with the remaining \$1.0 billion expiring in 2005. The credit facility for \$875 million includes \$825 million that was entered into during March 2002 and \$50 million entered into during June 2002. The \$1.0 billion credit facility was entered into during March 2000. The credit facilities are designated for general corporate purposes and none of the credit facilities were used as of September 30, 2002. Commitment fees and interest rates payable under the facilities are similar to fees and rates available to comparably rated investment-grade borrowers.

Convertible Preferred Securities - Union Pacific Capital Trust (the Trust), a statutory business trust sponsored and wholly owned by the Corporation, has issued 6-1/4% Convertible Preferred Securities (the CPS) with an aggregate liquidation amount of \$1.5 billion. Each of the CPS has a stated liquidation amount of \$50 and is convertible, at the option of the holder, into shares of UPC's common stock, par value \$2.50 per share (the Common Stock), at the rate of 0.7257 shares of Common Stock for each of the CPS, equivalent to a conversion price of \$68.90 per share of Common Stock, subject to adjustment under certain circumstances. The CPS accrue and pay cash distributions quarterly in arrears at the annual rate of 6-1/4% of the stated liquidation amount. The Corporation owns all of the common securities of the Trust. The proceeds from the sale of the CPS and the common securities of the Trust were invested by the Trust in \$1.5 billion aggregate principal amount of the Corporation's Convertible Junior Subordinated Debentures due 2028, which debentures represent the sole assets of the Trust. For financial reporting purposes, the Corporation has recorded distributions payable on the CPS as an interest charge to earnings in the Consolidated Statements of Income.

Shelf Registration Statement and Significant New Borrowings - During January 2002, under an existing shelf registration statement, the Corporation issued \$300 million of 6-1/8% fixed rate debt with a maturity of January 15, 2012. The proceeds from the issuance were used for repayment of debt and other general corporate purposes. In April 2002, the Corporation called its \$150 million, 8-5/8% debentures due May 15, 2022 for redemption in May 2002. The Corporation issued \$350 million of 6-1/2% fixed rate debt with a maturity of April 15, 2012, in order to fund the redemption. The Corporation used the remaining proceeds to repay other debt and for other general corporate purposes. On May 17, 2002, the Corporation issued the remaining \$50 million of debt under the existing shelf registration statement. The debt carries a fixed rate of 5-3/4% with a maturity of October 15, 2007. The proceeds from the issuance were used for repayment of debt and other general corporate purposes.

The Corporation filed a new \$1.0 billion shelf registration statement, which became effective in July 2002. Under the new shelf registration statement, the Corporation may issue, from time to time, any combination of debt securities, preferred stock, common stock or warrants for debt securities or preferred stock in one or more offerings. At September 30, 2002, the Corporation had \$1.0 billion remaining for issuance under the shelf registration. The Corporation has no immediate plans to issue equity securities.

During June 2002, UPRR entered into a capital lease covering new locomotives. The related capital lease obligation totaled approximately \$126 million and is included in the Consolidated Statements of Financial Position as debt.

5. Earnings Per Share - The following table provides a reconciliation between basic and diluted earnings per share for the three months and nine months ended September 30, 2002 and 2001:

<i>Millions, Except Per Share Amounts</i>	<i>Three Months Ended Sept. 30,</i>		<i>Nine Months Ended Sept. 30,</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Income statement data:				
Net income available to common shareholders – basic...	\$437	\$267	\$ 963	\$691
Dilutive effect of interest associated with the CPS	14	14	44	44
Net income available to common shareholders – diluted.....	\$451	\$281	\$1,007	\$735
Weighted average number of shares outstanding:				
Basic	252.5	247.9	251.8	247.5
Dilutive effect of common stock equivalents	24.8	23.7	24.7	24.0
Diluted	277.3	271.6	276.5	271.5
Earnings per share:				
Basic	\$1.73	\$1.08	\$3.83	\$2.79
Diluted	\$1.63	\$1.04	\$3.64	\$2.71

Common stock options totaling 2.4 million and 2.2 million for the three and nine months ended September 30, 2002, respectively, and 14.7 million and 12.2 million for the three and nine months ended 2001, respectively, were excluded from the computation of diluted EPS because the exercise prices of these options exceeded the average market price of the Corporation's common stock for the respective periods, and the effect of their inclusion would be anti-dilutive.

6. Other Income - Other income included the following for the three months and nine months ended September 30, 2002 and 2001:

<i>Millions of Dollars</i>	<i>Three Months Ended Sept. 30,</i>		<i>Nine Months Ended Sept. 30,</i>	
	<i>2002</i>	<i>2001</i>	<i>2002</i>	<i>2001</i>
Net gain on non-operating asset dispositions.....	\$156	\$31	\$197	\$112
Rental income	12	11	38	47
Interest income	3	2	9	7
Other, net	(10)	(13)	(27)	(30)
Total	\$161	\$31	\$217	\$136

Included in the third quarter gain on non-operating asset dispositions is a pre-tax gain of \$141 million related to the sale of land, track, operating rights and facilities to the Utah Transit Authority (UTA) for \$185 million, which included approximately 175 miles of track that stretches from Brigham City, Utah, through Salt Lake City, Utah, south to Payson, Utah. The transaction contributed \$88 million to the Corporation's earnings on an after-tax basis. An additional \$16 million of pre-tax gain has been deferred pending successful completion of arrangements for the relocation of various existing facilities.

7. Commitments and Contingencies

Claims and Litigation - There are various claims and lawsuits pending against the Corporation and certain of its subsidiaries, in addition to unasserted claims. It is not possible at this time for the Corporation to determine fully the effect of all such claims on its consolidated financial condition, results of operations or liquidity; however, to the extent possible, where unasserted claims can be estimated and where such claims are considered probable, the Corporation has recorded a liability. The Corporation does not expect that any known lawsuits or claims, including unasserted claims, will have a material adverse effect on its consolidated financial condition, results of operations or liquidity.

Western Resources (Western) filed a complaint on January 24, 2000 in the U.S. District Court for the District of Kansas alleging that UPRR and The Burlington Northern Santa Fe Railway Company (BNSF) materially breached their service obligations under the transportation contract to deliver coal in a timely manner to Western's Jeffrey Energy Center. The original complaint sought recovery of consequential damages and termination of the contract, excusing Western from further performance. In an amended complaint filed September 1, 2000, Western claimed the right to retroactive termination and added a claim for restitution. On October 23, 2001, Western moved for leave to file a second amendment to its complaint to add counts for innocent misrepresentation and negligent misrepresentation and to request rescission of the contract. The motion for leave to amend was denied by the magistrate on March 11, 2002, whose decision was affirmed by the judge on May 30, 2002. The matter went to trial before a jury on August 20, 2002. On September 12, 2002, the jury returned a verdict finding that the contract had not been breached by the railroads, and the judgment dismissing the case was entered by the court on September 16, 2002. Western filed a motion for new trial on September 30, 2002, which the railroads believe will be unsuccessful. UPRR and BNSF filed a response opposing the motion for a new trial on October 15, 2002, and will vigorously defend this and all other post-trial efforts by Western to overturn the jury verdict.

