

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Non-GAAP Measures Reconciliation to GAAP

2017 Financial Performance Adjusted for Tax Cuts and Jobs Act*

<i>Millions, Except Per Share Amounts and Percentages For the Three Months Ended December 31, 2017</i>	<i>Operating Income</i>	<i>Income Taxes</i>	<i>Net Income</i>	<i>Diluted EPS</i>	<i>Operating Ratio</i>
Reported results** (GAAP)	\$ 2,247	\$ (5,186)	\$ 7,278	\$ 9.25	58.8 %
Factors Affecting Comparability:					
Adjustments for Tax Cuts and Jobs Act					
Equity-method affiliates	(212)	(73)	(139)	(0.18)	3.9 pts
Deferred taxes	-	5,935	(5,935)	(7.54)	-
Adjusted results (non-GAAP)	\$ 2,035	\$ 676	\$ 1,204	\$ 1.53	62.7 %

<i>Millions, Except Per Share Amounts and Percentages For the Year Ended December 31, 2017</i>	<i>Operating Income</i>	<i>Income Taxes</i>	<i>Net Income</i>	<i>Diluted EPS</i>	<i>Operating Ratio</i>
Reported results** (GAAP)	\$ 8,106	\$ (3,080)	\$ 10,712	\$ 13.36	61.8 %
Factors Affecting Comparability:					
Adjustments for Tax Cuts and Jobs Act					
Equity-method affiliates	(212)	(73)	(139)	(0.17)	1.0 pts
Deferred taxes	-	5,935	(5,935)	(7.40)	-
Adjusted results (non-GAAP)	\$ 7,894	\$ 2,782	\$ 4,638	\$ 5.79	62.8 %

* The above tables reconcile our results for the quarter and year ended December 31, 2017 to adjusted results that exclude the impact of certain items identified as affecting comparability. We use adjusted operating income, adjusted income taxes, adjusted net income, adjusted diluted earnings per share ("EPS") and adjusted operating ratio, as applicable, among other measures, to evaluate our actual operating performance. We believe these non-GAAP measures provide relevant and useful information for management and investors because they clarify our actual operating performance by excluding certain significant items that are not considered indicative of future financial trends and allow investors to review performance in the same way as our management. Since these are not measures of performance calculated in accordance with GAAP, they should be considered in addition to, rather than as a substitute for, operating income, income taxes, net income, diluted EPS, and operating ratio, as indicators of operating performance.

** Adjusted for the retrospective adoption of ASU 2017-07, which was effective January 1, 2018.

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Non-GAAP Measures Reconciliation to GAAP

Free Cash Flow*

<i>Millions,</i>			
<i>For the Years Ended December 31,</i>		2018	2017
Cash provided by operating activities	\$	8,686	\$ 7,230
Cash used in investing activities		(3,411)	(3,086)
Dividends paid		(2,299)	(1,982)
Free cash flow	\$	2,976	\$ 2,162

* Free cash flow is defined as cash provided by operating activities less cash used in investing activities and dividends paid. Free cash flow is considered a non-GAAP financial measure by SEC Regulation G and Item 10 of SEC Regulation S-K and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating our financial performance and measures our ability to generate cash without additional external financing. Free cash flow should be considered in addition to, rather than as a substitute for, cash provided by operating activities.

Adjusted Debt / Adjusted EBITDA*

<i>Millions, Except Ratios</i>	Dec. 31,	<i>Dec. 31,</i>	<i>Dec. 31,</i>	<i>Dec. 31,</i>	<i>Dec. 31,</i>
<i>for the Twelve Months Ended</i>	2018	<i>2017</i>	<i>2016</i>	<i>2015</i>	<i>2014</i>
Net income	\$ 5,966	\$ 10,712	\$ 4,233	\$ 4,772	\$ 5,180
Less:					
Other income	94	245	221	196	139
Add:					
Income tax expense/(benefit)	1,775	(3,080)	2,533	2,884	3,163
Depreciation	2,191	2,105	2,038	2,012	1,904
Interest expense	870	719	698	622	561
EBITDA	\$ 10,708	\$ 10,211	\$ 9,281	\$ 10,094	\$ 10,669
Interest on present value of operating leases	84	98	114	131	154
Adjusted EBITDA (a)	\$ 10,792	\$ 10,309	\$ 9,395	\$ 10,225	\$ 10,823
Debt	\$ 22,391	\$ 16,944	\$ 15,007	\$ 14,201	\$ 11,413
Net present value of operating leases	2,271	2,140	2,435	2,726	2,902
Unfunded pension and OPEB, net of taxes of \$135, \$238, \$261, \$280, and \$319	456	396	436	463	523
Adjusted debt (b)	\$ 25,118	\$ 19,480	\$ 17,878	\$ 17,390	\$ 14,838
Adjusted debt / Adjusted EBITDA (b/a)	2.3	1.9	1.9	1.7	1.4

