

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 June 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 X NO
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As of July 31, 2002, there were 252,770,119 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

		Millions, Except Per Share Amounts, For the Three Months Ended June 30,	
		2002	2001
OPERATING REVENUES	Rail, trucking and other	\$ 3,154	\$ 2,998
OPERATING EXPENSES	Salaries, wages and employee benefits	1,119	1,063
	Equipment and other rents	339	331
	Depreciation	300	293
	Fuel and utilities	285	338
	Materials and supplies	138	145
	Casualty costs	108	87
	Purchased services and other costs	263	247
	Total	2,552	2,504
INCOME	Operating income	602	494
	Other income	35	75
	Interest expense	(159)	(178)
	Income before income taxes	478	391
	Income taxes	(174)	(148)
	Net income	\$ 304	\$ 243
SHARE AND PER SHARE	Basic - earnings per share.	\$ 1.21	\$ 0.98
	Diluted - earnings per share	\$ 1.15	\$ 0.95
	Weighted average number of shares (Basic)	251.8	247.7
	Weighted average number of shares (Diluted)	276.3	271.9
	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

		Millions, Except Per Share Amounts, For the Six Months Ended June 30,	
		2002	2001
OPERATING REVENUES	Rail, trucking and other	\$ 6,121	\$ 5,941
OPERATING EXPENSES	Salaries, wages and employee benefits	2,224	2,148
	Equipment and other rents	680	660
	Depreciation	599	585
	Fuel and utilities	525	690
	Materials and supplies	271	284
	Casualty costs	204	185
	Purchased services and other costs	517	456
	Total	5,020	5,008
INCOME	Operating income	1,101	933
	Other income	56	105
	Interest expense	(322)	(359)
	Income before income taxes	835	679
	Income taxes	(309)	(255)
	Net income	\$ 526	\$ 424
SHARE AND PER SHARE	Basic - earnings per share	\$ 2.09	\$ 1.71
	Diluted - earnings per share	\$ 2.01	\$ 1.67
	Weighted average number of shares (Basic)	251.4	247.3
	Weighted average number of shares (Diluted)	276.1	271.4
	Dividends	\$ 0.40	\$ 0.40

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Union Pacific Corporation and Subsidiary Companies

Millions of Dollars		(Unaudited) June 30, 2002	Dec. 31, 2001
ASSETS			
Current Assets			
	Cash and temporary investments	\$ 381	\$ 113
	Accounts receivable, net	695	604
	Inventories	250	265
	Current deferred income taxes	406	400
	Other current assets	195	160
	Total	1,927	1,542
Investments			
	Investments in and advances to affiliated companies	743	708
	Other investments	57	78
	Total	800	786
Properties			
	Cost	37,155	36,436
	Accumulated depreciation	(7,983)	(7,644)
	Net	29,172	28,792
Other			
	Other assets	424	431
	Total assets	\$ 32,323	\$ 31,551
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
	Accounts payable	\$ 603	\$ 567
	Accrued wages and vacation	437	394
	Accrued casualty costs	410	398
	Income and other taxes	272	286
	Dividends and interest	244	255
	Debt due within one year	290	194
	Other current liabilities	545	598
	Total	2,801	2,692
Other Liabilities and Shareholders' Equity			
	Debt due after one year	7,888	7,886
	Deferred income taxes	8,103	7,882
	Accrued casualty costs	709	750
	Retiree benefits obligation	830	812
	Other long-term liabilities	405	454
	Company-obligated mandatorily redeemable convertible preferred securities	1,500	1,500
	Commitments and contingencies		
	Common shareholders' equity	10,087	9,575
	Total liabilities and shareholders' equity	\$ 32,323	\$ 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

		Millions of Dollars, For the Six Months Ended June 30,	
		2002	2001
OPERATING ACTIVITIES	Net income	\$ 526	\$ 424
	Non-cash charges to income:		
	Depreciation	599	585
	Deferred income taxes	213	203
	Other, net	(130)	(149)
	Changes in current assets and liabilities, net	(104)	(220)
	Cash provided by operating activities	1,104	843
INVESTING ACTIVITIES	Capital investments	(972)	(792)
	Other investing activities, net	56	(111)
	Cash used in investing activities	(916)	(903)
FINANCING ACTIVITIES	Dividends paid	(100)	(99)
	Debt repaid	(697)	(439)
	Financings, net	877	623
	Cash provided by financing activities	80	85
	Net change in cash and temporary investments	268	25
	Cash and temporary investments at beginning of period	113	105
	Cash and temporary investments at end of period	\$ 381	\$ 130
CHANGES IN CURRENT ASSETS AND LIABILITIES, NET	Accounts receivable, net	\$ (91)	\$ (43)
	Inventories	15	51
	Other current assets	(41)	(31)
	Accounts, wages and vacation payable	79	(67)
	Other current liabilities	(66)	(130)
	Total	\$ (104)	\$ (220)
	Supplemental Cash Flow Information:		
	Cash paid during the period for:		
	Interest	\$ 340	\$ 371
	Income taxes, net	96	1

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

Millions of Dollars, For the Six Months Ended June 30, 2002	[a] Common Shares	Paid- in- Surplus	Retained Earnings	[b] Treasury Stock	Accumulated Other Comprehensive Income (Loss)			
					Minimum Pension Liability Adjustments	Pension Currency Translation Adjustments	Derivative Adjustments	Total
Balance at December 31, 2001	\$ 689	\$ 3,980	\$ 6,466	\$ (1,549)	\$ (7)	\$ 3	\$ (7)	\$ (11)
Net income	--	--	526	--	--	--	--	--
Other comprehensive income, net of tax	--	--	--	--	--	(5)	20	15
Comprehensive income								
Conversion, exercises of stock options, forfeitures and other	--	(71)	--	142	--	--	--	--
Dividends declared (\$0.40 per share)	--	--	(100)	--	--	--	--	--
Balance at June 30, 2002	\$ 689	\$ 3,909	\$ 6,892	\$ (1,407)	\$ (7)	\$ (2)	\$ 13	\$ 4

Millions of Dollars, For the Six Months Ended June 30, 2002	Total
Balance at December 31, 2001	\$ 9,575
Net income	526
Other comprehensive income, net of tax	15
Comprehensive income	541
Conversion, exercises of stock options, forfeitures and other	71
Dividends declared (\$0.40 per share)	(100)
Balance at June 30, 2002	\$ 10,087

[a] Common stock \$2.50 par value; 500,000,000 shares authorized; 275,499,087 shares issued at beginning of period; 275,565,937 shares issued at end of period.

[b] 22,905,598 treasury shares at end of period, at cost.

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 six months ended June 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 operations 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 six months ended June 30, 2002 and 2001:

Millions of Dollars	Three Months Ended		Six Months Ended	
	June 30, 2002	June 30, 2001	June 30, 2002	June 30, 2001
Operating revenues[a]:				
Rail	\$ 2,808	\$ 2,700	\$ 5,457	\$ 5,355
Trucking	332	290	637	570
Other	14	8	27	16
Consolidated	\$ 3,154	\$ 2,998	\$ 6,121	\$ 5,941
Operating income (loss):				
Rail	\$ 598	\$ 491	\$ 1,106	\$ 940
Trucking	19	16	29	25
Other	(15)	(13)	(34)	(32)
Consolidated	\$ 602	\$ 494	\$ 1,101	\$ 933
Assets:				
Rail	\$ 31,064	\$ 30,239	\$ 31,064	\$ 30,239
Trucking	750	654	750	654
Other	509	490	509	490
Consolidated	\$ 32,323	\$ 31,383	\$ 32,323	\$ 31,383

[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 June 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 June 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 June 30, 2002 and December 31, 2001:

Millions, Except Percentages and Average Commodity Prices	June 30, 2002	Dec. 31, 2001
Interest rate hedging:		
Amount of debt hedged	\$ 998	\$ 598
Percentage of total debt portfolio	12%	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]	271	567
Average price of 2002 hedges outstanding (per gallon)[b] ...	\$ 0.57	\$ 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)[b] ...	--	--
Number of gallons hedged for the remainder of 2002	6	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 June 30, 2002 and December 31, 2001 were as follows:

Millions of Dollars	June 30, 2002	Dec. 31, 2001
Interest rate hedging:		
Gross fair value asset position	\$ 26	\$ 13
Gross fair value (liability) position	--	--
Rail fuel hedging:		
Gross fair value asset position	17	--
Gross fair value (liability) position	(1)	(11)
Rail fuel swaptions:		
Gross fair value asset position	--	--
Gross fair value (liability) position	(2)	(24)
Trucking fuel hedging:		
Gross fair value asset position	1	--
Gross fair value (liability) position	--	--
Total fair value asset (liability) position, net	\$ 41	\$ (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 six months ended June 30, 2002 and 2001:

Millions of Dollars	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Decrease in interest expense from interest rate hedging	\$ 7	\$ --	\$ 12	\$ --
Decrease in fuel expense from rail fuel hedging	6	2	--	4
Decrease in fuel expense from rail fuel swaptions	3	--	13	--
Decrease in fuel expense from trucking fuel hedging	--	--	--	--
Decrease in operating expenses	16	2	25	4
Increase in other income, net from rail fuel swaptions	--	--	3	--
Increase in pre-tax income	\$ 16	\$ 2	\$ 28	\$ 4

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

The Corporation's interest rate swaps have been accounted for using the short-cut method as allowed by FAS 133; therefore, no ineffectiveness has been recorded within the Corporation's Consolidated Financial Statements.

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 June 30, 2002 and December 31, 2001, accounts receivable are presented net of approximately \$600 million 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 June 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 June 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 \$1.5 billion aggregate liquidation amount of 6-1/4% Convertible Preferred Securities (the CPS). 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.

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 six months ended June 30, 2002 and 2001:

Millions, Except Per Share Amounts	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Income statement data:				
Net income available to common shareholders - basic	\$ 304	\$ 243	\$ 526	\$ 424
Dilutive effect of interest associated with the CPS	15	15	30	30
Net income available to common shareholders - diluted ..	\$ 319	\$ 258	\$ 556	\$ 454
Weighted average number of shares outstanding:				
Basic	251.8	247.7	251.4	247.3
Dilutive effect of common stock equivalents	24.5	24.2	24.7	24.1
Diluted	276.3	271.9	276.1	271.4
Earnings per share:				
Basic	\$ 1.21	\$ 0.98	\$ 2.09	\$ 1.71
Diluted	\$ 1.15	\$ 0.95	\$ 2.01	\$ 1.67

6. OTHER INCOME - Other income included the following for the three months and six months ended June 30, 2002 and 2001:

Millions of Dollars	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Net gain on non-operating asset dispositions	\$ 33	\$ 64	\$ 41	\$ 81
Rental income	14	19	26	36
Interest income	4	3	6	5
Other, net	(16)	(11)	(17)	(17)
Total	\$ 35	\$ 75	\$ 56	\$ 105

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. During the period covered by this report, the judge affirmed the magistrate's earlier decision to reject Western's motion for leave to amend the complaint to include claims for negligent and innocent misrepresentation and rescission on grounds that the motion was not timely. Two motions filed by the railroads to remove the restitution and termination claims were denied on June 19, 2002 and June 26, 2002. The trial date for this action has been rescheduled from August 6, 2002 to August 19, 2002 to allow for the disposition of several procedural motions. The railroads believe they have substantial defenses in the case and continue to defend it aggressively.

ENVIRONMENTAL - The Corporation generates and transports hazardous and nonhazardous waste in its current and former operations, and is subject to federal, state and local environmental laws and regulations. The Corporation has identified approximately 370 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 June 30, 2002, the Corporation has a liability of \$170 million accrued for future environmental 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 June 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 June 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 \$355 million in guarantees and \$53 million in letters of credit at June 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 is 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 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 SIX MONTHS ENDED JUNE 30, 2002 COMPARED TO
THREE AND SIX MONTHS ENDED JUNE 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), 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 on Railroad property 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 \$304 million (\$1.21 per basic share and \$1.15 per diluted share) in the second quarter of 2002, compared to \$243 million (\$0.98 per basic share and \$0.95 per diluted share) in the second quarter of 2001. Year-to-date net income totaled \$526 million (\$2.09 per basic share and \$2.01 per diluted share) compared to \$424 million (\$1.71 per basic share and \$1.67 per diluted share) for the same period in 2001. The increase in net income for both periods was the result of revenue growth, lower fuel prices, productivity gains and lower interest expense, which offset the effects of wage and benefit inflation and lower other income. 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. Cost control is defined as focused actions to reduce discretionary spending and failure cost minimization.

OPERATING REVENUES - Operating revenues increased \$156 million (5%) in the second quarter to \$3.2 billion. Year-to-date revenues increased \$180 million (3%) to \$6.1 billion. Revenue growth in both periods is the result of increased commodity revenue led by gains in Intermodal and Automotive carloads. This increase also reflects 14% revenue growth in the trucking segment in the second quarter and 12% 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 \$121 million (4%) for the second quarter and were up \$113 million (2%) year-to-date.

OPERATING EXPENSES - Operating expenses increased \$48 million (2%) to \$2.6 billion in the second quarter of 2002 and increased \$12 million for the year-to-date period. Excluding Motor Cargo in the current year, operating expenses increased \$16 million (1%) in the second quarter and decreased \$51 million (1%) year-to-date, compared to 2001. The increase in expenses in the second quarter is due to wage and benefit inflation and higher volume costs related to a 5% increase in second quarter carloads at the Railroad, partially offset by lower fuel prices, a 3% reduction in employment levels, and cost control efforts. For the year-to-date period, lower fuel prices, a 3% reduction in employment levels and cost control more than offset wage and benefit inflation and volume costs.

Salaries, wages and employee benefits increased \$56 million (5%) in the second quarter and increased \$76 million (4%) year-to-date, compared to 2001. Excluding Motor Cargo in the current year, expenses increased \$38 million (4%) as wage and benefit inflation and volume costs exceeded savings from lower employment levels and improved productivity. During the second quarter of 2002, the Corporation reduced its assumed long-term rate of return on pension plan assets from 10% to 9%. This change in assumption resulted in an \$8 million increase in salaries, wages and employee benefits in the second quarter of 2002. Equipment and other rents expense increased \$8 million (2%) in the second quarter and \$20 million (3%) year-to-date, compared to 2001 as a result of additional locomotive lease expense 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 \$7 million (2%) in the second quarter and \$14 million (2%) 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 \$53 million (16%) in the second quarter and \$165 million (24%) 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 decreased \$7 million (5%) in the second quarter and \$13 million (5%) year-to-date, compared to 2001, due to reduced locomotive repairs and cost control actions. Casualty costs increased \$21 million (24%) in the second quarter and \$19 million (10%) year-to-date, compared to 2001 primarily due to higher costs for personal injury and environmental matters. Purchased services and other costs increased \$16 million (6%) in the second quarter and \$61 million (13%) year-to-date, compared to 2001 due to higher contract services and other general expenses.

OPERATING INCOME - Operating income increased \$108 million (22%) to \$602 million in the second quarter compared to \$494 million in 2001. Year-to-date operating income increased \$168 million (18%) over 2001 to \$1.1 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 \$19 million (11%) in the second quarter and \$37 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 June 30, 2002, the Corporation's average debt level decreased to \$9.6 billion in 2002 from \$10.1 billion for the same period in 2001. In the six months ended June 30, 2002, the Corporation's

average debt level decreased to \$9.7 billion in 2002 from \$10.1 billion for the same period in 2001. The Corporation's weighted-average interest rate was 6.6% during the second quarter of 2002 compared to 7.0% in 2001. For the year-to-date period, the weighted average interest rate was 6.7% in 2002 compared to 7.1% in 2001. Other income decreased \$40 million (53%) in the second quarter and decreased \$49 million (47%) for the year-to-date period in 2002 compared to 2001 due to lower real estate sales. Income tax expense increased \$26 million (18%) in the second quarter and \$54 million (21%) in the year-to-date period over 2001, primarily due to higher pre-tax income in 2002.

During the last six months of 2002, the Railroad expects to sell approximately 175 miles of a rail corridor to the Utah Transit Authority. When this transaction is complete, the Railroad anticipates that it will result in a pre-tax gain of approximately \$140 million and will be recorded in other income.

OTHER KEY MEASURES - Operating income as a percentage of operating revenues increased to 19.1% in the second quarter of 2002 from 16.5% in the same period of 2001. Year-to-date, operating income as a percentage of operating revenues increased to 18.0% from 15.7% in the same period of 2001. The Corporation's operating ratio (operating expenses divided by operating revenues) was 80.9% in the second quarter and 82.0% in the year-to-date period of 2002 compared to 83.5% in the second quarter and 84.3% in the year-to-date period of 2001.

RAIL SEGMENT

NET INCOME - Rail operations reported net income in the second quarter of 2002 of \$316 million, compared to net income of \$262 million in 2001, an increase of \$54 million (21%). Year-to-date, net income increased \$88 million (19%) to \$559 million, compared to 2001 net income of \$471 million. The increase in earnings in both periods resulted primarily from lower fuel prices and higher operating revenue combined with productivity gains and cost control efforts. These improvements were partially offset by inflation, lower real estate sales and higher volume-related costs.

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. Second quarter rail operating revenues increased \$108 million (4%) to \$2.8 billion compared to 2001. Year-to-date, rail revenues increased \$102 million (2%) compared to 2001. Second quarter revenue carloads increased 5% and year-to-date carloads increased 3% compared to a year ago, with the greatest growth in both periods in the intermodal and automotive commodity groups. Other revenues increased 4% in the second quarter due to higher subsidiary and switching revenue. Year-to-date, other revenue was flat compared to 2001.

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

Three Months Ended				Commodity Revenue Millions of Dollars	Six Months Ended		
2002	June 30, 2001	% Change	2002		June 30, 2001	% Change	
\$ 354	\$ 345	3	Agricultural	\$ 723	\$ 715	1	
326	301	8	Automotive	608	577	5	
402	387	4	Chemicals	787	777	1	
570	577	(1)	Energy	1,152	1,170	(2)	
533	523	2	Industrial Products	1,007	994	1	
514	462	11	Intermodal	970	913	6	
\$ 2,699	\$ 2,595	4	Total	\$ 5,247	\$ 5,146	2	

Three Months Ended			Revenue Carloads Thousands	Six Months Ended		
2002	June 30, 2001	% Change		2002	June 30, 2001	% Change
212	211	--	Agricultural	431	431	--
219	199	10	Automotive	412	384	7
233	221	5	Chemicals	450	441	2
520	517	1	Energy	1,065	1,053	1
371	374	(1)	Industrial Products	694	710	(2)
771	689	12	Intermodal	1,452	1,371	6
2,326	2,211	5	Total	4,504	4,390	3

Three Months Ended			Average Revenue Per Car	Six Months Ended		
2002	June 30, 2001	% Change		2002	June 30, 2001	% Change
\$ 1,668	\$ 1,633	2	Agricultural	\$ 1,678	\$ 1,661	1
1,486	1,514	(2)	Automotive	1,475	1,501	(2)
1,728	1,748	(1)	Chemicals	1,749	1,763	(1)
1,095	1,117	(2)	Energy	1,081	1,111	(3)
1,435	1,396	3	Industrial Products	1,451	1,400	4
667	671	(1)	Intermodal	668	665	--
\$ 1,160	\$ 1,173	(1)	Total	\$ 1,165	\$ 1,172	(1)

Agricultural - Revenue increased 3% in the second quarter and 1% for the year-to-date period of 2002 over the comparable periods in 2001, despite flat carloads in both periods. Meals and oils led the increase, due to increased demand for soybean meal shipments into Mexico and soybean oil exports. Demand for cottonseed shipments used for feed also increased. Weak domestic demand for wheat partially offset these increases. Average revenue per car increased due to the positive mix impact of more carloads with a longer average length of haul.

