

UNION PACIFIC CORP
Form DEF 14A
March 06, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
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Union Pacific Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notice of Annual Meeting of Shareholders

Union Pacific Corporation

1416 Dodge Street

Room 1230

Omaha, NE 68179

To the Shareholders:

March 6, 2003

You are hereby notified that the 2003 Annual Meeting of Shareholders (the Annual Meeting) of Union Pacific Corporation, a Utah corporation (the Company), will be held at the Little America Hotel, 500 S. Main Street, Salt Lake City, Utah, at 8:30 A.M., Mountain Daylight Time, on Friday, April 18, 2003 for the following purposes:

- (1) to elect 11 directors, each to serve for a term of one year;
- (2) to ratify the appointment of Deloitte & Touche LLP as the independent certified public accountants of the Company;
- (3) to consider and vote upon a shareholder proposal if presented at the Annual Meeting; and

to transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof; all in accordance with the accompanying Proxy Statement.

Only shareholders of record at the close of business on February 10, 2003 are entitled to notice of and to vote at the Annual Meeting.

Your vote is important and, accordingly, you are urged to vote promptly by telephone, by Internet or by signing, dating and returning the enclosed proxy card in the enclosed envelope whether or not you expect to attend the Annual Meeting in person.

Carl W. von Bernuth

Senior Vice President,

General Counsel and Secretary

UNION PACIFIC CORPORATION

PROXY STATEMENT

For Annual Meeting of Shareholders to Be Held on April 18, 2003

March 6, 2003

This Proxy Statement is being furnished to shareholders of Union Pacific Corporation, a Utah corporation (the Company), in connection with the solicitation of proxies by the Board of Directors of the Company for use at the Annual Meeting of Shareholders (Annual Meeting) to be held on April 18, 2003 for the purpose of considering and voting upon the matters set forth in the accompanying notice of the Annual Meeting. The first date on which this Proxy Statement and the accompanying form of proxy are being sent to shareholders of the Company is March 6, 2003.

The close of business on February 10, 2003 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. As of the record date there were 253,837,243 shares of Common Stock (Common Stock) of the Company outstanding, exclusive of shares held in the treasury of the Company which may not be voted.

Holders of shares of Common Stock are entitled to one vote for each share registered in their respective names. On all matters considered at the Annual Meeting, abstentions and broker non-votes will be treated as neither a vote for nor against the matter. Abstentions and broker non-votes will be counted in determining if a quorum is present.

If your Common Stock is held by a broker, bank or other nominee on your behalf, you will receive directions from such holder as to how your shares may be voted in accordance with your instructions. If you hold your Common Stock in your own name, you may instruct the proxies as to how to vote your Common Stock by using the toll free telephone number or accessing the Internet address listed on the proxy card or by signing, dating and mailing the proxy card in the postage paid envelope provided. When you use the telephone or Internet voting system, the system verifies that you are a shareholder through the use of a Holder Account Number and a Proxy Access Number assigned to you. The telephone and Internet voting procedures allow you to instruct the proxies as to how to vote your shares and confirm that your instructions have been properly recorded. Your Holder Account Number, Proxy Access Number and specific directions for using the telephone and Internet voting system are on the proxy card.

All shares represented by properly submitted paper, Internet or telephone proxies will, unless such proxies have previously been revoked, be voted at the Annual Meeting in accordance with the directions provided by the shareholder. If no direction is indicated, the shares will be voted as recommended by the Board of Directors. A shareholder submitting a proxy has the power to revoke it at any time before it is voted by providing written notice of such revocation to the Secretary of the Company, by submitting new telephone or Internet instructions or a validly executed later-dated proxy, or by attending the meeting and voting in person. The mere presence of a shareholder at the Annual Meeting, however, will not constitute a revocation of a previously submitted proxy.

The Board of Directors has adopted a confidential voting policy under which shareholder proxies or voting instructions are received by the Company's stock transfer agent, Computershare Investor Services, and the vote is certified by independent inspectors of election who are officers of Computershare. Proxies and ballots as well as telephone and Internet voting instructions will be kept confidential from the management of the Company, except as necessary to meet legal requirements, in certain cases where shareholders write comments on their proxy cards or in a contested proxy solicitation. Reports concerning the vote may be made available to the Company, provided such reports do not reveal how any particular shareholder voted.

The Company will bear the costs of its solicitation of proxies. In addition to the use of the mail, proxies may be solicited by personal interview, telephone and facsimile transmission by the directors, officers and employees of the Company. Arrangements also will be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of Common Stock held of record by such persons, and the Company may reimburse such custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred by them in connection with such solicitation. In addition, Morrow & Co., Inc., 909 Third Avenue, New York, N.Y. 10022 has been engaged to solicit proxies for the Company. The anticipated fees of Morrow & Co., Inc. are \$14,500 plus certain expenses.

Shareholder Proposals

Shareholders desiring to submit a proposal under Securities and Exchange Commission (SEC) Rule 14a-8 for consideration for inclusion in the Company's proxy statement and form of proxy relating to the 2004 Annual Meeting must submit in writing

such proposal and any statement in support thereof to the Secretary of the Company by November 7, 2003 and comply with the other requirements of Rule 14a-8.

Under SEC Rule 14a-4, the Company may exercise discretionary voting authority under proxies it solicits to vote on a proposal made by a shareholder at the 2004 Annual Meeting that the shareholder does not seek to include in the Company's proxy statement pursuant to SEC Rule 14a-8 unless the Company is notified about the proposal on or before January 21, 2004, and the shareholder satisfies the other requirements of SEC Rule 14a-4(c). However, except with respect to shareholder proposals included in the Company's proxy statement pursuant to SEC Rule 14a-8, the Company's By-Laws provide that to be considered at the 2004 Annual Meeting any shareholder proposal must be submitted in writing to the Secretary at the executive offices of the Company during the period beginning on December 20, 2003 and ending on January 19, 2004 and must contain the information specified by and otherwise comply with the Company's By-Laws. Any shareholder wishing to receive a copy of the Company's By-Laws should direct a written request to the Secretary at the Company's executive offices.