Personal Injury and Occupational Illness - The cost of injuries to employees and others related to Railroad activities or in accidents involving the trucking segment is charged to expense based on actuarial estimates of the ultimate cost and number of incidents each year. In the first nine months of 2002, the Railroad's reported number of work-related injuries that resulted in lost job time increased 3% compared to the number of injuries reported during the first nine months of 2001. Accidents at grade crossings, however, decreased 17% during the first nine months of 2002 compared to the similar period in 2001. The three month and nine month expenses for the Corporation's personal injury-related events were \$66 million and \$197 million in 2002, compared to \$53 million and \$169 million in 2001, respectively. As of September 30, 2002, the Corporation had a liability of \$718 million accrued for personal injury costs, of which \$303 million was recorded as a current liability. The Railroad has additional amounts accrued for claims related to certain occupational illnesses. Compensation for Railroad work-related accidents is governed by the Federal Employers' Liability Act (FELA). Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. The Railroad offers a comprehensive variety of services and rehabilitation programs for employees who are injured at work.

Environmental - The Corporation generates and transports hazardous and nonhazardous waste in its current operations and has done so in its former operations, and it is subject to federal, state and local environmental laws and regulations. The Corporation has identified approximately 433 active sites at which it is or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 52 sites that are the subject of actions taken by the U.S. government, 28 of which are currently on the Superfund National Priorities List. Certain federal legislation imposes joint and several liability for the remediation of identified sites; consequently, the Corporation's ultimate environmental liability may include costs relating to other parties, in addition to costs relating to its own activities at each site.

When environmental issues have been identified with respect to the property owned, leased or otherwise used in the conduct of the Corporation's business, the Corporation and its external consultants perform environmental assessments on such property. The Corporation expenses the cost of the assessments as incurred. The Corporation accrues the cost of remediation where its obligation is probable and such costs can be reasonably estimated.

As of September 30, 2002, the Corporation had a liability of \$176 million accrued for future environmental costs, of which \$71 million was recorded in current liabilities as accrued casualty costs. The liability includes future costs for remediation and restoration of sites, as well as for ongoing monitoring

costs, but excludes any anticipated recoveries from third parties. Cost estimates are based on information available for each site, financial viability of other potentially responsible parties, and existing technology, laws and regulations. The Corporation believes that it has adequately accrued for its ultimate share of costs at sites subject to joint and several liability. However, the ultimate liability for remediation is difficult to determine because of the number of potentially responsible parties involved, site-specific cost sharing arrangements with other potentially responsible parties, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites and/or the speculative nature of remediation costs. The Corporation expects to pay out the majority of the September 30, 2002 environmental liability over the next five years, funded by cash generated from operations. The impact of current obligations is not expected to have a material adverse effect on the results of operations, financial condition or liquidity of the Corporation.

Other Matters - The Corporation and its subsidiaries periodically enter into financial and other commitments in connection with their businesses. It is not possible at this time for the Corporation to determine fully the effect of all unasserted claims on its consolidated financial condition, results of operations or liquidity; however, to the extent possible, where unasserted claims can be estimated and where such claims are considered probable, the Corporation has recorded a liability. The Corporation does not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities or guarantees will have a material adverse effect on its consolidated financial condition, results of operations or liquidity.

At September 30, 2002, the Corporation had unconditional purchase obligations of \$392 million for the purchase of locomotives as part of the Corporation's multi-year capital asset acquisition plan. In addition, the Corporation was contingently liable for \$347 million in guarantees and \$64 million in letters of credit at September 30, 2002. These contingent guarantees were entered into in the normal course of business and include guaranteed obligations of affiliated operations. The Corporation is not aware of any existing event of default, which would require it to satisfy these guarantees.

8. Accounting Pronouncements - In August 2001, the Financial Accounting Standards Board (FASB) issued FAS 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 requires the Corporation to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and is effective for the Corporation's fiscal year beginning January 1, 2003. Management is in the process of evaluating the impact this standard will have on the Corporation's Consolidated Financial Statements.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (FAS 145). FAS 145 concludes that debt extinguishments used as part of a company's risk management strategy should not be classified as an extraordinary item. FAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Management believes that FAS 145 will not have a significant impact on the Corporation's Consolidated Financial Statements.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred and is effective for exit or disposal activities that are initiated after December 31, 2002. Management is in the process of evaluating the impact this standard may have on the Corporation's Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES RESULTS OF OPERATIONS

Three and Nine Months Ended September 30, 2002 Compared to
Three and Nine Months Ended September 30, 2001

Union Pacific Corporation (UPC or the Corporation) consists of two reportable segments, rail and trucking, and UPC's other product lines (Other). The rail segment includes the operations of the Corporation's indirect wholly owned subsidiary, Union Pacific Railroad Company (UPRR) and UPRR's subsidiaries and rail affiliates (collectively, the Railroad). The trucking segment includes Overnite Transportation Company (OTC) and Motor Cargo Industries, Inc. (Motor Cargo) as of November 30, 2001, both operating as separate and distinct subsidiaries of Overnite Corporation (Overnite), an indirect wholly owned subsidiary of UPC. The Corporation's other product lines are comprised of the corporate holding company (which largely supports the Railroad), Fenix LLC and affiliated technology companies (Fenix) and self-insurance activities, in addition to all appropriate consolidating entries (see note 2 to the Consolidated Financial Statements).

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses Union Pacific Corporation's Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions. Management bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances. Actual results may vary under different assumptions or conditions.

Management believes the following accounting policies are among the most critical in the preparation of the Consolidated Financial Statements in that they depend upon the application of judgement and the extensive use of estimates.

Revenue recognition - The Corporation recognizes transportation revenues on a percentage-of-completion basis as freight moves from origin to destination. Other revenue is recognized as service is performed or contractual obligations are met.

Environmental costs - When environmental issues have been identified with respect to the property owned, leased or otherwise used in the conduct of the Corporation's business, the Corporation and its consultants perform environmental assessments on such property. The Corporation expenses the cost for the assessments as incurred. The Corporation accrues the cost of remediation where its obligation is probable and such costs can be reasonably estimated.

Personal injury - The cost of injuries to employees and others related to Railroad activities or in accidents involving the trucking segment is charged to expense based on actuarial estimates of the ultimate cost and number of incidents each year.

Consolidated

Net Income - The Corporation reported net income of \$437 million (\$1.73 per basic share and \$1.63 per diluted share) in the third quarter of 2002, compared to \$267 million (\$1.08 per basic share and \$1.04 per diluted share) in the third quarter of 2001. Year-to-date net income totaled \$963 million (\$3.83 per basic share and \$3.64 per diluted share) compared to \$691 million (\$2.79 per basic share and \$2.71 per diluted share) for the same period in 2001. The increase in net income for both periods resulted from the sale of land, track, operating rights and facilities to the Utah Transit Authority (UTA) (\$141 million pre-tax), a tax settlement with the Internal Revenue Service recognized at OTC (\$34 million after-tax), double digit operating income growth and lower interest costs. Operating income improved as revenue growth, lower fuel prices and productivity gains offset the effects of wage and benefit inflation and higher volume-related costs. Productivity is measured as total output during the quarter. Total output is measured by both gross ton miles per inflation-adjusted expense dollar and gross ton miles per employee.

Operating Revenues - Operating revenues increased \$173 million (6%) in the third quarter to \$3.2 billion. Year-to-date revenues increased \$353 million (4%) to \$9.3 billion. Revenue growth in both periods was led

by gains in Automotive and Intermodal carloads. This increase also reflects 20% revenue growth in the trucking segment in the third quarter and 14% revenue growth year-to-date due to the acquisition of Motor Cargo in November 2001. Excluding Motor Cargo in the current year, operating revenues were up \$135 million (4%) for the third quarter and were up \$248 million (3%) year-to-date.