Automotive - Revenue increased 8% for the second quarter and 5% for the year-to-date period of 2002 over the comparable periods in 2001, due to increases in carloads. The carload increase was due primarily to market share gains for finished vehicle shipments. Average revenue per car declined due to a combination of competitive pressures and increased shipments of shorter average length.

Chemicals - Revenue increased 4% for the second quarter and 1% for the year-to-date period of 2002 over the comparable periods in 2001, due to increases in carloads. While general economic conditions and decreased industrial production resulted in a revenue decline in the first quarter, increased levels of industrial production boosted second quarter carloads 5% higher than 2001. Plastics carloads increased due to greater activity in the automotive industry and strong housing starts, while increased demand among commodity liquid producers drove shipments of liquid and dry chemicals higher. Average revenue per car declined due to a 26% increase in phosphate rock carloads that have low average revenue per car and rate pressures.

Energy - Revenue decreased 1% for the second quarter and 2% for the year-to-date period of 2002 over the comparable periods in 2001, as a 1% increase in carloads in both periods was more than offset by a decline in average revenue per car. The second quarter carload increase was driven mainly by the absence of an annual track maintenance program that reduced energy carloads in June of 2001 and in prior years. The track maintenance program is now performed without an annual shutdown. The second quarter and year-to-date carload increases were also driven by more efficient train performance and favorable operating weather conditions. Partially offsetting the increase was softer demand caused by mild winter weather. 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 2% for the second quarter and 1% for the year-to-date periods of 2002 over the comparable periods in 2001, as declining carloads in both periods were more than offset by higher average revenue per car. The volume decline was mainly the result of the soft economy, which had a negative effect on many economically-sensitive commodities including steel and paper products. Steel producers were adversely impacted by high levels of low-cost imported steel, which forced plant shutdowns and bankruptcies in prior periods. Metallic minerals shipments were also negatively impacted by the weak steel market. Offsetting these declines were volume increases in construction-related commodities, led by stone and cement, as strong building and road construction activity continued in the Southern and Southwestern regions of the country. Lumber volumes increased due to strong housing construction and other general demand for lumber products. Average revenue per car increased due to price increases and a greater mix of longer average length of haul business, mainly lumber.

Intermodal - Revenue increased 11% for the second quarter and 6% for the year-to-date periods of 2002 over the comparable periods in 2001. Consecutive first and second quarter records were set for revenue, which was driven by increased international shipments due to high import demand and increased market share. Partially offsetting this increase were declines in domestic shipments, due to soft economic demand and the voluntary action of reducing low-margin domestic truckload trailer business in favor of higher-margin containers. Average revenue per car declined 1% in the second quarter and was flat for the six month period 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.

OPERATING EXPENSES - Second quarter operating expenses were flat at \$2.2 billion in 2002 and 2001. Year-to-date operating expenses decreased \$64 million (1%). Expenses in both periods were reduced by significantly lower fuel prices and savings from lower employee force levels and productivity improvements. These decreases more than offset inflation, second-quarter volume costs, and increased casualty, lease and depreciation expense.

Salaries, Wages and Employee Benefits - Salaries, wages and employee benefits increased \$19 million (2%) in the second quarter of 2002, compared to 2001. Year-to-date, wage and benefit expenses rose \$16 million (1%). Increases were driven by inflation and volume related costs as the result of 3% growth in gross ton miles in the first quarter and a 5% increase in the second quarter. A 3% reduction in employee force levels in both periods and improvements in worker productivity partially offset wage and employee benefits inflation and volume 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 \$2 million (1%) in the second quarter and \$8 million (1%) year-to-date, compared to 2001. The increases were due primarily to higher expenses for locomotive leases and office and miscellaneous rentals in both periods and higher volume-related costs in the second quarter. Partially offsetting the increases was a decrease in car cycle times (the average number of accumulated days that loaded and empty cars from other railroads spend on the Railroad's system during a month) and lower rental prices for freight cars. The higher locomotive lease expense is due to the Railroad'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 improved train speed and better car utilization. The increase in volume costs was attributable to an increase in carloads in certain commodity types such as intermodal, automotive, and chemicals that utilize a high percentage of rented freight cars.

Depreciation - The majority of depreciation relates to road property. Depreciation expense increased \$4 million (1%) in the second quarter and \$7 million (1%) year-to-date, over 2001, resulting from capital spending in recent years. Capital spending totaled \$946 million in the first six months of 2002 compared to

\$780 million in the first six months of 2001. Capital spending for the year totaled \$1.7 billion in both 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 \$52 million (16%) in the second quarter and \$161 million (25%) in the year-to-date period of 2002 compared to a year ago. The decrease was driven by significantly lower fuel prices and a lower fuel consumption rate, as measured by gallons consumed per thousand gross ton miles. Fuel prices averaged 72 cents per gallon in the second quarter of 2002 compared to 92 cents per gallon in the second quarter of 2001, including taxes and transportation costs. Year-to-date, fuel prices averaged 67 cents per gallon compared to 92 cents per gallon in the year-to-date period a year ago. Lower fuel prices in 2002 resulted in a \$65 million reduction in fuel expense in the second quarter and a \$165 million reduction in the first six months, compared to 2001. The lower consumption rate decreased fuel expense by \$1 million in the second quarter and \$12 million year-to-date. A 5% increase in gross ton miles increased fuel expense by \$16 million in the second quarter and a 4% increase in gross ton miles year-to-date increased fuel expense by \$25 million compared to a year ago. The Railroad hedged or had fuel swaptions in place which equaled approximately 42% of its fuel consumption for the second quarter and 43% of its fuel consumption year to date, which decreased fuel costs by \$9 million in the second quarter and \$13 million in the first six months of 2002. As of June 30, 2002, expected fuel consumption for the remainder of 2002 is 40% hedged at 68 cents per gallon (including estimated taxes and transportation costs and regional pricing spreads) and is 5% hedged at 70 cents per gallon (including estimated taxes, transportation costs and regional pricing spreads) for 2003. Utilities, gasoline, and propane expenses decreased \$3 million in the second quarter and decreased \$9 million year-to-date primarily due to lower rates and fuel prices.

Materials and Supplies - Materials 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 \$8 million (6%) in the second quarter and decreased \$13 million (5%) year-to-date, primarily reflecting locomotive overhaul reductions. Locomotive overhauls decreased due to acquisition of new, more-reliable locomotives during the past year and the sale of older units, which required higher maintenance and outsourcing some locomotive maintenance which is included in purchased services and other.

Casualty Costs - The largest component of casualty costs is expenses associated with personal injury. Freight and property damage; and bad debt, insurance, and environmental matters are also included in casualty costs. Costs increased \$21 million (28%) in the second quarter compared to 2001 and increased \$20 million (12%) year-to-date. The increase in expenses in both periods is due to higher personal injury costs, higher expenses for environmental matters and an increase in bad debt expense. The quarterly year-over-year increase in casualty costs is expected to continue for the remainder of 2002 and first quarter of 2003 due to higher personal injury and insurance expenses.

Purchased Services and Other Costs - Purchased services and other costs includes 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 partially offset by credits for overhead expenses charged to capital projects. Expenses increased \$15 million (7%) in the second quarter and increased \$59 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, higher volume-related intermodal transportation costs in the second quarter, and higher general expenses.

OPERATING INCOME - Operating income increased \$107 million (22%) in the second quarter to \$598 million. Operating income for the first six months of 2002 grew \$166 million (18%) to \$1.1 billion. The operating ratio for the second quarter was 78.7%, compared to 81.8% in 2001. The year-to-date operating ratio was 79.7% compared to 82.4% a year ago.

NON-OPERATING ITEMS - Interest expense decreased \$9 million (6%) in the second quarter and \$17 million (6%) year-to-date, primarily as a result of lower average debt levels and lower weighted-average interest rates in 2002. Income taxes increased \$25 million (16%) in the second quarter and \$48 million (17%) 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 second quarter and year-to-date periods ended June 30, 2002, trucking revenues increased \$42 million (14%) to \$332 million and \$67 million (12%) to \$637 million, respectively, over the comparable periods in 2001. The acquisition of Motor Cargo accounted for \$35 million of revenue in the second quarter and \$67 million of revenue in the first six months of 2002. Excluding Motor Cargo in the current year, revenues rose \$7 million (3%) in the second quarter and were flat year-to-date, due to a 4% increase in volume in the second quarter and lower fuel surcharge revenue in both periods as a result of lower fuel prices in 2002.

OPERATING EXPENSES - In the second quarter operating expenses increased \$39 million (14%) to \$313 million and increased \$63 million (12%) to \$608 million, year-to-date, over the same periods in 2001. The acquisition of Motor Cargo accounted for \$32 million in the second quarter and \$63 million year-to-date of incremental expenses. Excluding Motor Cargo in the second quarter, expenses increased \$7 million (3%) due to wage and benefit inflation, increased linehaul contract transportation costs, and a 4% increase in volume. Excluding Motor Cargo in the year-to-date period, expenses decreased \$1 million over the comparable period in 2001.

Salaries, Wages and Employee Benefits - Salaries, wages and employee benefits increased \$31 million (18%) for the second quarter and increased \$52 million (15%) year-to-date. Excluding Motor Cargo in the current year, second quarter expenses increased \$12 million (7%) and year-to-date expenses increased \$16 million (5%) due to wage and benefit inflation, and an increase in volume costs. Expenses were partially offset by a decrease in employee force levels and productivity improvements.

Equipment and Other Rents - Equipment and other rents increased \$7 million (29%) in the second quarter of 2002 and \$11 million (24%) year-to-date, compared to a year ago. Excluding Motor Cargo in the current year, expenses increased \$3 million (14%) and \$4 million (9%) for the second quarter and year-to-date periods, respectively, due to increased use of linehaul contract transportation partially offset by decreased local purchased transportation costs.

Depreciation - Depreciation expense increased \$2 million (17%) in the second quarter and \$5 million (21%) year to date, compared to 2001. Excluding Motor Cargo in the current year, expenses were flat in the second quarter and increased \$1 million (4%) in the six-month period due to a higher depreciable asset base resulting from lower salvage value for surplus revenue equipment due to a depressed resale market.

Fuel and Utilities - Fuel and utilities costs were flat in the second quarter and decreased \$3 million (9%) year-to-date, compared to a year ago. Excluding Motor Cargo in the second quarter of 2002, expenses decreased \$3 million (18%), as a result of lower fuel prices during the quarter (72 cents per gallon average in 2002 compared to 88 cents per gallon average in 2001, including transportation costs and excluding taxes), combined with a 3% decrease in gallons consumed. Excluding Motor Cargo in the first six-month period of 2002, expenses decreased \$8 million (23%) due to lower fuel prices in the first half of the year (67 cents per gallon average in 2002 compared to 89 cents per gallon average in 2001, including transportation costs and excluding taxes), combined with a 6% decrease in gallons consumed. Overnite did not hedge any fuel volume for the first quarter of 2002. Beginning in the second quarter of 2002, Overnite hedged approximately 19% of its expected fuel consumption for the remainder of 2002 through March 2003 at an average of 58 cents per gallon, excluding taxes and transportation costs and regional pricing spreads.

Materials and Supplies - Materials and supplies expense increased \$1 million (8%) in the second quarter and was flat for the year-to-date period, compared to a year ago. Excluding Motor Cargo in the current year, expenses were flat in the second quarter and decreased \$2 million (10%) for the six-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 decreased \$1 million (8%) in the second quarter and were flat for the year-to-date periods, compared to a year ago. Excluding Motor Cargo in the current year, expenses decreased \$1 million (6%) in the second quarter and \$2 million (7%) for the first six months, due to a reduction in bad debt expense, offset by higher insurance and cargo loss and damage expenses.

Purchased Services and Other Costs - Other costs decreased \$1 million (5%) in the second quarter and \$2 million (4%) year-to-date, compared to the same periods in 2001. Excluding Motor Cargo in the current year, expenses decreased \$4 million (18%) in the second quarter and decreased \$10 million (20%) in the first six months, due to lower expenses related to decreased security (related to Teamsters' matters), employee travel expenses, legal expense and cost control measures.

OPERATING INCOME - Operating income increased \$3 million to \$19 million (19%) in the second quarter and increased \$4 million to \$29 million (16%) for the year-to-date period ended June 30, 2002. Excluding Motor Cargo in the current year, operating income was essentially flat in the second quarter and increased \$1 million (2%) year-to-date. The operating ratio for the second quarter of 2002 and 2001 was 94.5%. The operating ratio for the six months ended June 30, 2002 and 2001 was 95.5%. Motor Cargo lowered the operating ratio by 0.3 percentage points for the second quarter and 0.2 percentage points for the first six month period of 2002.

OTHER PRODUCT LINES

OTHER - Operating losses increased \$2 million (15%) in the second quarter of 2002 and were up \$2 million (6%) in the first six months of 2002, compared to the same periods in 2001. Operating revenues increased \$6 million in the second quarter and \$11 million year-to-date. However, operating expenses increased \$8 million in the second quarter and \$13 million year-to-date over 2001. Interest expense decreased \$11 million in the second quarter and \$21 million in the first six 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 from operations was \$1.1 billion in the first half of 2002 compared to \$843 million in 2001. The increase is the result of higher net income and better working capital.

Cash used in investing activities was \$916 million in the first half of 2002 compared to a use of \$903 million in 2001. The increased use of cash is due to higher capital spending including locomotive acquisitions and lower real estate proceeds in 2002, partly offset by the receipt of \$34 million related to a warranty refund from a vendor in 2002.

Cash provided by financing activities was \$80 million in the first half of 2002 compared to \$85 million in the first half of 2001. The decrease in cash provided is due to higher debt repayments (\$697 million in 2002 compared to \$439 million in 2001) partly offset by increased debt borrowings (\$877 million in 2002 compared to \$623 million in 2001), and by an increase in the proceeds from the exercise of stock options (\$102 million in 2002 compared to \$44 million in 2001).

Including the Convertible Preferred Stock as an equity instrument, the ratio of debt to total capital employed was 41.4% at June 30, 2002 compared to 42.2% at December 31, 2001.

For the three and six months ended June 30, 2002, the Corporation's ratio of earnings to fixed charges was 3.8 and 3.4, respectively, compared to 3.1 and 2.8 for the three and six month periods ended June 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 June 30, 2002:

Contractual Obligations Millions of Dollars	Total	Payments Due by Period			
		Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years
Debt[a]	\$ 6,666	\$ 181	\$ 1,570	\$ 632	\$ 4,283
Operating leases	3,284	419	706	583	1,576
Capital lease obligations[b]	2,544	218	421	366	1,539
Unconditional purchase obligations[c]	392	217	175	--	--
Total contractual obligations	\$ 12,886	\$ 1,035	\$ 2,872	\$ 1,581	\$ 7,398

[a] Excludes capital lease obligations of \$1,512 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.

Other Commercial Commitments Millions of Dollars	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less Than 1 Year	2-3 Years	4-5 Years	After 5 Years
Credit facilities	\$ 1,875	\$ 875	\$ 1,000	\$ --	\$ --
Convertible preferred securities	1,500	--	--	--	1,500
Sale of receivables	600	600	--	--	--
Guarantees[a]	355	15	25	15	300
Standby letters of credit	53	53	--	--	--
Total commercial commitments	\$ 4,383	\$ 1,543	\$ 1,025	\$ 15	\$ 1,800

[a] Includes guaranteed obligations of affiliated operations.

FINANCING ACTIVITIES

CREDIT FACILITIES - On June 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 June 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.

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 is incorporated herein by reference.

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 is 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 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:

- o whether the Corporation and its subsidiaries are fully successful in implementing their financial and operational initiatives;
- o industry competition, conditions, performance and consolidation;
- o legislative and regulatory developments, including possible enactment of initiatives to re-regulate the rail business;
- o natural events such as severe weather, floods and earthquakes;
- o the effects of adverse general economic conditions, both within the United States and globally;
- o changes in fuel prices;
- o changes in labor costs;
- o domestic and global economic repercussions from terrorist activities and any governmental response thereto;
- o labor stoppages; and
- o the outcome of claims and litigation.

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.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

SHAREHOLDER LITIGATION

As previously reported by the Corporation in its Annual Report on Form 10-K for 2001, a purported derivative action was filed by nine individuals, seven of whom are members of the Teamsters, on behalf of the Corporation on June 21, 2001, in the Chancery Court of Shelby County, Tennessee, naming as defendants current and certain former directors of the Corporation and various present and former officers and employees of Overnite, as well as Overnite, and, as a nominal defendant, the Corporation. The derivative action alleged, among other things, that the named defendants breached their fiduciary duties to the Corporation, wasted its assets and mismanaged the company by opposing the efforts of the Teamsters to organize the employees of Overnite. Plaintiffs claimed that the "anti-union" campaign allegedly waged by the defendants cost millions of dollars and caused a substantial decline in the value of Overnite. On July 31, 2001, the defendants filed a motion to dismiss the action on various grounds, and on July 1, 2002, the court granted the motion and dismissed the derivative action on procedural grounds. The plaintiffs have filed notice of their intention to appeal the decision with the court.

LABOR MATTERS

As previously reported by the Corporation in its Annual Report on Form 10-K for 2001 and Form 10-Q for the quarter ended March 31, 2002, the General Counsel of the National Labor Relations Board (NLRB) sought a bargaining order remedy with respect to 12 cases involving OTC in which a Teamsters local union lost a representation election. A bargaining order remedy would require OTC to recognize and bargain with the union as if the union had won instead of lost the election and would be warranted only if the following findings are made: (1) the petitioning Teamsters' local had obtained valid authorization cards from a majority of the employees in an appropriate unit; (2) OTC committed serious unfair labor practices; and (3) those unfair labor practices would preclude the holding of a fair election despite the application of less drastic remedies. In one of the 12 cases, the administrative UPC law judge found that a bargaining order remedy was not warranted. In the other 11 cases, an administrative law judge and the NLRB ruled that the bargaining order remedy was warranted. OTC appealed the NLRB's ruling to the United States Court of Appeals for the Fourth Circuit. By a two-one decision, the Fourth Circuit initially enforced the first four bargaining orders. Last year, the full Fourth Circuit agreed to rehear that case. On February 11, 2002, the full Fourth Circuit issued its ruling in favor of OTC on the bargaining order remedy in the first four cases and remanded the cases to the NLRB for new representation elections. The time period for seeking review of the decision in the United States Supreme Court has expired, and neither the NLRB nor the Teamsters has sought such a review. On July 16, 2002, the NLRB also filed a motion with the Fourth Circuit acknowledging that the full bench decision of the court would apply to the other seven cases, which motion effectively concludes these cases unless the Teamsters seek to re-run the elections.

ENVIRONMENTAL MATTERS

As previously reported by the Corporation in its Annual Report on Form 10-K for 2001 and Form 10-Q for the quarter ended March 31, 2002, the State of Illinois filed a complaint against the Railroad with the Illinois Pollution Board on May 14, 2001 seeking penalties for an alleged violation of state air pollution laws

arising out of a release of styrene from a tank car near Cora, Illinois, which occurred on August 29, 1997. The car contained styrene monomer, a hazardous substance, stabilized by the origin shipper with an inhibitor. The car was delayed in transit for a number of different reasons, including rerouting and reconsignment by the shipper. The Railroad was not notified that such delays could jeopardize the stability of the shipment. Eventually the effect of the inhibitor wore off and the styrene went into a reactive state resulting in pressure and venting near Cora, Illinois. A sparsely-populated area was evacuated for a few hours. The situation was controlled and remediated promptly. Styrene has since been put on the Railroad's list of time sensitive shipments subject to special monitoring. The Railroad has agreed in principle with the State of Illinois to settle the matter and will pay a penalty of \$50,000.