* Total debt plus net present value of operating leases plus after-tax unfunded pension and OPEB obligation divided by net income less other income plus income tax expense, depreciation, interest expense, and interest on present value of operating leases. Adjusted debt to adjusted EBITDA (earnings before interest, taxes, depreciation, amortization, and interest on present value of operating leases) is considered a non-GAAP financial measure by SEC Regulation G and Item 10 of SEC Regulation S-K and may not be defined and calculated by other companies in the same manner. We believe this measure is important to management and investors in evaluating the Company's ability to sustain given debt levels (including leases) with the cash generated from operations. In addition, a comparable measure is used by rating agencies when reviewing the Company's credit rating. Adjusted debt to Adjusted EBITDA should be considered in addition to, rather than as a substitute for, net income. The table above provides reconciliations from net income to adjusted debt to adjusted EBITDA. At December 31, 2018, in transition to the adoption of the new lease accounting standard on January 1, 2019, the incremental borrowing rate on operating leases was 3.7%. At December 31, 2017, 2016, 2015, and 2014, operating leases were discounted using our effective interest rate on debt of 4.6%, 4.7%, 4.8%, and 5.3%, respectively.

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Return on Average Common Shareholders' Equity

<i>Millions, Except Percentages</i>	2018	2017	2016
Net income	\$ 5,966	\$ 10,712	\$ 4,233
Average equity	\$ 22,640	\$ 22,394	\$ 20,317
Return on average common shareholders' equity	26.4%	47.8%	20.8%

Return on Invested Capital as Adjusted (ROIC)*

<i>Millions, Except Percentages</i>	2018	2017	2016
Net income	\$ 5,966	\$ 10,712	\$ 4,233
Interest expense	870	719	698
Interest on average present value of operating leases	82	105	121
Taxes on interest	(218)	(309)	(306)
Net operating profit after taxes as adjusted (a)	\$ 6,700	\$ 11,227	\$ 4,746
Average equity	\$ 22,640	\$ 22,394	\$ 20,317
Average debt	19,668	15,976	14,604
Average present value of operating leases	2,206	2,288	2,581
Average invested capital as adjusted (b)	\$ 44,514	\$ 40,658	\$ 37,502
Return on invested capital as adjusted (a/b)	15.1%	27.6%	12.7%

The table below reconciles ROIC as calculated above to Net ROIC for items affecting comparability.

Net Return on Invested Capital as Adjusted (Net ROIC)*

	2018	2017	2016
Return on invested capital as adjusted	15.1%	27.6%	12.7%
Factors Affecting Comparability:			
Adjustments for Tax Cuts and Jobs Act [a]	N/A	(13.9)	N/A
Net Return on Invested Capital as Adjusted	15.1%	13.7%	12.7%

[a] Adjustments remove the impact of \$5.9 billion and \$139 million from both 12/31/17 Net Income and 12/31/17 Shareholders' Equity.

* ROIC and Net ROIC are considered non-GAAP financial measures by SEC Regulation G and Item 10 of SEC Regulation S-K, and may not be defined and calculated by other companies in the same manner. We believe these measures are important to management and investors in evaluating the efficiency and effectiveness of our long-term capital investments. In addition, we currently use ROIC as a performance criteria in determining certain elements of equity compensation for our executives. We use Net ROIC to demonstrate year over year comparability for significant items. ROIC and Net ROIC should be considered in addition to, rather than as a substitute for, other information provided in accordance with GAAP. The most comparable GAAP measure is Return on Average Common Shareholders' Equity.