
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2006

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.)

1400 DOUGLAS STREET, OMAHA, NEBRASKA

(Address of principal executive offices)

68179

(Zip Code)

(402) 544-5000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class

Name of each exchange on which registered

Common Stock (Par Value \$2.50 per share)

New York Stock Exchange, Inc.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

As of June 30, 2006, the aggregate market value of the registrant's Common Stock held by non-affiliates (using the New York Stock Exchange closing price) was \$24.9 billion.

The number of shares outstanding of the registrant's Common Stock as of January 31, 2007, was 270,752,306.

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Documents Incorporated by Reference – Portions of the registrant’s definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 3, 2007, are incorporated by reference into Part III of this report. The registrant’s Proxy Statement will be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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PART I

Item 1. Business

GENERAL

Union Pacific Corporation owns one of America's leading transportation companies. Its principal operating company, Union Pacific Railroad Company, links 23 states in the western two-thirds of the country and serves the fastest-growing U.S. population centers. Union Pacific Railroad Company's diversified business mix includes agricultural products, automotive, chemicals, energy, industrial products, and intermodal. It offers competitive long-haul routes from all major West Coast and Gulf Coast ports to eastern gateways. Union Pacific Railroad Company connects with Canada's rail systems and is the only railroad serving all six major gateways to Mexico, making it North America's premier rail franchise.

Union Pacific Corporation was incorporated in Utah in 1969 and maintains its principal executive offices at 1400 Douglas Street, Omaha, NE 68179. The telephone number at that address is (402) 544-5000. The common stock of Union Pacific Corporation is listed on the New York Stock Exchange (NYSE) under the symbol "UNP".

For purposes of this report, unless the context otherwise requires, all references herein to "UPC", "Corporation", "we", "us", and "our" shall mean Union Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which we separately refer to as "UPRR" or the "Railroad".

Available Information – Our Internet website is www.up.com. We make available free of charge on our website (under the "Investors" caption link) our annual reports on Form 10-K; our quarterly reports on Form 10-Q; our current reports on Form 8-K; our proxy statements; Forms 3, 4, and 5, filed on behalf of directors and executive officers; and amendments to such reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the Exchange Act), as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We also make available on our website previously filed SEC reports and exhibits via a link to EDGAR on the SEC's Internet site at www.sec.gov. Additionally, our corporate governance materials, including By-Laws, Board Committee charters, governance guidelines and policies, and codes of conduct and ethics for directors, officers, and employees are on our website. From time to time, the corporate governance materials on our website may be updated as necessary to comply with rules issued by the SEC and the NYSE or as desirable to promote the effective and efficient governance of our company. Any security holder wishing to receive, without charge, a copy of any of our SEC filings or corporate governance materials should send a written request to: Secretary, Union Pacific Corporation, 1400 Douglas Street, Omaha, NE 68179.

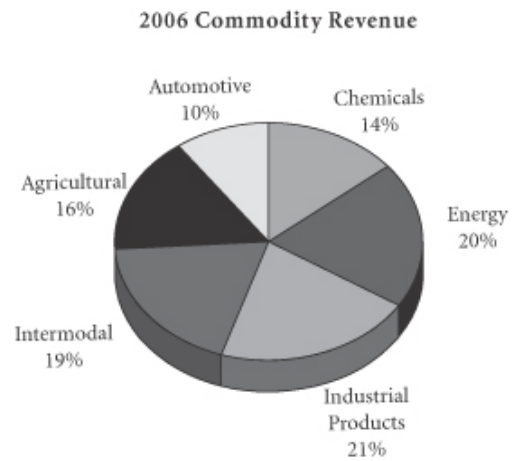
We have included the CEO and CFO certifications regarding our public disclosure required by Section 302 of the Sarbanes-Oxley Act of 2002 as Exhibits 31(a) and (b) to this report. Additionally, we filed with the NYSE the CEO's certification regarding our compliance with the NYSE's Corporate Governance Listing Standards (Listing Standards) pursuant to Section 303A.12(a) of the Listing Standards, which was dated May 23, 2006, and indicated that the CEO was not aware of any violations of the Listing Standards by the Corporation.

References to our website address in this report, including references in Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 7, are provided as a convenience and do not constitute, and should not be deemed, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

OPERATIONS

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although revenue is analyzed by commodity group, we analyze the net financial results of the Railroad as one segment due to the integrated nature of our rail network. Additional information regarding our operations is presented in Selected Financial Data, Item 6; Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 7; and the Financial Statements and Supplementary Data, Item 8.

Operations – UPRR is a Class I railroad operating in the United States. We have 32,339 route miles, linking Pacific Coast and Gulf Coast ports with the Midwest and eastern United States gateways and providing several corridors to key Mexican gateways. We serve the western two-thirds of the country and maintain coordinated schedules with other rail carriers to move freight to and from the Atlantic Coast, the Pacific Coast, the Southeast, the Southwest, Canada, and Mexico. Export and import traffic moves through Gulf Coast and Pacific Coast ports and across the Mexican and Canadian borders. UPRR’s freight traffic consists of bulk, manifest, and premium business. Bulk traffic is primarily coal, grain, rock, or soda ash in unit trains – trains transporting a single commodity from one source to one destination. Manifest traffic is individual carload or less than train-load business, including commodities such as lumber, steel, paper, and food. The transportation of finished vehicles and intermodal containers is part of the Railroad’s premium business. In 2006, the Railroad generated commodity revenue totaling \$14.9 billion from the following six commodity groups:



Agricultural – Transporting agricultural products, including whole grains, commodities produced from these grains, and food and beverage products, provided 16% of the Railroad’s 2006 commodity revenue. With access to most major grain markets, the Railroad provides a critical link between the Midwest and western producing areas and export terminals in the Pacific Northwest (PNW) and Gulf ports, as well as Mexico. Unit trains of grain efficiently shuttle between producers and export terminals or domestic markets. UPRR also serves significant domestic markets, including grain processors, animal feeders, and ethanol producers in the Midwest, West, South, and Rocky Mountain states. Primary food commodities consist of a variety of fresh and frozen fruits and vegetables, dairy products, and beverages, which are moved to major U.S. population centers for consumption. Express Lane and our recently inaugurated Produce Unit Train, our premium perishables services that move fruits and vegetables from the PNW and California with priority service to destinations in the East, compete with the trucking industry. We transport frozen meat and poultry to the West Coast ports for export, while beverages, primarily beer, enter the U.S. from Mexico.

Automotive – UPRR is the largest automotive carrier west of the Mississippi River, serving seven vehicle assembly plants and distributing imported vehicles from six West Coast ports and Houston. The Railroad off-loads finished vehicles at 38 vehicle distribution centers for delivery by truck to all major western U.S. cities. In addition to transporting finished vehicles, UPRR provides expedited handling of automotive parts in both boxcars and intermodal containers to several assembly plants. The Railroad carries automotive materials bound for assembly plants in Mexico, the U.S., and Canada and transports finished vehicles from manufacturing facilities in Mexico. In 2006, transportation of finished vehicles and automotive materials accounted for 10% of the Railroad’s commodity revenue.

Chemicals – Transporting chemicals provided 14% of the Railroad’s commodity revenue in 2006. The Railroad’s franchise enables it to serve the chemical producing areas along the Gulf Coast, as well as the Rocky Mountain region. Two-thirds of the chemicals business consists of liquid and dry chemicals, plastics, and liquid petroleum products. In addition to transporting plastics, customers also leverage UPRR’s storage-in-transit yards for intermediate storage of plastic resins. Soda ash shipments originate in southwestern Wyoming and California destined primarily for glass producing markets in the East, the West, and abroad. Fertilizer movements originate

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primarily in the Gulf Coast region, as well as the West and Canada, bound for major agricultural users in the Midwest and the western U.S.

Energy – Coal transportation accounted for 20% of the Railroad’s 2006 commodity revenue. The Railroad’s geographic network allows it to transport coal destined for utilities and industrial facilities in 27 states, as well as to the Gulf and rail/barge/ship facilities on the Mississippi and Ohio Rivers and the Great Lakes. UPRR serves mines located in the Southern Powder River Basin of Wyoming (SPRB), Colorado, Utah, southern Wyoming, and southern Illinois. SPRB coal represents the largest growth segment of the market, as utilities continue to favor its lower cost and low-sulfur content.

Industrial Products – The Railroad’s extensive network enables the industrial products group to move numerous commodities between thousands of origin and destination points throughout North America. Lumber shipments originate primarily in the PNW and Canada for destinations throughout the United States for new home construction and repair and remodeling. Commercial and highway construction drives shipments of steel and construction products, consisting of rock, cement, and roofing materials. Paper and consumer goods, including furniture and appliances, are shipped to major metropolitan areas for consumers. Nonferrous metals and industrial minerals are moved for industrial manufacturing. In addition, the Railroad provides efficient and safe transportation for government entities and waste companies. In 2006, transporting industrial products provided 21% of the Railroad’s commodity revenue.

Intermodal – UPRR’s intermodal business, which represented 19% of the Railroad’s 2006 commodity revenue, includes international, domestic, and premium shipments. International business consists of imported container traffic that arrives at West Coast ports via steamship for destinations throughout the United States. Domestic business includes domestic container and trailer traffic for intermodal marketing companies (primarily shipper agents and consolidators) and truckload carriers. Less-than-truckload and package carriers with time-sensitive business requirements account for the majority of our premium service.

Working Capital – We currently have, and historically have had, a working capital deficit, which is common in our industry and does not indicate a lack of liquidity or financial stability. We maintain adequate resources to meet our daily cash requirements, and we have sufficient financial capacity to satisfy our current liabilities.

Competition – We are subject to competition from other railroads, motor carriers, and barge operators. Our main rail competitor is Burlington Northern Santa Fe Corporation. Its rail subsidiary, BNSF Railway Company (BNSF), operates parallel routes in many of our main traffic corridors. In addition, we operate in corridors served by other railroads and motor carriers. Motor carrier competition is particularly strong for five of our six commodity groups. Because of the proximity of our routes to major inland and Gulf Coast waterways, barge competition can be particularly effective, especially for grain and bulk commodities. In addition to price competition, we face competition with respect to transit times and quality and reliability of service. While we must build or acquire and maintain our rail system, trucks and barges are able to use public rights-of-way maintained by public entities. Any future improvements or expenditures materially increasing the quality or reducing the costs of these alternative modes of transportation, or legislation releasing motor carriers from their size or weight limitations, could have a material adverse effect on our results of operations, financial condition, and liquidity.

Equipment Suppliers – We depend on two key domestic suppliers of locomotives. Due to the capital intensive nature and sophistication of this equipment, high barriers to entry face potential new suppliers. Therefore, if one of these domestic suppliers discontinues manufacturing locomotives, we could experience a significant cost increase and risk reduced availability of the locomotives that are necessary to our operations.

Employees – Approximately 87% of our 50,739 full-time-equivalent employees are represented by 14 major rail unions. In January 2005, we began the current round of negotiations with the unions. Existing agreements remain in effect and will continue to remain in effect until new agreements are reached or the Railway Labor Act’s

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procedures (which include mediation, cooling-off periods, and the possibility of Presidential intervention) are exhausted. Contract negotiations with the various unions generally take place over an extended period of time, and we rarely experience work stoppages during negotiations. The current agreements provide for periodic cost of living wage increases until new agreements are reached.

GOVERNMENTAL AND ENVIRONMENTAL REGULATION

Governmental Regulation – Our operations are subject to a variety of federal, state, and local regulations, generally applicable to all businesses (see also the discussion of certain regulatory proceedings in Legal Proceedings, Item 3).

The operations of the Railroad are subject to the regulatory jurisdiction of the Surface Transportation Board (STB) of the United States Department of Transportation (DOT). The operations of the Railroad are also subject to the regulations of the Federal Railroad Administration (FRA) of the DOT and other federal and state agencies. The STB has jurisdiction over rates charged on certain regulated rail traffic; freight car compensation; transfer, extension, or abandonment of rail lines; and acquisition of control of rail common carriers. On January 26, 2007, the STB issued a decision limiting the manner in which U.S. railroads can calculate fuel surcharges on traffic regulated by the STB.

DOT and the Occupational Safety and Health Administration, along with other federal agencies, have jurisdiction over certain aspects of safety, movement of hazardous materials, movement and disposal of hazardous waste, emissions requirements, and equipment standards. Various state and local agencies have jurisdiction over disposal of hazardous waste and seek to regulate movement of hazardous materials in areas not otherwise preempted by federal law.

Environmental Regulation – We are subject to extensive federal and state environmental statutes and regulations pertaining to public health and the environment. The statutes and regulations are administered and monitored by the Environmental Protection Agency (EPA) and by various state environmental agencies. The primary laws affecting our operations are the Resource Conservation and Recovery Act, regulating the management and disposal of solid and hazardous wastes; the Comprehensive Environmental Response, Compensation, and Liability Act, regulating the cleanup of contaminated properties; the Clean Air Act, regulating air emissions; and the Clean Water Act, regulating waste water discharges.

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Environmental, Item 7.

Item 1A. Risk Factors

The information set forth in this Item 1A should be read in conjunction with the rest of the information included in this report, including Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplementary Data.

We Must Manage Both Significant Demand for Our Services and Network Capacity – Due to continuing demand for rail service and capacity constraints, we may experience network difficulties, including congestion and reduced velocity, which may compromise the level of service we provide to our customers. This level of demand may compound the impact of weather and weather-related events on our operations and velocity. Although we continue to improve our transportation plan, add capacity, and improve operations at our yards and other facilities, we cannot be sure that these measures will fully or adequately address any service shortcomings. Additionally, ongoing maintenance, restoration, and improvements in the SPRB could adversely affect coal shipments during the year. We also cannot be sure that we will not experience other difficulties related to

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network capacity, dramatic and unplanned increases of demand for rail service in one or more of our commodity groups, or other events that could have a negative impact on our operational efficiency, any of which could have a material adverse effect on our results of operations, financial condition, and liquidity.

We May Be Subject to Various Claims and Lawsuits That Could Result in Significant Expenditures – The nature of our business exposes us to the potential for various claims and litigation related to labor and employment, personal injury, property damage, environmental liability, and other matters. Any material changes to litigation trends or a catastrophic rail accident or series of accidents involving any or all of property damage, personal injury, and environmental liability could have a material adverse effect on our results of operations, financial condition, and liquidity.

We Are Required to Transport Hazardous Materials – Federal laws require railroads, including UPRR, to transport hazardous materials. Any rail accident involving the release of hazardous materials could involve significant costs and claims for personal injury, property damage, and environmental penalties and remediation, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

The Availability of Qualified Personnel Could Adversely Affect Our Operations – Changes in demographics, training requirements, and the availability of qualified personnel, particularly engineers and trainmen, could negatively impact our ability to meet demand for rail service. Unpredictable increases in demand for rail services and a lack of network fluidity may exacerbate such risks, which could have a negative impact on our operational efficiency and otherwise have a material adverse effect on our results of operations, financial condition, and liquidity.

We Are Subject to Significant Governmental Regulation – We are subject to governmental regulation by a significant number of federal, state, and local authorities covering a variety of health, safety, labor, environmental (as discussed below), and other matters. Our failure to comply with applicable laws and regulations could have a material adverse effect on us. Governments may change the legislative or regulatory frameworks within which we operate without providing us with any recourse for any adverse effects on our business. Economic re-regulation of the rail industry would negatively impact our ability to determine prices for rail services and reduce capital spending on our rail network, resulting in a material adverse effect on our results of operations, financial condition, and liquidity. Also, some laws and regulations require us to obtain and maintain various licenses, permits, and other authorizations, and we cannot guarantee that we will continue to be able to do so. In addition, one or more consolidations of Class I railroads could lead to future re-regulation of the rail industry.

Severe Weather Could Result in Significant Business Interruptions and Expenditures – Severe weather conditions, events, and other natural phenomena, including earthquakes, hurricanes, fires, floods, extreme temperatures, and significant precipitation may cause business interruptions, including line outages on our rail network that can adversely affect our entire rail network, and result in increased costs, increased liabilities, and decreased revenue, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

Strikes or Work Stoppages Could Adversely Affect Our Operations as the Majority of Our Employees Belong to Labor Unions and Labor Agreements – We are a party to collective bargaining agreements with various labor unions. In January 2005, we began the current round of negotiations with the unions. Disputes with regard to the terms of these agreements or our potential inability to negotiate acceptable contracts with these unions could result in, among other things, strikes, work stoppages, or other slowdowns by the affected workers. If unionized workers were to engage in a strike, work stoppage, or other slowdown, or other employees were to become unionized, we could experience a significant disruption of our operations or higher ongoing labor costs, either of which could have a material adverse effect on our results of operations, financial condition, and liquidity. Additionally, future national labor agreements, or renegotiation of labor agreements or provisions of labor agreements, could compromise our service reliability and significantly increase our costs for healthcare, wages, and other benefits, which could have a material adverse impact on our results of operations, financial condition, and liquidity.

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We Rely on Technology and Technology Improvements in Our Business Operations – We rely on information technology in all aspects of our business. If we do not have sufficient capital to acquire new technology or if we are unable to implement new technology, we may suffer a competitive disadvantage within the rail industry and with companies providing other modes of transportation service, which could have a material adverse effect on our results of operations, financial condition, and liquidity. Additionally, if we experience significant disruption or failure of one or more of our information technology systems, including computer hardware, software, and communications equipment, we could experience a service interruption, safety failure, security breach, or other operational difficulties, which could have a material adverse impact on our results of operations, financial condition, and liquidity.

We Are Subject to Significant Environmental Laws and Regulations – Our operations are subject to extensive federal, state, and local environmental laws and regulations concerning, among other things, emissions to the air; discharges to waters; handling, storage, transportation, and disposal of waste and other materials; and hazardous material or petroleum releases. We generate and transport hazardous and non-hazardous waste in our operations, and we did so in our former operations. Environmental liability can extend to previously owned or operated properties, leased properties, and properties owned by third parties, as well as to properties we currently own. Environmental liabilities have arisen and may also arise from claims asserted by adjacent landowners or other third parties in toxic tort litigation. We have been and may be subject to allegations or findings that we have violated, or are strictly liable under, these laws or regulations. We could incur significant costs as a result of any of the foregoing, and we may be required to incur significant expenses to investigate and remediate known, unknown, or future environmental contamination, which could have a material adverse effect on our results of operations, financial condition, and liquidity.

Rising or Elevated Fuel Costs and Whether We Are Able to Mitigate These Costs with Fuel Surcharges Could Materially and Adversely Affect Our Business – Fuel costs constitute a significant portion of our transportation expenses. Diesel fuel prices are subject to dramatic fluctuations, and significant price increases could have a material adverse effect on our operating results. Although we currently are able to recover a significant amount of our increased fuel expenses through revenue from fuel surcharges, we cannot be certain that we will always be able to mitigate rising or elevated fuel costs through surcharges. Future market conditions or legislative or regulatory activities could adversely affect our ability to apply fuel surcharges or adequately recover increased fuel costs through fuel surcharges. International, political, and economic circumstances affect fuel prices and supplies. Weather can also affect fuel supplies and limit domestic refining capacity. If a fuel supply shortage were to arise from OPEC production curtailments, a disruption of oil imports, or other causes, higher fuel prices could, despite our fuel surcharge programs, have a material adverse effect on our results of operations, financial condition, and liquidity.

We Face Competition from Other Railroads and Other Transportation Providers – We face competition from other railroads, motor carriers and, to a lesser extent, ships, barges, and pipelines. In addition to price competition, we face competition with respect to transit times and quality and reliability of service. While we must build or acquire and maintain our rail system, trucks and barges are able to use public rights-of-way maintained by public entities. Any future improvements or expenditures materially increasing the quality or reducing the cost of alternative modes of transportation, or legislation releasing motor carriers from their size or weight limitations, could have a material adverse effect on our results of operations, financial condition, and liquidity. Additionally, any future consolidation of the rail industry could materially affect the competitive environment in which we operate.

We May Be Affected by General Economic Conditions – Prolonged negative changes in domestic and global economic conditions affecting the producers and consumers of the commodities carried by us may have a material adverse effect on our results of operations, financial condition, and liquidity.

We Utilize Capital Markets – We rely on the capital markets to provide some of our capital requirements, including the issuance of commercial paper from time to time and the sale of certain of our receivables. Market instability or deterioration of our financial condition due to internal or external factors could restrict or prohibit

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our access to commercial paper and reduce our credit ratings below investment grade, which would prohibit us from utilizing our sale of receivables program and significantly increase the cost of issuing debt.

We Are Dependent on Two Key Domestic Suppliers of Locomotives – Due to the capital intensive nature and sophistication of locomotive equipment, high barriers to entry face potential new suppliers. Therefore, if one of these domestic suppliers discontinues manufacturing locomotives, we could experience a significant cost increase and risk reduced availability of the locomotives that are necessary to our operations.

We May Be Affected by Acts of Terrorism, War, or Risk of War – Our rail lines, facilities, and equipment, including rail cars carrying hazardous materials, could be direct targets or indirect casualties of terrorist attacks. Terrorist attacks, or other similar events, any government response thereto, and war or risk of war may adversely affect our results of operations, financial condition, and liquidity. In addition, insurance premiums for some or all of our current coverages could increase dramatically, or certain coverages may not be available to us in the future.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

With operations in 23 states, we employ a variety of assets in the management and operation of our rail business. These assets include real estate, track and track structure, equipment, and facilities. We own and lease real estate that we use in our operations, and we also own real estate that is not required for our business, which we sell from time to time. Our equipment includes owned and leased locomotives and rail cars; heavy maintenance equipment and machinery; other equipment and tools in our shops, offices and facilities; and vehicles for maintenance, transportation of crews, and other activities. We operate numerous facilities, including terminals for intermodal and other freight; rail yards for train-building, switching, storage-in-transit (the temporary storage of customer goods in rail cars prior to shipment) and other activities; offices to administer and manage our operations; dispatch centers to direct traffic on our rail network; crew quarters to house train crews along our network; and shops and other facilities for fueling, maintenance, and repair of locomotives and repair and maintenance of rail cars and other equipment. We spent approximately \$2.2 billion in cash capital during 2006 for, among other things, building and maintaining track, structures and infrastructure; upgrading and augmenting equipment; and implementing new technologies (see the capital investments table in Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources – Financial Condition, Item 7).

Certain of our properties are subject to federal, state, and local laws and regulations governing the protection of the environment (see discussion of environmental issues in Business – Governmental and Environmental Regulation, Item 1, and Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Environmental, Item 7).

Track – The Railroad operates on 32,339 main line and branch line route miles in 23 states in the western two-thirds of the United States. We own 26,466 route miles, with the remainder of route miles operated pursuant to trackage rights or leases. Route miles as of December 31, 2006 and 2005, were as follows:

	2006	2005
Main line	27,318	27,301
Branch line	5,021	5,125
Yards, sidings and other lines	19,257	20,241
Total	51,596	52,667

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Rail and ties installed and replaced during the years ended December 31, 2006 and 2005 were as follows:

	2006	2005
Track miles of rail:		
New	632	661
Used	361	312
Ties (000)	4,669	4,690

Equipment – Our primary rail equipment consisted of the following as of December 31, 2006 and 2005:

	2006	2005
Owned or leased at year-end:		
Locomotives	8,475	8,226
Freight cars:		
Covered hoppers	38,785	38,553
Boxcars	24,342	26,770
Open-top hoppers	19,012	19,950
Gondolas	14,884	15,037
Other	7,702	6,433
Work equipment and other	5,263	5,041

Item 3. Legal Proceedings

From time to time, the Corporation is involved in legal proceedings, claims, and litigation that occur in connection with the Corporation's business. Management routinely assesses the Corporation's liabilities and contingencies in connection with these matters based upon the latest information available. Consistent with SEC rules and requirements, the Corporation describes below material pending legal proceedings (other than ordinary routine litigation incidental to the business of the Corporation), material proceedings known to be contemplated by governmental authorities, other proceedings arising under federal, state, or local environmental laws and regulations (including governmental proceedings involving potential fines, penalties, or other monetary sanctions in excess of \$100,000) and such other pending matters that the Corporation may determine to be appropriate.

Environmental Matters

As we reported in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2003, the San Joaquin County District Attorney filed an action against the Railroad on February 3, 2003, in the San Joaquin County Superior Court alleging claims under the California Business and Professions Code section 17200 (unfair business practices), Fish and Game Code section 5650 and 5650.1, California Health and Safety Code section 25189(d), and Public Nuisance, California Civil Code section 3480. The claims arise from a February 16, 2000, derailment in Stockton, California, in which a locomotive struck an object on the tracks, puncturing a fuel tank. The District Attorney alleged that diesel fuel from this spill entered waters of the State of California. The complaint also asserted claims under the above referenced statutes for any other diesel spill that may have occurred in the State of California between 2000 and 2003, in which diesel may have passed into waters of the State of California. It sought injunctive relief and civil penalties of \$25,000 for the alleged February 16, 2000 diesel spill and total penalties of not less than \$250,000 for all diesel spills that may have occurred since 2000. The District Attorney filed an amended complaint on April 10, 2003, which narrowed the claims to the incident of February 16, 2000. The amended complaint seeks both injunctive relief and daily penalties for each day that fuel was in the affected waterway, which could exceed \$100,000.

As we reported in our Annual Report on Form 10-K for 2003, the District Attorneys of Merced, Madera, and Stanislaus Counties in California filed a criminal case against the Railroad relating to a series of alleged releases of

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calcium oxide (lime). The criminal case was dismissed in the last quarter of 2003 and was subsequently refiled as a civil action by several counties in the San Joaquin County Superior Court. The refiled suit sought civil penalties against the Railroad in connection with the release of lime from an unidentified rail car between Chowchilla and Sacramento, California, on December 27, 2001, and another incident in which lime leaked from a rail car between Chowchilla and Stockton, California, on February 21, 2002. The suit contended that regulatory violations occurred by virtue of the Railroad's alleged failure to timely report the release of a "hazardous material," its alleged disposal of hazardous waste, and the alleged release of material into the waters of the State of California. On September 20, 2004, the Court dismissed the suit with prejudice. The State of California appealed this decision. On August 2, 2006, the Court of Appeals issued its decision, reversing the judgment and remanding the case for further proceedings consistent with its opinion. The Court of Appeals held that the State of California's claims against the Railroad for civil penalties were preempted by the Hazardous Materials Transportation Act (HMTA), with the exception of those claims that were based upon the Railroad's alleged failure to timely report the releases of calcium oxide to state and local authorities. With respect to these claims, the Court held that while they were not preempted by the HMTA on their face, it remained possible that those claims might ultimately be preempted once the trial court developed a record. The Railroad and the State of California requested that the California Supreme Court review the decision of the Court of Appeals. The California Supreme Court denied review, and the case has been remanded to the Superior Court.

As we reported in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, the Illinois Attorney General's office filed an Agreed Order and Complaint and a Complaint for Injunctive and Other Relief on October 7, 2004, in the Circuit Court for the Twentieth Judicial Circuit (St. Clair County) against The Alton & Southern Railway Company, a wholly-owned subsidiary of the Railroad, as a result of a collision and derailment on September 21, 2004. The State of Illinois seeks to enjoin The Alton & Southern Railway Company from further violations, as well as a monetary penalty. The amount of the proposed penalty is uncertain but could exceed \$100,000.

As we reported in our Annual Report on Form 10-K for 2005, we received information in 2001 indicating EPA considered the Railroad a potentially responsible party for the Omaha Lead Site. The Omaha Lead Site consists of approximately 12,800 acres of residential property in the eastern part of Omaha, Nebraska, allegedly impacted by air emissions from two former lead smelters/refineries. One refinery was operated by ASARCO. EPA identified the Railroad as a potentially responsible party because more than 60 years ago the Railroad owned land that was leased to ASARCO. The Railroad disputes both the legal and technical base for EPA's allegations. It has nonetheless engaged in extensive negotiations with EPA. These negotiations have reached an apparent impasse. EPA issued a Unilateral Administrative Order with an effective date of December 16, 2005, directing the Railroad to implement an interim remedy at the site at an estimated cost of \$50 million. Failure to comply with the order without just cause could subject the Railroad to penalties of up to \$32,500 per day and triple EPA's costs in performing the work. The Railroad believes it has just cause not to comply with the order, but it offered to perform some of the work specified in the order as a compromise. EPA rejected this offer. The Railroad will vigorously contest liability and the imposition of any penalties.

As we reported in our Annual Report on Form 10-K for 2005, the Illinois Attorney General's office filed a complaint in the Circuit Court for the Twenty-First Judicial Circuit (St. Clair County) seeking injunctive relief and civil penalties against the Railroad relating to a collision between UPRR and Norfolk Southern Railway Company (NS) trains near Momence, Illinois, on November 24, 2005. The collision derailed approximately five locomotives and 30 railcars. Two of the UPRR locomotives and two of the NS locomotives caught fire and four of the locomotives released approximately 16,000 gallons of diesel fuel. Other cars carrying food products derailed and released an unknown amount of product. The Railroad promptly responded and remediation is ongoing. The State of Illinois seeks a permanent injunction against the Railroad ordering UPRR to continue remediation. The State of Illinois seeks to enjoin UPRR from further violations and a monetary penalty. The amount of the proposed penalty is uncertain.

As we reported in our Annual Report on Form 10-K for 2005, the Illinois Attorney General's office filed a complaint in the Circuit Court for the Twentieth Judicial Circuit (St. Clair County) for injunctive and other relief

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on November 28, 2005, against the Railroad, alleging a diesel fuel spill from an above-ground storage tank in a rail yard in Dupo, St. Clair County, Illinois. The State of Illinois seeks to enjoin UPRR from further violations and a monetary penalty. The amount of the proposed penalty is uncertain.

As we reported in our Annual Report on Form 10-K for 2003, the United States Attorney for the Central District of California notified the Railroad that the office intended to pursue criminal charges against the Railroad for alleged violations of federal environmental laws, including the federal Clean Water Act, in connection with releases of oil contaminated wastewater from our Taylor Yard in 2001 and 2003. On July 31, 2006, the United States Attorney filed criminal misdemeanor charges against us for these releases in the United States District Court for the Central District of California, and we received the Summons from the Court on August 8, 2006. We will vigorously defend the charges.

On October 23, 2006, the California Air Resources Board (ARB) notified the Railroad of its intent to impose civil penalties as a result of the Railroad's failure to perform and document annual opacity (smoke) testing for its heavy duty diesel vehicle fleet. The ARB proposed that the Railroad pay \$135,000 and agree to other non-monetary conditions to settle these violations. Discussions between the Railroad and the ARB are continuing, and the ultimate amount of any penalty remains uncertain.

We received notices from EPA and state environmental agencies alleging that we are or may be liable under federal or state environmental laws for remediation costs at various sites throughout the United States, including sites on the Superfund National Priorities List or state superfund lists. We cannot predict the ultimate impact of these proceedings and suits because of the number of potentially responsible parties involved, the degree of contamination by various wastes, the scarcity and quality of volumetric data related to many of the sites, and the speculative nature of remediation costs.

Information concerning environmental claims and contingencies and estimated remediation costs is set forth in Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies – Environmental, Item 7.

Other Matters

As we reported in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, we were notified that a *qui tam*, or private citizen, complaint was filed in the United States District Court for the Central District of California against, among other parties, the City of Long Beach, City of Long Beach Harbor Department, Port of Long Beach (the Port), Union Pacific Corporation, Union Pacific Railroad Company, and Union Pacific Resources Company, also known as Union Pacific Resources Group Inc. (Resources), a former subsidiary of UPC. A private citizen filed the action because the federal government and the State of California elected not to pursue the claims. The complaint alleges that the defendants violated the Federal Civil False Claims Act and the California False Claims Act by conspiring to use public funds to (1) shift environmental cleanup liability to the Port when Resources sold its Terminal Island oil field property to the Port in 1994 and (2) effect the acquisition by the Port of the Terminal Island property in which the Port (or the State of California) allegedly already held certain incidents of title. The complaint, which has not been served on us, seeks damages of \$2.4 billion, unspecified costs for remediating groundwater contamination, and triple damages and civil penalties of \$10,000 per day. The plaintiff's extended time to serve the complaint expired on April 4, 2005, and the Corporation filed a motion to dismiss for plaintiff's failure to make timely service. However, the Court extended the plaintiff's time to provide service. On December 7, 2005, we learned that a summons for service of the complaint had been issued, and we were served with the complaint during the fourth quarter of 2006. We dispute the factual and legal bases of the complaint. We notified Anadarko Petroleum Corporation (Anadarko), as successor to Resources after its acquisition in 2000, that an indemnification agreement between Resources and the Corporation obligates Anadarko to indemnify us for all damages, costs, and expenses related to the complaint.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

Executive Officers of the Registrant and Principal Executive Officers of Subsidiaries

Our executive officers generally are elected and designated annually by the Board of Directors at our first meeting held after the Annual Meeting of Shareholders, and they hold office until their successors are elected. Executive officers also may be elected and designated throughout the year, as the Board of Directors considers appropriate. There are no family relationships among the officers, nor any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. The following table sets forth certain information, as of February 16, 2007, relating to the executive officers.

<u>Name</u>	<u>Position</u>	<u>Age</u>	<u>Business Experience During Past Five Years</u>
James R. Young	Chairman, President and Chief Executive Officer of UPC and the Railroad	54	(1)
Robert M. Knight, Jr.	Executive Vice President – Finance and Chief Financial Officer of UPC and the Railroad	49	(2)
Charles R. Eisele	Senior Vice President – Strategic Planning of UPC and the Railroad	57	Current Position
J. Michael Hemmer	Senior Vice President – Law and General Counsel of UPC and the Railroad	57	(3)
Barbara W. Schaefer	Senior Vice President – Human Resources and Secretary of UPC and the Railroad	53	(4)
Lynden L. Tennison	Senior Vice President and Chief Information Officer of UPC and the Railroad	47	(5)
Robert W. Turner	Senior Vice President – Corporate Relations of UPC and the Railroad	57	Current Position
Bernard R. Gutschewski	Vice President – Taxes of UPC and Vice President and General Tax Counsel of the Railroad	56	Current Position
Mary E. McAuliffe	Vice President – External Relations of UPC	60	Current Position
Richard J. Putz	Vice President and Controller of UPC and Chief Accounting Officer and Controller of the Railroad	59	Current Position
Mary Sanders Jones	Vice President and Treasurer of UPC and Treasurer of the Railroad	54	Current Position
Dennis J. Duffy	Executive Vice President – Operations of the Railroad	56	Current Position
John J. Koraleski	Executive Vice President – Marketing and Sales of the Railroad	56	Current Position

(1) Mr. Young was elected Chief Executive Officer and President of UPC and the Railroad effective January 1, 2006. He was elected to the additional position of Chairman effective February 1, 2007. He was elected President and Chief Operating Officer of the Railroad, effective February 1, 2004, and he previously was Executive Vice President – Finance of UPC and Chief Financial Officer of the Railroad.

(2) Mr. Knight was elected to his current position effective February 1, 2004. He was elected Senior Vice President – Finance for UPC and the Railroad effective February 1, 2002, and he previously was Vice President and General Manager Automotive for the Railroad.

(3) Mr. Hemmer was elected to his current position effective June 1, 2004. Mr. Hemmer was elected Vice President – Law of the Railroad effective September 1, 2002, and previously was a partner at the law firm of Covington & Burling in Washington, D.C.

(4) Mrs. Schaefer has held the position of Senior Vice President – Human Resources for the past five years. In addition, she was elected Secretary of UPC and the Railroad effective June 1, 2004.

(5) Mr. Tennison was elected to his current position effective March 1, 2005. He previously was Vice President and Chief Technology Officer.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

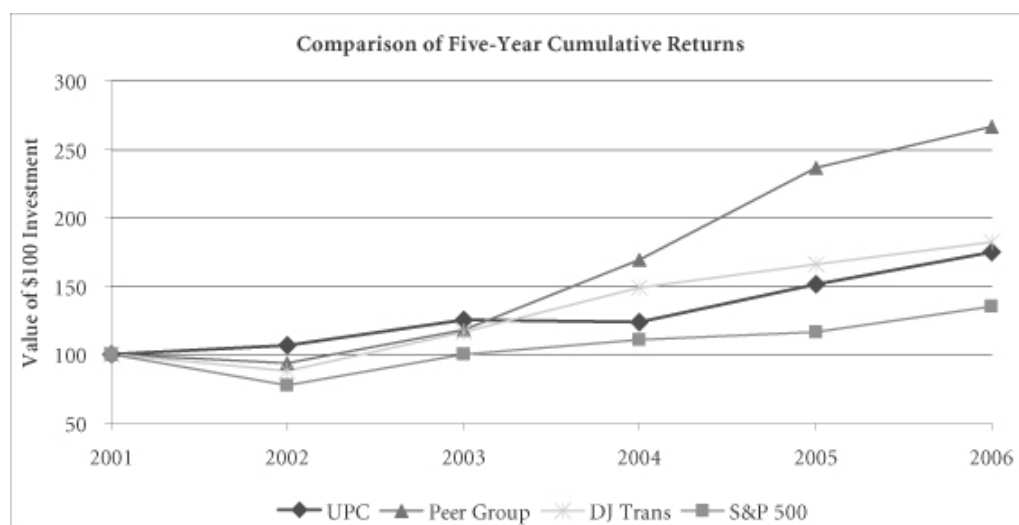
Our common stock is traded on the NYSE under the symbol "UNP". The following table presents the dividends declared and the high and low closing prices of our common stock for each of the indicated quarters.

<i>2006 - Dollars Per Share</i>				
	Q1	Q2	Q3	Q4
Dividends	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30
Common stock price:				
High	93.73	97.49	92.96	96.16
Low	77.62	83.83	78.65	86.27

<i>2005 - Dollars Per Share</i>				
	Q1	Q2	Q3	Q4
Dividends	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30
Common stock price:				
High	70.10	70.19	72.20	81.26
Low	58.18	60.85	63.52	66.89

At January 31, 2007, there were 270,752,306 shares of outstanding common stock and 34,937 common shareholders of record. At that date, the closing price of the common stock on the NYSE was \$101.00. We have paid dividends to our common shareholders during each of the past 107 years. We declared dividends totaling \$323 million in 2006 and \$316 million in 2005. On January 30, 2007, we increased the quarterly dividend to \$0.35 per share, payable beginning on April 2, 2007, to shareholders of record on February 28, 2007. We are subject to certain restrictions regarding retained earnings with respect to the payment of cash dividends to our shareholders. The amount of retained earnings available for dividends increased to \$7.8 billion at December 31, 2006, from \$6.2 billion at December 31, 2005.

Five-Year Performance Comparison – The following graph provides an indicator of cumulative total shareholder returns for the Corporation as compared to a peer group index, comprised of Burlington Northern Sante Fe Corporation, CSX Corporation, and Norfolk Southern Corporation; the Dow Jones Transportation Index (Dow Jones); and the Standard & Poor's 500 Stock Index (S&P 500). The graph assumes that the value of the investment in Union Pacific Corporation's common stock and each index was \$100 on December 31, 2001, and that all dividends were reinvested.



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Comparison Over One- and Three-Year Periods – The following table presents the cumulative total shareholder returns, assuming reinvested dividends, over one- and three-year periods for the Corporation, a peer group index (as described above), the Dow Jones, and the S&P 500.

<i>Period</i>	<i>UPC</i>	<i>Peer Group</i>	<i>Dow Jones</i>	<i>S&P 500</i>
1 Year	15.9%	10.8%	9.7%	15.8%
3 Year	39.4	125.8	56.5	34.8

Purchases of Equity Securities – The purchased shares presented below relate solely to our equity compensation plans described in note 8 to the Financial Statements and Supplementary Data, Item 8. During the first nine months of 2006, 307,867 shares of our common stock were repurchased at an average price per share of \$89.21. The following table presents common stock repurchases during each month for the fourth quarter of 2006:

<i>Period</i>	<i>Total Number of Shares Purchased</i>	<i>Average Price Paid per Share</i>	<i>Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program</i>	<i>Maximum Number of Shares That May Yet Be Purchased Under the Plan or Program</i>
Oct. 1 through Oct. 31				
Employee transactions [a]	72,599	\$90.31	N/A	N/A
Nov. 1 through Nov. 30				
Employee transactions [a]	34,921	91.87	N/A	N/A
Dec. 1 through Dec. 31				
Employee transactions [a]	12,699	95.38	N/A	N/A
Total	120,219	\$91.30	N/A	N/A

[a] Includes shares delivered or attested to UPC to pay stock option exercise prices or to satisfy tax withholding obligations for stock option exercises or vesting of retention shares or units.

On January 30, 2007, our Board of Directors authorized us to repurchase up to 20 million shares of our common stock through December 31, 2009. We may make these repurchases on the open market or through other transactions. Our management will have sole discretion with respect to determining the timing and amount of these transactions (subject to the restrictions described above).