As previously reported by the Corporation in its report on Form 10-Q for the quarter ended March 31, 2002, The District Attorneys of Merced, Madera, Stanislaus, San Joaquin and Sacramento counties in the state of California have threatened to file criminal charges against the Railroad in connection with various releases of calcium oxide (lime), cement and fly ash between December 27, 2001 and March 16, 2002. They contend that criminal violations occurred by virtue of the alleged failure by the Railroad to timely report one or more of the releases, its alleged disposal of hazardous waste and the alleged release of material into the waters of the State of California. The Company disputes both the factual and legal bases for these claims and intends to vigorously defend any action that might be filed.

OTHER MATTERS

As previously reported by the Corporation in its Annual Report on Form 10-K for 2001 and Form 10-Q for the quarter ended March 31, 2002, 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. During the period covered by this report, Western's motion for leave to amend the complaint was denied by the magistrate on grounds that the motion was not timely and the magistrate's denial of leave to amend has been affirmed by the judge. Two motions filed by the railroads to remove the restitution and termination claims were denied on June 19, 2002 and June 26, 2002. The trial date for this action has been rescheduled from August 6, 2002 to August 19, 2002 to allow for the disposition of several procedural motions. The railroads believe they have substantial defenses in the case and continue to defend it aggressively.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

Exhibits are listed in the exhibit index on page 29.

(b) REPORTS ON FORM 8-K

On April 25, 2002, UPC filed a Current Report on Form 8-K announcing UPC's financial results for the first quarter of 2002.

On July 18, 2002, UPC filed a Current Report on Form 8-K announcing UPC's financial results for the second 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: August 8, 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)

UNION PACIFIC CORPORATION
EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION OF EXHIBITS FILED WITH THIS STATEMENT
10(a)	The Supplemental Pension Plan for Officers and Managers of UPC and Affiliates, as amended as of May 30, 2002.
10(b)	The 1993 Stock Option and Retention Stock Plan of UPC, as amended as of May 30, 2002.
12(a)	Ratio of Earnings to Fixed Charges for the Three Months Ended June 30, 2002 and 2001
12(b)	Ratio of Earnings to Fixed Charges for the Six Months Ended June 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
	Description of Exhibits Incorporated by Reference
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.

SUPPLEMENTAL PENSION PLAN
FOR OFFICERS AND MANAGERS
OF
UNION PACIFIC CORPORATION
AND
AFFILIATES

(AS AMENDED AND RESTATED IN ITS ENTIRETY
EFFECTIVE AS OF JANUARY 1, 1989, INCLUDING ALL AMENDMENTS
ADOPTED THROUGH JULY 25, 2002)

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ARTICLE ONE

SCOPE OF SUPPLEMENTAL PLAN AND DEFINITIONS

1.1 Introduction. This "Supplemental Plan," amended and restated effective as of January 1, 1989, and as it may hereafter be amended from time to time, establishes the rights to specified benefits for certain officers and managers or highly compensated employees who retire or otherwise terminate their Employment on or after January 1, 1989. The rights of any such individual who retired or otherwise terminated Employment prior to January 1, 1989 shall be subject to the terms of the Supplemental Plan as in effect at the date of retirement or termination, except to the extent otherwise provided herein. This Supplemental Plan is intended to be a non-qualified supplemental retirement plan which is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees of the Company, pursuant to sections 201, 301 and 401 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and, as such, to be exempt from the provisions of Parts 2, 3 and 4 of Subtitle B of Title I of ERISA.

1.2 Definitions. As used in this Supplemental Plan, the following terms have the meanings set forth below, unless a different meaning is plainly required by the context:

(a) "Administrator" means the Senior Vice President-Human Resources of Union Pacific or, if there is no such Senior Vice President - Human Resources, such person or persons appointed by the Board of Directors of Union Pacific or, in the absence of any such appointment, Union Pacific, who shall administer this Supplemental Plan.

(b) "Change in Control":

(i) prior to November 16, 2000, means:

(A) any person (within the meaning of Section 13(d) of the Securities Exchange Act of 1934 (the "Act")), other than Union Pacific or a subsidiary or any employee benefit plan sponsored by Union Pacific or a subsidiary, becomes the beneficial owner (as such term is defined in Rule 13d-3 under the Act) directly or indirectly of 30% or more of the outstanding stock of Union Pacific (calculated as provided in Rule 13d-3(d) under the Act in the case of rights to acquire common stock);

(B) the shareholders of Union Pacific approve (I) any consolidation or merger of Union Pacific in which Union Pacific is not the continuing or surviving corporation or pursuant to which shares of common stock of Union Pacific would be converted into cash, securities or other property, other than a merger of Union Pacific in which holders of common stock of Union Pacific immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger as immediately before or (II) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of Union Pacific; or

(C) there shall have been a change in the composition of the Board of Directors of Union Pacific such that within any period of two consecutive years or less

individuals who at the beginning of such period constituted such Board, together with any new directors whose election, or nomination for election by Union Pacific's shareholders, was approved by a vote of at least two-thirds of the directors then in office who were directors at the beginning of such period, shall for any reason no longer constitute a majority of the directors of Union Pacific.

(ii) on or after November 16, 2000, means a "Change in Control" as defined in the Union Pacific Corporation Key Employee Continuity Plan adopted November 16, 2000, as may be amended from time to time.

(c) "Company" means Union Pacific and any Affiliated Company which is included in the Supplemental Plan by written action of (i) its board of directors and (ii) either the Board of Directors of Union Pacific or the Administrator acting on behalf of the Board of Directors of Union Pacific; provided, however, that if an Affiliated Company (other than an Affiliated Company that would remain such if the phrase "100 percent" were substituted for the phrase "at least 80 percent" in section 1563(a)(1) of the Code, which is then incorporated by reference in sections 414(b) and (c) of the Code) is included in the Supplemental Plan by virtue of action by the Administrator, unless the Board of Directors of Union Pacific ratifies such action not later than its first regularly scheduled meeting held subsequent to the taking of such action by the Administrator, such Affiliated Company shall cease to be so included as of the close of business on the last day of the month in which such meeting occurs and no employee of such Affiliated Company shall accrue a benefit under the Supplemental Plan.

(d) "Early Supplemental Pension Retirement Date" means, subject to Sections 2.10(a)(ii)(B) and (b)(ii)(B), Section 2.11(b)(ii) and Section 2.13(b)(ii), the date of a Participant's termination of Employment after he becomes vested in his Supplemental Plan benefit under Section 4.2, before his Normal Retirement Date, and after either attainment of age 55 and completion of 10 years of Vesting Service or attainment of age 65, determined after taking into account (i) additional service credited under Section 1.2(p) and/or (ii) additional years of age, not exceeding five (5), as may be approved by the Chief Executive Officer of Union Pacific prior to the Participant's termination of Employment or as may be credited to the Participant pursuant to Section 2.5, 2.8, 2.10, 2.11, 2.12 or 2.13; provided, however that such date does not qualify as an Early Retirement Date under the terms of the Pension Plan.

(e) "Early Supplemental Pension" means the pension provided for in Section 2.2.

(f) "Effective Date" means January 1, 1989, the effective date of this amendment and restatement; provided, however, that when a provision of this Supplemental Plan states an effective date other than January 1, 1989, such stated special effective date shall apply as to that provision.

(g) "Incentive Compensation" means:

(i) incentive compensation awarded a Participant under the Executive Incentive Plan of Union Pacific Corporation and Subsidiaries, as amended and restated as of

April 15, 1988 and as it may thereafter be amended from time to time (the "Executive Incentive Plan");

(ii) for 1999 and later years, incentive compensation foregone by a Participant for an award under the Executive Incentive Premium Exchange Program of Union Pacific Corporation and Subsidiaries;

(iii) such other incentive compensation as may be included in Incentive Compensation for a Participant at the discretion of the Board of Directors of Union Pacific; or

(iv) the amount of retention stock (or retention units) awarded a Participant by the Compensation and Benefits Committee of the Company's Board of Directors (or any successor thereto) in lieu of a cash award under the Executive Incentive Plan,

but only to the extent that such incentive compensation or retention stock (or retention units) is not taken into account in computing the Participant's Final Average Compensation under the Pension Plan for reasons other than the annual compensation limit under section 401(a)(17) of the Code or the provisions of Alternative II-D set forth in Section 3.01(c) of the Pension Plan. Awards of Incentive Compensation shall be taken into account at the time such awards would have been paid but for the Participant's election to forego or defer payment under a plan of the Company or an Affiliated Company; provided, however, that for purposes of calculating a Participant's benefit under this Supplemental Plan no more than the three highest awards of Incentive Compensation shall be counted in the Participant's highest 36 consecutive months of Compensation determined taking all Incentive Compensation into account.

(h) "Involuntary Termination Supplemental Pension" means the pension provided for in Section 2.5.

(i) "Normal Supplemental Pension" means the pension provided for in Section 2.1.

(j) "Participant" means any Employee of the Company on or after the Effective Date who is or once was a Covered Employee under the Pension Plan and:

(i) whose Total Credited Service under Section 1.2(p) includes years that are not taken into account as Credited Service under the Pension Plan (including years not taken into account due to application of the provisions of Alternative II-D set forth in Section 3.01(c) of the Pension Plan);

(ii) who has Incentive Compensation within the 120-calendar-month period immediately preceding the date on which the Participant ceases to be a Covered Employee;

(iii) whose Final Average Compensation is not fully recognized under the Pension Plan due to application of the annual compensation limit under section 401(a)(17) of the Code or the provisions of Alternative II-D set forth in Section 3.01(c) of the Pension Plan;

(iv) whose benefit under the Pension Plan is reduced as a result of the limitation described in Section 5.02 of the Pension Plan; or

(v) who is credited with additional years of age as described in Section 1.2(d)(ii), and

who has been designated by the Administrator as eligible to participate in the Supplemental Plan. In the event of the death or incompetency of a Participant, the term shall mean the Participant's personal representative or guardian for whatever amounts remain payable to the Participant under the terms of the Supplemental Plan.

(k) "Pension Plan" means the Pension Plan for Salaried Employees of Union Pacific Corporation and Affiliates, as amended from time to time.

(l) "Postponed Supplemental Pension" means the pension provided for in Section 2.3.

(m) "Special 1990-1992 Window Participant" means a Pension Plan participant who retired under an early retirement window program described in Section 6.07 or 6.09 of the Pension Plan and who was prohibited under Section 6.12 (prior to 1999, Section 6.11) of the Pension Plan from receiving the benefits of the window program in any payment from the Pension Plan made for a month prior to November 1, 1994.

(n) "Surviving Spouse" means:

(i) where payments to the Participant have not begun under the Supplemental Plan at the time of the Participant's death, the spouse who was legally married to the Participant continuously during the 12 months ending on the date of the Participant's death;

(ii) where payments to the Participant have begun under the Supplemental Plan prior to January 1, 1995 and prior to the Participant's death, the spouse who was legally married to the Participant continuously during the 12 months ending on the date that such payments began or who was legally married to the Participant on the date such payments began and for a period of at least 12 months ending on or before the date of the Participant's death;

(iii) where payments to the Participant have begun under the Supplemental Plan on or after January 1, 1995 but prior to the Participant's death:

(A) in the case of a Participant whose Supplemental Plan and Pension Plan benefit began on the same date or who is not vested in a Pension Plan benefit, the spouse who was legally married to the Participant on the date that his Supplemental Plan payments began;

(B) in the case of a Participant whose Supplemental Plan benefits began on a date earlier than the date on which his Pension Plan benefits began, the spouse who was legally married to the Participant on the date his Pension Plan benefits began; or

(C) in the case of a Participant whose Supplemental Plan benefits began but whose vested Pension Plan benefits had not started prior to this death, the spouse who was legally married to the Participant on the date of his death;

provided, however, that, for benefits starting before July 25, 2002, the Surviving Spouse shall be determined as described in this paragraph (iii) unless the Administrator advised the Participant to the contrary.

(o) "Surviving Spouse's Pension" means the pension provided for in Section 2.4.

(p) "Total Credited Service" means:

(i) all years of Credited Service (and portions thereof) as set forth in the Article IV of the Pension Plan, including Credited Service for years of Employment that are not taken into account under the Pension Plan solely due to application of the provisions of Alternative II-D set forth in Section 3.01(c) of the Pension Plan;

(ii) such additional years of training prior to the Participant's Employment Commencement Date, as may have especially qualified the Participant for service with the Company, as determined by the Board of Directors, in its sole discretion;

(iii) such additional years of service, not exceeding five (5), as may be approved by the Chief Executive Officer of Union Pacific prior to the Participant's termination of Employment; and

(iv) such additional years of service as may be credited to the Participant pursuant to Section 2.5, 2.8, 2.10, 2.11, 2.12 or 2.13.

(q) "Total Offset Service" means (i) all years of "offset service" (including portions thereof) as set forth in Article V of the Pension Plan, including years of offset service for years of Employment that are not taken into account under the Pension Plan solely due to application of the provisions of Alternative II-D set forth in Section 3.01(c) of the Pension Plan; and (ii) any additional years as credited in accordance with Section 1.2(p)(ii), (iii) or (iv).

(r) "Union Pacific" means Union Pacific Corporation, or any successor to that corporation.

(s) "Vesting Service" means (i) all years of Vesting Service (including portions thereof) as set forth in Article IV of the Pension Plan; and (ii) any additional years as credited in accordance with Section 1.2(p)(ii), (iii) or (iv).

(t) All other capitalized terms shall have the respective meanings set forth in the definition provisions of Article II of the Pension Plan.

ARTICLE TWO

AMOUNT AND PAYMENT OF PENSION

2.1 Normal Supplemental Pension. Subject to the provisions of Articles Three, Five and Eleven, a Participant retiring on a Normal Retirement Date under the Pension Plan (including a Participant who has become a Disabled Participant under the Pension Plan and who ceases to be such on the Normal Retirement Date) shall be entitled to receive a Normal Supplemental Pension, in the form of a single life annuity commencing on the Participant's Normal Retirement Date, equal to the excess, if any, of:

(a) the annual Accrued Benefit payable at Normal Retirement Date computed on the basis of the formula provided in Section 5.01 of the Pension Plan, determined without regard to the limitation described in Section 5.02 of the Pension Plan, and including under such formula any amounts of Final Average Compensation that were excluded from consideration for the Participant under the Pension Plan and all Incentive Compensation payable to the Participant within the 120-calendar-month period immediately preceding the date on which the Participant ceases to be a Covered Employee, and utilizing Total Credited Service up to 40 years in place of Credited Service under Article IV of the Pension Plan and Total Offset Service up to 40 years in place of "offset service" under Article V of the Pension Plan, over

(b) the annual nonforfeitable Accrued Benefit payable at Normal Retirement Date actually determined to be due under the Pension Plan.

For purposes of determining benefits under the Supplemental Plan, any actuarial adjustments for a delay in the commencement of payment beyond the Normal Retirement Date or otherwise that apply under the Pension Plan in calculating the benefit described in (b), above, shall also apply to calculate the benefit described in (a), above.

2.2 Early Supplemental Pension.

(a) Participant Retires on Early Retirement Date. The following provisions apply to a Participant retiring on an Early Retirement Date under the Pension Plan:

(i) Benefit Payable on Normal Retirement Date. Subject to the provisions of Articles Three, Five and Eleven, a Participant retiring on an Early Retirement Date under the Pension Plan shall be entitled to receive a Normal Supplemental Pension in the form of a single life annuity commencing at Normal Retirement Date, computed in accordance with Section 2.1 based on Total Credited Service, Total Offset Service, etc. as of the Participant's Early Retirement Date. A Participant retiring on an Early Retirement Date shall include a Participant who has become a Disabled Participant under the Pension Plan and who ceases to be a Disabled Participant on an Early Retirement Date.

(ii) Benefit Payable on Early Retirement Date. In lieu of the benefit described in (i), above, subject to the provisions of Articles Three, Five and Eleven, such Participant may receive an Early Supplemental Pension, in the form of a single life annuity commencing at the date prior to his Normal Retirement Date on which he elects to start his

pension under the Pension Plan. The Early Supplemental Pension shall be computed in the same manner as the Normal Supplemental Pension, but with the amounts described in Sections 2.1(a) and (b) adjusted for payment as of the early benefit start date in accordance with Section 6.03 of the Pension Plan, taking into account any additional years of age described in Section 1.2(d)(ii) for purposes of adjusting both the gross and offset portions of the benefit in Section 2.1(a) (except as provided otherwise in Section 2.12 or 2.13).

(b) Participant Retires on Early Supplemental Pension Retirement Date. The following provisions apply to a Participant retiring on an Early Supplemental Pension Retirement Date:

(i) Participant Is Eligible to Start Pension Plan Benefit. Subject to the provisions of Articles Three, Five and Eleven, a Participant retiring on an Early Supplemental Pension Retirement Date who is eligible to start a benefit under the Pension Plan upon his retirement may receive a Normal or Early Supplemental Pension as described in subsection (a); provided, however, that, for purposes of determining the Early Supplemental Pension as described in (a)(ii), above:

(A) the amount described in Section 2.1(a) shall be adjusted for payment as of the early benefit start date in accordance with Section 6.03 of the Pension Plan, taking into account any additional years of age described in Section 1.2(d)(ii) for purposes of adjusting both the gross and offset portions of the benefit in Section 2.1(a) (except as provided otherwise in Section 2.12 or 2.13); and

(B) the amount described in Section 2.1(b) shall be adjusted for payment as of the early benefit start date in accordance with Section 6.04 of the Pension Plan.

(ii) Participant Is Not Eligible to Start Pension Plan Benefit. Subject to the provisions of Article Three, Five and Eleven, a Participant retiring on an Early Supplemental Pension Retirement Date who either is not vested in or is not eligible to start a benefit under the Pension Plan upon his retirement shall receive an Early Supplemental Pension, in the form of a single life annuity commencing on the first day of the month following his Early Supplemental Pension Retirement Date, the amount of which shall be determined as follows:

(A) Prior to the earliest date, if any, that the Participant is eligible to start benefits under the Pension Plan, the Early Supplemental Pension payable under this provision shall be computed in the same manner as the Normal Supplemental Pension, except that:

(I) the amount described in Section 2.1(a) shall be adjusted for payment as of the early benefit start date as described in Section 6.03 of the Pension Plan for Pension Plan payments starting on an Early Retirement Date, taking into account any additional years of age described in Section 1.2(d)(ii) for purposes of adjusting both the gross and offset portions of the benefit in Section 2.1(a) (except as provided otherwise in Section 2.12 or 2.13); and

(II) the amount described in Section 2.1(b) shall be zero for purposes of determining the Early Supplemental Pension payable prior to the earliest date, if any, on which the Participant is eligible to start benefits under the Pension Plan.

(B) On and after the earliest date, if any, that the Participant is eligible to start benefits under the Pension Plan, the Early Supplemental Pension shall equal the excess of:

(I) the amount described in Section 2.2(b)(ii)(A)(I), above, calculated as of the early benefit start date on which payments under the Supplemental Plan began, over

(II) the amount described in Section 2.1(b) reduced for early payment in accordance with Section 6.04 of the Pension Plan as of such "earliest date" whether or not the Participant's Pension Plan benefit starts on that date.

Effective for benefits starting before July 25, 2002, payments under this subparagraph (b)(ii) were made as described above unless the Administrator advised the Participant to the contrary.

2.3 Postponed Supplemental Pension. Subject to the provisions of Articles Three, Five and Eleven, a Participant who retires on a Postponed Retirement Date shall be entitled to a Postponed Supplemental Pension, in the form of a single life annuity commencing at the Postponed Retirement Date, which is equal to the Normal Supplemental Pension, computed in accordance with Section 2.1 based on his Total Credited Service, Total Offset Service, etc. as of the Participant's Postponed Retirement Date (instead of his Normal Retirement Date) or, if earlier, as of his Required Beginning Date. If a Participant's benefits begin on his Required Beginning Date and prior to his termination of Employment, the Participant's benefits shall be adjusted thereafter as described in Section 8.06 of the Pension Plan.

