FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549-1004

(Mark One)

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

For the quarterly period ended September 30, 1998

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	13-2626465
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1717 Main Street, Suite 5900, Dallas, Texas
(Address of principal executive offices)

75201
(Zip Code)

(214) 743-5600
(Registrant's telephone number, including area code)

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

YES X NO
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As of October 31, 1998, there were 247,375,588 shares of the Registrant's Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES
CONDENSED STATEMENT OF CONSOLIDATED INCOME

For the Three Months and Nine Months Ended September 30, 1998 and 1997
(Amounts in Millions, Except Ratio and Per Share Amounts)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	1998	1997	1998	1997
Operating Revenues	$2,404	$2,575	$7,094	$7,817
Operating Expenses (Note 2):				
Salaries, wages and employee benefits...	926	891	2,779	2,674
Equipment and other rents...............	329	336	1,038	969
Depreciation and amortization...........	253	244	751	732
Fuel and utilities (Note 4).............	193	229	604	766
Purchased services......................	164	171	504	500
Materials and supplies..................	131	119	399	391
Other costs.............................	205	170	937	579
Total...............................	2,201	2,160	7,012	6,611
Operating Income.........................	203	415	82	1,206
Other Income - Net.......................	37	102	113	159
Interest Expense (Note 4)................	(189)	(156)	(526)	(451)
Income (Loss) before Income Taxes.........	51	361	(331)	914
Income Taxes (Benefit) Expense............	19	124	(140)	329
Income (Loss) from Continuing Operations..	32	237	(191)	585
Discontinued Operations (Note 3):				
Income (Loss) from Operations of Discontinued Operations............	-	3	4	(1)
Estimated Loss on Disposal of Discontinued Operations (net of income taxes of $1 million and $199 million, respectively)........	6	-	(256)	-
Income (Loss) from Discontinued Operations.	6	3	(252)	(1)
Net Income (Loss)........................	$ 38	$ 240	$ (443)	$ 584
Earnings Per Share (Note 9):				
Basic:				
Income(Loss)from Continuing Operations..	$ 0.13	$ 0.96	$(0.78)	$ 2.38
Income(Loss)from Discontinued Operations	0.02	0.01	(1.02)	-
Net Income (Loss)......................	$ 0.15	$ 0.97	$(1.80)	$ 2.38
Diluted:				
Income(Loss)from Continuing Operations..	$ 0.13	$ 0.95	$(0.78)	$ 2.36
Income(Loss)from Discontinued Operations	0.02	0.01	(1.02)	(0.01)
Net Income (Loss)......................	$ 0.15	$ 0.96	$(1.80)	$ 2.35
Weighted Average Number of Shares (Basic)..	246.1	245.9	246.0	245.7
Weighted Average Number of Shares (Diluted)	246.7	248.6	246.0	248.0

Cash Dividends Per Share..................	$ 0.20	$ 0.43	$ 0.60	$ 1.29
Ratio of Earnings to Fixed Charges (Note 5)	--	--	0.4	2.5

The accompanying accounting policies and notes to condensed consolidated financial statements are an integral part of these statements.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(Millions of Dollars)
(Unaudited)

ASSETS	September 30, 1998	December 31, 1997
Current Assets:		
Cash and temporary investments	$ 554	$ 89
Accounts receivable - net (Note 4)	401	505
Materials and supplies	308	288
Other current assets	234	357
Investment in Discontinued Operations (Note 3)	518	955
Total Current Assets	2,015	2,194
Investments:		
Investments in and advances to affiliated companies	508	443
Other investments	156	181
Total Investments	664	624
Properties:		
Railroad:		
Road and other	24,624	23,610
Equipment	7,497	7,084
Total Railroad	32,121	30,694
Other	77	70
Total Properties	32,198	30,764
Accumulated depreciation	(5,670)	(5,240)
Properties - Net	26,528	25,524
Other Assets	222	185
Total Assets	$ 29,429	$ 28,527

The accompanying accounting policies and notes to condensed consolidated financial statements are an integral part of these statements.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES
CONDENSED STATEMENT OF CONSOLIDATED FINANCIAL POSITION
(Amounts in Millions, Except Share and Per Share Amounts)
(Unaudited)

LIABILITIES AND STOCKHOLDERS' EQUITY	September 30, 1998	December 31, 1997
Current Liabilities:		
Accounts payable	$ 531	$ 711
Accrued wages and vacation	407	388
Accrued casualty costs	319	318
Dividends and interest	244	293
Income and other taxes	281	263
Debt due within one year	178	229
Other current liabilities (Notes 2 and 7)	820	881
Total Current Liabilities	2,780	3,083
Debt Due After One Year	9,029	8,280
Deferred Income Taxes	5,978	6,284
Accrued Casualty Costs	675	678
Retiree Benefits Obligation	782	752
Other Long-Term Liabilities (Notes 2 and 7)	1,056	1,225
Company-Obligated Mandatorily Redeemable Convertible Preferred Securities (Note 6)	1,500	-
Stockholders' Equity:		
Common stock, $2.50 par value, authorized 500,000,000 shares, 276,244,491 shares issued in 1998, 276,047,556 shares issued in 1997	691	690
Paid-in surplus	4,049	4,066
Retained earnings	4,680	5,271
Treasury stock, at cost, 28,867,358 shares in 1998, 29,045,938 shares in 1997	(1,791)	(1,802)
Total Stockholders' Equity	7,629	8,225
Total Liabilities and Stockholders' Equity	$ 29,429	$ 28,527

The accompanying accounting policies and notes to condensed consolidated financial statements are an integral part of these statements.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

CONDENSED STATEMENT OF CONSOLIDATED CASH FLOWS
For the Nine Months Ended September 30, 1998 and 1997
(Millions of Dollars)
(Unaudited)

	1998	1997
Cash from continuing operations:		
Income (loss)from continuing operations	$ (191)	$ 585
Non-cash charges to income:		
Depreciation and amortization	751	732
Deferred income taxes	(122)	228
Other - net	(182)	(444)
Changes in current assets and liabilities	(96)	17
Cash from continuing operations	160	1,118
Cash flows from investing activities:		
Cash provided by discontinued operations	18	44
Capital investments	(1,760)	(1,407)
Other - net	92	201
Cash used in investing activities	(1,650)	(1,162)
Cash flows from equity and financing activities:		
Dividends paid	(205)	(317)
Debt repaid	(1,751)	(248)
Financings	3,956	645
Other - net	(45)	(25)
Cash provided by equity and financing activities	1,955	55
Net increase in cash and temporary investments	$ 465	$ 11

CONDENSED STATEMENT OF CONSOLIDATED RETAINED EARNINGS
For the Nine Months Ended September 30, 1998 and 1997
(Amounts in Millions, Except Per Share Amounts)
(Unaudited)

	1998	1997
Balance at Beginning of Year	$ 5,271	$ 5,262
Net Income (Loss)	(443)	584
Total	4,828	5,846
Dividends Declared ($0.60 per share in 1998 and $1.29 per share in 1997)	(148)	(318)
Balance at End of Period	$ 4,680	$ 5,528

The accompanying accounting policies and notes to condensed consolidated financial statements are an integral part of these statements.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Responsibilities for Financial Statements - The condensed consolidated financial statements are unaudited and reflect all adjustments (consisting only of normal and recurring adjustments) that are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The Condensed Statement of Consolidated Financial Position at December 31, 1997 is derived from audited financial statements. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in the Union Pacific Corporation (the Corporation or UPC) Annual Report to Shareholders incorporated by reference in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1997. The results of operations for the three and nine months ended September 30, 1998 are not necessarily indicative of the results for the entire year ending December 31, 1998. Certain 1997 amounts have been reclassified to conform to the 1998 financial statement presentation.

2. Acquisition of Southern Pacific Rail Corporation (Southern Pacific or SP) - In connection with the continuing integration of Union Pacific Railroad Company (UPRR or the Railroad) and its predecessors with Southern Pacific's rail operations, UPC is continuing to eliminate duplicate positions (primarily positions other than train crews), relocate positions, merge or dispose of redundant facilities, dispose of certain rail lines and cancel uneconomical and duplicative SP contracts. The Corporation has also repaid certain of Southern Pacific's debt obligations. UPC recognized a $958 million liability in the Southern Pacific purchase price allocation for costs associated with SP's portion of these activities.

   Through September 30, 1998, approximately $460 million in merger-related costs were charged against these reserves, principally consisting of approximately $246 million and $76 million, respectively, for severance and relocation payments made to approximately 4,400 Southern Pacific employees and approximately $96 million for labor protection payments. The Corporation expects the remaining merger payments will be made over the course of the next three years as the rail operations of UPRR and SP are integrated and labor negotiations are completed and implemented.

   In addition, the Railroad expects to incur approximately $165 million in acquisition-related costs for severing or relocating UPRR employees, disposing of certain UPRR facilities, training and equipment upgrading. These costs will be charged to expense as incurred over the next three years. Results for the three and nine months ended September 30, 1998 include $7 million and $36 million, after tax, respectively, in acquisition-related operating costs.

3. Divestitures - Overnite: In May 1998, the Corporation's Board of Directors approved a formal plan to divest UPC's investment in Overnite Transportation Company (Overnite or OTC). As a result, UPC recorded a $256 million after-tax loss (net of taxes of $199 million) from the planned disposition of OTC, including results for the third quarter of 1998 which are adjusted for certain intercompany items. Although a planned initial public offering of the Corporation's entire interest in Overnite (the IPO) was postponed in the third quarter, management is continuing to monitor market conditions and will proceed with the IPO when conditions warrant. Management is also considering alternate means of disposing of its investment in OTC.