Item 6. Selected Financial Data

The following table presents as of, and for the years ended, December 31, our selected financial data for each of the last five years. The selected financial data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, Item 7, and with the Financial Statements and Supplementary Data, Item 8. The information below is not necessarily indicative of the results of future operations.

<i>Millions of Dollars, Except per Share Amounts, Carloads, Employee Statistics, and Ratios</i>	2006	2005[a]	2004[b]	2003[c]	2002[d]
For the Year Ended December 31					
Operating revenue [e]	\$15,578	\$13,578	\$12,215	\$11,551	\$11,159
Operating income	2,884	1,795	1,295	2,133	2,253
Income from continuing operations	1,606	1,026	604	1,056	1,265
Net income	1,606	1,026	604	1,585	1,341
Per share – basic:					
Income from continuing operations	5.96	3.89	2.33	4.15	5.02
Net income	5.96	3.89	2.33	6.23	5.32
Per share – diluted:					
Income from continuing operations	5.91	3.85	2.30	4.07	4.78
Net income	5.91	3.85	2.30	6.04	5.05
Dividends declared per share	1.20	1.20	1.20	0.99	0.83
Cash provided by operating activities	2,880	2,595	2,257	2,443	2,237
At December 31					
Total assets	\$36,515	\$35,620	\$34,596	\$33,496	\$32,772
Debt due after one year	6,000	6,760	7,981	7,822	7,428
Convertible preferred securities	-	-	-	-	1,500
Common shareholders' equity	15,312	13,707	12,655	12,354	10,651
Equity per common share [f]	56.68	51.41	48.58	47.85	41.99
Additional Data					
Commodity revenue [e]	\$14,862	\$12,957	\$11,692	\$11,041	\$10,663
Carloads (000)	9,852	9,544	9,458	9,239	9,131
Operating margin (%) [g]	18.5	13.2	10.6	18.5	20.2
Operating ratio (%) [g]	81.5	86.8	89.4	81.5	79.8
Average employees (000)	50.7	49.7	48.3	46.4	47.3
Operating revenue per employee (000)	\$ 307.2	\$ 273.2	\$ 252.9	\$ 248.9	\$ 235.9
Financial Ratios (%)					
Debt to capital [h]	30.7	35.1	39.1	39.3	46.4
Return on average common shareholders' equity	11.1	7.8	4.8	13.8	13.3

[a] 2005 net income includes a \$118 million tax expense reduction to reflect a reduction in the estimated deferred income tax liability.

[b] 2004 operating income and net income includes a \$247 million pre-tax (\$154 million after-tax) charge for unasserted asbestos-related claims.

[c] Net income and total assets include the effects of the acquisitions of Motor Cargo as of November 30, 2002, and reflect the disposition of all of our trucking interests in 2003.

[d] 2002 net income includes \$214 million pre-tax (\$133 million after-tax) gains on asset dispositions. In addition, net income includes a reduction of income tax expense of \$67 million related to tax adjustments for prior years' income tax examinations.

[e] Includes fuel surcharge revenue of \$1,619 million, \$963 million, \$292 million, \$93 million, and \$7 million for 2006, 2005, 2004, 2003, and 2002, respectively.

[f] Equity per common share is calculated as follows: common shareholders' equity divided by common shares issued less treasury shares outstanding.

[g] Operating margin is defined as operating income divided by operating revenue. Operating ratio is defined as operating expenses divided by operating revenue.

[h] Debt to capital is determined as follows: total debt plus convertible preferred securities divided by total debt plus convertible preferred securities plus equity.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Consolidated Financial Statements and applicable notes to the Financial Statements and Supplementary Data, Item 8, and other information in this report, including Risk Factors set forth in Item 1A and Critical Accounting Policies and Cautionary Information at the end of this Item 7.

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although revenue is analyzed by commodity group, we analyze the net financial results of the Railroad as one segment due to the integrated nature of our rail network.

EXECUTIVE SUMMARY

2006 Results

- **Safety** – Overall, safety results improved during 2006. The employee injury incident rate per 200,000 man-hours dropped to its lowest level, which also reduced the number of lost workdays. A continued focus on derailment prevention in 2006 resulted in a 17% reduction in incidents with associated costs declining 13%. In the area of public safety, we closed 410 grade crossings to reduce exposure and have video cameras in approximately 1,900, or 30%, of our road locomotive fleet to better analyze grade crossing incidents, thereby increasing safety for our employees and the public. The number of grade crossing incidents, however, increased 5% during the year, driven in part by the combination of increasing highway and rail traffic and urban expansion.
- **Financial Performance** – In 2006, we generated record operating income of \$2.9 billion. Solid demand, yield increases, and improved operational efficiency drove the 61% increase in operating income. Our operating ratio was 81.5% for the year, a 5 point improvement compared to 2005. Net income of \$1.6 billion also topped our previous milestone, translating into \$5.91 diluted earnings per share.
- **Commodity Revenue Growth** – Our commodity revenue grew 15% year-over-year to \$14.9 billion, the highest level in our history. We achieved record revenue levels in all of our six commodity groups, primarily driven by better pricing and fuel surcharges. Since 2004, we repriced approximately two-thirds of our business. Volume increased 3% to record levels in 2006, despite softening markets in some sectors in the second half of 2006.
- **Network Improvement** – In 2006, the fluidity and efficiency of our transportation network improved substantially, which allowed us to handle record volume levels. Continued focus on increasing velocity, eliminating work events, improving asset utilization, and expanding capacity were key drivers of our operational improvement. With ongoing enhancements to our Unified Plan and implementation of terminal processing initiatives, productivity improved, as demonstrated by 5% lower average terminal dwell time, a 4% improvement in car utilization, and a 1% increase in average train speed. We continued implementation of an operational productivity initiative called CIMS (Customer Inventory Management System), which complements the Unified Plan by reducing the number of cars in our terminals without adding capacity. By the end of 2006, CIMS managed the flow of almost 80% of the daily interchange of both loaded and empty railcars with our customers. We also expanded capacity and continued to use industrial engineering techniques to further improve network fluidity, ease capacity constraints, and improve asset utilization. Our customers rated us higher on their satisfaction surveys during 2006, an indication that efforts to improve network operations translated into better customer service.
- **Fuel Prices** – Fuel prices increased again in 2006 for the fourth consecutive year, raising our average system fuel price by 16% and adding \$393 million of operating expenses compared to 2005. After a fairly stable first quarter, fuel prices increased dramatically during the spring and summer months, as crude oil prices averaged over \$70 per barrel during the second and third quarters. July and August fuel prices were also affected by high diesel conversion spreads and large, regional spreads mainly driven by new government

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regulations that imposed certain usage restrictions on high sulfur diesel fuel. Many refineries ceased producing high sulfur diesel fuel and many pipelines stopped transporting high sulfur diesel fuel in our operating areas, which drove up the conversion and regional spreads. Despite some moderation during the fourth quarter, fuel prices were still higher than the beginning of the year. Our fuel surcharge programs helped offset the impact of these higher fuel prices in the form of higher revenue, recovering approximately 90% of the additional expense incurred above our base fuel price of \$0.75 per gallon for the year. In addition, our fuel conservation efforts allowed us to handle a 3% increase in gross ton-miles while improving our consumption rate by 2%. Simulator training, operating practices, and technology are all driving this improvement, saving us roughly 17 million gallons in 2006.

Free Cash Flow – Cash generated by operating activities totaled a record \$2.9 billion, yielding free cash flow of \$516 million in 2006. Free cash flow is defined as cash provided by operating activities, less cash used in investing activities and dividends paid.

Free cash flow is not considered a financial measure under accounting principles generally accepted in the United States (GAAP) by SEC Regulation G and Item 10 of SEC Regulation S-K. We believe free cash flow is important in evaluating our financial performance and measures our ability to generate cash without additional external financings. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities. The following table reconciles cash provided by operating activities (GAAP measure) to free cash flow (non-GAAP measure):

<i>Millions of Dollars</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Cash provided by operating activities	\$ 2,880	\$ 2,595	\$ 2,257
Cash used in investing activities	(2,042)	(2,047)	(1,732)
Dividends paid	(322)	(314)	(310)
Free cash flow	\$ 516	\$ 234	\$ 215

2007 Outlook

Safety – Operating a safe railroad benefits our employees, our customers, our shareholders, and the public. We will continue using a multi-faceted approach to safety, using technology, risk assessment, quality control, and training and education for our new and existing employees. From a public safety standpoint, we will continue our efforts to upgrade and close crossings, install video cameras on locomotives, and educate the public about crossing safety through various internal and industry programs, along with other activities. Additionally, we are working with private and public partners to develop better tank cars for transportation of chemicals.

Commodity Revenue Growth – We expect record revenue levels to continue in 2007 based on current economic indicators, forecasted demand, and additional repricing opportunities. We established a target for year-over-year commodity revenue growth of 6% to 7%. We are projecting yield increases in all of our major commodity groups and volume growth ranging from 2% to 3%. We expect volume growth primarily from the energy and intermodal commodity groups. We will continue to monitor the market for changing conditions and adjust our plan accordingly.

Transportation Plan – In 2007, we will continue to evaluate traffic flows and network logistic patterns to identify additional opportunities to simplify operations and improve network efficiency. We plan to maintain adequate manpower and locomotives, improve productivity using industrial engineering techniques, and improve our operating margins.

Fuel Prices – We expect that fuel prices will remain volatile, with crude oil prices and conversion and regional spreads fluctuating throughout the year. To reduce the impact of fuel price on earnings, we will continue to seek recovery from our customers through our fuel surcharge programs and expand our fuel conservation efforts. As indicated in Item 1 of this report, the STB issued a decision limiting the manner in

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which U.S. railroads can calculate fuel surcharges on traffic regulated by the STB. Currently, we do not believe this decision will prevent us from using fuel surcharges or adversely affect our ability to use fuel surcharges to mitigate the impact of rising or elevated fuel prices on most or all of our traffic.

Capital Plan – In 2007, we expect to make capital investments of approximately \$3.2 billion, which may include long-term leases. These investments will be used to maintain track and structures; continue capacity expansions on our main lines in constrained corridors; remove bottlenecks; upgrade and augment equipment, including locomotives and railcars, to better meet customer needs; build and improve facilities and terminals; and develop and implement new technologies. We designed these investments to maintain infrastructure for safety, enhance customer service, promote growth, and improve operational fluidity. Major capital projects in 2007 include adding more double track on the Sunset Corridor and related line capacity; investing in new and existing facilities and terminals in Phoenix, Tucson, the LA Basin, San Antonio, Dallas/Fort Worth, and Houston; continuing improvements of the SPRB Joint Line; and continuing installation of centralized track control across Iowa and Nebraska, which enables us to increase productivity on these rail lines. We expect to fund our 2007 cash capital investments through cash generated from operations, the sale or lease of various operating and non-operating properties, and cash on hand at December 31, 2006. This focused capital plan is designed to help us improve network velocity and facilitate revenue growth.

Financial Expectations – We are somewhat cautious about the economic environment; however, we anticipate revenue growth and continued network improvement in 2007, with financial results exceeding 2006 levels. Our expectations include generating earnings growth of 10% to 15% and an operating ratio below 80%.

RESULTS OF OPERATIONS

Operating Revenue

<i>Millions of Dollars</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>% Change 2006 v 2005</i>	<i>% Change 2005 v 2004</i>
Commodity revenue	\$14,862	\$12,957	\$11,692	15%	11%
Other revenue	716	621	523	15	19
Total	\$15,578	\$13,578	\$12,215	15%	11%

Operating revenue includes commodity revenue and other revenue. Other revenue consists primarily of revenue earned by our subsidiaries, revenue from our commuter rail operations, and accessorial revenue, which we earn when customers retain equipment owned or controlled by us. We recognize commodity revenue on a percentage-of-completion basis as freight moves from origin to destination. We allocate commodity revenue between reporting periods based on the relative transit time in each reporting period and recognize expenses as we incur them. We recognize other revenue as service is performed or contractual obligations are met. Customer incentives, which are primarily provided for shipping a specified cumulative volume or shipping to/from specific locations, are recorded as a reduction to revenue based on actual or projected future customer shipments.

All six commodity groups experienced double digit revenue growth during 2006, with particularly strong growth of over 20% in agricultural commodity revenue. Price increases, fuel surcharges, and index-based contract escalators, which are formulas in our shipping contracts that correlate price adjustments to certain economic indices, all contributed to higher average revenue per car (ARC). Our fuel surcharge programs (excluding index-based contract escalators that contain some provision for fuel) generated an additional \$656 million in commodity revenue compared to 2005, contributing 5% to commodity revenue growth. Volume increased 3% during the year led by solid growth in intermodal and energy shipments, which was partially offset by lower shipments of industrial products and chemicals. The year-over-year growth was also partially attributable to lower volume in 2005 due to the January West Coast storm, SPRB Joint Line disruptions, Hurricane Rita, and the Kansas washouts.

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Commodity revenue improved in all six business groups during 2005, with double-digit growth in the agricultural, industrial products, and intermodal commodity groups. Fuel surcharges, price increases, and index-based contract escalators all contributed to higher ARC. Our fuel surcharge programs (excluding index-based contract escalators that contain some provision for fuel) generated an additional \$671 million in commodity revenue compared to 2004, which represents approximately 70% of the additional expense incurred above the base fuel price for our fuel surcharge programs (currently, \$0.75 per gallon). Although volume grew 1% for the year, the severe weather and maintenance and restoration on the SPRB Joint Line constrained volume growth.

Other revenue increased in 2006, mainly driven by higher volumes. In addition, we generated higher subsidiary revenue from Bay Pacific Financial L.L.C. (Bay Pacific), an intermodal leasing entity, following the acquisition of our joint venture partner's interest in Bay Pacific during the third quarter of 2005. Subsidiary and accessorial revenue increased other revenue in 2005, mainly driven by higher volumes and the acquisition of Bay Pacific.

The following tables summarize the year-over-year changes in commodity revenue, revenue carloads, and average revenue per car by commodity group.

<i>Commodity Revenue Millions of Dollars</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>% Change 2006 v 2005</i>	<i>% Change 2005 v 2004</i>
Agricultural	\$ 2,395	\$ 1,971	\$ 1,675	22%	18%
Automotive	1,438	1,273	1,235	13	3
Chemicals	2,098	1,848	1,719	13	8
Energy	2,953	2,578	2,404	15	7
Industrial Products	3,173	2,819	2,419	13	17
Intermodal	2,805	2,468	2,240	14	10
Total	\$14,862	\$12,957	\$11,692	15%	11%

<i>Revenue Carloads Thousands</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>% Change 2006 v 2005</i>	<i>% Change 2005 v 2004</i>
Agricultural	923	883	883	5%	-%
Automotive	834	797	826	5	(4)
Chemicals	896	912	935	(2)	(2)
Energy	2,296	2,178	2,172	5	-
Industrial Products	1,451	1,508	1,515	(4)	-
Intermodal	3,452	3,266	3,127	6	4
Total	9,852	9,544	9,458	3%	1%

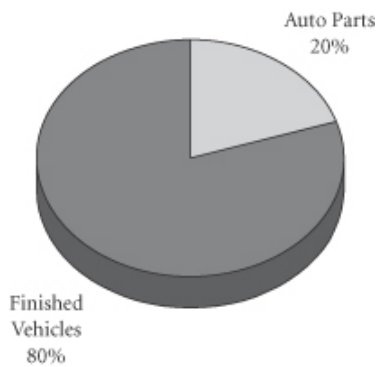
<i>Average Revenue per Car</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>% Change 2006 v 2005</i>	<i>% Change 2005 v 2004</i>
Agricultural	\$2,595	\$2,233	\$1,895	16%	18%
Automotive	1,724	1,598	1,496	8	7
Chemicals	2,342	2,026	1,839	16	10
Energy	1,286	1,184	1,107	9	7
Industrial Products	2,187	1,868	1,597	17	17
Intermodal	813	755	716	8	5
Total	\$1,509	\$1,358	\$1,236	11%	10%

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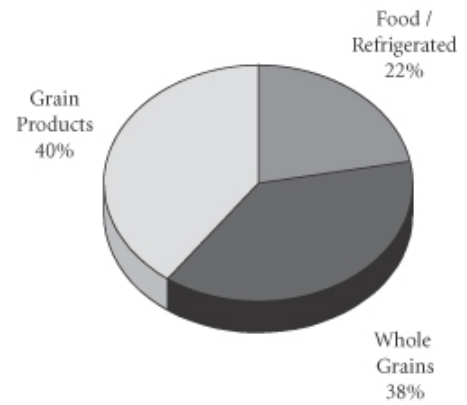
Agricultural – Price increases, volume growth, and fuel surcharges increased agricultural commodity revenue in 2006 versus 2005. Whole grains increased as strong gulf exports and higher freight charges for barge traffic shifted feed grain shipments to rails. Shipments of ethanol, a grain product used as an alternative fuel and fuel additive, and its co-products (primarily livestock feed) also experienced strong growth, reflecting continued demand in this growing industry. Conversely, wheat shipments declined due to extremely low crop production levels in 2006 primarily due to drought conditions in wheat producing states. Price and fuel surcharge increases improved ARC in 2006.

Price increases and fuel surcharges increased agricultural commodity revenue in 2005 compared to 2004. Total carloads were flat compared to 2004. Carloads of grain products increased during 2005 as we shipped more dry feed ingredients to Mexico and more ethanol. Higher demand for ethanol reflected the impact of energy demand, crude oil prices, and limited capacity of domestic refineries. Reduced carloadings of sugar beets partially offset the gains. Declining carloads of feed grain and reduced shipments of wheat both contributed to lower whole grain shipments. ARC improvement in 2005 resulted from price increases, fuel surcharges, and the positive impact of a larger percentage of carloads with longer average lengths of haul.

2006 Automotive Revenue



2006 Agricultural Revenue



Automotive – Price increases, volume growth, and fuel surcharges increased automotive commodity revenue in 2006 over 2005. Shipments of finished vehicles grew as higher manufacturer inventories at the end of 2005 translated into record volume growth for transportation in 2006. Shipments remained relatively strong through the second quarter due to the production ramp-up of new models at plants served by us. Automotive parts shipments also grew due to conversion of traffic from trucks, new business growth, and production increases at several UPRR-served assembly plants. Fuel surcharges and price increases drove the ARC improvement.

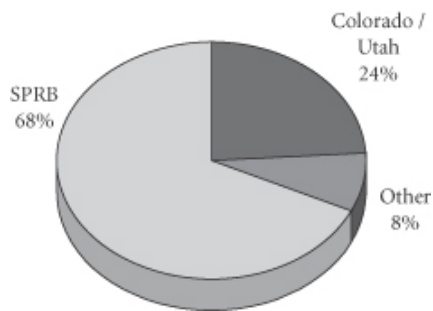
Revenue increased in 2005 over 2004 primarily due to fuel surcharges and price increases, which also drove ARC improvement. Carloads decreased due to lower shipments of domestically manufactured finished vehicles and automotive parts and materials, reflecting industry weakness during 2005.

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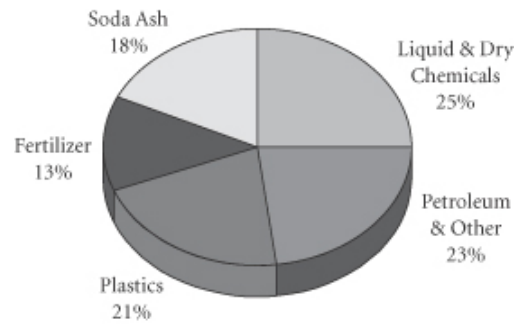
Chemicals – Price increases, fuel surcharges, and index-based contract escalators drove the increase in revenue and ARC in 2006 versus 2005. Fewer fertilizer shipments largely drove the volume decrease. Wet weather conditions in the Midwest led to weak demand during the fall fertilizer season. In addition, softer export markets for potash, a fertilizer product, also led to reduced volumes. Business interruptions in the third quarter of 2005, primarily attributable to Hurricane Rita, reduced chemicals shipments leading to favorable volume comparisons in 2006.

Price increases, fuel surcharges, and higher shipments of potash from Canada to Portland via the Eastport, Idaho gateway for overseas export all drove revenue growth in 2005 versus 2004. Declines in liquid and dry chemicals, plastics, and petroleum shipments, in part due to the business interruptions caused by Hurricane Rita, reduced volume. In addition, liquid and dry chemical shipments and plastic shipments were lower due to a weak export market, plant closures for maintenance, and the impact of an agreement with the BNSF for access to certain facilities in the Bayport, Texas area. ARC improved in 2005 due to price increases and fuel surcharges.

2006 Energy Revenue



2006 Chemicals Revenue



Energy – Price increases, fuel surcharges, and index-based contract escalators primarily drove the increases in revenue and ARC in 2006 over 2005. Volume increases also contributed to revenue growth as coal shipments from the SPRB mines improved 8% during the year. These increases in 2006 partially reflect lower volume levels in 2005, as SPRB Joint Line disruptions, network disruptions resulting from Hurricane Rita, and the October Kansas washouts hampered coal shipments in 2005. Conversely, shipments from the Colorado and Utah mines declined 6% in 2006 due to mine shutdowns during the first quarter of 2006, along with the impact of mining production problems and network maintenance throughout the third quarter of 2006.

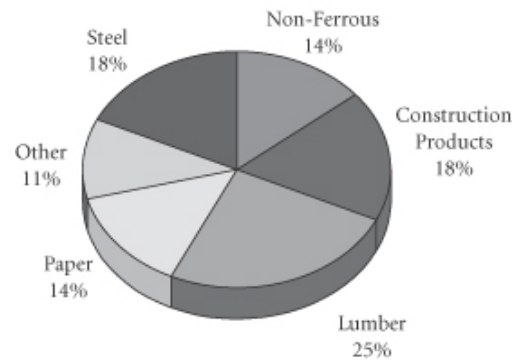
Revenue growth in 2005 over 2004 reflects higher prices, fuel surcharges, and index-based contract escalators. Although volume grew in the first quarter, carloads for 2005 were flat as a result of the extensive maintenance and restoration work on the SPRB Joint Line during the second, third, and fourth quarters, the impact of Hurricane Rita, the Kansas washouts, and temporary outages at mines in Colorado and Utah during the fourth quarter of 2005. ARC was higher due to price increases, higher fuel surcharges, and index-based contract escalators.

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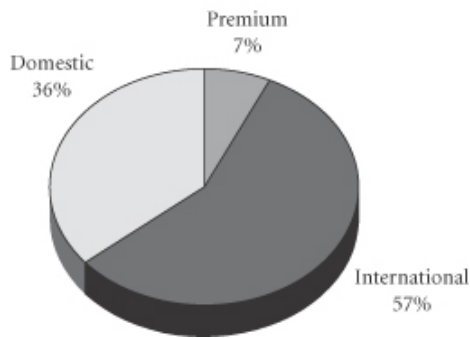
Industrial Products – Price increases and fuel surcharges improved revenue and ARC in 2006 over 2005. Volume levels declined due to lower lumber, paper, and newsprint shipments, which were partially offset by higher steel shipments. The softening of the housing market, lower production levels, and general market uncertainty drove the reduction in lumber shipments. Conversely, strong domestic markets throughout most of the year drove the increase in construction-related steel material and pipe, particularly those materials used in oil and gas drilling. Hurricane Rita reduced shipment volumes of industrial products in 2005, which favorably affected volume comparisons with 2006.

Price increases and fuel surcharges generated revenue growth in 2005 versus 2004. In particular, lumber shipments contributed to this growth due to solid pricing gains and fuel surcharges. Revenue from stone shipments increased revenue from construction products due to strong construction demand, larger train sizes, and improved car cycle times. Car cycle time is defined as the amount of time that a car spends on our system measured from the origin of the loaded or empty move until arrival at final destination. Overall carloads were flat compared to 2004. Partially offsetting substantial volume growth of stone shipments were reduced paper moves, primarily newsprint and fiber, and fewer shipments of government materials, steel, and cement, resulting from softening markets, cement shortages in certain markets, and higher inventories. Price increases and fuel surcharges drove ARC increases.

2006 Industrial Products Revenue



2006 Intermodal Revenue



Intermodal – Record volume growth, fuel surcharges, price increases, and index-based contract escalators combined to improve revenue in 2006 over 2005 in addition to the favorable impact from weaker intermodal revenue during 2005 due to the January West Coast storm. Carloadings grew due to strong imports, primarily from Asia, partially offset by decreased domestic traffic. ARC improved due to price increases, fuel surcharges, and contract escalators.

Revenue in 2005 improved over 2004 due to strong imports, primarily from China and the rest of Asia. However, business interruptions during the first quarter of 2005 due to the January West Coast storm limited full-year revenue growth. ARC improved due to price increases, fuel surcharges, and contract escalators.

Mexico Business – Each commodity group discussed above includes revenue from shipments to and from Mexico. Revenue from Mexico business increased 23% to \$1.4 billion in 2006 compared to 2005. Price increases, fuel surcharges, and shipments of finished vehicles, automotive parts, import beer, dry feed ingredients, and

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intermodal drove revenue growth in 2006. Volume declines in coal, newsprint, and sulfur shipments partially offset the increases.

In 2005, revenue from Mexico grew 15% to \$1.1 billion, resulting primarily from price increases and fuel surcharges. Carloads were flat versus 2004, as fewer automotive parts, energy, and intermodal shipments offset higher agricultural and industrial shipments.

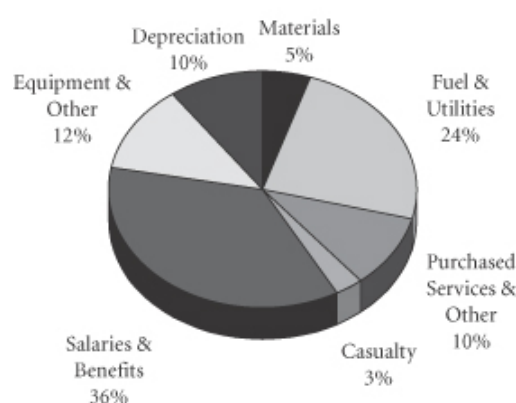
Operating Expenses

<i>Millions of Dollars</i>	2006	2005	2004	% Change 2006 v 2005	% Change 2005 v 2004
Salaries, wages, and employee benefits	\$ 4,599	\$ 4,375	\$ 4,167	5%	5%
Fuel and utilities	3,012	2,562	1,816	18	41
Equipment and other rents	1,455	1,402	1,374	4	2
Depreciation	1,237	1,175	1,111	5	6
Materials and supplies	691	546	488	27	12
Casualty costs	410	411	694	-	(41)
Purchased services and other costs	1,290	1,312	1,270	(2)	3
Total	\$12,694	\$11,783	\$10,920	8%	8%

Operating expenses increased \$911 million in 2006. Higher fuel prices, which rose 16% during the period, accounted for \$393 million of the increase. Our fuel surcharge programs helped offset these expenses in the form of higher revenue, recovering approximately 90% of the additional expense incurred above our base fuel price of \$0.75 per gallon for the year. We base a majority of our fuel surcharges on the average U.S. diesel fuel price effective two months prior. Our recovery percentage improved from the first part of 2006 due to the timing impact of our surcharges. Surcharge revenue began to recover higher fuel costs earlier in the year, and the two-month price lag caught up with declining fuel prices during the fourth quarter of 2006. Conversely, fuel surcharge revenue during the first quarter of 2007 will decline as lower fourth quarter fuel prices will reduce most of our surcharges.

Wages, benefits, and materials and supplies inflation; a larger workforce; volume-related expenses; and higher locomotive and freight car maintenance and lease expenses accounted for most of the additional increase in 2006. Settlement of all remaining insurance claims related to the 2005 January West Coast storm, an improved fuel consumption rate, and improved car cycle times (which reduced freight car rental expense) partially offset the cost increases. Additional clean-up and restoration costs for the 2005 January West Coast storm favorably affects comparison of 2005 operating expenses with those in 2006.

2006 Operating Expenses



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Operating expenses increased \$863 million in 2005 versus 2004. Excluding the asbestos charge of \$247 million (pre-tax) in 2004, operating expenses increased \$1.1 billion, or 10%. Significantly higher locomotive fuel prices accounted for \$740 million of this increase (our fuel surcharge programs helped offset these expenses in the form of higher revenue). Inflation in wages, benefits, materials, and services, as well as a larger workforce, resulted in most of the additional increase. Also driving higher operating expenses were increased contract services and clean-up and restoration costs associated with the 2005 January West Coast storm.

Salaries, Wages, and Employee Benefits – General wage and benefit inflation increased expenses in 2006, reflecting higher salaries and wages and the impact of higher healthcare costs and other benefit costs. A larger workforce, driven by higher volume levels, and stock option expense required by new accounting rules also contributed to higher expenses. Conversely, reduced protection costs and operational improvements, boosted by network management initiatives and investment in capacity, partially offset these increases. Protection costs represent the differential payment when the wage earned for active employment is lower than an employee's protected rate of pay. An individual's protected rate is imposed by the STB for employees adversely affected by a merger or is established by collective bargaining agreements with our labor unions in certain cases. Additionally, we incurred higher labor expenses in 2005 for clean-up and restoration of property damaged by the January West Coast storm.

Several factors drove higher employment expenses in 2005. General wage and benefit inflation increased expenses, reflecting higher salaries and wages and the year-over-year impact of higher healthcare and other benefits costs. We also incurred higher expenses for management bonuses in 2005, as executive bonuses were not awarded for 2004 and bonuses for the professional workforce were significantly reduced in 2004. A 3% increase in our workforce and higher demand during 2005 also contributed to the increases. Additionally, labor expenses, in the form of higher train crew costs and labor incurred for repair and clean-up activities, increased due to the hurricanes in the third quarter and the West Coast storm in the first quarter. Reduced severance and relocation costs, increased network efficiency, and reduced training expenses partially offset these increases. Transferring various support personnel to Omaha, Nebraska, resulted in higher severance and relocation costs in 2004.

Fuel and Utilities

<i>Millions of Dollars</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>% Change 2006 v 2005</i>	<i>% Change 2005 v 2004</i>
Locomotive fuel expense	\$2,821	\$2,393	\$1,684	18%	42%
Fuel surcharge revenue	1,619	963	292	68	230

Fuel and utilities include locomotive fuel, utilities other than telephone, and gasoline and other fuels. Higher diesel fuel prices, which averaged \$2.06 per gallon (including taxes and transportation costs) in 2006 compared to \$1.77 per gallon in 2005, increased expenses by \$393 million. A 3% increase in gross ton-miles resulted in \$63 million of additional expenses, which was partially offset by a 2% improvement in our fuel consumption rate due to the use of newer, more fuel-efficient locomotives and our fuel conservation programs. As noted above (and described in this Item 7), we offset a significant portion of increased locomotive fuel expenses through revenue from fuel surcharges. Gasoline, utilities, and propane and other fuel expenses increased \$20 million in 2006 due to higher prices and increased usage.

In 2005, diesel fuel prices averaged \$1.77 per gallon compared to \$1.22 per gallon in 2004, increasing expenses by \$740 million. A 1% increase in gross ton-miles resulted in \$8 million of additional expenses. We offset \$39 million of these increases with a 2% improvement in our consumption rate in 2005 versus 2004. The Railroad had no fuel hedges in place during 2005, whereas we hedged 120 million gallons of fuel in 2004. Gasoline, utilities, and propane expenses increased \$37 million in 2005 versus 2004 due to higher prices.

Equipment and Other Rents – Equipment and other rents primarily includes rental expense the Railroad pays for freight cars owned by other railroads or private companies; freight car, intermodal, and locomotive leases; other

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specialty equipment leases; and office and other rentals. Lease expense increased in 2006 compared to 2005 as we leased more locomotives and freight cars. Growth in automotive and intermodal shipments also increased our short-term freight car rental expense. Improved car-cycle times driven by network management initiatives partially offset this increase.

In 2005, the number of leased locomotives and freight cars increased, resulting in higher lease expense. Carload volume growth also increased 2005 expenses. Improved car-cycle times partially offset these increases which lowered our short-term freight car rental expense.

Depreciation – The majority of depreciation relates to track structure, including rail, ties, and other track material. A higher depreciable asset base, reflecting higher capital spending in recent years, and increased usage of our assets combined for higher depreciation expense in 2006 and 2005.

Materials and Supplies – Materials used to maintain the Railroad's lines, structures, and equipment are the principal components of materials and supplies expense. This expense item also includes small tools, office supplies, other materials, and the costs of freight services to ship Railroad supplies and materials. We used more repair materials at higher component costs to repair and maintain freight cars and our fleet of locomotives in 2006, including a growing number of units not covered by warranties. In addition, we performed more maintenance on locomotives that were maintained internally and not subject to maintenance contracts with third-party contractors compared to 2005.

During 2005, materials and supplies expense increased, primarily due to locomotive and freight car maintenance. We used more repair materials to maintain a larger fleet of locomotives, including a growing number of units not covered by warranties. Additionally, we incurred higher costs for car wheel sets, traction motors, and lube oil. Conversely, we incurred lower freight charges for shipping Railroad materials, and stationery and office supplies.

Casualty Costs – Personal injury costs, freight and property damage, insurance, and environmental expense are the primary components of casualty costs. Costs were flat in 2006 compared to 2005 as lower bad debt expenses, lower freight damage expenses, and lower expenses for destruction of foreign or leased equipment all offset personal injury costs and higher settlement expenses.

In 2005, casualty costs were lower than the previous year primarily due to higher expenses incurred in 2004 for an asbestos charge, a costly derailment near San Antonio, and a large jury verdict – affirmed in 2004 – for a 1998 crossing accident. Lower freight and property damage expense and lower costs for destruction of foreign or leased equipment also reduced casualty costs. Conversely, we incurred higher insurance costs and increased costs for third-party personal injuries and damages related to environmental exposures.

Purchased Services and Other Costs – Purchased services and other costs include the costs of services purchased from outside contractors, state and local taxes, net costs of operating facilities jointly used by UPRR and other railroads, transportation and lodging for train crew employees, trucking and contracting costs for intermodal containers, leased automobile maintenance expenses, telephone and cellular expense, employee travel expense, and computer and other general expenses. Volume-related expenses, including crew transportation and lodging costs, increased in 2006 driven by 3% growth of carloads. Higher state and local taxes (primarily sales and use taxes related to higher diesel fuel prices) also increased expenses in 2006 compared to 2005. Conversely, lower locomotive contract maintenance costs and lower expenses associated with jointly-owned operating facilities reduced expenses in 2006 compared to 2005. Settlement of all remaining insurance claims related to the 2005 January West Coast storm and the gain from the sale of two airplanes also reduced expenses in 2006. Finally, clean-up and restoration costs related to the January West Coast storm increased expenses in 2005, which also contributed to lower year-over-year expenses in 2006.

Expenses increased in 2005 versus 2004 because we experienced higher volume-related costs for freight car and locomotive contract maintenance and crew transportation and lodging. Although our intermodal carloadings

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increased over 4% in 2005, costs for trucking services provided by intermodal carriers remained flat as we substantially reduced expenses associated with network inefficiencies. Higher diesel fuel prices increased sales and use taxes in 2005, which resulted in higher state and local taxes. Other contract expenses for equipment maintenance and other services increased in 2005. The 2005 January West Coast storm and Hurricanes Katrina and Rita also contributed to higher expenses in 2005 (net of insurance settlements received). Partially offsetting these increases was a reduction in relocation expenses as we incurred higher relocation costs associated with moving support personnel to Omaha, Nebraska during 2004.

Non-Operating Items

<i>Millions of Dollars</i>	2006	2005	2004	% Change 2006 v 2005	% Change 2005 v 2004
Other income	\$ 118	\$ 145	\$ 88	(19)%	65%
Interest expense	(477)	(504)	(527)	(5)	(4)
Income taxes	(919)	(410)	(252)	124	63

Other Income – Lower net gains from non-operating asset sales and higher expenses due to rising interest rates associated with our sale of receivables program resulted in a reduction in other income in 2006, which was partially offset by higher rental income for the use of our right-of-way (including 2006 settlements of rate disputes from prior years) and cash investment returns due to higher interest rates.

In 2005, other income increased largely as a result of higher gains from real estate sales partially offset by higher expenses due to rising interest rates associated with our sale of receivables program.

Interest Expense – Lower interest expense in 2006 and 2005 was primarily due to declining weighted-average debt levels of \$7.1 billion, \$7.8 billion, and \$8.1 billion in 2006, 2005, and 2004, respectively. A higher effective interest rate of 6.7% in 2006, compared to 6.5% in both 2005 and 2004, partially offset the effects of the declining debt level.

Income Taxes – Income tax expense was \$509 million higher in 2006 than 2005. Higher pre-tax income resulted in additional taxes of \$414 million and \$118 million of the increase resulted from the one-time reduction in 2005 described below. Our effective tax rate was 36.4% and 28.6% in 2006 and 2005, respectively.

Income taxes were greater in 2005 than 2004 due to higher pre-tax income partially offset by a previously reported reduction in income tax expense. In our Quarterly Report on Form 10-Q for the quarter ended June 30, 2005, we reported that the Corporation analyzed the impact that final settlements of pre-1995 tax years had on previously recorded estimates of deferred tax assets and liabilities. The completed analysis of the final settlements for pre-1995 tax years, along with Internal Revenue Service Examination Reports for tax years 1995 through 2002 were considered, among other things, in a review and re-evaluation of the Corporation's estimated deferred tax assets and liabilities as of September 30, 2005, resulting in an income tax expense reduction of \$118 million in 2005.

OPERATING AND FINANCIAL STATISTICS**Railroad Performance Measures**

We report key Railroad performance measures weekly to the Association of American Railroads, including carloads, average daily inventory of rail cars on our system, average train speed, and average terminal dwell time. This operating data is available on our website at www.up.com/investors/reports/index.shtml.

Operating Statistics

	2006	2005	2004	% Change 2006 v 2005	% Change 2005 v 2004
Average train speed (miles per hour)	21.4	21.1	21.4	1%	(1)%
Average terminal dwell time (hours)	27.2	28.7	30.5	(5)	(6)
Gross ton-miles (billions)	1,072.5	1,043.9	1,037.5	3	1
Revenue ton-miles (billions)	565.2	548.8	546.3	3	-
Average full-time equivalent employees	50,739	49,747	48,329	2	3

Average Train Speed – Average train speed is calculated by dividing train miles by hours operated on our main lines between terminals. Ongoing network management initiatives and capacity expansion allowed us to move 3% more carloads in 2006 and improve average train speed 1%. In 2005, the January West Coast storm, disruptions on the SPRB Joint Line, business interruptions caused by Hurricane Rita, and the Kansas washouts in October hampered efforts to improve our average train speed.

Average Terminal Dwell Time – Average terminal dwell time is the average time that a rail car spends at our terminals. Lower average terminal dwell time is favorable. Average terminal dwell improved 5% and 6% in 2006 and 2005, respectively, as a result of ongoing management initiatives and directed efforts to more timely deliver rail cars offline to our interchange partners and customers.

Gross and Revenue Ton-Miles – Gross ton-miles are calculated by multiplying the weight of loaded or empty freight cars by the number of miles hauled. Revenue ton-miles are calculated by multiplying the weight of freight by the number of tariff miles. In 2006, gross and revenue ton-miles grew 3% in relation to the 3% increase in carloadings as volume was balanced between the higher and lower density commodities. In 2005, gross ton-miles grew 1%, in relation to a 1% increase of carloadings. Revenue ton-miles were flat in 2005.

Average Full-Time Equivalent Employees – Higher employee levels in 2006 and 2005 included more people to maintain our larger locomotive and freight car fleet, the addition of employees needed to complete increased track repair and replacement programs, the hiring of operations management personnel, including an expanded management training program, and train and engine personnel to manage current demand.

[Table of Contents](#)**Return on Invested Capital**

<i>Millions of Dollars, Except Percentages</i>	2006	2005	2004
Net income	\$ 1,606	\$ 1,026	\$ 604
Add: Interest expense	477	504	527
Add: Sale of receivables fees	33	23	11
Add: Interest on present value of operating leases	268	218	172
Less: Taxes on interest and fees	(283)	(213)	(209)
Net operating profit after taxes as adjusted (a)	\$ 2,101	\$ 1,558	\$ 1,105
Average equity	\$14,510	\$13,181	\$12,505
Add: Average debt	7,098	7,774	8,060
Add: Average value of sold receivables	600	595	590
Add: Average present value of operating leases	3,349	2,729	2,147
Average invested capital as adjusted (b)	\$25,557	\$24,279	\$23,302
Return on invested capital as adjusted (a/b)	8.2%	6.4%	4.7%

Return on invested capital (ROIC) is considered a non-GAAP financial measure by SEC Regulation G and Item 10 of SEC Regulation S-K. We believe this measure is important in evaluating the efficiency and effectiveness of the Corporation's long-term capital investments, and we currently use ROIC as a performance criteria in determining certain elements of compensation for our executive officers and senior management. ROIC should be considered in addition to, rather than as a substitute for, other information provided in accordance with GAAP. A comparable GAAP measure is Return on Equity, which is included in Selected Financial Data, Item 6.