2.4 Surviving Spouse's Pension (Post-Retirement Automatic Survivor Annuity).

(a) The Surviving Spouse of a Participant who dies while receiving a Normal or Postponed Supplemental Pension or an Early Supplemental Pension determined under Section 2.2(a), relating to retirement on a date that qualifies as an Early Retirement Date under the terms of the Pension Plan, shall be entitled to a Surviving Spouse's Pension equal to one-half of the single life annuity amount of the Normal, Early, or Postponed Supplemental Pension payable to such deceased Participant under the Supplemental Plan. Such Surviving Spouse's Pension shall be payable to such Spouse in equal monthly payments for life, commencing on the first day of the month immediately following the death of such Participant.

(b) The Surviving Spouse of a Participant who dies while receiving an Early Supplemental Pension determined under Section 2.2(b), relating to retirement on an Early Supplemental Pension Retirement Date (i.e., a date that does not qualify as an Early Retirement Date under the terms of the Pension Plan), shall be entitled to a Surviving Spouse's Pension. The Surviving Spouse's Pension shall be payable in equal monthly payments for the Surviving Spouse's life, commencing on the first day of the month immediately following the Participant's death, which shall equal one-half of the single life annuity amount calculated for the Participant

under Section 2.2(b)(i)(A) or 2.2(b)(ii)(A)(I), as appropriate, as of the Participant's early benefit start date; provided, however, that monthly payments to the Surviving Spouse shall be reduced by any pre-retirement survivor benefit that the Surviving Spouse is entitled to receive from the Pension Plan from the earliest date following the Participant's death that such survivor benefit is payable from the Pension Plan, even if benefits to the Surviving Spouse have not started on that earliest date. Effective for benefits starting before July 25, 2002, payments under this subsection (b) were made as described above unless the Administrator advised the Participant and/or Surviving Spouse to the contrary.

(c) The Surviving Spouse's Pension described in this Section 2.4 is payable in addition to any other death benefit that may be payable to the Surviving Spouse or other beneficiary of the Participant under the form of payment in which the Participant's Supplemental Pension is paid pursuant to Article Three. However, except with respect to Participants who qualify for the enhancements described in Sections 2.8, 2.10, 2.11, 2.12 or 2.13, in no event shall the Surviving Spouse who is entitled to the Surviving Spouse's Pension, if also designated as the Participant's beneficiary under a joint and survivor annuity payable under the Supplemental Plan, receive a total benefit from the Supplemental Plan that is more than 100% of the retirement income otherwise payable to the Participant under the Supplemental Plan.

2.5 Involuntary Termination Supplemental Pension.

(a) The following provisions apply with respect to Change in Control occurring on or before November 15, 2000:

(i) In lieu of the benefit described in Section 2.1 or 2.2, if the Employment of any Participant (A) who is an elected officer, and (B) whose highest annual Compensation (including Incentive Compensation) is not less than \$200,000, is involuntarily terminated prior to the 5th anniversary of a Change in Control and prior to Normal Retirement Date, and if, at the time of such involuntary termination, such Participant has completed 10 or more years of Vesting Service and is within the 10-year period immediately preceding Normal Retirement Date, such Participant shall be entitled to an Involuntary Termination Supplemental Pension commencing at Normal Retirement Date, equal to the Normal Supplemental Pension computed in accordance with Section 2.1 as of his termination date, with the amount in Section 2.1(a) based on Total Credited Service and Total Offset Service credited and as projected to be credited to the 5th anniversary of such Change in Control (or, if earlier, the Participant's Normal Retirement Date). In lieu thereof, such Participant may elect an Early Retirement Date and receive an Involuntary Termination Supplemental Pension commencing on such Early Retirement Date equal to the Early Supplemental Pension computed in accordance with Section 2.2 as of the Early Retirement Date, with the amount in Section 2.1(a) based on Total Credited Service and Total Offset Service credited and as projected to be credited to the 5th anniversary of such Change in Control (or, if earlier, the Participant's Normal Retirement Date) adjusted in accordance with Section 6.03 of the Pension Plan, but based on the Participant's projected age on the 5th anniversary date of such Change in Control (or, if earlier, Normal Retirement Date).

(ii) In lieu of the benefit described in Section 4.2, if the Employment of any Participant (other than a Participant described in (i) above), is involuntarily terminated prior to the 5th anniversary of a Change in Control and prior to Normal Retirement Date, and if

such Participant would have attained age 55 and been credited with at least 15 years of Vesting Service had the Participant continued to be employed to such 5th anniversary, such Participant shall be entitled to an Involuntary Termination Supplemental Pension commencing on the date provided for a benefit described under Section 4.2, equal to the benefit amount computed under Section 4.2, with the amount in Section 2.1(a) based on Total Credited Service and Total Offset Service credited and as projected to be credited to the 5th anniversary of such Change in Control (or, if earlier, the Participant's Normal Retirement Date) provided that, in the event such Participant elects to receive the supplemental pension commencing on a date prior to his Normal Retirement Date, the Actuarial Equivalent referred to in Section 4.2 shall be based on the Participant's projected age on the 5th anniversary date of such Change in Control (or, if earlier, his Normal Retirement Date).

(iii) For purposes of this subsection (a), the term "involuntary termination" means any action taken subsequent to a Change in Control by Union Pacific or the Company or any successor to, or assignee of, its obligations under this Supplemental Plan, either (A) terminating Employment for other than an unlawful act or, (B) without the consent of a Participant, adversely affecting employment status by reducing earnings or demoting in title, or lessening of authority or responsibilities, or changing the situs of employment which requires a change of residence, of such Participant and, as a result, such Participant terminates Employment.

(iv) In the event any amount paid or benefit otherwise received by a Participant under the Supplemental Plan shall be determined by the Internal Revenue Service to constitute an "excess parachute payment" as such term is defined in section 280G of the Code, together with all other payments and benefits outside of the Supplemental Plan that are taken into account in making such determination, and to be subject to an excise tax under section 4999 of the Code, or any successor provision thereto (collectively, "Excise Tax"), the Company shall pay to the Participant an additional amount such that after taking into account all income and employment taxes, including the Excise Tax, interest and penalties with respect thereto, incurred by the Participant on the receipt of such additional amount, the Participant is left with the same after-tax amount the Participant would have been left with had no Excise Tax been imposed.

(b) A Participant who is affected by a Change in Control occurring on or after November 16, 2000 shall have his eligibility for and amount of Supplemental Plan benefits determined pursuant to the terms of the Union Pacific Corporation Key Employee Continuity Plan adopted November 16, 2000, as may be amended from time to time.

2.6 Suspension of Benefits.

(a) Date of Benefit Suspension. Notwithstanding any provisions of Article Two or Article Four to the contrary, the payment of the pension to which a Participant is otherwise entitled under the Supplemental Plan shall be suspended during any period for which payment of a pension to which such Participant may otherwise be entitled under the Pension Plan is (or would be) suspended under the terms of the Pension Plan due to such Participant's return to Employment. The pension payable to the Participant under the Supplemental Plan which has been suspended shall resume on the same date as payments to the Participant under the Pension Plan resume (or would resume if the Participant had been entitled to such a pension).

(b) Resumption of Payments. Upon the resumption of payment of such pension hereunder to such Participant, the resumed benefits shall be recalculated taking into account any increases in the Participant's Total Credited Service, Total Offset Service, Incentive Compensation, age and so forth. However, no actuarial or other adjustment shall be made to reflect such suspension. The resumed benefit shall be offset, in a manner prescribed by the Administrator, by (i) any benefit paid during a month in which benefits should have been suspended but were not, which has not previously been repaid to the Company by the Participant, and (ii) the Actuarial Equivalent of any benefits paid prior to Normal Retirement Date.

(c) Form of Resumed Payments. The resumed payments (including any additional benefits earned during the period of suspension) under the Supplemental Plan shall be paid to the Participant in the same form of payment as the Participant elects for his resumed payments under the Pension Plan. If the Participant is not entitled to any benefits under the Pension Plan, the resumed payments under the Supplemental Plan shall resume in the same form of payment in effect for the Participant before payments were suspended.

2.7 Benefits for Special 1990-1992 Window Participants. Each Special 1990-1992 Window Participant (or the Surviving Spouse or other beneficiary of a Special 1990-1992 Window Participant) shall receive from the Supplemental Plan in each month the individual receives a payment from the Pension Plan prior to November 1, 1994, an amount equal to the excess of:

(a) the amount that would have been payable to the individual from the Pension Plan for that month, had the provisions of Section 6.12 (prior to 1999, Section 6.11) of the Pension Plan not applied; over

(b) the amount actually paid to the individual from the Pension Plan for that month.

2.8 Window Benefits for Highly Compensated Employees. Each Participant who was a Covered Employee under the Pension Plan, who retired under an early retirement window program described in Section 6.06, 6.07 or 6.09 of the Pension Plan but on the relevant date was excluded from participation in the Pension Plan pursuant to Section 3.01(c) of the Pension Plan or was excluded from participation in the window program due to his status as an officer, shall be deemed for all purposes under the Supplemental Plan to have the additional years of service and the additional years of age that would have been credited to the Participant under the Pension Plan pursuant to such program if Section 3.01(c) of the Pension Plan had not applied to the Participant; provided, however, that service credited pursuant to this Section shall not cause the Participant's Total Credited Service or Total Offset Service to exceed 40 years, and no Participant's deemed age shall exceed 65 years.

2.9 1991 Cost-of-Living Increase. Effective December 1, 1991, the monthly benefit payment to any person who is (a) a former employee of the Company then receiving retirement benefits under this Supplemental Plan (regardless of the employee's termination date), or (b) a beneficiary or surviving spouse then receiving death benefits under this Supplemental Plan shall be increased by the percentage shown in the following table.

Participant's Benefit Start Date or Surviving Spouse's Benefit Start Date for Pre-Retirement Death Benefits	Increase in Supplemental Pension
1978 or earlier	19%
1979	16%
1980	13%
1981	10%
1982	7%
1983	6%
1984	5%
1985	4%
1986	3%
1987	2%
1988 or later	0%

However, such increase shall only be applied to the portion, if any, of the amount being received due to participation in this Supplemental Plan that does not exceed the difference between \$108,963 per year and the amount being received by such person under the Pension Plan as increased by resolutions of the Board of Directors of Union Pacific unanimously adopted on June 27, 1974 and May 31, 1979 (before adjustment to reflect the increases effective December 1, 1991).

2.10 1999 Window Program.

(a) 1999 5x5 Program.

(i) Effective July 1, 1999, the benefit enhancements described in subsection (ii) shall be provided to any Participant who is a Covered Employee under the Pension Plan who satisfies the requirements of (i)(A) and (B).

(A) The requirements of this subparagraph are satisfied by a Covered Employee:

(I) whose 1998 Compensation, as defined in Section 2.18(c) of the Pension Plan, is at least \$110,000 and whose annual salary rate as of July 1, 1999 is less than \$140,000;

(II) who is at least age 55 by July 1, 2000;

(III) whose most recent date of hire as an Employee is before June 30, 1994;

(IV) who, as of July 1, 1999, is not a loaned executive, is not on long-term disability under the Union Pacific Long-Term Disability Plan, has not previously been accepted to participate in a voluntary force reduction program, does not have an existing termination agreement in effect or is not on a leave of absence (except those granted a leave under the Family and Medical Leave Act or as an accommodation under the Americans with Disabilities Act);

(V) who agrees to terminate employment with the Company and all Affiliated Companies on the date selected by the Company, which date shall not occur after July 15, 2000, and continues to provide satisfactory service as determined by the Company until that date; and

(VI) who elects to receive the benefit enhancements described in subsection (ii) during the period beginning July 1, 1999, and ending July 31, 1999, by submission of a written election and execution of other documents, including a waiver of any and all rights or claims (other than to benefits under the Supplemental Plan or the Pension Plan) that the Employee may have against Company and any Affiliated Company, the Supplemental Plan, the Pension Plan and their officers, agents and employees, in the form and manner prescribed by the Company and does not revoke such waiver within the time prescribed by the Company.

(B) The requirements of this paragraph are satisfied by a Covered Employee who, as of May 18, 1999, is employed in one of the following departments, provided that the number of Covered Employees of such department satisfying paragraph (A) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 1998 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 do not exceed the department's numerical limit set forth below. The departments referred to below consist entirely of Union Pacific Railroad Company Covered Employees, unless indicated to the contrary.

DEPARTMENTS -----	DEPARTMENTAL LIMIT -----
Corporate Relations (excluding Government Affairs)	4
Engineering (excluding employees who report directly to a Regional office)	80
Finance (excluding Accounting, Real Estate and Tax)	3
Human Resources - Development & Training	5
Human Resources - Other	8
Information Technologies/Union Pacific Technologies (excluding UPT employees working exclusively on commercial business)	100

DEPARTMENTS -----	DEPARTMENTAL LIMIT -----
Labor Relations	24
Law (excluding Little Rock)	10
Marketing & Sales - Damage Prevention	3
Marketing & Sales - Marketing Services (including NDMC)	20
Marketing & Sales - NCSC (excluding ICSC)	13
Marketing & Sales - Agricultural Products	7
Mechanical - Car (excluding employees who report directly to a Regional office)	15
Mechanical - Locomotive (excluding employees who report to directly to a Regional office)	18
Network Design and Integration	20
Risk Management - Police	10
Risk Management - Other	21
Supply	21
Operating Support Services/Quality	6

In the event the number of Covered Employees satisfying paragraph (A) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 1998 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 exceeds a Departmental Limit, such Covered Employees shall be ranked based upon their combined age and Vesting Service (as determined under Article IV of the Pension Plan), as of July 1, 1999, and the benefit enhancements described in subsection (ii) or in the Pension Plan shall be provided to the Covered Employees with the greatest combined age and Vesting Service up to the Departmental Limit.

(ii) Each Covered Employee described in subsection

(i) shall:

(A) for purposes of calculating Vesting Service, Total Credited Service and Total Offset Service and determining actuarial reductions for payments beginning before Normal Retirement Date, receive an additional 5 years of service (up to a maximum of 40 years of service) and shall be deemed to have attained an age 5 years older than his actual age (up to a maximum of age 65),

(B) be treated as having satisfied the requirements to have an Early Supplemental Pension Retirement Date if he has not satisfied the requirements to have an Early Retirement Date under the Pension Plan, and

(C) be treated as having been a Covered Employee for 60 full consecutive months for purposes of applying Section 4.02(c)(3) of the Pension Plan when calculating Total Credited Service and Total Offset Service under this Supplemental Plan.

(b) 1999 5x5 Program II.

(i) Effective December 1, 1999, the benefit enhancements described in subsection (ii) shall be provided to any Participant who is a Covered Employee under the Pension Plan who satisfies the requirements of (i)(A) and (B).

(A) The requirements of this subparagraph are satisfied by a Covered Employee:

(I) whose 1998 Compensation, as defined in Section 2.18(c) of the Pension Plan, is at least \$110,000 and whose annual salary rate as of December 1, 1999 is less than \$140,000 (but excluding any Covered Employee in the Marketing and Sales Department whose annualized 1999 base salary is more than \$85,000);

(II) who is at least age 55 by July 1, 2000;

(III) whose most recent date of hire as an Employee is before June 30, 1994;

(IV) who, as of December 1, 1999, is not a loaned executive, is not on long-term disability under the Union Pacific Long-Term Disability Plan, has not previously been accepted to participate in a voluntary force reduction program, does not have an existing termination agreement in effect or is not on a leave of absence (except those granted a leave under the Family and Medical Leave Act or as an accommodation under the Americans with Disabilities Act);

(V) who agrees to terminate employment with the Company and all Affiliated Companies on the date selected by the Company, which date shall not occur after July 15, 2000, and continues to provide satisfactory service as determined by the Company until that date; and

(VI) who elects to receive the benefit enhancements described in subsection (ii) during the period beginning December 1, 1999, and ending December 31, 1999, by submission of a written election and execution of other documents,

including a waiver of any and all rights or claims (other than to benefits under the Supplemental Plan or the Pension Plan) that the Employee may have against the Company and any Affiliated Company, the Supplemental Plan, the Pension Plan and their officers, agents and employees, in the form and manner prescribed by the Company, and does not revoke such waiver within the time prescribed by the Company.

(B) The requirements of this subparagraph are satisfied by a Covered Employee who, as of December 1, 1999, is employed in one of the following departments, provided that the number of Covered Employees of such department satisfying paragraph (A) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 1998 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 do not exceed the department's numerical limit set forth below. The departments referred to below consist entirely of Union Pacific Railroad Company Covered Employees, unless indicated to the contrary.

DEPARTMENTS -----	DEPARTMENTAL LIMIT -----
Western Regional Staff (excluding Service Unit staff)	5
Northern Regional Staff (excluding Service Unit staff)	19
Southern Regional Staff (excluding Service Unit staff)	5
Commissary Services	3
Information Technologies/Union Pacific Technologies (excluding UPT employees working exclusively on commercial business)	51
Marketing & Sales - Commodity Groups	11
Marketing & Sales - Marketing Services (including NDMC)	10
Supply	8

In the event the number of Covered Employees satisfying paragraph (A) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 1998 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 exceeds a Departmental Limit, such Covered Employees shall be ranked based upon their combined age and Vesting Service (as determined under Article IV of the Pension Plan), as of December 1, 1999, and the benefit enhancements described in subsection (ii) or in the Pension Plan shall be provided to the

Covered Employees with the greatest combined age and Vesting Service up to the Departmental Limit.

(ii) Each Covered Employee described in subsection

(a) shall:

(A) for purposes of calculating Vesting Service, Total Credited Service and Total Offset Service and determining actuarial reductions for payments beginning before Normal Retirement Date, receive an additional 5 years of service (up to a maximum of 40 years of service) and shall be deemed to have attained an age 5 years older than his actual age (up to a maximum of age 65),

(B) be treated as having satisfied the requirements to have an Early Supplemental Pension Retirement Date if he has not satisfied the requirements to have an Early Retirement Date under the Pension Plan,

(C) be treated as having been a Covered Employee for 60 full consecutive months for purposes of applying Section 4.02(c)(3) of the Pension Plan when calculating Total Credited Service and Total Offset Service under this Supplemental Plan, and

(D) for purposes of calculating benefits payable under this Supplemental Plan, have the Railroad Retirement Annuity used for his governmental offset described in Section 5.01(b) of the Pension Plan determined as if his termination of Employment occurred on December 31, 1999.

2.11 2000 VERP

(a) Effective April 1, 2000, the benefit enhancements described in subsection (b) shall be provided to any Participant who is a Covered Employee under the Pension Plan who satisfies the requirements of (a)(i) and (ii).

(i) The requirements of this subparagraph are satisfied by a Covered Employee:

(A) whose 1999 Compensation, as defined in Section 2.18(c) of the Pension Plan, is at least \$110,000 and whose annual salary rate as of April 1, 2000 is less than \$140,000;

(B) who is at least age 55 by December 31, 2000;

(C) whose most recent date of hire as an Employee is on or before March 31, 1995;

(D) who, as of April 1, 2000, is not a loaned executive, is not on long-term disability under the Union Pacific Long-Term Disability Plan, has not previously been accepted to participate in a voluntary force reduction program, does not have an existing termination agreement in effect or is not on a leave of absence (except those granted a leave under the Family and Medical Leave Act or as an accommodation under the Americans with Disabilities Act);

(E) who agrees to terminate employment with the Company and all Affiliated Companies on the date selected by the Company, which date shall not occur after December 31, 2000, and continues to provide satisfactory service as determined by the Company until that date; and

(F) who elects to receive the benefit enhancements described in subsection (b) during the period beginning April 1, 2000, and ending April 30, 2000, by submission of a written election and execution of other documents, including a waiver of any and all rights or claims (other than to benefits under the Supplemental Plan or the Pension Plan) that the Employee may have against the Company and any Affiliated Company, the Supplemental Plan, the Pension Plan and their officers, agents and employees, in the form and manner prescribed by the Company, and does not revoke such waiver within the time prescribed by the Company.