Operating Expenses - Operating expenses increased \$103 million (4%) to \$2.6 billion in the third quarter of 2002 and increased \$115 million (2%) to \$7.6 billion for the year-to-date period. Excluding Motor Cargo in the current year, operating expenses increased \$68 million (3%) in the third quarter and increased \$18 million (flat) year-to-date, compared to 2001. The increase in expenses in the third quarter is due to wage and benefit inflation and higher volume costs related to a 4% increase in third quarter carloads at the Railroad, partially offset by lower fuel prices, a 2% reduction in employment levels and cost control efforts. Cost control is defined as focused actions to reduce discretionary spending and failure costs. For the year-to-date period, wage and benefit inflation and increased volume-related costs were partially offset by lower fuel prices, a 3% reduction in employment levels and cost control efforts.

Salaries, wages and employee benefits increased \$66 million (6%) in the third quarter and increased \$142 million (4%) year-to-date, compared to 2001. Excluding Motor Cargo in the current year, expenses increased \$46 million (4%) in the third quarter and \$87 million (3%) year-to-date, compared to 2001, as wage and benefit inflation and volume costs exceeded savings from lower employment levels and improved productivity. Equipment and other rents expense increased \$17 million (5%) in the third quarter and \$37 million (4%) year-to-date, compared to 2001, as a result of a 4% increase in third quarter carloads, lease of additional locomotives and higher contract transportation costs at OTC. The higher locomotive lease expenses at the Railroad were partly offset by lower freight car costs. Depreciation expense increased \$10 million (3%) in the third quarter and \$24 million (3%) year-to-date, compared to 2001 as a result of the Railroad's capital spending in recent years, which increased the total value of the Corporation's depreciable assets.

Fuel and utilities costs were down \$23 million (7%) in the third quarter and \$188 million (19%) year-to-date, compared to 2001, due to lower fuel prices, which were partially offset by increased volume-related expense due to higher gross ton miles at the Railroad. Materials and supplies expense was flat in the third quarter and decreased \$13 million (3%) year-to-date, compared to 2001 due to reduced locomotive repair supplies and cost control actions. Casualty costs increased \$5 million (5%) in the third quarter and \$24 million (9%) year-to-date, compared to 2001 primarily due to higher costs for personal injury, partially offset by lower freight damage in the third quarter of 2002. Purchased services and other costs increased \$28 million (13%) in the third quarter and \$89 million (13%) year-to-date, compared to 2001 due to higher contract services for locomotive maintenance, intermodal volume costs and other general expenses.

Operating Income - Operating income increased \$70 million (12%) to \$644 million in the third quarter compared to \$574 million in 2001. Year-to-date operating income increased \$238 million (16%) over 2001 to \$1.7 billion. The increase in operating income in both periods is attributable to higher operating revenue, lower fuel prices, cost control, and productivity which more than offset inflation and volume costs.

Non-Operating Items - Interest expense decreased \$18 million (10%) in the third quarter and \$55 million (10%) year-to-date compared to 2001 due to lower interest rates and a lower average debt level in 2002. In the three months ended September 30, 2002, the Corporation's average debt level, including the Convertible Preferred Securities, decreased to \$9.5 billion from \$10.0 billion for the same period in 2001. In the nine months ended September 30, 2002, the Corporation's average debt level, including the Convertible Preferred Securities, decreased to \$9.6 billion from \$10.1 billion for the same period in 2001. The Corporation's effective interest rate was 6.6% during the third quarter of 2002 compared to 7.0% in 2001. For the year-to-date period, the effective interest rate was 6.7% in 2002 compared to 7.1% in 2001. Other income increased \$130 million in the third quarter and \$81 million (60%) for the year-to-date period in 2002 compared to 2001 due primarily to the asset sale transaction with the UTA. Income tax expense increased \$48 million (29%) in the third quarter and \$102 million (24%) in the year-to-date period over 2001, due to higher pre-tax income in 2002 which was partially offset by a tax settlement with the Internal Revenue Service recognized at OTC.

Other Key Measures - Operating margin (operating income as a percentage of operating revenues) increased to 20.1% in the third quarter of 2002 from 19.0% in the same period of 2001. Year-to-date, operating margin increased to 18.7% from 16.8% in the same period of 2001.

Rail Segment

Net Income - Rail operations reported net income in the third quarter of 2002 of \$414 million, compared to net income of \$286 million in 2001, an increase of \$128 million (45%). Year-to-date, net income increased \$216 million (29%) to \$973 million, compared to 2001 net income of \$757 million. The increase in earnings in both periods resulted primarily from the sale transaction with the UTA and stronger operating results. Higher operating revenue and lower fuel prices combined with productivity gains and cost control efforts offset inflation and higher volume-related costs to also contribute to the increase in net income.

Operating Revenues - Operating revenue is comprised of Commodity Revenue and other revenues. Other revenues primarily include subsidiary revenue from various companies that are wholly owned or majority owned by the Railroad, revenue from the Chicago commuter rail operations and accessorial revenue earned due to customer detainment of railroad owned or controlled equipment. Third quarter rail operating revenues increased \$111 million (4%) to \$2.8 billion compared to 2001. Year-to-date, rail revenues increased \$213 million (3%) compared to 2001. Third quarter revenue carloads increased 4% and year-to-date carloads increased 3% compared to a year ago, with the highest growth in both periods in the automotive and intermodal commodity groups. Other revenues increased 13% to \$113 million in the third quarter and increased 5% to \$323 million for the year-to-date period compared to a year ago due to higher subsidiary revenue.

The following tables summarize the year-over-year changes in rail commodity revenue, revenue carloads and average revenue per car by commodity type:

<i>Three Months Ended</i>			<i>% Change</i>	<i>Commodity Revenue Millions of Dollars</i>	<i>Nine Months Ended</i>		
<i>2002</i>	<i>Sept. 30, 2001</i>	<i>2002</i>			<i>Sept. 30, 2001</i>	<i>% Change</i>	
\$ 373	\$ 358	4	Agricultural	\$1,096	\$1,073	2	
285	253	13	Automotive.....	893	830	8	
399	392	2	Chemicals	1,186	1,168	2	
591	611	(3)	Energy	1,743	1,781	(2)	
535	514	4	Industrial Products	1,542	1,509	2	
542	499	9	Intermodal.....	1,512	1,412	7	
\$2,725	\$2,627	4	Total.....	\$7,972	\$7,773	3	

<i>Three Months Ended</i>			<i>% Change</i>	<i>Revenue Carloads Thousands</i>	<i>Nine Months Ended</i>		
<i>2002</i>	<i>Sept. 30, 2001</i>	<i>2002</i>			<i>Sept. 30, 2001</i>	<i>% Change</i>	
216	214	1	Agricultural	647	645	-	
193	177	9	Automotive.....	605	561	8	
231	225	3	Chemicals	681	666	2	
540	549	(2)	Energy	1,605	1,602	-	
378	368	3	Industrial Products	1,072	1,078	-	
801	741	8	Intermodal.....	2,253	2,112	7	
2,359	2,274	4	Total.....	6,863	6,664	3	