Debt to Capital/Lease Adjusted Debt to Capital

<i>Millions of Dollars, Except Percentages</i>	2006	2005	2004
Debt (a)	\$ 6,780	\$ 7,416	\$ 8,131
Equity	15,312	13,707	12,655
Capital (b)	\$22,092	\$21,123	\$20,786
Debt to capital (a/b)	30.7%	35.1%	39.1%

<i>Millions of Dollars, Except Percentages</i>	2006	2005	2004
Debt	\$ 6,780	\$ 7,416	\$ 8,131
Net present value of operating leases	3,513	3,185	2,273
Lease adjusted debt (a)	\$10,293	\$10,601	\$10,404
Equity	15,312	13,707	12,655
Lease adjusted capital (b)	\$25,605	\$24,308	\$23,059
Lease adjusted debt to capital (a/b)	40.2%	43.6%	45.1%

Lease adjusted debt to capital is considered a non-GAAP financial measure by SEC Regulation G and Item 10 of SEC Regulation S-K. We believe this measure is important in evaluating the total amount of leverage in our capital structure including off-balance sheet lease obligations. We monitor the ratio of lease adjusted debt to capital as we manage our capital structure to balance cost effective and efficient access to the capital markets with the Corporation's overall cost of capital. Lease adjusted debt to capital should be considered in addition to, rather than as a substitute for, debt to capital. The table above provides support for the lease adjusted debt to capital calculation. Our debt to capital ratios improved as a result of a \$636 million reduction in debt from December 31, 2005, and an increase in retained earnings due to higher net income in 2006.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2006, our principal sources of liquidity included cash, cash equivalents, the sale of receivables, and our revolving credit facilities, as well as the availability of commercial paper and other sources of financing through the capital markets. We had \$2 billion of committed credit facilities available, of which there were no borrowings outstanding as of December 31, 2006, and we did not make any short-term borrowings under these facilities during the year. The value of the outstanding undivided interest held by investors under the sale of receivables program was \$600 million as of December 31, 2006. The sale of receivables program is subject to certain requirements, including the maintenance of an investment grade bond rating. If our bond rating were to deteriorate, it could have an adverse impact on our liquidity. Access to commercial paper is dependent on market conditions. Deterioration of our operating results or financial condition due to internal or external factors could negatively impact our ability to utilize commercial paper as a source of liquidity. Liquidity through the capital markets is also dependent on our financial stability.

At both December 31, 2006 and 2005, we had a working capital deficit of approximately \$1.1 billion. A working capital deficit is common in our industry and does not indicate a lack of liquidity. We maintain adequate resources to meet our daily cash requirements, and we have sufficient financial capacity to satisfy our current liabilities.

Financial Condition

Cash Flows

Millions of Dollars

	2006	2005	2004
Cash provided by operating activities	\$ 2,880	\$ 2,595	\$ 2,257
Cash used in investing activities	(2,042)	(2,047)	(1,732)
Cash used in financing activities	(784)	(752)	(75)
Net change in cash and cash equivalents	\$ 54	\$ (204)	\$ 450

Cash Provided by Operating Activities – Higher income in 2006 generated the increased cash provided by operating activities, which was partially offset by higher income tax payments, \$150 million in voluntary pension contributions, higher material and supply inventories, and higher management incentive payments in 2006. Higher income, lower management incentive payments in 2005 (executive bonuses, which would have been paid to individuals in 2005, were not awarded based on company performance in 2004 and bonuses for the professional workforce that were paid out in 2005 were significantly reduced), and working capital performance generated higher cash from operating activities in 2005. A voluntary pension contribution of \$100 million in 2004 also augmented the positive year-over-year variance in 2005 as no pension contribution was made in 2005. This improvement was partially offset by cash received in 2004 for income tax refunds.

Cash Used in Investing Activities – An insurance settlement for the 2005 January West Coast storm and lower balances for work in process decreased the amount of cash used in investing activities in 2006. Higher capital investments and lower proceeds from asset sales partially offset this decrease. Increased capital spending, partially offset by higher proceeds from asset sales, increased the amount of cash used in investing activities in 2005 compared to 2004.

Cash Used in Financing Activities – The increase in cash used in financing activities primarily resulted from lower net proceeds from equity compensation plans (\$189 million in 2006 compared to \$262 million in 2005). The increase in 2005 results from debt issuances in 2004 and higher debt repayments in 2005. We did not issue debt in 2005 versus \$745 million of debt issuances in 2004, and we repaid \$699 million of debt in 2005 compared to \$588 million in 2004. The higher outflows in 2005 were partially offset by higher net proceeds from equity compensation plans (\$262 million in 2005 compared to \$80 million in 2004).

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The table below details cash capital investments for the years ended December 31, 2006, 2005, and 2004.

<i>Millions of Dollars</i>	2006	2005	2004
Track	\$1,487	\$1,472	\$1,328
Capacity and commercial facilities	510	509	347
Locomotives and freight cars	135	98	125
Other	110	90	76
Total	\$2,242	\$2,169	\$1,876

In 2007, we expect our total capital investments to be approximately \$3.2 billion, which may include long-term leases. These investments will be used to maintain track and structures, continue capacity expansions on our main lines in constrained corridors, remove bottlenecks, upgrade and augment equipment to better meet customer needs, build and improve facilities and terminals, and develop and implement new technologies. We designed these investments to maintain infrastructure for safety, enhance customer service, promote growth, and improve operational fluidity. We expect to fund our 2007 cash capital investments through cash generated from operations, the sale or lease of various operating and non-operating properties, and cash on hand at December 31, 2006. We expect that these sources will continue to provide sufficient funds to meet our expected capital requirements for 2007.

For the years ended December 31, 2006, 2005, and 2004, our ratio of earnings to fixed charges was 4.4, 2.9, and 2.1, respectively. The increases in 2006 and 2005 were driven by higher net income. The ratio of earnings to fixed charges was computed on a consolidated basis. Earnings represent income from continuing operations, less equity earnings net of distributions, 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. See Exhibit 12 for the calculation of the ratio of earnings to fixed charges.

Financing Activities

Credit Facilities – On December 31, 2006, we had \$2 billion in revolving credit facilities available, including \$1 billion under a five-year facility expiring in March 2009 and \$1 billion under a five-year facility expiring in March 2010 (collectively, the "facilities"). The facilities are designated for general corporate purposes and support the issuance of commercial paper. Neither of the facilities were drawn on in 2006. Commitment fees and interest rates payable under the facilities are similar to fees and rates available to comparably rated investment-grade borrowers. These facilities allow for borrowings at floating rates based on London Interbank Offered Rates, plus a spread, depending upon our senior unsecured debt ratings. The facilities require the maintenance of a minimum net worth and a debt to net worth coverage ratio. At December 31, 2006, we were in compliance with these covenants. The facilities do not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require the posting of collateral.

In addition to our revolving credit facilities, we had \$150 million in uncommitted lines of credit available, including \$75 million that expires in March 2007 and \$75 million expiring in May 2007. Neither of these lines of credit were used as of December 31, 2006. We must have equivalent credit available under our five-year facilities to draw on these \$75 million lines.

Dividends – On January 30, 2007, we increased the quarterly dividend to \$0.35 per share, payable beginning on April 2, 2007, to shareholders of record on February 28, 2007. We expect to fund the increase in the quarterly dividend through cash generated from operations, the sale or lease of various operating and non-operating properties, and cash on hand at December 31, 2006.

Dividend Restrictions – We are subject to certain restrictions related to the payment of cash dividends to our shareholders due to minimum net worth requirements under our credit facilities. Retained earnings available

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for dividends increased to \$7.8 billion at December 31, 2006, from \$6.2 billion at December 31, 2005. We do not expect that these restrictions will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

Common Stock Repurchases – On January 30, 2007, our Board of Directors authorized us to repurchase up to 20 million shares of our common stock through December 31, 2009. We may make these repurchases on the open market or through other transactions. Our management will have sole discretion with respect to determining the timing and amount of these transactions. We expect to fund our common stock repurchases through cash generated from operations, the sale or lease of various operating and non-operating properties, and cash on hand at December 31, 2006.

Shelf Registration Statement – Under a current shelf registration statement, we may issue any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. At December 31, 2006, we had \$500 million remaining for issuance under the current shelf registration statement. We have no immediate plans to issue any securities; however, we routinely consider and evaluate opportunities to replace existing debt or access capital through issuances of debt securities under this shelf registration, and, therefore, we may issue debt securities at any time.

Operating Lease Activities

As of December 31, 2006, our contractual obligations for operating leases totaled approximately \$5.5 billion. Discounted at 8%, the present value of this obligation was approximately \$3.5 billion. The Railroad, as lessee, entered into long-term operating lease arrangements during 2006 to finance the majority of its new equipment acquisitions. In 2006, the lessors under these lease arrangements purchased 200 locomotives and 2,100 freight cars from the Corporation through various financing transactions with a total equipment cost of approximately \$523 million and a present value of \$427 million. These new lease arrangements provide for minimum total rental payments of approximately \$777 million and are reflected in the contractual obligations table as of December 31, 2006.

The lessors financed the purchase of the locomotives and freight cars, in part, by the issuance of equipment notes that are non-recourse to the Railroad and are secured by an assignment of the underlying leases and a security interest in the various types of equipment. Neither the Railroad nor UPC guarantees payment of the equipment notes. The Railroad's obligations to make operating lease payments under the leases are recourse obligations and are not recorded in the Consolidated Statements of Financial Position.

The Railroad has certain renewal and purchase options with respect to the locomotives and freight cars. If the Railroad does not exercise any such options, the equipment will be returned to the lessors at the end of the lease term.

Contractual Obligations and Commitments

As described in the notes to the Financial Statements and Supplementary Data, Item 8, and as referenced in the tables below, we have contractual obligations and commercial commitments that may affect our financial condition. However, based on our assessment of the underlying provisions and circumstances of our contractual obligations and commercial commitments, 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 that would have a material adverse effect on our consolidated results of operations, financial condition, or liquidity. In addition, the commercial obligations, financings, and commitments made by us are customary transactions that are similar to those of other comparable corporations, particularly within the transportation industry.

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The following tables identify material obligations and commitments as of December 31, 2006:

Contractual Obligations Millions of Dollars	Payments Due by Period						After 2011
	Total	2007	2008	2009	2010	2011	
Debt [a]	\$ 9,102	\$ 1,035	\$ 880	\$ 693	\$ 606	\$ 656	\$ 5,232
Operating leases	5,457	624	546	498	456	419	2,914
Capital lease obligations [b]	1,916	180	173	168	148	157	1,090
Purchase obligations [c]	4,516	1,362	573	502	248	199	1,632
Other post retirement benefits [d]	298	27	28	29	31	31	152
Total contractual obligations	\$ 21,289	\$ 3,228	\$ 2,200	\$ 1,890	\$ 1,489	\$ 1,462	\$ 11,020

[a] Excludes capital lease obligations of \$1,236 million, unamortized discount of \$103 million, and market value adjustments of \$14 million for debt with qualifying hedges that are recorded as liabilities on the Consolidated Statements of Financial Position. Includes an interest component of \$3,441 million.
[b] Represents total obligations, including interest component of \$680 million.
[c] Purchase obligations include locomotive maintenance contracts; purchase commitments for locomotives, ties, ballast, and track; and agreements to purchase other goods and services.
[d] Includes estimated other postretirement, medical, and life insurance payments and payments made under the unfunded pension plan for the next ten years. No amounts are included for funded pension as no contributions are currently required.

Other Commercial Commitments Millions of Dollars	Amount of Commitment Expiration per Period						After 2011
	Total	2007	2008	2009	2010	2011	
Credit facilities [a]	\$2,000	\$ -	\$ -	\$ 1,000	\$ 1,000	\$ -	\$ -
Sale of receivables [b]	600	600	-	-	-	-	-
Guarantees [c]	464	5	6	18	45	75	315
Standby letters of credit [d]	37	12	25	-	-	-	-
Total commercial commitments	\$3,101	\$ 617	\$ 31	\$ 1,018	\$ 1,045	\$ 75	\$ 315

[a] None of the credit facilities were used as of December 31, 2006.
[b] \$600 million of the sale of receivables program was utilized at December 31, 2006.
[c] Includes guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations.
[d] None of the letters of credit were drawn upon as of December 31, 2006.

Off-Balance Sheet Arrangements

Sale of Receivables – The Railroad transfers most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary, as part of a sale of receivables facility. UPRI sells, without recourse on a 364-day revolving basis, an undivided interest in such accounts receivable to investors. The total capacity to sell undivided interests to investors under the facility was \$600 million at both December 31, 2006 and 2005. The value of the outstanding undivided interest held by investors under the facility was \$600 million at both December 31, 2006 and 2005, respectively. The value of the outstanding undivided interest held by investors is not included in our Consolidated Financial Statements. The value of the undivided interest held by investors was supported by \$1,158 million and \$1,226 million of accounts receivable held by UPRI at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, the value of the interest retained by UPRI was \$558 million and \$626 million, respectively. This retained interest is included in accounts receivable in our Consolidated Financial Statements. The interest sold to investors is sold at carrying value, which approximates fair value, and there is no gain or loss recognized from the transaction.

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The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution percentages were to increase one percentage point, the amount of eligible receivables would decrease by \$6 million. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad services the sold receivables; however, the Railroad does not recognize any servicing asset or liability as the servicing fees adequately compensate the Railroad for its responsibilities. The Railroad collected approximately \$15.5 billion and \$13.4 billion during the years ended December 31, 2006 and 2005, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the sale of receivables program are included in other income and were \$33 million, \$23 million, and \$11 million for 2006, 2005, and 2004, respectively. The costs include interest, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability.

The investors have no recourse to the Railroad's other assets except for customary warranty and indemnity claims. Creditors of the Railroad have no recourse to the assets of UPRI. In August 2006, the sale of receivables program was renewed for an additional 364-day period without any significant changes in terms.

Guarantees – At December 31, 2006, we were contingently liable for \$464 million in guarantees. We have recognized a \$6 million liability for the fair value of these obligations as of December 31, 2006. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

OTHER MATTERS

Inflation – The cumulative effect of long periods of inflation significantly increases asset replacement costs for capital-intensive companies. As a result, assuming that we replace all operating assets at current price levels, depreciation charges (on an inflation-adjusted basis) would be substantially greater than historically reported amounts.

Derivative Financial Instruments – We may use derivative financial instruments in limited instances for other than trading purposes to assist in managing our overall exposure to fluctuations in interest rates and fuel prices. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature and relationships between the hedging instruments and hedged items, as well as our risk-management objectives, strategies for undertaking the various hedge transactions, and method of assessing hedge effectiveness. Changes in the fair market value of derivative financial instruments that do not qualify for hedge accounting are charged to earnings. We may use swaps, collars, futures, and/or forward contracts to mitigate the risk of adverse movements in interest rates and fuel prices; however, the use of these derivative financial instruments may limit future benefits from favorable price movements.

Market and Credit Risk – We address market risk related to derivative financial instruments by selecting instruments with value fluctuations that highly correlate with the underlying hedged item. Credit risk related to derivative financial instruments, which is minimal, is managed by requiring high credit standards for counterparties and periodic settlements. At December 31, 2006 and 2005, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

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Determination of Fair Value – We determined the fair values of our derivative financial instrument positions at December 31, 2006 and 2005 based upon current fair values as quoted by recognized dealers or developed based upon the present value of expected future cash flows.

Sensitivity Analyses – The sensitivity analyses that follow illustrate the economic effect that hypothetical changes in interest rates could have on our results of operations and financial condition. These hypothetical changes do not consider other factors that could impact actual results.

Interest Rate Fair Value Hedges – We manage our overall exposure to fluctuations in interest rates by adjusting the proportion of fixed and floating rate debt instruments within our debt portfolio over a given period. We generally manage the mix of fixed and floating rate debt through the issuance of targeted amounts of each as debt matures or as we require incremental borrowings. We employ derivatives, primarily swaps, as one of the tools to obtain the targeted mix. In addition, we also obtain flexibility in managing interest costs and the interest rate mix within our debt portfolio by evaluating the issuance of and managing outstanding callable fixed-rate debt securities.

Swaps allow us 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 interest rates. We account for swaps as fair value hedges using the short-cut method pursuant to Financial Accounting Standards Board (FASB) Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; therefore, we do not record any ineffectiveness within our Consolidated Financial Statements. As of December 31, 2006 and 2005, we had interest rate swaps hedging debt of \$500 million and \$750 million, respectively.

At December 31, 2006 and 2005, we had variable-rate debt representing approximately 7% and 10%, respectively, of our total debt. If variable interest rates average one percentage point higher in 2007 than our December 31, 2006 variable rate, which was approximately 8%, our interest expense would increase by approximately \$5 million. If variable interest rates averaged one percentage point higher in 2006 than our December 31, 2005 variable rate, which was approximately 7%, our interest expense would have increased by approximately \$7 million. These amounts were determined by considering the impact of the hypothetical interest rates on the balances of our variable-rate debt at December 31, 2006 and 2005, respectively.

Market risk for fixed-rate debt is estimated as the potential increase in fair value resulting from a hypothetical one percentage point decrease in interest rates as of December 31, 2006, and amounts to approximately \$462 million at December 31, 2006. Market risk resulting from a hypothetical one percentage point decrease in interest rates as of December 31, 2005, amounted to approximately \$535 million at December 31, 2005. We estimated the fair values of our fixed-rate debt by considering the impact of the hypothetical interest rates on quoted market prices and current borrowing rates.

Interest Rate Cash Flow Hedges – We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At December 31, 2006, we had a reduction of \$5 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of December 31, 2006 and 2005, we had no interest rate cash flow hedges outstanding.

Fuel Cash Flow Hedges – Fuel costs are a significant portion of our total operating expenses. In 2006 and 2005, our primary means of mitigating the impact of adverse fuel price changes was our fuel surcharge programs. However, we may use swaps, collars, futures and/or forward contracts to further mitigate the impact of adverse fuel price changes. We did not have any fuel hedges in place during 2006 or 2005. We hedged 120 million gallons of fuel during 2004 using collars with average cap, floor, and ceiling prices of \$0.74, \$0.64, and \$0.86 per gallon, respectively.

Fuel Swaps – We entered into two fuel basis swaps for the period August 2006 through July 2008, which cover a total of 151 million gallons of diesel fuel. These commodity basis swaps require us to make payments to,

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or receive payments from, the counterparty based on the difference between certain price indices. Changes in the fair value of these swaps are reflected in fuel expense. We reported a derivative asset of approximately \$2 million at December 31, 2006, which represents the fair value of the swaps. The swaps reduced fuel expense for 2006 by \$3 million, which included monthly net settlements with the counterparty and the fair value recognition at December 31, 2006.

Accounting Pronouncements – In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). Under the interpretation, we will recognize tax benefits only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized will be measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation is effective for us beginning in the first quarter of 2007. The cumulative effect of adopting FIN 48 will be a one-time reduction in the January 1, 2007 balance of retained earnings. Future changes in uncertain tax positions will be included in income tax expense. We do not expect that the cumulative effect of adopting FIN 48 will have a material impact on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurement* (FAS 157). While this statement does not require new fair value measurements, it provides guidance on applying fair value and expands required disclosures. FAS 157 is effective for us beginning in the first quarter of 2008. We are currently assessing the impact FAS 157 may have on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 required us to recognize the funded status of our pension and postretirement plans in the balance sheet, along with a corresponding noncash, after-tax adjustment to shareholders' equity. Funded status is determined as the difference between the fair value of plan assets and the benefit obligation. Changes in the funded status will be recognized in other comprehensive loss. We adopted FAS 158 at the end of 2006 and have disclosed the impact of the adoption in note 7 of the Financial Statements and Supplementary Data, Item 8.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SAB 108 provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current-year financial statements. SAB 108 requires registrants to quantify misstatements using both an income statement and balance sheet approach and then evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior-year errors that had been previously considered immaterial are now considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior-year's financial statements are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the fiscal year of adoption. SAB 108 was effective for us at the end of 2006. The adoption of SAB 108 did not have any impact on our Consolidated Financial Statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). This statement, which is expected to expand fair value measurement, permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for us beginning in the first quarter of 2008. We are currently assessing the impact FAS 159 may have on our Consolidated Financial Statements.

Asserted and Unasserted Claims – Various claims and lawsuits are pending against us and certain of our subsidiaries. It is not possible at this time for us to determine fully the effect of all unasserted claims on our consolidated results of operations, financial condition, or liquidity; however, to the extent possible, where unasserted claims are considered probable and where such claims can be reasonably estimated, we have recorded

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a liability. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities previously recorded for these matters.

Indemnities – Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Insurance Subsidiaries – We have two consolidated, wholly-owned subsidiaries that provide insurance coverage for certain risks, including physical loss or property damage and certain other claims that are subject to reinsurance.

CRITICAL ACCOUNTING POLICIES

Our Consolidated Financial Statements have been prepared in accordance with GAAP. The preparation of these financial statements requires estimation and judgment that affect the reported amounts of revenue, expenses, assets, and liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The following critical accounting policies are a subset of our significant accounting policies described in note 1 to the Financial Statements and Supplementary Data, Item 8. These critical accounting policies affect significant areas of our financial statements and involve judgment and estimates. If these estimates differ significantly from actual results, the impact on our Consolidated Financial Statements may be material.

Asbestos – We are a defendant in a number of lawsuits in which current and former employees allege exposure to asbestos. During 2004, we engaged a third party with extensive experience in estimating resolution costs for asbestos-related claims to assist us in assessing our potential liability. As a result of this assessment, we increased our liability in 2004 for resolving both asserted and unasserted asbestos-related claims through 2034. This liability excludes future defense and processing costs. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

- The number of future claims received would be consistent with historical averages.
- The number of claims filed against us will decline each year.
- The average settlement values for asserted and unasserted claims will be equivalent to historical averages.
- The percentage of claims dismissed in the future will be equivalent to historical averages.

Our asbestos-related liabilities were \$302 million and \$311 million at December 31, 2006 and 2005, respectively. The current portion of asbestos-related liabilities was \$13 million and \$16 million, respectively. Approximately 16% of the recorded liability related to asserted claims and approximately 84% related to unasserted claims. These claims are expected to be paid out over the next 28 years. We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and, as a result of the 2004 assessment, we increased our receivable for insurance recoveries related to asbestos during 2004. We have recognized an asset for estimated insurance recoveries at December 31, 2006 and 2005.

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Our asbestos-related claims activity was as follows:

<i>Claims Activity</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Open claims, beginning balance	2,435	2,316	2,560
New claims	316	741	474
Settled or dismissed claims	(474)	(622)	(718)
Open claims, ending balance at December 31	2,277	2,435	2,316

During 2006 and 2005 our third-party consultants assisted us in reviewing our actual asbestos claim experience compared to the assumptions used in the 2004 estimate, and we determined that no adjustment was necessary. We will continue to review actual experience and adjust our estimate as warranted.

We believe that our liability for asbestos-related claims and the estimated insurance recoveries reflect reasonable and probable estimates. The amounts recorded for asbestos-related liabilities and related insurance recoveries were based on currently known facts. However, future events, such as the number of new claims to be filed each year, average settlement costs, and insurance coverage issues could cause the actual costs and insurance recoveries to be higher or lower than the projected amounts. Estimates may also vary due to changes to strategies, activities, and outcomes of asbestos litigation, federal and state law governing litigation and compensation of asbestos claimants, and the level of payments made to claimants by other defendants.

Environmental – We are subject to federal, state, and local environmental laws and regulations. We identified 367 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 44 sites that are the subject of actions taken by the U.S. government, 25 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, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

Our environmental site activity was as follows:

<i>Site Activity</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Open sites, beginning balance	370	384	417
New sites	50	56	59
Closed sites	(53)	(70)	(92)
Open sites, ending balance at December 31	367	370	384

When we identify an environmental issue with respect to property owned, leased, or otherwise used in the conduct of our business, we and our consultants perform environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and we can reasonably estimate such costs. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable.

Environmental expense for the years ended December 31, 2006, 2005, and 2004 were \$39 million, \$45 million, and \$46 million, respectively. As of December 31, 2006 and 2005, we had a liability of \$210 million and \$213 million, respectively, accrued for future environmental costs, of which \$54 million and \$46 million, respectively, were recorded in current liabilities as accrued casualty costs. The liability includes future costs for remediation and restoration of sites, as well as 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

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potentially responsible parties, and existing technology, laws, and regulations. 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 the speculative nature of remediation costs. Current obligations are not expected to have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

Personal Injury – The cost of personal injuries to employees and others related to our activities is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use third-party actuaries to assist us with measuring the expense and liability, including unasserted claims. The Federal Employers' Liability Act (FELA) governs compensation for work-related accidents. Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements. We offer a comprehensive variety of services and rehabilitation programs for employees who are injured at work. Annual expenses for personal injury-related events were \$240 million in 2006, \$247 million in 2005, and \$288 million in 2004. As of December 31, 2006 and 2005, we had accrued liabilities of \$631 million and \$619 million for future personal injury costs, respectively, of which \$233 million and \$274 million was recorded in current liabilities as accrued casualty costs, respectively. Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 87% of the recorded liability related to asserted claims, and approximately 13% related to unasserted claims. Estimates can vary over time due to evolving trends in litigation.

Our personal injury claims activity was as follows:

<i>Claims Activity</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Open claims, beginning balance	4,197	4,028	4,085
New claims	4,190	4,584	4,366
Settled or dismissed claims	(4,261)	(4,415)	(4,423)
Open claims, ending balance at December 31	4,126	4,197	4,028

Depreciation – The railroad industry is capital intensive. Properties are carried at cost. Provisions for depreciation are computed principally on the straight-line method based on estimated service lives of depreciable property. The lives are calculated using a separate composite annual percentage rate for each depreciable property group, based on the results of internal depreciation studies. We are required to submit a report on depreciation studies and proposed depreciation rates to the STB for review and approval every three years for equipment property and every six years for road property. The cost (net of salvage) of depreciable railroad property retired or replaced in the ordinary course of business is charged to accumulated depreciation, and no gain or loss is recognized. A gain or loss is recognized in other income for all other property upon disposition because the gain or loss is not part of rail operations. The cost of internally developed software is capitalized and amortized over a five-year period.

Significant capital spending in recent years increased the total value of our depreciable assets. Cash capital spending totaled \$2.2 billion for the year ended December 31, 2006. For the year ended December 31, 2006, depreciation expense was \$1.2 billion. We use various methods to estimate useful lives for each group of depreciable property. Due to the capital intensive nature of the business and the large base of depreciable assets, variances to those estimates could have a material effect on our Consolidated Financial Statements. If the estimated useful lives of all depreciable assets were increased by one year, annual depreciation expense would decrease by approximately \$43 million. If the estimated useful lives of all assets to be depreciated were decreased by one year, annual depreciation expense would increase by approximately \$45 million.

Income Taxes – As required under FASB Statement No. 109, *Accounting for Income Taxes*, we account for income taxes by recording taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. These

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expected future tax consequences are measured based on provisions of tax law as currently enacted; the effects of future changes in tax laws are not anticipated. Future tax law changes, such as a change in the corporate tax rate, could have a material impact on our financial condition or results of operations. For example, a 1% increase in the federal income tax rate would increase our deferred tax liability by approximately \$245 million.

When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that may not be realized. In determining whether a valuation allowance is appropriate, we consider whether it is more likely than not that all or some portion of our deferred tax assets will not be realized, based in part on management's judgments regarding the best available evidence about future events. Based on that analysis, we recorded a valuation allowance of \$5 million against certain deferred tax assets as of December 31, 2005. There was no valuation allowance as of December 31, 2006.

Pension and Other Postretirement Benefits – We use third-party actuaries to assist us in properly measuring the liabilities and expenses associated with providing pension and defined contribution medical and life insurance benefits (OPEB) to eligible employees. In order to use actuarial methods to value the liabilities and expenses we must make several assumptions. The critical assumptions used to measure pension obligations and expenses are the discount rate and expected rate of return on pension assets. For OPEB, the critical assumptions are the discount rate and healthcare cost trend rate.

We evaluate our critical assumptions at least annually, and selected assumptions are based on the following factors:

- Discount rate is based on a hypothetical portfolio of high quality corporate bonds (rated AA by a recognized rating agency) for which the timing and amount of cash flows matches our plan's expected benefit payments.
- Expected return on plan assets is based on our asset allocation mix and our historical return, taking into consideration current and expected market conditions.
- Healthcare cost trend rate is based on our historical rates of inflation and expected market conditions.

The following tables present the key assumptions used to measure pension and OPEB expense for 2006 and the estimated impact on 2006 pension and OPEB expense relative to a change in those assumptions:

<i>Assumptions</i>	<i>Pension</i>	<i>OPEB</i>
Discount rate	5.75%	5.75%
Salary increase	2.75%	N/A
Expected return on plan assets	8.00%	N/A
Healthcare cost trend rate:		
Current	N/A	9.00%
Level in 2010	N/A	5.00%

<i>Sensitivities</i>	<i>Increase in Expense</i>	
	<i>Pension</i>	<i>OPEB</i>
<i>Millions of Dollars</i>		
0.25% decrease in discount rate	\$ 6	\$ —
0.25% increase in salary scale	\$ 1	N/A
0.25% decrease in expected return on plan assets	\$ 4	N/A
1% increase in healthcare cost trend rate	N/A	\$ 5

CAUTIONARY INFORMATION

Certain statements in this report, and statements in other reports or information filed or to be filed with the SEC (as well as information included in oral statements or other written statements made or to be made by us), 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 and information set forth under the caption “2007 Outlook” in this Item 7, and any other statements or information in this report (including information incorporated herein by reference) regarding: expectations as to operational or service improvements; expectations regarding the effectiveness of steps taken or to be taken to improve operations, service, infrastructure improvements, transportation plan modifications, and management of customer traffic on the system to meet demand; expectations as to cost savings, revenue growth, and earnings; the time by which goals, targets, or objectives will be achieved; projections, predictions, expectations, estimates, or forecasts as to our business, financial and operational results, future economic performance, and general economic conditions; proposed new products and services; estimates of costs relating to environmental remediation and restoration; expectations that claims, litigation, environmental costs, commitments, contingent liabilities, labor negotiations or agreements, or other matters will not have a material adverse effect on our consolidated results of operations, financial condition, or liquidity and any 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 that, or by which, such performance or results will be achieved. Forward-looking information is subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in the statements.

Forward-looking statements and information reflect the good faith consideration by management of currently available information, and may be based on underlying assumptions believed to be reasonable under the circumstances. However, such information and assumptions (and, therefore, such forward-looking statements and information) are or may be subject to variables or unknown or unforeseeable events or circumstances over which management has little or no influence or control. The Risk Factors in Item 1A of this report could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in the forward-looking statements.

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

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information concerning market risk sensitive instruments is set forth under Management’s Discussion and Analysis of Financial Condition and Results of Operations — Other Matters, Item 7.

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Union Pacific Corporation, its Directors, and Shareholders:

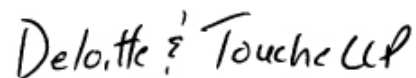
We have audited the accompanying consolidated statements of financial position of Union Pacific Corporation and Subsidiary Companies (the Corporation) as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in common shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Table of Contents at Part IV, Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Union Pacific Corporation and Subsidiary Companies as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 7 to the consolidated financial statements, in 2006 the Corporation adopted Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Corporation's internal control over financial reporting and an unqualified opinion on the effectiveness of the Corporation's internal control over financial reporting.



Omaha, Nebraska
February 16, 2007

CONSOLIDATED STATEMENTS OF INCOME*Union Pacific Corporation and Subsidiary Companies**Millions, Except Per Share Amounts,
for the Years Ended December 31,*

	2006	2005	2004
Operating revenue	\$15,578	\$13,578	\$12,215
Operating expenses:			
Salaries, wages, and employee benefits	4,599	4,375	4,167
Fuel and utilities	3,012	2,562	1,816
Equipment and other rents	1,455	1,402	1,374
Depreciation	1,237	1,175	1,111
Materials and supplies	691	546	488
Casualty costs	410	411	694
Purchased services and other costs	1,290	1,312	1,270
Total operating expenses	12,694	11,783	10,920
Operating income	2,884	1,795	1,295
Other income	118	145	88
Interest expense	(477)	(504)	(527)
Income before income taxes	2,525	1,436	856
Income taxes	(919)	(410)	(252)
Net income	\$ 1,606	\$ 1,026	\$ 604
Share and Per Share:			
Earnings per share – basic	\$ 5.96	\$ 3.89	\$ 2.33
Earnings per share – diluted	\$ 5.91	\$ 3.85	\$ 2.30
Weighted average number of shares – basic	269.4	263.4	259.1
Weighted average number of shares – diluted	272.0	266.5	262.2
Dividends declared per share	\$ 1.20	\$ 1.20	\$ 1.20

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION*Union Pacific Corporation and Subsidiary Companies*

<i>Millions of Dollars, as of December 31,</i>	2006	2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 827	\$ 773
Accounts receivable, net	679	747
Materials and supplies	395	331
Current deferred income taxes	319	304
Other current assets	191	170
Total current assets	2,411	2,325
Investments:		
Investments in and advances to affiliated companies	865	789
Other investments	12	17
Total investments	877	806
Properties:		
Road	35,634	33,812
Equipment	7,637	7,675
Other	177	210
Total cost	43,448	41,697
Accumulated depreciation	(10,575)	(9,722)
Net properties	32,873	31,975
Other assets	354	514
Total assets	\$ 36,515	\$35,620
Liabilities and Common Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 684	\$ 783
Accrued wages and vacation	412	415
Accrued casualty costs	409	478
Income and other taxes	279	212
Dividends and interest	238	252
Debt due within one year	780	656
Equipment rents payable	108	130
Other current liabilities	629	458
Total current liabilities	3,539	3,384
Debt due after one year	6,000	6,760
Deferred income taxes	9,696	9,482
Accrued casualty costs	868	876
Retiree benefits obligation	504	855
Other long-term liabilities	596	556
Commitments and contingencies (note 10)		
Total liabilities	21,203	21,913
Common shareholders' equity:		
Common shares, par value \$2.50 per share, 500,000,000 shares authorized; 275,962,411 and 275,798,611 shares issued, respectively	690	689
Paid-in-surplus	3,943	3,915
Retained earnings	11,215	9,932
Treasury stock	(394)	(599)
Accumulated other comprehensive loss	(142)	(230)
Total common shareholders' equity	15,312	13,707
Total liabilities and common shareholders' equity	\$ 36,515	\$35,620

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

CONSOLIDATED STATEMENTS OF CASH FLOWS*Union Pacific Corporation and Subsidiary Companies*

<i>Millions of Dollars, for the Years Ended December 31,</i>	2006	2005	2004
Operating Activities			
Net income	\$ 1,606	\$ 1,026	\$ 604
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation	1,237	1,175	1,111
Deferred income taxes	235	320	359
Stock-based compensation expense	35	21	21
Net gain from asset sales	(72)	(135)	(69)
Other operating activities, net	(175)	37	135
Changes in current assets and liabilities, net	14	151	96
Cash provided by operating activities	2,880	2,595	2,257
Investing Activities			
Capital investments	(2,242)	(2,169)	(1,876)
Proceeds from asset sales	133	185	145
Acquisition of equipment pending financing	(536)	(872)	(674)
Proceeds from completed equipment financings	536	872	674
Other investing activities, net	67	(63)	(1)
Cash used in investing activities	(2,042)	(2,047)	(1,732)
Financing Activities			
Dividends paid	(322)	(314)	(310)
Debt repaid	(657)	(699)	(588)
Debt issued	-	-	745
Net proceeds from equity compensation plans	160	262	80
Excess tax benefits from equity compensation plans	29	-	-
Other financing activities, net	6	(1)	(2)
Cash used in financing activities	(784)	(752)	(75)
Net change in cash and cash equivalents	54	(204)	450
Cash and cash equivalents at beginning of year	773	977	527
Cash and cash equivalents at end of year	\$ 827	\$ 773	\$ 977
Changes in Current Assets and Liabilities, Net of Acquisitions			
Accounts receivable, net	\$ 68	\$ (201)	\$ (40)
Materials and supplies	(64)	(22)	(42)
Other current assets	(21)	12	101
Accounts, wages, and vacation payable	(102)	224	100
Other current liabilities	133	138	(23)
Total	\$ 14	\$ 151	\$ 96
Supplemental Cash Flow Information			
Non-cash investing activities:			
Capital investments accrued but not yet paid	\$ 106	\$ 103	\$ 82
Non-cash financing activity, cash dividends declared but not yet paid	80	78	76
Cash (paid) received during the year for:			
Interest	(492)	(510)	(517)
Income taxes, net	(549)	(29)	187

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

CONSOLIDATED STATEMENTS OF CHANGES IN COMMON SHAREHOLDERS' EQUITY

Union Pacific Corporation and Subsidiary Companies

Millions of Dollars Thousands of Shares	Common Shares	Treasury Shares	Accumulated Other Comp Income/(Loss)							Total
			Common Shares	Paid- in- Surplus	Retained Earnings	Treasury Stock	Defined Benefit Plans	Foreign Curr. Trans.	FAS 133	
Balance at Jan. 1, 2004	275,693	(17,532)	\$ 689	\$ 3,936	\$ 8,930	\$ (1,077)	\$ (109)	\$ (18)	\$ 3	\$12,354
Comprehensive income/(loss):										
Net income			-	-	604	-	-	-	-	604
Other comp. income/(loss) [a]			-	-	-	-	(103)	-	(10)	(113)
Total comprehensive income/(loss)			-	-	604	-	(103)	-	(10)	491
Conversion, exercises of stock options, forfeitures, and other	2	2,357	-	(19)	-	141	-	-	-	122
Dividends declared (\$1.20 per share)	-	-	-	-	(312)	-	-	-	-	(312)
Balance at Dec. 31, 2004	275,695	(15,175)	\$ 689	\$ 3,917	\$ 9,222	\$ (936)	\$ (212)	\$ (18)	\$ (7)	\$12,655
Comprehensive income/(loss):										
Net income			-	-	1,026	-	-	-	-	1,026
Other comp. income/(loss) [a]			-	-	-	-	1	5	1	7
Total comprehensive income/(loss)			-	-	1,026	-	1	5	1	1,033
Conversion, exercises of stock options, forfeitures, and other	104	6,011	-	(2)	-	337	-	-	-	335
Dividends declared (\$1.20 per share)	-	-	-	-	(316)	-	-	-	-	(316)
Balance at Dec. 31, 2005	275,799	(9,164)	\$ 689	\$ 3,915	\$ 9,932	\$ (599)	\$ (211)	\$ (13)	\$ (6)	\$13,707
Comprehensive income/(loss):										
Net income			-	-	1,606	-	-	-	-	1,606
Other comp. income/(loss) [a]			-	-	-	-	170	(4)	1	167
Total comprehensive income/(loss)			-	-	1,606	-	170	(4)	1	1,773
FAS 158 adoption (note 7) [b]			-	-	-	-	(79)	-	-	(79)
Conversion, exercises of stock options, forfeitures, and other	163	3,374	1	28	-	205	-	-	-	234
Dividends declared (\$1.20 per share)	-	-	-	-	(323)	-	-	-	-	(323)
Balance at Dec. 31, 2006	275,962	(5,790)	\$ 690	\$ 3,943	\$ 11,215	\$ (394)	\$ (120)	\$ (17)	\$ (5)	\$15,312

[a] Net of deferred taxes of \$102, \$5, and \$(69) in 2006, 2005, and 2004, respectively.

[b] Net of deferred taxes of \$(94).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Union Pacific Corporation and Subsidiary Companies

For purposes of this report, unless the context otherwise requires, all references herein to the “Corporation”, “UPC”, “we”, “us”, and “our” mean Union Pacific Corporation and its subsidiaries, including Union Pacific Railroad Company, which will be separately referred to herein as “UPRR” or the “Railroad”.

1. Significant Accounting Policies

Principles of Consolidation – The Consolidated Financial Statements include the accounts of Union Pacific Corporation and all of its subsidiaries. Investments in affiliated companies (20% to 50% owned) are accounted for using the equity method of accounting. All significant intercompany transactions are eliminated. The Corporation evaluates its less than majority-owned investments for consolidation pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised 2003), *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51* (FIN 46(R)). We currently have no less than majority-owned investments that require consolidation under FIN 46(R).

Cash and Cash Equivalents – Cash equivalents consist of investments with original maturities of three months or less.

Materials and Supplies – Materials and supplies are carried at the lower of average cost or market.

Property and Depreciation – Properties are carried at cost. Provisions for depreciation are computed principally on the straight-line method based on estimated service lives of depreciable property. The cost (net of salvage) of depreciable rail property retired or replaced in the ordinary course of business is charged to accumulated depreciation, and no gain or loss is recognized. A gain or loss is recognized in other income for all other property upon disposition because the gain or loss is not part of rail operations. The cost of internally developed software is capitalized and amortized over a five-year period.