(ii) The requirements of this subparagraph are satisfied by a Covered Employee who, as of April 1, 2000, is employed in one of the following departments, provided that the number of Covered Employees of such department satisfying subparagraph (i) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 1999 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 do not exceed the department's numerical limit set forth below. The departments referred to below consist entirely of Union Pacific Railroad Covered Employees, unless indicated to the contrary.

DEPARTMENT -----	TOTAL ELIGIBLE EMPLOYEES -----	DEPARTMENTAL LIMIT -----
Network Design & Integration - Business Planning (Bulk), Service Scheduling	2	2
Network Design & Integration - Car Management	8	4
Harriman Dispatching Center - Administrative Support in Locomotive Management, Bulk Operations & Operations Support - Administration	2	1
Harriman Dispatching Center - Directors in Locomotive Management, Bulk Operations and Operations Support - Administration	2	1
Harriman Dispatching Center - Managers in Locomotive Management, Bulk Operations and Operations Support - Administration	21	8
Mechanical Department- Car - Perishables - UPFE	4	4
Risk Management - UPRR - Police	51	4

In the event the number of Covered Employees satisfying subparagraph (i) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 1999 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 exceeds a Departmental

Limit, such Covered Employees shall be ranked based upon their combined age and Vesting Service (as determined under Article IV of the Pension Plan) as of April 1, 2000, and the benefit enhancements described in subsection (b) or in the Pension Plan shall be provided to the Covered Employees with the greatest combined age and Vesting Service up to the Departmental Limit.

(b) Each Covered Employee described in subsection (a) shall:

(i) for purposes of calculating Vesting Service, Total Credited Service and Total Offset Service and determining actuarial reductions for payments beginning before Normal Retirement Date, receive an additional 5 years of service (up to a maximum of 40 years of service) and shall be deemed to have attained an age 5 years older than his actual age (up to a maximum of age 65),

(ii) be treated as having satisfied the requirements to have an Early Supplemental Pension Retirement Date if he has not satisfied the requirements to have an Early Retirement Date under the Pension Plan, and

(iii) be treated as having been a Covered Employee for 60 full consecutive months for purposes of Section 4.02(c)(3) of the Pension Plan when calculating Total Credited Service and Total Offset Service under this Supplemental Plan.

2.12 2001 VERP

(a) Effective March 1, 2001, the benefit enhancements described in subsection (b) shall be provided to any Participant who is a Covered Employee under the Pension Plan who satisfies the requirements of (a)(i) and (ii).

(i) The requirements of this subparagraph are satisfied by a Covered Employee:

(A) whose 2000 Compensation, as defined in Section 2.18(c) of the Pension Plan, is at least \$110,000 and whose annual salary rate as of December 31, 2000 is less than \$140,000;

(B) who is at least age 52 on or before May 1, 2001;

(C) who is an active non-agreement employee on a Band D or lower position working in one of the departments listed in subparagraph (a)(ii) as of December 31, 2000;

(D) who, as of March 1, 2001, is not a loaned executive, is not on long-term disability under the Union Pacific Long-Term Disability Plan, or is not on a leave of absence (except those granted a leave under the Family and Medical Leave Act or as an accommodation under the Americans with Disabilities Act);

(E) who agrees to terminate employment with the Company and all Affiliated Companies on the date selected by the Company, which date shall not occur

after September 30, 2001, and continues to provide satisfactory service as determined by the Company until that date; and

(F) who elects to receive the benefit enhancements described in subsection (b) during the period beginning February 2, 2001, and ending March 5, 2001, by submission of a written election and execution of other documents, including a waiver of any and all rights or claims (other than to benefits under the Supplemental Plan or Pension Plan) that the Employee may have against the Company and any Affiliated Company, the Supplemental Plan, the Pension Plan and their officers, agents and employees, in the form and manner prescribed by the Company, and does not revoke such waiver within the time prescribed by the Company.

(ii) The requirements of this subparagraph are satisfied by a Covered Employee who, as of December 31, 2000, is employed in one of the following departments, and is a Covered Employee on March 1, 2001, provided that the number of Covered Employees of such department satisfying subparagraph (i) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 2000 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 do not exceed the department's numerical limit set forth below. The departments referred to below consist entirely of Union Pacific Railroad Covered Employees, unless indicated to the contrary.

DEPARTMENT -----	SUB GROUP -----	DEPARTMENTAL LIMIT -----
Corporate Relations	Communications	8
	Government Affairs - Omaha	2
Executive	Comissary	6
Finance	Accounting - Omaha (excluding VP and Contr. Staff)	6
	Accounting - St. Louis	3
	Banking & Credit	2
	Financial Analysis	1
	Planning & Analysis (excluding Bus. Dev. Planning)	3
	Real Estate - Admin.	2
	Real Estate - Contracts	3
	Real Estate - Facility Man	2
	Real Estate - Field Ops	12
	Real Estate - Ops Supp	3
	Tax	4
Human Resources	Planning & Development	8
	Administrative Staff	1
	All Other Groups	6
IT/UPT	All	211
Labor Relations	Administration	3
	Benefits	1
	Operations & Non-Ops	1
	Peer Support	1

DEPARTMENT -----	SUB GROUP -----	DEPARTMENTAL LIMIT -----
Law	All	10
Marketing & Sales	Ag Products	3
	Autos	6
	Chemicals	6
	Customer Relations	2
	Energy - Acct. Mgt.	1
	Energy - Logistics	1
	Industrial Products	12
	Interline	2
	Intermodal	6
	NCSC	10
	Revenue Information Mgt.	1
	UPDS	2
Operating	Car	15
	CMS & Timekeeping	6
	Engineering	135
	HDC (excluding Train Dispatchers)	23
	Locomotive - North Little Rock	4
	Locomotive - Oper. Regions	5
	Locomotive - All Other	9
	Operating Practices & Safety	7
	Operating Region - Northern (excluding Train Dispatchers & Metra)	--
	Telecommunications	1
	Signal	1
	All Other	46
	Operating Region - Southern (excluding Train Dispatchers)	55
	Operating Region - Western (excluding Train Dispatchers):	--
	Admin. & Train Mgt.	2
	Car	6
	Engineering - Bridge	1
	Engineering - Environmental	2
	Engineering - Signal	2
	Engineering - Track	5
	Locomotive	2
	Region Staff	5
	Transportation	19
	Risk Mgt. - Claims & Health Services	18
	Risk Mgt. - Police (excluding Internal Placement)	1

DEPARTMENT -----	SUB GROUP -----	DEPARTMENTAL LIMIT -----
	Support Serv. - Jt. Fac. & NRPC Op.	1
	Support Serv. - All Other	1
NDI	All	15
Supply	All	17
UPC	Corporate Audit	1

In the event the number of Covered Employees satisfying subparagraph (i) or the comparable requirements set forth in the Pension Plan for Covered Employees whose 2000 Compensation, as defined in Section 2.18(c) of the Pension Plan, is less than \$110,000 exceeds a Departmental Limit, such Covered Employees shall be ranked based upon their combined age and Vesting Service (as determined under Article IV of the Pension Plan) as of March 31, 2001, and the benefit enhancements described in subsection (b) or in the Pension Plan shall be provided to the Covered Employees with the greatest combined age and Vesting Service up to the Departmental Limit.

(b) Each Covered Employee described in subsection (a) shall:

(i) for purposes of calculating Vesting Service, Total Credited Service and Total Offset Service and determining actuarial reductions for payments beginning before Normal Retirement Date, receive an additional 10 years in the aggregate (other than for purposes of determining any actuarial reduction for payment before Normal Retirement Date for any governmental or other offset described in Section 5.01(a)(1)(C) or in Table I, Section XII, Part 1 C or D of the Pension Plan), which shall first be applied to the Covered Employee's age (up to a maximum of age 65) then to service (up to a maximum of 40 years of service),

(ii) be treated as having completed 5 years of actual Vesting Service for purposes of Sections 4.1 and 4.2, and

(iii) be treated as having been a Covered Employee for 60 full consecutive months for purposes of applying Section 4.02(c)(3) of the Pension Plan when calculating Total Credited Service and Total Offset Service under this Supplemental Plan.

(c) Effective April 1, 2001:

(i) notwithstanding anything to the contrary in Section 2.12(a)(i)(E), but only with the consent of the Covered Employee, the termination date selected by the Company for a Covered Employee in Real Estate - Contracts, Real Estate - Field Ops, and Real Estate - Ops Supp may be any date on or before December 31, 2001.

(ii) The Departmental Limit is increased for the subgroups listed in Section 2.12(a)(ii) as set forth below:

DEPARTMENT -----	SUB GROUP -----	REVISED DEPARTMENTAL LIMIT -----
Finance	Accounting - Omaha (excluding VP and Contr. Staff)	7
	Real Estate - Ops Supp	5
Human Resources	All Other Groups	8
Labor Relations	Operations & Non-Ops	2
Marketing & Sales	Ag Products	4
	Energy - Logistics	2
	Industrial Products	14
	NCSC	17
Operating	Operating Practices & Safety	11
	Signal	3
	All Other	47
	Engineering - Signal	3
	Engineering - Track	7
	Region Staff	8
	Transportation	27

To be eligible for the benefit enhancement described in Section 2.12(b), a Covered Employee must be described in Section 2.12(a)(i) and (ii) who, but for the increase in the Departmental Limit, would not have received the benefit enhancement described in 2.12(b) and who elects to receive the benefit enhancement described in Section 2.12(b) by submitting a written election during the period beginning April 2, 2001 and ending April 9, 2001.

2.13 Railroad 1996 Voluntary Early Retirement Program.

(a) Effective March 20, 1996, the benefit enhancements described in subsection (b) shall be provided to any Participant who is a Covered Employee under the Pension Plan who:

(i) is actively employed on March 20, 1996 by: (A) Union Pacific Railroad Company ("Railroad"); (B) Union Pacific Motor Freight Company ("Motor Freight"); (C) Union Pacific Technologies Transportation System, Inc. ("UPTTS") or Union Pacific Distribution Services Company ("UPDS") (collectively, the "VERP Companies");

(ii) is not a Grade 28 or above on March 20, 1996;

(iii) is not on terminal vacation or on a leave of absence (other than one required by the Family and Medical Leave Act of 1993) on March 20, 1996;

(iv) is not a loaned executive, in a temporary position or in the internal placement program on March 20, 1996;

(v) has not previously been accepted to participate in a voluntary force reduction program;

(vi) does not have an existing termination agreement in effect with the VERP Companies;

(vii) is employed on March 20, 1996: (A) in Omaha, Nebraska by the Railroad's Information Technologies Department or Marketing and Sales Department; (B) in Omaha, Nebraska by UPTTS; (C) in Omaha, Nebraska by UPDS, or (D) by Union Pacific Motor Freight Company;

(viii) had at least 10 years of Vesting Service under the Pension Plan as of March 20, 1996 and will attain the age of at least 52 by July 1, 1996;

(ix) had total pay in 1995 as reported on Form W-2, plus amounts not included in taxable income due to a salary deferral election made pursuant to the terms of a qualified cash or deferred arrangement (within the meaning of section 401(k) of the Code) or a cafeteria plan (within the meaning of section 125 of the Code) maintained by the Employer of \$125,000 or more;

(x) elects not earlier than March 20, 1996 and not later than April 20, 1996 by submission of a written election in the form and manner prescribed by the Administrator to retire and terminate Employment with the benefit enhancements described in this Section; and

(xi) remains actively employed by the VERP Companies through the date communicated to the Covered Employee in writing on or before March 20, 1996, which date shall not thereafter be changed for any reason and shall not be earlier than May 1, 1996 nor later than April 30, 1997, except that the dates for the Railroad's Information Technologies Department are July 1, 1996 and June 30, 1997, respectively.

(b) Each Covered Employee described in subsection (a) shall:

(i) for purposes of calculating Vesting Service, Total Credited Service and Total Offset Service and determining actuarial reductions for payments beginning before Normal Retirement Date, receive an additional 10 years in the aggregate (other than for purposes of determining any actuarial reduction for payment before Normal Retirement Date for any governmental or other offset described in Section 5.01(a)(1)(C) or in Table I, Section XII, Part 1 C or D of the Pension Plan), which shall first be applied to the Covered Employee's age (up to a maximum of age 65) then to service (up to a maximum of 40 years of service);

(ii) be treated as having satisfied the requirements to have an Early Supplemental Pension Retirement Date if he has not satisfied the requirements to have an Early Retirement Date under the Pension Plan; and

(iii) be treated as having been a Covered Employee for 60 full consecutive months for purposes of applying Section 4.02(c)(3) of the Pension Plan when calculating Total Credited Service and Total Offset Service under this Supplemental Plan.

ARTICLE THREE

MANNER OF PAYMENT

3.1 Payments For Retirements Under Section 2.1, 2.2(a), 2.2(b)(i) and 2.3. Except as provided in Section 3.3, if (a) a Participant retires on a Normal Retirement Date, an Early Retirement Date, an Early Supplemental Pension Retirement Date, or a Postponed Retirement Date under Section 2.1, 2.2(a), 2.2(b)(i) or 2.3, and (b) at retirement is eligible to start both a Supplemental Pension under Article Two of this Supplemental Plan and a pension under the Pension Plan, payment of the Supplemental Pension shall begin on the date the Participant's Pension Plan benefits begin pursuant to his election under the Pension Plan (and not earlier or later). In addition, the Supplemental Pension shall be paid in the same form, and shall be subject to the same adjustment for form of payment and the same Beneficiary designation, as apply to the Participant's Pension Plan benefit; provided, however, that in the event the Participant is eligible for and elects a level income option under the Pension Plan, the Supplemental Pension shall be paid as a single life annuity.

3.2 Payments For Retirements Under Section 2.2(b)(ii). Except as provided in Section 3.3, if a Participant retires on an Early Supplemental Pension Retirement Date, and at retirement either is not vested in or is not eligible to start a pension under the Pension Plan, payment of his Supplemental Pension shall begin on the first day of the month next following the Participant's Early Supplemental Pension Retirement Date. The Participant's Supplemental Pension will be paid in the form of a single life annuity. The Participant is not eligible to elect payment of his Supplemental Pension in any other form.

3.3 Payments Starting Before July 25, 2002. Effective for benefits starting before July 25, 2002, the Administrator may have permitted a Participant described in Section 3.1 or 3.2 who was retiring on an Early Supplemental Pension Retirement Date that did not qualify as an Early Retirement Date under the Pension Plan to elect, in the manner prescribed by the Administrator, to receive payment of his Supplemental Pension in any form of payment described in Article VIII of the Pension Plan that would have been available to the Participant had he retired on an Early Retirement Date under the Pension Plan. If the Participant was permitted to and elected a form of payment other than a single life annuity, the Supplemental Pension payments are actuarially adjusted for the form of payment elected by the Participant, as determined by the Administrator, using factors for that purpose set forth in the Pension Plan.

ARTICLE FOUR

VESTING

4.1 Termination Prior to Vesting.

(a) A Participant whose Employment terminates before April 27, 1989, before Early or Normal Retirement Date, and before the completion of 10 years of Vesting Service (including within such Vesting Service not less than 5 years of actual Vesting Service under the Pension Plan) shall not be entitled to any benefit under this Supplemental Plan.

(b) Except as provided in Section 2.5 or 2.12(b)(ii), a Participant who terminates Employment on or after April 27, 1989, before Early or Normal Retirement Date, and before completion of 5 years of actual Vesting Service under the Pension Plan (treating as actual service for this purpose, service described in Section 1.2(p)(ii) or credited under Section 2.5) shall not be entitled to any benefit under this Supplemental Plan; provided, however, that the Chief Executive Officer of Union Pacific may reduce the required years of actual Vesting Service to 3 if the Chief Executive Officer of Union Pacific determines that such change would not be disadvantageous to the Company in the case of any Participant. The Chief Executive Officer of Union Pacific shall make such determination by the date the Participant terminates Employment.

4.2 Termination After Vesting. Except as provided in Section 2.5, 2.12(b)(ii) or 4.4 or Articles Five and Eleven, a Participant who:

(a) terminates Employment before Normal or Early Retirement Date and before Early Supplemental Pension Retirement Date but after (i) completing 5 (or 3, if applicable) years of actual Vesting Service under the Pension Plan (treating as actual service for this purpose, service described in Section 1.2(p)(ii) or credited under Section 2.5) in the case of Employment termination on or after April 27, 1989, or (ii) completing 10 years of Vesting Service (including at least 5 years of actual Vesting Service under the Pension Plan) in the case of Employment termination prior to April 27, 1989; or

(b) becomes a Disabled Participant under the Pension Plan and ceases to be a Disabled Participant prior to Normal or Early Retirement Date,

shall be entitled to receive, commencing on the Participant's Normal Retirement Date, the Normal Supplemental Pension computed under Section 2.1 as of the date the Participant terminated Employment or ceased to be a Disabled Participant. In lieu thereof, such Participant shall receive a Supplemental Pension commencing on the earliest of:

(i) any date prior to the Participant's Normal Retirement Date on which the Participant starts his benefit payments from the Pension Plan;

(ii) in the case of a Participant who is credited with additional years of age described in Section 1.2(d)(ii) and, as a result, would be deemed to reach age 55 and become eligible to start his Supplemental Plan benefits earlier than his Pension Plan benefits, the first day

of the month following the later of (A) the Participant's termination of Employment, or (B) the Participant's 55th birthday (determined taking into account additional years of age described in Section 1.2(d)(ii)); or

(iii) in the case of a Participant who is not vested under the Pension Plan, the first day of the month following the later of (A) the Participant's termination of Employment, or (B) the Participant's 55th birthday (determined taking into account additional years of age described in Section 1.2(d)(ii)), or the first day of any month thereafter that is prior to the Participant's Normal Retirement Date on which the Participant elects to start payment of his Supplemental Pension.

The election described in (iii) must be made in writing, in a form prescribed by the Administrator, at least six (6) months before, and in the tax year of the Participant immediately preceding, the elected benefit start date. Any Supplemental Pension paid to the Participant commencing prior to Normal Retirement Date shall equal (I) the amount described in Section 2.1(a) adjusted for early payment as of the early benefit start date in accordance with Section 6.04 of the Pension Plan (taking into account any additional years of age described in Section 1.2(d)(ii) for purposes of adjusting both the gross and offset portions of the benefit except as provided otherwise in Section 2.12), reduced by (II) the amount described in Section 2.1(b), if any, adjusted for payment as of the early benefit start date in accordance with Section 6.04 of the Pension Plan. Notwithstanding the preceding sentence, if the Participant's Supplemental Pension begins prior to his Pension Plan benefit, the reduction described in (II) shall be calculated and apply beginning on the earliest date benefits are payable to the Participant under the Pension Plan, even if the Participant's Pension Plan benefits do not actually start on that earliest date.

4.3 Form of Vested Benefit.

(a) Benefits Payable Under Supplemental Plan and Pension Plan.

Except as provided in Section 4.4, if a Participant is entitled to benefits under both the Supplemental Plan and the Pension Plan and benefits under both Plans start on the same date, the Supplemental Pension determined under Section 4.2 shall be paid in the same form, and shall be subject to the same adjustment for form of payment and the same Beneficiary designation, as apply to the Participant's Pension Plan benefit. If, however, such Participant's Supplemental Plan benefit starts before his Pension Plan benefit, the Participant's Supplemental Pension will be paid in the form of a single life annuity.

(b) No Benefits Payable Under Pension Plan. Except as provided

in Section 4.4, in the event a Participant is entitled to a benefit from the Supplemental Plan but is not vested in a benefit under the Pension Plan, the Participant shall receive payment of his Supplemental Pension determined under Section 4.2 in the automatic form of payment described in Section 8.02 of the Pension Plan that would have applied to the Participant had he been eligible for and started payment under the Pension Plan on the same day. The Participant's Supplemental Pension determined under Section 4.2 shall be adjusted for form of payment, as appropriate, pursuant to Article VIII of the Pension Plan.