(1) ELECTION OF 11 DIRECTORS

Unless authority to do so is withheld, the Company's proxies intend to vote the enclosed proxy at the Annual Meeting for the election of the 11 nominees for director named herein, all of whom are currently directors of the Company. It is intended that the nominees for director be elected to hold office for a term of one year or until their successors are elected. If any nominee(s) for director for any reason should become unavailable for election, it is intended that discretionary authority will be exercised by the persons named in the enclosed proxy in respect of the election of such other person(s) as the Board of Directors shall nominate. The Board of Directors is not aware of any circumstances likely to cause any nominee for director to become unavailable for election. The 11 nominees for director receiving the highest number of votes cast at the Annual Meeting will be elected. Mr. Anschutz has been nominated as a director pursuant to the Anschutz Shareholders Agreement, as described under "Certain Relationships and Related Transactions" Agreement with Anschutz Shareholders. **The Board of Directors recommends that shareholders vote FOR each of the nominees.**

As of February 10, 2003 all directors and executive officers as a group beneficially owned 8,673,656 shares of Common Stock, representing 3.36% of the outstanding Common Stock, of which 4,143,889 are shares with respect to which such persons have the right to acquire beneficial ownership within 60 days. No nominee for director other than Mr. Anschutz beneficially owns more than 0.77% of the outstanding Common Stock. Mr. Anschutz beneficially owns and has the right to vote 1.2% of the outstanding Common Stock, and, pursuant to the Anschutz Shareholders Agreement, such shares are required to be voted in accordance with the recommendations of the Board of Directors in the election of directors.

The following tables set forth certain information on the nominees for director, including Common Stock beneficially owned as of February 10, 2003 and current holdings of Company Common Stock Units, representing deferred compensation and other amounts credited to their accounts. These ownership figures indicate the alignment of the named individuals' financial interests with the interests of the Company's shareholders since each Common Stock Unit is equivalent in value to a share of Company Common Stock and the value of their total holdings fluctuates with the price of the Company's Common Stock.

Name and Principal Occupation or Employment	Equity Ownership	
	UPC	UPC
	Units (a)	Shares (b)
Philip F. Anschutz	10,153	3,148,173(c)
Chairman of the Board, Chief Executive Officer and a director, The Anschutz Corporation and Anschutz Company (the corporate parent of The Anschutz Corporation), with holdings in energy, transportation, communications, professional sports, agriculture, entertainment and real estate, Denver, CO. Director, Pacific Energy GP, Inc., Qwest Communications International Inc., Regal Entertainment Group. Director and Vice Chairman of the Company since 1996. Age 63.		

Name and Principal Occupation or Employment	Equity Ownership	
	UPC	UPC
	Units (a)	Shares (b)
Richard K. Davidson Chairman, President and Chief Executive Officer of the Company and Chairman and Chief Executive Officer of Union Pacific Railroad Company, a subsidiary of the Company. Director, Kroger Company. Director of the Company since 1994. Age 61.	526,645	1,841,630(d)
Thomas J. Donohue President and Chief Executive Officer, U.S. Chamber of Commerce, business federation, Washington, DC. Director, Qwest Communications International Inc., Sunrise Assisted Living, Inc., XM Satellite Radio. Director of the Company since 1998. Age 64.	3,108	8,439
Archie W. Dunham Chairman, ConocoPhillips, integrated energy company, Houston, TX. Director, Louisiana-Pacific Corporation, Phelps Dodge Corporation. Director of the Company since 2000. Age 64.	1,356	7,583
Spencer F. Eccles Chairman, Wells Fargo Intermountain Banking Region, diversified financial services company, Salt Lake City, UT. Director, Wells Fargo & Company, U.S. Chamber of Commerce. Director of the Company since 1976. Age 68.	4,048	16,335(e)
Ivor J. Evans President and Chief Operating Officer of Union Pacific Railroad Company, a subsidiary of the Company. Director of the Company since 1999. Age 60.	194,607	465,000(f)
Elbridge T. Gerry, Jr. Partner, Brown Brothers Harriman & Co., bankers, New York, NY. Director of the Company since 1986. Age 69.	7,486	13,344(g)

Name and Principal Occupation or Employment	Equity Ownership	
	UPC	UPC
	Units (a)	Shares (b)
Judith Richards Hope Partner, Paul, Hastings, Janofsky & Walker, law firm, Los Angeles, CA, New York, NY and Washington, DC. Director, The Budd Company, General Mills, Inc., Russell Reynolds Associates. Director of the Company since 1988. Age 62.	3,898	11,935(h)
Richard J. Mahoney Retired Chairman and Chief Executive Officer, Monsanto Company, agricultural products, St. Louis, MO. Distinguished Executive in Residence, Weidenbaum Center, Washington University, St. Louis, MO. Advisory Director, Metropolitan Life Insurance Company. Director of the Company since 1991. Age 69.	4,220	47,148(i)
Steven R. Rogel Chairman, President and Chief Executive Officer, Weyerhaeuser Company, integrated forest products company, Federal Way, WA. Director, Kroger Company. Director of the Company since 2000. Age 60.	1,171	7,550
Ernesto Zedillo Ponce de Leon Director, Yale Center for the Study of Globalization, an institute focusing on increasing economic, cultural and political interdependence between nations, New Haven, CT. Director, Alcoa Inc., The Procter & Gamble Company. Director of the Company since 2001. Age 51.	1,025	3,962

- (a) See Compensation of Directors for a discussion of the Stock Unit Grant and Deferred Compensation Plan for non-employee directors. Additionally, see Report on Executive Compensation for an explanation of certain restrictions on retention stock units for employee directors.
- (b) The UPC Shares amount for all directors except Messrs. Davidson, Evans and Zedillo includes 6,650 shares of Common Stock and for Dr. Zedillo includes 2,950 shares of Common Stock, subject to presently exercisable options granted under the 2000 Directors Stock Plan.