Impairment of Long-lived Assets – We review long-lived assets, including identifiable intangibles, for impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If impairment indicators are present and the estimated future undiscounted cash flows are less than the carrying value of the long-lived assets, the carrying value is reduced to the estimated fair value as measured by the discounted cash flows.

Revenue Recognition – We recognize commodity revenue on a percentage-of-completion basis as freight moves from origin to destination. The allocation of revenue between reporting periods is based on the relative transit time in each reporting period with expenses recognized as incurred. Other revenue is recognized as service is performed or contractual obligations are met. Customer incentives, which are primarily provided for shipping a specified cumulative volume or shipping to/from specific locations, are recorded as a reduction to revenue based on actual or projected future customer shipments.

Translation of Foreign Currency – Our portion of the assets and liabilities related to foreign investments are translated into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the average rates of exchange prevailing during the year. Unrealized adjustments are reflected within common shareholders’ equity as accumulated other comprehensive income or loss.

Financial Instruments – The carrying value of our non-derivative financial instruments approximates fair value. The fair value of financial instruments is generally determined by reference to market values as quoted by recognized dealers or developed based upon the present value of expected future cash flows.

We periodically use derivative financial instruments, for other than trading purposes, to manage risk related to changes in fuel prices and interest rates.

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Stock-Based Compensation – We have several stock-based compensation plans under which employees and non-employee directors receive stock options, nonvested retention shares, and nonvested stock units. We refer to the nonvested shares and stock units collectively as “retention awards”. We issue treasury shares to cover option exercises and stock unit vestings, while new shares are issued when retention shares vest.

We adopted FASB Statement No. 123(R), *Share-Based Payment* (FAS 123(R)), on January 1, 2006. FAS 123(R) requires us to measure and recognize compensation expense for all stock-based awards made to employees and directors, including stock options. Compensation expense is based on the calculated fair value of the awards as measured at the grant date and is expensed ratably over the service period of the awards (generally the vesting period). The fair value of retention awards is the stock price on the date of grant, while the fair value of stock options is determined by using the Black-Scholes option pricing model. We elected to use the modified prospective transition method as permitted by FAS 123(R) and did not restate financial results for prior periods. We did not make an adjustment for the cumulative effect of these estimated forfeitures, as the impact was not material.

As a result of the adoption of FAS 123(R), we recognized expense for stock options in 2006, in addition to retention awards, which were expensed prior to 2006. Stock-based compensation expense for the year ended December 31, 2006 was \$22 million, after tax, or \$0.08 per basic and diluted share. This includes \$9 million for stock options and \$13 million for retention awards for 2006. Before taxes, stock-based compensation expense included \$14 million for stock options and \$21 million for retention awards for 2006. We recorded \$29 million of excess tax benefits as an inflow of financing activities in the Consolidated Statement of Cash Flows for the year ended December 31, 2006.

Prior to the adoption of FAS 123(R), we applied the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation expense related to stock option grants was reflected in net income, as all options granted under those plans had a grant price equal to the market value of our common stock on the date of grant. Stock-based compensation expense related to retention shares, stock units, and other incentive plans was reflected in net income. The following table details the effect on net income and earnings per share had compensation expense for all of our stock-based awards, including stock options, been recorded in the years ended December 31, 2005 and 2004 based on the fair value method under FASB Statement No. 123, *Accounting for Stock-Based Compensation*.

<i>Pro Forma Stock-Based Compensation Expense</i> <i>Millions of Dollars, Except Per Share Amounts</i>	<i>Year Ended December 31,</i>	
	<i>2005</i>	<i>2004</i>
Net income, as reported	\$ 1,026	\$ 604
Stock-based employee compensation expense, reported in net income, net of tax	13	13
Total stock-based employee compensation expense determined under fair value-based method for all awards, net of tax [a]	(50)	(35)
Pro forma net income	\$ 989	\$ 582
Earnings per share – basic, as reported	\$ 3.89	\$ 2.33
Earnings per share – basic, pro forma	\$ 3.75	\$ 2.25
Earnings per share – diluted, as reported	\$ 3.85	\$ 2.30
Earnings per share – diluted, pro forma	\$ 3.71	\$ 2.22

[a] Stock options for executives granted in 2003 and 2002 included a reload feature. This reload feature allowed executives to exercise their options using shares of Union Pacific Corporation common stock that they already owned and obtain a new grant of options in the amount of the shares used for exercise plus any shares withheld for tax purposes. The reload feature of these option grants could only be exercised if the

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price of our common stock increased at least 20% from the price at the time of the reload grant. During the year ended December 31, 2005, reload option grants represented \$19 million of the pro forma expense noted above. There were no reload options exercised during 2004 and no pro forma expense for reload option grants in 2004. There were no reload option grants during 2006 as stock options exercised after January 1, 2006 are not eligible for the reload feature.

Earnings Per Share – Basic earnings per share are calculated on the weighted-average number of common shares outstanding during each period. Diluted earnings per share include shares issuable upon exercise of outstanding stock options and stock-based awards where the conversion of such instruments would be dilutive.

Use of Estimates – Our Consolidated Financial Statements include estimates and assumptions regarding certain assets, liabilities, revenue, and expenses and the disclosure of certain contingent assets and liabilities. Actual future results may differ from such estimates.

Income Taxes – As required under FASB Statement No. 109, *Accounting for Income Taxes*, we account for income taxes by recording taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. These expected future tax consequences are measured based on provisions of tax law as currently enacted; the effects of future changes in tax laws are not anticipated. Future tax law changes, such as a change in the corporate tax rate, could have a material impact on our financial condition or results of operations.

When appropriate, we record a valuation allowance against deferred tax assets to offset future tax benefits that may not be realized. In determining whether a valuation allowance is appropriate, we consider whether it is more likely than not that all or some portion of our deferred tax assets will not be realized, based in part on management's judgments regarding the best available evidence about future events.

Pension and Postretirement Benefits – We incur certain employment-related expenses associated with pensions and postretirement health benefits. In order to measure the expense associated with these benefits, we must make various assumptions including discount rates used to value certain liabilities, expected return on plan assets used to fund these expenses, salary increases, employee turnover rates, anticipated mortality rates, and expected future healthcare costs. The assumptions used by us are based on our historical experience as well as current facts and circumstances. We use third-party actuaries to assist us in properly measuring the expense and liability associated with these benefits.

Personal Injury – The cost of injuries to employees and others on our property is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use third-party actuaries to assist us in properly measuring the expense and liability. Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Legal fees and incidental costs are expensed as incurred.

Environmental – When environmental issues have been identified with respect to property currently or formerly owned, leased, or otherwise used in the conduct of our business, we and our consultants perform environmental assessments on such property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and such costs can be reasonably estimated. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable. Legal fees and incidental costs are expensed as incurred.

Asbestos – We estimate a liability for asserted and unasserted asbestos-related claims based on an assessment of the number and value of those claims. We use an external consulting firm to assist us in properly measuring the expense and liability. Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Legal fees and incidental costs are expensed as incurred.

2. Operations and Segmentation

The Railroad, along with its subsidiaries and rail affiliates, is our one reportable operating segment. Although revenue is analyzed by commodity group, we analyze the net financial results of the Railroad as one segment due to the integrated nature of our rail network.

UPRR is a Class I railroad that operates in the United States. We have 32,339 route miles, linking Pacific Coast and Gulf Coast ports with the Midwest and eastern United States gateways and providing several corridors to key Mexican gateways. We serve the western two-thirds of the country and maintain coordinated schedules with other rail carriers for the handling of freight to and from the Atlantic Coast, the Pacific Coast, the Southeast, the Southwest, Canada, and Mexico. Export and import traffic is moved through Gulf Coast and Pacific Coast ports and across the Mexican and Canadian borders.

3. Financial Instruments

Strategy and Risk – We may use derivative financial instruments in limited instances for other than trading purposes to assist in managing our overall exposure to fluctuations in interest rates and fuel prices. We are not a party to leveraged derivatives and, by policy, do not use derivative financial instruments for speculative purposes. Derivative financial instruments qualifying for hedge accounting must maintain a specified level of effectiveness between the hedging instrument and the item being hedged, both at inception and throughout the hedged period. We formally document the nature and relationships between the hedging instruments and hedged items, as well as our risk-management objectives, strategies for undertaking the various hedge transactions, and method of assessing hedge effectiveness. Changes in the fair market value of derivative financial instruments that do not qualify for hedge accounting are charged to earnings. We may use swaps, collars, futures, and/or forward contracts to mitigate the risk of adverse movements in interest rates and fuel prices; however, the use of these derivative financial instruments may limit future benefits from favorable price movements.

Market and Credit Risk – We address market risk related to derivative financial instruments by selecting instruments with value fluctuations that highly correlate with the underlying hedged item. Credit risk related to derivative financial instruments, which is minimal, is managed by requiring high credit standards for counterparties and periodic settlements. At December 31, 2006 and 2005, we were not required to provide collateral, nor had we received collateral, relating to our hedging activities.

Determination of Fair Value – We determined the fair values of our derivative financial instrument positions at December 31, 2006 and 2005 based upon current fair values as quoted by recognized dealers or developed based upon the present value of expected future cash flows.

Interest Rate Fair Value Hedges – We manage our overall exposure to fluctuations in interest rates by adjusting the proportion of fixed and floating rate debt instruments within our debt portfolio over a given period. We generally manage the mix of fixed and floating rate debt through the issuance of targeted amounts of each as debt matures or as we require incremental borrowings. We employ derivatives, primarily swaps, as one of the tools to obtain the targeted mix. In addition, we also obtain flexibility in managing interest costs and the interest rate mix within our debt portfolio by evaluating the issuance of and managing outstanding callable fixed-rate debt securities.

Swaps allow us 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 interest rates. We account for swaps as fair value hedges using the short-cut method pursuant to FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*; therefore, we do not record any ineffectiveness within our Consolidated Financial Statements. As of December 31, 2006 and 2005, we had interest rate swaps hedging debt of \$500 million and \$750 million, respectively.

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The following is a summary of our interest rate derivatives qualifying as fair value hedges:

Interest Rate Fair Value Hedges

Millions of Dollars, Except Percentages

	2006	2005
Amount of debt hedged	\$500	\$750
Percentage of total debt portfolio	7%	10%
Gross fair value liability position	\$ (16)	\$ (17)

Interest Rate Cash Flow Hedges – We report changes in the fair value of cash flow hedges in accumulated other comprehensive loss until the hedged item affects earnings. At December 31, 2006, we had a reduction of \$5 million recorded as an accumulated other comprehensive loss that is being amortized on a straight-line basis through September 30, 2014. As of December 31, 2006 and 2005, we had no interest rate cash flow hedges outstanding.

Fuel Cash Flow Hedges – Fuel costs are a significant portion of our total operating expenses. In 2006 and 2005, our primary means of mitigating the impact of adverse fuel price changes were our fuel surcharge programs. However, we may use swaps, collars, futures and/or forward contracts to further mitigate the impact of adverse fuel price changes. We did not have any fuel hedges in place during 2006 or 2005. We hedged 120 million gallons of fuel during 2004 using collars with average cap, floor, and ceiling prices of \$0.74, \$0.64, and \$0.86 per gallon, respectively.

Fuel Swaps – We entered into two fuel basis swaps for the period August 2006 through July 2008, which cover a total of 151 million gallons of diesel fuel. These commodity basis swaps require us to make payments to, or receive payments from, the counterparty based on the difference between certain price indices. Changes in the fair value of these swaps are reflected in fuel expense. We reported a derivative asset of approximately \$2 million at December 31, 2006, which represents the fair value of the swaps. The swaps reduced fuel expense for 2006 by \$3 million, which included monthly net settlements with the counterparty and the fair value recognition at December 31, 2006.

Earnings Impact – Our use of derivative financial instruments had the following impact on pre-tax income for the years ended December 31:

<i>Millions of Dollars</i>	2006	2005	2004
(Increase)/decrease in interest expense from interest rate hedging	\$ (8)	\$ 5	\$ 24
Decrease in fuel expense from fuel derivatives	3	-	14
Increase/(decrease) in pre-tax income	\$ (5)	\$ 5	\$ 38

Fair Value of Debt Instruments – The fair value of our short- and long-term debt was estimated using quoted market prices, where available, or current borrowing rates. At December 31, 2006 and 2005, the fair value of total debt exceeded the carrying value by approximately \$273 million and \$460 million, respectively. At December 31, 2006 and 2005, approximately \$165 million and \$169 million, respectively, of fixed-rate debt securities contained call provisions that allowed us to retire the debt instruments prior to final maturity, with the payment of fixed call premiums, or in certain cases, at par.

Sale of Receivables – The Railroad transfers most of its accounts receivable to Union Pacific Receivables, Inc. (UPRI), a bankruptcy-remote subsidiary, as part of a sale of receivables facility. UPRI sells, without recourse on a 364-day revolving basis, an undivided interest in such accounts receivable to investors. The total capacity to sell undivided interests to investors under the facility was \$600 million at both December 31, 2006 and 2005. The value of the outstanding undivided interest held by investors under the facility was \$600 million at both

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December 31, 2006 and 2005, respectively. The value of the outstanding undivided interest held by investors is not included in our Consolidated Financial Statements. The value of the undivided interest held by investors was supported by \$1,158 million and \$1,226 million of accounts receivable held by UPRI at December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, the value of the interest retained by UPRI was \$558 million and \$626 million, respectively. This retained interest is included in accounts receivable in our Consolidated Financial Statements. The interest sold to investors is sold at carrying value, which approximates fair value, and there is no gain or loss recognized from the transaction.

The value of the outstanding undivided interest held by investors could fluctuate based upon the availability of eligible receivables and is directly affected by changing business volumes and credit risks, including default and dilution. If default or dilution percentages were to increase one percentage point, the amount of eligible receivables would decrease by \$6 million. Should our credit rating fall below investment grade, the value of the outstanding undivided interest held by investors would be reduced, and, in certain cases, the investors would have the right to discontinue the facility.

The Railroad services the sold receivables; however, the Railroad does not recognize any servicing asset or liability as the servicing fees adequately compensate the Railroad for its responsibilities. The Railroad collected approximately \$15.5 billion and \$13.4 billion during the years ended December 31, 2006 and 2005, respectively. UPRI used certain of these proceeds to purchase new receivables under the facility.

The costs of the sale of receivables program are included in other income and were \$33 million, \$23 million, and \$11 million for 2006, 2005, and 2004, respectively. The costs include interest, program fees paid to banks, commercial paper issuing costs, and fees for unused commitment availability.

The investors have no recourse to the Railroad's other assets except for customary warranty and indemnity claims. Creditors of the Railroad have no recourse to the assets of UPRI. In August 2006, the sale of receivables program was renewed for an additional 364-day period without any significant changes in terms.

4. Income Taxes

Components of income tax expense were as follows for the years ended December 31:

<i>Millions of Dollars</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Current income tax expense (benefit):			
Federal	\$630	\$ 57	\$ (99)
State	54	33	(8)
Total current income tax expense (benefit)	684	90	(107)
Deferred income tax expense (benefit):			
Federal	205	293	407
State	30	27	(48)
Total deferred income tax expense	235	320	359
Total	\$919	\$410	\$ 252

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For the years ended December 31, reconciliation between statutory and effective tax rates is as follows:

<i>Tax Rate Percentages</i>	2006	2005	2004
Federal statutory tax rate	35.0%	35.0%	35.0%
State statutory rates, net of federal benefits	2.9	2.9	2.9
Deferred tax adjustments	(0.5)	(8.2)	(2.9)
Tax credits	(1.0)	(1.2)	(5.6)
Other	-	0.1	-
Effective tax rate	36.4%	28.6%	29.4%

Deferred income tax liabilities (assets) were comprised of the following at December 31:

<i>Millions of Dollars</i>	2006	2005
Net current deferred income tax asset	\$ (319)	\$ (304)
Property	9,356	9,216
State taxes, net	617	592
Other	(277)	(326)
Net long-term deferred income tax liability	9,696	9,482
Net deferred income tax liability	\$9,377	\$9,178

All federal income tax years prior to 1995 are closed. Federal income tax liabilities for tax years 1986 through 1994 have been resolved. Interest calculations for these years are in process and may take several years to resolve with the Internal Revenue Service (IRS). The IRS is examining the Corporation's federal income tax returns for tax years 2003 and 2004 and should complete their exam in 2007. The IRS has completed its examinations and issued notices of deficiency for tax years 1995 through 2002, and we are in the IRS Appeals process for these years. As previously reported, among their proposed adjustments is the disallowance of tax deductions claimed in connection with certain donations of property. In the fourth quarter of 2005, the IRS National Office issued a Technical Advice Memorandum that left unresolved whether the deductions were proper, pending further factual development. We continue to dispute the donation issue, as well as many of the other proposed adjustments, and will contest the associated tax deficiencies through the IRS Appeals process, and, if necessary, litigation. We do not expect that the ultimate resolution of these examinations will have a material adverse effect on our Consolidated Financial Statements.

As reported in the Corporation's Forms 10-Q for the quarters ended June 30, 2005, and September 30, 2005, the final settlements for pre-1995 tax years, along with the IRS Examination Reports for tax years 1995 through 2002, among other things, were considered in a review and re-evaluation of the Corporation's estimated deferred tax assets and liabilities. This review resulted in a reduction of deferred income tax liabilities and income tax expense of \$118 million in the third quarter of 2005.

5. Debt

Total debt as of December 31, 2006 and 2005, including interest rate swaps designated as hedges, is summarized below:

<i>Millions of Dollars</i>	2006	2005
Notes and debentures, 3.0% to 7.4% due through 2054 [a]	\$4,803	\$5,303
Capitalized leases, 4.7% to 9.3% due through 2026	1,236	1,318
Medium-term notes, 6.8% to 10.0% due through 2020	362	372
Equipment obligations, 6.6% to 10.2% due through 2019	232	270
Mortgage bonds, 4.8% due through 2030	59	60
Tax-exempt financings, 4.4% to 5.7% due through 2026	191	197
Unamortized discount	(103)	(104)
Total debt [a]	6,780	7,416
Less current portion [b]	(780)	(656)
Total long-term debt	\$6,000	\$6,760

[a] 2006 and 2005 include a collective write-down of \$14 million and \$16 million, respectively, due to market value adjustments for debt with qualifying hedges that are recorded on the Consolidated Statements of Financial Position.

[b] 2006 includes a write-down of \$4 million due to short-term market value adjustments for debt with qualifying hedges that are recorded on the Consolidated Statements of Financial Position.

Debt Maturities – The following table presents aggregate debt maturities as of December 31, 2006, excluding market value adjustments.

<i>Millions of Dollars</i>	
2007	\$ 784
2008	683
2009	532
2010	453
2011	542
Thereafter	3,800
Total debt	\$6,794

Mortgaged Properties – Equipment with a carrying value of approximately \$2.8 billion and \$3.0 billion at December 31, 2006 and 2005, respectively, serves as collateral for capital leases and other types of equipment obligations in accordance with the secured financing arrangements utilized to acquire such railroad equipment.

As a result of the merger of Missouri Pacific Railroad Company (MPRR) with and into UPRR on January 1, 1997, and pursuant to the underlying indentures for the MPRR mortgage bonds, UPRR must maintain the same value of assets after the merger in order to comply with the security requirements of the mortgage bonds. As of the merger date, the value of the MPRR assets that secured the mortgage bonds was approximately \$6.0 billion. In accordance with the terms of the indentures, this collateral value must be maintained during the entire term of the mortgage bonds irrespective of the outstanding balance of such bonds.

Credit Facilities – On December 31, 2006, we had \$2 billion in revolving credit facilities available, including \$1 billion under a five-year facility expiring in March 2009 and \$1 billion under a five-year facility expiring in March 2010 (collectively, the “facilities”). The facilities are designated for general corporate purposes and support the issuance of commercial paper. Neither of the facilities were drawn on in 2006. Commitment fees and interest rates payable under the facilities are similar to fees and rates available to comparably rated investment-grade borrowers. These facilities allow for borrowings at floating rates based on London Interbank Offered Rates, plus a spread,

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depending upon our senior unsecured debt ratings. The facilities require the maintenance of a minimum net worth and a debt to net worth coverage ratio. At December 31, 2006, we were in compliance with these covenants. The facilities do not include any other financial restrictions, credit rating triggers (other than rating-dependent pricing), or any other provision that could require the posting of collateral.

In addition to our revolving credit facilities, we had \$150 million in uncommitted lines of credit available, including \$75 million that expires in March 2007 and \$75 million expiring in May 2007. Neither of these lines of credit were used as of December 31, 2006. We must have equivalent credit available under our five-year facilities to draw on these \$75 million lines.

Dividend Restrictions – We are subject to certain restrictions related to the payment of cash dividends to our shareholders due to minimum net worth requirements under the credit facilities referred to above. The amount of retained earnings available for dividends was \$7.8 billion and \$6.2 billion at December 31, 2006 and 2005, respectively. We do not expect that these restrictions will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity. We declared dividends of \$323 million in 2006 and \$316 million in 2005.

Shelf Registration Statement – Under a current shelf registration statement, we may issue any combination of debt securities, preferred stock, common stock, or warrants for debt securities or preferred stock in one or more offerings. At December 31, 2006, we had \$500 million remaining for issuance under the current shelf registration statement. We have no immediate plans to issue any securities; however, we routinely consider and evaluate opportunities to replace existing debt or access capital through issuances of debt securities under this shelf registration, and, therefore, we may issue debt securities at any time.

6. Leases

We lease certain locomotives, freight cars, and other property. Future minimum lease payments for operating and capital leases with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2006 were as follows:

<i>Millions of Dollars</i>	<i>Operating Leases</i>	<i>Capital Leases</i>
2007	\$ 624	\$ 180
2008	546	173
2009	498	168
2010	456	148
2011	419	157
Later Years	2,914	1,090
Total minimum lease payments	\$ 5,457	\$ 1,916
Amount representing interest	N/A	(680)
Present value of minimum lease payments	N/A	\$ 1,236

Rent expense for operating leases with terms exceeding one month was \$798 million in 2006, \$728 million in 2005, and \$651 million in 2004. When cash rental payments are not made on a straight-line basis, we recognize variable rental expense on a straight-line basis over the lease term. Contingent rentals and sub-rentals are not significant.

7. Retirement Plans

Pension and Other Postretirement Benefits

Pension Plans – We provide defined benefit retirement income to eligible non-union employees through qualified and non-qualified (supplemental) pension plans. Qualified and non-qualified pension benefits are based on years of service and the highest compensation during the latest years of employment, with specific reductions made for early retirements.

Other Postretirement Benefits (OPEB) – We provide defined contribution medical and life insurance benefits for eligible retirees. These benefits are funded as medical claims and life insurance premiums are paid.

New Accounting Standard

We adopted FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158), at the end of 2006, which required us to separately recognize the overfunded or underfunded status of our pension and OPEB plans as an asset or liability. The funded status is measured as the difference between the fair value of plan assets and our projected benefit obligations to current and retired employees.

The adoption of FAS 158 at December 31, 2006 decreased other assets and total assets by \$207 million, decreased retiree benefits obligation by \$34 million, decreased deferred income tax liabilities by \$94 million, decreased total liabilities by \$128 million, and resulted in an accumulated other comprehensive loss and reduction in total common shareholders' equity of \$79 million. These changes to our financial statements were non-cash and will have no impact on existing debt covenants, credit ratings, or financial flexibility.

The adoption of FAS 158 had no impact on years prior to 2006, as retrospective application was not allowed. This new standard does not change how pension or OPEB expense is computed, nor does it have any impact on cash funding requirements. The impact of the adoption of FAS 158 noted above does not include our equity method investees, which are not required to adopt FAS 158 until 2007 because they do not have publicly traded securities. The impact of this adoption in 2007 by our equity method investees is not expected to be significant.

Funded Status

The funded status represents the difference between the projected benefit obligation (PBO) and the fair value of the plan assets. The PBO is the present value of benefits earned to date by plan participants, including the effect of assumed future salary increases. The PBO of the OPEB plan is equal to the accumulated benefit obligation, as the present value of the OPEB liabilities is not affected by salary increases. Plan assets are measured at fair value. We use a December 31 measurement date for plan assets and obligations for all our retirement plans.

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Changes in our PBO and plan assets are as follows for the years ended December 31:

<i>Millions of Dollars</i>	<i>Pension</i>		<i>OPEB</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
Projected Benefit Obligation				
Projected benefit obligation at beginning of year	\$ 2,065	\$ 2,058	\$ 476	\$ 453
Service cost	35	28	4	4
Interest cost	117	115	21	25
Plan amendments	-	-	(38)	(42)
Actuarial loss (gain)	16	(18)	(58)	70
Gross benefits paid	(120)	(118)	(31)	(34)
Projected benefit obligation at end of year	\$ 2,113	\$ 2,065	\$ 374	\$ 476
Plan Assets				
Fair value of plan assets at beginning of year	\$ 1,707	\$ 1,693	\$ -	\$ -
Actual return on plan assets	243	123	-	-
Voluntary funded pension plan contributions	150	-	-	-
Non-qualified plan benefit payments	9	9	31	34
Gross benefits paid	(120)	(118)	(31)	(34)
Fair value of plan assets at end of year	\$ 1,989	\$ 1,707	\$ -	\$ -
Funded status at end of year	\$ (124)	\$ (358)	\$ (374)	\$ (476)
Unrecognized net actuarial losses	N/A	362	N/A	194
Unrecognized prior service cost (credit)	N/A	31	N/A	(156)
Net amounts recognized at end of year	\$ (124)	\$ 35	\$ (374)	\$ (438)

Amounts recognized in the statement of financial position as of December 31, 2006 and 2005 consist of:

<i>Millions of Dollars</i>	<i>Pension</i>		<i>OPEB</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
<i>Amounts Recognized at December 31, 2006</i>				
Other assets	\$ 45	N/A	\$ -	N/A
Other current liabilities	(12)	N/A	(27)	N/A
Retiree benefits obligation	(157)	N/A	(347)	N/A
Net amounts recognized at end of year	\$ (124)	N/A	\$ (374)	N/A
<i>Amounts Recognized at December 31, 2005</i>				
Prepaid benefit cost	N/A	\$ 122	N/A	\$ -
Accrued benefit cost	N/A	(86)	N/A	(438)
Additional minimum liability	N/A	(369)	N/A	-
Intangible assets	N/A	31	N/A	-
Accumulated other comprehensive income	N/A	337	N/A	-
Net amounts recognized at end of year	N/A	\$ 35	N/A	\$ (438)

After-tax amounts recognized in accumulated other comprehensive income (loss) as of December 31, 2006 consist of:

<i>Millions of Dollars</i>	<i>Pension</i>	<i>OPEB</i>	<i>Total</i>
Prior service (cost) credit	\$ (15)	\$ 99	\$ 84
Net actuarial (loss)	(154)	(50)	(204)
Total	\$ (169)	\$ 49	\$ (120)

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Underfunded Accumulated Benefit Obligation – The accumulated benefit obligation (ABO) is the present value of benefits earned to date, assuming no future salary growth. The underfunded accumulated benefit obligation represents the difference between the ABO and the fair value of plan assets. At December 31, 2006, the only pension plan that was underfunded was our non-qualified (supplemental) plan, which is not funded by design. The non-qualified (supplemental) plan is funded with cash from operations as benefits are paid to plan participants. Each of our qualified plans was fully funded at December 31, 2006. The PBO, ABO, and fair value of plan assets for pension plans with accumulated benefit obligations in excess of the fair value of the plan assets were as follows for the years ended December 31:

<i>Underfunded Accumulated Benefit Obligation</i> Millions of Dollars	2006	2005
Projected benefit obligation	\$(169)	\$(2,044)
Accumulated benefit obligation	\$(168)	\$(2,026)
Fair value of plan assets	-	1,685
Underfunded accumulated benefit obligation	\$(168)	\$ (341)

The ABO for all defined benefit pension plans was \$2.1 billion at December 31, 2006 and \$2.0 billion at December 31, 2005.

Assumptions – The weighted-average actuarial assumptions used to determine benefit obligations at December 31:

<i>Percentages</i>	<i>Pension</i>			<i>OPEB</i>		
	2006	2005	2004	2006	2005	2004
Discount rate	6.00%	5.75%	6.00%	6.00%	5.75%	6.00%
Salary increase	3.00	2.75	3.00	N/A	N/A	N/A

The following table presents assumed health care cost trend rates used to determine benefit obligations and OPEB expense:

<i>Percentages</i>	2006	2005	2004
Assumed health care cost trend rate for next year	8.0%	9.0%	10.0%
Rate to which health care cost trend rate is expected to decline and remain	5.0%	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2010	2010	2010

Expense

Both pension and OPEB expense are determined based upon the annual service cost of benefits (the actuarial cost of benefits earned during a period) and the interest cost on those liabilities, less the expected return on plan assets. The expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a five-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns on assets and expected returns based on long-term rate of return assumptions. Differences in actual experience in relation to assumptions are not recognized in net income immediately, but are deferred and, if necessary, amortized as pension or OPEB expense.

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The components of our net periodic pension and OPEB costs were as follows for the years ended December 31:

<i>Millions of Dollars</i>	<i>Pension</i>			<i>OPEB</i>		
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Net Periodic Benefit Cost:						
Service cost	\$ 35	\$ 28	\$ 30	\$ 4	\$ 4	\$ 5
Interest cost	117	115	120	21	25	31
Expected return on plan assets	(134)	(134)	(137)	-	-	-
Amortization of:						
Transition obligation	-	-	(2)	-	-	-
Prior service cost (credit)	7	7	8	(33)	(30)	(24)
Actuarial loss	21	5	3	13	14	18
Net periodic benefit cost	\$ 46	\$ 21	\$ 22	\$ 5	\$ 13	\$ 30

The estimated actuarial loss and prior service cost for the pension plans that will be amortized, on a pre-tax basis, from accumulated other comprehensive loss into net periodic benefit cost during 2007 will be \$17 million and \$6 million, respectively. The estimated actuarial loss and prior service credit for the OPEB plans that will be amortized, on a pre-tax basis, from accumulated other comprehensive loss into net periodic benefit cost during 2007 will be \$10 million and \$32 million, respectively.

Assumptions – The weighted-average actuarial assumptions used to determine expense were as follows for the years ended December 31:

<i>Percentages</i>	<i>Pension</i>			<i>OPEB</i>		
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Discount rate	5.75%	6.00%	6.50%	5.75%	6.00%	6.50%
Expected return on plan assets	8.00	8.00	8.00	N/A	N/A	N/A
Salary increase	2.75	3.00	3.50	N/A	N/A	N/A

The discount rate is based on a hypothetical portfolio of high quality corporate bonds with cash flows matching our plans' expected benefit payments. The expected return on plan assets is based on our asset allocation mix and our historical return, taking into account current and expected market conditions. The actual return on pension plan assets, net of fees, was approximately 14% in 2006, 7% in 2005, and 12% in 2004. Our historical annualized ten-year rate of return on plan assets is approximately 9%.

Assumed healthcare cost trend rates have a significant effect on the expense and liabilities reported for healthcare plans. The assumed healthcare cost trend rate is based on historical rates and expected market conditions. A one-percentage point change in the assumed healthcare cost trend rates would have the following effects on OPEB:

<i>Millions of Dollars</i>	<i>One % pt. Increase</i>	<i>One % pt. Decrease</i>
Effect on total service and interest cost components	\$ 3	\$ (2)
Effect on accumulated benefit obligation	31	(26)

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Cash Contributions

The following table details our cash contributions for the years ended December 31, 2006 and 2005, and the expected contributions for 2007:

<i>Millions of Dollars</i>	<i>Pension</i>		<i>OPEB</i>
	<i>Qualified</i>	<i>Non-qualified</i>	
2005	\$ -	\$ 9	\$ 34
2006	150	9	31
2007	-	12	27

In 2006, the Pension Protection Act of 2006 (the Act) was signed into law. The Act changes the method of valuing assets and liabilities for funding purposes, as well as the timing of required contributions. Our pension plans continue to meet all funding requirements and we do not expect the Act to significantly impact our results of operations, financial condition, or liquidity.

Our policy with respect to funding the qualified plans is to fund at least the minimum required by the Act and not more than the maximum amount deductible for tax purposes. All contributions made to the qualified pension plans in 2006 were voluntary and were made with cash generated from operations. In 2006, we voluntarily contributed \$50 million in January and \$100 million in December to the qualified pension plan. At December 31, 2006, our qualified pension plans were fully funded. No required contributions are expected in 2007.

The OPEB plans are not funded and are not subject to any minimum regulatory funding requirements. Benefit payments for each year represent claims paid for medical and life insurance, and we anticipate our 2007 OPEB payments will be made from cash generated from operations.

Benefit Payments

The following table details expected benefit payments for the years 2007 through 2016:

<i>Millions of Dollars</i>	<i>Pension</i>	<i>OPEB</i>
2007	\$ 124	\$ 27
2008	126	28
2009	129	29
2010	133	30
2011	139	31
Years 2012 – 2016	776	152

Asset Allocation Strategy

Our pension plan asset allocation at December 31, 2006 and 2005, and target allocation for 2007, are as follows:

	<i>Target Allocation</i>	<i>Percentage of Plan Assets December 31,</i>	
	<i>2007</i>	<i>2006</i>	<i>2005</i>
Equity securities	60% to 70%	70%	75%
Debt securities	20% to 30%	26	24
Real estate	4% to 6%	2	1
Commodities	4% to 6%	2	-
Total		100%	100%

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The investment strategy for pension plan assets is to maintain a broadly diversified portfolio designed to achieve our target of an average long-term rate of return of 8%. While we believe we can achieve a long-term average rate of return of 8%, we cannot be certain that the portfolio will perform to our expectations. Assets are strategically allocated among equity, debt, and other instruments in order to achieve a diversification level that mitigates wide swings in investment returns. Asset allocation target ranges for equity, debt, and other portfolios are evaluated at least every three years with the assistance of an independent external consulting firm. Actual asset allocations are monitored monthly, and rebalancing actions are executed at least quarterly, if needed.

The majority of the plan's assets are invested in equity securities, because equity portfolios have historically provided higher returns than debt and other asset classes over extended time horizons, and are expected to do so in the future. Correspondingly, equity investments also entail greater risks than other investments. The risk of loss in the plan's equity portfolio is mitigated by investing in a broad range of equity types. Equity diversification includes large-capitalization and small-capitalization companies, growth-oriented and value-oriented investments, and U.S. and non-U.S. securities.

Equity risks are further balanced by investing a significant portion of the plan's assets in high quality debt securities. The average quality rating of the debt portfolio exceeded AA as of December 31, 2006 and 2005. The debt portfolio is also broadly diversified and invested primarily in U.S. Treasury, mortgage, and corporate securities with an intermediate average maturity. The weighted-average maturity of the debt portfolio was 6.4 years and 6.5 years at December 31, 2006 and 2005, respectively.

The investment of pension plan assets in our securities is specifically prohibited for both the equity and debt portfolios, other than through index fund holdings.

Other Retirement Programs

Thrift Plan – We provide a defined contribution plan (thrift plan) to eligible non-union employees and make matching contributions to the thrift plan. We match 50 cents for each dollar contributed by employees up to the first six percent of compensation contributed. Our thrift plan contributions were \$13 million in 2006, and \$12 million in both 2005 and 2004.

Railroad Retirement System – All Railroad employees are covered by the Railroad Retirement System (the System). Contributions made to the System are expensed as incurred and amounted to approximately \$615 million in 2006, \$595 million in 2005, and \$569 million in 2004.

Collective Bargaining Agreements – Under collective bargaining agreements, we provide certain postretirement healthcare and life insurance benefits for eligible union employees. Premiums under the plans are expensed as incurred and amounted to \$40 million in 2006, \$41 million in 2005, and \$30 million in 2004.

8. Stock Options and Other Stock Plans

We have 1,254,304 options outstanding under the 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation (1993 Plan). There are 3,570 restricted shares outstanding under the 1992 Restricted Stock Plan for Non-Employee Directors of Union Pacific Corporation. We no longer grant options or awards of retention shares and units under these plans.

The UP Shares Stock Option Plan of Union Pacific Corporation (UP Shares Plan) was approved by our Board of Directors on April 30, 1998. The UP Shares Plan reserved 12,000,000 shares of our common stock for issuance. The UP Shares Plan was a broad-based option program that granted options to purchase 200 shares of our common stock at \$55.00 per share to eligible active employees on April 30, 1998. All options granted were

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non-qualified options that became exercisable on May 1, 2001, and remain exercisable until April 30, 2008. If an optionee's employment terminates for any reason, the option remains exercisable for a period of one year after the date of termination, but no option is exercisable after April 30, 2008. No further options may be granted under the UP Shares Plan. As of December 31, 2006, there were 1,119,910 options outstanding under the UP Shares Plan.

In April 2000, the shareholders approved the Union Pacific Corporation 2000 Directors Plan (Directors Plan) whereby 550,000 shares of our common stock were reserved for issuance to our non-employee directors. Under the Directors Plan, each non-employee director, upon his or her initial election to the Board of Directors, receives a grant of 1,000 shares of retention shares or retention stock units. Additionally, each non-employee director receives annually an option to purchase at fair value a number of shares of our common stock, not to exceed 5,000 shares during any calendar year, determined by dividing 60,000 by 1/3 of the fair market value of one share of our common stock on the date of such Board of Directors meeting, with the resulting quotient rounded up or down to the nearest 50 shares. As of December 31, 2006, 7,000 restricted shares were outstanding under the Directors Plan and 159,450 options were outstanding under the Directors Plan.

The Union Pacific Corporation 2001 Stock Incentive Plan (2001 Plan) was approved by the shareholders in April 2001. The 2001 Plan reserved 12,000,000 shares of our common stock for issuance to eligible employees of the Corporation and its subsidiaries in the form of non-qualified options, incentive stock options, retention shares, stock units, and incentive bonus awards. Non-employee directors were not eligible for awards under the 2001 Plan. As of December 31, 2006, 4,224,402 options and 339,537 retention shares and stock units were outstanding under the 2001 Plan. We no longer grant any stock options or other stock or unit awards under this plan.

The Union Pacific Corporation 2004 Stock Incentive Plan (2004 Plan) was approved by shareholders in April 2004. The 2004 Plan reserved 21,000,000 shares of our common stock for issuance, plus any shares subject to awards made under the 2001 Plan and the 1993 Plan that were outstanding on April 16, 2004, and became available for regrant pursuant to the terms of the 2004 Plan. Under the 2004 Plan, non-qualified options, stock appreciation rights, retention shares, stock units, and incentive bonus awards may be granted to eligible employees of the Corporation and its subsidiaries. Non-employee directors are not eligible for awards under the 2004 Plan. As of December 31, 2006, 3,286,461 options and 561,875 retention shares and stock units were outstanding under the 2004 Plan.

Pursuant to the above plans, 19,544,245; 20,695,817; and 21,571,309 shares of our common stock were authorized and available for grant at December 31, 2006, 2005, and 2004, respectively.

Stock Options – We estimate the fair value of our stock option awards using the Black-Scholes option pricing model. Groups of employees and non-employee directors that have similar historical and expected exercise behavior are considered separately for valuation purposes. The table below shows the year-to-date weighted-average of the assumptions used when valuing these separate groups:

<i>Weighted-Average Assumptions</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Risk-free interest rate	4.5%	3.8%	3.3%
Dividend yield	1.4%	1.9%	1.7%
Expected life (years)	6.0	4.8	5.6
Volatility	25.3%	20.6%	25.9%
Weighted-average grant-date fair value of options granted	\$24.97	\$12.92	\$16.38

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant; the dividend yield is calculated as the ratio of dividends paid per share of common stock to the stock price on the date of grant; the

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expected life is based on historical and expected exercise behavior; and volatility is based on the historical volatility of our stock price, over a time period that is consistent with the expected life of the option.

A summary of stock option activity during 2006 is presented below:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (millions)
Outstanding at January 1, 2006	12,436,209	\$ 59.41	N/A	N/A
Granted	1,402,200	86.04	N/A	N/A
Exercised	(3,740,732)	56.39	N/A	N/A
Forfeited or expired	(53,150)	65.64	N/A	N/A
Outstanding at December 31, 2006	10,044,527	\$ 64.22	6.0 yrs.	\$ 279
Vested or expected to vest at December 31, 2006	10,001,242	\$ 64.13	6.0 yrs.	\$ 279
Options exercisable at December 31, 2006	8,601,677	\$ 60.75	5.5 yrs.	\$ 269

Stock options are granted at market price on the date of grant, have ten-year contractual terms, and vest no later than three years from the date of grant. None of the stock options outstanding at December 31, 2006 are subject to performance or market-based vesting conditions.