4.4 Payments Starting Before July 25, 2002. The rules set forth in Sections 4.2 and 4.3, above, applied to Supplemental Plan benefits starting before July 25, 2002, unless the Administrator advised the Participant to the contrary.

ARTICLE FIVE

CERTAIN EMPLOYEE TRANSFERS

5.1 Transfers into Supplemental Plan from Resources Supplemental Plan.

If any employee who is a participant in the Supplemental Pension Plan for Exempt Salaried Employees of Union Pacific Resources Company and Affiliates is transferred on or before October 15, 1996 to the Company and becomes a Participant after such transfer, such employee shall retain no rights in the other supplemental pension plan and shall receive all benefits to which entitled under this Supplemental Plan, based upon Total Credited Service and Total Offset Service which shall include, as to such employee, any service which would have been used in determining the Participant's benefits under such other supplemental pension plan.

5.2 Transfers to Resources Supplemental Plan. If a Participant is transferred on or before October 15, 1996 to an Affiliated Company participating

in the Supplemental Pension Plan for Exempt Salaried Employees of Union Pacific Resources Company and Affiliates and becomes a participant in the supplemental pension plan of the Affiliated Company after such transfer, such former Participant shall retain no rights in this Supplemental Plan if such other supplemental pension plan has provisions that substantially conform to the transfer provisions for the protection of transferees that are contained in Section 5.1.

5.3 No Duplication of Benefits. There shall under no circumstances be

any duplication of benefits under this Supplemental Plan or any supplemental pension plan of an Affiliated Company or former Affiliated Company by reason of the same period of employment.

ARTICLE SIX

PRE-RETIREMENT SURVIVOR'S BENEFIT

6.1 Eligibility. The Surviving Spouse of a Participant who either (a) terminates Employment or ceases to be a Disabled Participant due to death, or (b) (i) terminates Employment other than due to death after becoming entitled to a Supplemental Pension under Article Two or Article Four, and (ii) dies prior to the commencement of payment of the Supplemental Pension shall receive the benefit determined pursuant to Section 6.2.

6.2 Surviving Spouse's Benefit

(a) Subsidized Death Benefits.

(i) Except as provided in subsection (ii) or Section 6.4, the benefit payable to the Surviving Spouse of a Participant described in Section 6.1 who dies:

(A) on or after January 1, 1994 while a Disabled Participant, but before Early or Normal Retirement Date under the terms of the Pension Plan;

(B) on or after the Effective Date during Employment, but before Early or Normal Retirement Date under the terms of the Pension Plan;

(C) on or after the Effective Date during Employment, but after Early or Normal Retirement Date under the terms of the Pension Plan; or

(D) on or after the Effective Date after terminating Employment or ceasing to be a Disabled Participant, providing such termination or cessation occurred after Early or Normal Retirement Date under the terms of the Pension Plan,

shall be a monthly annuity payable for the Surviving Spouse's life. Monthly payments to the Surviving Spouse shall equal one-half of the monthly Supplemental Pension such Participant would have received (assuming, for a Participant described in Section 6.1(a), the Participant had vested) in the form of a single life annuity (in the form of a Qualified Joint and Survivor Annuity for a Participant described in (B) whose death occurs prior to 1994), if the Participant had survived (but accrued no additional benefits after death) and started his Supplemental Pension on the date Supplemental Plan benefits begin to the Surviving Spouse under Section 6.3. Notwithstanding anything in the Supplemental Plan to the contrary, the Surviving Spouse's benefit with respect to a Participant described in (A) or (B), above, shall be determined by applying, for purposes of any adjustment for payment prior to Normal Retirement Date, the early retirement reduction factors of Section 6.03 of the Pension Plan.

(ii) Except as provided in Section 6.4, the benefit payable to the Surviving Spouse of a Participant described in Section 6.1, who dies other than under circumstances described in Section 6.2(a)(i) but after becoming eligible for an Early Supplemental Pension under Section 2.2 based on an Early Supplemental Pension Retirement

Date or who dies under circumstances described in Section 6.2(a)(i) but is described in Section 6.3(b), shall be an annuity payable for the Surviving Spouse's life calculated as follows:

(A) In the case of a Participant who is entitled to both a pension under the Supplemental Plan and a pension under the Pension Plan, monthly payments to the Surviving Spouse shall equal one-half of the monthly Supplemental Pension in the form of a single life annuity calculated for the Participant as described in Section 2.2(b)(i)(A) as if the Participant had survived (but accrued no additional benefits after death) and started his Supplemental Pension on the date Supplemental Plan benefits begin to the Surviving Spouse under Section 6.3, reduced by any survivor benefit that the Surviving Spouse is entitled to receive from the Pension Plan from the earliest date on or following the date payments begin to the Surviving Spouse that such survivor benefit is payable from the Pension Plan (whether or not such survivor benefit begins on the earliest date under the Pension Plan).

(B) In the case of a Participant who is entitled to a pension under the Supplemental Plan but is not vested in a pension under the Pension Plan, monthly payments to the Surviving Spouse shall equal one-half of the monthly Supplemental Pension in the form of a single life annuity calculated for the Participant as described in Section 2.2(b)(ii)(A)(I) as if the Participant had survived (but accrued no additional benefits after death) and started his Supplemental Pension on the date Supplemental Plan benefits begin to the Surviving Spouse under Section 6.3.

(b) Non-Subsidized Death Benefits. Except as provided in Section 6.4, the benefit payable to the Surviving Spouse of a Participant described in Section 6.1 who dies under circumstances other than those described in Section 6.2(a) shall be an annuity payable for the Surviving Spouse's life with monthly payments equal to:

(i) Prior to the earliest date, if any, on which the Surviving Spouse is eligible to start any survivor benefit payable under the Pension Plan, 50% of the monthly Supplemental Pension the Participant would have received in the form of a Qualified Joint and Survivor Annuity determined as if the Participant is not entitled to a pension under the Pension Plan if the Participant had survived (and accrued no additional benefits after his death) and started his Supplemental Pension on the date Supplemental Plan benefits begin to the Surviving Spouse under Section 6.3; and

(ii) On or after the earliest date, if any, on which the Surviving Spouse is eligible to start any survivor benefit payable under the Pension Plan, the amount described in (i), above, reduced by any survivor benefit that the Surviving Spouse is entitled to receive from the Pension Plan beginning on such earliest date (whether or not such survivor benefit begins on the earliest date under the Pension Plan).

6.3 Timing of Surviving Spouse's Benefit. Except as provided in Section 6.4, the benefit to which a Surviving Spouse of a Participant shall be entitled pursuant to Section 6.2(a) or (b) shall be paid monthly to such Surviving Spouse, commencing as of the date such Surviving Spouse elects, or is required to, start payment of any benefit to which the Surviving Spouse is entitled under the Pension Plan. Notwithstanding the preceding sentence:

(a) if the Surviving Spouse is not entitled to any payment from the Pension Plan, the Surviving Spouse shall receive payment of any Supplemental Pension to which the Surviving Spouse is entitled under Section 6.2 beginning as of the later of (i) the first of the month following the Participant's 55th birthday (determined taking into account any additional years of age described in Section 1.2(d)(ii)), or (ii) the first of the month following the date of the Participant's death.

(b) if the deceased Participant would have been entitled or required to start his Supplemental Plan benefit on an earlier date than the Participant would have been entitled to start his Pension Plan benefit had he survived, the Surviving Spouse shall receive payment of any Supplemental Pension to which the Surviving Spouse is entitled under Section 6.2 beginning as of the later of (i) the earliest date as of which the Participant would have been eligible or required to start payments pursuant to Article Two, Three or Four, as appropriate, or (ii) the first of the month following the date of the Participant's death.

Payments to the Surviving Spouse shall end with the payment made for the month in which the Surviving Spouse dies.

6.4 Payments Starting Before July 25, 2002. The rules for pre-retirement death benefits set forth in Sections 6.2 and 6.3, above, applied to Supplemental Plan pre-retirement death benefits starting before July 25, 2002, unless the Administrator advised the Participant and/or Surviving Spouse to the contrary.

ARTICLE SEVEN

FUNDING

7.1 Funding. The Company's obligations hereunder shall constitute a general, unsecured obligation of the Company payable solely out of its general assets, and no Participant or former Participant shall have any right to any specific assets of the Company. To the extent that any Participant or former Participant acquires a right to receive payments under the Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. The Board of Directors of Union Pacific may, but shall not be required to, authorize Union Pacific to establish a trust to hold assets to be used to discharge the Company's obligations hereunder, provided that such trust shall not confer upon Participants or former Participants any rights other than the rights of unsecured general creditors of the Company.

7.2 Payment to James Otto. On or about December 1, 2000, James Otto was paid in a single sum the actuarial equivalent value of the portion of his Supplemental Pension, payable in the form of a 50% joint and survivor annuity with his spouse as beneficiary, that was not funded through annuity purchases. Such single sum payment of \$501.40 was in full settlement of the Supplemental Plan's obligation to pay such remaining benefit to James Otto or his Surviving Spouse or other beneficiary.

ARTICLE EIGHT

ADMINISTRATION

8.1 Responsibilities and Powers of Administrator. Except for the responsibilities and powers elsewhere herein given specifically to the Board of Directors of Union Pacific, the Administrator shall have all responsibilities for the operation and administration of the Supplemental Plan and shall have all powers and discretionary authority necessary to carry out those responsibilities hereunder. Without limiting the generality of the foregoing, the Administrator shall have full power and discretionary authority to:

(a) keep and maintain such accounts and records with respect to Participants, former Participants and Special 1990-1992 Window Participants as are deemed necessary or proper;

(b) determine all questions of the eligibility for participation and benefits and of the status and rights of Participants, former Participants, Special 1990-1992 Window Participants and any other person hereunder, make all required factual determinations, interpret and construe the Supplemental Plan in connection therewith and correct defects, resolve ambiguities therein and supply omissions thereto;

(c) adopt from time to time mortality and other tables and interest rates upon which all actuarial calculations shall be based, including the determination of the appropriate factors for the adjustment of pension payments; and

(d) adopt from time to time rules and regulations governing this Supplemental Plan.

The Administrator shall carry out all responsibilities and exercise all powers in accordance with the terms of the Supplemental Plan. The determination of the Administrator as to any questions involving the responsibilities hereunder shall be final, conclusive and binding on all persons.

8.2 Certification and Payment of Benefits. The Administrator shall compute the amount and manner of payment of benefits to which the Participants, Special 1990-1992 Window Participants, former or retired Participants, Surviving Spouses and beneficiaries become entitled. All payments of benefits shall be made directly by the Company upon the instructions of the Administrator.

8.3 Reports to Board of Directors. As the Administrator deems necessary or proper or as the Board of Directors of Union Pacific may require, but in any event at least once during each calendar year, the Administrator shall report to such Board on the operation and administration of the Supplemental Plan and on any other matter concerning the Supplemental Plan deemed advisable or required by such Board.

8.4 Designation and Delegation. The Administrator may designate other persons to carry out such of the responsibilities hereunder for the operating and administration of the Supplemental Plan as the Administrator deems advisable and delegate to the persons so

designated such of the powers as the Administrator deems necessary to carry out such responsibilities. Such designation and delegation shall be subject to such terms and conditions as the Administrator deems necessary or proper. Any action or determination made or taken in carrying out responsibilities hereunder by the persons so designated by the Administrator shall have the same force and effect for all purposes as if such action or determinations had been made or taken by the Administrator.

8.5 Outside Services. The Administrator may engage counsel and such clerical, medical, financial, actuarial, accounting and other specialized services as is deemed necessary or desirable for the operation and administration of the Supplemental Plan. The Administrator and persons so designated shall be entitled to rely, and shall be fully protected in any action or determination or omission taken or made or omitted in good faith in so relying, upon any opinions, reports or other advice which is furnished by counsel or other specialist engaged for that purpose.

8.6 Expenses. All expenses, including any fees for outside services under Section 8.5, incurred by the Administrator and by persons designated by the Administrator under Section 8.4 in the operation and administration of the Supplemental Plan shall be paid by the Company. Neither the Administrator nor any other person who is an employee of the Company or an Affiliated Company shall receive any compensation solely for services in carrying out any responsibility hereunder.

8.7 Bonding. No bond or other security shall be required of the Administrator or of any person designated under Section 8.4.

8.8 Liability. The Administrator and persons designated by him under Section 8.4 shall use ordinary care and diligence in the performance of their duties. The Company shall indemnify and defend the Administrator and each other person so designated under Section 8.4 against any and all claims, loss, damages, expense (including reasonable counsel fees), and liability arising from any action or failure to act or other conduct in their official capacity, except when the same is due to the gross negligence or willful misconduct of the Administrator or other persons.

8.9 Finality of Actions. Any action required of Union Pacific, the Company, the Board of Directors of Union Pacific, or the Chief Executive Officer of Union Pacific (the "CEO") under this Supplemental Plan, or made by the Administrator acting on their behalf, shall be made in the Company's, the Board's or the CEO's sole discretion, not in a fiduciary capacity and need not be uniformly applied to similarly situated persons. Any such action shall be final, conclusive and binding on all persons interested in the Supplemental Plan.

ARTICLE NINE

AMENDMENT OR TERMINATION

9.1 Amendment or Termination. The Board of Directors of Union Pacific, acting by written resolution, reserves the right to modify, alter, amend or terminate the Supplemental Plan from time to time and to modify, withdraw or terminate the Supplemental Plan, to any extent that it may deem advisable; provided, that no such modification, alteration, amendment or termination shall impair any rights which have accrued to Participants hereunder to the date of such modification, alteration, amendment or termination. Notwithstanding the foregoing, the Senior Vice President - Human Resources of Union Pacific may make all technical, administrative, regulatory and compliance amendments to the Supplemental Plan, and any other amendment that will not significantly increase the cost of the Supplemental Plan to the Company, as he or she shall deem necessary or appropriate.

ARTICLE TEN

GENERAL PROVISIONS

10.1 Certain Rights Reserved. Nothing herein contained shall confer upon any Employee or other person the right (a) to continue in Employment or service of the Company or affect any right that the Company may have to terminate the Employment or service of (or to demote or to exclude from future participation in the Supplemental Plan) any such Employee or other person at any time for any reason, (b) to participate in the Supplemental Plan, or (c) to receive an annual base salary of any particular amount.

10.2 Alienability of Benefits. Payments under the Supplemental Plan may not be assigned, transferred, pledged or hypothecated, and to the extent permitted by law, no such payments shall be subject to legal process or attachment for the payment of any claims against any person entitled to receive the same. Effective on and after July 25, 2002, compliance with the provisions and conditions of any domestic relations order relating to an individual's Supplemental Plan benefits, which the Administrator has determined must be complied with under the terms of applicable law, shall not be considered a violation of this provision.

10.3 Payment Due an Incompetent. If it shall be found that any person to whom a payment is due hereunder is unable to care for that person's affairs because of physical or mental disability, as determined by a licensed physician, the Administrator shall have the authority to cause the payments becoming due such person to be made to the legally appointed guardian of any such person or to the spouse, brother, sister, or other person as it shall determine. Payments made pursuant to such power shall operate as a complete discharge of the Company's obligations.

10.4 Governing Law. The Supplemental Plan shall be construed and enforced in accordance with the laws of the State of Nebraska (without regard to the legislative or judicial conflict of laws rules of any state), except to the extent superseded by any federal law.

10.5 Successors. This Supplemental Plan shall be binding upon any successor (whether direct or indirect, by purchase, merger, consolidated or otherwise) to all or substantially all of the business and/or assets of the Company in the same manner and to the same extent that the Company would be bound to perform if no such succession had taken place.

10.6 Titles and Headings Not To Control. The titles and Articles of the Supplemental Plan and the headings of Sections and subsections of the Supplemental Plan are placed herein for convenience of reference only and, as such, shall have no force and effect in the interpretation of the Supplemental Plan.

10.7 Severability. If any provisions of the Supplemental Plan shall be held unlawful or otherwise invalid or unenforceable in whole or in part, the unlawfulness, invalidity, or unenforceability shall not affect any provision of the Plan or part thereof, each of which shall remain in full force and effect.

10.8 Determination and Withholding of Taxes. The Administrator shall have full authority to satisfy the responsibility of Union Pacific or any Affiliated Company to withhold taxes with respect to a Participant or former Participant, including FICA taxes, by withholding such taxes from any distributions under the Plan to the Participant or former Participant or his beneficiary or estate. The Administrator shall also have full authority, with or without the consent of the Participant or former Participant, to withhold from the individual's compensation from any and all sources, any FICA or other taxes applicable to benefits accrued under the Supplemental Plan.

ARTICLE ELEVEN

TRANSFERS TO NON-COVERED EMPLOYMENT

11.1 Notwithstanding any other provision of this Supplemental Plan to the contrary, if a Participant is transferred to the employment of an Affiliated Company that has not adopted the Supplemental Plan ("non-covered employment"), upon the approval of the Chief Executive Officer of Union Pacific, any benefits to which such Participant (or his Surviving Spouse or other beneficiary) would be entitled under the Pension Plan, the Supplemental Plan, or both, by treating such Participant's non-covered employment as if it were service covered by such Plans and by aggregating such service with the Participant's other service covered by the Plans shall be provided to the Participant under this Section 11.1 to the extent that such benefits exceed the aggregate of (a) the Participant's benefits under the Pension Plan, (b) the Participant's benefits under the Supplemental Plan determined without regard to this Section 11.1, and (c) the Participant's benefits under any pension plan of the Affiliated Company that are based on the Participant's non-covered employment and/or employment otherwise covered by the Pension and Supplemental Plans.

ARTICLE TWELVE

CLAIMS PROCEDURE

12.1 Application for Benefits. Each Participant, former Participant, Special 1990-1992 Window Participant, Surviving Spouse or other beneficiary, or alternate payee under a domestic relations order believing himself or herself eligible for a benefit under this Supplemental Plan shall apply for such benefit by completing and filing with the Administrator an application for benefits on a form supplied by the Administrator.

12.2 Claims Before January 1, 2002. The following provisions are effective prior to January 1, 2002: In the event that any claim for benefits is denied in whole or in part, the person whose claim has been so denied shall be notified of such denial in writing by the Administrator. The notice advising of the denial shall specify the reason or reasons for denial, make specific reference to pertinent provisions of the Supplemental Plan, describe any additional material or information necessary for the claimant to perfect the claim (explaining why such material or information is needed), and shall advise the claimant of the procedure for the appeal of such denial. All appeals shall be made by the following procedure:

(a) The person whose claim has been denied shall file with the Administrator a notice of desire to appeal the denial. Such notice shall be filed within 60 days of notification by the Administrator of claim denial, shall be made in writing, and shall set forth all of the facts upon which the appeal is based. Appeals not timely filed shall be barred.

(b) The Administrator shall consider the merits of the claimant's written presentations, the merits of any facts or evidence in support of the denial of benefits, and such other facts and circumstances as the Administrator shall deem relevant.

(c) The Administrator shall ordinarily render a determination upon the appealed claim within 60 days after receipt which determination shall be accompanied by a written statement as to the reasons therefor. However, in special circumstances the Administrator may extend the response period for up to an additional 60 days, in which event it shall notify the claimant in writing prior to commencement of the extension. The determination so rendered shall be binding upon all parties.

12.3 Claims On or After January 1, 2002. The following provisions are effective on and after January 1, 2002:

(a) Claim for Benefits. A claim for Supplemental Plan benefits may be filed by:

(i) any person (or his duly authorized representative) who has applied for and/or received benefits from the Supplemental Plan pursuant to Section 12.1 and who believes that the amount and/or form of benefits provided (including no benefits) or any change in or termination or reduction of benefits previously provided results in a denial of benefits to which he is entitled for any reason (whether under the terms of the Supplemental Plan or by reason of any provision of law); or

(ii) any Employee or other individual (or his duly authorized representative) who believes himself to be entitled to benefits from the Supplemental Plan.