- (c) Does not include 9,355,436 shares of Common Stock with respect to which The Anschutz Corporation has entered into previous forward sales contracts and as to which The Anschutz Corporation does not have the power to dispose of or vote the shares. The Anschutz Corporation does, however, have the power in certain circumstances to reacquire voting power with respect to all of such shares subject to these previous forward sales contracts. Mr. Anschutz is the owner of 100% of the stock of Anschutz Company, which owns 100% of the stock of The Anschutz Corporation.
 - (d) The UPC Unit amount includes 128,686 deferred stock units and 397,959 retention stock units, including 50,000 retention units representing the maximum award that could be earned under the 2001 Long Term Plan. The UPC Shares amount includes 1,442,234 shares of Common Stock subject to presently exercisable stock options granted under the 1993 Stock Option and Retention Stock Plan and the 2001 Stock Incentive Plan. In addition, Mrs. Richard K. Davidson is the beneficial owner of 15,910 shares of Common Stock. Mr. Davidson disclaims beneficial interest in such shares.
 - (e) Mr. Eccles also has shared voting or investment power with respect to 30,000 shares held in family trusts or owned by members of Mr. Eccles family.
 - (f) The UPC Unit amount includes 25,591 deferred stock units and 169,016 retention stock units, including 27,500 retention units representing the maximum award that could be earned under the 2001 Long Term Plan. The UPC Shares amount includes 365,000 shares of Common Stock subject to presently exercisable stock options granted under the 1993 Stock Option and Retention Stock Plan and the 2001 Stock Incentive Plan.
 - (g) Mr. Gerry also has shared voting or investment power with respect to 308,404 shares held in family trusts.
 - (h) Mrs. Hope is also co-trustee of a revocable trust that owns 600 shares.
 - (i) Includes 30,813 shares owned by a limited partnership with several family revocable and irrevocable trusts serving as general and limited partners in which Mr. Mahoney is the majority partner.
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All nominees for director are also members of the Board of Directors of Union Pacific Railroad Company (the Railroad), an indirect wholly-owned subsidiary of the Company, and it is intended that all nominees for director will also be elected to serve on the Board of the Railroad until their successors are elected.

Except for the nominees listed below, each of the nominees named in the preceding table has held the indicated office or position in his or her principal occupation for at least five years. Each of the nominees listed below held the earliest indicated office or position as of at least five years ago.

Mr. Archie W. Dunham was Chairman, President and Chief Executive Officer of Conoco Inc., an integrated energy company, through August 30, 2002 and since such date has been Chairman of ConocoPhillips. Mr. Spencer F. Eccles was Chairman and Chief Executive Officer of First Security Corporation, bank holding company, through October 26, 2000 and has been Chairman of Wells Fargo Intermountain Banking Region since such date. Mr. Ivor J. Evans was Senior Vice President of Emerson Electric Company, industrial motors and equipment, appliance components, electronics, power tools and valves, through September 14, 1998. Mrs. Judith Richards Hope was Senior Counsel of Paul, Hastings, Janofsky & Walker to February 1, 2000 and on April 28, 2000, was appointed a non-equity Partner, effective February 1, 2000. Mr. Steven R. Rogel was President and Chief Executive Officer of Weyerhaeuser Company to April 20, 1999 and Chairman, President and Chief Executive Officer of Weyerhaeuser since such date. Dr. Ernesto Zedillo served as President of Mexico through November 2000 and has been Director of the Yale Center for the Study of Globalization since July 2002.

Compensation of Directors

Directors who are not employees of the Company received an annual retainer of \$60,000 plus expenses in 2002. Directors were required to invest \$30,000 of the retainer in the Stock Unit Account referred to below. In addition, Chairs of Board Committees received annual retainers of \$6,000 each. Directors who are employees of the Company receive no retainers. Effective January 1, 2003, the annual retainer was increased to \$90,000, with \$45,000 of such retainer to be invested in the Stock Unit Account, and the retainer for Committee Chairs was increased to \$15,000. Under the Stock Unit Grant and Deferred Compensation Plan for directors of the Company, a director may elect by December 31 of any year to defer all or a portion of any compensation for service as a director in the ensuing year or years, excluding reimbursement for expenses. Payment of such deferred compensation begins, for amounts in the Stock Unit Account, in January of the year following termination of service as a director (or of a year selected by the director but no earlier than such termination) and, for amounts in the Fixed Rate or Vanguard Accounts referred to below, at the election of the director either at any of such times or in the January following retirement from the director's primary occupation.

Deferred

compensation may be paid, at the election of the director, in either a lump sum or in up to 15 equal annual installments and may be invested, at the option of the director, in either a Fixed Rate Account or a Stock Unit Account administered by the Company or in various accounts administered by The Vanguard Group. The accounts are unfunded, unsecured obligations of the Company. The Company Fixed Rate Account earns interest compounded annually at a rate determined by the Treasurer of the Company in January of each year and the Vanguard Accounts experience earnings and value fluctuations as determined by Vanguard's investment experiences. The Stock Unit Account fluctuates in value based on changes in the price of the Common Stock, and equivalents to cash dividends paid on the Common Stock are deemed to be reinvested in the Stock Unit Account. Cash retainers voluntarily deferred by four directors during 2002 totaled \$136,500.