OTC's results have been reported as a discontinued operation in the accompanying consolidated financial statements for all periods presented. Prior periods' financial statements have been restated to conform with the current year's presentation. Operating revenues for OTC were $257 million and $776 million, respectively, for the three and nine months ended September 30, 1998 and $946 million and $961 million for the years ended December 31, 1997 and 1996, respectively. OTC's capital expenditures were $11 million and $37 million, respectively, for the three and nine months ended September 30, 1998 and $40 million and $10 million for the years ended December 31, 1997 and 1996, respectively. OTC's net income was $6 million and $13 million, respectively, for the three and nine months ended September 30, 1998, adjusted for certain intercompany items. OTC reported net income of $4 million for the year ended December 31, 1997 and a net loss of $43 million for the year ended December 31, 1996 (including goodwill amortization of $20 million in both periods).

UPC intends to use the cash proceeds from the disposition of OTC for general corporate purposes, including repayment of borrowings, working capital requirements and capital expenditures.

Skyway: On November 4, 1998, the Corporation completed the sale of Skyway Freight Systems, Inc. (Skyway), a wholly owned subsidiary. Skyway provides contract logistics and supply chain management services. The proceeds will be used to repay outstanding debt.

4. Financial Instruments - The Corporation uses derivative financial instruments in limited instances for other than trading purposes to manage risk as it relates to fuel prices and interest rates. Where the Corporation has fixed interest rates or fuel prices through the use of swaps, futures or forward contracts, the Corporation has mitigated the downside risk of adverse price and rate movements; however, it has also limited future gains from favorable movements. The total credit risk associated with the Corporation's counterparties was $23 million at September 30, 1998. The Corporation has not been required to provide, nor has it received, any collateral relating to its hedging activities.

The fair market value of the Corporation's derivative financial instrument positions at September 30, 1998 was determined based upon current fair market values as quoted by recognized dealers or developed based upon the present value of future cash flows discounted at the applicable zero coupon U.S. Treasury rate and swap spread.

Interest Rates - At September 30, 1998, the Corporation had outstanding interest rate swaps on $152 million of notional principal amount of debt (2% of the total debt portfolio) with a gross fair market value asset position of $22 million and a gross fair market value liability position of $20 million. These contracts mature over the next two years. Interest rate hedging activity had no significant effect on interest expense in the third quarter of 1998 and increased interest expense by $3 million in the third quarter of 1997.

Fuel - At September 30, 1998, the Railroad had hedged approximately 49% of its estimated remaining 1998 diesel fuel consumption at $0.51 per gallon, on a Gulf Coast basis and approximately 37% of its estimated 1999 diesel fuel consumption at $0.42 per gallon, on a Gulf Coast basis. At September 30, 1998, the Railroad had outstanding swap agreements covering its fuel purchases of $291 million, with gross and net asset positions of less than $1 million. Fuel hedging increased third quarter 1998 fuel expense by $25 million and third quarter 1997 fuel expense by approximately $1 million. For the nine months ended September 30, fuel hedging increased 1998 fuel expense by $59 million and 1997 fuel expense by approximately $1 million.

Sale of Receivables - The Railroad has sold, on a revolving basis, an undivided percentage ownership interest in a designated pool of accounts receivable. The amount of receivables sold fluctuates based upon the availability of the designated pool of receivables and is directly affected by changing business volumes and credit risks. At December 31, 1997 and September 30, 1998, accounts receivable are presented net of the $650 million and $580 million, respectively, of receivables sold.

5. Ratio of Earnings to Fixed Charges - The ratio of earnings to fixed charges has been computed on a total enterprise basis. Earnings represent income from continuing operations less equity in undistributed earnings of unconsolidated affiliates, plus income taxes and fixed charges. Fixed charges represent interest, amortization of debt discount and expense, and the estimated interest portion of rental charges. For the nine months ended September 30, 1998, fixed charges exceeded earnings by approximately $365 million.

6. Convertible Preferred Securities - On April 1, 1998, the Corporation completed a private placement of $1.5 billion of 6-1/4% preferred securities (the Convertible Preferred Securities) of Union Pacific Capital Trust (the Trust), a statutory business trust sponsored by the Corporation. Each of the Convertible Preferred Securities has a stated liquidation amount of $50 and is convertible, at the option of the holder thereof, into shares of UPC's common stock, par value $2.50 per share (the UPC Common Stock), at the rate of 0.7257 shares of UPC Common Stock for each of the Convertible Preferred Securities, equivalent to a conversion price of $68.90 per share of UPC Common Stock, subject to adjustment under certain circumstances. The Corporation owns all of the common securities of the Trust. Proceeds from the sale of the Convertible Preferred Securities were used for repayment of borrowings.

7. Commitments and Contingencies - There are various claims and lawsuits pending against the Corporation and certain of its subsidiaries. Certain customers have submitted claims for damages related to shipments delayed by the Railroad as a result of congestion problems, and certain customers have filed lawsuits seeking relief related to such delays. The nature of the damages sought by claimants includes, but is not limited to, contractual liquidated damages, freight loss or damage, alternative transportation charges, additional production costs, lost business and lost profits. In addition, some customers have asserted that they have the right to cancel contracts as a result of alleged material breaches of such contracts by the Railroad. UPC continues to evaluate the adequacy of its reserves for customer claims.

The Railroad is also party to certain regulatory proceedings before the Surface Transportation Board of the U.S. Department of Transportation (STB). One proceeding pertains to rail service problems in the western United States. As an outgrowth of this proceeding, the STB issued an emergency service order imposing certain temporary measures on the Railroad designed, among other things, to reduce congestion on the Railroad's lines in the Houston, Texas area. On July 31, 1998, the STB terminated the emergency service order. The STB kept in place the requirement that the Railroad report certain service data, which the Railroad had acknowledged the STB had the authority to impose under a provision of the Interstate Commerce Act separate from the emergency service provision. The STB also prescribed, under another statutory provision separate from the emergency service provision, a 45-day "wind-down" period during which certain rights that Texas Mexican Railway Company (Tex Mex) and The Burlington Northern and Santa Fe Railway Company (BNSF) had received under the emergency service order to handle the Railroad's traffic in Houston would be continued. The 45-day "wind-down" period expired September 17, 1998. A second proceeding, initiated under the STB's continuing oversight jurisdiction with respect to the merger of the Corporation and Southern Pacific (and separate from the STB's regularly scheduled annual proceeding to review the implementation of the merger and the effectiveness of the conditions that the STB imposed on it), is for the purpose of considering the justification for and advisability of any proposals for new remedial conditions to the merger as they pertain to service in the Houston, Texas area and surrounding coastal areas of Texas and Louisiana. Various parties have filed applications in this proceeding seeking the imposition of additional conditions to the merger including, among other things, the granting of overhead trackage rights on certain of the Railroad's lines in Texas, "neutral switching supervision" on certain of the Railroad's branch lines, the opening to other railroads and switching by a "neutral switching company" of numerous industries now exclusively served by the Railroad in the Houston area, and the compulsory sale or lease to other carriers of certain of the Railroad's lines and facilities. The Railroad's response in opposition to the condition requests was filed on September 18, 1998, and rebuttal in support of the condition applications was filed on October 16, 1998. The Railroad believes that the applications are without merit and vigorously opposed them in its September 18 submission. Separately from this proceeding, a shortline railroad, the Arkansas, Louisiana and Mississippi Railroad (AL&M), has filed a request that an additional condition be imposed on the merger allowing AL&M to interchange traffic with BNSF. The Railroad has also opposed this request. In addition, the STB has initiated various inquiries and formal rulemaking proceedings regarding certain elements of rail regulation following two days of hearings by the STB in April 1998 at the request of two members of Congress and in response to shippers' expressions of concern regarding railroad service quality, railroad rates and allegedly inadequate regulatory remedies. There can be no assurance that the proposals advanced by parties in the remedial conditions proceeding or the proceedings initiated in response to the rail regulation hearings will not be approved in some form. Should the STB or Congress take aggressive action in the rail regulation proceedings (e.g., by making purportedly competition-enhancing changes in rate and route regulation and "access" provisions), the adverse effect on the Railroad and other rail carriers could be material.

The Corporation is also subject to Federal, state and local environmental laws and regulations, and is currently participating in the investigation and remediation of numerous sites. Where the remediation costs can be reasonably determined, and where such remediation is probable, the Corporation has recorded a liability. In addition, the Corporation periodically enters into financial and other commitments and has retained certain contingent liabilities upon the disposition of formerly-owned operations.

In addition, UPC and certain of its officers and directors are currently defendants in two purported class actions, which have been consolidated into one proceeding. The consolidated complaint alleges, among other things, that the Corporation violated the federal securities laws by failing to disclose material facts and making materially false and misleading statements concerning the service, congestion and safety problems encountered following the Corporation's acquisition of Southern Pacific in 1996. These lawsuits were filed in late 1997 in the United States District Court for the Northern District of Texas and seek to recover unspecified amounts of damages.

Management believes that the plaintiffs' claims are without merit and intends to defend them vigorously. The defendants have moved to dismiss this action, and the motion has been fully briefed.