At December 31, 2006, there was \$22 million of unrecognized compensation expense related to nonvested stock options, which is expected to be recognized over a weighted-average period of 1.8 years. Additional information regarding stock option exercises appears in the table below:

Millions of Dollars	2006	2005	2004
Aggregate grant-date fair value of stock options vested [a]	\$ 26	\$ 62	\$ 36
Intrinsic value of stock options exercised	124	142	51
Cash received from option exercises	177	296	102
Tax benefit realized from option exercises	44	55	17

[a] Stock options for executives granted in 2003 and 2002 included a reload feature. This reload feature allowed executives to exercise their options using shares of Union Pacific Corporation common stock that they already owned and obtain a new grant of options with immediate vesting in the amount of the shares used for exercise plus any shares withheld for tax purposes. The reload feature of these option grants could only be exercised if the price of our common stock increased at least 20% from the price at the time of the reload grant. During the year ended December 31, 2005, reload option grants represented \$31 million of the aggregate grant-date fair value of stock options vested. There were no reload options exercised during 2004. There were no reload option grants during 2006 as stock options exercised after January 1, 2006 are not eligible for the reload feature.

Retention Awards – The fair value of retention awards is based on the market price of the stock at the grant date.

Changes in our retention awards during 2006 were as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	1,005,276	\$ 58.88
Granted	328,150	86.04
Vested	(539,453)	56.53
Forfeited	(16,199)	71.21
Nonvested at December 31, 2006	777,774	\$ 71.72

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Retention awards, which we grant at no cost to the employee or non-employee director, vest over periods lasting up to four years. At December 31, 2006, there was \$26 million of total unrecognized compensation expense related to nonvested retention awards, which is expected to be recognized over a weighted-average period of 1.6 years.

Performance Retention Awards – In January 2006, our Board of Directors approved a new long-term plan (LTP). Under the LTP, selected employees were awarded stock units subject to continued employment through January 2009 and the attainment of certain levels of return on invested capital (ROIC) as defined in the LTP. We will expense the fair value (grant-date stock price) of the units that are probable of being earned based on our forecasted ROIC over the 3-year performance period.

Changes in our performance retention awards during 2006 were as follows:

	<i>Shares</i>	<i>Weighted-Average Grant-Date Fair Value</i>
Nonvested at January 1, 2006	-	\$ -
Granted	122,400	86.05
Vested	-	-
Forfeited	-	-
Nonvested at December 31, 2006	122,400	\$ 86.05

At December 31, 2006, there was \$7 million of total unrecognized compensation expense related to nonvested performance retention awards, which is expected to be recognized over a weighted-average period of 2 years. A portion of this expense is subject to achievement of the performance criteria under the LTP.

9. Earnings Per Share

The following table provides a reconciliation between basic and diluted earnings per share for the years ended December 31:

<i>Millions of Dollars, Except Per Share Amounts</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Net income	\$ 1,606	\$ 1,026	\$ 604
Weighted-average number of shares outstanding:			
Basic	269.4	263.4	259.1
Dilutive effect of stock options	2.1	1.5	1.2
Dilutive effect of retention shares and units	0.5	1.6	1.9
Diluted	272.0	266.5	262.2
Earnings per share – basic	\$ 5.96	\$ 3.89	\$ 2.33
Earnings per share – diluted	\$ 5.91	\$ 3.85	\$ 2.30

Common stock options totaling 1.4 million, 1.4 million, and 3.3 million for 2006, 2005, and 2004, respectively, were excluded from the computation of diluted earnings per share because the exercise prices of these options exceeded the average market price of our common stock for the respective periods, and the effect of their inclusion would be anti-dilutive.

10. Commitments and Contingencies

Asserted and Unasserted Claims – Various claims and lawsuits are pending against us and certain of our subsidiaries. It is not possible at this time for us to determine fully the effect of all unasserted claims on our

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consolidated results of operations, financial condition, or liquidity; however, to the extent possible, where unasserted claims are considered probable and where such claims can be reasonably estimated, we have recorded a liability. We do not expect that any known lawsuits, claims, environmental costs, commitments, contingent liabilities, or guarantees will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity after taking into account liabilities previously recorded for these matters.

Personal Injury – The cost of personal injuries to employees and others related to our activities is charged to expense based on estimates of the ultimate cost and number of incidents each year. We use third-party actuaries to assist us in measuring the expense and liability, including unasserted claims. Compensation for work-related accidents is governed by the Federal Employers' Liability Act (FELA). Under FELA, damages are assessed based on a finding of fault through litigation or out-of-court settlements.

Our personal injury liability activity was as follows:

<i>Millions of Dollars</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Beginning balance	\$ 619	\$ 639	\$ 619
Accruals	240	247	288
Payments	(228)	(267)	(268)
Ending balance at December 31	\$ 631	\$ 619	\$ 639
Current portion, ending balance at December 31	\$ 233	\$ 274	\$ 274

Our personal injury liability is discounted to present value using applicable U.S. Treasury rates. Approximately 87% of the recorded liability related to asserted claims, and approximately 13% related to unasserted claims. Personal injury accruals were higher in 2004 due to a 1998 crossing accident verdict upheld in 2004 and a 2004 derailment near San Antonio.

Asbestos – We are a defendant in a number of lawsuits in which current and former employees allege exposure to asbestos. Additionally, we have received claims for asbestos exposure that have not been litigated. The claims and lawsuits (collectively referred to as "claims") allege occupational illness resulting from exposure to asbestos-containing products. In most cases, the claimants do not have credible medical evidence of physical impairment resulting from the alleged exposures. Additionally, most claims filed against us do not specify an amount of alleged damages.

During 2004, we engaged a third party with extensive experience in estimating resolution costs for asbestos-related claims to assist us in assessing the number and value of these unasserted claims through 2034, based on our average claims experience over a multi-year period. As a result, we increased our liability in 2004 for asbestos-related claims in the fourth quarter of 2004. The liability for resolving both asserted and unasserted claims was based on the following assumptions:

- The number of future claims received would be consistent with historical averages.
- The number of claims filed against us will decline each year.
- The average settlement values for asserted and unasserted claims will be equivalent to historical averages.
- The percentage of claims dismissed in the future will be equivalent to historical averages.

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Our asbestos-related liability activity was as follows:

<i>Millions of Dollars</i>	2006	2005	2004
Beginning balance	\$311	\$324	\$ 51
Accruals	-	-	287
Payments	(9)	(13)	(14)
Ending balance at December 31	\$302	\$311	\$324
Current portion, ending balance at December 31	\$ 13	\$ 16	\$ 17

Our liability for asbestos-related claims is not discounted to present value due to the uncertainty surrounding the timing of future payments. Approximately 16% of the recorded liability related to asserted claims, and approximately 84% related to unasserted claims. These claims are expected to be paid out over the next 28 years. During 2006 and 2005, our third-party consultants assisted us in reviewing our actual asbestos claim experience compared to the assumptions used in the 2004 estimate, and we determined that no adjustment to our estimate was necessary. We will continue to review actual experience and adjust our estimate as warranted.

We have insurance coverage for a portion of the costs incurred to resolve asbestos-related claims, and, as a result of the 2004 assessment, we increased our receivable for insurance recoveries related to asbestos during 2004. We have recognized an asset for estimated insurance recoveries at December 31, 2006 and 2005.

We believe that our liability estimates for asbestos-related claims and the estimated insurance recoveries reflect reasonable and probable estimates. The amounts recorded for asbestos-related liabilities and related insurance recoveries were based on currently known facts. However, future events, such as the number of new claims to be filed each year, average settlement costs, and insurance coverage issues, could cause the actual costs and insurance recoveries to be higher or lower than the projected amounts. Estimates may also vary due to changes in the litigation environment, federal and state law governing compensation of asbestos claimants, and the level of payments made to claimants by other defendants.

Environmental Costs – We are subject to federal, state, and local environmental laws and regulations. We have identified approximately 367 sites at which we are or may be liable for remediation costs associated with alleged contamination or for violations of environmental requirements. This includes 44 sites that are the subject of actions taken by the U.S. government, 25 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, our ultimate environmental liability may include costs relating to activities of other parties, in addition to costs relating to our own activities at each site.

When an environmental issue has been identified with respect to the property owned, leased, or otherwise used in the conduct of our business, we and our consultants perform environmental assessments on the property. We expense the cost of the assessments as incurred. We accrue the cost of remediation where our obligation is probable and such costs can be reasonably estimated. We do not discount our environmental liabilities when the timing of the anticipated cash payments is not fixed or readily determinable.

Our environmental liability activity was as follows:

<i>Millions of Dollars</i>	2006	2005	2004
Beginning balance	\$213	\$201	\$187
Accruals	39	45	46
Payments	(42)	(33)	(32)
Ending balance at December 31	\$210	\$213	\$201
Current portion, ending balance at December 31	\$ 54	\$ 46	\$ 50

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The environmental liability includes 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. We believe that we have adequately accrued for our 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 the speculative nature of remediation costs. Estimates may also vary due to changes in federal, state, and local laws governing environmental remediation. We do not expect current obligations to have a material adverse effect on our results of operations or financial condition.

Guarantees – At December 31, 2006, we were contingently liable for \$464 million in guarantees. We have recorded a liability of \$6 million for the fair value of these obligations as of December 31, 2006. We entered into these contingent guarantees in the normal course of business, and they include guaranteed obligations related to our headquarters building, equipment financings, and affiliated operations. The final guarantee expires in 2022. We are not aware of any existing event of default that would require us to satisfy these guarantees. We do not expect that these guarantees will have a material adverse effect on our consolidated financial condition, results of operations, or liquidity.

Indemnities – Our maximum potential exposure under indemnification arrangements, including certain tax indemnifications, can range from a specified dollar amount to an unlimited amount, depending on the nature of the transactions and the agreements. Due to uncertainty as to whether claims will be made or how they will be resolved, we cannot reasonably determine the probability of an adverse claim or reasonably estimate any adverse liability or the total maximum exposure under these indemnification arrangements. We do not have any reason to believe that we will be required to make any material payments under these indemnity provisions.

Income Taxes – As previously reported in our Form 10-Q for the quarter ended September 30, 2005, the IRS has completed its examinations and issued notices of deficiency for tax years 1995 through 2002. Among their proposed adjustments is the disallowance of tax deductions claimed in connection with certain donations of property. In the fourth quarter of 2005, the IRS National Office issued a Technical Advice Memorandum which left unresolved whether the deductions were proper, pending further factual development. We continue to dispute the donation issue, as well as many of the other proposed adjustments, and will contest the associated tax deficiencies through the IRS Appeals process, and, if necessary, litigation. In addition, the IRS is examining the Corporation's federal income tax returns for tax years 2003 and 2004 and should complete their exam in 2007. We do not expect that the ultimate resolution of these examinations will have a material adverse effect on our Consolidated Financial Statements.

11. Other Income

Other income included the following for the years ended December 31:

<i>Millions of Dollars</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Rental income	\$ 83	\$ 59	\$ 55
Net gain on non-operating asset dispositions	72	135	69
Interest income	29	17	10
Sale of receivables fees	(33)	(23)	(11)
Non-operating environmental costs and other	(33)	(43)	(35)
Total	\$118	\$145	\$ 88

12. Accounting Pronouncements

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). Under FIN 48, we will recognize tax benefits only for tax positions that are more likely than not to be sustained upon examination by tax authorities. The amount recognized will be measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The interpretation is effective for us beginning in the first quarter of 2007. The cumulative effect of adopting FIN 48 will be a one-time reduction in the January 1, 2007 balance of retained earnings. Future changes in uncertain tax positions will be included in income tax expense. We do not expect that the cumulative effect of adopting FIN 48 will have a material impact on our Consolidated Financial Statements.

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurement* (FAS 157). While this statement does not require new fair value measurements, it provides guidance on applying fair value and expands required disclosures. FAS 157 is effective for us beginning in the first quarter of 2008. We are currently assessing the impact FAS 157 may have on our Consolidated Financial Statements.

In September 2006, the FASB issued FAS 158. FAS 158 required us to recognize the funded status of our pension and postretirement plans in the balance sheet, along with a corresponding noncash, after-tax adjustment to shareholders' equity. Funded status is determined as the difference between the fair value of plan assets and the benefit obligation. Changes in the funded status will be recognized in other comprehensive loss. We adopted FAS 158 at the end of 2006 and have disclosed the impact of the adoption in note 7.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108), which provides interpretive guidance on how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in the current-year financial statements. SAB 108 requires registrants to quantify misstatements using both an income statement and balance sheet approach and then evaluate whether either approach results in a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. If prior-year errors that had been previously considered immaterial are now considered material based on either approach, no restatement is required so long as management properly applied its previous approach and all relevant facts and circumstances were considered. If prior-year's financial statements are not restated, the cumulative effect adjustment is recorded in opening accumulated earnings (deficit) as of the beginning of the fiscal year of adoption. SAB 108 was effective for us at the end of 2006. The adoption of SAB 108 did not have any impact on our Consolidated Financial Statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159). This statement, which is expected to expand fair value measurement, permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for us beginning in the first quarter of 2008. We are currently assessing the impact FAS 159 may have on our Consolidated Financial Statements.

13. Selected Quarterly Data (Unaudited)*Millions of Dollars, Except Per Share Amounts*

	<i>Mar. 31</i>	<i>June 30</i>	<i>Sep. 30</i>	<i>Dec. 31</i>
<i>2006</i>				
Operating revenue	\$ 3,710	\$ 3,923	\$ 3,983	\$ 3,962
Operating income	605	717	752	810
Net income	311	390	420	485
Net income per share				
Basic	1.16	1.45	1.56	1.79
Diluted	1.15	1.44	1.54	1.78
<i>2005</i>	<i>Mar. 31</i>	<i>June 30</i>	<i>Sep. 30[a]</i>	<i>Dec. 31</i>
Operating revenue	\$ 3,152	\$ 3,344	\$ 3,461	\$ 3,621
Operating income	313	468	481	533
Net income	128	233	369	296
Net income per share				
Basic	0.49	0.89	1.40	1.11
Diluted	0.48	0.88	1.38	1.10

[a] Net income includes a \$118 million tax expense reduction to reflect a reduction in the estimated deferred income tax liability.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

As of the end of the period covered by this report, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer (CEO) and Executive Vice President – Finance and Chief Financial Officer (CFO), of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Based upon that evaluation, the CEO and the CFO concluded that, as of the end of the period covered by this report, the Corporation's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that such information is accumulated and communicated to management, including the CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

Additionally, the CEO and CFO determined that there have been no changes to the Corporation's internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Union Pacific Corporation and Subsidiary Companies (the Corporation) is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). The Corporation's internal control system was designed to provide reasonable assurance to the Corporation's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on our assessment management believes that, as of December 31, 2006, the Corporation's internal control over financial reporting is effective based on those criteria.

The Corporation's independent registered public accounting firm has issued an attestation report on our assessment of the Corporation's internal control over financial reporting. This report appears on page 73.

February 15, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Union Pacific Corporation, its Directors, and Shareholders:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Union Pacific Corporation and Subsidiary Companies (the Corporation) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Corporation's internal control over financial reporting based on our audit.

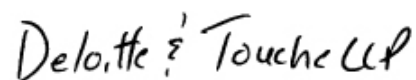
We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2006 of the Corporation and our report dated February 16, 2007 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph regarding the Corporation's adoption, in 2006, of Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.



Omaha, Nebraska
February 16, 2007

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

(a) Directors of Registrant.

Information as to the names, ages, positions and offices with UPC, terms of office, periods of service, business experience during the past five years and certain other directorships held by each director or person nominated to become a director of UPC is set forth in the Election of Directors segment of the Proxy Statement and is incorporated herein by reference.

Information concerning our Audit Committee and the independence of its members, along with information about the audit committee financial expert(s) serving on the Audit Committee, is set forth in the Audit Committee segment of the Proxy Statement and is incorporated herein by reference.

(b) Executive Officers of Registrant.

Information concerning the executive officers of UPC and its subsidiaries is presented in Part I of this report under Executive Officers of the Registrant and Principal Executive Officers of Subsidiaries.

(c) Section 16(a) Compliance.

Information concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth in the Section 16(a) Beneficial Ownership Reporting Compliance segment of the Proxy Statement and is incorporated herein by reference.

(d) Code of Ethics for Chief Executive Officer and Senior Financial Officers of Registrant.

The Board of Directors of UPC has adopted the UPC Code of Ethics for the Chief Executive Officer and Senior Financial Officers (the Code). A copy of the Code may be found on the Internet at our website www.up.com/investors. We intend to disclose any amendments to the Code or any waiver from a provision of the Code on our website.

Item 11. Executive Compensation

Information concerning compensation received by our directors and our named executive officers is presented in the Compensation Discussion and Analysis, Summary Compensation Table, Grants of Plan-Based Awards in Fiscal Year 2006, Outstanding Equity Awards at 2006 Fiscal Year-End, Option Exercises and Stock Vested in Fiscal Year 2006, Pension Benefits at 2006 Fiscal Year-End, Nonqualified Deferred Compensation at 2006 Fiscal Year-End, Potential Payments Upon Termination or Change in Control and Director Compensation in Fiscal Year 2006 segments of the Proxy Statement and is incorporated herein by reference. Additional information regarding compensation of directors, including Board committee members, is set forth in the By-Laws of UPC and the Stock Unit Grant and Deferred Compensation Plan for the Board of Directors, both of which are included as exhibits to this report. Information regarding the Compensation Committee is set forth in the Compensation Committee Interlocks and Insider Participation and Compensation Committee Report segments of the Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related

Stockholder Matters

Information as to the number of shares of our equity securities beneficially owned by each of our directors and nominees for director, our named executive officers, our directors and executive officers as a group, and certain

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beneficial owners is set forth in the Security Ownership of Certain Beneficial Owners and Management segment of the Proxy Statement and is incorporated herein by reference.

The following table summarizes the equity compensation plans under which Union Pacific Corporation common stock may be issued as of December 31, 2006.

<i>Plan Category</i>	<i>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</i>	<i>Weighted-average exercise price of outstanding options, warrants and rights (b)</i>	<i>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</i>
Equity compensation plans approved by security holders	9,389,429[1]	\$ 65.37[2]	18,096,434
Equity compensation plans not approved by security holders [3]	1,119,910	55.00	-
Total	10,509,339	\$ 64.22	18,096,434

[1] Includes 464,812 retention units that do not have an exercise price. Does not include 447,170 retention shares that are actually issued and outstanding.

[2] Does not include the retention units or retention shares described above in footnote [1].

[3] The UP Shares Stock Option Plan (UP Shares Plan) is the only equity compensation plan not approved by shareholders. The UP Shares Plan was approved by the Company's Board of Directors on April 30, 1998 and reserved 12,000,000 shares of common stock for issuance. The UP Shares Plan was a broad-based option program that granted each active employee on April 30, 1998 non-qualified options to purchase 200 shares of common stock at \$55.00 per share. Options became exercisable on May 1, 2001 and expire on April 30, 2008. If an optionee's employment terminates for any reason, the option remains exercisable for a period of one year after the date of termination, but no option is exercisable after April 30, 2008. No further options may be granted under the UP Shares Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information on related transactions is set forth in the Certain Relationships and Related Transactions and Compensation Committee Interlocks and Insider Participation segments of the Proxy Statement and is incorporated herein by reference. We do not have any relationship with any outside third party that would enable such a party to negotiate terms of a material transaction that may not be available to, or available from, other parties on an arm's-length basis.

Information regarding the independence of our directors is set forth in the Director Independence segment of the Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

Information concerning the fees billed by our independent registered public accounting firm and the nature of services comprising the fees for each of the two most recent fiscal years in each of the following categories: (i) audit fees, (ii) audit—related fees, (iii) tax fees, and (iv) all other fees, is set forth in the Independent Registered Public Accounting Firm's Fees and Services segment of the Proxy Statement and is incorporated herein by reference.

Information concerning our Audit Committee's policies and procedures pertaining to pre-approval of audit and non-audit services rendered by our independent registered public accounting firm is set forth in the Audit Committee segment of the Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Financial Statements, Financial Statement Schedules, and Exhibits:

(1) Financial Statements

The financial statements filed as part of this filing are listed on the index to the Financial Statements and Supplementary Data, Item 8, on page 42.

(2) Financial Statement Schedules

Schedule II—Valuation and Qualifying Accounts

Schedules not listed above have been omitted because they are not applicable or not required or the information required to be set forth therein is included in the Financial Statements and Supplementary Data, Item 8, or notes thereto.

(3) Exhibits

Exhibits are listed in the exhibit index beginning on page 80. The exhibits include management contracts, compensatory plans and arrangements required to be filed as exhibits to the Form 10-K by Item 601 (10) (iii) of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on this 23rd day of February, 2007.

UNION PACIFIC CORPORATION

By /s/ James R. Young

James R. Young,
Chairman, President,
Chief Executive Officer, and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below, on this 23rd day of February, 2007, by the following persons on behalf of the registrant and in the capacities indicated.

PRINCIPAL EXECUTIVE OFFICER
AND DIRECTOR:

/s/ James R. Young

James R. Young,
Chairman, President,
Chief Executive Officer, and Director

PRINCIPAL FINANCIAL OFFICER:

/s/ Robert M. Knight, Jr.

Robert M. Knight, Jr.,
Executive Vice President—Finance and Chief
Financial Officer

PRINCIPAL ACCOUNTING OFFICER:

/s/ Richard J. Putz

Richard J. Putz,
Vice President and Controller

DIRECTORS:

Andrew H. Card, Jr.*
Erroll B. Davis, Jr.*
Thomas J. Donohue*
Archie W. Dunham*

Judith Richards Hope*
Charles C. Krulak*
Michael W. McConnell*
Steven R. Rogel*

* By /s/ Thomas E. Whitaker

Thomas E. Whitaker, Attorney-in-fact

SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS*Union Pacific Corporation and Subsidiary Companies*

<i>Millions of Dollars, for the Years Ended December 31,</i>	2006	2005	2004
Allowance for doubtful accounts:			
Balance, beginning of period	\$ 126	\$ 107	\$ 101
Charges/(reduction) to expense	(7)	2	11
Net recoveries / (write-offs)	(20)	17	(5)
Balance, end of period	\$ 99	\$ 126	\$ 107
Allowance for doubtful accounts are presented in the Consolidated Statements of Financial Position as follows:			
Current	\$ 6	\$ 16	\$ 19
Long-term	93	110	88
Balance, end of period	\$ 99	\$ 126	\$ 107
Accrued casualty costs:			
Balance, beginning of period	\$1,354	\$1,303	\$ 989
Charges to expense	417	409	683
Cash payments and other reductions	(494)	(358)	(369)
Balance, end of period	\$1,277	\$1,354	\$1,303
Accrued casualty costs are presented in the Consolidated Statements of Financial Position as follows:			
Current	\$ 409	\$ 478	\$ 419
Long-term	868	876	884
Balance, end of period	\$1,277	\$1,354	\$1,303

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Union Pacific Corporation
Exhibit Index

<u>Exhibit No.</u>	<u>Description</u>
	<u>Filed with this Statement</u>
3(a)	By-Laws of UPC, as amended, effective October 1, 2006.
10(a)	Form of 2007 Long Term Plan Stock Unit Agreement.
10(b)	UPC 2000 Directors Stock Plan, as amended November 16, 2006 and January 30, 2007.
10(c)	UP Shares Stock Option Plan of UPC, as amended November 16, 2006.
10(d)	The 1993 Stock Option and Retention Stock Plan of UPC, as amended November 16, 2006.
10(e)	UPC 2001 Stock Incentive Plan, as amended November 16, 2006.
10(f)	UPC 2004 Stock Incentive Plan, as amended November 16, 2006.
12	Ratio of Earnings to Fixed Charges.
21	List of the Corporation's significant subsidiaries and their respective states of incorporation.
23	Independent Registered Public Accounting Firm's Consent.
24	Powers of attorney executed by the directors of UPC.
31(a)	Certification Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – James R. Young.
31(b)	Certification Pursuant to Rule 13a-14(a), of the Exchange Act, as Adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 – Robert M. Knight, Jr.
32(a)	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.
32(b)	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 – Robert M. Knight, Jr.

Incorporated by Reference

- 3(b) 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.
- 4(a) Indenture, dated as of December 20, 1996, between UPC and Citibank, N.A., as Trustee, is incorporated herein by reference to Exhibit 4.1 to UPC's Registration Statement on Form S-3 (No. 333-18345).
- 4(b) Indenture, dated as of April 1, 1999, between UPC and JP Morgan Chase Bank, formerly The Chase Manhattan Bank, as Trustee, is incorporated herein by reference to Exhibit 4.2 to UPC's Registration Statement on Form S-3 (No. 333-75989).
- 4(c) Form of Debt Security is incorporated herein by reference to Exhibit 4.3 to UPC's Registration Statement on Form S-3 (No. 33-59323). Certain instruments evidencing long-term indebtedness of UPC are not filed as exhibits because the total amount of securities authorized under any single such instrument does not exceed 10% of the Corporation's total consolidated assets. UPC agrees to furnish the Commission with a copy of any such instrument upon request by the Commission.
- 10(g) Amended and Restated Registration Rights Agreement, dated as of July 12, 1996, among UPC, UP Holding Company, Inc., Union Pacific Merger Co. and Southern Pacific Rail Corporation (SP) is incorporated herein by reference to Annex J to the Joint Proxy Statement/Prospectus included in Post-Effective Amendment No. 2 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(h) Agreement, dated September 25, 1995, among UPC, UPRR, Missouri Pacific Railroad Company (MPRR), SP, Southern Pacific Transportation Company (SPT), The Denver & Rio Grande Western Railroad Company (D&RGW), St. Louis Southwestern Railway Company (SLSRC) and SPCSL Corp. (SPCSL), on the one hand, and Burlington Northern Railroad Company (BN) and The Atchison, Topeka and Santa Fe Railway Company (Santa Fe), on the other hand, is incorporated by reference to Exhibit 10.11 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(i) Supplemental Agreement, dated November 18, 1995, between UPC, UPRR, MPRR, SP, SPT, D&RGW, SLSRC and SPCSL, on the one hand, and BN and Santa Fe, on the other hand, is incorporated herein by reference to Exhibit 10.12 to UPC's Registration Statement on Form S-4 (No. 33-64707).
- 10(j) The Executive Incentive Plan of UPC, as amended May 31, 2001, is incorporated herein by reference to Exhibit 10(b) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
- 10(k) Written Description of Premium Exchange Program Pursuant to 1993 Stock Option and Retention Stock Plan of UPC is incorporated herein by reference to Exhibit 10(b) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1999.

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- 10(l) UPC Key Employee Continuity Plan dated November 16, 2000, is incorporated herein by reference to Exhibit 10(o) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2000.
- 10(m) The Pension Plan for Non-Employee Directors of UPC, as amended January 25, 1996, is incorporated herein by reference to Exhibit 10(w) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.
- 10(n) The Executive Life Insurance Plan of UPC, as amended October 1997, is incorporated herein by reference to Exhibit 10(t) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997.
- 10(o) The UPC Stock Unit Grant and Deferred Compensation Plan for the Board of Directors, as amended January 1, 2003, is incorporated herein by reference to Exhibit 10(a) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004.
- 10(p) Charitable Contribution Plan for Non-Employee Directors of Union Pacific Corporation is incorporated herein by reference to Exhibit 10(z) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995.
- 10(q) Written Description of Other Executive Compensation Arrangements of Union Pacific Corporation is incorporated herein by reference to Exhibit 10(q) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 1998.
- 10(r) Form of Non-Qualified Stock Option Agreement for Executives is incorporated herein by reference to Exhibit 10(a) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
- 10(s) Form of Stock Unit Agreement for Executives is incorporated herein by reference to Exhibit 10(b) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
- 10(t) Form of Stock Unit Agreement for Executive Incentive Premium Exchange Program is incorporated herein by reference to Exhibit 10(c) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
- 10(u) Form of Non-Qualified Stock Option Agreement for Directors is incorporated herein by reference to Exhibit 10(d) to the Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004.
- 10(v) Form of Stock Unit Agreement for Executives, is incorporated herein by reference to Exhibit 10(b) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.
- 10(w) Form of Non-Qualified Stock Option Agreement for Executives, is incorporated herein by reference to Exhibit 10(c) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

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- 10(x) UPC Executive Incentive Plan, effective May 5, 2005, is incorporated herein by reference to Exhibit 10(d) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.
- 10(y) Supplemental Thrift Plan of UPC, as amended December 21, 2005, is incorporated herein by reference to Exhibit 10(e) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.
- 10(z) The Supplemental Pension Plan for Officers and Managers of UPC and Affiliates, as amended December 21, 2005, is incorporated herein by reference to Exhibit 10(f) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.
- 10(aa) Executive Incentive Plan (2005) – Deferred Compensation Program, dated December 21, 2005, is incorporated herein by reference to Exhibit 10(g) to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005.

BY-LAWS
OF
UNION PACIFIC CORPORATION
As Amended Effective as of October 1, 2006

BY-LAWS
OF
UNION PACIFIC CORPORATION
(AS AMENDED EFFECTIVE AS OF OCTOBER 1, 2006)
ARTICLE I
STOCKHOLDERS MEETINGS

SECTION 1. Annual meetings of the stockholders of this Company shall be held in Salt Lake City, Utah. Special meetings of the stockholders of this Company may be held at such place or places as shall be ordered by the Board of Directors but, unless otherwise ordered, such meetings shall be held in Salt Lake City, Utah.

SECTION 2. Annual meetings of the stockholders, for the purpose of electing directors and transacting any other business, shall be held at such time as shall be ordered by the Board of Directors but, unless otherwise ordered, shall be held at 8:30 a.m. on the first Thursday of May in each year.

SECTION 3. A special meeting of the stockholders may be called by the Board of Directors or by any other person who, at such time, is authorized by the Utah Revised Business Corporation Act (the "Act") to call a special meeting of stockholders. A request by a stockholder for a special meeting must be accompanied by a statement of purposes which includes at least the information set out in clauses (i) through (vi) of Section 10(e) of Article I of these By-Laws. The objects of a special meeting shall be stated in the order therefor, and the business transacted shall be confined to such objects.

SECTION 4. Notice of all meetings of the stockholders shall be given, either personally or by mail, not less than ten nor more than sixty days prior thereto. The notice of all special meetings shall state the objects thereof. The failure to give notice of an annual meeting, or any irregularity in the notice, shall not affect the validity of such annual meeting or of any proceedings thereat. Any stockholder may consent in writing to the holding of a special meeting without notice. A stockholder's attendance at a meeting: (i) waives objection to lack of notice or defective notice of the meeting, unless the stockholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting because of lack of notice or defective notice; and (ii) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the stockholder objects to considering the matter when it is presented.

SECTION 5. The Board of Directors may fix in advance a day and hour not more than seventy days preceding any annual or special meeting of stockholders or action of stockholders as the time for the determination of stockholders entitled to vote at such meeting or to take such action. Stockholders of record at the time so fixed by the Board of Directors and only such stockholders shall be entitled to vote at such meeting. Each share of stock shall entitle such record holder thereof to one vote, in person or by proxy in writing.

SECTION 6. The Chairman of the Board, and in his absence the Chief Executive Officer, and in their absence the President, and in their absence one of the Vice Presidents, shall call meetings of the stockholders to order and act as chairman of such meetings. In the absence of all these officers, the Board of Directors may appoint a chairman of the meeting to act in such event; but if the Board shall not make such appointment, then, in the absence of all of these officers, any stockholder or proxy of any stockholder may call the meeting to order, and a chairman shall be elected.

SECTION 7. The Secretary of the Company shall act as secretary at all meetings of the stockholders; but the Board of Directors may designate an Assistant Secretary for that purpose before the meeting, and if no such designation shall have been made, then the presiding officer at the meeting may appoint any person to act as secretary of the meeting.

SECTION 8. At each meeting of the stockholders the polls shall be opened and closed and the ballots and proxies shall be received and taken charge of by two inspectors. Such inspectors shall be appointed before the meeting by the Board of Directors, and if no such appointment shall have been made, then by the presiding officer at the meeting; and if for any reason any of the inspectors previously appointed shall fail to attend, or refuse or be unable to serve, then inspectors, in place of any so failing to attend or refusing or unable to serve, shall be appointed by the presiding officer at the meeting. Such inspectors need not be stockholders.

SECTION 9. Stockholders may take action on a matter at a meeting only if a quorum exists with respect to that matter. Unless the articles of incorporation or the Act provide otherwise, a majority of the votes entitled to be cast on the matter, represented in person or by proxy, constitutes a quorum for action on that matter. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting. If a quorum exists, action on a matter, other than the election of directors, by stockholders is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the articles of incorporation or the Act require a greater number of affirmative votes.

Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present. However, any nominee for director in an uncontested election who receives a greater number of votes "withheld" from his or her election

than votes “for” his or her election (a “Majority Withheld Vote”) shall immediately tender his or her resignation following certification of such stockholder vote. The Corporate Governance and Nominating Committee shall promptly consider the director’s resignation offer and make a recommendation to the Board. If a majority of the directors serving on the Corporate Governance and Nominating Committee received a Majority Withheld Vote at the same election, then the independent directors who did not receive a Majority Withheld Vote shall appoint a committee amongst themselves to consider any resignation offers and recommend to the Board whether to accept them. The Board shall act on the recommendation of the Corporate Governance and Nominating Committee (or comparable committee appointed by the Board) within 90 days following certification of the stockholder vote. The Corporate Governance and Nominating Committee shall make a recommendation to the Board on whether to accept a director’s resignation offer, taking into account such factors as the Corporate Governance and Nominating Committee may in its discretion determine appropriate, and the Board shall vote on whether to accept such offer. Thereafter, the Board will promptly disclose its decision-making process and decision regarding whether to accept the director’s resignation offer in a Form 8-K furnished to the Securities and Exchange Commission. For this purpose, an “uncontested election” shall mean that, on the record date for the meeting at which directors are to be elected, the number of nominees does not exceed the number of directors to be elected.

SECTION 10. (a) At any annual meeting of stockholders, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the Board of Directors or (ii) by any stockholder who complies with the procedures set forth in this Section 10.

(b) No business may be transacted at any annual meeting of stockholders, other than business that is either (i) specified in the notice of meeting (or any supplement thereto) given pursuant to Section 4 of Article I of these By-Laws, (ii) otherwise properly brought before such meeting of stockholders by or at the direction of the Board of Directors or (iii) otherwise properly brought before such meeting by any stockholder (A) who is a stockholder of record on the date of the giving of the notice by the stockholder provided for in this Section 10 and on the record date for the determination of stockholders entitled to vote at such annual meeting of stockholders and (B) who complies with the notice procedures set forth in this Section 10.

(c) No business may be transacted at any special meeting of stockholders, other than business that is specified in the notice of meeting (or any supplement thereto) given pursuant to Section 4 of Article I of these By-Laws.

(d) In addition to any other applicable requirements, for business to be properly brought before a meeting of stockholders by a stockholder pursuant to clause (b) of this Section 10 such stockholder must have given timely notice thereof in proper written form to the Secretary of the Company. To be timely, a stockholder’s notice to the Secretary of the Company pursuant to clause (b) of this Section 10 must be delivered to or mailed and received at the principal executive offices of the Company not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of stockholders; provided, however, that in the event that the annual meeting of stockholders is

called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting of stockholders was mailed or public disclosure of the date of the meeting of stockholders was made, whichever first occurs.

(e) To be in proper written form, a stockholder's notice to the Secretary of the Company pursuant to clause (b) of this Section 10 must set forth as to each matter such stockholder proposes to bring before the annual meeting of stockholders (i) a brief description of the business desired to be brought before the meeting of stockholders and the reasons for conducting such business at such meeting of stockholders, (ii) the name and record address of such stockholder, (iii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business, (v) any other information which would be required to be disclosed in a proxy statement or other filings required to be made in connection with the solicitation of proxies for the proposal pursuant to Section 14 of the Securities Exchange Act of 1934 (the "Exchange Act"), and the rules and regulations promulgated thereunder if such stockholder were engaged in such a solicitation (other than a solicitation described in Rules 14a-2(a) or 14a-2(b) promulgated under the Exchange Act), and (vi) a representation that such stockholder intends to appear in person or by proxy at the meeting of stockholders to bring such business before the meeting.

(f) No business shall be conducted at the annual meeting of stockholders except business brought before the meeting of stockholders in accordance with the procedures set forth in this Section 10, provided, however, that, once business has been properly brought before the meeting of stockholders in accordance with such procedures, nothing in this Section 10 shall be deemed to preclude discussion by any stockholder of any such business.

(g) If the chairman of a meeting of stockholders determines that business was not properly brought before a meeting of stockholders, the chairman shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted.

SECTION 11. (a) Subject to the rights of the holders of any series of Preferred Stock then outstanding, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors of the Company. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders, or at any special meeting of stockholders called for the purpose of electing directors, (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Company (A) who is a stockholder of record on the date of the giving of the notice provided for in this Section 11 and on the record date for the determination of stockholders entitled to vote at such meeting and (B) who complies with the notice procedures set forth in this Section 11.

(b) In addition to any other applicable requirements for a nomination to be made by a stockholder pursuant to clause (a) of this Section 11, such stockholder must have given timely notice thereof in proper written form to the Secretary of the Company.

(c) To be timely, a stockholder's notice to the Secretary of the Company pursuant to clause (a) of this Section 11 must be delivered to or mailed and received at the principal executive offices of the Company (i) in the case of an annual meeting of stockholders, not less than ninety (90) days nor more than one hundred twenty (120) days prior to the anniversary date of the immediately preceding annual meeting of stockholders, provided, however, that in the event that the annual meeting of stockholders is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth (10th) day following the day on which notice of the date of the annual meeting of stockholders was mailed or public disclosure of the date of the annual meeting was made, whichever first occurs, and (ii) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth (10th) day following the day on which notice of the date of the special meeting of stockholders was mailed or public disclosure of the date of the special meeting of stockholders was made, whichever first occurs.

(d) To be in proper written form, a stockholder's notice to the Secretary of the Company pursuant to clause (a) of this Section 11 must set forth (i) as to each person whom the stockholder proposes to nominate for election as a director (A) the name, age, business address and residence address of the person, (B) the principal occupation or employment of the person, (C) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the person as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice and (D) any other information relating to the person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder; and (ii) as to the stockholder giving the notice (A) the name and record address of such stockholder, (B) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by such stockholder as of the record date for the meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice, (C) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nominations are to be made by such stockholder, (D) a representation that such stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice and (E) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder (other than a solicitation described in Rules 14a-2(a) or 14a-2(b) promulgated under the Exchange Act). Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

(e) No person shall be eligible for election as a director of the Company unless nominated in accordance with the procedures set forth in this Section 11. If the chairman of the meeting determines that a nomination was not made in accordance with the foregoing procedures, the chairman shall declare to the meeting that the nomination was defective and such defective nomination shall be disregarded.

SECTION 12. If and to the extent authorized by the Board in connection with a particular meeting, stockholders may participate in a meeting of stockholders, and such meetings may be conducted through the use of, any means of telecommunication permitted under the Act.

ARTICLE II

BOARD OF DIRECTORS

SECTION 1. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Company shall be managed under the direction of, the Board of Directors. The number of directors which shall constitute the whole board shall be fixed from time to time by resolution of the Board of Directors, provided that such number shall not be less than three (3). Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a vote of the Board and, if the directors remaining in office consist of fewer than a quorum of the Board, a majority of the directors then in office, though less than a quorum, may fill the vacancy. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office. Any director appointed by the Board of Directors to fill a directorship caused by an increase in the number of directors shall serve until the next annual meeting or a special meeting of the stockholders called for the purpose of electing directors.

SECTION 2. Regular meetings of the Board of Directors shall be held at 8:30 a.m. on such day in such months as the Board shall from time to time designate, and no further notice of such regular meetings shall be required. Special meetings shall be held whenever called by order of the Chairman or any five members of the Board. Notice of Special meetings shall be given, at least one day prior thereto, by personal service of written notice upon the directors or by delivering the same at, or transmitting the same by first class mail, facsimile transmission, telephone or other electronic means to, their respective residences or offices. Any director may consent in writing to the holding of a special meeting without notice, and the attendance or participation of any director at a special meeting shall constitute a waiver by him of call and notice thereof and a consent to the holding of said meeting and the transaction of any corporate business thereat, unless the director at the beginning of the meeting, or promptly upon the director's arrival, objects to holding the meeting or transacting business thereat because of lack of notice or defective notice, and does not thereafter vote for or assent to the action taken at the meeting. Meetings of the Board of Directors may be held at such place or places as shall be ordered by a majority of the directors in office, but unless otherwise ordered, all meetings of the Board of Directors shall be held at the principal executive offices of the Company in Omaha, Nebraska.

SECTION 3. A majority of the number of directors prescribed by Article II, Section 1 shall constitute a quorum at all meetings of the Board. If a quorum be not present at any meeting, a majority of the directors present may adjourn the meeting until a later day or hour.