Directors receive \$10 million of excess liability insurance coverage. Directors elected to the Board prior to April 21, 2000 are eligible to participate in a Company sponsored contributory health care plan. Medical and dental benefits are paid only after payment of benefits under any other group plan in which a director participates. Medical coverage for directors elected after April 21, 2000 was terminated upon adoption of the 2000 Directors Stock Plan by the shareholders on April 21, 2000.

Each non-employee director who was elected to the Board prior to January 1996 participates in a pension plan which provides an annual pension benefit of \$36,000 upon retirement from the Board of Directors with at least five years of service and attainment of age 65. Directors Eccles, Gerry, Hope and Mahoney currently are eligible to receive pension benefits upon retirement. The Company has purchased annuities to satisfy part of the pension obligation to certain directors in amounts calculated to provide the same expected amount net of federal taxes as the pension obligation replaced by the annuity. In January 1996, the Board terminated the pension plan for directors newly elected subsequent to that date. Non-employee directors elected between January 1996 and April 2000 will receive a credit, at their fifth anniversary date, to the Stock Unit Account referred to above based on a value of \$85,000. This value was determined based upon certain age, retirement and mortality assumptions and a discount rate of 9.8%, and would not be available until after termination of Board service. The units to be credited will be determined by dividing \$85,000 by the Company's Common Stock price on the fifth anniversary date. Directors first elected to the Board prior to 1996 will continue to be eligible for the \$36,000 annual pension. However, such directors were permitted to exchange \$6,000 of such pension for a credit to the Stock Unit Account calculated to

provide an approximately equivalent expected present value to the \$6,000 annual pension. Such credits to the Stock Unit Accounts are reflected in the preceding biographical information on directors.

As part of its overall program to promote charitable giving, the Company established the Union Pacific Corporation Board of Directors Charitable Contribution Plan pursuant to which the Company purchased \$1 million of life insurance on each director elected prior to April 21, 2000, subject to vesting requirements based on length of service as a director (i.e., over a five-year period in 20% increments). Death benefits will be paid to the Company and the Company will donate up to \$500,000 of the proceeds to no more than two charitable organizations recommended by the director and the remainder of the proceeds to Union Pacific Foundation in the name of the director. Directors derive no financial benefit from this program since all charitable contribution tax deductions accrue solely to the Company. Moreover, benefits paid to the Company's Foundation may reduce the amount of funding that the Company provides to the Foundation. This Plan was terminated for directors elected after April 21, 2000 upon adoption of the 2000 Directors Stock Plan by the shareholders on April 21, 2000.

Under the 1992 Restricted Stock Plan for Non-Employee Directors of Union Pacific Corporation, as amended, (the 1992 Plan) each individual who was a non-employee director on May 28, 1992, or who was elected as a non-employee director up to April 21, 2000 has received an award of 1,785 restricted shares of Common Stock. The restricted shares of Common Stock vest on the date a director ceases to be a director of the Company by reason of death, disability or retirement, as defined in the 1992 Plan. During the restricted period, the director has the right to vote and receive dividends on such shares, but may not transfer or encumber such shares, and will forfeit such shares unless he or she remains a director during the restricted period. The 1992 Plan was terminated for directors elected after April 21, 2000 upon adoption of the 2000 Directors Stock Plan by the shareholders on April 21, 2000.

Under the 2000 Directors Stock Plan (the 2000 Plan) adopted by the shareholders on April 21, 2000, each non-employee director of the Company is granted annually on the date of the first Board of Directors meeting of a calendar year an option to purchase shares of Common Stock of the Company. The exercise price for each option granted is the fair market value of the Common Stock on the date of grant, and the number of shares granted is determined by dividing 60,000 by 1/3 of the fair market value on such date. Each of the non-employee directors of the Company on January 30, 2003 was

granted an option to purchase 3,200 shares at an option price of \$55.98 per share. The 2000 Plan also provides that each non-employee director, upon election to the Board of Directors, shall receive a grant of 1,000 restricted shares of Common Stock or restricted share units, such units to represent the right to receive Common Stock in the future. The restricted shares or share units vest on the date a director ceases to be a director of the Company by reason of death, disability or retirement, as defined in the 2000 Plan. During the restricted period, the director has the right to vote such shares and receive dividends or dividend equivalents on such shares or units, but may not transfer or encumber such shares or units and will forfeit such shares or units unless he or she remains a director during the restricted period.

Governance of the Company

In accordance with applicable Utah law and the By-Laws of the Company, the business and affairs of the Company are managed under the direction of its Board of Directors. The Board has established certain standing Committees and adopted certain guidelines and policies to assist it in fulfilling its responsibilities as described below.

During 2002, the Board of Directors met six times. None of the directors attended fewer than 75% of the meetings of the Board and Committees on which he or she served. The average attendance of all directors at Board and Committee meetings was 97%.

Charters for all Board Committees (except the Executive Committee whose duties are governed by the Company's By-Laws), the Company's corporate governance guidelines and policies and the codes of business conduct and ethics for directors, officers and employees of the Company may be found on the Internet at the Company's website www.up.com/investors.

Committees of the Board

The Board will assure all Committee members meet the applicable independence requirements for each respective committee, along with any other applicable legal and regulatory requirements, by the next annual meeting of shareholders, or such earlier date as may be required by any regulatory or governing body.

Executive Committee

The current members of the Executive Committee are Philip F. Anschutz (Chair), Richard K. Davidson, Thomas J. Donohue, Elbridge T. Gerry, Jr., Judith Richards Hope and Richard J. Mahoney.