In addition to the class action litigation, certain current and former directors of the Corporation and the Railroad were named as defendants in a purported derivative action filed on behalf of the Corporation and the Railroad in the United States District Court for the Northern District of Texas in late 1997. The derivative action alleged, among other things, that the named current and former directors breached their fiduciary duties to the Corporation and the Railroad by approving the acquisition of Southern Pacific. The defendants moved to dismiss the derivative action. In response, the plaintiffs sought to voluntarily dismiss their claims, and the derivative action was dismissed, without prejudice, by order of the court dated May 26, 1998.

On September 14, 1998, a different shareholder plaintiff filed a new purported derivative action on behalf of the Corporation and the Railroad in the District Court of Tarrant County, Texas, naming as defendants the Corporation, the Railroad, and the current and certain former directors of the Corporation and the Railroad. This new derivative action alleges, among other things, that the named current and former directors breached their fiduciary duties to the Corporation and the Railroad by approving and implementing the Southern Pacific merger without informing themselves of its impact or ensuring that adequate controls were put in place and by causing UPC and the Railroad to make misrepresentations about the Railroad's service problems to the financial markets and regulatory authorities. The defendants believe that these claims are without merit and intend to defend them vigorously.

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

8. Accounting Pronouncements - In June 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 130, "Reporting Comprehensive Income" (FAS 130), that is effective for all periods in 1998, including interim periods. UPC has adopted the provisions of FAS 130 effective January 1, 1998. The components of comprehensive income include, among other things, changes in the market value of derivative instruments which qualify for hedge accounting under Statement No. 133, when adopted, and net loss recognized as an additional pension liability but not yet recognized as net periodic pension cost. The impact of adopting FAS 130 for the nine months ended September 30, 1998 was approximately a $2 million after-tax reduction of net income.

   Also in June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information", that is effective in 1998. The Corporation currently complies with the provisions of this Statement.

In February 1998, the FASB issued Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (FAS 132), that is effective in 1998. FAS 132 revises and standardizes disclosures required by FAS 87, 88, and 106. This Statement will only affect footnote disclosure and will not otherwise have an effect on the consolidated financial statements of the Corporation.

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), that will be effective in 2000. Management is just beginning the process of determining the effect, if any, FAS 133 will have on the Corporation's financial statements.

9. Earnings Per Share - The following table provides a reconciliation between basic and diluted earnings per share, in accordance with FAS 128, "Earnings Per Share":

(Dollars in Millions, Except Per Share Amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	1998	1997	1998	1997
Income Statement Data:				
Income(Loss)from Continuing Operations	$ 32	$ 237	$(191)	$ 585
Interest associated with Convertible Preferred Securities	15	-	29	-
Income (Loss) Available to Common Stockholders from Continuing Operations	47	237	(162)	585
Income (Loss) from Discontinued Operations	6	3	(252)	(1)
Net Income (Loss) Available to Common Stockholders	38	240	(443)	584
Weighted Average Number of Shares Outstanding:				
Basic	246.1	245.9	246.0	245.7
Dilutive effect of common stock equivalents	22.4	2.7	16.0	2.3
Diluted	268.5	248.6	262.0	248.0
Earnings Per Share:				
Basic:				
Income (Loss) from Continued Operations...................	$0.13	$0.96	$(0.78)	$2.38
Income (Loss) from Discontinued Operations...................	0.02	0.01	(1.02)	-
Net Income (Loss)...............	$0.15	$0.97	$(1.80)	$2.38
Diluted:				
Income (Loss) from Continued Operations...................	$0.13 (a)	$0.95	$(0.78)(a)	$2.36
Income (Loss) from Discontinued Operations	0.02	0.01	(1.02)	(0.01)
Net Income (Loss)...............	$0.15 (b)	$0.96	$(1.80)(b)	$2.35

(a) Excludes the interest associated with the Convertible Preferred Securities, which are anti-dilutive.

(b) Excludes the effect of anti-dilutive common stock equivalents, which are 21.8 million and 16.0 million, respectively, for the three and nine months ended September 30, 1998.

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

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES
RESULTS OF OPERATIONS

Overview - During the second quarter of 1998, Union Pacific Corporation (the Corporation or UPC) restated all periods to reflect Overnite Transportation Company (Overnite or OTC) as a discontinued operation due to its planned sale. Since Union Pacific Railroad Company (UPRR or the Railroad) is the remaining significant operating company of the Corporation, corporate expenses, previously considered non-operating expenses, are now included in Other Costs for all periods presented. Previously, such expenses were presented below operating income. The impact of reclassifying such expenses as operating expenses was to reduce operating income by $18 million and $69 million, respectively, for the three and nine months ended September 30, 1998 and $42 million and $96 million, respectively, for the three and nine months ended September 30, 1997.

Southern Pacific Rail Corporation (Southern Pacific or SP) Acquisition - In September 1996, the Corporation completed its acquisition of Southern Pacific and, throughout 1997 and 1998, continued the process of integrating the operations of SP's rail subsidiaries into the operations of the Railroad and its predecessors. The Corporation expects to complete the full integration of the operations of UPRR and the Southern Pacific rail subsidiaries over the next three years. The Corporation believes that the full implementation of the merger will result in shorter routes, faster transit times, better on-time performance, expanded single-line service and more efficient traffic flow.

As a result of the SP acquisition, UPC now operates the largest rail system in the United States, with 35,000 route miles linking Pacific Coast and Gulf Coast ports to the Midwest and eastern U.S. gateways.

Overnite Divestiture - In May 1998, the Corporation's Board of Directors approved a formal plan to divest UPC's investment in Overnite. See Note 3 to the condensed consolidated financial statements, which is incorporated herein by reference, for a complete discussion of the effects of the planned sale of OTC.

Congestion and Service Issues - As previously reported, congestion in and around Houston and the coastal areas of Texas and Louisiana (the Gulf Coast region) began to have a material adverse effect on the Corporation's operations and earnings in the third quarter of 1997. System congestion started in the Gulf Coast region and spread throughout the system during the third and fourth quarters of 1997, and continued to adversely affect the Railroad's operations and financial results during the first nine months of 1998. The Railroad has adopted certain measures to alleviate the congestion problems, and implementation of these service recovery measures has significantly relieved congestion in the Gulf Coast region.

During the third quarter of 1998, service in the Railroad's Central Corridor between Chicago and Utah was slowed by track maintenance and capacity expansion work which is expected to be completed during 1999. UPRR also experienced congestion on its lines in Northern California, in the Los Angeles Basin and on the Sunset Route west of El Paso, Texas, caused in part by two derailments on July 8 and July 9, 1998, tight crew supply and limited track capacity in that region, and the learning curve associated with the integration of the computer system of Southern Pacific in the region with the Railroad's computer system, which commenced July 1, 1998. The Railroad has eliminated this congestion by various measures, including rerouting trains from this region to other portions of its system. During the late third quarter and early fourth quarter of 1998, the Railroad's operations were also adversely affected by severe weather in the southern portion of its system, including Hurricane Georges, which disrupted operations in New Orleans and other parts of Louisiana during the last three days of September, heavy rains that moved from northern Texas through Oklahoma and into the Kansas City area on October 3 and 4, heavy rains that resulted in severe flooding in central and southern Texas later in the month of October, and heavy rains and flooding across parts of Oklahoma and Kansas in early November. Despite these weather problems, the Railroad has been able to respond quickly to reroute traffic, repair damages caused by washouts and restore service without severe or lengthy disruptions to the Railroad's operations, reflecting the Railroad's overall progress in addressing the service and congestion problems. Although progress has been made in improving service, the Corporation expects these problems to continue to have an adverse impact on 1998 results.

During the third quarter of 1998, the Corporation announced a new long-term strategy to improve the effectiveness of the organization. This effort will be focused on culture change, business process improvement and decentralization, each of which is designed to improve customer satisfaction, increase employee engagement, and improve financial results.

Quarter Ended September 30, 1998 Compared to September 30, 1997

The Corporation returned to profitability in the third quarter of 1998 after three consecutive quarterly losses by posting earnings of $38 million, down from $240 million in the third quarter of 1997. Despite service improvements during the quarter, year-over-year results were affected by service problems in the western part of the Railroad's system, which were resolved during the quarter, traffic slow-downs related to major track maintenance and capacity expansion efforts along the Railroad's Central Corridor (scheduled to be completed during 1999), severe weather in the southern portion of the Railroad's system and the cost of continued service recovery. Operating income of $203 million for the third quarter of 1998 compares to $415 million in last year's third quarter, reflecting a year-over-year increase in pre-tax service-related costs and lost revenues, as service issues began late in the third quarter of 1997. The operating ratio for the third quarter of 1998 was 91.6%, up 7.7 points from 1997's 83.9%. Lost revenue and costs related to service performance were the key drivers of the change.