A claim for benefits must be filed with the Administrator, in writing and in accordance with such other requirements as may be prescribed by the Administrator. Any claim shall be processed as follows:

(A) When a claim for benefits has been filed by the claimant (or his duly authorized representative), such claim for benefits shall be evaluated and the claimant shall be notified by the Administrator of the approval or denial within a reasonable period of time, but not later than 90 days after the receipt of such claim unless special circumstances require an extension of time for processing the claim. If such an extension of time for processing is required, written notice of the extension shall be furnished to the claimant prior to the termination of the initial 90-day period and shall specify the special circumstances requiring an extension and the date by which a final decision will be reached (which date shall not be later than 180 days after the date on which the claim was received).

(B) A claimant shall be given written notice in which the claimant shall be advised as to whether the claim is granted or denied, in whole or in part. If a claim is denied, in whole or in part, the claimant shall be given written notice which shall contain (I) the specific reasons for the denial, (II) references to the specific Supplemental Plan provisions upon which the denial is based, (III) a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary, (IV) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim, (V) the claimant's rights to seek review of the denial and time limits and other aspects of the Supplemental Plan's claim review procedures, and (VI) a statement of the claimant's right to bring a civil action under ERISA section 502(a) following an adverse determination upon review.

(b) Review of Claim Denial. If a claim for benefits is denied, in whole or in part, the claimant (or his duly authorized representative) shall have the right to request that the Administrator review the denial, provided that the claimant files in accordance with such requirements as may be prescribed by the Administrator a written request for review with the Administrator within 60 days after the date on which the claimant received written notification of the denial. A claimant (or his duly authorized representative) may review relevant documents, records and other information relevant to the claim (or receive copies free of charge) and may submit to the Administrator with the written request for review documents, records, written comments and other information relevant to the claim for benefits, which shall be considered upon review whether or not such information and other items were available when the claim was originally determined. Requests for review not timely filed shall be barred. A timely request for claim review shall be processed as follows:

(i) Within a reasonable period of time, but not later than 60 days after a request for review is received, the review shall be made and the claimant shall be advised in writing of the decision on review, unless special circumstances require an extension of time for processing the review. If an extension is needed, the claimant shall be given a written

notification within such initial 60-day period specifying the reasons for the extension and when such review shall be completed (provided that such review shall be completed within 120 days after the date on which the request for review was filed). However, if the period for deciding the claim has been extended under this paragraph (i) due to a claimant's failure to provide information necessary to decide a claim, the period for making a decision on review shall be tolled from the date the claimant is sent written notice of the extension until the date on which the claimant responds to the request for information (or such earlier date as may be prescribed by the Administrator in accordance with applicable law and regulations).

(ii) The decision on review shall be forwarded to the claimant in writing and shall include (A) specific reasons for the decision, (B) references to the specific Plan provisions upon which the decision is based, (C) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim, and (D) a statement of the claimant's right to bring an action under ERISA section 502(a). A decision on review shall be final and binding on all persons for all purposes.

(c) Exhaustion of Claims Review Process. A claimant shall have no right to seek review of a denial of benefits, or to bring any action in any court to enforce a claim for benefits prior to his filing a claim for benefits and exhausting his rights to review under this Section 12.3.

12.4 Claims Related to Corrections Under Pension Plan Compliance Statement. Notwithstanding any provision of the Supplemental Plan to the contrary, any individual whose Supplemental Plan benefit is recalculated or adjusted in connections with corrections made under the Compliance Statement dated October 25, 2001 (that was issued for the Pension Plan under the Internal Revenue Service Voluntary Compliance Resolution Program) and who believes that such recalculation and/or adjustment results in a denial of benefits to which he is entitled for any reason (whether under the terms of the Supplemental Plan or by reason of any provision of law) may file a claim with the Administrator, in writing, stating the reasons he disagrees with such recalculation and/or adjustment and providing proof of any service, compensation or other facts that he believes should be taken into account. In order to be considered by the Supplemental Plan, such written claim and proof must be received by the Administrator by the date specified in the written notice of such recalculation and/or adjustment that is sent by the Administrator (or his delegate), by first class mail, to the person's address reflected in Supplemental Plan records on the date of the mailing. The deadline for filing a claim under this Section 12.4 that is specified in the written notice from the Administrator shall be a date not earlier than 90 days after the date such notice is mailed to the person. Any claim described in this Section 12.4 that is not received by the date specified in the written notice of recalculation and/or adjustment shall be denied on the grounds that it is untimely.

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1993

STOCK OPTION AND RETENTION STOCK PLAN

OF

UNION PACIFIC CORPORATION

(EFFECTIVE APRIL 16, 1993 -
AS AMENDED SEPTEMBER 30, 1993,
JULY 28, 1994, APRIL 24, 1997,
NOVEMBER 20, 1997, SEPTEMBER 24, 1998, MAY 27, 1999,
MAY 25, 2000, NOVEMBER 16, 2000, JANUARY 25, 2001 AND MAY 30, 2002)

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1993 STOCK OPTION AND RETENTION STOCK PLAN
OF UNION PACIFIC CORPORATION

1. PURPOSE

The purpose of the 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation is to promote and closely align the interests of employees of Union Pacific Corporation and its shareholders by providing stock based compensation. The Plan is intended to strengthen Union Pacific Corporation's ability to reward performance which enhances long term shareholder value; to increase employee stock ownership through performance based compensation plans; and to strengthen the company's ability to attract and retain an outstanding employee and executive team.

2. DEFINITIONS

The following terms shall have the following meanings:

"Act" means the Securities Exchange Act of 1934, as amended.

"Affiliate" shall have the meaning set forth in Rule 12b-2 under Section 12 of the Act.

"Approved Leave of Absence" means a leave of absence of definite length approved by the Senior Vice President - Human Resources of the Company, or by any other officer of the Company to whom the Committee delegates such authority.

"Award" means an award of Retention Shares or Stock Units pursuant to the Plan.

"Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Act.

"Beneficiary" means any person or persons designated in writing by a Participant to the Committee on a form prescribed by it for that purpose, which designation shall be revocable at any time by the Participant prior to his or her death, provided that, in the absence of such a designation or the failure of the person or persons so designated to survive the Participant, "Beneficiary" shall mean such Participant's estate; and further provided that no designation of Beneficiary shall be effective unless it is received by the Company before the Participant's death.

"Board" means the Board of Directors of the Company.

"Change in Control" means the occurrence of any one of the following:

- (i) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its Affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (A) of paragraph (iii) below; or

- (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on November 16, 2000, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended; or
- (iii) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) more than 50% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities; or
- (iv) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, more than 50% of the combined voting power of the voting securities of which is owned by shareholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

"Code" means the Internal Revenue Code of 1986, as amended, or the corresponding provisions of any successor statute.

"Committee" means the Committee designated by the Board to administer the Plan pursuant to Section 3.

"Common Stock" means the Common Stock, par value \$2.50 per share, of the Company.

"Company" means Union Pacific Corporation, a Utah corporation, or any successor corporation.

"Option" means each non-qualified stock option, incentive stock option and stock appreciation right granted under the Plan.

"Optionee" means any employee of the Company or a Subsidiary (including directors who are also such employees) who is granted an Option under the Plan.

"Participant" means any employee of the Company or a Subsidiary (including directors who are also such employees) who is granted an Award under the Plan.

"Person" shall have the meaning given in Section 3(a)(9) of the Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its Affiliates, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its subsidiaries, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities or (iv) a corporation owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company.

"Plan" means this 1993 Stock Option and Retention Stock Plan, as amended from time to time.

"Retention Shares" means shares of Common Stock subject to an Award granted under the Plan.

"Restriction Period" means the period defined in Section 9(a).

"Stock Unit" means the right to receive in the future a share of Common Stock.

"Subsidiary" means any corporation of which the Company owns directly or indirectly at least a majority of the outstanding shares of voting stock.

"Unit Restriction Period" means the period defined in Section 10.

"Unit Vesting Condition" means any condition to the vesting of Stock Units established by the Committee pursuant to Section 10.

"Vesting Condition" means any condition to the vesting of Retention Shares established by the Committee pursuant to Section 9.

3. ADMINISTRATION

The Plan shall be administered by the Committee, which shall be comprised of not less than three members of the Board, none of whom shall be employees of the Company or any Subsidiary. The Committee shall (i) grant Options to Optionees and make Awards of Retention Shares and Stock Units to Participants, and (ii) determine the terms and conditions of such Options and Awards of Retention Shares and Stock Units, all in accordance with the provisions of the Plan. The Committee shall have full authority to construe and interpret the Plan, to establish, amend and rescind rules and regulations relating to the Plan, to administer the Plan, and to take all such steps and make all such determinations in connection with the Plan and Options and Awards granted thereunder as it may deem necessary or advisable. In connection with the administration of the Plan, the Committee may establish, verify the extent of satisfaction

of, adjust, reduce, waive any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Option or Award. Each Option and grant of Retention Shares or Stock Units shall, if required by the Committee, be evidenced by an agreement to be executed by the Company and the Optionee or Participant, respectively, and contain provisions not inconsistent with the Plan. All determinations of the Committee shall be by a majority of its members and shall be evidenced by resolution, written consent or other appropriate action, and the Committee's determinations shall be final. Each member of the Committee, while serving as such, shall be considered to be acting in his or her capacity as a director of the Company.

4. ELIGIBILITY

To be eligible for selection by the Committee to participate in the Plan an individual must be an employee of the Company or a Subsidiary. Directors who are not full-time salaried employees shall not be eligible. In granting Options or Awards of Retention Shares or Stock Units to eligible employees, the Committee shall take into account the duties of the respective employees, their present and potential contributions to the success of the Company or a Subsidiary, and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the Plan.

5. STOCK SUBJECT TO THE PLAN

Subject to the provisions of Section 13 hereof, the maximum number and kind of shares as to which Options, or Retention Shares or Stock Units may at any time be granted under the Plan are 16 million shares of Common Stock. Shares of Common Stock subject to Options or Awards under the Plan may be either authorized but unissued shares or shares previously issued and reacquired by the Company. Upon the expiration, termination or cancellation (in whole or in part) of unexercised Options, shares of Common Stock subject thereto shall again be available for option or grant as Retention Shares or Stock Units under the Plan. Shares of Common Stock covered by an Option, or portion thereof, which is surrendered upon the exercise of a stock appreciation right, shall thereafter be unavailable for option or grant as Retention Shares or Stock Units under the Plan. Upon the forfeiture (in whole or in part) of a grant of Retention Shares or Stock Units, the shares of Common Stock subject to such forfeiture shall again be available for option or grant as Retention Shares or Stock Units under the Plan if no dividends have been paid on the forfeited shares, and otherwise shall be unavailable for such an option or grant.

6. TERMS AND CONDITIONS OF NON-QUALIFIED OPTIONS

All non-qualified options under the Plan shall be granted subject to the following terms and conditions:

a. Option Price. The option price per share with respect to each option shall be determined by the Committee but shall not be less than 100% of the fair market value of the Common Stock on the date the option is granted, such fair market value to be determined in accordance with the procedures to be established by the Committee.

b. Duration of Options. Options shall be exercisable at such time or times and under such conditions as set forth in the written agreement evidencing such option, but in no event shall any option be exercisable subsequent to the tenth anniversary of the date on which the option is granted.

c. Exercise of Option. Except as provided in Section 6(h), 6(i), 8(c) or 8(d), the shares of Common Stock covered by an option may not be purchased prior to the first anniversary of the date on which the option is granted (unless the Committee shall determine otherwise), or such longer period or periods, and subject to such conditions, as the Committee may determine, but thereafter may be purchased at one time or in such installments over the balance of the option period as may be provided in the option. Any shares not purchased on the applicable installment date may, unless the Committee shall have determined otherwise, be purchased thereafter at any time prior to the final expiration of the option. To the extent that the right to purchase shares has accrued thereunder, options may be exercised from time to time by notice to the Company stating the number of shares with respect to which the option is being exercised.

d. Payment. Shares of Common Stock purchased under options shall, at the time of purchase, be paid for in full. All, or any portion, of the option exercise price may, at the discretion of the Committee, be paid by the surrender to the Company, at the time of exercise, of shares of previously acquired Common Stock owned by the Optionee, to the extent that such payment does not require the surrender of a fractional share of such previously acquired Common Stock. In addition, to the extent permitted by the Committee, the option exercise price may be paid by authorizing the Company to withhold Common Stock otherwise issuable on exercise of the option. Such shares previously acquired or shares withheld to pay the option exercise price shall be valued at fair market value on the date the option is exercised in accordance with the procedures to be established by the Committee. A holder of an option shall have none of the rights of a stockholder until the shares of Common Stock are issued to him or her. If an amount is payable by an Optionee to the Company or a Subsidiary under applicable withholding tax laws in connection with the exercise of non-qualified options, the Committee may, in its discretion and subject to such rules as it may adopt, permit the Optionee to make such payment, in whole or in part, by electing to authorize the Company to withhold or accept shares of Common Stock having a fair market value equal to the amount to be paid under such withholding tax laws.

e. Restrictions. The Committee shall determine, with respect to each option, the nature and extent of the restrictions, if any, to be imposed on the shares of Common Stock that may be purchased thereunder including restrictions on the transferability of such shares acquired through the exercise of such option. Without limiting the generality of the foregoing, the Committee may impose conditions restricting absolutely or conditionally the transferability of shares acquired through the exercise of options for such periods, and subject to such conditions, including continued employment of the Optionee by the Company or a Subsidiary, as the Committee may determine.

f. Purchase for Investment. The Committee shall have the right to require that each Optionee or other person who shall exercise an option under the Plan represent and agree that

any shares of Common Stock purchased pursuant to such option will be purchased for investment and not with a view to the distribution or resale thereof or that such shares will not be sold except in accordance with such restrictions or limitations as may be set forth in the written agreement granting such option.

g. Non-Transferability of Options. During an Optionee's lifetime, the option may be exercised only by the Optionee. Options shall not be transferable, except for exercise by the Optionee's legal representatives or heirs.

h. Termination of Employment. Unless the Committee provides otherwise, upon the termination of an Optionee's employment for any reason other than death, then, except as provided below, the option shall be exercisable only as to those shares of Common Stock which were then subject to the exercise of such option (provided that the Committee may determine that particular limitations and restrictions under the Plan shall not apply) and such option shall expire according to the following schedule:

- (i) Retirement. Option shall expire, unless exercised, five (5) years after the Optionee's retirement from the Company or any Subsidiary under the provisions of the Company's or a Subsidiary's pension plan.
- (ii) Disability. Any holding period required by Section 6(c) shall automatically be deemed to be satisfied and Option shall expire, unless exercised, five (5) years after the date the Optionee is eligible to receive disability benefits under the provisions of the Company's or a Subsidiary's long-term disability plan. (iii) Disposition of Business. In the case of a termination resulting from the disposition by the Company or any of its Subsidiaries of all or a part of its interest in, or the discontinuance of a business of, a subsidiary, division or other business unit, unvested options shall not be forfeited, but any holding period required by Section 6(c) shall be satisfied in accordance with its original schedule (including any holding period associated with an option that becomes a non-qualified option in accordance with Section 8(c)) and Option shall expire, unless exercised, five (5) years after the date of termination;
- (iv) Force Reduction Program. In the case of a termination (other than retirement) resulting from a force reduction program instituted by the Company or any of its Subsidiaries, the Option shall expire, unless exercised, three (3) years from the date of termination.
- (v) Gross Misconduct. Option shall expire upon receipt by the Optionee of the notice of termination if he or she is terminated for deliberate, willful or gross misconduct as determined by the Company.
- (vi) Change in Control. In the event an Optionee's employment is involuntarily terminated by the Company (other than termination as a

result of disability or gross misconduct, but including a termination described in subsection (iii) and (iv) above) within two years following a Change in Control all options shall become fully vested and the option shall remain exercisable for a period of three (3) years following such termination (or five (5) years following such termination in the case of a termination described in Subsection (i), (iii) or (iv) above) but in no event after the expiration of the option, and the option shall expire thereafter.

(vii) All Other Terminations. Option shall expire, unless exercised, three (3) months after the date of such termination.

i. Death of Optionee. Upon the death of an Optionee during his or her period of employment, the option shall be exercisable only as to those shares of Common Stock which were subject to the exercise of such option at the time of his or her death, provided that (i) any holding period required by Section 6(c) shall automatically be deemed to be satisfied and (ii) the Committee may determine that particular limitations and restrictions under the Plan shall not apply, and such option shall expire, unless exercised by the Optionee's legal representatives or heirs, five (5) years after the date of death (unless the Committee shall provide for a shorter period at the time the option is granted).

j. Deferral. The Committee may permit an Optionee to elect to defer receipt of all or part of the Common Stock issuable upon the exercise of an option, pursuant to rules and regulations adopted by the Committee. The Committee may not permit the payment of cash in lieu of Common Stock upon payment of the deferred amount.

In no event, however, shall any option be exercisable pursuant to Sections 6(h) or (i) subsequent to the tenth anniversary of the date on which it is granted.

7. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS

a. General. The Committee may also grant a stock appreciation right in connection with a non-qualified option, either at the time of grant or by amendment. Such stock appreciation right shall cover the same shares covered by such option (or such lesser number of shares of Common Stock as the Committee may determine) and shall, except for the provisions of Section 6(d) hereof, be subject to the same terms and conditions as the related non-qualified option.

b. Exercise and Payment. Each stock appreciation right shall entitle the Optionee to surrender to the Company unexercised the related option, or any portion thereof, and to receive from the Company in exchange therefor an amount equal to the excess of the fair market value of one share of Common Stock over the option price per share times the number of shares covered by the option, or portion thereof, which is surrendered. Payment shall be made in shares of Common Stock valued at fair market value, or in cash, or partly in shares and partly in cash, all as shall be determined by the Committee. The fair market value shall be the value determined in accordance with procedures established by the Committee. Stock appreciation rights may be exercised from time to time upon actual receipt by the Company of written notice stating the number of shares of Common Stock with respect to which the stock appreciation right is being

exercised, provided that if a stock appreciation right expires unexercised, it shall be deemed exercised on the expiration date if any amount would be payable with respect thereto. No fractional shares shall be issued but instead cash shall be paid for a fraction or, if the Committee should so determine, the number of shares shall be rounded downward to the next whole share. If an amount is payable by an Optionee to the Company or a Subsidiary under applicable withholding tax laws in connection with the exercise of stock appreciation rights, the Committee may, in its discretion and subject to such rules as it may adopt, permit the Optionee to make such payment, in whole or in part, by electing to authorize the Company to withhold or accept shares of Common Stock having a fair market value equal to the amount to be paid under such withholding tax laws.

c. Restrictions. The obligation of the Company to satisfy any stock appreciation right exercised by an Optionee subject to Section 16 of the Act shall be conditioned upon the prior receipt by the Company of an opinion of counsel to the Company that any such satisfaction will not create an obligation on the part of such Optionee pursuant to Section 16(b) of the Act to reimburse the Company for any statutory profit which might be held to result from such satisfaction.