The Committee has all the powers of the Board, when the Board is not in session, to direct and manage all of the business and affairs of the Company in all cases in which specific directions have not been given by the Board. The Committee did not meet in 2002.

Audit Committee

The Audit Committee operates under a charter revised and readopted by the Board of Directors on January 30, 2003, which is appended hereto as Appendix A. The Board has reviewed the business relationships certain directors serving on the Audit Committee have with the Company and determined in its business judgment that such relationships do not interfere with any Committee member's exercise of independent judgment. The Board also reviewed the experience and training of the members of the Committee and determined that each member is financially literate, and that at least one member has accounting or related financial management expertise.

The Committee meets regularly with financial management, the internal auditors and the independent certified public accountants of the Company to provide oversight to the financial reporting process and internal control structure. The Committee appoints the independent certified public accountants of the Company, pre-approves all audit engagement fees and all non-audit services provided by the independent certified public accountants, reviews the scope of audits as well as the annual audit plan, evaluates the independent certified public accountants through assessments of quality control procedures, peer reviews, and results of inquiries or investigations and establishes hiring policies with respect to employees and former employees of the independent certified public accountants. Both the independent certified public accountants and the internal auditors have unrestricted access to the Committee and meet regularly with the Committee, without Company management representatives present, to discuss the results of their examinations and their opinions on the adequacy of internal controls and quality of financial reporting. The Committee reviews the adequacy of disclosures to be included in the annual report to shareholders regarding the Company's contractual obligations and commercial commitments, including off-balance sheet financing

arrangements. In addition, the Committee reviews the administration of the Company's Code of Ethics for the CEO and Senior Financial Officers and the Statement of Business Conduct for employees as well as policies concerning derivatives, environmental management, use of corporate aircraft and officers' travel and business expenses. The Committee met five times in 2002.

With respect to procedures for pre-approval of non-audit services provided by the independent certified public accountants, the Chief Accounting Officer, at the time of appointment of the independent certified public accountants, must present a budget for two categories of non-audit services: (1) audit-related services and (2) tax and advisory services. After review and approval of the budget by the Committee, no further approval by the Committee is required to undertake the specific projects within the two categories for that budget year. All other non-audit services are pre-approved by either the Committee Chair or the full Committee depending on the anticipated cost of the services.

The Committee has reviewed and discussed with management the Company's consolidated financial statements for the year ended December 31, 2002. The Committee has discussed with the Company's independent certified public accountants, Deloitte & Touche LLP, the matters required to be discussed by Statement on Auditing Standards No. 61. The Committee has also received and reviewed a report from Deloitte & Touche LLP describing all relationships between Deloitte & Touche LLP and the Company and any other relationships, including the provision of the non-audit services listed below, that may adversely affect the independence of Deloitte & Touche LLP. Based on the foregoing reviews and discussions, the Committee recommended to the Board of Directors that the financial statements referred to above be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, for filing with the SEC.

Audit Fees. The audit fees billed to the Company by Deloitte & Touche LLP for the year ended December 31, 2002, totaled \$1,915,400.

Financial Information Systems Design and Implementation Fees. Deloitte & Touche LLP did not provide such services to the Company for the year ended December 31, 2002.

All Other Fees. All other fees billed to the Company by Deloitte & Touche LLP for the year ended December 31, 2002, for services other than those disclosed above totaled \$1,149,242, including audit-related services of \$802,376 and tax and other fees of

\$346,866. Audit-related services include consultation on accounting standards and transactions, consents and comfort letters and audits of employee benefit plans.

The Audit Committee

Judith Richards Hope, Chair

Thomas J. Donohue

Spencer F. Eccles

Steven R. Rogel

Finance Committee

The current members of the Finance Committee are Elbridge T. Gerry, Jr. (Chair), Philip F. Anschutz, Judith Richards Hope, Richard J. Mahoney and Ernesto Zedillo.

The Committee is responsible for oversight of the Company's financial position. The Committee meets regularly with management to review the Company's capital structure, short and long-term financing plans and programs, dividend policy and actions, investor relations activities, insurance programs and other related matters. The Committee also reviews the investment management of assets held by the Company's pension, thrift and other funded employee benefit programs, including the appointment of investment managers and trustees. The Committee met four times in 2002.

Compensation and Benefits Committee

The current members of the Compensation and Benefits Committee are Thomas J. Donohue (Chair), Archie W. Dunham, Spencer F. Eccles and Steven R. Rogel.

The Committee reviews and makes recommendations to the Board of Directors with respect to employee salaries at the level set by the By-Laws which cannot be exceeded without Board or Executive Committee approval. The Committee oversees the Company's executive incentive plans and determines for senior executives the amounts of, and the individuals to whom, awards shall be made thereunder. The Committee is responsible for reviewing and recommending to the Board all the material amendments to the Company's pension, thrift and employee stock ownership plans. The Committee also periodically reviews the Company's vacation, life insurance and medical and dental benefit plans and the matching gifts program to ensure that these benefit plans remain competitive. See pages 23 through 27 for the Committee's report on 2002 compensation and stock ownership programs. The Committee met five times in 2002.

Corporate Governance and Nominating Committee

The current members of the Corporate Governance and Nominating Committee are Richard J. Mahoney (Chair), Philip F. Anschutz, Archie W. Dunham and Elbridge T. Gerry, Jr.

The Committee assists management concerning matters of succession, reviews and recommends changes in compensation for the Board of Directors, reviews the qualifications of candidates for the position of director and recommends candidates to the Board of Directors as nominees for director for election at Annual Meetings or to fill such Board vacancies as may occur during the year.