REVENUE SUMMARY - Operating revenues were down $171 million (7%) at $2,404 million. Carloadings for the third quarter of 1998 of 2,021,969 were down 149,127 units, or 7%, from year-ago loads of 2,171,096. Declines were led by continuing service issues, weakening demand for whole grain exports (due to strong worldwide crop yields) and a soft export market (caused by the Asian currency crisis impact). Average revenue per car (ARC) was slightly off versus last year for the quarter at $1,126 per car from last year's $1,131. The decline in ARC was driven by large volumes of very low-ARC empty repositioning moves for intermodal traffic, higher low-ARC stone moves, shortfalls of high-ARC steel traffic, and large volumes of very low-ARC storage-in-transit (SIT) moves in the chemical business. The following table summarizes the quarter-over-quarter change in rail commodity revenue (CR) and ARC by commodity type (carloads in thousands and commodity revenues in millions):

	Cars	ARC	CR	Change Cars	Change ARC	Change CR	% Change Cars	% Change ARC	% Change CR
Automotive	141	$1,447	$ 204	(8)	$(14)	$ (14)	(6)	(1)	(6)
Agriculture	213	1,566	334	(11)	38	(9)	(5)	2	(3)
Intermodal	633	604	382	(106)	(34)	(89)	(14)	(5)	(19)
Chemicals	232	1,657	385	(18)	(71)	(47)	(7)	(4)	(11)
Energy	449	1,148	516	10	51	33	2	5	7
Industrial	354	1,289	456	(16)	(88)	(53)	(4)	(6)	(10)
Total	2,022	$1,126	$2,277	(149)	$ (5)	$(179)	(7)	--	(7)

Agricultural Products revenues fell 3% for the quarter, as loads finished down 5% and ARC improved 2%. Key drivers included diversions of wet corn milling products from the Railroad to trucks and other rails; congestion, which limited canned and packaged, wheat, frozen and food grains categories of agricultural products business; inexpensive corn replacing feed-additives which lowered livestock/feed moves; and depressed corn prices and very soft export demand which hurt corn traffic. Quarter-over-quarter ARC was up 2% primarily due to price increases and improvements in haul length for wheat moves.

Automotive revenues were down 6%, reflecting a 6% decline in volume and a 1% decrease in ARC. Finished vehicles volumes were down 1% primarily due to the impact of the General Motors (GM) strike, which cost the Railroad approximately $21 million for the quarter. International business, down 22% in loadings, experienced lower Asian imports in addition to service-related diversions. These declines were partially offset by Ford's new Mixing Center business and strong Chrysler volumes (up 18%). Parts volumes lost 10% year-over-year as Ford's volumes fell from the Railroad's equipment shortages and GM switched from intermodal containers to boxcars, which switch lowered parts carloadings as more parts fit in each boxcar. ARC fell 1% as a result of large shortfalls of higher-ARC finished vehicles due to the GM strike.

Chemicals shipments fell 7%, while ARC dropped 4% when compared to 1997 results. Congestion-related diversions to truck, barge and other railroads plagued most business lines (especially liquid and dry chemicals). In addition, the Asian crisis significantly reduced the demand for export soda ash, as carloads were down nearly 11%, while unplanned mine shutdown not only reduced traffic for phosphate rock, but reduced the overall demand for phosphorus. The 4% decline in ARC was largely due to lower high-ARC liquid and dry and soda ash moves, strong movements of low-ARC plastics (softness in international market and weakening prices hurt higher-ARC volumes) and the loss of long-haul business due to slow train speeds.

Energy movements were up 2% versus 1997, while ARC was up 5%. Maintenance and capacity-driven congestion in the Central Corridor continued to hamper Powder River Basin (PRB) trains. However, PRB trains per day showed gains year-over-year (25.2 in 1998 from 24.3 a year ago), and longer trains (119.7 cars/train in the third quarter of 1998 vs. 117.3 in 1997) helped boost quarter-over-quarter volumes. Colorado and Utah volumes were also up for the quarter due to better service performance than 1997 levels. The 5% increase in ARC was primarily a result of more high-ARC PRB traffic.

Industrial Products posted a 4% volume decline and a 6% decline in ARC, resulting in a 10% drop in revenues. Volumes continued to be plagued by instances of equipment shortages and service issues (caused by slowed local switching and congestion). A large portion of industrial products moves occur in the South where congestion hit hardest, although service levels have continued to improve. Construction materials, metallic minerals, cement, ferrous scrap, and consumer/machinery moves were all affected by Southern congestion. In addition, several of the same commodities have also been affected by Central Corridor congestion (due to maintenance and capacity expansion) and congestion in the Western portion of the Railroad's system, as the final portion of the Railroad's operating system was brought on-line in July 1998. ARC fell 6% due to product mix issues, largely strong low-ARC stone moves and shortfalls of high-ARC steel traffic.

Intermodal revenue showed a 19% year-over-year decline, as volumes fell 14% and ARC fell 5%. Congestion issues and related diversions severely affected several intermodal segments, especially Intermodal Marketing Company (IMC)/truckload and less-than-truckload (LTL)/premium. Volumes also suffered from weak exports (Asian currency crisis). A partial offset was the impact of new APL business and the high demand for containers. ARC fell as traffic mix shortfalls (relatively fewer high-ARC IMC/truckload and LTL/premium loads) were exacerbated by increased volumes of low-ARC empty repositioning moves--as equipment imbalances precipitated by strong imports and weak exports caused customers to significantly increase empty container repositioning.

EXPENSE SUMMARY - Operating expenses were $2,201 million for the third quarter of 1998, $41 million (2%) worse than the third quarter 1997 operating expenses of $2,160 million. However, third quarter 1998 operations did improve significantly from the second quarter of 1998. The following statistical table reflects the improvements in the Railroad's operating performance:

	1997			1998		
(Average Units Except Ratios)	2nd Qtr	3rd Qtr	4th Qtr	1st Qtr	2nd Qtr	3rd Qtr
Seven-Day Carloadings (000's)	170.7	165.9	153.6	152.5	154.9	155.3
Train Speed (MPH)	18.4	15.0	13.2	13.8	14.0	14.4
Car Cycle Times (Days)	12.7	15.2	16.8	17.6	16.4	15.9
Operating Ratio	80.9	82.0	102.5	97.7	105.1	90.5

Labor Expense was $35 million (4%) higher than 1997. Slower train speeds (which increased the number of train crews required), inflation and other service-related cost overruns contributed to higher costs. These higher costs were partially offset by lower volumes (gross-ton miles were down 3%) and the elimination of duplicative positions as part of merger implementation.

Depreciation expense grew $9 million, or 4%, to $253 million, driven by the Railroad's extensive capital programs in 1997 and 1998. The Railroad spent over $2 billion on capital projects in 1997 and expects to spend $2.2 billion in 1998, of which $400 million is merger-related.

Materials and Supplies costs for the quarter were up $12 million to $131 million, or 10%, from third quarter 1997. The increase reflects increased maintenance of locomotives, freight cars and roadway machines. Material costs for signal and communications equipment were also higher year-over-year.

Fuel and Utilities expenses were down $36 million, or 16%, from 1997. A reduction in gross-ton miles year-over-year (down 3%) generated volume-related fuel savings of $6 million versus 1997. Prices were down 7 cents per gallon to 60 cents, saving $20 million. The fuel consumption rate of 1.36 gallons per thousand gross-ton miles improved 3% from last year's 1.40, lowering the Railroad's fuel costs by $6 million. Hedges of 58% of third quarter fuel volumes increased fuel costs by $25 million, or 9 cents per gallon (included in the cost per gallon information above). These hedges have increased fuel expense by $59 million year-to-date.

Rent Expense was down $7 million, or 2%, versus 1997. Cycle times were above normal at 15.9 days. However, cycles were only 0.7 days higher than year-ago levels, resulting in increased year-over-year service-related costs of $5 million. Locomotives leased for service recovery resulted in an additional $4 million. However, these increases were more than offset by lower volumes due to service shortfalls.

Purchased Services and Other Costs increased $28 million, or 8%, from 1997, reflecting continued customer relations and service recovery costs. Service recovery increased other costs by $43 million, driven by higher liquidated damages on coal contracts, while crew transportation costs were higher by $4 million. These cost increases were offset by BNSF's increased use of trackage rights and merger-related cost savings on computer costs and contract pricing.

NON-OPERATING COSTS - Other income, net fell $65 million, or 64%, from 1997, primarily reflecting reduced asset sales. Interest expense rose $33 million, reflecting higher debt levels and higher interest rates resulting from a credit rating downgrade which occurred earlier in 1998. Income taxes fell $105 million from 1997, primarily the result of lower pre-tax income.

Nine Months Ended September 30, 1998 Compared to September 30, 1997

The Corporation posted a loss of $443 million for the first nine months of 1998, compared to earnings of $584 million in 1997. 1998 results were affected by slow train speeds and service issues that have been lessening as the year has progressed. Operating income of $82 million for the period compares to $1,206 million last year, reflecting a year-over-year increase in pre-tax service-related costs and lost revenues, as service issues began late in the third quarter of 1997. The year-to-date operating ratio for 1998 was 98.8%, up 14.2 points from 1997's 84.6%.