<i>Three Months Ended</i>			<i>% Change</i>	<i>Average Revenue Per Car</i>	<i>Nine Months Ended</i>		
<i>2002</i>	<i>Sept. 30, 2001</i>	<i>2002</i>			<i>Sept. 30, 2001</i>	<i>% Change</i>	
\$1,728	\$1,668	4	Agricultural	\$1,695	\$1,663	2	
1,479	1,429	3	Automotive.....	1,476	1,478	-	
1,729	1,744	(1)	Chemicals	1,742	1,757	(1)	
1,095	1,113	(2)	Energy	1,086	1,112	(2)	
1,415	1,399	1	Industrial Products	1,438	1,400	3	
677	674	-	Intermodal.....	671	668	-	
\$1,156	\$1,155	-	Total.....	\$1,162	\$1,166	-	

Agricultural - Revenue increased 4% in the third quarter and 2% for the year-to-date period of 2002 over the comparable periods in 2001. Meals and oils increased due to increased demand for soybean meal shipments into Mexico and soybean oil exports. Demand for cottonseed shipments used for feed also increased. Ethanol shipments increased due to heightened demand for the fuel additive. Weak domestic demand for wheat partially offset these increases. Average revenue per car increased primarily due to the positive mix impact of longer average length of haul shipments.

Automotive - Revenue increased 13% for the third quarter and 8% for the year-to-date period of 2002 over the comparable periods in 2001, driven by an increase in carloads. The volume growth was due primarily to market share gains for finished vehicle shipments. Average revenue per car was flat for the year-to-date period over 2001, but increased 3% in the third quarter due to the mix impact of longer average length of haul vehicle shipments.

Chemicals - Revenue increased 2% for both the third quarter and year-to-date periods of 2002 over the comparable periods in 2001, due to increases in carloads. While a softening economy and decreased industrial production resulted in a revenue decline in the first quarter, increased levels of industrial production boosted second and third quarter carloads a combined 4% higher than 2001. Higher general demand increased shipments of soda ash, liquid & dry chemicals and liquified petroleum (LP) gas. Average revenue per car declined 1% due to rate pressures and shifts among the mix of plastics, phosphate rock, fertilizer and soda ash traffic.

Energy - Revenue decreased 3% for the third quarter and 2% for the year-to-date period of 2002 over the comparable periods in 2001 as a 2% carload decline in the third quarter and flat carloads year-to-date were accompanied by a 2% decline in average revenue per car in both periods. The decline in carloads was largely impacted by higher demand in 2001 and higher stockpile levels in 2002. Average revenue per car declined primarily due to the impact of contract price negotiations on expiring long-term contracts with certain major customers.

Industrial Products - Revenue increased 4% for the third quarter and 2% for the year-to-date periods of 2002 over the comparable periods in 2001 due to higher average revenue per car in both periods and a 3% increase in carloads for the third quarter. Year-to-date carloads were flat. Volume declines in the first half of 2002 were mainly the result of the soft economy which had a negative effect on many economically sensitive commodities, including steel and paper products. Shipments of metallic minerals were also negatively affected by the weak steel market. In the third quarter, however, some commodity lines, including steel and certain paper products, including newsprint, experienced revenue growth due to stronger economic demand. Also offsetting the declines were volume increases in construction-related commodities, led by stone, as strong building and road construction activity continued. Lumber volumes also increased due to strong housing construction and other general demand for lumber products. Average revenue per car increased as a result of price increases and a greater mix of longer average length of haul business, mainly lumber.

Intermodal - Revenue increased 9% for the third quarter and 7% for the year-to-date periods of 2002 over the comparable periods in 2001, which was driven by increased international shipments due to high import demand and increased market share. Partially offsetting these increases were declines in domestic shipments, as a result of soft economic demand and the voluntary action of reducing low-margin domestic truckload trailer business in favor of higher-margin containers. In addition, the labor dispute between the International Longshoreman and Warehouse Union (ILWU) and the Pacific Maritime Association, which began four days before the end of the third quarter had a significant impact on intermodal volumes during that period. Average revenue per car was flat for both periods compared to 2001 due to a higher mix of international shipments which have a lower average revenue per car compared to domestic shipments. The effect of this mix more than offset price increases.

Mexico Business - In 2001, UPRR generated \$860 million of revenues from rail traffic with businesses located in Mexico. Included in the rail commodity revenue reported above, Mexican related revenue increased 2% to \$217 million for the third quarter but decreased 1% to \$646 million for the year-to-date period of 2002 over the comparable periods in 2001. In both periods, shipments increased for chemicals and industrial products business segments. Increased chemicals business consisted of plastics, fertilizer, and LP gas exports, in addition to higher imports/exports of liquid and dry chemicals. An increase in industrial products resulted from exports of pulp and paper products in addition to higher imports/exports of steel and scrap. Reduced automobile production offset these gains resulting in fewer shipments of parts and finished vehicles.

Operating Expenses - Third quarter operating expenses increased \$48 million (2%) to \$2.2 billion, compared to 2001. Year-to-date operating expenses decreased \$16 million. In the third quarter, inflation, volume-related costs, increased contract services, lease and depreciation expense were partially offset by lower fuel prices and savings from lower employee force levels and productivity improvements. Expenses in the nine month period of 2002 were significantly reduced by lower fuel prices and productivity savings which more than offset increases in inflation, volume-related costs, contract services, casualty and depreciation expense.

Salaries, Wages and Employee Benefits - Salaries, wages and employee benefits increased \$31 million (4%) in the third quarter of 2002, compared to 2001. Year-to-date, wage and benefit expenses rose \$47 million (2%). Increases were driven by inflation and volume-related costs as the result of a 4% growth in gross ton miles in both the third quarter and year-to-date. A reduction in employee force levels in the third quarter of 2% and year-to-date of 3%, in conjunction with worker productivity improvements, partially offset wage and employee benefits inflation and volume-related costs.

Equipment and Other Rents - Equipment and other rents primarily includes rental expense UPRR pays for freight cars owned by other railroads or private companies; freight car, intermodal and locomotive leases; other specialty equipped vehicle leases; and office and other rentals. Expenses increased \$9 million (3%) in the third quarter and \$17 million (2%) year-to-date, compared to 2001. The increases were due primarily to higher expenses for locomotive leases and higher volume-related costs in both periods. Partially offsetting the increases were both a decrease in car cycle times (the average number of accumulated days that loaded and empty cars from other railroads spend on UPRR's system) and lower rental prices for freight cars. The higher locomotive lease expense is due to UPRR's increased leasing of new, more reliable and fuel efficient locomotives. These new locomotives replaced older, non-leased models in the fleet, which helped reduce expenses for depreciation, labor, materials and fuel during the year. The decrease in car cycle times is partially attributable to increased volume demand and better car utilization. The increase in volume costs is attributable to an increase in carloads in certain commodity types such as automotive, intermodal, chemicals and industrial products that utilize a high percentage of rented freight cars.

Depreciation - The majority of depreciation relates to road property. Depreciation expense increased \$7 million (3%) in the third quarter and \$14 million (2%) year-to-date over 2001 as a result of increased capital spending in recent years. Capital spending totaled \$1.4 billion in the first nine months of 2002 compared to \$1.3 billion in the first nine months of 2001. Full year capital spending totaled \$1.7 billion in 2001 and 2000 and \$1.8 billion in 1999.