The Committee is also responsible for the oversight of the Corporate Governance Guidelines and Policies discussed below to ensure board independence and promote excellence in governance. In addition, the Committee oversees the Company's Code of Business Conduct and Ethics for members of the Board, reviews current trends and practices in corporate governance and recommends to the Board adoption of programs pertinent to the Company. In this connection the Committee periodically reviews the composition and activities of the Board, including but not limited to committee memberships and Board evaluation, compensation, size, retirement policy and stock ownership.

The Committee will consider director candidates suggested by directors and shareholders of the Company. Shareholders desiring to suggest candidates for consideration at the 2004 Annual Meeting should advise the Secretary of the Company in writing during the period beginning on December 20, 2003 and ending on January 19, 2004 and include sufficient biographical material to permit an appropriate evaluation of the candidate and comply with all other procedures contained in the Company's By-Laws. In considering candidates for director, the Board of Directors seeks individuals who have demonstrated outstanding management or professional ability and who have attained a position of leadership in their chosen careers. The Committee met three times in 2002.

Corporate Governance Guidelines and Policies

The Corporate Governance and Nominating Committee, with assistance of independent counsel retained by the Committee, reviewed and recommended changes to the Company's corporate governance guidelines and policies to meet the Committee's

understanding of best practices and requirements that have been or may be adopted by the SEC to implement the Sarbanes-Oxley Act of 2002 and new listing requirements proposed by the New York Stock Exchange (the Exchange). The Board approved these changes and the new guidelines and policies are presented below, subject to further changes as final rules are issued by the SEC and the Exchange.

The Corporate Governance and Nominating Committee, Board of Directors and management of the Company are united in the goal that the Company be among the best governed companies in America and are pleased to note that the recent Corporate Governance Quotient issued by Institutional Shareholder Services places the Company at 95.4% of the companies in the S&P 500 and at 97.4% of companies in the transportation industry.

Board Size. The Board's guideline is to maintain a Board size of 10 to 12 members with no more than two employee directors.

Director Independence. A majority of the members of the Board will be independent. All members of the Audit, Compensation and Benefits and Corporate Governance and Nominating Committees will be independent. Independence will be determined by the Board on the basis of applicable legal and regulatory requirements, and Exchange listing standards and procedures, for determining independence, and on the basis of reviews of relevant information by the Corporate Governance and Nominating Committee as part of its development of Board membership criteria and selection of qualified director candidates.

Board Membership Criteria. The Corporate Governance and Nominating Committee is responsible for developing and periodically reviewing the appropriate skills and characteristics required of Board members in the context of the current make-up of the Board. The Corporate Governance and Nominating Committee develops and reviews Board membership criteria. Such criteria include business and management experience, familiarity with the business, customers and suppliers of the Company, diverse talents, backgrounds and perspectives and relevant regulatory and stock exchange membership requirements for the Board and its committees.

Selection of Director Nominee Candidates. The Corporate Governance and Nominating Committee is responsible for recommending to the Board the selection of director nominee candidates.

Change in Principal Occupation. Upon a director's retirement, resignation or other significant change in professional duties and responsibilities, the director shall submit his or her resignation from the Board to the Corporate Governance and Nominating Committee for its consideration and recommendation as to acceptance.

Service on Outside Boards. When the CEO or another senior officer of the Company is invited to serve on outside boards of directors, the CEO or officer must present the issue to the Board for review and approval. Directors must notify the Board prior to accepting a position on the board of another company. No member of the Audit Committee may serve on the audit committees of more than three public companies.

Director Attendance at Board Meetings. Directors are expected to attend in person all regularly scheduled Board and committee meetings and to participate telephonically when they are unable to attend in person.

Number of Committees. The current standing committees are the Executive Committee, Audit Committee, Finance Committee, Compensation and Benefits Committee and the Corporate Governance and Nominating Committee. The Board has the authority to create additional committees.

Board Meeting Agendas. The directors and management of the Company may originate action items relating to the business and affairs of the Company for the Board agenda and the scheduling of reports on aspects of parent or subsidiary operations.

Board Committee Meeting Agendas. The departments of the Company that administer the area of responsibility charged to each committee may submit items for inclusion on committee agendas, and committee members may suggest topics for inclusion or request additional information with respect to any program previously reviewed by the committee.

Distribution of Board Materials. Information and materials for Board consideration are generally distributed to directors at least five days in advance of the meeting, with additional time provided when the complexity of an issue demands, unless an issue for Board consideration arises without sufficient time to complete distribution of materials within this time frame.

Board Presentations. The Board encourages broad management participation in Board presentations and the involvement of those managers who are directly responsible for the recommendations or other matters before the Board.

Executive Sessions of Non-Management Directors. Regularly scheduled sessions of non-management directors are held at every meeting of the Board, and the presiding director for each session is rotated in alphabetical order, except the January executive session is led by the Chair of the Corporate Governance and Nominating Committee.

Parties wishing to communicate with the non-management directors may do so by writing to Presiding Director, Union Pacific Corporation, 1416 Dodge Street, Room 1230, Omaha, NE 68179.

Director Access to Management and Independent Advisors. The Company provides each director with access to the management of the Company. The Board and committees, as set forth in the applicable committee charter, have the right to consult and retain independent counsel and other advisors at the expense of the Company.

Board Member Compensation. Non-employee Board members generally are paid an annual retainer valued between the median and seventy-fifth percentile of compensation at comparable companies, and the retainer is reviewed periodically by the Corporate Governance and Nominating Committee. A substantial portion of the annual retainer will be paid in common stock equivalents, which will not be payable until after termination of service from the Board.

Board Member Equity Ownership. Board members must own equity in the Company equal to at least three times the value of the annual retainer, with such ownership goal to be reached within five years of joining the Board, unless special circumstances of a member as determined by the Board delay the achievement of the ownership goal.