SECTION 4. Each director, other than active employees of the Company, or of any subsidiary of the Company, shall be paid an annual retainer in an amount equal to \$120,000, a portion of which may be required to be deferred as determined by the Board of Directors. Each director who shall serve as the Chair or a Co-Chair of a Committee of the Board shall receive an additional annual retainer of \$15,000, and each director who shall serve on the Audit Committee of the Board, including the Chair or Co-Chair of such committee, shall receive an additional

annual retainer of \$10,000. Each retainer shall be payable in quarterly installments at the end of the quarter, except that directors who attend fewer than 75% of the Board and Committee meetings on which they serve will be paid 75% of the annual retainer, plus a reasonable allowance for transportation and other expenses incurred by such director in going to any meeting of the Board of Directors, or of any Committee of the Board, and returning to such director's place of residence.

ARTICLE III

OFFICERS AND AGENTS

SECTION 1. There may be elected by the Board of Directors from its members a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer and one or more Vice Chairmen of the Board, and there may also be elected by the Board of Directors an Executive Vice President-Finance and Chief Financial Officer, a Senior Vice President-Human Resources, a Vice President -Taxes, a General Counsel, a Controller, a Secretary, a Treasurer and such other Executive Vice Presidents, Senior Vice Presidents and Vice Presidents as the Board shall determine, and there may also be appointed by the Board of Directors such Assistant Vice Presidents, Assistant Secretaries, Assistant Treasurers, Assistant Controllers, Associate General Counsels, Assistant General Counsels, General Tax Counsels, Associate General Tax Counsels and other officers and agents as the Board of Directors shall from time to time determine.

SECTION 2. The Chairman of the Board shall preside, when present, at meetings of the Board of Directors and shall perform such other duties and possess such powers as may be prescribed or conferred by the Board of Directors or the Chief Executive Officer.

SECTION 3. The Chief Executive Officer shall have general supervision of all departments and offices of the Company and of the interest of the Company in all companies controlled by it. He shall preside, in the absence of the Chairman of the Board, at meetings of the Board of Directors.

SECTION 4. The President shall preside, in the absence of the Chairman of the Board, at meetings of the Board of Directors and shall perform such duties and possess such powers as may be prescribed or conferred by the Board of Directors or the Chief Executive Officer.

SECTION 5. The Chief Operating Officer shall have day to day operating responsibilities for the affairs of the Company, reporting to the Chief Executive Officer, and shall perform such duties as may be prescribed or conferred by the Board of Directors or the Chief Executive Officer.

SECTION 6. The Vice Chairmen of the Board shall perform such duties and possess such powers as may be prescribed or conferred by the Board of Directors or the Chief Executive Officer.

SECTION 7. The Executive Vice Presidents and Senior Vice Presidents shall perform such duties as may be prescribed or conferred by the Chief Executive Officer.

SECTION 8. The Executive Vice President-Finance and Chief Financial Officer shall have the direction and management of the financial affairs, investments, strategic planning and corporate development of the Company and of the offices in charge of the Controller, the Treasurer and the Vice President-Taxes, and shall perform such other duties as may be prescribed or conferred by the Chief Executive Officer.

SECTION 9. The Senior Vice President-Human Resources shall have the direction and management of the human resources functions of the Company, and shall perform such other duties as may be prescribed or conferred by the Chief Executive Officer.

SECTION 10. The General Counsel shall have the direction and management of all legal business of the Company except as otherwise provided in Sections 12 and 19 of this ARTICLE III, shall perform such duties respecting legal matters as shall be assigned to him by the Chief Executive Officer, and shall perform such other duties as may be prescribed or conferred by the Chief Executive Officer.

SECTION 11. The Vice President-Taxes shall, under the control of the Executive Vice President-Finance, have charge of all aspects of Federal, foreign, state and local taxes, and shall perform such other duties as may be assigned by the Executive Vice President-Finance and Chief Financial Officer.

SECTION 12. The other Vice Presidents elected and Assistant Vice Presidents appointed from time to time shall perform such duties and possess such powers as may be prescribed or conferred by the Board of Directors or the Chief Executive Officer.

SECTION 13. Except as otherwise provided herein or directed by the Board of Directors, the Controller shall have immediate charge of the general books, accounts and statistics of the Company and shall be the custodian of all vouchers, drafts, invoices and other evidences of payment and all bonds, interest coupons and other evidences of indebtedness which shall have been canceled. He is authorized to approve for payment by the Treasurer vouchers, payrolls, drafts or other accounts. He shall be furnished by the Assistant Controllers of the Company periodically or specially as requested by him with the approval of and in form prescribed by the Executive Vice President-Finance and Chief Financial Officer, statements of operating revenues and expenses and estimates thereof and of expenditures and estimates on all other accounts; and copies of all statistical data that may be compiled in regular course and also all other information in reference to the financial affairs and operations of the Company and of any subsidiary company that may be required by the Executive Vice President-Finance and Chief Financial Officer or the Board of Directors. He shall submit for each regular meeting of the Board of Directors, and, at such other times as may be required by said Board or the Executive Vice President-Finance and Chief Financial Officer, statements of operating results, of cash resources and requirements and of appropriations for Capital Expenditures, and shall perform such other duties as the Executive Vice President-Finance and Chief Financial Officer may from time to time direct.

The Assistant Controllers shall exercise such of the powers and perform such of the duties of the Controller with respect to accounting and approving or authorizing payments as shall be assigned to them by the Controller.

SECTION 14. The Secretary shall attend all meetings of the stockholders and the Board of Directors, and keep a record of all their proceedings. He shall procure and keep in his files copies of the minutes of all meetings of the stockholders, boards of directors and executive committees of all companies a majority of whose capital stock is owned by this Company. He shall be the custodian of the seal of the Company. He shall have power to affix the seal of the Company to instruments, the execution of which is authorized by these By-Laws or by action of the Board of Directors, and to attest the same. He shall have supervision of the issuance, transfer and registration of the capital stock and debt securities of the Company. He shall perform such other duties as may be assigned to him by the Board of Directors or the Chief Executive Officer.

The Assistant Secretaries shall have power to affix the seal of the Company to instruments, the execution of which is authorized by these By-Laws or by action of the Board of Directors, and to attest the same, and shall exercise such of the other powers and perform such of the other duties of the Secretary as shall be assigned to them by the Secretary.

SECTION 15. Except as otherwise provided herein or directed by the Board of Directors, the Treasurer shall be the custodian of all moneys, stocks, bonds, notes and other securities of the Company. He is authorized to receive and receipt for stocks, bonds, notes and other securities belonging to the Company or which are received for its account. All stocks, bonds, notes and other securities in the custody of the Treasurer shall be held in the safe deposit vaults of the Company or in one or more depositories selected by the Treasurer or other officer authorized by the Board of Directors, in each case subject to access thereto as shall from time to time be authorized or required by the Board of Directors, the Chief Executive Officer, or the Treasurer. Stocks, bonds, notes and other securities shall be deposited in the safe deposit vaults or depositories, or withdrawn from them, only by persons and pursuant to procedures as shall be determined by the Board of Directors, the Chief Executive Officer or the Treasurer. The Treasurer is authorized and empowered to receive and collect all moneys due to the Company and to receipt therefor. All moneys received by the Treasurer shall be deposited to the credit of the Company in such depositories as shall be designated by the Board of Directors, the Chief Executive Officer, the Treasurer or such other officers as may be authorized by the Board of Directors; and the Treasurer or other officer designated by the Treasurer may endorse for deposit therein all checks, drafts, or vouchers drawn to the order of the Company or payable to it. He is also authorized to draw checks against any funds to the credit of the Company in any of its depositories. All such checks shall be signed by such persons, either by manual or facsimile signature as shall be authorized by the Board of Directors, and countersigned if required by the Board of Directors. The Treasurer is authorized to make disbursements in settlement of vouchers, payrolls, drafts or other accounts, when approved for payment by the Controller, or such other person as shall be authorized by the Board of Directors, the Chief Executive Officer or these By-Laws; for payments which have been otherwise ordered or provided for by the Board of Directors or the Chief Executive Officer; for interest on bonds and dividends on stock when due and payable; for vouchers, pay checks, drafts and other accounts properly certified to by the duly authorized officers of the Company; and for vouchers, pay checks, drafts and other accounts approved by the officers duly authorized to approve for payment of any company which this Company controls through the ownership of stock or otherwise, as may be designated in writing from time to time by the Chief Executive Officer to the Treasurer. He shall cause to be kept in

his office true and full accounts of all receipts and disbursements of his office. He shall also perform such other duties as shall be assigned to him by the Executive Vice President-Finance and Chief Financial Officer.

The Assistant Treasurers may exercise all powers of the Treasurer herein conferred in respect of the receipt of moneys and securities, endorsement for deposit and signature of checks.

SECTION 16. The Associate General Counsels and Assistant General Counsels shall perform such duties respecting legal matters as shall be assigned to them by the General Counsel.

SECTION 17. The General Tax Counsels shall be responsible for all tax-related legal advice (including federal tax planning and research, litigation and legislation; tax aspects of strategic, operational and financing transactions; and ERISA/Benefits tax matters), and shall perform such other duties as shall be assigned to them by the Vice President-Taxes.

SECTION 18. The Associate General Tax Counsels shall perform such duties as shall be assigned to them by the Vice President-Taxes or the General Tax Counsels.

SECTION 19. To the extent that a separate division shall be created within the Company, the Chief Executive Officer shall be authorized to appoint officers of such division and any such officers shall perform such duties and possess such powers as are prescribed and conferred by the Chief Executive Officer.

ARTICLE IV

SUPERVISION, REMOVAL AND SALARIES OF
OFFICERS AND EMPLOYEES

SECTION 1. Any officer or employee elected or appointed by the Board of Directors may be removed as such at any time by the affirmative vote of a majority of the directors then in office, with or without cause. Any other officer or employee of the Company may be removed at any time by vote of the Board of Directors or by the officer supervising such officer or employee, with or without cause.

SECTION 2. All officers, agents and employees of the Company, in the exercise of the powers conferred and the performance of the duties imposed upon them, by these By-Laws or otherwise, shall at all times be subject to the direction, supervision and control of the Board of Directors.

SECTION 3. No office or position shall be created and no person shall be employed at a salary of more than \$300,000 per annum, and no salary shall be increased to an amount in excess of \$300,000 per annum, without the approval of the Board of Directors.

SECTION 4. The Board of Directors may from time to time vest general authority in the Chairman of the Board, the Chief Executive Officer, the President, or the Head of any department or office of the Company, or any such other officer of the Company as any of the foregoing shall designate, for the sole determination of disposition of any matter which otherwise should be required to be considered by the Board of Directors under the provisions of this Article.

ARTICLE V

CONTRACTS AND EXPENDITURES

SECTION 1. All capital expenditures, leases and property dispositions must be authorized by the Board of Directors, except that general or specific authority with regard to such matters may be delegated to such officers of the Company as the Board of Directors may from time to time direct.

SECTION 2. Expenditures chargeable to operating expenses may be made by or under the direction of the Head of the department or office of the Company in which they are required, without explicit or further authority from the Board of Directors, subject to direction, restriction or prohibition by the Chief Executive Officer.

SECTION 3. No contract shall be made without the approval of the Board of Directors, except as authorized by the Board of Directors or these By-Laws.

SECTION 4. Contracts for work, labor and services and materials and supplies, the expenditures for which will be chargeable to operating expenses, may be made in the name and on behalf of the Company by the Head of the department or office of the Company concerned, or by such officer as he shall designate, without further authority.

SECTION 5. All written contracts and agreements to which the Company may become a party shall be approved as to form by or under the direction of counsel for the Company.

SECTION 6. The Chief Executive Officer, the Chairman of the Board, the President, the Heads of the departments and offices of the Company and the Vice Presidents shall severally have the power to execute on behalf of the Company any deed, bond, indenture, certificate, note, contract or other instrument authorized or approved by, or pursuant to authority granted by, the Board of Directors, and to cause the corporate seal to be thereto affixed and attested by the Secretary or an Assistant Secretary.

SECTION 7. The Board of Directors may from time to time vest general or specific authority in such officers of the Company as the Board of Directors shall designate for the sole determination of disposition of any matter which otherwise would be required to be considered by the Board of Directors under the provisions of this Article.

SECTION 8. For purposes of this Article V, any references to "officers of the Company" shall include officers of any division of the Company and references to the "Head of the department or office of the Company" shall include the Head of any division of the Company or any department or office within such a division.

ARTICLE VI

ISSUE AND CANCELLATION OF STOCK CERTIFICATES

SECTION 1. The Board of Directors shall provide for the issue, transfer, and registration of the capital stock of the Company in the City and State of New York, and in any other locality which it may designate, and shall appoint the necessary officers, transfer agents, and registrars of transfers for that purpose.

SECTION 2. Until otherwise provided by the Board of Directors, stock certificates shall be signed by the Chief Executive Officer or the President or a Vice President, and also by the Secretary or an Assistant Secretary thereunto authorized by the Board of Directors.

SECTION 3. The registrar of transfers shall in every case be a trust company to be appointed by the Board of Directors, in accordance with the requirements of the New York Stock Exchange, and such registration shall be performed in accordance with the rules and regulations of said Exchange.

ARTICLE VII

FINAL

SECTION 1. The Company shall indemnify to the full extent permitted by law any person made or threatened to be made a party to any action, suit or proceeding, whether criminal, civil, administrative or investigative, by reason of the fact that such person is or was a director, officer or employee of the Company or serves or served at the request of the Company any other enterprise as a director, officer, fiduciary or employee. The indemnification provided in this section shall include the right to receive payment in advance of any final disposition of any expenses incurred by any such person in connection with any such action, suit or proceeding, consistent with the provisions of then applicable law. For purposes of this By-Law, the term "other enterprise" shall include any corporation, partnership, joint venture, trust or employee benefit plan; service "at the request of the Company" shall include service as a director, officer or employee of the Company which imposes duties on, or involves services by, such director, officer or employee with respect to an employee benefit plan, its participants or beneficiaries; any excise taxes assessed on a person with respect to an employee benefit plan shall be deemed to be indemnifiable expenses; and action by a person with respect to an employee benefit plan in good faith which such person reasonably believes to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the corporation. This Section 1 shall not apply to any action, suit or proceeding pending or threatened on the date of adoption hereof provided that the right of the Company to indemnify any person with respect thereto shall not be limited hereby.

SECTION 2. Any indemnification under Section 1 of this Article VII (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the director, officer or employee is proper in the circumstances because such person has met the applicable standard of conduct required by law. Such determination shall be made by the persons authorized by the Act.

SECTION 3. Notwithstanding Sections 1 and 2 of this Article VII, except for proceedings to enforce indemnification, the Company shall not be obligated to indemnify any director, officer or employee in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors. The indemnification and advancement of expenses provided by Section 1 of this Article VII shall not be deemed exclusive of any other rights to which any person seeking indemnification may be entitled under any law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer or employee and shall inure to the benefit of the heirs, executors and administrators of such a person. Any amendment or repeal of Section 1 or Section 2 of this ARTICLE VII or this Section 3 shall not limit the right of any person to indemnity with respect to actions taken or omitted to be taken by such person prior to such amendment or repeal.

SECTION 4. The Common corporate seal is, and, until otherwise ordered by the Board of Directors, shall be, an impression upon paper or wax, circular in form, with the words "Union Pacific Corporation" on the outer edge thereof, and the words and figures "Corporate Seal", "1969", "Utah" in the center thereof.

SECTION 5. Except as otherwise provided by the Act, these By-Laws may be altered, amended or repealed at a meeting of the stockholders by a majority vote of those present in person or by proxy or at any meeting of the Board of Directors by a majority vote of the directors then in office.

2007 LONG TERM PLAN
STOCK UNIT AGREEMENT

Dated: January 30, 2007

This Letter Agreement (the "Agreement") will confirm an award to you of stock units ("Stock Units"), as of the date hereof, by Union Pacific Corporation (the "Company"), under the 2004 Stock Incentive Plan of the Company (the "Plan"), a copy of which is included in this database and made a part hereof.

STOCK UNITS

1. **GRANT OF UNITS.** The Company hereby awards to you the number of Stock Units, as shown on Exhibit A of this Agreement, each evidencing the right to receive, upon the terms and subject to the conditions set forth in this Agreement and the Plan, (i) one share of Union Pacific Corporation Common Stock, \$2.50 par value per share ("Common Stock") and (ii) a payment in cash equal to the amount of dividends that would have been payable on one share of Common Stock ("Dividend Equivalent Payments"), provided the applicable Performance Criteria described below have been satisfied.

2. **RESTRICTION PERIOD.** The period during which the restrictions set forth herein and in the Plan shall apply to your right to receive the Stock Units granted to you shall commence on the date hereof and expire on January 31, 2010 if the Performance Criteria described below for such Stock Units have been satisfied (the "Restriction Period"), subject to the provisions of Section 6 hereof. During the Restriction Period, you may be entitled to receive Dividend Equivalent Payments, subject to the provisions of Section 4 hereof.

3. **PERFORMANCE CRITERIA.** The Performance Criteria is annual Return on Invested Capital ("ROIC"). However, such Performance Criteria are of no force and effect unless and until the Company has operating income ("Operating Income") in one or more of fiscal years 2007, 2008 or 2009. The definition and calculation of annual ROIC and Operating Income shall be determined in accordance with the Long Term Plan document approved and adopted by the Compensation and Benefits Committee of the Company's Board of Directors (the "Committee").

For the fiscal year ending December 31, 2007, you may earn up to one-third of your Stock Unit Target Award as shown on Exhibit A for those Stock Units which have met the applicable ROIC Performance Criteria. For the fiscal year ending December 31, 2008, you may earn up to a total of two-thirds of your Stock Unit Target Award as shown on Exhibit A based on the average of the first two fiscal years of ROIC performance achieved less any Stock Units

earned in the first fiscal year. For the fiscal year ending December 31, 2009, you may earn up to two hundred percent of your Stock Unit Target Award as shown on Exhibit A based on the average of all three fiscal years (2007, 2008, and 2009) of ROIC performance achieved less any Stock Units earned in the first two fiscal years.

4. **DIVIDEND EQUIVALENT RIGHTS.** During the Restriction Period, for those Stock Units which have met the applicable Performance Criteria, unless otherwise determined by the Committee, you shall be entitled to receive Dividend Equivalent Payments.

5. **RESTRICTIONS.** (i) You shall be entitled to delivery of the shares of Common Stock only as specified in Section 6 hereof; (ii) none of the Stock Units may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of; (iii) your right to receive Dividend Equivalent Payments shall terminate without further obligation on the part of the Company at the earlier of your termination of employment with the Company or a Subsidiary (as defined in the Plan), or your right to receive Common Stock under Section 6 hereof; (iv) all of the Stock Units shall be forfeited and all of your rights to such Stock Units and the right to receive Common Stock shall terminate without further obligation on the part of the Company in the event of your termination of employment with the Company or a Subsidiary without having a right to delivery of shares of Common Stock under Section 6 hereof and (v) any Stock Units not earned as of the end of the Restriction Period shall be forfeited and all of your rights to such Stock Units shall terminate without further obligation on the part of the Company.

6. **PAYMENT OF STOCK UNITS.** (i) At the end of the Restriction Period and provided you have remained continuously employed by the Company or a Subsidiary, unless otherwise determined by the Committee, shares of Common Stock equal to the number of Stock Units which have met the applicable Performance Criteria shall be delivered to you (through your account at the Company's third party stock plan administrator, if applicable) free of all restrictions, provided the Company has Operating Income in one or more of the fiscal years 2007, 2008 or 2009.

(ii) If your employment with the Company or a Subsidiary ends prior to the end of the Restriction Period and prior to a Change in Control, because you die or become Disabled, unless otherwise determined by the Committee, you, your estate or your beneficiary, as the case may be, shall be entitled to receive shares of Common Stock equal to the number of Stock Units which have met the applicable Performance Criteria through the end of the fiscal year ending prior to the date of your death or Disability, as the case may be, provided the Company has Operating Income in one or more of the fiscal years 2007, 2008 or 2009 and further provided that such fiscal year precedes the date of your death or Disability. Section 8(c)(i) of the Plan pertaining to the vesting of Stock Units upon retirement at or after actual age 65 shall not be applicable. However, if you remain continuously employed and retire at or after actual age 60

under the provisions of the Company's or a Subsidiary's pension plan, you shall be entitled to receive the number of Stock Units which have met the applicable Performance Criteria through the end of the fiscal year ending prior to the date of your retirement, provided the Company has Operating Income in one or more of the fiscal years 2007, 2008 or 2009 and further provided that such fiscal year precedes the date of your retirement.

(iii) If a Change In Control occurs prior to the end of the Restriction Period and prior to your death, Disability or retirement on or after actual age 60 (as defined in section 8(c) of the Plan, as modified by Section 6(ii) hereof), shares of Common Stock equal to the number of Stock Units that would have been deliverable if the Performance Criteria shall have been satisfied at the greater of one hundred percent of your Stock Unit Target Award as shown on Exhibit A or the number of Stock Units that would have been delivered based on the Performance Criteria satisfied through the end of each fiscal year prior to the occurrence of such Change in Control and through the end of the most recent fiscal quarter ending prior to the date of the Change in Control shall be delivered to you (through your account at the Company's third party administrator, if applicable) free of all restrictions, provided the Company has Operating Income in one or more of the calendar years 2007, 2008 or 2009 and further provided that such calendar year precedes the date of the Change in Control. In either event following the Change in Control no greater Performance Criteria may be earned under this Agreement.

(iv) If your employment with the Company or a Subsidiary ends for any other reason, with or without cause, prior to the earlier of the end of the Restriction Period or a Change in Control, you will forfeit all Stock Units and all of your rights to such Stock Units shall terminate without further obligation on the part of the Company.

(v) Any payment of Common Stock pursuant to this Section 6 shall occur on or before the 15th day of the third month of the calendar year following the calendar year in which you become entitled to such payment, except as provided in Section 18.

7. **WITHHOLDING.** Upon payment of the Stock Units, you must arrange for the payment to the Company (through the Company's third party stock plan administrator, if applicable) of all applicable withholding taxes resulting therefrom promptly after notification of the amount thereof. You may elect to have shares withheld to pay withholding taxes if a proper election to pay withholding taxes in this manner is made.

8. **SUBJECT TO PLAN.** The award confirmed by this Agreement is subject to the terms and conditions of the Plan, as the same may be amended from time to time in accordance with Section 19 thereof.

PROTECTION OF CONFIDENTIALITY

9. **CONFIDENTIAL INFORMATION; TRADE SECRETS.** By electronically signing Exhibit A to this Agreement, you acknowledge that the Company regards certain

information relating to its business and operations as confidential. This includes all information that the Company could reasonably be expected to keep confidential and whose disclosure to third parties would likely be disparaging or detrimental to the Company (“Confidential Information”). Your electronic signature also acknowledges that the Company has certain information that derives economic value from not being known to the general public or to others who could obtain economic value from its disclosure or use, which the Company takes reasonable efforts to protect the secrecy of (“Trade Secrets”).

10. **TYPES OF CONFIDENTIAL INFORMATION OR TRADE SECRETS.** By electronically signing Exhibit A, you acknowledge that you developed or have had or will have access to one or more of the following types of Confidential Information or Trade Secrets: information about rates or costs; customer or supplier agreements and negotiations; business opportunities; scheduling and delivery methods; business and marketing plans; financial information or plans; communications within the attorney-client privilege or other privileges; operating procedures and methods; construction methods and plans; proprietary computer systems design, programming or software; strategic plans; succession plans; proprietary company training programs; employee performance, compensation or benefits; negotiations or strategies relating to collective bargaining agreements and/or labor disputes; and internal or external claims or complaints regarding personal injuries, employment laws or policies, environmental protection, or hazardous materials. By electronically signing Exhibit A, you agree that any disclosures by you to any third party of such Confidential Information or Trade Secrets would constitute gross misconduct within the meaning of the Plan.

11. **PRIOR CONSENT REQUIRED.** By electronically signing Exhibit A, you agree that you will not, unless you receive prior consent from the Company’s Senior Vice President, Human Resources & Secretary or such other person designated by the Company (hereinafter collectively referred to as the “Sr. VP-HR & S”), or unless ordered by a court or government agency, (i) disclose to any subsequent employer or unauthorized person any Confidential Information or Trade Secrets, or (ii) retain or take with you when you leave the Company any property of the Company or any documents (including any electronic or computer records) relating to any Confidential Information or Trade Secrets.

12. **PRIOR NOTICE OF EMPLOYMENT, ETC.** By electronically signing Exhibit A, you acknowledge that if you become an employee, contractor, or consultant for any other railroad, this would create a substantial risk that you would, intentionally or unintentionally, disclose or rely upon the Company’s Confidential Information or Trade Secrets for the benefit of the other railroad to the detriment of the Company. You further acknowledge that such disclosures would be particularly damaging if made shortly after you leave the Company. Therefore, by electronically signing Exhibit A, you agree that for a period of one-

year after you leave the Company, before accepting any employment or affiliation with another railroad you will give written notice to the Sr. VP-HR & S of your intention to accept such employment or affiliation. You also agree to confer in good faith with the Sr. VP-HR & S concerning whether your proposed employment or affiliation could reasonably be expected to be performed without improper disclosure of Confidential Information or Trade Secrets. If the Sr. VP-HR & S and you are unable to reach agreement on this issue, you agree to submit this issue to arbitration, to be conducted under the rules of the American Arbitration Association, for final resolution. You also agree that you will not begin to work for another railroad until the Sr. VP-HR & S or an arbitrator has determined that such employment could reasonably be expected to be performed without improper disclosure of the Company's Confidential Information or Trade Secrets.

13. **FAILURE TO COMPLY.** By electronically signing Exhibit A, you agree that, if you fail to comply with any of the promises that you made in Section 11 or 12 above, you will return to the Company any shares of Common Stock (or the market value of any shares of Common Stock received) which you received at any time from 180 days prior to the earlier of (i) the date when you leave the Company or (ii) the date you fail to comply with any such promise you made in Section 11 or 12 to 180 days after the date when the Company learns that you have not complied with any such promise. You agree that you will return such shares of Common Stock to the Company on such terms and conditions as may be required by the Company. You further agree that the Company will be entitled to set off the market value of any such shares of Common Stock against any amount that might be owed to you by the Company.

NO DIRECT COMPETITION

14. **SOLICITATION OF CUSTOMERS; NO EMPLOYMENT WITH WESTERN ROADS.** By electronically signing Exhibit A, you agree for a period of one year following your departure from the Company, you will not (directly or in association with others) call on or solicit the business of any of the Company's customers with whom you actually did business or otherwise had personal contact while you were employed by the Company, for the purpose of providing the customers with goods and/or services similar in nature to those provided by the Company in the states in which the Company now operates. You further agree that for the same time period, you will not become an employee, contractor or consultant for any of the following companies, which compete directly with the Company: Burlington Northern Santa Fe Corporation; Kansas City Southern Industries, Inc.; Dakota, Minnesota & Eastern Railway Company; Illinois Central Corporation; and Texas Mexican Railway Company (including their respective affiliates and subsidiaries or any company which acquires or is acquired by any such company) (the "Western Roads"). This Section 14 is not intended to prevent you from working for any employer other than a Western Road. This Section does not apply to employees who work in California at the time when this Agreement is electronically signed or when their employment with the Company ends.

15. **ACKNOWLEDGMENT; INJUNCTIVE RELIEF.** By electronically signing Exhibit A, you acknowledge that Section 14 will not prevent you from being gainfully employed after you leave the Company, because you will remain free to work in any occupation, profession, trade, or business so long as you comply with your promises in Section 14. You also agree that because money damages would not be adequate to compensate the Company if you violate any of your promises in Section 14, the Company would be entitled to an injunction from a Court to enforce those promises.

16. **VIOLATION OF PROMISES.** By electronically signing Exhibit A, you agree that if you violate any of your promises in Section 14, then you will return to the Company any shares of Common Stock (or the fair market value thereof) granted to you by this Agreement which you received at any time from 180 days prior to the date when you leave the Company to 180 days after the date when the Company learns that you have not complied with the promises you made in Section 14. You agree that you will return such shares of Common Stock (or the fair market value thereof) to the Company on such terms and conditions as may be required by the Company. You further agree that the Company will be entitled to set off the market value of any such shares of Common Stock against any amount that might be owed to you by the Company.

GENERAL

17. **RESTATEMENTS OF FINANCIAL RESULTS.** By electronically signing Exhibit A, you agree that you will return such shares of Common Stock (or the fair market value thereof) to the Company as determined by the Committee in its exclusive discretion, which shall be final, conclusive and binding upon the Company and you. The Committee will exercise its discretion only in the event that the Committee's certification of a level of ROIC was based on financial results subsequently revised by a restatement of such financial results and only to the extent that such restated financial results would have entitled you to a lesser award of Common Stock under the Performance Criteria.

18. **DEFERRAL.** You may be provided with an opportunity to elect to defer receipt under a deferred compensation program established by the Committee that complies with Section 409A of the Internal Revenue Code of 1986, as amended ("Code") of any payment of Common Stock under Section 6 hereof.

19. **SEVERABILITY.** If any provision of this Agreement is, becomes, or is deemed to be invalid, illegal, or unenforceable in any jurisdiction, such provision shall be construed or deemed amended or limited in scope to conform to applicable laws or, in the discretion of the Company, it shall be stricken and the remainder of the Agreement shall remain in force and effect.

20. **CHOICE OF LAW.** All questions pertaining to the construction, regulation, validity, and effect of this Agreement shall be determined in accordance with the laws of the State of Utah, without regard to the conflict of laws doctrine.

21. **EMPLOYMENT AT WILL.** In accordance with Section 21(a) of the Plan, this Agreement shall not be construed to confer upon any person any right to be continued in the employ of the Company or a Subsidiary.

22. **DEFINED TERMS.** For purposes of this Agreement, capitalized terms shall have the meanings specified in the Plan, unless a different meaning is provided in this Agreement or a different meaning is plainly required by the context.

To confirm acceptance of the foregoing, kindly click on Button 2 “Long Term Plan Award (Exhibit A)” and select “I accept the above award and the related Agreement”.

Sincerely,
UNION PACIFIC CORPORATION

By: /s/ James R. Young
Chairman, President & Chief Executive Officer

Long Term Plan Award (Exhibit A)
January 30, 2007

Please verify the following information:

First name:
Middle initial/name:
Last name:
ID:
Company:

If any of the above information is not correct, please check the box below:

Incorrect Personal Information

Type of grant: LTP Retention Units

TARGET Number of retention units granted:

The amount of shares shown is the "target" number of shares that you are eligible to receive in accordance with the program design shown in the Long Term Plan Summary. This number is for 100% of target performance. The actual number of shares paid out at vesting, if any, depends on applicable performance criteria being met.

MAXIMUM Number of retention units granted:

The amount of shares shown is the "maximum" number of shares that you are eligible to receive in accordance with the program design shown in the Long Term Plan Summary. This number is for 200% of target performance. The actual number of shares paid out at vesting, if any, depends on applicable performance criteria being met.

Restriction period:

Restriction commencement date:

Restriction termination date:

By executing this Exhibit A, I acknowledge that I am bound by all of the terms of the Union Pacific Corporation 2004 Stock Incentive Plan and the Agreement delivered herewith, each of which is incorporated by reference in this Exhibit A.

Please make a choice below:

I accept the above award and the related Agreement
 I do not accept this award and/or the related Agreement

After making a choice please click the SEND button above.

For general tax purposes, Stock Units are valued at the time of vesting. The closing price of Union Pacific Corporation common stock on the vesting date as recorded by The Wall Street Journal is used when preparing tax calculations.

UNION PACIFIC CORPORATION

2000 DIRECTORS STOCK PLAN

Effective as of April 21, 2000

As amended November 16, 2006 and January 30, 2007

**UNION PACIFIC CORPORATION
2000 DIRECTORS STOCK PLAN**

1. PURPOSE

The purpose of the Union Pacific Corporation 2000 Directors Stock Plan (the "Plan") is to advance the interests of Union Pacific Corporation, a Utah corporation (the "Company"), by enabling the Company to attract, retain and motivate qualified individuals to serve on the Company's Board of Directors and to align the financial interests of such individuals with those of the Company's stockholders by providing for or increasing their proprietary interest in the Company.

2. DEFINITIONS

- (a) "Board" means the Board of Directors of the Company.
- (b) "Committee" means the Board and/or a committee of the Board acting pursuant to its authorization to administer this Plan under Section 7.
- (c) "Common Stock" means the Company's Common Stock, par value \$2.50, as presently constituted, subject to adjustment as provided in Section 8.
- (d) "Fair Market Value" means, as of any date, and unless the Board shall specify otherwise, the closing price of a share of Common Stock as reported in the Wall Street Journal listing of composite transactions for New York Stock Exchange issues.
- (e) "Non-Employee Director" means a member of the Board who is not at the time also an employee or former employee of the Company or any of its direct or indirect majority-owned subsidiaries (regardless of whether such subsidiary is organized as a corporation, partnership or other entity).
- (f) "Restricted Shares" means shares of Common Stock granted under Section 6(c) of the Plan.
- (g) "Restricted Share Units" means the right to receive in the future a share of Common Stock granted under Section 6(c) of the Plan.
- (h) "Retirement" of a Participant means termination of service as a director of the Company other than for cause, if (A) the Participant at the time of termination was ineligible for continued service as a director under the Company's Retirement Policy, or (B) the Participant had served as a director of the Company for at least three years from the date Restricted Shares were granted to such Participant, and such termination is (i) due to Participant's taking a position with or providing services to a governmental, charitable or educational institution whose policies prohibit continued service on the Board, (ii) due to the fact that continued service as a director would be a violation of law, or (iii) not due to the voluntary resignation or refusal to stand for reelection by the Participant.

(i) "Stock Grant" means the grant of 1,000 Restricted Shares or Restricted Share Units, as determined by the Committee.

3. SHARES SUBJECT TO THE PLAN

Subject to adjustment as provided in Section 8, the maximum number of shares of Common Stock which may be issued pursuant to this Plan shall not exceed 550,000, no more than 50,000 of which may be issued as Stock Grants. Shares issued under this Plan may be authorized and unissued shares of Common Stock or shares of Common Stock reacquired by the Company. All or any shares of Common Stock subject to a stock option under the Plan which for any reason are not issued may again be made subject to a stock option or Stock Grant under the Plan.

4. PARTICIPANTS

Any person who is a Non-Employee Director shall be a participant hereunder (each a "Participant").

5. AWARDS

- (a) (i) Unless determined otherwise below, commencing January 1, 2001, each Participant shall receive annually, on the date of the first meeting of the Board of Directors of a calendar year, an option to purchase a number of shares of Common Stock determined by dividing 60,000 by 1/3 of the Fair Market Value on the date of such annual meeting of one share of Common Stock, with the resulting quotient rounded (up or down, as the case may be) to the nearest 50 shares; and
- (ii) Each Non-Employee Director shall upon his or her initial election to the Board receive a Stock Grant effective as of the date of such election. A Participant shall not be required to make any payment for a Stock Grant granted hereunder.
- (b) Subject always to Section 5(c), the Board may in its discretion adjust the formula set forth in Section 5(a)(i) pursuant to which the number of shares subject to an option shall be determined, provided that no such adjustment shall effect any option then outstanding under the Plan.
- (c) Subject to adjustment pursuant to Section 8, the maximum number of shares of Common Stock subject to stock options awarded under this Plan during any calendar year to any person on account of his or her service as a Non-Employee Director shall not exceed 5,000 shares.

6. TERMS AND CONDITIONS OF STOCK AWARDS

- (a) General Terms and Conditions: Stock options and Stock Grants awarded pursuant to the Plan need not be identical but each stock option and Stock Grant shall be subject to the following general terms and conditions:
- (i) Terms and Restrictions Upon Shares: The Board may provide that the shares of Common Stock issued upon exercise of a stock option or receipt of a Stock Grant shall be subject to such further conditions, restrictions or agreements as the Board in its discretion may specify prior to the exercise of such stock option or receipt of a Stock Grant, including without limitation, deferrals on issuance, conditions on vesting or transferability, and forfeiture or repurchase provisions. The Committee may permit a Participant to elect to defer receipt of all or part of the Common Stock issuable upon the exercise of a stock option or receipt of a Stock Grant, pursuant to rules and regulations adopted by the Committee.
- (ii) Other Terms and Conditions: Except as set forth herein, no holder of a stock option or Stock Grant shall have any rights as a stockholder with respect to any shares of Common Stock subject to a stock option or Stock Grant hereunder until said shares have been issued. Stock options or Stock Grants may also contain such other provisions, which shall not be inconsistent with any of the foregoing terms, as the Board or the Committee shall deem appropriate. The Board may waive conditions to and/or accelerate exercisability of a stock option or vesting of a Stock Grant, either automatically upon the occurrence of specified events (including in connection with a change of control of the Company) or otherwise in its discretion. No stock option or Stock Grant, however, nor anything contained in the Plan, shall confer upon any Participant any right to serve as a director of the Company.
- (b) Terms and Conditions of Stock Options
- (i) Term of Stock Options: Each stock option granted pursuant to the Plan shall have a term of ten years from the date of grant.
- (ii) Transferability of Stock Options: Unless otherwise provided by the Committee, each stock option shall be transferable only by will or the laws of descent and distribution.
- (iii) Vesting of Stock Options: Unless otherwise provided by the Committee in awarding a stock option, each stock option granted pursuant to the Plan shall vest in full on the first anniversary of the grant date for such option; provided, however, that, unless otherwise provided by the Committee, in the event of the death or disability (as determined by the Committee) of a Participant, any unvested option granted pursuant to the Plan shall vest immediately.

(iv) Exercise of Stock Option after Termination of Service: Unless otherwise provided by the Committee in awarding a stock option, in the event a Non-Employee Director ceases to be a director of the Company for any reason, such Non-Employee Director shall be able to exercise any stock options held by such Non-Employee Director and vested on the date of such termination for a period of five years after the date of such termination; provided, that (i) in no event shall any stock option be exercisable after expiration of such option's ten year term and (ii) any unexercised stock option shall expire immediately upon a Participant's removal for cause from the Board.

(v) Stock Option Price: The exercise price for each stock option shall be the Fair Market Value of the stock on the date of grant. The exercise price for a stock option previously awarded under the Plan may not be adjusted or amended, except as provided in Section 8. The exercise price shall be payable in cash, by payment under an arrangement with a broker where payment is made pursuant to an irrevocable direction to the broker to deliver all or part of the proceeds from the sale of the option shares to the Company, by the surrender of shares of Common Stock owned by the optionholder exercising the option and having a fair market value, as determined by the Committee, on the date of exercise equal to the exercise price but only if such will not result in an accounting charge to the Company, or by any combination of the foregoing. In addition, the exercise price shall be payable in such other form(s) of consideration as the Committee in its discretion shall specify.

(c) Stock Grant Terms.

(i) Unless otherwise provided by the Committee in its discretion, at the time of grant of Restricted Shares to a Participant, a certificate representing 1,000 shares of Common Stock shall be registered in such Participants' name and shall be held by the Company for his or her account. Unless otherwise provided by the Committee in its discretion, the Participant shall have the entire beneficial ownership interest in, and all rights and privileges of a stockholder as to, such Restricted Shares, including the right to vote such restricted Shares and the right to receive dividends, subject to the following restrictions: (A) the Participant shall not be entitled to delivery of such stock certificate until the expiration of the Restriction Period (as hereinafter defined); (B) none of the Restricted Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restriction Period; (C) all of the Restricted Shares shall be forfeited and all rights of the Participant to such Restricted Shares shall terminate without further obligation on the part of the Company if the Participant ceases to be a director of the Company for any reason other than death, disability (as determined by the Committee), or Retirement. Any shares of Common Stock or other securities or property received as a result of a transaction listed in Section 8 hereof shall be subject to the same restrictions as such Restricted Shares.

(ii) At the end of the Restriction Period all restrictions applicable to the Restricted Shares shall lapse, and a stock certificate for a number of shares of Common Stock equal to the number of Restricted Shares, free of all restrictions, shall be delivered to the Participant or his beneficiary, as the case may be. "Restriction Period" shall mean the period commencing on the date of grant of Restricted Shares and ending on the date such director ceases to be a director of the Company by reason of death, disability (as determined by the Committee) or Retirement.

(iii) Awards of Restricted Share Units shall be payable in shares of Common Stock. The provisions of Section 6(c)(i) and 6(c)(ii) of the Plan relating to the vesting and forfeiture of Restricted Shares shall apply to any award of Restricted Stock Units. Any award of Restricted Share Units may provide the Participant with the right to receive dividend payments or dividend equivalent payments on the Common Stock subject to the award, whether or not such award has 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.

7. ADMINISTRATION OF THE PLAN

The Plan shall be administered by the Board, except that as provided herein the Plan may be administered by a Committee of the Board, as appointed from time to time by the Board. The Board shall fill vacancies on and from time to time may remove or add members to the Committee. The Committee shall act pursuant to a majority vote or unanimous written consent.