Fuel and Utilities - Fuel and utilities is comprised of locomotive fuel, utilities other than telephone and gasoline and other fuels. Expenses decreased \$25 million (8%) in the third quarter and \$186 million (19%) in the year-to-date period of 2002 compared to a year ago. The decrease was driven by lower fuel prices and a lower fuel consumption rate, as measured by gallons consumed per thousand gross ton miles. Fuel prices averaged 75 cents per gallon in the third quarter of 2002 compared to 86 cents per gallon in the third quarter of 2001 (price includes taxes and transportation costs). Year-to-date, fuel prices averaged 70 cents per gallon compared to 90 cents per gallon in the same year-to-date period in 2001. Lower fuel prices in 2002 resulted in a \$33 million reduction in fuel expense in the third quarter and a \$198 million reduction in the first nine months, compared to 2001. The lower consumption rate decreased fuel expense by \$1 million in the third quarter and \$12 million year-to-date. A 4% increase in gross ton miles increased fuel expense by \$11 million in the third quarter and a 4% increase in gross ton miles year-to-date increased fuel expense by \$36 million compared to a year ago. The Railroad hedged or had fuel swaptions in place which equaled approximately 41% of its fuel consumption for the third quarter and 42% of its fuel consumption year-to-date, which decreased fuel costs by \$19 million in the third quarter and \$32 million in the first nine months of 2002. As of September 30, 2002, expected fuel consumption for the remainder of 2002 is 41% hedged at 58 cents per gallon (excluding estimated taxes and transportation costs and regional pricing spreads). Expected fuel consumption in 2003 is 5% hedged at 56 cents per gallon (excluding estimated taxes, transportation costs and regional pricing spreads). Utilities, gasoline, and propane expenses decreased \$2 million in the third quarter and decreased \$12 million year-to-date primarily due to lower rates and fuel prices.

Materials and Supplies - Material used for the maintenance of the Railroad's lines, structures and equipment is the principal component of materials and supplies expense. Office, small tools and other supplies and the costs of freight services purchased to ship company materials are also included. Expenses decreased \$2 million (2%) in the third quarter and decreased \$15 million (4%) year-to-date, primarily reflecting a reduction in the number of locomotives overhauled. Materials expense for locomotive overhauls decreased due to the acquisition of new, more-reliable locomotives during the past several years, the sale of older

units, which required higher maintenance, and outsourcing some locomotive maintenance. Partially offsetting the reductions in locomotive overhauls was an increase in costs for freight car repairs.

Casualty Costs - The largest component of casualty costs is personal injury expense. Freight and property damage, insurance, environmental matters and occupational illness expense are also included in casualty costs. Costs increased \$3 million (4%) in the third quarter compared to 2001 due to higher personal injury expenses partially offset by lower freight damage. Year-to-date costs increased \$23 million (9%) due primarily to higher personal injury costs.

Purchased Services and Other Costs - Purchased services and other costs include the costs of services purchased from outside contractors, state and local taxes, net costs of operating facilities jointly used by UPRR and other railroads, transportation and lodging for train crew employees, trucking and contracting costs for intermodal containers, leased automobile maintenance expenses, telephone and cellular expense, employee travel expense and computer and other general expenses. Expenses increased \$25 million (13%) in the third quarter and increased \$84 million (14%) year-to-date, compared to last year. The increase in both periods is primarily due to increased spending for contract services, higher expenses for jointly operated facilities and higher general expenses.

Operating Income - Operating income increased \$63 million (11%) in the third quarter to \$638 million. Operating income for the first nine months of 2002 grew \$229 million (15%) to \$1.7 billion. The operating margin for the third quarter was 22.5%, compared to 21.1% in 2001. The year-to-date operating margin was 21.0% compared to 18.8% a year ago.

Non-Operating Items - Interest expense decreased \$12 million (8%) in the third quarter and \$29 million (7%) year-to-date, primarily as a result of lower average debt levels and lower weighted-average interest rates in 2002. Third quarter other income increased \$130 million and increased \$83 million for the year-to-date period in 2002 compared to 2001 due primarily to the sale transaction with the UTA (\$141 million pre-tax). Income taxes increased \$77 million (45%) in the third quarter and \$125 million (28%) year-to-date, compared to 2001, which was primarily the result of higher pre-tax income in both periods in 2002.

Trucking Segment

Operating Revenues - For the third quarter and year-to-date periods ended September 30, 2002, trucking revenues increased \$57 million (20%) to \$349 million and \$124 million (14%) to \$986 million, respectively, over the comparable periods in 2001. The acquisition of Motor Cargo accounted for \$38 million of revenue in the third quarter and \$105 million of revenue in the first nine months of 2002. Excluding Motor Cargo in the current year, revenues rose \$19 million in both periods due to an increase in volume of 8% in the third quarter and 4% year-to-date partially offset by lower fuel surcharge revenue in both periods as a result of lower fuel prices in 2002. Third quarter revenues were also positively impacted by additional business realized as a result of the Consolidated Freightways bankruptcy which occurred in September.

Operating Expenses - In the third quarter operating expenses increased \$50 million (18%) to \$324 million and increased \$113 million (14%) to \$932 million, year-to-date, over the same periods in 2001. The acquisition of Motor Cargo accounted for \$35 million in the third quarter and \$98 million year-to-date of incremental expenses. Excluding Motor Cargo in the current year, expenses increased \$15 million (6%) in the third quarter and increased \$15 million (2%) for the year-to-date period due to wage and benefit inflation, increased linehaul contract transportation costs and an increase in volume-related costs.

Salaries, Wages and Employee Benefits - Salaries, wages and employee benefits increased \$33 million (19%) for the third quarter and increased \$85 million (16%) year-to-date. Excluding Motor Cargo in the current year, third quarter expenses increased \$13 million (8%) and year-to-date expenses increased \$30 million (6%) due to wage and benefit inflation and an increase in volume costs. Expenses were partially offset by a decrease in employee force levels (down 3% in the third quarter and down 2% year-to-date) and productivity improvements. Productivity is measured as total costs related to local, dock, and linehaul operations relative to the total volume shipped.

Equipment and Other Rents - Equipment and other rents increased \$8 million (32%) in the third quarter of 2002 and \$19 million (27%) year-to-date, compared to a year ago. Excluding Motor Cargo in the current year, expenses increased \$4 million (16%) and \$7 million (10%) for the third quarter and year-to-date

periods, respectively, due to increased use of linehaul contract transportation partially offset by decreased local purchased transportation costs in the first quarter.

Depreciation - Depreciation expense increased \$2 million (17%) in the third quarter and \$8 million (22%) year-to-date, compared to 2001. Excluding Motor Cargo in the current year, expenses were flat in the third quarter and increased \$1 million (3%) in the nine-month period due to purchases of new equipment.

Fuel and Utilities - Fuel and utilities increased \$1 million (6%) in the third quarter and decreased \$3 million (6%) year-to-date, compared to a year ago. Excluding Motor Cargo in the third quarter of 2002, expenses decreased \$1 million (6%), as a result of lower fuel prices during the quarter (76 cents per gallon average in 2002 compared to 83 cents per gallon average in 2001, including transportation costs and excluding taxes), combined with a 1% decrease in gallons consumed. Excluding Motor Cargo in the first nine-month period of 2002, expenses decreased \$9 million (17%) due to lower fuel prices in the first nine months of the year (70 cents per gallon average in 2002 compared to 87 cents per gallon average in 2001, including transportation costs and excluding taxes), combined with a 4% decrease in gallons consumed. Overnite did not hedge any fuel volume for the first quarter of 2002. Fuel consumption was hedged at approximately 19% for the second and third quarters of 2002, respectively, at an average of 58 cents per gallon (excluding taxes and transportation costs and regional pricing spreads). For the remainder of 2002 through March 2003, hedged volume represents 19% of expected total fuel consumption at an average price of 58 cents per gallon (excluding taxes and transportation costs and regional pricing spreads).