Director Orientation and Continuing Education. Upon election to the Board, new members are provided with a comprehensive set of materials on the operations, finances, governance and business plan of the Company, visit at least two major facilities during the first year of service and meet informally with as many members of senior management as practical. The Board encourages directors to periodically attend appropriate programs and sessions and obtain and review appropriate materials to assist them in performing their Board responsibilities. The Company will recommend programs and sessions to directors and will pay any fees and expenses associated with attendance.

Evaluation of the Chairman and CEO. The performance of the Chairman and CEO is evaluated annually. A questionnaire and business objectives summary is distributed to all non-employee directors prior to the January Board meeting for purposes of evaluating the

Chairman and CEO. The questionnaire, not a recorded item, provides each director the opportunity to assess individual elements of performance in major categories such as leadership, strategic planning, financial performance, operations, human resources, external relations and communications, and Board relations. The questionnaire and business objectives summary serve as the basis for a discussion, led by the Chair of the Corporate Governance and Nominating Committee, during an executive session, of Company and CEO performance for the year. The Compensation and Benefits Committee then meets following the executive session to determine bonuses, if any, to be awarded to the CEO and management of the Company. The Chairs of the Corporate Governance and Nominating Committee and the Finance Committee then review with the CEO his performance and any recommended areas for improvement.

Succession Planning. The CEO reports periodically to an executive session of the Board on succession planning, including an assessment of senior managers and their potential to succeed him or her. The CEO will also make available, on a continuing basis, the CEO's recommendation concerning who should assume the CEO's role in the event the CEO becomes unable or unwilling to perform his or her duties.

Evaluation of Board and Committee Performance. The Board and its committees, to the extent required by their respective charters, conduct self-evaluations annually to assess their performance. The Board evaluation process involves the distribution of a self-assessment questionnaire to all Board members that invites written comments on all aspects of the Board process. The evaluations are then summarized and serve as the basis for a discussion of Board performance and any recommended improvements.

Evaluation of Director Performance. The Corporate Governance and Nominating Committee assesses the contributions and independence of current directors in connection with their renomination to stand for election to the Board.

Strategic Planning Review. Management presents an annual strategic plan to the Board for its review and assessment, and the Board will make such recommendations to management regarding the strategic plan as it deems necessary.

Confidential Voting. It is the Board's policy that all stockholder proxies, consents, ballots and voting materials that identify the votes of specific stockholders be kept confidential from the Company with access to proxies, consents, ballots and other stockholder voting records to be limited to inspectors of election who are not employees

of the Company, except as may be required by law or to assist in the pursuit or defense of claims or judicial actions or in the event of a contested proxy solicitation.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers and directors to file initial reports of ownership and reports of changes in ownership of the Company's Common Stock with the SEC and the Exchange. Executive officers and directors are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. As a matter of practice, the Company's administrative staff assists the Company's executive officers and directors in preparing initial reports of ownership and reports of changes in ownership and filing such reports with the SEC and the Exchange. Based solely on a review of the copies of such forms furnished to the Company and written representations from the Company's executive officers and directors, the Company believes that, except as described in the next sentence, none of its executive officers and directors failed to comply with Section 16(a) reporting requirements in 2002. Richard J. Mahoney, a director of the Company, failed to file on a timely basis a Form 5 disclosing one transaction that occurred in December of 2000. The transaction was a transfer of shares for estate planning purposes and did not involve any open market or private purchases or sales. Mr. Mahoney reported the transaction in December of 2002 upon discovery of the administrative error.

Security Ownership of Certain Beneficial Owners

The following table sets forth information known to the Company regarding the beneficial ownership of the Common Stock of the Company by owners of more than five percent of the outstanding shares of such Common Stock.

Names and Addresses of Beneficial Owners	Number of Shares of Common Stock Beneficially Owned	Percent of Class
FMR Corp. 82 Devonshire Street Boston, MA 02109	15,599,270(a)	6.1%
AXA Financial, Inc. 1290 Avenue of the Americas New York, NY 10104	13,618,685(b)	5.4%

- (a) Based on information contained in Schedule 13G filed by FMR Corp. (FMR) with the SEC with respect to shares of Common Stock owned on December 31, 2002. According to the filing, on that date FMR, through its subsidiaries Fidelity Management & Research Company, Fidelity Management Trust Company and Strategic Advisers, Inc., and its affiliates Geode Capital Management, LLC and Fidelity International Limited, had in the aggregate sole and shared power to vote 2,491,994 and 0, respectively, of such shares, and sole and shared power to dispose of 15,599,270 and 0, respectively, of such shares. Of the aforesaid 15,599,270 shares, the number of shares of Common Stock owned by FMR's wholly-owned investment companies included 1,307,349 shares resulting from the assumed conversion of 1,801,500 shares of 6-1/4% Convertible Preferred Securities issued by Union Pacific Capital Trust, a statutory business trust sponsored and wholly-owned by the Company. The percentage set forth above assumes conversion of the Convertible Preferred Securities beneficially owned by FMR but no conversion by any other holder of the Convertible Preferred Securities.
- (b) Based on information contained in Schedule 13G filed by AXA Financial, Inc. (AXA Financial) with the SEC with respect to shares of Common Stock owned on December 31, 2002. According to the filing, on that date AXA Financial through its subsidiaries Alliance Capital Management L.P. and The Equitable Life Assurance Society of the United States, and its affiliates AXA, AXA Conseil Vie Assurance Mutuelle, AXA Assurances I.A.R.D. Mutuelle, AXA Assurances Vie Mutuelle, AXA Courtage Assurance Mutuelle, AXA Rosenberg Investment Management LLC and AXA Konzern AG, had in the aggregate sole and shared power to vote 6,766,772 and 5,565,720, respectively, of such shares, and sole and shared power to dispose of 13,105,910 and 512,775, respectively, of such shares.
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Certain Relationships and Related Transactions