Subject to the express provisions of this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan, including, without limitation: (a) to prescribe, amend and rescind rules relating to this Plan and to define terms not otherwise defined herein; (b) to prescribe the form of documentation used to evidence any stock option or Stock Grant awarded hereunder, including provision for such terms as it considers necessary or desirable, not inconsistent with the terms established by the Board; (c) to establish and verify the extent of satisfaction of any conditions to exercisability applicable to stock options or to receipt or vesting of Stock Grants; (d) to determine whether, and the extent to which, adjustments are required pursuant to Section 8 hereof; and (e) to interpret and construe this Plan, any rules and regulations under the Plan and the terms and conditions of any stock option or Stock Grant awarded hereunder, and to make exceptions to any procedural provisions in good faith and for the benefit of the Company. Notwithstanding any provision of this Plan, the Board may at any time limit the authority of the Committee to administer this Plan.

All decisions, determinations and interpretations by the Board or, except as to the Board, the Committee regarding the Plan, any rules and regulations under the Plan and the terms

and conditions of any stock option or Stock Grant awarded hereunder, shall be final and binding on all Participants and holders of stock options or Stock Grants. The Board and the Committee may consider such factors as it deems relevant, in its sole and absolute discretion, in making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer or other employee of the Company and such attorneys, consultants and accountants as it may select.

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.

8. ADJUSTMENT OF AND CHANGES IN THE STOCK

If the outstanding securities of the class then subject to this Plan are increased, decreased or exchanged for or converted into cash, property or a different number or kind of shares or securities, or if cash, property or shares or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, reclassification, dividend (other than a regular cash dividend), or other distribution, stock split, reverse stock split, spin-off or the like, or if substantially all of the property and assets of the Company are sold, or any equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), occurs, then, unless the terms of such transaction shall provide otherwise, the maximum number and type of shares or other securities that may be issued under this Plan shall be appropriately adjusted. The Committee shall determine in its sole discretion the appropriate adjustment to be effected pursuant to the immediately preceding sentence. In addition, in connection with any such change in the class of securities then subject to this Plan, the Committee may make appropriate and proportionate adjustments in the number and type of shares or other securities or cash or other property that may be acquired pursuant to stock options or Stock Grants theretofore awarded under this Plan and the exercise price of such stock options or price, if any, of such Stock Grants.

No right to purchase or receive fractional shares shall result from any adjustment in stock options or Stock Grants pursuant to this Section 8. In case of any such adjustment, the shares subject to the stock option or Stock Grant shall be rounded up to the nearest whole share of Common Stock.

9. REGISTRATION, LISTING OR QUALIFICATION OF STOCK

In the event that the Board or the Committee determines in its discretion that the registration, listing or qualification of the shares of Common Stock issuable under the Plan on any securities exchange or under any applicable law or governmental regulation is necessary as a condition to the issuance of such shares under the stock option or Stock Grant, the stock option or Stock Grant shall not be exercisable or exercised in whole or in part unless such registration, listing, qualification, consent or approval has been unconditionally obtained.

10. EFFECTIVE DATE, AMENDMENT AND TERMINATION OF PLAN

This Plan shall become effective upon its approval by the Company's shareholders at the Company's 2000 annual meeting of stockholders.

The Board may periodically amend the Plan as determined appropriate, without further action by the Company's stockholders except to the extent required by applicable law. Notwithstanding the foregoing, and subject to adjustment pursuant to Section 8, the Plan may not be amended to materially increase the number of shares of Common Stock authorized for issuance under the Plan, unless any such amendment is approved by the Company's stockholders. The Plan may be terminated at such time as the Board may determine. Termination and expiration of the Plan will not affect the rights and obligations arising under stock options or Stock Grants theretofore awarded and then in effect.

UP SHARES STOCK OPTION PLAN

of

UNION PACIFIC CORPORATION

Effective as of April 30, 1998
As Amended November 16, 2006

**UP SHARES STOCK OPTION PLAN
OF UNION PACIFIC CORPORATION**

1. PURPOSE

The purpose of the UP Shares Stock Option Plan of Union Pacific Corporation is to promote and closely align the interests of employees of the Company and its Participating Subsidiaries with the Company's shareholders by providing stock-based compensation. The Plan is intended to strengthen the Company's ability to reward performance which enhances long-term shareholder value and to increase employee stock ownership through performance-based compensation.

2. DEFINITIONS

The following terms shall have the following meanings:

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

"Active Service" means performing service or being eligible to perform service.

"Administrator" means the Committee and any executive officer of the Company when acting pursuant to authority delegated by the Committee pursuant to Section 3.

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

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

"Committee" means the Committee designated by the Board to administer this 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.

"Eligible Employee" has the meaning set forth in Section 5.

“Option” means each stock option granted under this Plan, all of which shall be non-qualified.

“Optionee” means any Eligible Employee of the Company or a Participating Subsidiary (including directors who are also such employees) who is granted an option under this Plan.

“Participating Subsidiary” means each Subsidiary of the Company other than (A) Overnite Transportation Company, a Virginia corporation, and its subsidiaries, and (B) Skyway Freight Systems, Inc., a California corporation, and its subsidiaries.

“Performance Criteria” means for the period from May 1, 1998 to April 30, 1999, reportable injuries and lost work days per 200,000 man-hours improve an average of 20% or more over the period from May 1, 1997 to April 30, 1998 and the average Service Delivery Index as calculated by UPRR is 66 or more.

“Plan” means this UP Shares Stock Option Plan of Union Pacific Corporation, as amended from time to time.

“Stock Administrator” means the Company’s third party stock administrator or any other person designated by the Committee to assist in the administration of the Plan.

“Subsidiary” means any corporation of which the Company or UPRR, as the case may be, owns directly or indirectly at least a majority of the outstanding shares of voting stock.

“UPRR” means Union Pacific Railroad Company, a Delaware corporation.

“Vesting Date” means, unless the Committee shall determine otherwise, May 1, 2001, provided that if the Performance Criteria have been met on April 30, 1999, the Vesting Date shall be May 1, 1999.

3. ADMINISTRATION

(a) Composition of Committee. This Plan shall be administered by the Committee which shall comprise not less than three members of the Board, none of whom shall be employees of the Company or any Participating Subsidiary. The Committee shall have full authority to construe and interpret this Plan, to determine employees eligible under this Plan, to determine the date the Options shall vest, to establish performance criteria in connection with the vesting of Options, to establish, amend and rescind rules and regulations relating to this Plan, to administer this Plan, and to take all such steps and make all such determinations in connection with this Plan and Options granted thereunder as it may deem necessary or advisable. Each Option shall, if required by the Committee, be evidenced by an agreement to be executed by the Company and the Optionee, respectively, and contain provisions not inconsistent with this 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. The Committee may delegate any or all of its authority under this Plan to the Senior Vice President – Human Resources or other executive officer of the Company.

(b) Determinations of the Committee. All decisions, determinations and interpretations by the Committee regarding this Plan shall be final and binding on all Optionees. The Committee shall consider such factors as it deems relevant to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any director, officer or employee of the Company and such attorneys, consultants and accountants as it may select.

4. SHARES SUBJECT TO THIS PLAN

Subject to the provisions of Section 9 hereof, the maximum number and kind of shares as to which Options may be granted under this Plan are 12 million shares of Common Stock. Shares of Common Stock subject to Options under the Plan may be either authorized but unissued shares or shares previously issued and reacquired by the Company.

5. ELIGIBILITY

Eligibility to receive a grant of an Option under this Plan is limited to non-agreement employees of the Company or a Participating Subsidiary and agreement employees of UPRR or a Subsidiary of UPRR who meet the following criteria (each an “Eligible Employee”):

(a) Non-Agreement Employees. Non-agreement employees must have been employed by the Company or a Participating Subsidiary on or before April 30, 1998, must not have been terminated from their employment with the Company or a Participating Subsidiary at any time prior to the Vesting Date and must be employed with the Company or a Subsidiary on the Vesting Date.

(b) Agreement Employees. Agreement employees must have been in Active Service with UPRR or a Subsidiary of UPRR on April 30, 1998 and must also be in Active Service with UPRR or a Subsidiary of UPRR on the Vesting Date.

6. GRANT OF OPTIONS

Each Optionee is granted an Option on April 30, 1998 to purchase 200 shares of Common Stock.

7. TERMS AND CONDITIONS OF THE OPTIONS

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

(a) Date of Grant. The date of grant shall be April 30, 1998.

(b) Option Price. The option price per share with respect to the Option shall be \$55.00.

(c) Vesting. All Options shall vest and be exercisable on the Vesting Date. If, however, on the Vesting Date, an Eligible Employee is on long-term disability, furlough or other similar leave (as determined by the Committee), their Option shall vest upon the date of their return to Active Service.

(d) Duration of Options. Subject to Section 7(i), Options shall be exercisable commencing on the Vesting Date and continuing to and including April 30, 2008.

(e) Exercise of Option. Except as provided in Section 7(i), the shares of Common Stock covered by an Option may not be purchased prior to the Vesting Date, but thereafter may be purchased during the balance of the option exercise period by notice to the Stock Administrator. All 200 shares of Common Stock available under the Option must be purchased at the same time.

(f) Payment. Shares of Common Stock purchased under the Option shall, at the time of purchase, be paid for in full in cash. To the extent permitted by the Committee, the option price may be paid by authorizing the Stock Administrator to withhold shares of Common Stock otherwise issuable on exercise of the Option. Such shares withheld to pay the option 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. An Optionee shall have none of the rights of a shareholder until the shares of Common Stock are issued to him or her.

(g) 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 by the Committee.

(h) 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 the exercise by the Optionee's Beneficiary upon the death of the Optionee.

(i) Termination of Employment. Upon the termination of an Optionee's employment with the Company or a Subsidiary prior to the Vesting Date, the Option shall immediately be forfeited. Upon the termination of an Optionee's employment with the Company or a Subsidiary on or after the Vesting Date, the Option shall be exercisable for a period of one (1) year after the date of such termination. Notwithstanding the foregoing, in no event, shall any Option be exercisable subsequent to April 30, 2008. Termination includes, without limitation, death, retirement, resignation, long-term disability or any other termination whatsoever.

8. REGULATORY APPROVALS AND LISTING

The Company shall not be required to issue to an Optionee any certificate for any shares of Common Stock upon exercise of an Option 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 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. The Company shall have the ability to suspend exercise of Options as to any or all Optionees whenever any required registration statement (or prospectus under such registration statement) is not effective or does not contain all required information necessary to make the information contained therein not misleading.

9. 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, any other change in the corporate structure or shares of the Company, or any equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), the Committee will make such equitable adjustments as it may deem appropriate in the number and kind of shares authorized by this Plan, in the option price of outstanding Options and in the number and kind of shares subject to outstanding Options.

10. TAXES

(a) Withholding Requirements. The Committee may make such provisions or impose such conditions as it may deem appropriate for the withholding or payment by an Optionee of any taxes that the Committee determines are required in connection with any Option granted under this Plan, and an Optionee's rights in any Option are subject to satisfaction of such conditions.

(b) Payment of Withholding Taxes. Notwithstanding the terms of Section 10(a), the Committee may provide that all or any portion of the taxes required to be withheld or, if permitted by the Committee, desired to be paid by the Optionee, in connection with the exercise of any Option shall be paid or, at the election of the Optionee, may be paid by withholding shares of Common Stock otherwise issuable or subject to such Option having a fair market value equal to the amount required or elected to be withheld or paid. Any such election is subject to such conditions or procedures as may be established by the Committee and may be subject to approval by the Committee.

11. TERM OF THIS PLAN

No Options shall be granted pursuant to this Plan after April 30, 1998, but grants of Options theretofore granted may extend beyond that date and the terms and conditions of this Plan shall continue to apply thereto.

12. TERMINATION OR AMENDMENT OF THIS PLAN

The Committee may from time to time alter or amend this Plan or any part thereof, provided that no alteration or amendment with respect to any Options may be made which would materially impair the rights of an Optionee without the consent of such Optionee, except that such consent shall not be necessary with respect to any alteration or amendment deemed necessary to ensure that the Company may obtain any approval referred to in Section 8 or to ensure that the grant of Options, the exercise of Options or any other provision of this Plan complies with Section 16(b) of the Act.

13. SECTION 16(b) REQUIREMENTS

In order to comply with Section 16(b) of the Act, the Committee may permit Section 16(b) reporting officers of the Company or a Participating Subsidiary to exercise Options granted under this Plan by a stock-for-stock or attestation method of exercise.

14. GENERAL PROVISIONS

(a) Employment at Will. Neither this Plan nor the grant of any Option nor any action by the Company, any Subsidiary or the Committee shall be held or construed to confer upon any Optionee 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 this Plan, any Optionee whenever in the sole discretion of the Company or a Subsidiary, as the case may be, its interest may so require.

(b) Governing Law. This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the State of Utah and applicable federal law. The Committee may provide that any dispute as to any Option shall be presented and determined in such forum as the Committee may specify, including through binding arbitration. Any reference in this Plan or other document evidencing any Option to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

15. LIABILITY OF COMPANY

The Company and any Subsidiary which is in existence or hereafter comes into existence shall not be liable to an Optionee or other persons as to: (a) the non-issuance or sale of shares of

Common Stock as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares of Common Stock hereunder; and (b) any tax consequence expected, but not realized, by any Optionee or other person due to the receipt, exercise or settlement of any Option granted hereunder.

16. EFFECTIVE DATE

This Plan shall be effective as of April 30, 1998.

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 November 16, 2006)**

**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. 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. 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 (unless the Committee shall provide for shorter periods at the time the option is granted):

- (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, any other change in the corporate structure or shares of the Company or any equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), the Board, upon recommendation of the Committee, will 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. The Committee may amend the Plan to extend the exercise period following an optionee's termination of an option granted prior to September 24, 1998, but not beyond: (i) in the case of a termination resulting 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, five years from the date of termination and (ii) in the case of all other terminations, not more than three years from the date of termination, or, if later, three years from the date the option becomes exercisable, but not more than five years after the date of such termination.

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.

**UNION PACIFIC CORPORATION
2001 STOCK INCENTIVE PLAN**

**Effective as of April 20, 2001
As Amended November 16, 2006**

UNION PACIFIC CORPORATION
2001 STOCK INCENTIVE PLAN

1. PURPOSE

The purpose of the Union Pacific Corporation 2001 Stock Incentive Plan is to promote and closely align the interests of employees of Union Pacific Corporation and its shareholders by providing stock based compensation and other performance-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 Options, Retention Shares, Stock Units or Incentive Bonuses 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 February 22, 2001, 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.

“Incentive Bonus” means a bonus opportunity awarded under Section 10 pursuant to which a Participant may become entitled to receive an amount, payable in cash or Shares, based on satisfaction of such performance criteria as are specified in the Incentive Bonus Document.

“Incentive Bonus Document” means the agreement or other document evidencing the Award of an Incentive Bonus.

“Option” means each non-qualified option and incentive stock option granted under the Plan.

“Option Document” means the agreement or other document evidencing the Award of an Option.

“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 Union Pacific Corporation 2001 Stock Incentive Plan, as amended from time to time.

“Qualifying Performance Criteria” means the criteria set forth in Section 14.

“Retention Shares” means Shares subject to an Award granted under Section 8 of the Plan.

“Restriction Period” means the period defined in Section 8(b).

“Shares” mean shares of the Company’s Common Stock.

“Stock Administrator” means the Company’s third party stock administrator or any other person or entity designated by the Committee to assist in the administration of this Plan.

“Stock Unit” means the right to receive in the future a share of Common Stock or, at the option of the Committee, the value of such Common Stock in cash.

“Subcommittee” means one or more separate committees appointed by the Committee pursuant to Section 3.

“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 9.

“Unit Vesting Condition” means any condition to the vesting of Stock Units established by the Committee pursuant to Section 9.

“Vesting Condition” means any condition to the vesting of Retention Shares established by the Committee pursuant to Section 8.

3. ADMINISTRATION

a. Composition of Committee. This Plan shall be administered by the Compensation and Benefits Committee of the Board (the “Committee”), as appointed from time to time by the Board. The Board shall fill vacancies on, and from time to time may remove or add members to, the Committee. The Committee shall act pursuant to a majority vote or unanimous written consent. The Board, in its sole discretion, may exercise any authority of the Committee under this Plan in lieu of the Committee’s exercise thereof and in such instances references herein to the Committee shall refer to the Board. Unless otherwise provided by the Board: (i) with respect to any Award for which such is necessary and desired for such Award to be exempted by Rule 16b-3 of the Act, the Committee shall consist of the Board or of two or more directors each of whom is a “non-employee director” (as such term is defined in Rule 16b-3 promulgated under the Act, as such Rule may be amended from time to time), (ii) with respect to any Award that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code, the Committee shall consist of two or more directors, each of whom is an “outside director” (as such term is defined under Section 162(m) of the Code), and (iii) with respect to any other Award, the Committee may appoint one or more separate committees (any such committee, a “Subcommittee”) composed of one or more directors of the Company (who may but need not be members of the Committee) and may delegate to any such Subcommittee(s) the authority to grant Awards under the Plan to Participants, to determine all terms of such Awards, and/or to administer the Plan or any aspect of the Plan. Any action by any such Subcommittee within the scope of such delegation shall be deemed for all purposes to have been taken by the Committee. The Committee may designate the Senior Vice President-Human Resources of the Company or other Company employees to assist the Committee in the administration of the Plan, and may grant authority to such persons to execute agreements or other documents evidencing Awards made under this Plan or other documents entered into under this Plan on behalf of the Committee or the Company.

b. Powers of the Committee. Subject to the express provisions and limitations set forth in this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable, in its sole discretion, in connection with the administration of this Plan, including, without limitation, the following:

- (i) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein;

(ii) to determine which persons are Participants, to which of such Participants, if any, Awards shall be granted hereunder and the timing of any such Awards, and to grant Awards;

(iii) to grant Awards to Participants and determine the terms and conditions thereof, including the number of Shares subject to Awards and the option or purchase price of such Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance criteria, the occurrence of certain events (including events which the Board or the Committee determine constitute a Change in Control), or other factors;

(iv) to establish, verify the extent of satisfaction of, adjust, reduce or waive any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award;

(v) to prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical);

(vi) to determine the adjustments required pursuant to Section 13;

(vii) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and

(viii) to make all other determinations deemed necessary or advisable for the administration of this Plan.

c. Determinations of the Committee. All decisions, determinations and interpretations by the Committee regarding this Plan shall be final and binding on all Participants. The Committee shall consider such factors as it deems relevant to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any director, officer or employee of the Company and such attorneys, consultants and accountants as it may select.

d. Delegations to Director. The Committee may delegate to one or more directors the ability to grant Awards and take the other actions described in Section 3(b) with respect to non-executive employees, and such actions shall be treated for purposes of Section 3(c) as if taken by the Committee.

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. The Committee may grant Awards of Options, Retention Shares, Stock Units or Incentive Bonuses to eligible employees. In granting Awards, 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 THIS PLAN

a. Aggregate Limits. The aggregate number of Shares of the Company's Common Stock issued pursuant to all Awards granted under this Plan shall not exceed 12,000,000. The aggregate number of Shares issued as Retention Shares, Stock Units or upon settlement of Incentive Bonuses shall not exceed twenty percent (20%) of the Shares available to be issued as Awards under this Plan. The aggregate number of Shares available for issuance under this Plan and the number of Shares subject to outstanding Options or other Awards shall be subject to adjustment as provided in Section 13. The Shares issued pursuant to this Plan may be Shares that either were reacquired by the Company, including Shares purchased in the open market, or authorized but unissued Shares.

b. Tax Code Limits. The aggregate number of Shares issuable under all Options granted under this Plan during any calendar year to any one Participant shall not exceed 1,000,000. The aggregate number of Shares issuable as Retention Shares or Stock Units granted under this Plan during any calendar year to any one Participant shall not exceed 250,000. Notwithstanding anything to the contrary in this Plan, the foregoing limitations shall be subject to adjustment under Section 13, but only to the extent that such adjustment will not affect the status of any Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code. The foregoing limitations shall not apply to the extent that they are no longer required in order for compensation in connection with Awards under this Plan to be treated as "performance-based compensation" under Section 162(m) of the Code.

c. Issuance of Shares. For purposes of this Section 5, the aggregate number of Shares issued under this Plan at any time shall equal only the number of Shares actually issued upon exercise or settlement of an Award and shall not include Shares subject to Awards that have been canceled, expired or forfeited or Shares subject to Awards that have been delivered (either actually or constructively by attestation) to or retained by the Company in payment or satisfaction of the purchase price, option price or tax withholding obligation of an Award.

6. TERMS AND CONDITIONS OF NON-QUALIFIED OPTIONS

The Committee may grant a non-qualified option or provide for the grant of a non-qualified option, either from time to time in the discretion of the Committee or automatically upon the occurrence of specified events, including, without limitation, the achievement of performance goals, the satisfaction of an event or condition within the control of the recipient of the Award or within the control of others. 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 non-qualified 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. Non-qualified options shall be exercisable at such time or times and under such conditions as set forth in the Option Document, but in no event shall any non-qualified option be exercisable subsequent to the tenth anniversary of the date on which the non-qualified option is granted.

c. Exercise. Except as provided in Section 6(h), 6(i) or 7(b), the Shares covered by a non-qualified option may not be purchased prior to the first anniversary of the date on which the non-qualified option is awarded (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 Document. 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 non-qualified option. To the extent that the right to purchase Shares has accrued thereunder, non-qualified options may be exercised from time to time by notice to the Company stating the number of Shares with respect to which the non-qualified option is being exercised.

d. Payment. Shares purchased under non-qualified options shall, at the time of purchase, be paid for in full in cash. All, or any portion, of the option price may, at the discretion of the Committee, be paid (i) under an arrangement with the Stock Administrator where payment is made pursuant to an irrevocable direction to the Stock Administrator to deliver all or part of the proceeds from the sale of Shares issuable under the non-qualified option to the Company, (ii) by the surrender (constructively by attestation) to the Company, at the time of exercise, of shares of previously acquired Common Stock owned by the Participant for at least six (6) months, to the extent that such payment does not require the surrender of a fractional share of such previously acquired Common Stock or (iii) by authorizing the Company to withhold Common Stock otherwise issuable on exercise of the non-qualified option. Such Shares previously acquired or Shares withheld to pay the option price shall be valued at fair market value on the date the non-qualified option is exercised or as otherwise determined in accordance with the procedures to be established by the Committee. A Participant shall have none of the rights of a shareholder until the Shares are issued to him or her.

e. Restrictions. The Committee shall determine, with respect to each non-qualified option, the nature and extent of the restrictions, if any, to be imposed on the Shares that may be purchased thereunder. 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 non-qualified options for such periods, and subject to such conditions, including continued employment of the Participant by the Company or a Subsidiary, as the Committee may determine.

f. Resale or Transfer of Shares. The Committee may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Shares issued as a result of the exercise of a non-qualified option, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by the Participant and other participants and (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

g. Non-Transferability of Options. During a Participant's lifetime, non-qualified options may be exercised only by the Participant. Non-qualified options shall not be transferable, except for exercise by the Participant's legal representatives or heirs.

h. Termination of Employment. Unless the Committee provides otherwise, upon the termination of a Participant's employment for any reason other than death, except as provided below, non-qualified options shall expire immediately as to those Shares for which they were not then exercisable (provided that the Committee may determine that particular limitations and restrictions under this Plan shall not apply and the non-qualified options shall be treated as exercisable to a greater extent), and as to the remaining Shares for which the non-qualified options were exercisable at the time of such termination of employment, such non-qualified options shall expire on the earlier of the date the non-qualified options would have expired or according to the following schedule:

(i) **Retirement.** Non-qualified options shall expire, unless exercised, five (5) years after the Participant'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 the non-qualified options shall expire, unless exercised, five (5) years after the date the Participant 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.** Subject to Section 6(h)(vi), in the case of a termination that is deemed to occur upon 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 non-qualified options shall not be forfeited automatically, but any holding period required by Section 6(c) shall be satisfied in accordance with its original schedule and the non-qualified option shall expire, unless exercised, five (5) years after the date of termination;

(iv) **Force Reduction Program.** Subject to Section 6(h)(vi), 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 non-qualified option shall expire, unless exercised, three (3) years from the date of termination.

(v) **Gross Misconduct.** Non-qualified options shall expire upon receipt by the Participant 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 a Participant's employment is involuntarily terminated by the Company or any of its Subsidiaries (other than termination as a result of disability or gross misconduct, but including a termination

described in subsection (iii) and (iv) above) within two (2) years following a Change in Control, notwithstanding anything to the contrary in this Section 6(h), non-qualified options shall become fully vested and the non-qualified options 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) or (iii) above) but in no event after the expiration of the original term of the non-qualified option.

(vii) **All Other Terminations.** Non-qualified options shall expire, unless exercised, three (3) months after the date of such termination.

i. Death. Unless the Committee shall determine otherwise, upon the death of a Participant during his or her period of employment, the non-qualified options shall be exercisable only as to those Shares which were subject to the exercise of such non-qualified options 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 this Plan shall not apply and the non-qualified options shall be treated as exercisable to a greater extent, and such non-qualified options shall expire, unless exercised by the Participant'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 non-qualified option is granted).

j. Deferral. The Committee may permit a Participant to elect to defer receipt of all or part of the Shares issuable upon the exercise of non-qualified options, pursuant to rules and regulations adopted by the Committee. The Committee may not permit the payment of cash in lieu of Shares upon payment of the deferred amount.

k. Option Document. Each Option Document shall contain provisions regarding (i) the number of Shares that may be issued upon exercise of the non-qualified option, (ii) the purchase price of the Shares and the means of payment for the Shares, (iii) the term of the non-qualified option, (iv) such terms and conditions on the vesting and/or exercisability of a non-qualified option as may be determined from time to time by the Committee, (v) restrictions on the transfer of the non-qualified option and forfeiture provisions and (vi) such further terms and conditions, in each case not inconsistent with this Plan as may be determined from time to time by the Committee.

l. No Option Repricing. Without the approval of shareholders, the Company shall not reprice any non-qualified options, except for adjustments under Section 13 as determined by the Committee. For purposes of this Plan, the term "reprice" shall mean lowering the option price of previously awarded non-qualified options within the meaning of Item 402(i) under Securities and Exchange Commission Regulation S-K.

m. Maximum Duration. In no event, however, shall any non-qualified 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 INCENTIVE STOCK OPTIONS.

a. General. The Committee may also grant incentive stock options as defined under Section 422 of the Code. Any Options intended to qualify as incentive stock options issued under this Plan shall be subject to the same terms and conditions as the non-qualified options granted under Section 6 of this Plan (except Section 6(j)), provided that (a) the aggregate fair market value (determined as of the date the incentive stock option is granted) of the Shares with respect to which incentive stock options are exercisable for the first time by such Participant 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 and (b) the Option shall state that it will not qualify for tax treatment as an incentive stock option if it is exercised more than one (1) year after the Participant ceases to be employed because of a disability (as defined in Section 22(e)(3) of the Code) or three (3) months after the Participant ceases to be an employee of the Company or a Subsidiary other than as a result of death or disability. Upon the expiration of the one (1) year period following a disability or the three (3) month period following a termination described in Sections 6(h)(i), (iii), (iv) or (vi), any unexercised incentive stock options shall become non-qualified options exercisable pursuant to Section 6. If any incentive stock options become exercisable in any year in excess of the \$100,000 limitation, incentive stock options representing such excess shall become non-qualified options exercisable pursuant to the terms of Section 6 and shall not be exercisable as incentive stock options.

b. Death. Unless the Committee shall determine otherwise, upon the death of a Participant during his or her period of employment, the incentive stock options shall be exercisable as incentive stock options only as to those Shares which were subject to the exercise of such incentive stock options 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 this Plan shall not apply and the incentive stock options shall be treated as exercisable to a greater extent, and such incentive stock options shall expire, unless exercised by the Participant'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 incentive stock option is granted.)

c. Option Document. Each Option Document shall include the information described in Section 6(k). In addition, the Option Document shall contain such terms and conditions as may be necessary to comply, to the extent determined desirable by the Committee, with the applicable provisions of Section 422 of the Code.

d. No Option Repricing. Without the approval of shareholders, the Company shall not reprice any incentive stock options granted under this Section 7, except for adjustments under Section 13 as determined by the Committee.

e. Maximum Duration. In no event, however, shall any incentive stock option be exercisable pursuant to this Section 7 subsequent to the tenth anniversary of the date on which it was granted.

8. TERMS AND CONDITIONS OF AWARDS OF RETENTION SHARES

a. General. Retention Shares may be granted 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. The Committee may specify that the grant, vesting or retention of any or all Retention Shares is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code, provided that the performance criteria for the grant, vesting or retention of any such Retention Shares shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Retention Shares are granted. The Committee shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Retention Shares that are intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code.

b. Restrictions.

(i) Restriction Period and Vesting Conditions. 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 8(b) shall apply, provided that in no event, other than as provided in Section 8(c) or in the next sentence, shall such restrictions terminate prior to three (3) years after the date of grant (the “Restriction Period”), and the Committee 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 8(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 or Stock Units granted pursuant to the Executive Incentive Premium Exchange Program (“PEP”), the 2001 Long Term Plan (“2001 LTP”) or any future long term incentive plan (“LTP”)), the Restriction Period shall end with respect to that number of such Retention Shares calculated by multiplying the total number of such Retention Shares by the fraction obtained by dividing the number of full months from the commencement of such Restriction Period through the date of such Change in Control by the total number of months contained in such Restriction Period (determined without regard to this proviso), (ii) with respect to Retention Shares granted to such Participant pursuant to the PEP, the Restriction 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) that number of Retention Shares which the Participant received as a premium under the PEP (the “Premium Retention Shares”) calculated by multiplying the total number of such Premium Retention Shares by the fraction obtained by dividing the number of full months from the commencement of such Restriction Period through the date of such

Change in Control by the total number of months contained in such Restriction Period, (iii) Retention Shares granted to such Participant pursuant to the 2001 LTP shall be subject to the terms of the applicable agreement issued under the 2001 LTP and (iv) any Retention Shares granted to such Participant pursuant to an LTP shall be subject to the terms of the applicable agreement issued under an 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, in shares of equity securities of the entity (or its parent) resulting from such Change in Control or in any combination of the foregoing.

(ii) Rights in Retention Shares. At the time of grant of Retention Shares to a Participant, a certificate representing the number of Shares 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 shareholder 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 restrictions: (A) subject to Section 8(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; (B) 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 (C) 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 8(a) and 8(c), and any applicable Vesting Conditions have been satisfied. Any Shares 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, 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 at actual age 65, and (B) all Vesting Conditions have been satisfied, the Retention Shares granted to such Participant shall immediately vest and all restrictions applicable to such Retention Shares shall lapse. A certificate for such Shares shall be delivered to the Participant in accordance with the provisions of Section 8(d).

(ii) Death. Unless the Committee shall determine otherwise, 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 Retention Shares shall lapse. A certificate for such Shares shall be delivered to the Participant's Beneficiary in accordance with the provisions of Section 8(d).

(iii) Vesting Conditions. Unless the Committee shall determine otherwise, 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 8(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 8(b) and all restrictions applicable to such Retention Shares shall lapse. A certificate for such Shares shall be delivered to the Participant in accordance with the provisions of Section 8(d).

(iv) Change in Control. In the event a Participant's employment is involuntarily terminated by the Company or any of its Subsidiaries (other than a termination as a result of death, disability, retirement or gross misconduct) within two (2) years following a Change in Control, the remaining restrictions with respect to Retention Shares, Original Retention Shares and Premium Retention Shares shall lapse and the Committee may, in its sole discretion, elect to satisfy its obligations either in cash, in Shares, in shares of equity securities of the entity (or its parent) resulting from such Change in Control or in any combination of the foregoing.

(v) 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 8(c)(i) and (ii) or a termination pursuant to Section 8(c)(iv), the Participant shall immediately forfeit all Retention Shares then subject to the restrictions of Section 8(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 8(b) and all restrictions applicable to such Retention Shares shall lapse. A certificate for such Shares shall be delivered to the Participant in accordance with the provisions of Section 8(d).

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 8(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 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.

9. 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 (3) 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 Stock Unit Award, as established by the Committee at the time of the Stock Unit Award. The Committee may specify that the grant, vesting or retention of any or all Stock Units is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code, provided that the performance criteria for the grant, vesting or retention of any such Stock Units shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Stock Units are granted. The Committee shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Stock Units that are intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. 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. 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 Sections 8(a) and 8(c) of this Plan relating to the vesting and forfeiture of Retention Shares upon termination of employment shall apply to any termination of employment by such Participant during the Unit Restriction Period or prior to the satisfaction of any Unit Vesting Condition for such Award.

10. TERMS AND CONDITIONS OF INCENTIVE BONUSES

Each Incentive Bonus Award will confer upon the Participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period established by the Committee.

a. Incentive Bonus Document. Each Incentive Bonus Document shall contain provisions regarding (i) the target and maximum amount payable to the Participant as an Incentive Bonus, (ii) the performance criteria and level of achievement versus these criteria that shall determine the amount of such payment, (iii) the term of the performance period as to which performance shall be measured for determining the amount of any payment, (iv) the timing of any payment earned by virtue of performance, (v) restrictions on the alienation or transfer of the Incentive Bonus prior to actual payment, (vi) forfeiture provisions and (vii) such further terms and conditions, in each case not inconsistent with this Plan, as may be determined from time to time by the Committee.

b. Performance Criteria. The Committee shall establish the performance criteria and level of achievement versus these criteria that shall determine the target and maximum amount payable under an Incentive Bonus Award, which criteria may be based on financial performance and/or personal performance evaluations. The maximum amount payable as an Incentive Bonus may be a multiple of the target amount payable. The maximum amount payable as an Incentive Bonus under this Plan during any calendar year to any one Participant shall not exceed \$15 million unless such limitation is no longer required under Section 162(m) of the Code. The Committee may specify the percentage of the target Incentive Bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code, provided that the performance criteria for any portion of an Incentive Bonus that is intended by the Committee to satisfy the requirements for “performance-based compensation”

under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Incentive Bonus Award is granted. The Committee shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Incentive Bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code.

c. Timing and Form of Payment. The Committee shall determine the timing of payment of any Incentive Bonus. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Participant to elect for the payment of any Incentive Bonus to be deferred to a specified date or event. An Incentive Bonus may be payable in Shares or in cash. Any Incentive Bonus that is paid in cash shall not affect the number of Shares otherwise available for issuance under this Plan.

d. Discretionary Adjustments. Notwithstanding satisfaction of any performance goals, the amount paid under an Incentive Bonus Award on account of either financial performance or personal performance evaluations may be reduced by the Committee on the basis of such further considerations as the Committee shall determine.

11. DIVIDENDS AND DIVIDEND EQUIVALENTS

Any Award may provide the Participant with the right to receive dividend payments or dividend equivalent payments on the Common Stock subject to the Award, whether or not such 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 Shares 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 a Participant or a Beneficiary, as the case may be, any certificate for any Shares upon exercise of an Option or for any Retention Shares granted under this Plan or to make any payment with respect to any Incentive Bonus or Stock Unit granted under this Plan prior to (a) the obtaining of any approval from any governmental agency which the Company, in its sole discretion, shall determine to be necessary or advisable, (b) the admission of such Shares to listing on any stock exchange on which the Common Stock may then be listed, and (c) the completion of any registration or other qualification of such Shares 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. CHANGES IN CAPITAL STRUCTURE

a. Corporate Actions Unimpaired. The existence of outstanding Awards (including any Options) shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations, exchanges, or other changes in the Company’s capital structure or its business, or any merger or consolidation of the Company, or any issuance of Shares or other securities or subscription rights

thereto, or any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Shares or other securities of the Company or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise. Further, except as expressly provided herein or by the Committee, (i) the issuance by the Company of shares of stock or any class of securities convertible into shares of stock of any class, for cash, property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, (ii) the payment of a dividend in property other than Shares, or (iii) the occurrence of any similar transaction, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to Options or other Awards theretofore granted or the purchase price per Share, unless the Committee shall determine, in its sole discretion, that an adjustment is necessary to provide equitable treatment to a Participant.

b. Adjustments Upon Certain Events. If the outstanding Shares or other securities of the Company, or both, for which the Award is then exercisable or as to which the Award is to be settled shall at any time be changed or exchanged by declaration of a stock dividend, stock split, combination of shares, recapitalization, reorganization or equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), the Committee will, and if such event occurs after a Change of Control, the Committee will, appropriately and equitably adjust the number and kind of Shares or other securities which are subject to this Plan or subject to any Awards theretofore granted, and the option or settlement prices of such Awards, so as to maintain the proportionate number of Shares or other securities without changing the aggregate option or settlement price, provided, however, that such adjustment shall be made so as to not affect the status of any Award intended to qualify as an incentive stock option under Section 422 of the Code or as “performance-based compensation” under Section 162(m) of the Code.

14. QUALIFYING PERFORMANCE CRITERIA

For purposes of this Plan, the term “Qualifying Performance Criteria” shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Committee in the Award: (a) cash flow (before or after dividends), (b) earnings per share (including earnings before interest, taxes, depreciation and amortization), (c) stock price, (d) return on equity, (e) total shareholder return, (f) return on capital (including return on total capital or return on invested capital), (g) return on assets or net assets, (h) market capitalization, (i) total enterprise value (market capitalization plus debt), (j) economic value added, (k) debt leverage (debt to capital), (l) revenue, (m) income or net income, (n) operating income, (o) operating profit or net operating profit, (p) operating margin or profit margin, (q) return on operating revenue, (r) cash from operations, (s) operating ratio, (t) commodity or operating revenue and (u) market share. To the extent consistent with Section 162(m) of the Code, the Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of

the following events that occurs during a performance period: (v) asset write-downs, (w) litigation, claims, judgments or settlements, (x) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (y) accruals for reorganization and restructuring programs and (z) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's Annual Report to shareholders for the applicable year.

15. TANDEM STOCK OR CASH RIGHTS

Either at the time an Award is granted or by subsequent action, the Committee may, but need not, provide that an Award shall contain as a term thereof, a right, either in tandem with the other rights under the Award or as an alternative thereto, of the Participant to receive, without payment to the Company, a number of Shares, cash or a combination thereof, the amount of which is determined by reference to the value of the Award.

16. TAXES

a. Withholding Requirements. The Committee may make such provisions or impose such conditions as it may deem appropriate for the withholding or payment by a Participant or Beneficiary of any taxes that the Committee determines are required in connection with any Award granted under this Plan, and a Participant's or Beneficiary's rights in any Award are subject to satisfaction of such conditions.

b. Payment of Withholding Taxes. Notwithstanding the terms of Section 16(a), the Committee may provide in the agreement or other document evidencing an Award or otherwise that all or any portion of the taxes required to be withheld or, if permitted by the Committee, desired to be paid by the Participant, in connection with the exercise, vesting, settlement or transfer of any Award shall be paid or, at the election of the Participant, may be paid by withholding Shares otherwise issuable or subject to such Award, or by the Participant's delivering previously owned Shares, in each case having a fair market value equal to the amount required or elected to be withheld or paid, or by the Stock Administrator paying such amount pursuant to an irrevocable commitment by the Stock Administrator to deliver to the Company proceeds from the sale of the Shares issuable under the Award. Any such election is subject to such conditions or procedures as may be established by the Committee and may be subject to approval by the Committee.

17. TRANSFERABILITY

Unless the agreement or other document evidencing an Award (or an amendment thereto authorized by the Committee) expressly states that the Award is transferable as provided hereunder, no Award granted under this Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner prior to the vesting or lapse of any and all restrictions applicable thereto, other than by will or the laws of descent and distribution.

18. TERM OF THIS PLAN

No Options, Retention Shares, Stock Units or Incentive Bonuses shall be granted pursuant to the Plan after April 20, 2011, but grants of Options, Retention Shares, Stock Units or Incentive Bonuses theretofore granted may extend beyond that date and the terms and conditions of this Plan shall continue to apply thereto.

19. TERMINATION OR AMENDMENT OF THIS PLAN

The Board or the Committee may amend, alter or discontinue this Plan or any agreement or other document evidencing an Award made under this Plan but, except as provided pursuant to the anti-dilution adjustment provisions of Section 13(b), no such amendment shall, without the approval of the shareholders of the Company:

- (a) increase the maximum number of Shares for which Awards may be granted under this Plan;
- (b) reduce the price at which Options may be granted below the price provided for in Section 6(a);
- (c) reduce the option price of outstanding Options;
- (d) extend the term of this Plan;
- (e) change the class of persons eligible to be Participants; or
- (f) increase the number or percentage of Shares that are eligible for non-Option Awards.