Materials and Supplies - Materials and supplies expense increased \$2 million (17%) in the third quarter and increased \$2 million (5%) year-to-date, compared to 2001. Excluding Motor Cargo in the current year, expenses were flat in the third quarter and decreased \$2 million (5%) for the nine-month period in 2002, due to lower maintenance and operating supplies expense as a result of lower volumes, fleet maintenance productivity and cost control measures in the first quarter 2002.

Casualty Costs - Casualty costs increased \$2 million (17%) in the third quarter and increased \$2 million (6%) year-to-date, compared to a year ago. Excluding Motor Cargo in the current year, expenses increased \$1 million (8%) in the third quarter due to higher insurance and cargo loss and damage expenses. Year-to-date expenses decreased \$1 million (3%) due to a reduction in bad debt expense, offset by higher insurance expenses.

Purchased Services and Other Costs - Other costs increased \$2 million (9%) in the third quarter and were flat for the year-to-date period, compared to 2001. Excluding Motor Cargo in the current year, expenses decreased \$2 million (9%) in the third quarter and decreased \$11 million (16%) in the first nine months due to the insourcing of contract programmers, reduced legal expense, lower expenses related to decreased security (security expenses are related to Teamsters matters) in the first quarter and cost control measures.

Operating Income - Operating income increased \$7 million to \$25 million (39%) in the third quarter and increased \$11 million to \$54 million (26%) for the year-to-date period ended September 30, 2002. Excluding Motor Cargo in the current year, operating income increased \$4 million (22%) in the third quarter and increased \$4 million (9%) year-to-date. The operating margin for the third quarter was 7.3%, compared to 6.3% in 2001. The year-to-date operating margin was 5.5% compared to 4.9% a year ago. Motor Cargo improved the operating margin by 0.2 percentage points for both the third quarter and first nine month period of 2002.

Other Product Lines

Other - Operating losses were \$19 million (flat) in the third quarter of 2002 and 2001 and were up \$2 million (4%) to \$53 million in the first nine months of 2002, compared to the same periods in 2001. Operating revenues increased \$5 million in the third quarter to \$12 million and increased \$16 million year-to-date to \$39 million. However, operating expenses increased \$5 million in the third quarter to \$31 million and increased \$18 million year-to-date to \$92 million. Interest expense decreased \$6 million in the third quarter to \$21 million and decreased \$27 million to \$66 million in the first nine months of the year due to lower interest rates and a lower average debt level compared to 2001.

LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

Cash provided by operations was \$1.8 billion in the first nine months of 2002 compared to \$1.4 billion in 2001. The increase is the result of higher net income and improved working capital.

Cash used in investing activities was \$1.2 billion in the first nine months of 2002 compared to \$1.3 billion in 2001. The decreased use of cash is due to higher real estate proceeds and the receipt of \$34 million related to a warranty refund from a vendor in 2002, partly offset by higher capital spending. The following table details capital expenditures for the nine months ended September 30, 2002 and 2001:

<i>Capital Expenditures</i> <i>Millions</i>	2002	2001
Track.....	979	904
Locomotives.....	160	160
Freight cars.....	7	21
Facilities and Other.....	322	269
Total.....	1,468	1,354

Cash used in financing activities was \$287 million in the first nine months of 2002 compared to \$73 million in the first nine months of 2001. The increase in cash used is due to higher debt repayments (\$1,032 million in 2002 compared to \$792 million in 2001) and lower net financings (\$775 million in 2002 compared to \$819 million in 2001), partly offset by an increase in the proceeds from the exercise of stock options (\$121 million in 2002 compared to \$48 million in 2001).

Including the Convertible Preferred Stock as an equity instrument, the ratio of debt to total capital employed was 39.6% at September 30, 2002 compared to 42.2% at December 31, 2001.

For the three and nine months ended September 30, 2002, the Corporation's ratio of earnings to fixed charges was 4.8 and 3.8, respectively, compared to 3.2 and 2.9 for the three and nine month periods ended September 30, 2001. The ratio of earnings to fixed charges has been computed on a consolidated basis. Earnings represent net income less equity in undistributed earnings of unconsolidated affiliates, plus fixed charges and income taxes. Fixed charges represent interest charges, amortization of debt discount, and the estimated amount representing the interest portion of rental charges.

Contractual Obligations and Commercial Commitments

As described in the notes to the Consolidated Financial Statements and as referenced in the tables below, the Corporation has contractual obligations and commercial commitments that may affect the financial condition of the Corporation. However, based on management's assessment of the underlying provisions and circumstances of the material contractual obligations and commercial commitments of the Corporation, including material sources of off-balance sheet and structured finance arrangements, there is no known trend, demand, commitment, event or uncertainty that is reasonably likely to occur which would have a material effect on the Corporation's financial condition, results of operations or liquidity. In addition, the commercial obligations, financings and commitments made by the Corporation are customary transactions, which are similar to those of other comparable industrial corporations, particularly within the transportation industry.

The following tables identify material obligations and commitments as of September 30, 2002:

<i>Contractual Obligations</i> <i>Millions of Dollars</i>	<i>Total</i>	<i>Payments Due by Period</i>			
		<i>Less Than 1 Year</i>	<i>2-3 Years</i>	<i>4-5 Years</i>	<i>After 5 Years</i>
Debt [a].....	\$ 6,386	\$ 181	\$1,279	\$ 662	\$4,264
Operating leases.....	3,280	420	726	608	1,526
Capital lease obligations [b]	2,487	198	411	381	1,497
Unconditional purchase obligations [c]	392	261	131	-	-
Total contractual obligations.....	\$12,545	\$1,060	\$2,547	\$1,651	\$7,287

[a] Excludes capital lease obligations of \$1,488 million.

[b] Represents total obligations, including interest component.

[c] Unconditional purchase obligations represent multi-year contractual commitments to purchase assets at fixed prices and fixed volumes. These commitments are made in order to take advantage of pricing opportunities and to insure availability of assets to meet quality and operational requirements. Excluded are contracts made in the normal course of business for performance of routine services, as well as commitments where contract provisions allow for cancellation.

<i>Other Commercial Commitments</i> <i>Millions of Dollars</i>	<i>Total Amounts Committed</i>	<i>Amount of Commitment Expiration Per Period</i>			
		<i>Less Than 1 Year</i>	<i>2-3 Years</i>	<i>4-5 Years</i>	<i>After 5 Years</i>
Credit facilities.....	\$1,875	\$ 875	\$1,000	\$ -	\$ -
Convertible preferred securities	1,500	-	-	-	1,500
Sale of receivables.....	600	600	-	-	-
Guarantees [a]	347	16	23	14	294
Standby letters of credit	64	64	-	-	-
Total commercial commitments.....	\$4,386	\$1,555	\$1,023	\$14	\$1,794

[a] Includes guaranteed obligations of affiliated operations.