REVENUE SUMMARY - Operating revenues were down $723 million (9%) at $7,094 million. Carloadings for the period were down 549,061 units, or 8%, from year-ago loads of 6,504,713. Declines were led by continuing service issues, weakening demand for whole grain exports (due to strong worldwide crop yields), the GM strike and a soft export market (caused by the Asian currency crisis impact). Average revenue per car was off 1% versus last year at $1,134 per car from last year's $1,151. The decline in ARC was driven by large volumes of very low-ARC empty repositioning moves for intermodal traffic; higher low-ARC stone moves and shortfalls of high-ARC steel traffic; large volumes of very low-ARC storage-in-transit moves in the chemical business; the absence of long-haul Pacific Northwest grain moves (due to the Asian currency crisis); and the new shorter-distance Ford traffic. The following table summarizes the year-over-year change in rail commodity revenue and ARC by commodity type (carloads in thousands and commodity revenues in millions):

				Change			% Change		
	Cars	ARC	CR	Cars	ARC	CR	Cars	ARC	CR
Automotive	466	$1,455	$ 677	(8)	$(38)	$ (29)	(2)	(3)	(4)
Agriculture	610	1,543	942	(88)	(43)	(166)	(13)	(3)	(15)
Intermodal	1,859	601	1,116	(282)	(26)	(227)	(13)	(4)	(17)
Chemicals	681	1,699	1,158	(63)	(72)	(161)	(8)	(4)	(12)
Energy	1,319	1,138	1,501	(14)	20	11	(1)	2	1
Industrial	1,021	1,332	1,359	(94)	(29)	(159)	(8)	(2)	(10)
Total	5,956	$1,134	$6,753	(549)	$(17)	$(731)	(8)	(1)	(10)

EXPENSE SUMMARY - Operating expenses were $7,012 million for the nine months ended September 30, 1998, $401 million (6%) higher than 1997 operating costs of $6,611 million. Labor costs were $105 million (4%) higher than 1997. Slower train speeds caused the need for increased train crew levels, while inflation and other service-related cost overruns contributed to higher costs. These higher costs were partially offset by lower volumes (carloads down 8%) and the elimination of duplicative positions as part of merger implementation. Depreciation expense grew $19 million, or 3%, to $751 million, driven by the Railroad's extensive capital programs in 1997 and 1998. Materials and supplies costs were up $8 million to $399 million, or 2%, from 1997, reflecting increased maintenance of locomotives and freight cars, and higher material costs. Fuel and utilities expenses were down $162 million, or 21%, from 1997. A reduction in gross-ton miles year-over-year (down 7%) generated volume-related fuel savings, while prices fell 9 cents per gallon (13%) to 62 cents. Rent expense was up $69 million, or 7%, versus 1997. Slower train speeds caused car cycle times to run 3.1 days above 1997 levels. Locomotives leased for service recovery also increased rent costs year-over-year. These higher costs were offset by lower volumes due to service shortfalls. Other costs, including purchased services, increased $362 million, or 34%, from 1997, largely reflecting costs associated with the resolution of customer claims, as well as higher property taxes, contract services and legal costs.

NON-OPERATING COSTS - Other income, net declined $46 million reflecting the absence of the 1997 signboard business sale and various line sales. Interest costs increased $75 million to $526 million, reflecting higher interest costs for borrowings to fund capital spending which could not be funded from operating cash flow at the Railroad due to the effects of service recovery. Income taxes changed by $469 million to a benefit of $140 million, primarily the result of lower pre-tax income.

CHANGES IN FINANCIAL CONDITION AND OTHER DEVELOPMENTS

FINANCIAL CONDITION - For the nine months ended September 30, 1998, cash from continuing operations was $160 million, compared to $1,118 million in 1997. This $958 million decrease primarily reflects lower earnings and timing of working capital requirements due to service issues, as well as merger consolidation spending.

Cash used in investing activities was $1,650 million in the first nine months of 1998 compared to $1,162 million in 1997. This 42% increase primarily reflects higher capital spending for equipment, track renewal, capacity and merger integration.

Cash provided by equity and financing activities was $1,955 million in the first nine months of 1998 compared to $55 million in 1997. This change in cash provided by equity and financing activities principally reflects the need for UPC to borrow funds to support capital spending levels and to replace operating cash shortfalls caused by service issues. The ratio of debt to debt plus equity decreased to 50.2% at September 30, 1998, compared to 50.8% at December 31, 1997 and 49.7% at September 30, 1997. This change resulted from the private placement of the Convertible Preferred Securities described below, which are considered as equity in the calculation of the ratio of debt to debt plus equity, somewhat offset by increased debt levels.

FINANCING ACTIVITIES - On April 1, 1998, the Corporation completed a private placement of $1.5 billion of 6-1/4% preferred securities of Union Pacific Capital Trust, a statutory business trust sponsored by the Corporation (the Trust), which securities are convertible into common stock of the Corporation at an initial conversion price of $68.90 (the Convertible Preferred Securities).

The Convertible Preferred Securities are presented as a separate line item in the consolidated balance sheet as of September 30, 1998 between liabilities and equity and appropriate disclosures are included in the notes to the financial statements (see Note 6 to the condensed consolidated financial statements). For financial reporting purposes, the Corporation has recorded distributions payable on the Convertible Preferred Securities as an interest charge to earnings in the statement of consolidated income.

In July, 1998 the Corporation entered into a new credit facility which increased its total lines of credit to $4 billion. In late September 1998, the Railroad successfully completed a leveraged lease financing of 72 locomotives via the issuance of Pass Through Certificates in the principal amount of $101.5 million with a total equipment cost of $142.9 million. The related leases are being accounted for as operating leases.

In mid-October 1998, the Corporation issued $225 million in senior unsecured notes which mature in 2001. Also in October, the Corporation designated the balance of its shelf registration statement ($1.225 billion) as potentially available for a medium-term note program. By November 12, 1998, the Corporation had issued $418 million under the medium-term note program and intends to continue to issue debt from time to time either pursuant to the medium-term program or in underwritten transactions, with the proceeds of such issuances to be used for general corporate purposes, including repayment of maturing debt or commercial paper borrowings.

OTHER MATTERS

Accounting Pronouncements - In June 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 130, "Reporting Comprehensive Income" (FAS 130), that is effective for all periods in 1998, including interim periods. UPC has adopted the provisions of FAS 130 effective January 1, 1998. The components of comprehensive income include, among other things, changes in the market value of derivative instruments which qualify for hedge accounting under Statement No. 133, when adopted, and net loss recognized as an additional pension liability but not yet recognized as net periodic pension cost. The impact of adopting FAS 130 for the nine months ended September 30, 1998 was approximately a $2 million after-tax reduction of net income.

Also in June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information", that is effective in 1998. The Corporation currently complies with the provisions of this Statement.

In February 1998, the FASB issued Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" (FAS 132), that is effective in 1998. FAS 132 revises and standardizes disclosures required by FAS 87, 88, and 106. This Statement will only affect footnote disclosure and will not otherwise have an effect on the consolidated financial statements of the Corporation.

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), that will be effective in 2000. Management is just beginning the process of determining the effect, if any, FAS 133 will have on the Corporation's financial statements.

Commitments and Contingencies - There are various claims and lawsuits pending against the Corporation and certain of its subsidiaries. In addition, the Corporation and its subsidiaries are subject to various Federal, state and local environmental laws and are currently participating in the investigation and remediation of various sites. A discussion of certain claims, lawsuits and contingencies is set forth in Note 7 to the condensed consolidated financial statements, which is incorporated herein by reference.

Year 2000 - The Year 2000 (Y2K) compliance project at UPC includes software (internally developed and purchased), hardware and embedded chips inside equipment and machinery, primarily at the Railroad. The Corporation's enterprise-wide project encompasses computer systems and equipment in multiple data centers and a telecommunications network spread over 23 states. Equipment containing embedded computer chips includes locomotives, automated train switching systems, computer aided train dispatching systems, signaling systems, computerized fueling stations, weigh-in-motion scales, crane, lifts, PBX systems, elevators, and computerized monitoring systems throughout UPC. The Corporation began work early on its Y2K project, beginning research in 1994 and completing an impact analysis of its mainframe COBOL systems in 1995. The Y2K project has been a high priority since then.

UPC's Y2K Project is divided into five major initiatives, as follows:

The Mainframe Systems - consists of the Railroad's enterprise-wide mainframe systems. Modifications of these systems are ahead of schedule, and the Corporation estimates that approximately 90% of these systems have been converted, tested and certified as Y2K compliant as of September 30, 1998. The remainder are expected to be completed by December 31, 1998. Periodic audits are planned during 1999 to ensure that certified programs remain Y2K complaint.

The Client Server Systems - consists of the Corporation's enterprise-wide client server systems. Modifications of these systems are on schedule, and the Corporation estimates that approximately 50% of all critical client server systems have been converted, tested, and certified as Y2K compliant as of September 30, 1998. The remainder are expected to be completed by December 31, 1998. The non-critical client server systems are scheduled to be certified as Y2K compliant by mid-1999.

The User Department Developed Systems - consists of both mainframe and PC-based systems developed by internal user departments. Modifications of these systems are on schedule, and the Corporation estimates that approximately 84% of these systems have been converted, tested, and certified as Y2K compliant as of September 30, 1998. Ninety-eight percent of the systems will be completed by December 31, 1998, and the remaining 2% are non-critical systems and will be completed in the first quarter of 1999.

The Vendor Supplied and Embedded Systems - consists of vendor-supplied software, desktop, mainframe and server hardware, databases and operating systems, as well as, equipment and machinery with embedded systems. Work on these components and systems is on schedule, and the Corporation estimates that approximately 90% of the suppliers of these systems have indicated that they have a solid plan in place to be Y2K compliant in a timely manner. The review of the remaining 10% will be completed in 1998, which will result in either solid plans or a contingency direction. To assure safety and Y2K compliance, UPC is testing selected critical software, hardware and embedded systems, even if the vendor has already certified the product. UPC is working with other railroads via involvement in various Association of American Railroad (AAR) committees and is sharing information on the compliance and testing of safety critical components common to the industry. In addition, UPC has helped fund the development of a shared web site for this purpose, and access to this information is now available to participating railroads.

