

UNION PACIFIC CORPORATION AND SUBSIDIARY COMPANIES

Non-GAAP Measures Reconciliation to GAAP

Financial Performance*

Millions, Except Per Share Amounts and Percentages For the Year Ended December 31, 2017	Operating Income	Income Taxes	Net Income	Diluted EPS	Operating Ratio
Reported results before ASU 2017-07 (GAAP)	\$ 8,061	\$ (3,080)	\$ 10,712	\$ 13.36	62.0 %
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)	\$ 7,849	\$ 2,782	\$ 4,638	\$ 5.79	63.0 %
Impact of ASU 2017-07	45	-	-	-	(0.2)
Adjusted results after ASU 2017-07 (non-GAAP)	\$ 7,894	\$ 2,782	\$ 4,638	\$ 5.79	62.8 %

* The above table reconciles our results for the 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 Debt / Adjusted EBITDA*

Millions, Except Ratios	2017	2016	2015	2014
Operating income**	\$ 8,106	\$ 7,243	\$ 8,082	\$ 8,765
Depreciation	2,105	2,038	2,012	1,904
EBITDA	\$ 10,211	\$ 9,281	\$ 10,094	\$ 10,669
Interest on present value of operating leases	98	114	131	154
Adjusted EBITDA (a)	\$ 10,309	\$ 9,395	\$ 10,225	\$ 10,823
Debt	\$ 16,944	\$ 15,007	\$ 14,201	\$ 11,413
Net present value of operating leases	2,140	2,435	2,726	2,902
Unfunded pension and OPEB, net of taxes of \$238, \$261, \$280, and \$319	396	436	463	523
Adjusted debt (b)	\$ 19,480	\$ 17,878	\$ 17,390	\$ 14,838
Adjusted debt / Adjusted EBITDA (b/a)	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 operating income plus depreciation plus interest on present value of operating leases. Operating leases were discounted using 4.6%, 4.7%, 4.8%, and 5.3% at December 31, 2017, 2016, 2015, and 2014, respectively. Adjusted debt to adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization) 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.

** Operating income has been adjusted for the retrospective adoption of Accounting Standard Update 2017-07 related to the presentation of the components of pension costs.

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Non-GAAP Measures Reconciliation to GAAP

Return on Average Common Shareholders' Equity

Millions, Except Percentages	2017	2016	2015	2014	2004
Net income	\$ 10,712	\$ 4,233	\$ 4,772	\$ 5,180	\$ 592
Average equity	\$ 22,394	\$ 20,317	\$ 20,946	\$ 21,207	\$ 12,408
Return on average common shareholders' equity	47.8%	20.8%	22.8%	24.4%	4.8%

Return on Invested Capital as Adjusted (ROIC)**

Millions, Except Percentages	2017	2016	2015	2014	2004
Net income	\$ 10,712	\$ 4,233	\$ 4,772	\$ 5,180	\$ 592
Interest expense	719	698	622	561	527
Sale of receivables fees	-	-	-	-	11
Interest on average present value of operating leases	105	121	135	158	172
Taxes on interest	(309)	(306)	(285)	(273)	(209)
Net operating profit after taxes as adjusted (a)	\$ 11,227	\$ 4,746	\$ 5,244	\$ 5,626	\$ 1,093
Average equity	\$ 22,394	\$ 20,317	\$ 20,946	\$ 21,207	\$ 12,408
Average debt	15,976	14,604	12,807	10,469	8,061
Average value of sold receivables	-	-	-	-	590
Average present value of operating leases	2,288	2,581	2,814	2,980	2,147
Average invested capital as adjusted (b)	\$ 40,658	\$ 37,502	\$ 36,567	\$ 34,656	\$ 23,206
Return on invested capital as adjusted (a/b)	27.6%	12.7%	14.3%	16.2%	4.7%

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

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

	2017	2016	2015	2014	2004
Return on invested capital as adjusted	27.6%	12.7%	14.3%	16.2%	4.7%
Factors Affecting Comparability:					
Adjustments for Tax Cuts and Jobs Act [a]	(13.9)	N/A	N/A	N/A	N/A
Adjustment for unasserted asbestos claims [b]	N/A	N/A	N/A	N/A	0.6
Net Return on Invested Capital as Adjusted	13.7%	12.7%	14.3%	16.2%	5.3%

[a] Adjustments remove the impact of \$5,935 million and \$139 million from both 12/31/17 Net Income and 12/31/17 Shareholders' Equity.

[b] Adjustment removes the impact of \$247 million pre-tax (\$154 million after-tax) charge for 2004 unasserted asbestos-related claims.

** 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.