Financing Activities

Credit Facilities - On September 30, 2002, the Corporation had \$1.875 billion in revolving credit facilities available, of which \$875 million expires in March 2003, with the remaining \$1.0 billion expiring in 2005. The credit facility for \$875 million includes \$825 million that was entered into during March 2002 and \$50 million entered into during June 2002. The \$1.0 billion credit facility was entered into during March 2000. The credit facilities are designated for general corporate purposes and none of the credit facilities were used as of September 30, 2002. Commitment fees and interest rates payable under the facilities are similar to fees and rates available to comparably rated investment-grade borrowers.

Shelf Registration Statement and Significant New Borrowings - During January 2002, under an existing shelf registration statement, the Corporation issued \$300 million of 6-1/8% fixed rate debt with a maturity of January 15, 2012. The proceeds from the issuance were used for repayment of debt and other general corporate purposes. In April 2002, the Corporation called its \$150 million, 8-5/8% debentures due May 15, 2022 for redemption in May 2002. The Corporation issued \$350 million of 6-1/2% fixed rate debt with a maturity of April 15, 2012, in order to fund the redemption. The Corporation used the remaining proceeds to repay other debt and for other general corporate purposes. On May 17, 2002, the Corporation issued the remaining \$50 million of debt under the existing shelf registration statement. The debt carries a fixed rate of 5-3/4% with a maturity of October 15, 2007. The proceeds from the issuance were used for repayment of debt and other general corporate purposes.

The Corporation filed a new \$1.0 billion shelf registration statement, which became effective in July 2002. Under the new shelf registration statement, the Corporation may issue, from time to time, any combination of debt securities, preferred stock, common stock or warrants for debt securities or preferred stock in one or more offerings. At September 30, 2002, the Corporation had \$1.0 billion remaining for issuance under the shelf registration. The Corporation has no immediate plans to issue equity securities.

During June 2002, UPRR entered into a capital lease covering new locomotives. The related capital lease obligation totaled approximately \$126 million and is included in the Consolidated Statements of Financial Position as debt.

OTHER MATTERS

Commitments and Contingencies - There are various claims and lawsuits pending against the Corporation and certain of its subsidiaries. The Corporation is also subject to various federal, state and local environmental laws and regulations, pursuant to which it is currently participating in the investigation and remediation of various sites. A discussion of certain claims, lawsuits, contingent liabilities and guarantees is set forth in note 7 to the Consolidated Financial Statements, which discussion is incorporated herein by reference.

Pensions - During the second quarter of 2002, the Corporation decreased its assumed rate of return on pension plan assets from 10% to 9%. This assumption change resulted in an increase to 2002 pension expense of \$22 million. In addition, due to declines on plan assets, a minimum pension liability adjustment will be recorded during the fourth quarter of 2002. This adjustment will result in a reduction of common shareholders' equity. Based upon actual asset returns through October 31, 2002, the Corporation expects the reduction in equity to be approximately \$200 million, after tax (less than 2% of total equity).

Overnite voluntarily contributed \$35 million to its pension plan during 2002. The Railroad voluntarily contributed \$50 million to its pension plan in November of 2002.

Dividend Receivable - The Corporation owns a 26% interest in Grupo Ferroviario Mexicano, S.A. de C.V. (GFM). GFM operates a major railway system in Mexico. During the third quarter of 2002, the Corporation recorded a dividend from GFM of approximately \$118 million. As of September 30, 2002, the dividend is reflected as a receivable in the Corporation's Consolidated Statements of Financial Position. The dividend is accounted for as a reduction to investments in and advances to affiliated companies in the Consolidated Statements of Financial Position as of September 30, 2002 and creates no effect on the Corporation's Consolidated Statements of Income. Subsequent to September 30, 2002, the Corporation received approximately \$20 million of the dividend receivable.

West Coast Port Disruption - During September of 2002, the labor dispute between the International Longshoreman and Warehouse Union (ILWU) and the Pacific Maritime Association escalated and resulted in work slow-downs and a lockout of the ILWU dockworkers for four days at the end of the third quarter that continued for nine days into the fourth quarter. The Corporation expects the negative impact on earnings to range between 5 cents and 10 cents per diluted share in the fourth quarter of 2002; however, the actual results may differ depending on how quickly the congestion at the ports can be resolved.

End of Teamsters Strike at OTC - As previously reported on the Corporation's Annual Report on Form 10-K for the period ended December 31, 2001, the International Brotherhood of Teamsters Union (Teamsters) called a strike on October 24, 1999. The strike has continued since 1999, with the number of affected employees representing less than 3% of OTC's work force. On October 24, 2002, the Teamsters unconditionally ended their three year walkout. The termination of the walkout will not significantly impact OTC's financial results in future periods.

Accounting Pronouncements - In August 2001, the Financial Accounting Standards Board (FASB) issued FAS 143, "Accounting for Asset Retirement Obligations" (FAS 143). FAS 143 requires the Corporation to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and is effective for the Corporation's fiscal year beginning January 1, 2003. Management is in the process of evaluating the impact this standard will have on the Corporation's Consolidated Financial Statements.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (FAS 145). FAS 145 concludes that debt extinguishments used as part of a company's risk management strategy should not be classified as an extraordinary item. FAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Management believes that FAS 145 will not have a significant impact on the Corporation's Consolidated Financial Statements.

In June 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred and is effective for exit or disposal activities

that are initiated after December 31, 2002. Management is in the process of evaluating the impact this standard may have on the Corporation's Consolidated Financial Statements.

CAUTIONARY INFORMATION

Certain statements in this report are, and statements in other material filed or to be filed with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Corporation) are, or will be, forward-looking statements as defined by the Securities Act of 1933 and the Securities Exchange Act of 1934. These forward-looking statements include, without limitation, statements regarding: expectations as to operational improvements; expectations as to cost savings, revenue growth and earnings; the time by which certain objectives will be achieved; estimates of costs relating to environmental remediation and restoration; proposed new products and services; expectations that claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated financial position, results of operations or liquidity; and statements concerning projections, predictions, expectations, estimates or forecasts as to the Corporation's and its subsidiaries' business, financial and operational results, and future economic performance, statements of management's goals and objectives and other similar expressions concerning matters that are not historical facts.

Forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by which, such performance or results will be achieved. Forward-looking information is based on information available at the time and/or management's good faith belief with respect to future events, and is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

Important factors that could affect the Corporation's and its subsidiaries' future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements include, but are not limited to:

- whether the Corporation and its subsidiaries are fully successful in implementing their financial and operational initiatives;
- industry competition, conditions, performance and consolidation;
- legislative and regulatory developments, including possible enactment of initiatives to re-regulate the rail business;
- natural events such as severe weather, fire, floods and earthquakes;
- the effects of adverse general economic conditions, both within the United States and globally;
- changes in fuel prices;
- changes in labor costs;
- any adverse economic or operational repercussions from terrorist activities and any governmental response thereto;
- labor stoppages; and
- the outcome of claims and litigation, including those related to environmental contamination, personal injuries, and occupational illnesses arising from hearing loss, repetitive motion and exposure to asbestos and diesel fumes.

Forward-looking statements speak only as of the date the statement was made. The Corporation assumes no obligation to update forward-looking information to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information. If the Corporation does update one or more forward-looking statements, no inference should be drawn that the Corporation will make additional updates with respect thereto or with respect to other forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2001. Disclosure concerning market risk-sensitive instruments is set forth in note 3 to the Consolidated Financial Statements included in Item 1 of Part I of this Report and is incorporated herein by reference.