The Electronic Commerce Systems - consists of all electronic exchanges of information with customers, vendors, other railroads, and financial institutions. The railroad industry has agreed on a standard 4-digit year for all electronic interchanges. The Railroad expects to be able to transmit and receive the new EDI standard which involves a 4-digit year by January 1999. In addition, by December 1998, the Railroad will be in position to continue to handle EDI transactions in existing formats with proper interpretation of the century date. UPC is working with the AAR in testing the new standard with other railroads and with its trading partners.

For each of these initiatives, seven major categories of events have been identified for which contingency plans are being developed. These categories are 1) key data - integrity/loss, 2) critical software, 3) critical hardware, 4) communications, 5) critical supplies and suppliers, 6) facilities, and 7) key personnel. The contingency plans also include a Y2K command center which will be staffed 24 hours a day in the fourth quarter of 1999 and continuing into early 2000 for any problems that might occur due to Y2K. The staff will be composed of technical experts to fix or advise what to fix if systems fail, and knowledgeable representatives from each business unit. Preliminary contingency plans are on schedule to be completed by year-end 1998 and will be adjusted as needed in 1999.

As of September 30, 1998, approximately 85% of the Corporation's systems (excluding Overnite) have been certified as Y2K compliant, and the majority of the remaining systems are expected to be modified by year-end 1998. Modification to Overnite's systems comprises approximately 10% of UPC's total Y2K workload, and is estimated to be 70% complete. The remaining modification to Overnite's systems is expected to be completed in the first quarter of 1999. Costs to convert UPC's systems are expensed as incurred. As of September 30, 1998, more than half of the costs of the Y2K project, estimated to be $61 million in total, have been expensed. Although the Corporation believes its systems will be successfully modified, failure to modify its systems and purchased equipment, or failure on the part of other entities with whom UPC exchanges or on whom UPC relies for data, to successfully modify their systems, could materially impact operations and financial results in the year 2000.

CAUTIONARY INFORMATION

Certain information included in this report contains, and other materials filed or to be filed by the Corporation with the Securities and Exchange Commission (as well as information included in oral statements or other written statements made or to be made by the Corporation) contain or will contain, forward-looking statements within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended. Such forward-looking information may include, without limitation, statements that the Corporation does not expect that claims, lawsuits, environmental costs, commitments, contingent liabilities, labor negotiations or other matters will have a material adverse effect on its consolidated financial condition, results of operations or liquidity and other similar expressions concerning matters that are not historical facts, and projections or predictions as to the Corporation's financial or operational results. Such forward-looking information is or will be based on information available at that time, and is or will be subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the statements. Important factors that could cause such differences include, but are not limited to whether the Corporation is fully successful in overcoming its congestion-related problems and implementing its service recovery plans and other financial and operational initiatives, industry competition and regulatory developments, natural events such as severe weather, floods and earthquakes, the effects of adverse general economic conditions, changes in fuel prices, labor strikes, the impact of year 2000 systems problems and the ultimate outcome of shipper claims related to congestion, environmental investigations or proceedings and other types of claims and litigation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Corporation uses derivative financial instruments in limited instances for other than trading purposes to manage risk as it relates to fuel prices and interest rates. Where the Corporation has fixed interest rates or fuel prices through the use of swaps, futures or forward contracts, the Corporation has mitigated the downside risk of adverse price and rate movements; however, it has also limited future gains from favorable movements.

The Corporation addresses market risk related to these instruments by selecting instruments whose value fluctuations correlate highly with the underlying item being hedged. Credit risk related to derivative financial instruments, which is minimal, is managed by requiring minimum credit standards for counterparties and periodic settlements. The total credit risk associated with the Corporation's counterparties was $23 million at September 30, 1998. The Corporation has not been required to provide, nor has it received, any collateral relating to its hedging activities.

The fair market value of the Corporation's derivative financial instrument positions at September 30, 1998 was determined based upon current fair market values as quoted by recognized dealers or developed based upon the present value of future cash flows discounted at the applicable zero coupon U.S. Treasury rate and swap spread.

Interest Rates - The Corporation controls its overall risk relating to fluctuations in interest rates by managing the proportion of fixed and floating rate debt instruments within its debt portfolio over a given period. Derivatives are used in limited circumstances as one of the tools to obtain the targeted mix. The mix of fixed and floating rate debt is largely managed through the issuance of targeted amounts of such debt as debt maturities occur or as incremental borrowings are required. The Corporation also obtains additional flexibility in managing interest cost and the interest rate mix within its debt portfolio by issuing callable fixed rate debt securities.

At September 30, 1998, the Corporation had outstanding interest rate swaps on $152 million of notional principal amount of debt (2% of the total debt portfolio) with a gross fair market value asset position of $22 million and a gross fair market value liability position of $20 million. These contracts mature over the next two years. Interest rate hedging activity had no significant effect on interest expense in the third quarter of 1998 and increased interest expense by $3 million in the third quarter of 1997.

Fuel - Over the past three years, fuel costs approximated 10% of the Corporation's total operating expenses. As a result of the significance of the fuel costs and the historical volatility of fuel prices, the Railroad periodically use swaps, futures and forward contracts to mitigate the impact of fuel price volatility. The intent of this program is to protect the Corporation's operating margins and overall profitability from adverse fuel price changes.

At September 30, 1998, the Railroad had hedged approximately 49% of its estimated remaining 1998 diesel fuel consumption at $0.51 per gallon, on a Gulf Coast basis and approximately 37% of its estimated 1999 diesel fuel consumption at $0.42 per gallon, on a Gulf Coast basis. At September 30, 1998, the Railroad had outstanding swap agreements covering fuel purchases of $291 million, with gross and net asset positions of less than $1 million. Fuel hedging increased third quarter 1998 fuel expense by $25 million and third quarter 1997 fuel expense by approximately $1 million. For the nine months ended September 30, fuel hedging increased 1998 fuel expense by $59 million and 1997 fuel expense by approximately $1 million.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The discussion of certain legal proceedings affecting the Corporation and/or certain of its subsidiaries set forth in Note 7 to the condensed consolidated financial statements included in Item 1 of Part I of this Report is incorporated herein by reference. In addition to those matters, the following proceedings, or developments in proceedings presently pending, arose or occurred during the third quarter of 1998.

SOUTHERN PACIFIC ACQUISITION: As previously reported, various appeals have been filed with respect to the STB's August 12, 1996 decision (the Decision) approving the acquisition of control of Southern Pacific by the Corporation. All of the appeals have been consolidated in the U.S. Court of Appeals for the District of Columbia Circuit. Oral argument in the case was held on September 11, 1998, and the case is awaiting decision. The Corporation believes that it is unlikely that the disposition of the remaining appeals will have a material adverse impact on its consolidated financial condition or its results of operations.

ENVIRONMENTAL MATTERS: As previously reported, the Railroad has received approximately 20 Notices of Violation (NOVs) from the South Coast Air Quality Management District (the District) relating to fumes emitted from idling diesel locomotives at Slover siding near the Railroad's yard in West Colton, California. Trains awaiting crews or room to enter the West Colton yard have been parked at Slover siding with their engines running for various amounts of time, causing exhaust fumes to enter the backyards and homes of residents living along the siding. The District has cited the Railroad for creating a public nuisance pursuant to the California Health and Safety Code and the District's regulations. Each violation carries a maximum civil penalty of $25,000 per day, which may be increased in some circumstances to $50,000 per day. Although the Railroad modified its operating procedures for trains entering the West Colton yard to reduce the problem, the District entered an order with respect to the situation which the Railroad believes is an impermissible burden on interstate commerce and is preempted by applicable federal law. The Railroad has filed an action in Federal district court seeking to overturn the District's order on those grounds, but the court has not yet ruled on this matter. The Railroad and the District have not entered into discussions concerning settlement of the outstanding NOVs pending resolution of this lawsuit. Accordingly, the exact amount of any payment to the District in connection with the NOVs cannot be determined at this time.

The Railroad has received notification that the District Attorney for San Bernardino County, California has opened an investigation into the Railroad's handling of several hazardous material spills in Barstow and West Colton, California. The incident in Barstow involved a rear-end collision between two trains near Barstow in August 1997 that resulted in a spillage of locomotive diesel fuel and leakage from two tank cars containing toxic chemicals. Three incidents in the West Colton yard in 1998 involved leaking tank cars and spills of diesel fuel from a derailed locomotive. The District Attorney's office is investigating allegations that cleanup procedures were not undertaken promptly and required notices were not given in connection with these incidents. An initial indication of fines exceeding $250,000 with respect to these incidents has been communicated by the District Attorney's office. While the Railroad expects to enter into settlement negotiations with the District Attorney's office, the exact amount of any fines or penalties that may be required to be paid as a part of any settlement cannot be determined at this time.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.1 Letter Agreement, dated September 8, 1998, between UPC and Mr. Ivor J. Evans
10.2 1993 Stock Option and Retention Stock Plan of Union Pacific Corporation, as amended as of September 24, 1998
10.3 1988 Stock Option and Restricted Stock Plan of Union Pacific Corporation, as amended as of September 24, 1998
12 Computation of Ratio of Earnings to Fixed Charges
27 Financial Data Schedule

(b) Reports on Form 8-K

On July 23, 1998, UPC filed a Current Report on Form 8-K announcing second quarter 1998 results, which Report was refiled on July 24, 1998 for the purpose of changing EDGAR data concerning address information for UPC.