Agreement with Anschutz Shareholders

In connection with the Company's acquisition of Southern Pacific Rail Corporation (SP), the Company entered into a shareholders agreement (Anschutz Shareholders Agreement) with Mr. Philip F. Anschutz, The Anschutz Corporation (TAC) and Anschutz Foundation, a not-for-profit corporation (collectively, Anschutz Shareholders), which provides, among other things, that the Company will elect Mr. Anschutz or another individual selected by TAC (such individual being referred to as the Anschutz Designee),

as a director of the Company. Under the Anschutz Shareholders Agreement, the Anschutz Designee, at the request of the Company, is required to resign from the Board upon certain occurrences, including if the Anschutz Shareholders and their affiliates cease to beneficially own at least 4% (or under certain circumstances 3%) of the total outstanding securities of the Company entitled to vote in the election of directors.

The Anschutz Shareholders Agreement provides for certain standstill limitations on the Anschutz Shareholders until September 2003 (subject to earlier termination under certain circumstances and certain exceptions) with respect to, among other things: the acquisition of voting securities; the solicitation of proxies with respect to voting securities; seeking or proposing any merger, business combination or similar extraordinary transaction involving the Company; and the disposition of voting securities. In addition, during such standstill period, the Anschutz Shareholders agreed to vote all shares of the Company's Common Stock which they are entitled to vote in accordance with the recommendation of the Company's Board of Directors in the election of directors. On all other matters, the Anschutz Shareholders may vote their shares in their discretion. Pursuant to the Anschutz Shareholders Agreement, the Company also has agreed to (i) appoint Mr. Anschutz as Vice Chairman of the Board of Directors, (ii) appoint the Anschutz Designee as a member of the Executive and Finance Committees of the Board, and (iii) subject to certain conditions which have not been satisfied, appoint the Anschutz Designee as a member of the Compensation and Benefits Committee of the Board.

Transactions Involving Anschutz Shareholders and Affiliates

Effective November 3, 1997, ANSCO Investment Company (ANSCO), a subsidiary of TAC, entered into an agreement with the Railroad, replacing agreements between ANSCO and SP's railroad subsidiaries assumed by the Railroad, governing the operation of ANSCO owned railcars, including cars used in the operation of what is referred to as the Winter Park Ski Train, over the Railroad's rail system. Effective May 1, 1997, ANSCO leased from the Railroad 3,639 feet of yard track at the Burnham Yard in Denver, Colorado, for storage of ANSCO Winter Park Ski Train railcars at an annual rental based on the Railroad's usual and customary charge for rental of track. In addition, effective September 1, 1997, ANSCO leased a vacant coach shop building at Burnham Yard from the Railroad for repair and maintenance of ANSCO Winter Park Ski Train railcars. Compensation paid or accrued to the Railroad during 2002 under all three agreements totaled approximately \$433,500.

Pacific Pipeline System LLC (Pacific Pipeline), a majority-owned indirect subsidiary of Anschutz Company, owns a crude oil pipeline located on a portion of the Railroad's right-of-way between Santa Clarita and Los Angeles/Long Beach, California. The pipeline is covered by an easement agreement between the Railroad, as successor in interest to Southern Pacific Transportation Company (SPTC), and Pacific Pipeline, which provides for compensation to the Railroad for the use of its right-of-way. Prior to entering into the easement agreement, SPTC obtained an opinion from an unrelated real estate appraisal firm that the rental calculation and other terms pertaining to the pipeline easement were representative of market transactions and were no less favorable than could be obtained in an arms-length transaction. The total amount paid to the Railroad by Pacific Pipeline under this agreement in 2002 was approximately \$1,740,345. In February 2003, Pacific Pipeline paid the Railroad \$733,100 for rentals under the easement agreement for calendar year 2003. Pursuant to the terms of the easement agreement, the annual rental will be revised in accordance with a prescribed valuation procedure to reflect the current fair market rental and any reduction in the length of the right-of-way covered by the easement agreement.

Other Business Relationships

Judith Richards Hope is a non-equity Partner in the firm of Paul, Hastings, Janofsky & Walker, a law firm that rendered legal services to the Company during 2002 and 2003.

Compensation Committee Interlocks and Insider Participation

The Compensation and Benefits Committee includes the following non-employee directors: Thomas J. Donohue, Archie W. Dunham, Spencer F. Eccles and Steven R. Rogel.

The Company has no interlocks or insider participation.

Report on Executive Compensation

The Compensation and Benefits Committee is responsible for administering the executive compensation and stock ownership programs for the Company.

The Committee administers a performance-based executive compensation program consisting of annual and long-term compensation. The program is designed to provide payment for performance of assigned accountabilities and achievement of goals that contribute to corporate earnings, thereby enhancing shareholder value.

Annual Compensation

Annual compensation consists of two components: base salary and at-risk annual incentive pay. Depending on performance and the level of the executive, generally 20% to 75% of total annual compensation will be at risk. The Committee reviews each senior executive officer's salary, taking into consideration the executive's performance, corporate and operating unit performance, the executive's position and responsibility in the organization, the executive's experience and expertise, salaries for similar positions at comparable companies and internal pay equity. In making salary recommendations or decisions, the Committee exercises subjective judgment using no specific weights for the above factors. Average base salaries for the Company's executives generally do not exceed the median for comparable companies. When the Company consistently attains its performance objectives, total cash compensation for executives, including salary and bonus, could be equal to or slightly above the seventy-f