The Board or the Committee may amend, alter or discontinue the Plan or any agreement evidencing an Award made under this Plan, but no amendment or alteration shall be made which would impair the rights of any Participant, without such Participant's consent, under any Award theretofore granted, provided that no such consent shall be required if the Committee determines in its sole discretion and prior to the date of any Change in Control that such amendment or alteration either (i) is required or advisable in order for the Company, the Plan or the Award to satisfy any law or regulation or to meet the requirements of any accounting standard, or (ii) is not reasonably likely to significantly diminish the benefits provided under such Award, or that any such diminishment has been adequately compensated.

20. 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 this Plan. An Approved Leave of Absence shall not be deemed a termination of employment for purposes of this Plan, but the period of such Approved 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).

21. GENERAL PROVISIONS

a. Employment At Will. Neither the Plan nor the grant of any 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 this Plan, any Participant whenever in the sole discretion of the Company or a Subsidiary, as the case may be, its interest may so require.

b. Governing Law. This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the State of Utah and applicable federal law. The Committee may provide that any dispute as to any Award shall be presented and determined in such forum as the Committee may specify, including through binding arbitration. Any reference in this Plan or in the agreement or other document evidencing any Award to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

22. NON-EXCLUSIVITY OF PLAN

Neither the adoption of this Plan by the Board nor the submission of this Plan to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as either may deem desirable, including without limitation, the granting of stock options, restricted stock or stock units otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

23. COMPLIANCE WITH OTHER LAWS AND REGULATIONS

This Plan, the grant and exercise of Awards thereunder, and the obligation of the Company to sell, issue or deliver Shares under such Awards, shall be subject to all applicable federal, state and local laws, rules and regulations and to such approvals by any governmental or regulatory agency as may be required. The Company shall not be required to register in a Participant's name or deliver any Shares prior to the completion of any registration or qualification of such Shares under any federal, state or local law or any ruling or regulation of any government body which the Committee shall determine to be necessary or advisable. This Plan is intended to constitute an unfunded arrangement for a select group of management and other key employees. No Option shall be exercisable unless a registration statement with respect to the Option is effective or the Company has determined that such registration is unnecessary. Unless the Awards and Shares covered by this Plan have been registered under the Securities Act of 1933, as amended, or the Company has determined that such registration is unnecessary, each person receiving an Award and/or Shares pursuant to any Award may be required by the Company to give a representation in writing that such person is acquiring such Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof.

24. LIABILITY OF COMPANY

The Company and any Affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant or other persons as to: (a) the non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder; and (b) any tax consequence expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Option or other Award granted hereunder.

25. EFFECTIVE DATE

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

**UNION PACIFIC CORPORATION
2004 STOCK INCENTIVE PLAN**

**Effective as of April 16, 2004
As Amended November 16, 2006**

UNION PACIFIC CORPORATION
2004 STOCK INCENTIVE PLAN

1. PURPOSE

The purpose of the Union Pacific Corporation 2004 Stock Incentive Plan is to promote and closely align the interests of employees of Union Pacific Corporation and its shareholders by providing stock-based compensation and other performance-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 Options, Stock Appreciation Rights, Retention Shares, Stock Units or Incentive Bonuses 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 in 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) or (B) 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 January 29, 2004, 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, and except as utilized in the definition of Change in Control, any successor corporation.

“Incentive Bonus” means a bonus opportunity awarded under Section 10 pursuant to which a Participant may become entitled to receive an amount, payable in cash or Shares, based on satisfaction of such performance criteria as are specified in the Incentive Bonus Document.

“Incentive Bonus Document” means the agreement or other document evidencing the Award of an Incentive Bonus.

“Option” means a non-qualified option granted under Section 6 of the Plan.

“Option Document” means the agreement or other document evidencing the Award of an Option.

“Option Proceeds” means the cash actually received by the Company as payment of the option price upon exercise of an option plus the maximum tax benefit that could be realized by the Company as a result of the option exercise, which shall be determined by multiplying the amount that is deductible as a result of the option exercise (currently, equal to the amount upon which the Participant’s withholding tax obligation is calculated) by the sum of the maximum federal corporate income tax rate for the year of exercise plus an assumed 3% state income tax rate. To the extent that a Participant pays the option price and/or withholding taxes with Shares, Option Proceeds shall not be calculated with respect to the amount paid in such manner.

“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 Union Pacific Corporation 2004 Stock Incentive Plan, as amended from time to time.

“Prior Plans” means the Union Pacific Corporation 2001 Stock Incentive Plan and the 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation.

“Qualifying Performance Criteria” means the criteria set forth in Section 14.

“Retention Shares” means Shares subject to an Award granted under Section 8 of the Plan.

“Restriction Period” means the period defined in Section 8(b)(i).

“Shares” mean shares of the Company’s Common Stock.

“Stock Administrator” means the Company’s third party stock administrator or any other person or entity designated by the Committee to assist in the administration of this Plan.

“Stock Appreciation Right” means a right granted pursuant to Section 7 of the Plan.

“Stock Unit” means a right to receive in the future a Share of Common Stock or, at the option of the Committee, the value of such Common Stock in cash pursuant to an Award granted under Section 9 of the Plan.

“Subcommittee” means one or more separate committees appointed by the Committee pursuant to Section 3.

“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 9.

“Unit Vesting Condition” means any condition to the vesting of Stock Units established by the Committee pursuant to Section 9.

“Vesting Condition” means any condition to the vesting of Retention Shares established by the Committee pursuant to Section 8.

3. ADMINISTRATION

a. Composition of Committee. This Plan shall be administered by the Compensation and Benefits Committee of the Board (the “Committee”), as appointed from time to time by the Board. The Board shall fill vacancies on, and from time to time may remove or add members to, the Committee. The Committee shall act pursuant to a majority vote or unanimous written consent. The Board, in its sole discretion, may exercise any authority of the Committee under this Plan in lieu of the Committee’s exercise thereof and in such instances references herein to the Committee shall refer to the Board. The Committee shall consist of two or more directors each of whom is a “non-employee director” (as such term is defined in Rule 16b-3 promulgated under the Act, as such Rule may be amended from time to time) and an “outside director” (as such term is defined under Section 162(m) of the Code). The Committee may designate the Senior Vice President-Human Resources of the Company or other Company employees to assist the Committee in the administration of the Plan, and may grant authority to such persons to execute agreements or other documents evidencing Awards made under this Plan or other documents entered into under this Plan on behalf of the Committee or the Company.

b. Powers of the Committee. Subject to the express provisions and limitations set forth in this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable, in its sole discretion, in connection with the administration of this Plan, including, without limitation, the following:

- (i) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein;

(ii) to determine which persons are Participants, to which of such Participants, if any, Awards shall be granted hereunder and the timing of any such Awards, and to grant Awards;

(iii) to grant Awards to Participants and determine the terms and conditions thereof, including the number of Shares subject to Awards and the option or purchase price of such Shares and the circumstances under which Awards become exercisable or vested or are forfeited or expire, which terms may but need not be conditioned upon the passage of time, continued employment, the satisfaction of performance criteria, the occurrence of certain events (including events which the Board or the Committee determine constitute a Change in Control), or other factors;

(iv) to establish and verify the extent of satisfaction of any performance goals or other conditions applicable to the grant, issuance, exercisability, vesting and/or ability to retain any Award;

(v) to prescribe and amend the terms of the agreements or other documents evidencing Awards made under this Plan (which need not be identical) and the terms of or form of any document or notice required to be delivered to the Company by Participants under this Plan;

(vi) to determine the adjustments required pursuant to Section 13;

(vii) to interpret and construe this Plan, any rules and regulations under this Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Company; and

(viii) to make all other determinations deemed necessary or advisable for the administration of this Plan.

c. Determinations of the Committee. All decisions, determinations and interpretations by the Committee regarding this Plan shall be final and binding on all Participants and Beneficiaries. The Committee shall consider such factors as it deems relevant to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any director, officer or employee of the Company and such attorneys, consultants and accountants as it may select.

d. Delegations to Subcommittees. The Committee may delegate to one or more separate committees (any such committee a "Subcommittee") composed of one or more directors of the Company (who may but need not be members of the Committee) the ability to grant Awards and take the other actions described in Section 3(b) with respect to non-executive employees, and such actions shall be treated for purposes of Section 3(c) as if taken by the Committee.

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. The Committee may grant Awards of Options, Stock Appreciation Rights, Retention Shares, Stock Units or Incentive Bonuses to eligible employees.

5. STOCK SUBJECT TO THIS PLAN

a. Aggregate Limits. The aggregate number of Shares of the Company's Common Stock that shall be available for grant under this Plan shall be 21,000,000, plus any Shares subject to awards made under Prior Plans that are outstanding on the effective date of this Plan and become available pursuant to Section 5(c). Any Shares granted as Options or Stock Appreciation Rights shall be counted against this limit as one (1) Share for every one (1) Share granted. Any Shares granted as Awards other than Options or Stock Appreciation Rights shall be counted against this limit as one and four-tenths (1.4) Shares for every one (1) Share granted. The aggregate number of Shares available for grant under this Plan and the number of Shares subject to outstanding Awards shall be subject to adjustment as provided in Section 13. In addition, the aggregate number of Shares available for grant under this Plan shall not be reduced by Shares subject to Awards granted upon the assumption of or in substitution for awards granted by a business or entity that is acquired by, or whose assets are acquired by, the Company. The Shares issued pursuant to Awards granted under this Plan may be Shares that either were reacquired by the Company, including Shares purchased in the open market, or authorized but unissued Shares.

b. Tax Code Limits. The aggregate number of Shares that may be granted as Options or Stock Appreciation Rights under this Plan during any consecutive 36-month period to any one Participant shall not exceed 3,000,000. The aggregate number of Shares that may be granted as Retention Shares or Stock Units under this Plan during any consecutive 36-month period to any one Participant shall not exceed 750,000. Notwithstanding anything to the contrary in this Plan, the foregoing limitations shall be subject to adjustment under Section 13, but only to the extent that such adjustment will not affect the status of any Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code. The foregoing limitations shall not apply to the extent that they are no longer required in order for compensation in connection with Awards under this Plan to be treated as "performance-based compensation" under Section 162(m) of the Code.

c. Share Add-Backs. For purposes of this Section 5, the aggregate number of Shares available for Awards under this Plan at any time shall not be reduced by (i) Shares subject to Awards that have been canceled, expired, forfeited or settled in cash, (ii) Shares subject to Awards that have been retained by the Company in payment or satisfaction of the purchase price or tax withholding obligation of an Award, or (iii) Shares subject to Awards that otherwise do not result in the issuance of Shares in connection with payment or settlement of an Award. Any Shares that again become available for grant pursuant to clauses (i) through (iii) of this Section 5(c) shall be added back as one (1) Share if such Shares were subject to Options or Stock Appreciation Rights and as one and four-tenths (1.4) Shares if such Shares were subject to

Awards other than Options and Stock Appreciation Rights. In addition, Shares that have been delivered (either actually or constructively by attestation) to the Company in payment or satisfaction of the purchase price or tax withholding obligation of an Award or an award under any of the Prior Plans and Shares repurchased in the open market with Option Proceeds from Awards or awards under any of the Prior Plans shall be available for Awards under this Plan; provided, however, that the increase in the aggregate number of Shares available for grant pursuant to the repurchase of Shares with Option Proceeds shall not be greater than the amount of such proceeds divided by the fair market value of a Share on the date of exercise of the option giving rise to such proceeds. Shares subject to awards made under Prior Plans that do not result in the issuance of Shares for the reasons listed in clauses (i) through (iii) of this Section 5(c) shall be available for grant under this Plan. Each Share that again becomes available for grant in connection with awards under Prior Plans shall be added back as one (1) Share.

6. TERMS AND CONDITIONS OF OPTIONS

The Committee may grant an Option or provide for the grant of an Option, either from time to time in the discretion of the Committee or automatically upon the occurrence of specified events, including, without limitation, the achievement of performance goals, the satisfaction of an event or condition within the control of the recipient of the Award or within the control of others. All 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, provided, however, that the option price per share with respect to an Option that is granted in connection with a merger, stock exchange, or other acquisition as a substitute or replacement award for options held by optionees of the acquired entity may be less than 100% of fair market value on the date the Option is granted.

b. Duration. The Committee shall establish the term of an Option, provided that in no event shall any Option be exercisable subsequent to the tenth anniversary of the date on which it is granted, except that in the event of death during employment or any post-termination exercise period, Options shall remain exercisable for a minimum period of one year from the date of death.

c. Exercise. Except as provided in Section 6(g), the Shares covered by an Option may not be purchased prior to the first anniversary of the date on which the Option is awarded, 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 Document. 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. Except as set forth herein, shares purchased under Options shall, at the time of purchase, be paid for in full in cash. All, or any portion, of the option price may, at the discretion of the Committee, be paid (i) under an arrangement with the Stock Administrator where payment is made pursuant to an irrevocable direction to the Stock Administrator to deliver all or part of the proceeds from the sale of Shares issuable under the Option to the Company or (ii) by the surrender (either actually or constructively by attestation) to the Company, at the time of exercise, of Shares of previously acquired Common Stock owned by the Participant, to the extent that such payment does not require the surrender of a fractional share of such previously acquired Common Stock or (iii) by authorizing the Company to withhold Common Stock otherwise issuable on exercise of the Option. Such Shares previously acquired and used to pay the option price shall be valued at fair market value on the date the Option is exercised or as otherwise determined in accordance with the procedures to be established by the Committee. A Participant shall have none of the rights of a shareholder until the Shares are issued to him or her.

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 that may be purchased thereunder. 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 Participant by the Company or a Subsidiary, as the Committee may determine.

f. Non-Transferability of Options. During a Participant's lifetime, Options may be exercised only by the Participant and shall not be transferable, except for exercise by the Participant's Beneficiaries following a Participant's death or as otherwise authorized by the Committee.

g. Termination of Employment. Unless the Committee shall determine otherwise, upon the termination of a Participant's employment for any reason and except as provided in clause (ii), (iii) or (vi) below, Options shall expire immediately as to those Shares for which they were not then exercisable, and as to the remaining Shares for which the Options were exercisable at the time of such termination of employment, such Options shall expire on the earlier of the expiration of the term of the Options or according to the following schedule:

(i) **Retirement.** If a Participant ceases to be an employee of the Company or a Subsidiary by reason of retirement under the provisions of the Company's or a Subsidiary's pension plan, the Options shall expire, unless exercised, five (5) years after such termination of employment.

(ii) **Death or Disability.** If (A) a Participant ceases to be an employee of the Company or a Subsidiary prior to the end of the holding period required by Section 6(c) by reason of death or disability under the provisions of the Company's or a Subsidiary's long-term disability plan, and (B) upon such termination all conditions to exercisability of the Options required pursuant to Section 6(c) other than such holding period have been

satisfied, the holding period required pursuant to Section 6(c) shall automatically be deemed to have been satisfied, and the Options shall expire, unless exercised by the Participant, or if such termination was as a result of Participant's death, by Participant's legal representatives or heirs, five (5) years after such termination of employment.

(iii) **Disposition of Business.** Subject to Section 6(g)(vi) with respect to a Change in Control of the Company, in the case of a termination that is deemed to occur upon 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, (A) if an Option is unexercisable because the holding period or other conditions required by Section 6(c) have not been satisfied in accordance with their original schedule, such Option shall not be forfeited automatically, but the holding period or other conditions required by Section 6(c) shall continue in accordance with their original schedule and the Option shall expire, unless exercised, five (5) years after the date of such termination and (B) if an Option is exercisable, the exercise period of the Option shall expire, unless exercised, five (5) years after the date of such termination;

(iv) **Force Reduction Program.** Subject to Section 6(g)(vi), 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.** Options shall expire upon receipt by the Participant 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.** Notwithstanding anything to the contrary in this Section 6(g), unless the Committee shall expressly provide otherwise in the Option Document at the time of grant, in the event a Participant's employment is involuntarily terminated by the Company or any of its Subsidiaries (other than termination as a result of disability or gross misconduct, but including a termination described in subsection (iii) and (iv) above) within two (2) years following a Change in Control, any holding period or other condition required pursuant to Section 6(c) shall automatically be deemed to have been satisfied, the Options shall become fully vested and exercisable, and the Options 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), (ii) or (iii) above) but in no event after the expiration of the term of the Option.

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

h. Deferral. The Committee may permit a Participant to elect to defer receipt of all or part of the Shares issuable upon the exercise of Options, pursuant to rules and regulations adopted by the Committee. The Committee may not permit the payment of cash in lieu of Shares upon payment of the deferred amount.

i. Option Document. Each Option Document shall contain provisions regarding (i) the number of Shares that may be issued upon exercise of the Option, (ii) the purchase price of the Shares and the means of payment for the Shares, (iii) the term of the Option, (iv) such terms and conditions on the vesting and/or exercisability of an Option, (v) restrictions on the transfer of the Option and forfeiture provisions and (vi) such further terms and conditions, in each case not inconsistent with this Plan as may be determined from time to time by the Committee.

j. No Option Repricing. Without the approval of shareholders, the Company shall not reprice any Options, except for adjustments under Section 13 as determined by the Committee. For purposes of this Plan, the term “reprice” shall mean lowering the exercise price of previously awarded Options within the meaning of Item 402(i) under Securities and Exchange Commission Regulation S-K, and shall also include any transactions deemed “repricings” under the relevant rules of the New York Stock Exchange.

7. TERMS AND CONDITIONS OF STOCK APPRECIATION RIGHTS

A “Stock Appreciation Right” means a right that entitles the Participant to receive, in cash or Shares (as determined by the Committee), value equal to or otherwise based on the excess of (i) the fair market value of a specified number of Shares at the time of exercise over (ii) the exercise price of the right, as established by the Committee on the date of grant. Stock Appreciation Rights may be granted to Participants either alone (“freestanding”) or in addition to or in tandem with other Awards granted under the Plan and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each grant or each recipient. Any Stock Appreciation Right granted in tandem with an Option may be granted at the same time such Option is granted or at any time thereafter before exercise or expiration of such Option. All Stock Appreciation Rights under the Plan shall be granted subject to the same terms and conditions applicable to Options as set forth in Section 6, including without limitation the terms and conditions set forth in Sections 6(a), 6(b) and 6(c) relating to option price, duration and exercise conditions; provided, however, that Stock Appreciation Rights granted in tandem with a previously granted Option shall have the terms and conditions of such Option. Subject to the provisions of Section 6, the Committee may impose such other conditions or restrictions on any Stock Appreciation Right as it shall deem appropriate. Stock Appreciation Rights may be settled in Shares or cash as determined by the Committee.

8. TERMS AND CONDITIONS OF AWARDS OF RETENTION SHARES

a. General. Retention Shares may be granted 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. The Committee may specify that the grant, vesting or retention of any or all Retention Shares is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code, provided that the performance criteria for the grant, vesting or retention of any such Retention Shares shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Retention Shares are granted. The Committee shall certify the extent to

which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Retention Shares that are intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code.

b. Restrictions.

(i) Restriction Period and Vesting Conditions. 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 8(b) shall apply, provided that in no event, other than as provided in Section 8(c), shall such restrictions terminate prior to three (3) years after the date of grant (the “Restriction Period”), and the Committee may also specify any other terms or conditions, including the attainment of performance goals, to the right of the Participant to receive such Retention Shares (“Vesting Conditions”). Subject to Section 8(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 or Stock Units granted pursuant to the Executive Incentive Premium Exchange Program (“PEP”) or any future long term incentive plan (“LTP”)), the Restriction Period shall end with respect to that number of such Retention Shares calculated by multiplying the total number of such Retention Shares by the fraction obtained by dividing the number of full months from the commencement of such Restriction Period through the date of such Change in Control by the total number of months contained in such Restriction Period (determined without regard to this proviso), (ii) with respect to Retention Shares granted to such Participant pursuant to the PEP, the Restriction 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) that number of Retention Shares which the Participant received as a premium under the PEP (the “Premium Retention Shares”) calculated by multiplying the total number of such Premium Retention Shares by the fraction obtained by dividing the number of full months from the commencement of such Restriction Period through the date of such Change in Control by the total number of months contained in such Restriction Period, and (iii) any Retention Shares granted to such Participant pursuant to an LTP shall be subject to the terms of the applicable agreement issued under an 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, in shares of equity securities of the entity (or its parent) resulting from such Change in Control or in any combination of the foregoing.

(ii) Rights in Retention Shares. At the time of grant of Retention Shares to a Participant, an electronic account representing the number of Shares 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 shareholder 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 restrictions, except as provided by Sections 8(b) and 8(c): (A) the Participant shall not be entitled to delivery of the Shares until the expiration of the Restriction Period and the satisfaction of any Vesting Conditions; (B) 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 (C) 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 and any applicable Vesting Conditions have been satisfied. Any Shares 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. Unless the Committee shall determine otherwise, upon the termination of a Participant's employment, Retention Shares shall be treated as provided below:

(i) Retirement. 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 retirement under the provisions of the Company's or a Subsidiary's pension plan at or after actual age 65, and (B) all Vesting Conditions have been satisfied, the Retention Shares granted to such Participant shall immediately vest and all restrictions applicable to such Retention Shares shall lapse. The Shares shall be delivered to the Participant in accordance with the provisions of Section 8(d).

(ii) Death or Disability. 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 or disability under the provisions of the Company's or a Subsidiary's long-term disability plan, and (B) all Vesting Conditions have been satisfied, the Retention Shares granted to such Participant shall immediately vest for the Participant or in his or her Beneficiary, as the case may be, and all restrictions applicable to such Retention Shares shall lapse. The Shares shall be delivered to the Participant's Beneficiary in accordance with the provisions of Section 8(d).

(iii) Vesting Conditions. If a Participant ceases to be an employee of the Company or a Subsidiary for any reason prior to the satisfaction of any Vesting Conditions (other than as a result of a Change in Control as described in subsection (iv) below), the Participant shall immediately forfeit all Retention Shares then subject to the restrictions of Section 8(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 8(b) and all restrictions applicable to such Retention Shares shall lapse. The Shares shall be delivered to the Participant in accordance with the provisions of Section 8(d).

(iv) Change in Control. Notwithstanding anything to the contrary in this Section 8(c), unless the Committee shall expressly provide otherwise in the document(s) evidencing Retention Shares at the time of grant, in the event a Participant's employment is involuntarily terminated by the Company or any of its Subsidiaries (other than a termination as a result of gross misconduct, but including a termination described in subsection (i) and (ii) above) within two (2) years following a Change in Control, the remaining restrictions with respect to Retention Shares, Original Retention Shares and Premium Retention Shares, including any remaining Restriction Period or Vesting Conditions, shall lapse and the Committee may, in its sole discretion, elect to satisfy its obligations either in cash, in Shares, in shares of equity securities of the entity (or its parent) resulting from such Change in Control or in any combination of the foregoing.

(v) 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 at or after actual age 65 as provided in Section 8(c)(i) and (ii) or a termination pursuant to Section 8(c) (iv), the Participant shall immediately forfeit all Retention Shares then subject to the restrictions of Section 8(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 to the extent that the Restriction Period set forth in Section 8(b) has been satisfied and all Vesting Conditions applicable to such Retention Shares shall lapse. The Shares shall be delivered to the Participant in accordance with the provisions of Section 8(d).

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 8(c), all restrictions applicable to the Retention Shares shall lapse, and the Shares 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.

9. STOCK UNITS

The Committee may also grant Awards of Stock Units under the Plan. With respect to each grant of Stock Units, the Committee shall determine the period or periods, including any conditions for determining such period or periods, during which any restrictions on vesting shall apply, provided that in no event, other than in connection with a termination of employment, shall such period or periods be less than three (3) years (the "Unit Restriction Period"). The Committee may also make any Award of Stock Units subject to the satisfaction of other conditions, including the attainment of performance goals, or contingencies ("Unit Vesting Condition"), in order for a Participant to receive payment of such Stock Unit Award, which shall be established by the Committee at the time of the Stock Unit Award. The Committee may specify that the grant, vesting or retention of any or all Stock Units is intended to satisfy the requirements for "performance-based compensation" under Section 162(m) of the Code, provided that the performance criteria for the grant, vesting or retention of any such Stock Units shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Stock Units are granted. The Committee shall certify

the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Stock Units that are intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code. Awards of Stock Units shall be payable in Shares or cash as determined by the Committee. 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 Sections 8(b) and 8(c) of this Plan relating to the vesting and forfeiture of Retention Shares upon termination of employment shall apply to any termination of employment by such Participant during the Unit Restriction Period or prior to the satisfaction of any Unit Vesting Condition for such Award.

10. TERMS AND CONDITIONS OF INCENTIVE BONUSES

Each Incentive Bonus Award will confer upon the Participant the opportunity to earn a future payment tied to the level of achievement with respect to one or more performance criteria established for a performance period established by the Committee.

a. Incentive Bonus Document. Each Incentive Bonus Document shall contain provisions regarding (i) the target and maximum amount payable to the Participant as an Incentive Bonus, (ii) the performance criteria and level of achievement versus these criteria that shall determine the amount of such payment, (iii) the term of the performance period as to which performance shall be measured for determining the amount of any payment, (iv) the timing of any payment earned by virtue of performance, (v) restrictions on the alienation or transfer of the Incentive Bonus prior to actual payment, (vi) forfeiture provisions and (vii) such further terms and conditions, in each case not inconsistent with this Plan, as may be determined from time to time by the Committee.

b. Performance Criteria. The Committee shall establish the performance criteria and level of achievement versus these criteria that shall determine the target and maximum amount payable under an Incentive Bonus Award, which criteria may be based on financial performance and/or personal performance evaluations. The maximum amount payable as an Incentive Bonus may be a multiple of the target amount payable. The maximum amount payable as an Incentive Bonus under this Plan during any calendar year to any one Participant shall not exceed \$10 million unless such limitation is no longer required under Section 162(m) of the Code. The Committee may specify the percentage of the target Incentive Bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code, provided that the performance criteria for any portion of an Incentive Bonus that is intended by the Committee to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Incentive Bonus Award is granted. The Committee shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Incentive Bonus that is intended to satisfy the requirements for “performance-based compensation” under Section 162(m) of the Code.

c. Timing and Form of Payment. The Committee shall determine the timing of payment of any Incentive Bonus. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Participant to elect for the payment of any Incentive Bonus to be deferred to a specified date or event. An Incentive Bonus may be payable in Shares or in cash. Any Incentive Bonus that is paid in cash shall not affect the number of Shares otherwise available for issuance under this Plan.

d. Discretionary Adjustments. Notwithstanding satisfaction of any performance goals, the amount paid under an Incentive Bonus Award on account of either financial performance or personal performance evaluations may be reduced by the Committee on the basis of such further considerations as the Committee shall determine.

11. DIVIDENDS AND DIVIDEND EQUIVALENTS

Any Award may provide the Participant with the right to receive dividend payments or dividend equivalent payments on the Common Stock subject to the Award, whether or not such Award has been exercised or is vested. Such payments may be made in cash or may be credited as cash or Stock Units to a Participant's account and later settled in cash or Shares 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 a Participant or a Beneficiary, as the case may be, any certificate for any Shares upon exercise of an Option or Stock Appreciation Right or for any Retention Shares granted under this Plan or to make any payment with respect to any Incentive Bonus or Stock Unit granted under this Plan prior to (a) the obtaining of any approval from any governmental agency which the Company, in its sole discretion, shall determine to be necessary or advisable, (b) the admission of such Shares to listing on any stock exchange on which the Common Stock may then be listed, and (c) the completion of any registration or other qualification of such Shares 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. CHANGES IN CAPITAL STRUCTURE

a. Corporate Actions Unimpaired. The existence of outstanding Awards (including any Options) shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations, exchanges, or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of Shares or other securities or subscription rights thereto, or any issuance of bonds, debentures, preferred or prior preference stock ahead of or affecting the Shares or other securities of the Company or the rights thereof, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise. Further, except as expressly provided herein or by the Committee, (i) the issuance by the Company of shares of stock or any class of securities convertible into shares of stock of any class, for cash,

property, labor or services, upon direct sale, upon the exercise of rights or warrants to subscribe therefor, or upon conversion of shares or obligations of the Company convertible into such shares or other securities, (ii) the payment of a dividend in property other than Shares, or (iii) the occurrence of any similar transaction, and in any case whether or not for fair value, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number of Shares subject to Options or other Awards theretofore granted or the purchase price per Share, unless the Committee shall determine, in its sole discretion, that an adjustment is necessary to provide equitable treatment to a Participant.

b. Adjustments Upon Certain Events. If the outstanding Shares or other securities of the Company, or both, for which the Award is then exercisable or as to which the Award is to be settled shall at any time be changed or exchanged by declaration of a stock dividend, stock split, combination of shares, extraordinary dividend of cash and/or assets, recapitalization, reorganization, or equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), the Committee will, and if such event occurs after a Change of Control, the Committee will, appropriately and equitably adjust the number and kind of Shares or other securities which are subject to this Plan or subject to any Awards theretofore granted, and the exercise or settlement prices of such Awards, so as to maintain the proportionate number of Shares or other securities without changing the aggregate exercise or settlement price.

14. QUALIFYING PERFORMANCE CRITERIA

For purposes of this Plan, the term “Qualifying Performance Criteria” shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or Subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years’ results or to a designated comparison group, in each case as specified by the Committee in the Award: (a) cash flow (before or after dividends), (b) earnings per share (including earnings before interest, taxes, depreciation and amortization), (c) stock price, (d) return on equity, (e) total shareholder return, (f) return on capital (including return on total capital or return on invested capital), (g) return on assets or net assets, (h) market capitalization, (i) total enterprise value (market capitalization plus debt), (j) economic value added, (k) debt leverage (debt to capital), (l) revenue, (m) income or net income, (n) operating income, (o) operating profit or net operating profit, (p) operating margin or profit margin, (q) return on operating revenue, (r) cash from operations, (s) operating ratio, (t) commodity or operating revenue, (u) market share, (v) customer service index, (w) service delivery index, (x) productivity and (y) safety. To the extent consistent with Section 162(m) of the Code, the Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (z) asset write-downs, (aa) litigation, claims, judgments or settlements, (bb) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reported results, (cc) accruals for reorganization and restructuring programs and (dd) any extraordinary, unusual or non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management’s discussion and analysis of financial condition and results of operations appearing in the Company’s Annual Report to shareholders for the applicable year.

15. TANDEM STOCK OR CASH RIGHTS

Either at the time an Award is granted or by subsequent action, the Committee may, but need not, provide that an Award shall contain as a term thereof, a right, either in tandem with the other rights under the Award or as an alternative thereto, of the Participant to receive, without payment to the Company, a number of Shares, cash or a combination thereof, the amount of which is determined by reference to the value of the Award.

16. TAXES

a. Withholding Requirements. The Committee may make such provisions or impose such conditions as it may deem appropriate for the withholding or payment by a Participant or Beneficiary of any taxes that the Committee determines are required in connection with the grant, vesting, exercise, payment or settlement of any Award under this Plan, and a Participant's or Beneficiary's rights in any Award and in any Shares or other benefits thereunder shall be subject to satisfaction of such conditions.

b. Payment of Withholding Taxes. Notwithstanding the terms of Section 16(a), the Committee may provide in the agreement or other document evidencing an Award or otherwise that all or any portion of the taxes required to be withheld or, if and to the extent permitted by the Committee, desired to be paid by the Participant, in connection with the exercise, vesting, settlement or transfer of any Award may be paid by withholding Shares otherwise issuable or subject to such Award, or by the Participant's delivering previously acquired Shares (either actually or constructively by attestation), in each case having a fair market value equal to the amount required or elected to be withheld or paid, or by the Stock Administrator paying such amount pursuant to an irrevocable commitment by the Stock Administrator to deliver to the Company proceeds from the sale of the Shares issuable under the Award. Any such election is subject to such conditions or procedures as may be established by the Committee and may be subject to approval by the Committee.

17. TRANSFERABILITY

Unless the agreement or other document evidencing an Award (or an amendment thereto authorized by the Committee) expressly states that the Award is transferable as provided hereunder, no Award granted under this Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner prior to the vesting or lapse of any and all restrictions applicable thereto, other than by will or the laws of descent and distribution. Further, any Shares deferred under Section 6(h), Stock Units deferred under Section 9, or Incentive Bonuses deferred under Section 10(c) shall not be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner.

18. TERM OF THIS PLAN

No Awards shall be granted pursuant to the Plan after April 16, 2014, but any Award theretofore granted may extend beyond that date and the terms and conditions of this Plan shall continue to apply thereto.

19. TERMINATION OR AMENDMENT OF THIS PLAN

The Board may amend, alter or discontinue the Plan and the Board or the Committee may to the extent permitted by the Plan amend any agreement or other document evidencing an Award made under this Plan but, except as provided pursuant to the anti-dilution adjustment provisions of Section 13(b), no such amendment shall, without the approval of the shareholders of the Company:

- (a) increase the maximum number of Shares for which Awards may be granted under this Plan;
- (b) reduce the price at which Options may be granted below the price provided for in Section 6(a);
- (c) reduce the option price of outstanding Options;
- (d) extend the term of this Plan;
- (e) change the class of persons eligible to be Participants; or
- (f) increase the individual maximum limits in Sections 5(b) and 10(b).

The Board may amend, alter or discontinue the Plan and the Board or the Committee may to the extent permitted by the Plan amend any agreement evidencing an Award made under this Plan, but no amendment or alteration shall be made which would impair the rights of any Participant, without such Participant's consent, under any Award theretofore granted, provided that no such consent shall be required if the Committee determines in its sole discretion and prior to the date of any Change in Control that such amendment or alteration either (i) is required or advisable in order for the Company, the Plan or the Award to satisfy any law or regulation or to meet the requirements of any accounting standard, or (ii) is not reasonably likely to significantly diminish the benefits provided under such Award, or that any such diminishment has been adequately compensated.

20. 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 this Plan. An Approved Leave of Absence shall not be deemed a termination of employment for purposes of this Plan, but the period of such Approved 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).

21. GENERAL PROVISIONS

a. Employment At Will. Neither the Plan nor the grant of any 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 this Plan, any Participant whenever in the sole discretion of the Company or a Subsidiary, as the case may be, its interest may so require.

b. Governing Law. This Plan and any agreements or other documents hereunder shall be interpreted and construed in accordance with the laws of the State of Utah and applicable federal law. The Committee may provide that any dispute as to any Award shall be presented and determined in such forum as the Committee may specify, including through binding arbitration. Any reference in this Plan or in the agreement or other document evidencing any Award to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

c. Resale or Transfer of Shares. The Committee may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Shares received in connection with an Award, including without limitation (i) restrictions under an insider trading policy, (ii) restrictions designed to delay and/or coordinate the timing and manner of sales by the Participant and other participants and (iii) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

22. NON-EXCLUSIVITY OF PLAN

Neither the adoption of this Plan by the Board nor the submission of this Plan to the shareholders of the Company for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as either may deem desirable, including without limitation, the granting of stock options, stock appreciation rights, restricted stock, stock units or incentive bonuses otherwise than under this Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

23. COMPLIANCE WITH OTHER LAWS AND REGULATIONS

This Plan, the grant and exercise of Awards thereunder, and the obligation of the Company to sell, issue or deliver Shares under such Awards, shall be subject to all applicable federal, state and local laws, rules and regulations and to such approvals by any governmental or regulatory agency as may be required. The Company shall not be required to register in a Participant's name or deliver any Shares prior to the completion of any registration or qualification of such Shares under any federal, state or local law or any ruling or regulation of any government body which the Committee shall determine to be necessary or advisable. This Plan is intended to constitute an unfunded arrangement for a select group of management and

other key employees. No Option shall be exercisable unless a registration statement with respect to the Option is effective or the Company has determined that such registration is unnecessary. Unless the Awards and Shares covered by this Plan have been registered under the Securities Act of 1933, as amended, or the Company has determined that such registration is unnecessary, each person receiving an Award and/or Shares pursuant to any Award may be required by the Company to give a representation in writing that such person is acquiring such Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof.

24. LIABILITY OF COMPANY

The Company and any Affiliate which is in existence or hereafter comes into existence shall not be liable to a Participant or other persons as to: (a) the non-issuance or sale of Shares as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder; and (b) any tax consequence expected, but not realized, by any Participant or other person due to the receipt, exercise or settlement of any Option or other Award granted hereunder.

25. EFFECTIVE DATE

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

RATIO OF EARNINGS TO FIXED CHARGES*Union Pacific Corporation and Subsidiary Companies*

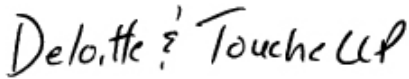
<i>Millions of Dollars, Except for Ratios</i>	2006	2005	2004	2003	2002
Earnings:					
Net income	\$1,606	\$1,026	\$ 604	\$1,056	\$1,265
Equity earnings net of distributions	(59)	(48)	(47)	15	(34)
Total earnings	1,547	978	557	1,071	1,231
Income taxes	919	410	252	581	680
Fixed charges:					
Interest expense including amortization of debt discount	477	504	527	574	632
Portion of rentals representing an interest factor	243	220	206	169	172
Total fixed charges	720	724	733	743	804
Earnings available for fixed charges	\$3,186	\$2,112	\$1,542	\$2,395	\$2,715
Ratio of earnings to fixed charges	4.4	2.9	2.1	3.2	3.4

SIGNIFICANT SUBSIDIARIES OF UNION PACIFIC CORPORATION

Name of Corporation	State of Incorporation
Union Pacific Railroad Company	Delaware
Southern Pacific Rail Corporation	Utah

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Post-Effective Amendment No. 1 to Registration Statement No. 33-12513, Registration Statement No. 33-53968, Registration Statement No. 33-49785, Registration Statement No. 33-49849, Registration Statement No. 33-51071, Registration Statement No. 333-10797, Registration Statement No. 333-13115, Registration Statement No. 333-16563, Registration Statement No. 333-88225, Registration Statement No. 333-88709, Registration Statement No. 333-57958, Registration Statement No. 333-61856, Registration Statement No. 333-42768, Registration Statement No. 333-106707, Registration Statement No. 333-106708, Registration Statement No. 333-105714, Registration Statement No. 333-105715, Registration Statement No. 333-116003, and Registration Statement 333-132324 on Forms S-8 and Registration No. 333-88666, Amendment No. 1 to Registration Statement No. 333-88666, and Registration Statement No. 333-111185 on Forms S-3 of our reports dated February 16, 2007, relating to the consolidated financial statements and financial statement schedule of Union Pacific Corporation and Subsidiary Companies (which report expressed an unqualified opinion and included an explanatory paragraph relating to the Corporation's adoption, in 2006, of Statement of Financial Accounting Standard No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*) and management's report on the effectiveness of internal control over financial reporting, appearing in this Annual Report on Form 10-K of Union Pacific Corporation and Subsidiary Companies for the year ended December 31, 2006.

Handwritten signature of Deloitte & Touche LLP in cursive script.

Omaha, Nebraska
February 22, 2007

UNION PACIFIC CORPORATION
Powers of Attorney

Each of the undersigned directors of Union Pacific Corporation, a Utah corporation (the "Company"), do hereby appoint each of James R. Young, Barbara W. Schaefer, and Thomas E. Whitaker his or her true and lawful attorney-in-fact and agent, to sign on his or her behalf the Company's Annual Report on Form 10-K, for the year ended December 31, 2006, and any and all amendments thereto, and to file the same, with all exhibits thereto, with the Securities and Exchange Commission.

IN WITNESS WHEREOF, the undersigned have executed this Power of Attorney as of February 22, 2007.

/s/ Andrew H. Card, Jr.

Andrew H. Card, Jr.

/s/ Erroll B. Davis, Jr.

Erroll B. Davis, Jr.

/s/ Thomas J. Donohue

Thomas J. Donohue

/s/ Archie W. Dunham

Archie W. Dunham

/s/ Judith Richards Hope

Judith Richards Hope

/s/ Charles C. Krulak

Charles C. Krulak

/s/ Michael W. McConnell

Michael W. McConnell

/s/ Steven R. Rogel

Steven R. Rogel

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, James R. Young, certify that:

1. I have reviewed this annual report on Form 10-K of Union Pacific Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2007

/s/ James R. Young

James R. Young
Chairman, President and
Chief Executive Officer

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Robert M. Knight, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Union Pacific Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2007

/s/ Robert M. Knight, Jr.
Robert M. Knight, Jr.
Executive Vice President – Finance and
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER 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 Annual Report of Union Pacific Corporation (the Corporation) on Form 10-K for the period ending December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, James R. Young, Chairman, President and Chief Executive Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/ James R. Young
James R. Young
Chairman, President and
Chief Executive Officer
Union Pacific Corporation

February 23, 2007

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER 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 Annual Report of Union Pacific Corporation (the Corporation) on Form 10-K for the period ending December 31, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert M. Knight, Jr., Executive Vice President—Finance and Chief Financial Officer of the Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation.

By: /s/ Robert M. Knight, Jr.

Robert M. Knight, Jr.

Executive Vice President – Finance and

Chief Financial Officer

Union Pacific Corporation

February 23, 2007

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.