SIGNATURE

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

Dated: November 12, 1998

UNION PACIFIC CORPORATION
(Registrant)

/s/ John J. Koraleski

John J. Koraleski
Controller
(chief accounting officer and
duly authorized officer)

EXHIBIT INDEX

UNION PACIFIC CORPORATION

EXHIBIT INDEX

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Exhibit 10.1

September 8, 1998

PERSONAL AND CONFIDENTIAL

Mr. Ivor J. Evans
13108 Conway Grove Lane
St. Louis, MO 63141

Dear Ike:

As we discussed in connection with your joining us as President and Chief Operating Officer of Union Pacific Railroad, this confirms that you are guaranteed a bonus of $300,000 for 1999, payable following the end of the year. In addition, in the event you are involuntarily terminated within three years of the date you commence employment, otherwise than for cause, you will be entitled to a severance payment of two years' salary and bonus (not including signing bonus) and early vesting of the Retention Stock awarded to you in connection with your joining Union Pacific. For this purpose, cause shall mean the willful engaging in conduct that is demonstrably and materially injurious to the Company, monetarily or otherwise.

If you concur with the above, please sign the second copy of this letter and return it to me.

Sincerely,

/s/ Dick Davidson

DICK DAVIDSON

Approved:	/s/ IVOR J. EVANS	Dated:	September 8, 1998

Exhibit 10.2

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 and September 24, 1998)

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.

"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 pursuant to the Plan.

"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.

"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.

"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).

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

"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 to Participants, and (ii) determine the terms and conditions of such Options and Awards of Retention Shares, 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 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 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 11 hereof, the maximum number and kind of shares as to which Options or Retention Shares 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 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 under the Plan. Upon the forfeiture (in whole or in part) of a grant of Retention Shares, the shares of Common Stock subject to such forfeiture shall again be available for option or grant as Retention Shares 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) or 8(c), 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 which 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, 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 (i) in the case of disability as described below, 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 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. 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) 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.

(iv) All Other Terminations. Option shall expire, unless exercised, three (3) months after the date of such termination; provided, the Committee may provide for a longer exercise period, not to exceed three (3) years from the date of such 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. In the event that such 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 provide for an exercise period of up to five (5) years from 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 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 provided that (i) in the case of disability as described below, 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 as an incentive stock option (but shall become a non-qualified option exercisable pursuant to the terms of Section 6 hereof less the period already elapsed under such Section), according to the following schedule (unless the Committee shall provide for shorter periods at the time the incentive stock option is granted):

(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, 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.

In the case of incentive stock options granted after April 24, 1997, 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 a termination. In the case of incentive stock options granted after September 24, 1998, 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 stock option to up to five (5) years from the date of such termination.

(d) 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).

(e) 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.

(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 11 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), 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).

(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. 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 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.

11. ADJUSTMENT IN EVENT OF CHANGES IN CAPITALIZATION

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

12. TERM OF THE PLAN

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

13. TERMINATION OR AMENDMENT OF THE PLAN

The Board may at any time terminate the Plan with respect to any shares of Common Stock 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 10 or to ensure that the grant of Options or Awards, the exercise of Options or payment of Retention Shares or any other provision or the Plan complies with Section 16(b) of the Act), provided that no change with respect to any Options or Retention Shares 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 subject to the Plan as set forth in Section 5 (except by operation of Section 11), (ii) extend the term of the Plan or (iii) change the class of eligible persons who may receive Options or Awards of Retention Shares 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 Sepember 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.

14. 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 any holding period described in Section 6(c).

15. 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.

16. EFFECTIVE DATE

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

Exhibit 10.3

1988
STOCK OPTION AND RESTRICTED STOCK PLAN
of
UNION PACIFIC CORPORATION

(Effective April 15, 1988 -
As Amended September 26, 1991, February 1, 1992,
April 24, 1997, November 20, 1997 and September 24,1998)

1988 STOCK OPTION AND RESTRICTED STOCK PLAN OF UNION PACIFIC CORPORATION

1. PURPOSE.

The purpose of the 1988 Stock Option and Restricted Stock Plan of Union Pacific Corporation (the "Plan") is to promote the interests of Union Pacific Corporation (the "Company") and its shareholders by strengthening its ability to attract and retain officers and key employees in the employ of the Company or of any subsidiary of the Company by furnishing additional incentives whereby such present and future officers and key employees may be encouraged to acquire, or to increase their acquisition of, the Company's common stock, thus maintaining their personal interest in the Company's continued success and progress. The Plan provides for the grant of non-qualified stock options, incentive stock options, stock appreciation rights and shares of Company common stock restricted in accordance with the provisions of Section 8 below ("Restricted Shares"), all in accordance with the terms and conditions set forth below. Unless otherwise required by the context, the term "option" shall refer to non-qualified options, incentive stock options and stock appreciation rights.

2. ADMINISTRATION.

The Plan shall be administered by a Stock Option Committee (the "Committee"), to be designated by the Board of Directors of the Company and to be comprised of not less than three members of the Board of Directors who are not eligible to participate under the Plan. Members of the Committee shall be appointed from time to time by the Board of Directors for such terms as it shall determine, and may be removed by the Board at any time with or without cause. The Committee shall have complete authority to construe and interpret the Plan, to establish, amend and rescind appropriate rules and regulations relating to the Plan, to select persons eligible to participate in the Plan, to grant options and Restricted Shares thereunder, to administer the Plan, to make recommendations to the Board, and to take all such steps and make all such determinations in connection with the Plan and the options and Restricted Shares granted thereunder as it may deem necessary or advisable. All determinations of the Committee shall be by a majority of its members, and its determinations shall be final. Each member of the Committee, while serving as such, shall be considered to be acting in his capacity as a Director of the Company. Each eligible employee (as defined below) to whom an option or Restricted Shares is granted is hereinafter referred to as the "Optionee" or the "Participant", respectively. The granting of an option or Restricted Shares pursuant to the Plan shall take place when the Committee by resolution, written consent or other appropriate action determines to grant such an option to an Optionee at a particular price or such Restricted Shares to a Participant. Each Option or grant of Restricted Shares shall, if required by the Committee, be evidenced by a written agreement to be duly executed and delivered by or on behalf of the Company and the Optionee or Participant, respectively, and contain provisions not inconsistent with the Plan.

3. ELIGIBILITY.

To be eligible for selection by the Committee to participate in the Plan an individual must be an officer or key employee of the Company, or of any subsidiary of the Company, as of the date on which the Committee grants to such individual an option or Restricted Shares (hereinafter collectively referred to as "eligible employees"). Those Directors who are not full-time salaried officers or employees shall not be eligible. Subject to the provisions of this Plan, options or Restricted Shares may be granted to eligible employees in such number and at such times during the term of this Plan as the Committee shall determine, the Committee taking into account the duties of the respective employees, their present and potential contributions to the success of the Company, and such other factors as the Committee shall deem relevant in connection with accomplishing the purpose of the Plan.

4. STOCK SUBJECT TO THE PLAN.

Subject to the provisions of Section 10 hereof, the maximum number and kind of shares as to which options or Restricted Shares may at any time be granted under the Plan are 8,400,000 shares of common stock of the Company of the par value of $2.50 per share ("Common Stock") of which shares no more than 400,000 shares of Common Stock may be issued as grants of Restricted Shares under the Plan. Shares of Common Stock subject to options or granted as Restricted Shares under the Plan may, in the discretion of the Board of Directors of the Company, 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 Restricted Shares 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 Restricted Shares under the Plan. Upon the forfeiture (in whole or in part) of a grant of Restricted Shares, the shares of Common Stock subject to such forfeiture shall again be available for option or grant as Restricted Shares under the Plan.

5. 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 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. 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 as the Committee may determine in a particular case, 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 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 upon 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. No shares shall be issued or delivered until full payment therefor has been made. A holder of an option shall have none of the rights of a stockholder until the shares of Common Stock are issued to him. If an amount is payable by an Optionee to the Company under applicable income 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 income 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 which 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 the transferability of shares acquired through the exercise of options for such periods as the Committee may determine and, further, that in the event the Optionee's employment by the Company or a subsidiary terminates during the period in which such shares are non-transferable, the Optionee shall be required to sell such shares back to the Company at such price as the Committee may specify in the option.

(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, and each person into whose name shares of Common Stock shall be issued, pursuant to the exercise of an option, jointly with that of any Optionee, represent and agree that any and all shares of Common Stock of the Company 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; provided, however, that the foregoing provisions of this subparagraph (f) shall be inoperative during any period of time when the Company has obtained all necessary or advisable approvals from any governmental agency and has completed all necessary or advisable registrations or other qualification of shares of Common Stock as to which options may from time to time be granted, all as contemplated by Section 9 hereof.

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

(h) Termination of Employment. Upon the termination of an Optionee's employment, for any reason other than death, his option shall be exercisable only as to those shares of Common Stock which were then subject to the exercise of such option (unless the Committee shall determine in a specific case that particular limitations and restrictions under the Plan shall not apply) and such option shall expire according to the following schedule:

(i) Retirement. Option shall expire, unless exercised, five (5) years after the Optionee's retirement from the Company or any subsidiary of the Company under the provisions of the Company's or a subsidiary's pension plans.

(ii) Disability. 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) Gross Misconduct. Option shall expire upon receipt by Optionee of the notice of termination if he is terminated for deliberate, willful or gross misconduct as determined by the Company.

(iv) All Other Terminations. Option shall expire, unless exercised, three (3) months after the date of such termination; provided, the Committee may provide for a longer exercise period, not to exceed three (3) years from the date of such 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. In the event that such 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 provide for an exercise period of up to five (5) years from the date of such termination.