8. TERMS AND CONDITIONS OF INCENTIVE STOCK OPTIONS.

a. General. The Committee may also grant incentive stock options as defined under Section 422 of the Code. All incentive stock options issued under the Plan shall, except for the provisions of Sections 6(h) and (i) and Section 7 hereof, be subject to the same terms and conditions as the non-qualified options granted under the Plan. In addition, incentive stock options shall be subject to the conditions of Sections 8(b), (c), (d) and (e).

b. Limitation of Exercise. The aggregate fair market value (determined as of the date the incentive stock option is granted) of the shares of stock with respect to which incentive stock options are exercisable for the first time by such Optionee during any calendar year, under this Plan or any other stock option plans adopted by the Company, its Subsidiaries or any predecessor companies thereof, shall not exceed \$100,000. If any incentive stock options become exercisable in any year in excess of the \$100,000 limitation, options representing such excess shall become non-qualified options exercisable pursuant to the terms of Section 6 hereof and shall not be exercisable as incentive stock options.

c. Termination of Employment. Upon the termination of an Optionee's employment, for any reason other than death, his or her incentive stock option shall be exercisable only as to those shares of Common Stock which were then subject to the exercise of such option except as provided below (provided that the Committee may determine that particular limitations and restrictions under the Plan shall not apply) and such option shall expire as an incentive stock option according to the following schedule (unless the Committee shall provide for shorter periods at the time the incentive stock option is granted) but shall, in all cases other than 8(c)(iii) and 8(c)(iv), at the end of the period referred to below become a non-qualified option exercisable pursuant to the terms of Section 6 hereof (including Sections 6(h) and (i)) less the period already elapsed under such Section:

- (i) Retirement. An incentive stock option shall expire, unless exercised, three (3) months after the Optionee's retirement from the Company or any Subsidiary under the provisions of the Company's or a Subsidiary's pension plan.
- (ii) Disability. In the case of an Optionee who is disabled within the meaning of Section 22(e)(3) of the Code, any holding period required by Section 6(c) shall automatically be deemed to be satisfied and an incentive stock option shall expire, unless exercised, one (1) year after the earlier of the date the Optionee terminates employment or the date the Optionee is eligible to receive disability benefits under the provisions of the Company's or a Subsidiary's long-term disability plan.
- (iii) Gross Misconduct. An incentive stock option shall expire upon receipt by the Optionee of the notice of termination if he or she is terminated for deliberate, willful or gross misconduct as determined by the Company.
- (iv) All Other Terminations. An incentive stock option shall expire, unless exercised, three (3) months after the date of such termination.

d. Incentive Stock Options Granted On and After May 25, 2000. In the case of an incentive stock option granted on or after May 25, 2000, the following additional provisions shall apply:

- (i) Disposition of Business. Subject to Section 8(e), in the case of a termination resulting from the disposition by the Company or any of its Subsidiaries of all or a part of its interest in, or the discontinuance of a business of, a subsidiary, division or other business unit, unvested options shall not be forfeited, but any holding period required by Section 6(c) shall be satisfied in accordance with its original schedule and the Option shall expire, unless exercised, three (3) months after the date of termination, but shall at the end of such three month period become a non-qualified option exercisable pursuant to the terms of Section 6 hereof (including Section 6(h)(iii), less the period already elapsed hereunder);
- (ii) Force Reduction Program. Subject to Section 8(e), in the case of a termination (other than retirement) resulting from a force reduction program instituted by the Company or any of its Subsidiaries, the Option shall expire, unless exercised, three (3) months after the date of termination, but shall at the end of such three (3) month period become a non-qualified option exercisable pursuant to the terms of Section 6 hereof (including Section 6(h)(iv), less the period already elapsed hereunder).

e. Additional Provisions Regarding Incentive Stock Options Granted On Or After November 16, 2000. In the case of an incentive stock option granted on or after November 16, 2000, the following additional provisions shall apply:

In the event an Optionee's employment is involuntarily terminated by the Company (other than termination as a result of disability or gross misconduct, but including a termination described in subsections (d)(i) or (d)(ii) above) within two years following a Change in Control, all options shall become fully vested and the option shall remain exercisable for a period of three (3) months following such termination (but in no event after the expiration of the option) and shall at the end of such three (3) month period become a non-qualified option exercisable pursuant to the terms of Section 6 hereof (including Section 6(h)(vii), less the period already elapsed hereunder).

f. Additional Provisions Regarding Certain Incentive Stock Options Granted Before May 25, 2000. In the case of an incentive stock option granted before May 25, 2000, the following additional provisions shall apply:

- (i) Disposition of Business. In the case of incentive stock options granted after September 24, 1998 and before May 25, 2000, in the event that a termination results from the disposition by the Company of all or a part of its interest in, or the discontinuance of the business of, a subsidiary, division or other business unit of the Company, the Committee may extend the period during which an incentive stock option may be exercised as a non-qualified option to up to five (5) years from the date of such termination.
- (ii) Other Terminations. In the case of incentive stock options granted after April 24, 1997 and before May 25, 2000, the Committee may extend the period during which an incentive stock option may be exercised as a non-qualified stock option to up to three (3) years from the date of a termination not due to retirement, disability or gross misconduct or, if later, three (3) years from the date the option becomes exercisable but not more than five years after the date of such termination.

g. Death of Optionee. Upon the death of an Optionee during his or her period of employment, the incentive stock option shall be exercisable as an incentive stock option only as to those shares of Common Stock which were subject to the exercise of such option at the time of death, provided that (i) any holding period required by Section 6(c) shall automatically be deemed to be satisfied, and (ii) the Committee may determine that particular limitations and restrictions under the Plan shall not apply, and such option shall expire, unless exercised by the Optionee's legal representatives or heirs, five (5) years after the date of death (unless the Committee shall provide for a shorter period at the time the option is granted).

h. Leave of Absence. A leave of absence, whether or not an Approved Leave of Absence, shall be deemed a termination of employment for purposes of Section 8.

In no event, however, shall any incentive stock option be exercisable pursuant to Sections 8(c) or (d) subsequent to the tenth anniversary of the date on which it was granted.

9. TERMS AND CONDITIONS OF AWARDS OF RETENTION STOCK

a. General. Retention Shares may be granted only to reward the attainment of individual, Company or Subsidiary goals, or to attract or retain officers or other employees of the Company or any Subsidiary, and shall be granted subject to the attainment of performance goals unless the Committee shall determine otherwise. With respect to each grant of Retention Shares under the Plan, the Committee shall determine the period or periods, including any conditions for determining such period or periods, during which the restrictions set forth in Section 9(b) shall apply, provided that in no event, other than as provided in Section 9(c) or in the next sentence, shall such restrictions terminate prior to 3 years after the date of grant (the "Restriction Period"), and may also specify any other terms or conditions to the right of the Participant to receive such Retention Shares ("Vesting Conditions"). The Committee may determine in its sole discretion to waive any or all of such restrictions prior to end of the Restriction Period or the satisfaction of any Vesting Condition. Subject to Section 9(c) and any such Vesting Condition, a grant of Retention Shares shall be effective for the Restriction Period and may not be revoked; provided, however, in the event of a Change in Control of the Company (i) with respect to Retention Shares (other than Retention Shares granted pursuant to the Executive Incentive Premium Exchange Program ("PEP Plan") or the 2001 Long Term Plan (the "LTP")), the Restricted Period shall end with respect to that number of such Retention Shares calculated by multiplying such Retention Shares by the fraction obtained by dividing the number of full months during such Restricted Period through the date of such Change in Control by the total number of months contained in such Restricted Period (determined without regard to this proviso), (ii) with respect to Retention Shares granted to such Participant pursuant to the PEP Plan, the Restricted Period shall end with respect to that number of such Retention Shares equal to (x) that number of such Retention Shares with a fair market value (as of the date of grant) equal to the amount of incentive award such Participant elected to forego in exchange for such Retention Shares (the "Original Retention Shares"), and (y) number of Retention Shares which the Participant received as a premium under the PEP Plan (the "Premium Retention Shares") calculated by multiplying such Premium Retention Shares by the fraction obtained by dividing the number of full months during such Restricted Period through the date of such Change in Control by the total number of months contained in such Restricted Period, and (iii) Retention Shares granted to such Participant pursuant to the LTP shall be subject to the terms of the applicable agreement issued under the LTP. In the event a payment becomes due, the Committee may, in its sole discretion, elect to make such payment either in cash, in shares of Common Stock, in shares of equity securities of the entity (or its parent) resulting from such Change in Control or in any combination of the foregoing.

b. Restrictions. At the time of grant of Retention Shares to a Participant, a certificate representing the number of shares of Common Stock granted shall be registered in the Participant's name but shall be held by the Company for his or her account. The Participant shall have the entire beneficial ownership interest in, and all rights and privileges of a stockholder as to, such Retention Shares, including the right to vote such Retention Shares and, unless the Committee shall determine otherwise, the right to receive dividends thereon, subject to the following: (i) subject to Section 9(c), the Participant shall not be entitled to delivery of the stock certificate until the expiration of the Restriction Period and the satisfaction of any Vesting Conditions; (ii) none of the Retention Shares may be sold, transferred, assigned, pledged, or

otherwise encumbered or disposed of during the Restriction Period or prior to the satisfaction of any Vesting Conditions; and (iii) all of the Retention Shares shall be forfeited and all rights of the Participant to such Retention Shares shall terminate without further obligation on the part of the Company unless the Participant remains in the continuous employment of the Company or a Subsidiary for the entire Restriction Period, except as provided by Sections 9(a) and 9(c), and any applicable Vesting Conditions have been satisfied. Any shares of Common Stock or other securities or property received as a result of a transaction listed in Section 13 shall be subject to the same restrictions as such Retention Shares unless the Committee shall determine otherwise.

c. Termination of Employment.

- (i) Disability and Retirement. Unless the Committee shall determine otherwise at the time of grant of Retention Shares, if (A) a Participant ceases to be an employee of the Company or a Subsidiary prior to the end of a Restriction Period, by reason of disability under the provisions of the Company's or a Subsidiary's long-term disability plan or retirement under the provisions of the Company's or a Subsidiary's pension plan either (i) at age 65 or (ii) prior to age 65 at the request of the Company or a Subsidiary, and (B) all Vesting Conditions have been satisfied, the Retention Shares granted to such Participant shall immediately vest and all restrictions applicable to such shares shall lapse. A certificate for such shares shall be delivered to the Participant in accordance with the provisions of Section 9(d).
- (ii) Death. Unless the Committee shall determine otherwise at the time of grant of Retention Shares, if (A) a Participant ceases to be an employee of the Company or a Subsidiary prior to the end of a Restriction Period by reason of death, and (B) all Vesting Conditions have been satisfied, the Retention Shares granted to such Participant shall immediately vest in his or her Beneficiary, and all restrictions applicable to such shares shall lapse. A certificate for such shares shall be delivered to the Participant's Beneficiary in accordance with the provisions of Section 9(d).
- (iii) All Other Terminations. If a Participant ceases to be an employee of the Company or a Subsidiary prior to the end of a Restriction Period for any reason other than death, disability or retirement as provided in Section 9(c)(i) and (ii) or a termination pursuant to Section 9(c)(v), the Participant shall immediately forfeit all Retention Shares then subject to the restrictions of Section 9(b) in accordance with the provisions thereof, except that the Committee may, if it finds that the circumstances in the particular case so warrant, allow a Participant whose employment has so terminated to retain any or all of the Retention Shares then subject to the restrictions of Section 9(b) and all restrictions applicable to such retained shares shall lapse. A certificate for such retained shares shall be delivered to the Participant in accordance with the provisions of Section 9(d).

- (iv) Vesting Conditions. Unless the Committee shall determine otherwise at the time of grant of Retention Shares, if a Participant ceases to be an employee of the Company for any reason prior to the satisfaction of any Vesting Conditions, the Participant shall immediately forfeit all Retention Shares then subject to the restrictions of Section 9(b) in accordance with the provisions thereof, except that the Committee may, if it finds that the circumstances in the particular case so warrant, allow a Participant whose employment has so terminated to retain any or all of the Retention Shares then subject to the restrictions of Section 9(b) and all restrictions applicable to such retained shares shall lapse. A certificate for such retained shares shall be delivered to the Participant in accordance with the provisions of Section 9(d).
- (v) Change in Control. In the event a Participant's employment is involuntarily terminated by the Company (other than a termination as a result of death, disability, retirement or gross misconduct) within two years following a Change in Control, the remaining restrictions with respect to all Original Retention Shares and all Premium Retention Shares shall lapse and the Committee may, in its sole discretion, elect to make such payment either in cash, in shares of Common Stock, in shares of equity securities of the entity (or its parent) resulting from such Change in Control or in any combination of the foregoing.

d. Payment of Retention Shares. At the end of the Restriction Period and after all Vesting Conditions have been satisfied, or at such earlier time as provided for in Section 9(c) or as the Committee, in its sole discretion, may otherwise determine, all restrictions applicable to the Retention Shares shall lapse, and a stock certificate for a number of shares of Common Stock equal to the number of Retention Shares, free of all restrictions, shall be delivered to the Participant or his or her Beneficiary, as the case may be. If an amount is payable by a Participant to the Company or a Subsidiary under applicable withholding tax laws in connection with the lapse of such restrictions, the Committee, in its sole discretion, may permit the Participant to make such payment, in whole or in part, by authorizing the Company to transfer to the Company Retention Shares otherwise deliverable to the Participant having a fair market value equal to the amount to be paid under such withholding tax laws.

e. Deferral. The Committee may permit a Participant to elect to defer receipt of all or part of any Retention Shares that would otherwise be delivered, pursuant to rules and regulations adopted by the Committee. The Committee may permit the payment of cash in lieu of Common Stock upon payment of the deferred amount.

10. STOCK UNITS

The Committee may also grant Awards of Stock Units under the Plan. The vesting of Awards of Stock Units shall be subject to the requirement that a Participant continue employment with the Company or a Subsidiary for a certain period of no less than three years (the "Unit Restriction Period"), and may be subject to the satisfaction of other conditions or contingencies ("Unit Vesting Condition"), in order for a Participant to receive payment of such

Award, as established by the Committee at the time of the Award. The Committee may determine in its sole discretion to waive any such requirement, condition or contingency. Awards of Stock Units shall be payable in shares of Common Stock. The Committee may permit a Participant to elect to defer receipt of payment of all or part of any Award of Stock Units pursuant to rules and regulations adopted by the Committee. Unless the Committee provides otherwise at the time an Award of Stock Units to a Participant is made, the provisions of Section 9(c) of the Plan relating to the vesting and forfeiture of Retention Stock upon termination of employment shall apply to any termination of employment by such Participant during the Unit Restricted Period or prior to the satisfaction of any Unit Vesting Condition for such Award.

11. DIVIDENDS AND DIVIDEND EQUIVALENTS

Any Option or Award of Stock Units may provide the Participant with the right to receive dividend payments or dividend equivalent payments on the Common Stock subject to the Option or Award, whether or not such Option or Award has been exercised or is vested. Such payments may be made in cash or may be credited to a Participant's account and later settled in cash or Common Stock or a combination thereof, as determined by the Committee. Such payments and credits may be subject to such conditions and contingencies as the Committee may establish.

12. REGULATORY APPROVALS AND LISTING

The Company shall not be required to issue to an Optionee, Participant or a Beneficiary, as the case may be, any certificate for any shares of Common Stock upon exercise of an option or for any Retention Shares granted under the Plan or to make any payment with respect to any Stock Unit granted under the Plan prior to (i) the obtaining of any approval from any governmental agency which the Company, in its sole discretion, shall determine to be necessary or advisable, (ii) the admission of such shares to listing on any stock exchange on which the Common Stock may then be listed, and (iii) the completion of any registration or other qualification of such shares or units under any state or federal law or rulings or regulations of any governmental body which the Company, in its sole discretion, shall determine to be necessary or advisable.

13. ADJUSTMENT IN EVENT OF CHANGES IN CAPITALIZATION

In the event of a recapitalization, stock split, stock dividend, combination or exchange of shares, merger, consolidation, rights offering, separation, spin-off, reorganization or liquidation, or any other change in the corporate structure or shares of the Company, the Board, upon recommendation of the Committee, may make such equitable adjustments as it may deem appropriate in the number and kind of shares and Stock Units authorized by the Plan, in the option price of outstanding Options, and in the number and kind of shares, Stock Units or other securities or property subject to Options or covered by outstanding Awards.

14. TERM OF THE PLAN

No Options, or Retention Shares or Stock Units shall be granted pursuant to the Plan after April 16, 2003, but grants of Options, or Retention Shares or Stock Units theretofore granted may extend beyond that date and the terms and conditions of the Plan shall continue to apply thereto.

15. TERMINATION OR AMENDMENT OF THE PLAN

The Board may at any time terminate the Plan with respect to any shares of Common Stock or Stock Units not at that time subject to outstanding Options or Awards, and may from time to time alter or amend the Plan or any part thereof (including, but without limiting the generality of the foregoing, any amendment deemed necessary to ensure that the Company may obtain any approval referred to in Section 12 or to ensure that the grant of Options or Awards, the exercise of Options, the payment of Retention Shares or the payment with respect to Stock Units or any other provision of the Plan complies with Section 16(b) of the Act), provided that no change with respect to any Options, Retention Shares or Stock Units theretofore granted may be made which would impair the rights of an Optionee or Participant without the consent of such Optionee or Participant and, further, that without the approval of stockholders, no alteration or amendment may be made which would (i) increase the maximum number of shares of Common Stock and Stock Units subject to the Plan as set forth in Section 5 (except by operation of Section 13), (ii) extend the term of the Plan or (iii) change the class of eligible persons who may receive Options or Awards of Retention Shares or Stock Units under the Plan.

16. LEAVE OF ABSENCE

Unless the Committee shall determine otherwise, a leave of absence other than an Approved Leave of Absence shall be deemed a termination of employment for purposes of the Plan. An Approved Leave of Absence shall not be deemed a termination of employment for purposes of the Plan (except for purposes of Section 8), but the period of such Leave of Absence shall not be counted toward satisfaction of any Restriction Period or Unit Restriction Period or any holding period described in Section 6(c).

17. GENERAL PROVISIONS

a. Neither the Plan nor the grant of any Option or Award nor any action by the Company, any Subsidiary or the Committee shall be held or construed to confer upon any person any right to be continued in the employ of the Company or a Subsidiary. The Company and each Subsidiary expressly reserve the right to discharge, without liability but subject to his or her rights under the Plan, any Optionee or Participant whenever in the sole discretion of the Company or a Subsidiary, as the case may be, its interest may so require.

b. All questions pertaining to the construction, regulation, validity and effect of the Plan shall be determined in accordance with the laws of the State of Utah, without regard to conflict of laws doctrine.

18. EFFECTIVE DATE

The Plan shall become effective upon approval of the stockholders of the Company.

EXHIBIT 12(a)

RATIO OF EARNINGS TO FIXED CHARGES
 Union Pacific Corporation and Subsidiary Companies
 (Unaudited)

Millions of Dollars, Except Ratios	Three Months Ended June 30,	
	2002	2001
Earnings:		
Net income	\$ 304	\$ 243
Undistributed equity earnings	(10)	(1)
Total earnings	294	242
Income taxes	174	148
Fixed charges:		
Interest expense including amortization of debt discount	159	178
Portion of rentals representing an interest factor	11	10
Total fixed charges	170	188
Earnings available for fixed charges	\$ 638	\$ 578
Ratio of earnings to fixed charges	3.8	3.1

EXHIBIT 12(b)

RATIO OF EARNINGS TO FIXED CHARGES
 Union Pacific Corporation and Subsidiary Companies
 (Unaudited)

Millions of Dollars, Except Ratios	Six Months Ended June 30,	
	2002	2001
Earnings:		
Net income	\$ 526	\$ 424
Undistributed equity earnings	(21)	(15)
Total earnings	505	409
Income taxes	309	255
Fixed charges:		
Interest expense including amortization of debt discount ..	322	359
Portion of rentals representing an interest factor	22	20
Total fixed charges	344	379
Earnings available for fixed charges	\$ 1,158	\$ 1,043
Ratio of earnings to fixed charges	3.4	2.8

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 Company) on Form 10-Q for the period ending June 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 Company, 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 Company.

By: /s/ Richard K. Davidson

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

August 8, 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 Company) on Form 10-Q for the period ending June 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 Company, 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 Company.

By: /s/ James R. Young

James R. Young
Executive Vice President-Finance
Union Pacific Corporation

August 8, 2002