Item 4. Controls and Procedures

Within 90 days prior to the date of this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer (CEO) and Executive Vice President – Finance (EVP – Finance), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, the CEO and the EVP - Finance concluded that the Corporation's disclosure controls and procedures are effective in alerting them, in a timely manner, to material information relating to the Corporation (including its consolidated subsidiaries) required to be included in the Corporation's periodic SEC filings.

Additionally, the CEO and EVP – Finance determined that there were no significant changes in the Corporation's internal controls or in other factors that could significantly affect the Corporation's internal controls subsequent to the date of their most recent evaluation.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Environmental Matters

The United States Environmental Protection Agency, Region 9, has filed two administrative complaints against UPRR, during the third quarter, the first of which alleges that the Railroad violated the Clean Water Act in 1997 by discharging dredged or fill materials into the Carpenteria Salt Marsh in Santa Barbara County, California, and seeks civil penalties from the Railroad in an amount up to \$137,500. The second complaint alleges that the Railroad violated the Clean Water Act in 1999 by discharging dredged or fill materials into Laguna Creek, in Santa Barbara County, California without a Section 404 permit and likewise seeks civil penalties up to \$137,500. UPRR disputes the allegations set forth in these complaints and intends to defend the matters in any subsequent administrative proceedings.

The South Coast Air Quality Management District has filed an action against Union Pacific Railroad in the Los Angeles County Superior Court, in which it seeks civil penalties in an amount up to \$225,000 from the Railroad. The complaint alleges that Union Pacific Railroad has violated certain provisions of the California Health and Safety Code and District rules, as a result of air emissions from idling diesel locomotives in Los Angeles, California. The complaint further alleges that the Railroad has violated the California Health and Safety Code and District rules as a result of fugitive dust emissions from railroad property located in Colton, California. Union Pacific Railroad disputes the allegations of the complaint and maintains that the claims relating to idling locomotives are preempted by federal law. The Railroad intends to defend against the claims made by the District in this action.

Other Matters

Western Resources (Western) filed a complaint on January 24, 2000 in the U.S. District Court for the District of Kansas alleging that UPRR and The Burlington Northern Santa Fe Railway Company (BNSF) materially breached their service obligations under the transportation contract to deliver coal in a timely manner to Western's Jeffrey Energy Center. The original complaint sought recovery of consequential damages and termination of the contract, excusing Western from further performance. In an amended complaint filed September 1, 2000, Western claimed the right to retroactive termination and added a claim for restitution. On October 23, 2001, Western moved for leave to file a second amendment to its complaint to add counts for innocent misrepresentation and negligent misrepresentation and to request rescission of the contract. The motion for leave to amend was denied by the magistrate on March 11, 2002, whose decision was affirmed by the judge on May 30, 2002. The matter went to trial before a jury on August 20, 2002. On September 12, 2002, the jury returned a verdict finding that the contract had not been breached by the railroads, and the judgment dismissing the case was entered by the court on September 16, 2002.

Western filed a motion for new trial on September 30, 2002, which the railroads believe will be unsuccessful. UPRR and BNSF filed a response opposing the motion for a new trial on October 15, 2002, and will vigorously defend this and all other post-trial efforts by Western to overturn the jury verdict.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibits are listed in the exhibit index on page 31.

(b) Reports on Form 8-K

On July 18, 2002, UPC filed a Current Report on Form 8-K announcing UPC's financial results for the second quarter of 2002.

On August 8, 2002, UPC filed a Current Report on Form 8-K regarding the filing of statements made by its principal executive officer and principal financial officer pursuant to an order issued by the SEC to approximately 1,000 U.S. companies, on June 27, 2002.

On October 24, 2002, UPC filed a Current Report on Form 8-K announcing UPC's financial results for the third quarter of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 13, 2002

UNION PACIFIC CORPORATION
(Registrant)

By /s/ James R. Young
James R. Young,
Executive Vice President – Finance
(Principal Financial Officer)

By /s/ Richard J. Putz
Richard J. Putz,
Vice President and Controller
(Principal Accounting Officer)

**CERTIFICATION
OF PRINCIPAL EXECUTIVE OFFICER**

I, Richard K. Davidson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Pacific Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ Richard K. Davidson
Richard K. Davidson
Chairman, President and
Chief Executive Officer
Union Pacific Corporation

**CERTIFICATION
OF PRINCIPAL FINANCIAL OFFICER**

I, James R. Young, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Union Pacific Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ James R. Young
James R. Young
Executive Vice President – Finance
Union Pacific Corporation

UNION PACIFIC CORPORATION
EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description of Exhibits Filed with this Statement</u>
12(a)	Ratio of Earnings to Fixed Charges for the Three Months Ended September 30, 2002 and 2001
12(b)	Ratio of Earnings to Fixed Charges for the Nine Months Ended September 30, 2002 and 2001
99(a)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Richard K. Davidson
99(b)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – James R. Young
	<u>Description of Exhibits Incorporated by Reference</u>
3(a)	Revised Articles of Incorporation of UPC, as amended through April 25, 1996, are incorporated herein by reference to Exhibit 3 to the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
3(b)	By-Laws of UPC, as amended effective as of November 19, 1998, are incorporated herein by reference to Exhibit 3.1 to the Corporation's Current Report on Form 8-K filed November 25, 1998.

Ratio of Earnings to Fixed Charges
Union Pacific Corporation and Subsidiary Companies
(Unaudited)

<i>Millions of Dollars, Except Ratios</i>	<i>Three Months Ended September 30,</i>	
	<i>2002</i>	<i>2001</i>
Earnings:		
Net income	\$437	\$267
Undistributed equity earnings	(18)	(19)
Total earnings	419	248
Income taxes	211	163
Fixed charges:		
Interest expense including amortization of debt discount	157	175
Portion of rentals representing an interest factor	11	10
Total fixed charges.....	168	185
Earnings available for fixed charges.....	\$798	\$596
Ratio of earnings to fixed charges.....	4.8	3.2

EXHIBIT 12(b)

Ratio of Earnings to Fixed Charges
Union Pacific Corporation and Subsidiary Companies
(Unaudited)

<i>Millions of Dollars, Except Ratios</i>	<i>Nine Months Ended September 30,</i>	
	<i>2002</i>	<i>2001</i>
Earnings:		
Net income	\$ 963	\$ 691
Undistributed equity earnings	(39)	(34)
Total earnings	924	657
Income taxes	520	418
Fixed charges:		
Interest expense including amortization of debt discount	479	534
Portion of rentals representing an interest factor	33	30
Total fixed charges.....	512	564
Earnings available for fixed charges.....	\$1,956	\$1,639
Ratio of earnings to fixed charges.....	3.8	2.9

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report of Union Pacific Corporation (the Corporation) on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Richard K. Davidson, Chairman, President and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/ Richard K. Davidson
Richard K. Davidson
Chairman, President and
Chief Executive Officer
Union Pacific Corporation

November 13, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report of Union Pacific Corporation (the Corporation) on Form 10-Q for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, James R. Young, Executive Vice President-Finance of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/ James R. Young
James R. Young
Executive Vice President-Finance
Union Pacific Corporation

November 13, 2002