(i) Death of Optionee. Upon the death of an Optionee during his period of employment, his 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 death (unless the Committee shall determine in a specific case that particular limitations and restrictions under the Plan shall not apply) and such option shall expire, unless exercised by his legal representatives or beneficiaries, five (5) years after the date of his death.

(j) 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 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 5(h) and (i) subsequent to the tenth anniversary of the date on which it is granted.

6. 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 5(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. 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 under applicable income tax laws in connection with exercises 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 income 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 Securities Exchange Act of 1934, as amended, 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 such Act to reimburse the Company for any statutory profit which might be held to result from such satisfaction.

7. TERMS AND CONDITIONS OF INCENTIVE STOCK OPTIONS.

(a) General. The Committee may also grant incentive stock options as defined under section 422A of the Internal Revenue Code of 1986, as amended (the "Code"). All incentive stock options issued under the Plan shall, except for the provisions of Sections 5(h) and (i) and Section 6 hereof, be subject to the same terms and conditions as the non-qualified options granted under the Plan provided that the third sentence of Section 5(d) shall not apply to incentive stock options granted prior to February 1, 1992. In addition, incentive stock options shall be subject to the conditions of Sections 7(b), (c) and (d).

(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.

(c) Termination of Employment. Upon the termination of an Optionee's employment, for any reason other than death, his incentive stock option shall be exercisable only as to those shares of Common Stock which were then subject to the exercise of such option (unless the Committee shall determine in a specific case that particular limitations and restrictions under the Plan shall not apply), and such option shall expire as an incentive stock option (but shall remain a non-qualified option exercisable pursuant to the terms of Section 5 hereof less the time period already elapsed under such Section), according to the following schedule:

(i) Retirement. An incentive stock option shall expire, unless exercised, three (3) months after the Optionee's retirement from the Company or any Subsidiary of the Company under the provisions of the Company's or a subsidiary's pension plans.

(ii) Disability. In the case of an Optionee who is disabled within the meaning of section 22(e)(3) of the Code, an incentive stock option shall expire, unless exercised, twelve (12) months after 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, whichever is earlier.

(iii) Gross Misconduct. An incentive stock option shall expire upon receipt by an Optionee of the notice of termination if he 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.

In the case of incentive stock options granted after April 24, 1997, 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 a termination.

(d) Death of Optionee. Upon the death of an Optionee during his period of employment, his 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 his death (unless the Committee shall determine in a specific case that particular limitations and restrictions under the Plan shall not apply), and such option shall expire, unless exercised by his legal representatives or beneficiaries, five (5) years after the date of his death.

In no event, however, shall any incentive stock option be exercisable pursuant to Sections 7(c) and (d) subsequent to the tenth anniversary of the date on which it was granted.

8. TERMS AND CONDITIONS OF RESTRICTED SHARES.

(a) General. With respect to each grant of Restricted Shares under the Plan, the Committee, in its sole discretion, shall determine the period during which the restrictions set forth in Section 8(b) shall apply to such Restricted Shares (the "Restricted Period"). The Restricted Period shall not be less than 36 nor more than 60 consecutive months commencing with the first day of the month in which the Restricted Shares are granted. Subject to the provisions of Section 8(c), a grant of Restricted Shares shall be effective for the Restricted Period and may not be revoked. Approved leaves of absence of one year or less shall not be deemed terminations or interruptions in continuous service under this Section 8. Leaves of absence of more than one year will be deemed to be terminations under this Section unless the Committee determines otherwise.

(b) Restrictions. At the time of grant of Restricted Shares to a Participant, a certificate representing the number of shares of Common Stock granted shall be registered in his name but shall be held by the Company for the account of the Participant. 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 receive dividends and the right to vote such Restricted Shares, subject to the following restrictions: (i) subject to Section 8(c) hereof, the Participant shall not be entitled to delivery of the stock certificate until the expiration of the Restricted Period; (ii) none of the Restricted Shares may be sold, transferred, assigned, pledged, or otherwise encumbered or disposed of during the Restricted Period; and (iii) 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 unless the Participant remains in the continuous employment of the Company or a Subsidiary for the entire Restricted Period in relation to which such Restricted Shares were granted, except as provided by Section 8(c) hereof. Any shares of Common Stock received as a result of a transaction listed in Section 10 hereof shall be subject to the same restrictions as such Restricted Shares unless the Committee shall determine otherwise.

(c) Termination of Employment.

(i) Disability and Retirement. If a Participant ceases to be an employee of the Company or a subsidiary prior to the end of a Restricted Period by reason of disability (as defined in Section 5(h)(ii) hereof) or retirement (as defined in Section 5(h)(i) hereof), the number of Restricted Shares granted to such Participant for such Restricted Period shall be reduced in proportion to the Restricted Period (determined on a monthly basis) remaining after the Participant ceases to be an employee and all restrictions on such reduced number of shares shall lapse. A certificate for such shares shall be delivered to the Participant in accordance with the provisions of Section 8(d) hereof. The Committee may, if it deems appropriate, direct that the Participant receive a greater number of shares of Common Stock free of all restrictions but not exceeding the number of Restricted Shares then subject to the restrictions of Section 8(b).

(ii) Death. If a Participant ceases to be an employee prior to the end of a Restricted Period by reason of death, the Restricted Shares granted to such participant shall immediately vest in his beneficiary or estate and all restrictions applicable to such shares shall lapse. A certificate for such shares shall be delivered to the Participant's beneficiary or estate in accordance with the provisions of Section 8(d) hereof.

(iii) All Other Terminations. If a Participant ceases to be an employee prior to the end of a Restricted Period for any reason other than death, disability or retirement, the Participant shall immediately forfeit all Restricted Shares then subject to the restrictions of Section 8(b) hereof 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 Restricted Shares then subject to the restrictions of Section 8(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 8(d) hereof.

(d) Payment of Restricted Shares. At the end of the Restricted Period or at such earlier time as provided for in Section 8(c) hereof or as the Committee may determine, 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 or estate, as the case may be. The Company shall not be required to deliver any fractional share of Common Stock but shall pay, in lieu thereof, the fair market value (measured as of the date the restrictions lapse) of such fractional share to the Participant or his beneficiary or estate, as the case may be. If an amount is payable by a Participant to the Company under applicable income tax laws in connection with the lapse of such restrictions, the Committee may, in its discretion and subject to such rules as it may adopt, permit the Participant to make such payment, in whole or in part, by electing to authorize the Company to transfer to the Company Restricted Shares otherwise deliverable to the Participant having a fair market value equal to the amount to be paid under such income tax laws.

9. REGULATORY APPROVALS AND LISTING.

The Company shall not be required to issue any certificate or certificates for shares of Common Stock upon the exercise of an option or a stock appreciation right or the vesting of Restricted Shares granted under the Plan prior to (i) the obtaining of any approval from any governmental agency which the Company shall, in its sole discretion, 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 shall, in its sole discretion, determine to be necessary or advisable.

10. 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, reorganization or liquidation, or any other change in the corporate structure or shares of the Company, the Board of Directors of the Company, upon recommendation of the Committee, may make such equitable adjustments, designed to protect against dilution, as it may deem appropriate in the number and kind of shares authorized by the Plan thereby and in the option price and, with respect to grants of Restricted Shares, in the number and kind of shares covered thereby.

11. TERM OF PLAN.

No non-qualified option, incentive stock option, stock appreciation right or Restricted Shares shall be granted pursuant to this Plan after April 14, 1998, but non-qualified options, incentive stock options, stock appreciation rights and grants of Restricted Shares theretofore granted may extend beyond that date and the terms and conditions of this Plan shall continue to apply thereto and to shares of Common Stock acquired upon exercise of such options or stock appreciation rights.

12. TERMINATION OR AMENDMENT OF THE PLAN.

The Board of Directors may at any time terminate the Plan with respect to any shares of the Company not at the time subject to option or the provisions of Section 8, 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 regulatory approval, referred to in clause (i) of Section 9 hereof), provided that no change in any option or Restricted Shares theretofore granted may be made which would impair the rights of an Optionee or a Participant, respectively, 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 subject to the Plan as set forth in Section 4 (except by operation of Section 10), (ii) extend the term of the Plan or extend the term of options granted thereunder to beyond the tenth anniversary of the date of grant, (iii) reduce the option price at which options may be granted, or (iv) change the class of eligible employees who may receive options or Restricted Shares 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 Sepember 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.

13. EFFECTIVE DATE OF PLAN.

The Plan shall become effective April 15, 1988 upon approval of the shareholders of the Company.

Exhibit 12

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(In Thousands, Except Ratios)
(Unaudited)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Earnings:		
Income (Loss) from continuing operations.......	$(191)	$ 585
Undistributed equity earnings..................	(34)	(26)
Total...............................	(225)	559
Income Taxes....................................	(140)	329
Fixed Charges:		
Interest expense including amortization of debt discount.............................	526	451
Portion of rentals representing an interest factor....................................	134	126
Total...............................	660	577
Earnings available for fixed charges............	$ 295	$1,465
Total Fixed Charges -- as above.................	$ 660	$ 577
Ratio of earnings to fixed charges (Note 5)......	0.4	2.5

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Third Quarter 1998 Financial Data Schedule

1,000,000

9-MOS
DEC-31-1998
SEP-30-1998
554
0
401
0
308
2015
32198
5670
29429
2780
9029
0
1500
691
6938
29429
0
7094
0
7012
0
0
526
331
140
191
252
0
0
443
1.80
1.80